



Bursa Malaysia Derivatives Berhad

TRADING PARTICIPANTS' DIRECTIVES AND GUIDANCE

INTRODUCTION

- (1) This Trading Participants' ("TPs") Directives and Guidance consolidates all the Directives and Best Practices issued by the Exchange to Trading Participants in connection with or pursuant to the Rules of Bursa Malaysia Derivatives Berhad ("Bursa Derivatives" or "the Exchange") and that are in force as at 15 August 2019.
- (2) All Directives not reproduced in this TPs' Directives and Guidance are superseded and no longer effective from 15 August 2019. This, however, does not apply to the TPs' Trading Manual or any other operational documents issued by the Exchange, which are still in force.
- (3) Any new Directive issued by the Exchange after 15 August 2019 that is of general application will be incorporated into this TPs' Directives and Guidance.
- (4) For the avoidance of doubt, the Exchange can take action against a Trading Participant or a Registered Person for any antecedent breaches of any Directive that is no longer effective.

Effect of TPs' Directives and Guidance

- (5) The Directives in this TPs' Directives and Guidance that impose an obligation on a Trading Participant or Registered Person are binding on the Trading Participant or Registered Person.
- (6) Best Practices act as guidance to the Trading Participant or Registered Person and are not binding.

Interpretation

- (7) To the extent of any inconsistency between the Rules and the Directives and Best Practices, the Rules will prevail.
- (8) The requirements in any of these Directives and Best Practices do not affect the generality of any of the principles or requirements in the Rules.
- (9) A reference to a rule, chapter, schedule or appendix is to the relevant rule, chapter, schedule and appendix to the Rules unless the context requires otherwise.
- (10) Words and expressions used in the Directives and Best Practices shall, unless otherwise defined in the Directives or unless the context otherwise requires, bear the same meaning as defined in the Rules.


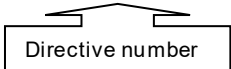





Guide for users

- (11) To assist users of this TPs' Directives and Guidance to identify the relevant Rule applicable to the Directive and Best Practice, the relevant Rule(s) is set out at the beginning of each Directive or Best Practice.
- (12) The numbering of the Directives and Best Practices in this TPs' Directives and Guidance follows the corresponding Rules to which the Directive or Best Practice relates. For example, Rule 3.36(c) requires that throughout a Compliance Officer's registration, the Compliance Officer must ensure that matters pertaining to compliance are highlighted to the Trading Participant's board of directors or in the case of an Investment Bank, to the board of directors or committee to whom the person in charge of compliance is required to report under the Guidelines on Investment Banks. The Directive that sets out this requirement on reporting on compliance matters is numbered as Directive No. 3.36-002. In the event that there is another directive on the same subject matter, that directive will be numbered 3.36-003.
- (13) There are also Directives in this TPs' Directives and Guidance that consolidate various requirements of the various rules in a particular Chapter of the Rules into one directive. For

example, Directive No. 4-001 contains the minimum obligations for the requirements relating to the Participant's conduct of business under the relevant rules in Chapter 4 of the Rules.

(14) We have also set out the source of these Directives e.g. TP Circular No.:14/2018 for easy reference.

(15) The heading of each Directive contains the following information:

DIRECTIVE ON CONDUCT OF BUSINESS		4-001
		
Relevant to	: Rules []	 <div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">Refers to which rule(s) the Directive relates</div>
Introduced with effect from	: []/[]	 <div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">Sets out the date when this Directive is effective.</div>
Amended	: N/A	 <div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">Sets out the relevant date on which this Directive is subsequently amended and the circular by which the amendment to this Directive is issued.</div>
TPs' Circular No(s).	: N/A	 <div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">Sets out the Circular number under which the Directive was introduced (in relation to circulars issued before the date on which the TPs' Directives and Guidance comes into effect).</div>
Refer also to Directive No(s).	: N/A	 <div style="border: 1px solid black; padding: 2px; font-size: 0.8em;">Sets out the relevant Directives that should be read together with this Directive.</div>

(16) The list of Directives and Best Practice is on page 3 to page 4.

[End of Introduction]

LIST OF DIRECTIVES

No.	Directive No.	Source (as at 15 August 2019)	Title of Directive
1.	2.01(2)-001	Rules 400A.1(2) and 400A.3(2)	Directive on Exercise of Powers of the Exchange to Require Supply of Reports, Information, Documents, Books and Records
2.	2.01(2)-002	Directive No. 401.4(k)-001	Directive on Readiness Audit – Self Assessment Approach, Declaratory Approach and Green Lane
3.	2.01(2)-003	Directive No. 401.4(k)-002	Directive on Submission of Periodic Reports
4.	2.07-001	New	Directive on the Powers of the Exchange and the Circumstances when the Exchange May Take Action under Rule 2.07
5.	3-001	Directive No. 302.12-001, Directive No. 322.1-001	Directive on Applications to the Exchange pursuant to Chapter 3 of the Rules
6.	3.06-001	TP Circular No. 18/2010	Directive on Regulation 30.10 Relief
7.	3.36-001	TP Circular No. 6/2012	Directive for Compliance Officer
8.	3.36-002	TP Circular No. 6/2012, TP Circular No. 21/2010	Directive on Compliance Reports
9.	3.39(1)-001	New	Directive on Measures to Curb Clients Making Payments Directly to Registered Representatives to Settle Amounts Owing to Trading Participants
10.	3.39(1)-002	New	Directive on Mobility of Registered Representatives
11.	3.42-001	Guideline 1.5	Directive in relation to the Privileges and Prerogatives of a Market Maker
12.	4-001	Directive No. 601.2C-001	Directive on Conduct of Business
13.	4-002	TP Circular No. 26/2010	Directive on the Office of Foreign Assets Control (“OFAC”) Requirements
14.	4.11-001	Directive No. 601.2B-001	Directive on the Trading Participants’ IT Security Standards

No.	Directive No.	Source (as at 15 August 2019)	Title of Directive
15.	4.18-001	Directive No. 614-001	Directive on Clients' Margin and Margin Payment
16.	4.19-001	Schedule 1B	Directive on Memorandum of Deposit
17.	4.25(3)-001	Directive No. 620.1(c)-001	Directive on Arbitral Forum for Disputes
18.	5.05-001	Rule 601A.2	Directive on Compliance Functions of Trading Participant
19.	6.03-001	New	Directive on Notification of Systems Malfunction or Error
20.	6.25(1)-001	Directive No. 711-001	Directive on the List of Specified Exchanges
21.	6.44-001	Directive No. 613-001	Directive on Position Limits and Exercise Limits
22.	7-001	New	Directive on Accounting and Financial Reporting Requirements
23.	7-002	New	Directive on Off-Balance Sheet Transactions
24.	8-001	Rule 602.2 and paragraphs 4.1 and 4.2 of Schedule 4	Directive on Adjusted Net Capital
25.	8.06-001	TM Circular No. 33/98	Directive on Early Warning Reporting Requirements

[End of List of Directives]

LIST OF BEST PRACTICES

Best Practice No.	Source (as at 15 August 2019)	Title of Best Practice
6-001	TP Circular No. 15/2008, TP Circular No. 23/2010 and TP Circular No. 11/2017	Direct Market Access Handbook

[End of List of Best Practices]

Relevant to : Rule 2.01(2)(i)
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 2.01(2)(i)

Rule 2.01(2)(i) empowers the Exchange to require the Participants or Relevant Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives. This Directive set out below, amongst others, detail the manner in which the Exchange may exercise these powers.

1.1 Reports, Information, Documents, Books and Records

(1) The Exchange may:

- (a) require a Participant or Relevant Person to provide the Exchange with accurate information about its business and transactions in such format or mode whether electronic or otherwise, specified by the Exchange;
- (b) require a Participant or any Relevant Person to provide the Exchange with the reports, information, Documents, Books and Records which are in their possession, custody, power or control;
- (c) if any report, information, Document, Book or Record requested by the Exchange cannot be produced, require the Participant or Relevant Person to:
 - (i) inform the Exchange of the details of the location of the report, information, Document, Book or Record and person having possession of such report, information, Document, Book or Record; and
 - (ii) use best efforts to secure the report, information, Documents, Book or Record;
- (d) interview the Participant or Relevant Person and require the Participant or Relevant Person to answer questions, provide explanations, give evidence and statements and to record such answers, explanations, evidence and statements;
- (e) require the Participant or Relevant Person to attend, or require that a Participant or Registered Person procure the attendance of any Relevant Person or consultant, before the Exchange to answer questions, provide explanations or give or procure information;
- (f) require the provision of information on the following persons:
 - (i) any person who is to be, is or has been a Relevant Person of the Participant; and
 - (ii) any other person engaged in the Participant's business; or
 - (iii) any person who is to be, is or has been an employee or agent of a Relevant Person or engaged in its business;

- (g) send any officer of the Exchange or Exchange Holding Company to a Participant's or Registered Person's premises at any time for the purpose of investigations and to ensure compliance with these Rules; and
 - (h) obtain copies or extracts from the reports, information, Documents, Books or Records and require any person who has knowledge about such reports, information, Documents, Books or Records to provide any explanation on the same.
- (2) Any statement, report, information, Document, Book or Record submitted by the Participant or the Relevant Person to the Exchange pursuant to Rule 2.01(2)(i) is deemed to be authorised by the Participant and the Exchange may rely on such statement, report, information, Document, Book or Record.
- (3) Any statement, report, information, Document, Book or Record submitted by the Participant or Registered Person to the Exchange must not be false or misleading.
- (4) A recorded statement under paragraph 1.1(1)(d) may be used in disciplinary proceedings against a Participant or Relevant Person (including the person making such statement).

[End of Directive]

Relevant to : Rule 2.01(2)(k)
Introduced with effect from : 16 June 2016
Amended : 15 August 2019 vide TP Circular No. 12/2019 and 30 June 2021
vide TP Circular No. 10/2021
TPs' Circular No(s). : TP 33/2012
Refer also to Directive No(s). : N/A

1. Rule 2.01(2)(k)

- (1) Rule 2.01(2)(k) provides that in exercising its powers the Exchange may undertake a readiness audit on a Participant or require a Participant to carry out its own readiness audit, with the scope, criteria and manner to be determined by the Exchange.
- (2) In connection with the above Rule, an applicant and a Trading Participant must, amongst others, comply with the requirements set out below.

2. Circumstances in which a readiness audit is required to be undertaken by a Trading Participant

- (1) An applicant wishing to commence operations as a new Trading Participant (Principal Office) which requires the approval of the Securities Commission Malaysia ("Commission") and the Exchange must first undertake a readiness audit in accordance with this Directive.
- (2) An applicant wishing to commence new activities requiring the Exchange's approval only must also first undertake a readiness audit in accordance with this Directive. These activities are:
 - (a) the relocation or change of business address of its Principal Office ¹;
 - (b) the offering of Discretionary Account trading facilities to Clients; and
 - (c) the commencement of proprietary trading.
- (3) Except where paragraph 4 applies, the Exchange will, upon receiving an application for approval from a Trading Participant to commence a new activity and upon due consideration, give an approval-in-principle setting out the relevant conditions that need to be complied with by the Trading Participant prior to the commencement of the activity. The Exchange will indicate whether the Trading Participant is required, in relation to the readiness audit, to follow the self-assessment approach ("SAA") or the declaratory approach ("DA").
- (4) The requirement to follow either the SAA or DA is assessed based on the following principles:
 - (a) Operating as a new Trading Participant

The SAA will apply to readiness audits required for approval to commence operations as a new Trading Participant.
 - (b) All other activities of a Trading Participant
 - (i) The SAA will apply to readiness audits required for approval to commence an activity for the first time.

¹ For the avoidance of doubt, the relocation of business address includes a redesignation between a Principal Office and a Branch Office i.e. where the Principal Office is redesignated as a Branch Office or the Branch Office is redesignated as the Principal Office.

- (ii) The DA will apply to readiness audits required for approval of subsequent applications of the same nature.
- (5) Notwithstanding items (a) and (b) in paragraph 2(4) above, the Exchange may at any time or under any circumstances it deems fit, require a Trading Participant to adhere to the SAA in place of DA.

3. Requirements for SAA or DA

In following the SAA or DA in respect of its readiness audit, a Trading Participant must comply with the requirements set out below.

3.1 Self Assessment Approach (SAA)

- (1) A Trading Participant must comply with the requirements set out in the following appendices to this Directive, in relation to the SAA:

No.	Type of Document	Appendix
1.	Procedures for submission and approval in respect of SAA	1
2.	Declaration of readiness for SAA	2

3.2 Declaratory Approach (DA)

- (1) A Trading Participant must comply with the requirements set out in the following appendices to this Directive, in relation to the DA:

No.	Type of Document	Appendix
1.	Procedures for submission and approval in respect of DA	3
2.	Declaration of readiness for DA	4

4. Green Lane Policy

- (1) The Exchange will allow a Trading Participant to commence certain activities without waiting for the Exchange to issue its approval-in-principle under paragraph 2(3) above (“Green Lane Policy”) if:
- (a) the Trading Participant is assessed as being eligible under paragraph 4.1 below (“Eligible Trading Participant”);
 - (b) the activity falls within the types of activities prescribed under paragraph 4.2 below and meets the criteria prescribed under paragraph 4.3 below; and
 - (c) the Eligible Trading Participant completes the readiness audit in accordance with the requirements stipulated in paragraph 1(4) of Appendix 1 and paragraph 4 of Appendix 2, and notifies the Exchange in the form attached as Appendix 5 before the commencement of the relevant activity.

- (2) The Eligible Trading Participant that complies with the requirements of subparagraph 4(1)(c) above is deemed to have been given the Exchange's approval to carry out the said activity pursuant to these Rules.
- (3) Notwithstanding paragraph 4(1) above, the Exchange may, at any time or under any circumstance it deems fit, in respect of a Trading Participant proceeding under paragraph 4(1) above, require the Trading Participant to adhere to the SAA or DA, instead of providing the notification to the Exchange that is referred to under paragraph 4(1)(c).

4.1 Eligibility of a Trading Participant

- (1) The Exchange will assess a Trading Participant to determine whether it may be considered as an Eligible Trading Participant for a particular activity. In making this assessment, the Exchange may take into consideration, among others, whether:
 - (a) the Trading Participant is familiar with the requirements applicable to the proposed activity, having undertaken the said activity previously;
 - (b) the Exchange has noted any unsatisfactory supervisory control or governance or compliance culture issue in the Trading Participant's front, middle or back office activities whether as part of its off-site or on-site supervision activities or otherwise;
 - (c) the Exchange or the Commission has any serious regulatory concern about the Trading Participant; and
 - (d) where the Trading Participant is also a participant of another subsidiary of Bursa Malaysia Berhad ("other participantship"), the Exchange has noted any unsatisfactory supervisory control or governance or compliance culture issue in the Trading Participant's activities vis-à-vis such other participantship(s).
- (2) The Exchange will notify a Trading Participant upon determination that it is an Eligible Trading Participant for a particular activity and where there is any subsequent change to its status. The Exchange's assessment is final and binding on the Trading Participant concerned.
- (3) A Trading Participant that has not fulfilled the criterion under paragraph 4.1(1)(b) or (c) may still be considered as an Eligible Trading Participant if it addresses the weaknesses and breaches or serious regulatory concerns, to the satisfaction of the Exchange.

4.2 Activities

Subject to paragraph 4.3, the Exchange may apply the Green Lane Policy to the following types of activities:

- (a) the relocation or change of business address of its Principal Office ²;
- (b) the offering of Discretionary Account trading facilities to Clients; and
- (c) the commencement of proprietary trading.

² For avoidance of doubt, the relocation of business address includes a redesignation between a Principal Office and a Branch Office i.e. where the Principal Office is redesignated as a Branch Office or the Branch Office is redesignated as the Principal Office.

4.3 Criteria for activities falling within Green Lane Policy

The Exchange may apply the Green Lane Policy to the activities in paragraph 4.2 in relation to readiness audits required for approval to commence an activity of the same nature for which approval had previously been granted by the Exchange.

[End of Directive]

Appendix 1

SAA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM TRADING PARTICIPANTS ON NEW ACTIVITIES

1. Procedures for Submission and Approval in respect of SAA

- (1) The Trading Participant intending to commence an activity is required to formally inform the Exchange in writing setting out the type of activity for which the approval is required.
- (2) The Exchange will upon due consideration give its Approval-In-Principle (“AIP”) to the Trading Participant.
- (3) Upon receipt of the AIP from the Exchange, the Trading Participant shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
- (4) The Trading Participant would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange or the Commission. The review shall be carried out by a party that is independent of trading and operations of the Trading Participant, for example, internal audit or external audit.
- (5) A formal application will then be made by the Trading Participant to the Exchange setting out the level of readiness, the intended commencement date together with all relevant supporting documents and the report produced from the independent readiness audit. The Exchange may seek additional clarification or documents where necessary to ensure the completeness of the readiness audit process.
- (6) If the proposed activity only requires the approval of the Exchange, it will then review the application made together with the supporting documents and communicate the outcome of the review and issue its approval directly to the Trading Participant.
- (7) Where the proposed activity also requires the approval of the Commission, the Exchange will review the submission made by the Trading Participant and forward the same together with the Exchange’s recommendation to the Commission for its further consideration and approval.

2. Documentation Requirements for New Activities

The following documents are required:

- Relevant checklist in the prescribed form for each type of new activity.
- Final report of independent readiness audit carried out by the Trading Participant.
- Extract of board resolutions/ minutes of meetings where applicable.
- Extract of relevant sections of operations manual.
- Copies of relevant agreements entered into by Trading Participant in connection with the proposed activity.
- Diagrams of new office layouts where applicable.
- Results of infrastructure testing where required by the Exchange.

- Any other documents in support of the application or expressly required to be submitted by the Exchange.

Note:-

The Trading Participant is required to submit complete documentation and checklist together with the required declaration to the Exchange at least 4 weeks prior to the intended commencement date of the proposed activity. The Trading Participant should also ensure that all the relevant requirements of the checklist(s) where applicable have been complied with prior to the submission to the Exchange.

[End of Appendix 1]

Appendix 2

DECLARATION OF READINESS FOR THE SELF ASSESSMENT APPROACH

This is a template document where the relevant parts marked with an asterisk are to be deleted accordingly if the same is not applicable. In the event the entity submitting this document is both a Trading Participant and a General Clearing Participant, no deletion is required and a single document may be submitted.

To: Head
Participants Supervision Division
Regulation
**BURSA MALAYSIA DERIVATIVES BERHAD/BURSA MALAYSIA DERIVATIVES
CLEARING BERHAD***
Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Trading Participant/General Clearing Participant]*

**DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE
OPERATIONS**

We refer to our application to commence the operation of our *[insert the particulars of the activity concerned]* referenced *[insert reference]* dated *[insert date]*, full details of which are contained in the proposal accompanying our aforesaid application.

We, *[insert name of Trading Participant/General Clearing Participant*]*, hereby declare and confirm as follows:-

1. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Derivatives Berhad/Bursa Malaysia Derivatives Clearing Berhad* (the "Exchange/Clearing House*") in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the *[insert name of Trading Participant/General Clearing Participant*]*;
2. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Exchange/Clearing House* in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the *[insert name of Trading Participant/General Clearing Participant*]*;
3. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office and/or Branch Office(s), if applicable contains adequate and effective specifications and capabilities to ensure that the security of transactions and confidentiality of clients are at all times reasonably and adequately preserved;
4. that the *[insert the particulars of the activity concerned]* is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorised tampering and intrusion and in this respect we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issued by the Exchange for the time being in force, including but not limited to the Trading Participant's IT Security Standards or the use of information technology (as may be amended from time to time)*;

5. the [*insert the particulars of the activity concerned*] conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Exchange/Clearing House* with respect to trading of derivatives on the Exchange by Trading Participants/clearing and settlement of derivatives by General Clearing Participants* generally;
6. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the [*insert the particulars of the activity concerned*] is/are adequate and effective; and
7. we shall indemnify the Exchange/Clearing House* and not hold the Exchange/Clearing House* liable to any claims made by any party as a result of the establishment, maintenance or operations of the [*insert the particulars of the activity concerned*] and its activities.

Authorised signatory

Date _____

[End of Appendix 2]

Appendix 3

DA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM TRADING PARTICIPANTS ON NEW ACTIVITIES

1. The Trading Participant intending to commence an activity is required to formally inform the Exchange in writing setting out the type of activity for which the approval is required.
2. The Exchange will upon due consideration give its Approval-In-Principle (“AIP”) to the Trading Participant.
3. Upon receipt of the AIP from the Exchange, the Trading Participant shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
4. The Trading Participant would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange. The review shall be carried out by a party that is independent of trading and operations of the Trading Participant, for example, internal audit or external audit.
5. The Trading Participant must then submit the DA Declaration Form in the format prescribed in Appendix 4 to this Directive at least 5 market days prior to the intended commencement date of the proposed activity.
6. The Exchange will process the application based on the declaration provided by the Trading Participant and issue its approval directly to the Trading Participant.

[End of Appendix 3]

Appendix 4

DECLARATION OF READINESS FOR THE DECLARATORY APPROACH

This is a template document where the relevant parts marked with an asterisk are to be deleted accordingly if the same is not applicable. In the event the entity submitting this document is both a Trading Participant and a General Clearing Participant, no deletion is required and a single document may be submitted.

To: Head
Participants Supervision Division
Regulation
**BURSA MALAYSIA DERIVATIVES BERHAD/BURSA MALAYSIA DERIVATIVES
CLEARING BERHAD***
Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Trading Participant/General Clearing Participant]*

**DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE
OPERATIONS**

PART I

We refer to our application to commence the operation of our *[insert the particulars of the activity concerned]* referenced *[insert reference]* dated *[insert date]*.

We, *[insert name of Trading Participant/General Clearing Participant*]*, hereby declare and confirm as follows:-

1. that *[insert name of Trading Participant/General Clearing Participant*]* has carried out an independent readiness audit in regard of *[insert the particulars of the activity concerned]*, and we have reasonable assurance that all the relevant systems, policies and procedures and relevant front office and back office systems IT systems that are required for the effective establishment, maintenance or operation of *[insert the particulars of the activity concerned]* are readily available, operative, and functional and are adequate and effective in achieving the intended purpose;
2. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* is/are adequate and effective;
3. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Derivatives Berhad/Bursa Malaysia Derivatives Clearing Berhad ("the "Exchange/Clearing House*") in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the *[insert name of Trading Participant/General Clearing Participant*]*;
4. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Exchange/Clearing House* in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by *[insert name of Trading Participant/General Clearing Participant*]*;

5. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office and/or Branch Office(s), if applicable contains adequate and effective specifications and capabilities to ensure that the security of transactions and confidentiality of clients are at all times reasonably and adequately preserved.
6. that the *[insert the particulars of the activity concerned]* is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorised tampering and intrusion and in this respect we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issued by the Exchange for the time being in force, including but not limited to the Trading Participant's IT Security Standards or the use of information technology (as may be amended from time to time)*;
7. the *[insert the particulars of the activity concerned]* conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Exchange with respect to trading of derivatives on the Exchange/Clearing House* by Trading Participants/clearing and settlement of derivatives by General Clearing Participants* generally; and
8. we shall indemnify the Exchange/Clearing House* and not hold the Exchange/Clearing House* liable to any claims made by any party as a result of the establishment, maintenance or operations of the *[insert the particulars of the activity concerned]* and its activities.

PART II: NOTIFICATION

The following are the details of the activities that will be undertaken:**

Authorised signatory

Date

** To provide the details of the activities, including the systems employed and key personnel involved.

[End of Appendix 4]

Appendix 5

NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY

This is a template document where the relevant parts marked with an asterisk are to be deleted accordingly if the same is not applicable. In the event the entity submitting this document is both a Trading Participant and a General Clearing Participant, no deletion is required and a single document may be submitted.

To: Head
Participants Supervision Division
Regulation
**BURSA MALAYSIA DERIVATIVES BERHAD/BURSA MALAYSIA DERIVATIVES
CLEARING BERHAD***
Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Trading Participant/General Clearing Participant]*

NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY

The following are the details of the activities that will be undertaken:**

Authorised signatory

Date

** To provide the details of the activities, including the systems employed and key personnel involved.

[End of Appendix 5]

Relevant to : Rules 2.01(2)(i) and 8.05(c)
Introduced with effect from : 1 July 2018
Amended : N/A
TPs' Circular No(s). : MDEX's Members' Circular 25/2002, TP Circular 7/2007, TP Circular No. 13/2018 and 15 August 2019 vide TP Circular No. 12/2019
Refer also to Directive No(s). : N/A

1. Rules 2.01(2)(i) and 8.05(c)

- (1) Rule 2.01(2)(i) empowers the Exchange to require the Participants or Relevant Person to maintain and provide reports, information and/or Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Rule 8.05(c) requires a Trading Participant other than a Trading Participant referred to in Rules 8.05(a) or 8.05(b) to submit to the Exchange a statement of Adjusted Net Capital in accordance with the requirements prescribed by the Exchange.
- (3) Pursuant to the above Rules, the Exchange requires the Participants to submit periodic reports to the Exchange, the details of which are set out below.

1.1 Reporting Requirements

- (1) Trading Participants must submit the periodic reports prescribed in the schedule of this Directive ("**Schedule**") to the Exchange:
 - (a) by way of electronic transmission as notified by the Exchange;
 - (b) in the format prescribed in appendices 1 – 4 to the Schedule; and
 - (c) not later than the times and days prescribed for submission of periodic reports in the Schedule.
- (2) If a Trading Participant subsequently rectifies, amends or re-submits any of the periodic reports submitted electronically to the Exchange, the Trading Participant must re-submit such reports no later than the timeframe prescribed for the re-submission of periodic reports in the Schedule, in the same format and mode as set out in paragraphs 1.1(1)(a) and (b) above.
- (3) Notwithstanding paragraphs 1.1(1) and (2) above, in the event a Trading Participant is, for any reason whatsoever, unable to submit by electronic transmission all or any of the periodic reports by the stipulated times, the Trading Participant must submit the completed and printed hard copy form of such periodic reports by way of facsimile, courier or by hand by the stipulated times set out in the Schedule.
- (4) The Exchange may at any time prescribe any other periodic reports to be submitted in accordance with such mode of communication and/or vary the times and manner for submissions of any periodic reports as notified by the Exchange.

[End of Directive]

Schedule

No.	Name of Report	Appendix	Frequency	Timing of submission of periodic reports [paragraph 1.1(1)]	Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]
1.	Statement of segregation requirements and funds in segregation (Form A)	Appendix 1(a)	As and when there is a deficiency of funds in segregation	By 2.30 p.m. of the market day following date of report	By 5.30 p.m. of the market day following the date of the report.

No.	Name of Report	Appendix	Frequency	Timing of submission of periodic reports [paragraph 1.1(1)]	Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]
2.	<p>Statement of segregation requirements and funds in segregation (Form A) and the following supporting documents:-</p> <ul style="list-style-type: none"> i. Form EWL1 – Statement of Undermargined Clients' Position; and ii. Form EWL2 – List of Overloss Account. 	Appendix 1(b)	Weekly	By 2.30 p.m. of the market day following the date of the report.	By 5.30 p.m. of the market day following the date of the report.

DIRECTIVE ON SUBMISSION OF PERIODIC REPORTS**No. 2.01(2)-003**

No.	Name of Report	Appendix	Frequency	Timing of submission of periodic reports [paragraph 1.1(1)]	Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]
3.	Cash & Bank Balances and Banking Facilities Position	Appendix 1(c)	Weekly	By 2.30 p.m. of the market day following the date of the report.	By 5.30 p.m. of the market day following the date of the report.
4.	Statement of segregation requirements and funds in segregation (Form A)	Appendix 1(d)	Monthly	By 5.30 p.m. of the 15 th calendar days after the end of each month.	By 8.30 p.m. of the 15 th calendar days after the end of each month.
5.	Explanatory Notes on Appendix 1(a), 1(b) and 1(d) – Statement of segregation requirements and funds in segregation (Form A)	Appendix 1 (e)			
6.	Statement of Adjusted Net Capital (Form B)	Appendix 2(a)	Monthly	By 5.30 p.m. of the 15 th calendar days after the end of each month.	By 8.30 p.m. of the 15 th calendar days after the end of each month.

DIRECTIVE ON SUBMISSION OF PERIODIC REPORTS**No. 2.01(2)-003**

No.	Name of Report	Appendix	Frequency	Timing of submission of periodic reports [paragraph 1.1(1)]	Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]
7.	Explanatory Notes on Appendix 2(a) – Statement of Adjusted Net Capital (Form B)	Appendix 2(b)			
8.	Statement of Financial Condition (Form C)	Appendix 3(a)	Monthly	By 5.30 p.m. of the 15 th calendar days after the end of each month.	By 8.30 p.m. of the 15 th calendar days after the end of each month.
9.	Explanatory Notes on Appendix 3(a) – Statement of Financial Condition (Form C)	Appendix 3(b)			
10.	Statement of Income/(Loss) (Form D)	Appendix 4(a)	Monthly	By 5.30 p.m. of the 15 th calendar days after the end of each month.	By 8.30 p.m. of the 15 th calendar days after the end of each month.
11.	Explanatory Notes on Appendix 4(a) – Statement of Income/(Loss) (Form D)	Appendix 4(b)			

[End of Schedule]

Appendix 1(a)

**STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION
FOR CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES (FORM A)
(AD-HOC)**

Trading Participant :

<<insert name of TP>>

Position As At :

<<dd/mth/yr>>

		Malaysian Exchange (Bursa Derivatives)	Foreign Exchanges	Total
	SEGREGATION REQUIREMENTS			
1	Net ledger balance			
a	<i>Cash</i>	0.00	0.00	0.00
b	<i>Securities</i>	0.00	0.00	0.00
c	<i>Foreign currencies</i>	0.00	0.00	0.00
2	Net profit/(loss)			
a	<i>Exchange traded open derivatives contracts (except for exchange traded options)</i>	0.00	0.00	0.00
b	<i>Non-exchange traded open derivatives contracts</i>	0.00	0.00	0.00
3	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
4	Net equity / (deficit) (add Items 1, 2 and 3)	0.00	0.00	0.00
5	Net debit balance	0.00	0.00	0.00
6	Amount required to be segregated (Add Items 4 & 5)	0.00	0.00	0.00

	FUNDS IN SEGREGATED ACCOUNTS			
7	Cash deposited in segregated bank accounts			
a	<i>Ringgit Malaysia</i>	0.00	0.00	0.00
b	<i>Foreign currencies</i>	0.00	0.00	0.00
8	Segregated securities	0.00	0.00	0.00
9	Margin deposit with Clearing House			
a	<i>Cash and net settlement</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
10	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
11	Net equity with other foreign derivatives brokers			
a	<i>Net equity</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
12	Segregated funds on hand (please specify)	0.00	0.00	0.00
13	Others (please specify)	0.00	0.00	0.00
14	Total amount segregated (Add Items 7 to 13)	0.00	0.00	0.00
15	Excess/(deficiency) of funds in segregation	0.00	0.00	0.00
	(Item 14 minus Item 6) (Appendix1)			

[End of Appendix 1(a)]

Appendix 1(b)

**STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION
FOR CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES (FORM A)
(WEEKLY SUBMISSION)**

Trading Participant :

<< insert name of TP>>

Position As At :

<<dd/mth/yr>>

		Malaysian Exchange (Bursa Derivatives)	Foreign Exchanges	Total
	SEGREGATION REQUIREMENTS			
1	Net ledger balance			
a	<i>Cash</i>	0.00	0.00	0.00
b	<i>Securities</i>	0.00	0.00	0.00
c	<i>Foreign currencies</i>	0.00	0.00	0.00
2	Net profit/(loss)			
a	<i>Exchange traded open derivatives contracts (except for exchange traded options)</i>	0.00	0.00	0.00
b	<i>Non-exchange traded open derivatives contracts</i>	0.00	0.00	0.00
3	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
4	Net equity / (deficit) (add Items 1, 2 and 3)	0.00	0.00	0.00
5	Net debit balance	0.00	0.00	0.00
6	Amount required to be segregated (Add Items 4 & 5)	0.00	0.00	0.00

	FUNDS IN SEGREGATED ACCOUNTS			
7	Cash deposited in segregated bank accounts			
a	<i>Ringgit Malaysia</i>	0.00	0.00	0.00
b	<i>Foreign currencies</i>	0.00	0.00	0.00
8	Segregated securities	0.00	0.00	0.00
9	Margin deposit with Clearing House			
a	<i>Cash and net settlement</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
10	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
11	Net equity with other foreign derivatives brokers			
a	<i>Net equity</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
12	Segregated funds on hand (please specify)	0.00	0.00	0.00
13	Others (please specify)	0.00	0.00	0.00
14	Total amount segregated (Add Items 7 to 13)	0.00	0.00	0.00
15	Excess/(deficiency) of funds in segregation	0.00	0.00	0.00
	(Item 14 minus Item 6) (Appendix1)			

[End of Appendix 1(b)]

Appendix 1(c)

SUBMISSION TO BURSA MALAYSIA DERIVATIVES BERHAD ON
CASH & BANK BALANCES AND BANKING FACILITIES POSITION

(Weekly Submission)

TRADING PARTICIPANT: <<insert name of Trading Participant>>
POSITION AS AT: month/date/year
(last market day of the week)

Banking Facilities	Approved Facility Limit	Amount Available for Utilisation	Amount Utilised	Amount Unutilised
	RM	RM	RM	RM
Total Amount	0.00	0.00	0.00	0.00

Items	Unsegregated Funds RM	Segregated Funds RM	Total RM
Cash & Bank Balances	0.00	0.00	0.00
Deposits - Banks and financial institutions	0.00	0.00	0.00
Deposits - Others	0.00	0.00	0.00
Total	0.00	0.00	0.00

(Note : Information relating to the above is to be submitted weekly for the position as at the last market day of the corresponding week)

[End of Appendix 1(c)]

Appendix 1(d)

**STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION
FOR CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES (FORM A)
(MONTHLY SUBMISSION)**

Trading Participant :

<<insert name of TP>>

Position As At :

dd/mth/yy

		Malaysian Exchange (Bursa Derivatives)	Foreign Exchanges	Total
	SEGREGATION REQUIREMENTS			
1	Net ledger balance			
a	<i>Cash</i>	0.00	0.00	0.00
b	<i>Securities</i>	0.00	0.00	0.00
c	<i>Foreign currencies</i>	0.00	0.00	0.00
2	Net profit/(loss)			
a	<i>Exchange traded open derivatives contracts (except for exchange traded options)</i>	0.00	0.00	0.00
b	<i>Non-exchange traded open derivatives contracts</i>	0.00	0.00	0.00
3	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
4	Net equity / (deficit) (add Items 1, 2 and 3)	0.00	0.00	0.00
5	Net debit balance	0.00	0.00	0.00
6	Amount required to be segregated (Add Items 4 & 5)	0.00	0.00	0.00

	FUNDS IN SEGREGATED ACCOUNTS			
7	Cash deposited in segregated bank accounts			
a	<i>Ringgit Malaysia</i>	0.00	0.00	0.00
b	<i>Foreign currencies</i>	0.00	0.00	0.00
8	Segregated securities	0.00	0.00	0.00
9	Margin deposit with Clearing House			
a	<i>Cash and net settlement</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
10	Exchange traded options			
a	<i>Current market value of open long option contracts</i>	0.00	0.00	0.00
b	<i>Current market value of open short option contracts</i>	0.00	0.00	0.00
11	Net equity with other foreign derivatives brokers			
a	<i>Net equity</i>	0.00	0.00	0.00
b	<i>Securities held as margin</i>	0.00	0.00	0.00
c	<i>Foreign currencies held as collateral</i>	0.00	0.00	0.00
12	Segregated funds on hand (please specify)	0.00	0.00	0.00
13	Others (please specify)	0.00	0.00	0.00
14	Total amount segregated (Add Items 7 to 13)	0.00	0.00	0.00
15	Excess/(deficiency) of funds in segregation	0.00	0.00	0.00
	(Item 14 minus Item 6) (Appendix1)			

[End of Appendix 1(d)]

Appendix 1(e)

EXPLANATORY NOTES ON APPENDICES 1(a), 1(b) AND 1(d) – STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES (FORM A)

This statement must be prepared by a Trading Participant for all clients trading on the Exchange and/or foreign exchanges. The Trading Participant should clearly differentiate between the clearing of trades done on the Clearing House and foreign clearing houses in the respective columns.

I. SEGREGATION REQUIREMENTS (Line 1 to Line 6)**LINE 1 – Net ledger balance****LINE 1.a – Net ledger balance – Cash**

This amount should show the net debit or credit balance of all Trading Participant's clients' accounts. Interest earned on clients' funds which are payable to the clients and all monies received from the Local Participants are also included in this line. This amount should exclude all foreign currency collateral received from clients which need to be disclosed separately under line 1.c. The Trading Participant's error account and proprietary balances should not be included in this balance.

LINE 1.b – Net ledger balance – Securities

The Trading Participant should report all the securities deposited by its clients to margin, guarantee and secure trading on the exchanges. Securities should be reported at the current market value. Letters of credit and guarantees received from clients to margin their accounts should not be included but should be disclosed as notes to the accounts.

LINE 1.c – Net ledger balance – Foreign currencies

The Trading Participant should report all the foreign currencies deposited by its clients to margin, guarantee and secure trading on the exchange. This amount should show the Ringgit Malaysia equivalent of total foreign currencies lodged by the Trading Participant's clients. The foreign currencies must be converted to Ringgit Malaysia based on the Clearing House's pre haircut rates. This amount must not be used to net off individual client's debit balances.

LINE 2 – Net profit/(loss)**LINE 2.a – Exchange traded open derivatives contracts (except for exchange traded options)**

This amount should include the net profit/(loss) in exchange traded open derivatives contracts (except for exchange traded options) of clients trading on the exchanges. Trades which have not been cleared (outtrades) as of the reporting date should be marked to market and included in this amount.

LINE 2.b – Non-exchange traded open derivatives contracts

This amount should include the net profit/(loss) in non-exchange traded open derivatives contracts of clients which are carried by the Trading Participant. These should include contracts for difference ("CFD") issued or carried by the Trading Participant on behalf of the clients. All such contracts remaining open as at the reporting date should be marked to market and included in this amount.

LINE 3 – Exchange traded options**LINE 3.a – Current market value of open long option contracts**

This amount should show the current market value of open long option contracts carried in the clients' accounts. Only in-the-money open long option contracts which have positive market value need to be disclosed. Out-of-the-money options have no market value as they would expire unexercised.

LINE 3.b – Current market value of open short option contracts

This amount should show as a deduction, the current market value of open short option contracts carried in the clients' accounts. Only in-the-money open short option contracts which have positive market value need to be disclosed. Out-of-the-money options have no market value as they would expire unexercised.

These amounts should not be netted against each other.

LINE 4 – Net equity / (deficit)

This amount should show the total of **LINE 1** to **LINE 3**.

LINE 5 – Net debit balance

An account has a debit balance when the combination of an account's cash ledger balance (debit or credit), profit or loss on exchange traded open derivatives contracts (except for exchange traded options), non-exchange traded open derivatives contracts (including CFDs), and the current market value of open option contracts liquidated to an amount less than zero. This amount should agree with **LINE 7.a** or **LINE 8.a** of **Appendix 3(a) (FORM C)**. Securities used to margin the account are not to be used to reduce the debit balance to be reported in **Appendix 1(a) / 1(b) / 1(d) (Form A)** even though such securities are permitted as margin deposits.

Example 1

	Computation Date
Cash ledger balance	(1,762)
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	-
Net equity	(1,762)
Margin requirement	-
Net current market value of open Options contract	-
Excess/(Shortage)	(1,762)

In this example, the Net Debit Balance on the Computation Date is RM1, 762.

Example 2

	Computation Date
Cash ledger balance	17,440
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	(40,580)
Net equity	(23,140)
Margin requirement	(180,000)
Net current market value of open Options contract	-
Excess/(Shortage)	(203,140)

In this example, the Net Debit Balance on the Computation Date is RM23, 140.

Example 3

	Computation Date
Cash ledger balance	7,440
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	(40,580)
Net equity	(33,140)
Margin requirement	(180,000)
Net current market value of open Options contract	-
Securities/collateral	200,000
Excess/(Shortage)	(13,140)

In this example, the Net Debit Balance on the Computation Date is RM33, 140.

LINE 6 – Amount required to be segregated

This amount should be the total of **LINE 4** and **LINE 5** and should agree with **LINE 23** and **LINE 24** of **Appendix 3(a) (FORM C)**.

II. FUNDS IN SEGREGATED ACCOUNTS (Line 7 to Line 14)**LINE 7 – Cash deposited in segregated bank accounts****LINE 7.a – Ringgit Malaysia**

This amount should show the total cash in Ringgit Malaysia segregated bank accounts.

LINE 7.b – Foreign Currencies

This amount should show the Ringgit Malaysia equivalent of foreign currencies in the Trading Participant's segregated bank accounts. The foreign currencies must be converted to Ringgit Malaysia based on the Clearing House's pre haircut rates.

LINE 8 – Segregated securities

This amount should show the securities owned by clients which is deposited with and retained by the Trading Participant, at current market value.

LINE 9 – Margin deposit with Clearing House**LINE 9.a – Cash and net settlement**

To report cash and all amounts due from and/or due to the Clearing House to the Trading Participant. This amount should agree with the Clearing House's statement.

LINE 9.b – Securities held as margin

This amount should show the securities held as margins and deposited with the Clearing House, at current market value.

LINE 9.c – Foreign currencies held as collateral

This amount should show the Ringgit Malaysia equivalent of foreign currencies lodged with the Clearing House. The foreign currencies must be converted to Ringgit Malaysia based on Clearing House's pre haircut rates.

LINE 10 – Exchange traded options**LINE 10.a – Current market value of open long option contracts**

This amount should show the current market value of open long option contracts cleared directly by the Trading Participant with the Clearing House.

LINE 10.b – Current market value of open short option contracts

This amount should show the current market value of open short option contracts cleared directly by the Trading Participant with the Clearing House.

These amounts should not be netted against each other.

Options transactions cleared through other foreign derivatives brokers should be reported on **LINE 11**.

LINE 11 – Net equity with other foreign derivatives brokers**LINE 11.a – Net equity**

This amount should show the net equity of the Trading Participant's clients' trades which were cleared through other foreign derivatives brokers. Net equity includes the cash ledger balance, profit or loss on exchange traded open derivatives contracts (except for exchange traded options), non-exchange traded open derivatives contracts (including CFDs) and the net current market value of open option contracts.

LINE 11.b – Securities held as margin

This amount should show the securities held as margin and deposited with other foreign derivatives brokers, at current market value.

LINE 11.c – Foreign currencies held as collateral

This amount should show the Ringgit Malaysia equivalent of foreign currencies lodged with another Trading Participant. The foreign currencies must be converted to Ringgit Malaysia based on the Clearing House's pre haircut rates.

LINE 12 – Segregated funds on hand

This amount should show the total amount of funds received from clients which have not been deposited to the segregated bank account.

LINE 13 – Others

This amount includes the marked-to-market value of clients' trades not yet cleared (outtrades) as at the computation date and other segregated funds which are not readily classifiable into other categories.

LINE 14 – Total amount segregated

This amount should be the total of **LINE 7** to **LINE 13** and should agree with **LINE 1** of **Appendix 3(a) (FORM C)**.

LINE 15 – Excess/(deficiency) of funds in segregation

This amount should show the difference between **LINE 6** and **LINE 14**. The Trading Participant is required to take immediate corrective action and must immediately inform the Clearing House, the Exchange and the Commission if there is a deficiency in the segregated funds.

The Trading Participant is also required to prepare a reconciliation showing the detailed movements of the excess funds. The reconciliation for the excess funds should be disclosed as **Appendix 1** using the format below:

APPENDIX 1:

Excess Funds b/f	XX	-	this item should agree with the previous month's excess funds reconciliation carried forward balance
Add:			
Addition to the excess funds during the month	XX	-	disclose full details
Less:			
Deduction to the excess funds during the month	(XX)	-	disclose full details
Excess funds c/f	XX	-	this item should agree with LINE 15 of Appendix 1(a) (FORM A) .

[End of Appendix 1(e)]

Appendix 2(a)

STATEMENT OF ADJUSTED NET CAPITAL (FORM B)
(MONTHLY SUBMISSION)

Trading Participant :

<<insert name of TP>>

Position As At :

dd/mth/yy

			Total
	Net Capital		
1	Permitted assets		0.00
2	Total liabilities		0.00
3	Deduction from total liabilities		
a	<i>Liabilities subject to satisfactory subordinated loan agreements</i>	0.00	
b	<i>Allowable long term liabilities</i>	0.00	
	Total allowable liabilities	0.00	
4	Adjusted liabilities		0.00
5	Net Capital (Item 1 minus Item 4)		0.00
6	Additional Deductions		
a.	For securities held by the Participant for its proprietary account		
i.	Malaysian government securities		
	- Up to one year of maturity period	0.00	
	- More than one year of maturity period	0.00	
ii.	Readily marketable Malaysian securities listed on the Main Market of Bursa Malaysia Securities Berhad		
	- Shares listed on the Main Market of Bursa Malaysia Securities Berhad up to a total value of 5% of initial margin or RM250,000, whichever is greater	0.00	
	- The balance of the aggregate value of shares listed on the Main Market of Bursa Malaysia Securities Berhad	0.00	

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iii.	All other securities listed on Bursa Malaysia Securities Berhad	0.00	
b.	Amounts due from clients in respect of margin where such amounts are outstanding not less than 3 business days as at the computation date	0.00	
c.	The net debit balance arising from the marking-to-market or interim settlement of outstanding derivatives contracts held by clients as at the close of business on the computation date.	0.00	
d.	The margin requirement on open contracts in the proprietary account of a Participant which are not bona fide hedged contracts	0.00	
e.	Inventories which are not hedged in any market or association	0.00	
f.	Inventories which are not hedged by any hedging position in any market or association	0.00	
g.	Contracts for difference (CFD) – <i>does not include positions held for hedging its exposures on issuance of CFDs</i>		
i.	Amounts due from clients in respect of margin where such amounts are outstanding not less than 3 business days as at the computation date	0.00	
ii.	The margin requirement on open contracts in the proprietary account of a Participant which are not bona fide hedged contracts	0.00	
7	Total deductions (Add Items 6 (a) to 6(g))		0.00
8	Adjusted Net Capital (Item 5 minus Item 7)		0.00
9	Amount of margin required		0.00
10	10% of the amount of margin required		0.00
11	Adjusted Net Capital required (Enter the greater of Line 10 or RM500,000)		500,000.00
12	Excess Adjusted Net Capital (Item 8 minus Item 11)		(500,000.00)

Note:

- Item 6a to 6f is applicable for securities held by the Participant for its proprietary account.
- Item 6g is applicable for CFDs.

[End of Appendix 2]

Appendix 2(b)

EXPLANATORY NOTES ON APPENDIX 2(a) – STATEMENT OF ADJUSTED NET CAPITAL (FORM B)

For the purposes of calculating Adjusted Net Capital:

- (a) all derivatives contracts must be marked to their current market value;
- (b) all unrealised profits and losses on all derivatives contracts must be treated as realised profits and losses; and
- (c) unless otherwise specifically stated, the value ascribed to all other assets and liabilities must be at their current market value.

I. NET CAPITAL (Line 1 to Line 5)**LINE 1 – Permitted assets**

This amount should agree with the “Permitted assets” column on **LINE 16** of **Appendix 3(a) (FORM C)**. Refer to Schedule 2 of the Rules of the Clearing House for the definition of “Permitted Assets”. Note that “Permitted Assets” include securities listed on a stock exchange approved by the Clearing House under paragraph 1(b)(i)(iv) of Schedule 2.

LINE 2 – Total Liabilities

This amount should agree with the amount on **LINE 27** of **Appendix 3(a) (FORM C)**.

LINE 3 – Deduction from total liabilities.**LINE 3.a – Liabilities subject to satisfactory subordinated loan agreements**

This amount should show the liabilities under a subordinated loan agreement:

- i. which has a remaining term to maturity of not less than one year; and
- ii. up to a maximum amount of four times the shareholders’ funds of the Trading Participant.

LINE 3.b - Allowable long term liabilities

This amount should show long term liabilities owed to a financial institution under a commercial loan secured by a fixed charge over **real property** or **motor vehicles** owned by the Trading Participant and applied for use in the normal course of the business of the Trading Participant, up to an amount equal to the lower of net book value of 80% of the market value of the real property or motor vehicles. The market value of the assets should be valued by an appointed valuer, on an ‘as is’ basis and should be revalued annually.

Example:

A Trading Participant obtains a long term loan of RM4.0 million from a financial institution. The loan is secured by a fixed charge over real property owned by the Trading Participant. The amount payable within the next 12 months is RM0.5 million and RM 2.5 million is the long term liability. The net book value of the real property is RM3.0 million. The allowable long term liability should be the lower of:

- (i) long term liabilities,

- (ii) 80% of the real property's market value; or
- (iii) net book value of the real property.
- (1) If the current market value of the real property is RM5.0 million, 80% of the market value will be RM4.0 million. Therefore, the allowable long term liability will be RM2.5 million.
- (2) If the current market value of the real property is RM3.0 million, 80% of the market value will be RM2.4 million. Therefore, the allowable long term liability will be RM2.4 million.

LINE 4 – Adjusted liabilities

This amount should show the difference between **LINE 3** and **LINE 2**.

LINE 5 – Net Capital

This amount should show the difference between **LINE 4** and **LINE 1**.

LINE 6 – Additional deductions

The Trading Participant must provide the following charges to its Net Capital to compute its Adjusted Net Capital.

LINE 6.a – For securities held by the Trading Participant for its proprietary account

LINE 6.a i – Malaysian government securities

LINE 6.a ii – Readily marketable Malaysian securities listed on the Main Market of Bursa Malaysia Securities Berhad

LINE 6.a iii – All other securities listed on Bursa Malaysia Securities Berhad

The percentage of charges are as follows:

1. For securities held by the Trading Participant for its proprietary account

	% of market value to be deducted
• Malaysian government securities	
- Up to one year of maturity period	2.5%
- More than one year of maturity period	5%
• Shares listed on the Main Market of Bursa Malaysia Securities Berhad up to a total value of 5% of initial margin or RM250,000, whichever is greater	40%
• The balance of the aggregate value of shares listed on the Main Market of Bursa Malaysia Securities Berhad	100%
• All other securities listed on Bursa Malaysia Securities Berhad	100%

2. Contracts for difference (CFDs) (*which do not include positions held for hedging its exposures on issuance of CFDs*)

% of market value to be deducted

- Single share CFDs

Index shares 15%

Non-index shares 21%

- Index CFDs 5%

For the purposes of **LINE 6.b** and **6.c** of this statement:

Net equity refers to the combination of an account's cash ledger balance (debit or credit), profit or loss on exchange traded open derivatives contracts (except for exchange traded options), non-exchange traded open derivatives contracts (including CFDs) and the net current market value of open options contract.

Securities or collateral used to margin the account are to be used to reduce the Net Debit Balance in the account before such securities are used to reduce the initial margin.

Net current market value of open option contracts refers to current market value of open long option contracts less the current market value of open short option contracts.

LINE 6.b – *Amounts due from clients in respect of margin where such amounts are outstanding not less than 3 business days as at the computation date.*

An under margined situation arises if the net equity and secured collateral are not sufficient to cover the margin requirement for that particular client account. The margin requirement should refer to the Clearing House's margin requirement. The foreign brokers' margin requirements to the Trading Participant would be applicable to clients trading in foreign exchanges.

The under margin amount will be determined as follows:

- (a) If the net equity is in a net credit position, then the under margin amount will be:**

The margin requirement less net equity less secured collateral add/less net current market value of open options contract.

- (b) If the net equity is in a net debit position, then the under margin amount will be:**

The margin requirement less balance of secured collateral (secured collateral less amount used to secured net debit balance) add/less net current market value of open options contract.

An under margin charge will be imposed if the Trading Participant has an under margin amount outstanding for more than 3 business days as at the computation date.

The charge will be imposed on the amount under margined on T day itself unless the under margin amount is fully eliminated. T day is the day when the derivatives contracts are executed by the Trading Participant.

The under margin amount will only be fully eliminated if:

- (a)** The total of net equity and any secured collateral become greater than the margin requirement either on T+1 or T+2 or T+3; or

- (b) There is no longer any margin requirement for the account either on T+1 or T+2 or T+3;
or
- (c) Total cash received either on T+1 and/or T+2 and/or T+3 is greater than the under margin amount on T day.

However, if the account is also in a Net Debit Balance position on T day, any cash received will first be used to set off against the Net Debit Balance amount. The balance of the cash received can then be used to either fully or partially set off against the under margin amount on T day.

- (i) If the balance of the cash received (i.e. total cash received less Net Debit Balance amount on T day) can fully eliminate the under margin amount on T day, then an under margin charge shall not be imposed.
- (ii) If the balance of the cash received (i.e. total cash received less net Debit Balance amount on T day) can only partially eliminate the under margin amount on T day, then an under margin charge shall be imposed on the difference in the balance of the cash received and the under margin amount.

Example 1

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	21,397	21,397	21,277	21,277
Cash received	-	-	-	-
Net current market value of open Options contract	10,000	9,900	9,800	9,700
Open position profit/(loss)	720	9,320	10,330	10,000
Net equity	32,117	40,617	41,407	40,977
Margin requirement	(26,000)	(26,000)	(39,000)	(39,000)
Net current market value of open Options contract	(10,000)	(9,900)	(9,800)	(9,700)
Excess/(Shortage)	(3,883)	4,717	(7,393)	(7,723)

In this example, the under margin amount on T day is RM3,883. However, an under margin charge will not be imposed when computing the Adjusted Net Capital as the under margin amount on T day has been completely eliminated on T+1 since the net equity is greater than the margin requirement. The under margin amount of RM7,393 on T+2 is not subjected to a charge as it is outstanding for less than 3 business days as at the computation date.

The same principle will apply if the net equity becomes greater than the margin requirement on either T+2 or T+3.

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Example 2

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	36,494	(16,947)	(15,606)	(25,505)
Cash received	-	-	-	-
Net current market value of open Options contract	(5,000)	-	(4,000)	(4,500)
Open position profit/(loss)	(30,010)	-	(9,960)	(700)
Net equity	1,484	(16,947)	(29,566)	(30,705)
Margin requirement	(175,500)	-	(26,000)	(6,500)
Net current market value of open Options contract	5,000	-	4,000	4,500
Excess/(Shortage)	(169,016)	(16,947)	(51,566)	(32,705)

In this example, the under margin amount on T day is RM169,016. However, an under margin charge will not be imposed when computing the Adjusted Net Capital as the under margin amount on T day has been completely eliminated since there is no longer a margin requirement on T+1.

No charge will be imposed for the under margin amount of RM26,000 on T+2 because this under margin amount has not been outstanding for more than 3 business days.

The same principle will apply if there is no longer any margin requirement on either T+2 or T+3.

Example 3

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	620,375	728,725	728,325	780,565
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(208,650)	(374,380)	(239,910)	(365,576)
Net equity	422,725	353,945	488,415	423,989
Margin requirement	(824,500)	(659,500)	(659,500)	(457,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(412,775)	(305,555)	(171,085)	(33,511)

In this example, the under margin amount on T day is RM412,775. A charge of RM412,775 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated as at the computation date.

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Example 4

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	1,725,942	1,724,742	1,723,742	1,721,342
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(451,680)	(398,740)	(86,640)	(16,390)
Net equity	1,274,262	1,326,002	1,637,102	1,704,952
Margin requirement	(1,482,000)	(1,612,000)	(2,593,500)	(3,163,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(207,738)	(285,998)	(956,398)	(1,458,548)

In this example, the under margin amount on T day is RM207,738. A charge of RM207,738 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated as at the computation date.

Example 5

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	(300)	(280)	(280)	(280)
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(750)	4,700	6,500	8,300
Net equity	(1,050)	4,420	6,220	8,020
Margin requirement	(32,500)	(13,000)	(13,000)	(13,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(33,550)	(8,580)	(6,780)	(4,980)

In this example the under margin amount on T day is RM32,500 (i.e. the margin requirement on T day). The under margin amount is **not** RM33,550 because this amount is inclusive of the Net Debit Balance of RM1,050 on T day.

A charge of RM 32,500 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

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Example 6

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	3,588	2,768	2,768	2,768
Cash received	-	-	-	10,000
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	260	700	(8,340)	(7,540)
Net equity	3,848	3,468	(5,572)	5,228
Margin requirement	(19,500)	(26,000)	(26,000)	(26,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(15,652)	(22,532)	(31,572)	(20,772)

In this example, the under margin amount on T day is RM15,652. The under margin amount of RM15,652 has been partially eliminated by cash receipt of RM10,000 on T+3. The remaining balance of the under margin amount RM5,652 (i.e. RM15,652 – RM10,000) has not yet been eliminated and this balance has been outstanding for more than 3 business days as at the computation date.

A charge of RM5,652 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

Example 7

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	4,327	4,327	11,327	11,327
Cash received	-	7,000	-	10,000
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	2,600	8,400	1,600	1,600
Net equity	6,927	19,727	12,927	22,927
Margin requirement	(24,000)	(24,000)	(24,000)	(24,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(17,073)	(4,273)	(11,073)	(1,073)

In this example, the under margin amount on T day is RM17,073. The under margin amount of RM17,073 has been partially eliminated by the total cash receipt of RM17,000 on T+1 and T+3. The remaining balance of the under margin amount RM73 (i.e. RM17,073 – RM17,000) has not yet been eliminated and this balance has been outstanding for more than 3 business days as at the computation date.

A charge of RM73 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

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Example 8

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	2,768	2,768	2,398	2,398
Cash received	-	10,000	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(8,340)	(7,540)	(4,100)	(4,000)
Net equity	(5,572)	5,228	(1,702)	(1,602)
Margin requirement	(26,000)	(26,000)	(6,500)	(6,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(31,572)	(20,772)	(8,202)	(8,102)

In this example, the under margin amount on T day is RM26,000 and the Net Debit Balance is RM5,572.

The RM10,000 total cash received on T+1 is required to set off the Net Debit Balance on T day. The balance of cash received after setting off the Net Debit Balance is RM4,428 (i.e. RM10,000 – RM5,572)

The under margin amount of RM26,000 shall be partially eliminated by the remaining cash balance of RM4,428. The balance of the under margin amount of RM21,572 (i.e. RM26,000 – RM4,428) has not yet been eliminated and has been outstanding for more than 3 business days as at the computation date.

A charge of RM21,572 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

Example 9

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	2,768	2,768	2,398	2,398
Cash received	-	3,000	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(8,340)	(7,540)	(4,100)	(4,000)
Net equity	(5,572)	(1,772)	(1,702)	(1,602)
Margin requirement	(26,000)	(26,000)	(6,500)	(6,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(31,572)	(27,772)	(8,202)	(8,102)

In this example, the under margin amount on T day is RM26,000 and the Net Debit balance is RM5,572.

The RM3,000 total cash received on T+1 is required to set off the Net Debit Balance on T day. However, the cash received is insufficient to fully eliminate the Net Debit Balance.

Therefore the under margin amount of RM26,000 has not been eliminated and this balance has been outstanding for more than 3 business days as at the computation date. An under margin charge of RM26,000 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital at the computation date.

Example 10

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	7,440	7,440	7,440	7,440
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	(51,140)	(73,640)	(43,940)	(33,140)
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	200,000	200,000	200,000	200,000
Excess/(Shortage)	(31,140)	(53,640)	(23,940)	(13,140)

In this example, the under margin on T day is RM31,140. Amount of collateral available to offset margin requirement is RM148,860 (RM200,000 less Net Debit Balance of RM51,140).

Example 11

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	7,440	7,440	7,440	7,440
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	(51,140)	(73,640)	(43,940)	(33,140)
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	100,000	100,000	100,000	100,000
Excess/(Shortage)	(131,140)	(153,640)	(123,940)	(113,140)

In this example, the under margin amount on T day is RM131,140 (i.e. RM100,000 – (RM51,140 + RM180,000)). A charge of RM131,140 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

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Example 12

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	67,440	67,440	67,440	67,440
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	8,860	(13,640)	16,060	26,860
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	100,000	100,000	100,000	100,000
Excess/(Shortage)	(71,140)	(93,640)	(63,940)	(53,140)

In this example, the under margin amount on T day is RM71,140 (i.e. RM180,000 – RM8,860 – RM100,000). A charge of RM71,140 shall be imposed as a deduction against Net Capital when computing the Adjusted Net Capital because the under margin amount on T day has not been completely eliminated by the computation date.

LINE 6.c – *The net debit balance arising from marking-to-market or interim settlement of outstanding derivatives contracts held by clients as at the close of business on the computation date.*

A charge on the client's account with a Net Debit balance refers to a charge that **may be imposed** if the net equity has a debit balance on the computation date and, **if imposed**, this charge must be deducted from the Trading Participant's Net Capital in order to arrive at the Adjusted Net Capital.

This charge is computed as a percentage of the client's account with a Net Debit Balance if the client's account has a Net Debit Balance at the net equity level on computation date.

LINE 6.d – *The margin requirement on open contracts in the proprietary account of a Participant which are not bona fide hedged contracts.*

The reporting Trading Participant must take a charge on the margin requirement for all uncovered derivatives granted (sold) positions in its proprietary account.

LINE 6.e and **6.f** will be defined as and when the haircuts are imposed by the Clearing House and the Exchange.

LINE 7 – Total deductions

This amount should show the total of **LINE 6.a** to **6.h**.

LINE 8 – Adjusted Net Capital

This amount should show the difference between **LINE 7** and **LINE 5**.

LINE 9 – Amount of margin required

This amount should show the margin required to be paid to the Clearing House or to any party or clearing house organisation, for client and proprietary accounts (including CFDs). This amount should agree with the total margin for both the segregated and unsegregated accounts in the Clearing House's statement or Clearing Participant's statement (in the case of non-clearing Participants) and position in CFDs.

LINE 10 – 10% of the amount of margin required

This amount should be 10% of **LINE 9**.

LINE 11 – Adjusted Net Capital required

This amount should be the greater of **LINE 10** or RM500,000. This is the minimum Adjusted Net Capital requirement required by the Clearing House and the Exchange.

LINE 12 – Excess Adjusted Net Capital

This amount should be the difference between **LINE 8** and **LINE 11**. If a deficit is recorded, the Trading Participant must take immediate corrective action and file the appropriate notices to the Clearing House and the Exchange.

[End of Appendix 2(b)]

Appendix 3(a)

STATEMENT OF FINANCIAL CONDITION (FORM C)
(MONTHLY SUBMISSION)

Trading Participant :
Position As At :

<<insert name of TP>>
 dd/mth/yy

	Assets	Permitted Assets	Non-Permitted Assets	Total
1	Funds segregated for clients	0.00	0.00	0.00
2	Cash with financial institutions and on hand	0.00	0.00	0.00
3	Receivables from and margin deposit with the Clearing House			
a	<i>Cash and settlement receivables</i>	0.00		0.00
b	<i>Marketable securities</i>	0.00		0.00
c	<i>Net long option value</i>	0.00		0.00
d	<i>Security deposit and clearing funds</i>		0.00	0.00
e	<i>Interest receivable</i>	0.00	0.00	0.00
4	Receivables from and margin deposit with foreign clearing houses			
a	<i>Cash and settlement receivables</i>	0.00		0.00
b	<i>Marketable securities</i>	0.00		0.00
c	<i>Net long option value</i>	0.00		0.00
d	<i>Security deposit and clearing funds</i>		0.00	0.00
e	<i>Interest receivable</i>	0.00	0.00	0.00
5	Receivables from other Trading Participants			
a	<i>Cash and settlement receivables</i>	0.00	0.00	0.00

<i>b</i>	<i>Marketable securities</i>	0.00	0.00	0.00
<i>c</i>	<i>Net long option value</i>	0.00	0.00	0.00
<i>d</i>	<i>Security deposit</i>		0.00	0.00
<i>e</i>	<i>Others</i>	0.00	0.00	0.00
<i>f</i>	<i>Allowances for doubtful accounts</i>	0.00	0.00	0.00
6	Receivables from foreign derivatives brokers			
<i>a</i>	<i>Cash and settlement receivables</i>	0.00	0.00	0.00
<i>b</i>	<i>Marketable securities</i>	0.00	0.00	0.00
<i>c</i>	<i>Net long option value</i>	0.00	0.00	0.00
<i>d</i>	<i>Security deposit</i>		0.00	0.00
<i>e</i>	<i>Others</i>	0.00	0.00	0.00
<i>f</i>	<i>Allowances for doubtful accounts</i>	0.00	0.00	0.00
7	Receivables from clients trading on the Exchange			
<i>a</i>	<i>Client debit balances</i>	0.00	0.00	0.00
<i>b</i>	<i>Others (please itemise)</i>	0.00	0.00	0.00
<i>c</i>	<i>Allowances for doubtful accounts</i>	0.00	0.00	0.00
8	Receivables from clients trading on foreign exchanges / over the counter derivatives contracts (including contracts for difference)			
<i>a</i>	<i>Client debit balances</i>	0.00	0.00	0.00
<i>b</i>	<i>Others (please itemise)</i>	0.00	0.00	0.00
<i>c</i>	<i>Allowances for doubtful accounts</i>	0.00	0.00	0.00
9	Other receivables, advances & loans			
<i>a</i>	<i>Merchandise accounts receivable</i>	0.00	0.00	0.00
<i>b</i>	<i>Interest</i>	0.00	0.00	0.00
<i>c</i>	<i>Dividends</i>	0.00	0.00	0.00
<i>d</i>	<i>Advances and loans to directors, employees of the Trading Participant or any third party</i>		0.00	0.00
<i>e</i>	<i>Receivables from related corporations</i>	0.00	0.00	0.00

f	Others (please itemise)		0.00	0.00
g	Allowance for doubtful accounts	0.00	0.00	0.00
10	Securities			
a	Owned by Trading Participant	0.00	0.00	0.00
b	Securities in exchanges and clearing houses		0.00	0.00
11	Inventories of physical commodities		0.00	0.00
12	Exchange / Clearing House (if applicable) participation, at cost		0.00	0.00
13	Investment in related corporations		0.00	0.00
14	Fixed asset (plant, property, etc) at net book value		0.00	0.00
15	Other assets (please itemise)		0.00	0.00
16	Total assets	0.00	0.00	0.00
	Liabilities	Total		
17a	Bank overdrafts			
	i Secured	0.00		
	ii Unsecured	0.00		
17b	Loans			
	i Due for payment within 12 months	0.00		
	ii Due for payment after 12 months	0.00		
18	Payables to related corporations	0.00		
19	Payables to the Clearing House	0.00		
20	Payables to foreign clearing houses	0.00		
21	Payables to other Trading Participants	0.00		
22	Payables to foreign derivatives brokers	0.00		
23	Payables to clients trading on the Exchange	0.00		
24	Payables to clients trading on foreign exchanges / over the counter derivatives contracts (including contracts for difference)	0.00		

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25	Liabilities subordinated to claims of general creditors	
<i>a</i>	<i>Subject to satisfactory subordinated loan agreement</i>	0.00
<i>b</i>	<i>Not subject to satisfactory subordinated loan agreement</i>	0.00
26	Other payables and accrued liabilities (please itemise)	0.00
27	Total liabilities	0.00

	Shareholders Funds	Total
28	Shareholders' funds	
<i>a</i>	<i>Paid-up capital</i>	0.00
<i>b</i>	<i>Share premium</i>	0.00
<i>c</i>	<i>Capital reserves</i>	0.00
<i>d</i>	<i>Unappropriated profits / (accumulated losses)</i>	0.00
29	Total shareholders' funds	0.00
30	Total liabilities and shareholders' funds	0.00

[End of Appendix 3(a)]

Appendix 3(b)

EXPLANATORY NOTES ON APPENDIX 3(a) – STATEMENT OF FINANCIAL CONDITION (FORM C)

I. **ASSETS** (Line 1 to Line 16)**LINE 1 – Funds segregated for clients**

This amount should agree with the total amount on **LINE 14** of **Appendix 1(a) / 1(b) / 1(d) (FORM A)**.

LINE 2 – Cash with financial institutions and on hand

This amount should show the total petty cash, marked-to-market money market instruments (e.g. Repo, Bankers Acceptance, Negotiable Certificates of Deposits) and deposits belonging to the Trading Participant placed with financial institutions. Fixed deposits can be considered as permitted assets if the Trading Participant can withdraw the deposits at any time before the maturity date.

Assets, of which possession or control over their disposal, have been given to a financial institution as security for any credit facility provided by the financial institution to the Trading Participant or as security for an irrevocable letter of credit, bank guarantee or surety or any other line of credit provided by that financial institution to the Clearing House, an exchange, another clearing house or to any other person shall be considered as non-permitted assets and details are to be disclosed as notes to the accounts.

Accrued interest receivable should be reported on **LINE 9.b** of this statement. Bank overdrafts are not to be netted against balances in these accounts. Such overdrafts should be reported on **LINE 17.a** of this statement.

LINE 3 – Receivables from and margin deposits with the Clearing House.

To report all items on this line as permitted assets except for the Security Deposit and Clearing Fund paid to the Clearing House.

LINE 3.a – Cash and settlement receivables

This amount should agree with the unsegregated balance in the Clearing House's statement. Settlement amount payable to the Clearing House should be included as a liability on **Line 19** of this statement.

LINE 3.b – Marketable securities

This amount should show the marketable securities deposited with the Clearing House for margining proprietary accounts, valued at the current market prices without haircuts.

LINE 3.c – Net long option value

This amount should show the current market value of the net long option contracts of proprietary accounts. The current market value of the net short option contracts should be included as a liability on **Line 19** of this statement.

LINE 3.d – Security deposit and clearing funds

This amount should be shown as a non-permitted asset. Accrued interest receivable from the placement of this security deposit and clearing fund should be reported on **Line 3.e** of this statement. Letters of credit deposited with the Clearing House should not be included here but must be disclosed as notes to the accounts.

LINE 4 – Receivables from and margin deposit with foreign clearing houses

The same treatment as on **LINE 3** above should be accorded for the amount deposited with and due from foreign clearing houses, with payables to foreign clearing houses to be reflected on **LINE 20** of this statement. Settlement amount due from one foreign clearing house should not be netted against payables to another foreign clearing house.

LINE 5 – Receivables from other Trading Participants**LINE 5.a – Cash and settlement receivables**

This amount should show the unsegregated cash and net settlement amount due from other Trading Participants. Settlement amount due from one Trading Participants should not be netted against payables to another Trading Participants. Settlement payable to a Trading Participants should be included as a liability on **Line 21** of this statement.

LINE 5.b - Marketable securities

This amount should show the marketable securities due from other Trading Participants, at the current market value without haircuts.

LINE 5.c – Net long option value

This amount should show the current market value of the net long option contracts with other Trading Participants. The current market value of the net short option contracts should be included as a liability on **LINE 21** of this statement.

LINE 5.d – Security deposit

This is the amount of security deposits placed by the Trading Participant with other Trading Participants. This amount should be shown as non-permitted assets.

Collateral (such as letters of credit, bank guarantee etc.) deposited with other Trading Participants should not be included here but must be disclosed as notes to the accounts.

LINE 5.e – Others

This amount should include other receivables such as interest receivable and commission receivable from other Trading Participants. All give-up trade commission and brokerage receivable from Trading Participants should be itemized in **Appendix 2**. The commission and brokerage receivable which has not been outstanding for longer than 10 business days from computation date should be classified as a permitted asset. This amount should not be netted against the take-up trade commission and brokerage payable reported under **LINE 21** of this statement.

APPENDIX 2

Execution date	Brokers				Total
	Broker X		Broker Y		
	Lots traded	RM	Lots traded	RM	
Total					

LINE 5.f – Allowances for doubtful accounts

This amount should show the appropriate allowances for doubtful accounts.

LINE 6 – Receivables from foreign derivatives brokers

The same treatment applied to **LINE 5** should be accorded for the amount due from foreign derivatives brokers, with a payables to other foreign derivatives brokers to be reflected in **LINE 22** of this statement.

LINE 7 – Receivables from clients trading on the Exchange**LINE 7.a – Client debit balances**

This is the amount of debit balances in the client's accounts. This amount should be shown as permitted assets if they are secured. The amount to be included as permitted assets should be limited to the extent of the market value of the collateral minus the haircut. The Trading Participant should not net this receivable against the payables arising from the trading of other clients' accounts. The payables should be reported in **LINE 23** of this statement. This amount must agree with the amount in **LINE 5** of **Appendix 1(a) / 1(b) / 1(d) (FORM A)**.

LINE 7.b – Others

The Trading Participant should show as non-permitted assets any other receivables due from clients unless secured.

LINE 7.c – Allowances for doubtful accounts

This amount should show the appropriate allowance for doubtful accounts.

LINE 8 – Receivables from clients trading on foreign exchanges / over the counter derivatives contracts (including contracts for difference)

The same treatment as on **LINE 7** should be accorded for the amount due from clients clearing on foreign clearing houses or over the counter derivatives contracts (including contracts for difference), with payables to clients clearing on foreign clearing houses or over the counter derivatives contracts (including contracts for difference) to be reflected in **LINE 24** of this statement.

LINE 9 – Other receivables, advances and loans**LINE 9.a – Merchandise accounts receivable**

This amount should be the receivable resulting from the Trading Participant's sales of inventory commonly associated with the business activities of the Trading Participant, which in the opinion of the Trading Participant's auditors, are good for collection.

LINE 9.b – Interest

If the interest due is to be paid on the next business day from the computation date, it would be reported as a permitted asset. Otherwise, it should be reported as a non-permitted asset.

LINE 9.c – Dividends

This amount should be shown as a permitted asset if the dividends have not been outstanding for longer than 10 business days from the payable date. Dividends payables should not be netted off against this amount.

LINE 9.d – Advances and loans to directors, employees of the Trading Participant or any third party

This amount should be shown as a non-permitted asset.

LINE 9.e – Receivables from related corporations

This amount should be shown as a non-permitted asset unless the related corporation is a financial institution licensed or otherwise approved by Bank Negara Malaysia. Receivables from related corporations which the Trading Participant considers as their clients in relation to trading in derivatives contracts should be disclosed in **LINE 7.a** or **8.a** of this statement. These receivables from one related corporation should not be netted against payables to another related corporation.

LINE 9.f – Others

This amount should include other receivables such as sundry deposits and transferable club memberships which are not specified above with details itemised showing the amount and description of the receivable. This amount should be shown as a non-permitted asset.

LINE 9.g – Allowance for doubtful accounts

This amount should show the appropriate allowance for doubtful accounts.

LINE 10 – Securities**LINE 10.a – Owned by Trading Participant**

This is the amount of securities held by the Clearing Participant at current market value and should be reported as **Appendix 3**.

APPENDIX 3**Investment Ledger**

		BUY			SELL			B/F		C/F		Unrealised Gain/(Loss)
Date	Counter	Price	Qty	RM	Price	Qty	RM	Price	RM	Price	RM	Current month
	Total											

LINE 10.b – Securities in exchanges and clearing houses

This amount should be shown as a non-permitted asset.

LINE 11 – Inventory of physical commodities

This amount should be shown as a non-permitted asset. The inventory should be valued at the lower of cost or net realisable value, for the Trading Participant who is also in the business of merchandising goods. Obsolete inventory should be written off.

LINE 12 – Exchange / Clearing House (if applicable) participation

This amount should be shown as a non-permitted asset.

LINE 13 – Investment in related corporations

This amount should be shown as non-permitted asset.

LINE 14 – Fixed asset (plant, property, etc.) at net book value

This amount should be shown as a non-permitted asset. For reporting purposes, depreciation should be charged on a monthly basis.

LINE 15 – Other assets

This amount should include:

- (i) trades that have not been cleared (outtrades) which have been marked-to-market;
- (ii) prepayments;
- (iii) intangible assets; and
- (iv) any other assets which are not readily classifiable into other categories.

The above should be itemised and shown as non-permitted assets.

II. LIABILITIES (Line 17 to Line 27)**LINE 17****LINE 17.a – Bank overdrafts & LINE 17.b – Loans**

These amounts should show bank loans payable, including overdrafts. The Trading Participant should disclose in detail any loan or overdraft which is secured by the Trading Participant's assets as notes to the accounts. Accrued interest and loans payables other than to banks are to be reported on **LINE 26** of this statement. Payables to related corporations are to be reported on **LINE 18** of this statement.

LINE 18 – Payables to related corporations

This amount should show the Trading Participant's liability to its related corporations but excluding any subordinated loan. Payables to related corporations which the Trading Participant considers as their clients in relation to trading in derivatives contracts should be disclosed in **LINE 23** or **LINE 24** of this statement.

LINE 19 – Payables to the Clearing House

This amount should agree with the unsegregated debit balance of the Clearing House's statement.

LINE 20 – Payables to foreign clearing houses

The same treatment as on **LINE 19** should be accorded for payables to foreign clearing houses for settlement. The net amount payable and receivable from each of the foreign clearing house should not be netted off.

LINE 21 – Payables to other Trading Participants

This amount should include the unsegregated cash and net settlement payable, take-up trade commission and brokerage payable to other Trading Participants. All take-up trade commission and brokerage payable to other Trading Participants should be itemised in **Appendix 4**. The amount payable to other Trading Participants should not be netted against the amount due from another Trading Participants. Commission and brokerage due from a Trading Participants should be reported on **LINE 5.e** of this statement.

APPENDIX 4

Execution date	Brokers				Total
	Broker X		Broker Y		
	Lots traded	RM	Lots traded	RM	
Total					

LINE 22 – Payables to foreign derivatives brokers

The same treatment as on **LINE 21** should be accorded for payables to foreign derivatives brokers.

LINE 23 – Payables to client trading on the Exchange

This amount should agree with the total amount on **LINE 6** of **Appendix 1(a) (FORM A)**.

LINE 24 – Payables to clients trading on foreign exchanges / over the counter derivatives contracts (including contracts for difference)

The same treatment as on **LINE 23** should be accorded for clients' trades done on foreign exchanges or over the counter derivatives contracts (including contracts for difference).

LINE 25 – Liabilities subordinated to claims of general creditors**LINE 25.a – Subject to satisfactory subordinated loan agreements**

This amount should show the liabilities which are subordinated to the claims from general creditors and subject to a satisfactory subordinated loan agreement. The minimum requirements which must be met for a satisfactory subordinated loan agreement is provided in the Rules of the Exchange.

LINE 25.b – Not subject to satisfactory subordinated loan agreements

This amount should show the liabilities which are subordinated to the claims from general creditors and are not subject to a satisfactory subordinated loan agreement.

LINE 26 – Other payables and accrued liabilities

This amount should include:

- (i) trades that have not been cleared (outrades) which have been marked-to-market;
- (ii) security deposit from the Registered Representatives;
- (iii) provision for taxation;
- (iv) accruals; and
- (v) any other payables which are not readily classifiable into other categories.

The above should be itemised.

LINE 28 – Shareholders' fund

The amount on **LINE 28.d** of this statement should agree with **LINE 21** of **Appendix 4(a) (FORM D)**.

[End of Appendix 3(b)]

Appendix 4(a)

STATEMENT OF INCOME / (LOSS) (FORM D)
(MONTHLY SUBMISSION)

Trading Participant :

<<insert name of TP>>

Position As At :

dd/mth/yy

	Revenue	Total
1	Commissions and brokerage	
a	<i>On Bursa Malaysia Derivatives Berhad</i>	
	<i>i. Single licence</i>	
	<i>(a) normal trade commission</i>	0.00
	<i>(b) give-up commission</i>	0.00
	<i>ii. Dual licence</i>	
	<i>(a) normal trade commission</i>	0.00
	<i>(b) give-up commission</i>	0.00
b	<i>On foreign exchanges</i>	0.00
c	<i>Other brokerage activities (please itemise)</i>	0.00
2	Proprietary trading account	
a	<i>Derivatives transactions (please itemise)</i>	0.00
b	<i>Securities transactions</i>	0.00
c	<i>Other trading activities (please itemise)</i>	0.00
3	Income from advisory services	0.00
4	Interest and dividends	
a	<i>Interest earned on investment of clients' funds (please itemise)</i>	0.00
b	<i>Interest earned on investment of other than clients' funds</i>	0.00
c	<i>Dividends</i>	0.00
5	Other income (please itemise)	0.00
6	Total Revenue	0.00

	Expenses	
7	Directors' emoluments	
a	<i>Fees</i>	0.00
b	<i>Others</i>	0.00
8	Salaries and allowances	0.00
9	Interest	
a	<i>Clients</i>	0.00
b	<i>Financial institutions</i>	0.00
c	<i>Others</i>	0.00
10	Commissions	0.00
11	Occupancy and equipment cost	0.00
12	Bad and doubtful debts	0.00
13	Depreciation and amortisation (please itemise)	0.00
14	Other expenses (please itemise)	0.00
15	Total Expenses	0.00
16	Net profit / (loss) before taxation (Item 6 minus Item 15)	0.00
17	Taxation	0.00
18	Others (please itemise)	0.00
19	Net profit / (loss) after taxation	0.00
20	Balance brought forward	0.00
21	Unappropriated profits / (accumulated losses)	0.00

[End of Appendix 4(a)]

Appendix 4(b)

EXPLANATORY NOTES ON APPENDIX 4(a) – STATEMENT OF INCOME / LOSS (FORM D)

I. REVENUE (Line 1 to Line 6)

LINE 1 – *Commission and brokerage***LINE 1.a – *On Bursa Malaysia Derivatives Berhad***

This amount should show the total commission and brokerage earned from trading derivatives contracts for the month on the Exchange. Commission derived by dual licence holder i.e. a person who holds a Capital Markets Services Licence for dealing in derivatives and a Capital Markets Services Licence for dealing in securities should be disclosed here.

LINE 1.b – *On foreign exchanges*

This amount should show the total commission and brokerage earned for the month on foreign exchanges

LINE 1.c – *Other brokerage activities*

This amount should show the total commission and brokerage earned for the month from other brokerage activities.

LINE 2 – *Proprietary trading account***LINE 2.a – *Derivatives transactions***

This amount should show the total profit or loss for the month from undertaking proprietary trading in the derivatives market. This should also include the current market value of the net long or net short option contracts of the proprietary account.

LINE 2.b – *Securities transactions*

This amount should show the total profit or loss for the month from the company's investment activities in the securities market.

LINE 2.c – *Other trading activities*

This amount should include profit or loss from the Trading Participant's error account for the month. This should also include the current market value of the net long or net short option contracts of the error account.

LINE 3 – *Income from advisory services*

This amount should show the income earned for the month from advisory services performed.

LINE 4 – *Interest and dividends***LINE 4.a – *Interest earned on investment of clients' funds***

This amount should show the total gross interest earned for the month from the investment of clients' segregated account funds.

LINE 4.b – Interest earned on investment of other than clients' funds

This amount should show the total interest earned for the month from the investment of company's fund.

LINE 4.c – Dividends

This amount should show the total dividends earned for the month from the company's investments.

LINE 5 – Other income

This amount should show the total income earned for the month by the Trading Participant not disclosed anywhere else in this statement.

II. EXPENSES (Line 7 to Line 15)

LINE 7 – Directors' emoluments

LINE 7.a – Fees

This amount should show the total directors' fees incurred for the month.

LINE 7.b – Others

This amount should show all other emoluments incurred for the month.

LINE 8 – Salaries and allowances

This amount should show the total staff salaries and allowances incurred for the month.

LINE 9 – Interest

LINE 9.a – Clients

This amount should show the total interest expense to the clients and incurred for the month.

LINE 9.b – Financial Institutions

This amount should show the total interest expense incurred for the month.

LINE 9.c – Others

This line should show the total interest expense incurred for the month which is not otherwise disclosed under **LINE 9.a** and **9.b**.

LINE 10 – Commission

This amount should show all commissions incurred for the month.

LINE 11 – *Occupancy and equipment cost*

This amount should show the occupancy and equipment cost incurred for the month. Included in this amount are office and booth rental, as well as charges on price reporting system.

LINE 12 – *Bad and doubtful debts.*

This amount should show the amount of provision made on the accounts which are doubtful of collection or amount which have been written off during the month.

LINE 13 – *Depreciation and amortisation*

This amount should show the depreciation and amortization charge for the month.

LINE 14 – *Other expenses*

This amount should show the total or other expenses incurred for the month which is not otherwise disclose in this statement with details itemized on a separate page showing the amount and description of the expenses.

LINE 17 – *Taxation*

This item should show the provision for taxation for the month.

LINE 18 – *Others*

This amount should include items not otherwise dealt with in this statement which may include prior-year adjustments, extraordinary profit and loss, etc.

LINE 20 – *Balance brought forward*

This amount should agree with **LINE 21** of **Appendix 4(a) (FORM D)** in the previous month.

LINE 21 – *Unappropriated profits / (accumulated losses)*

This amount should show the total of **LINE 19** and **LINE 20** and should be carried to **LINE 28.d** of **Appendix 3(a) (FORM C)**.

[End of Appendix 4(b)]

Relevant to : Rule 2.07
Introduced with effect from : 15 August 2019
Amended : N/A
TP's Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 2.07 Summary Actions by the Exchange

Rule 2.07 provides that the Exchange may summarily take such action that the Exchange thinks fit against a Participant or Registered Person to protect the interests of Clients, the public or the Exchange.

1.1 Circumstances and actions

(1) The circumstances when the Exchange may take action against a Participant or Registered Person under Rule 2.07 include the following:

- (a) a resolution is passed by the shareholders of a Participant or a court order is made for the winding-up of a Participant;
- (b) an arrangement or composition is made with the creditors of the Participant pursuant to any law;
- (c) the Participant is unable or fails to maintain the minimum financial resources requirements as stipulated in Rule 8.02(1);
- (d) the Participant is likely to become unable to meet all or any of its financial obligations; or
- (e) the Participant is about to suspend making payments of the whole or any part of its debts.

(2) The actions which the Exchange may take in relation to a Trading Participant or Registered Person under Rule 2.07 include the following:

- (a) directing the Trading Participant or Registered Person to take any step relating to the Trading Participant's business;
- (b) prohibiting or restricting the Trading Participant or Registered Person from trading on the Market or from doing any other act or thing relating to the Trading Participant's business;
- (c) appointing one or more persons to:
 - (i) perform any function with respect to the management or operation of the Trading Participant's business; or
 - (ii) advise the Trading Participant on any matter relating to the business operation or management of the Trading Participant,

and requiring such persons to submit reports to the Exchange. The Exchange may remove such persons and appoint others in such persons' place and may fix

remuneration of any such persons. The Trading Participant must pay the remuneration of such persons;

- (d) in the case of a Trading Participant that is also a Clearing Participant, directing the Trading Participant to procure suspension of or liquidate the collateral of the Trading Participant's Clients who have not made good their transactions;
 - (e) directing the Trading Participant to increase its paid-up capital or shareholders' funds or to implement a scheme for injection of new assets into the Trading Participant;
 - (f) suspending the Trading Participant or Registered Person up to 4 weeks; or
 - (g) taking any other action to ensure the Trading Participant complies with minimum financial resources requirements as stipulated in Rule 8.02(1);
- (3) The actions which the Exchange may take in relation to an Associate Participant or a Local Participant under Rule 2.07 include the following:
- (a) directing the Associate Participant or Local Participant to take any step relating to the Associate Participant or Local Participant's trading in Contracts;
 - (b) prohibiting or restricting the Associate Participant or Local Participant from trading on Market or from doing any other act or thing relating to the Associate Participant or Local Participant's trading in Contracts; or
 - (c) suspending the Associate Participant or Local Participant for up to 4 weeks.
- (4) A Participant or Registered Person against whom proceedings are instituted in any Court alleging the commission of any offence arising out of the conduct of business of dealing in derivatives may be suspended summarily by the Exchange.
- (5) The suspension under paragraph 1.1(4) will cease upon:
- (a) the acquittal of the Participant or Registered Person (provided that no appeal is lodged against such acquittal); or
 - (b) withdrawal of the prosecution against the Participant or Registered Person;
- and upon notice in writing by the Exchange to the Participant or Registered Person.
- (6) In an action taken by the Exchange against a Participant or Registered Person under this paragraph 1.1, the Exchange will serve the Participant or Registered Person a written notice setting out:
- (a) the event which forms the basis of the action;
 - (b) the powers that the Exchange will be exercising or have exercised in relation to such action; and
 - (c) where deemed applicable by the Exchange, the date by which the Participant or Registered Person must make representations to the Exchange to discontinue the action taken should the Participant wish to make such representations.

1.2 Further action against a Trading Participant

- (1) If at any time after reviewing the actions taken by the Exchange under paragraph 1.1 the Exchange is of the view that further action is required to adequately protect the interest of the Trading Participant's Clients, the public or the Exchange, or to ensure an orderly and fair Market, the Exchange may, upon written notice to the Trading Participant, take any one or more of the following actions:

- (a) upon notifying the Commission:
 - (i) assume control of the whole or part of the Trading Participant's property, business and affairs and carry on the whole or part of the Trading Participant's business and affairs; or
 - (ii) appoint any person to do so on behalf of the Exchange; and
 - (iii) order that the Exchange's costs and expenses or the remuneration of the person appointed be payable out of the Trading Participant's funds and properties;
- (b) upon consulting the Commission, appoint one or more receivers or receivers and managers to:
 - (i) manage the whole or part of the Trading Participant's business affairs and property; or
 - (ii) close down the operations of the whole or part of the Trading Participant's business affairs and property.

The Exchange may grant the receiver or receiver and manager such powers the Exchange specifies. The powers include the power to assume all powers and duties of the Trading Participant's Directors and other officers and to do such lawful acts and things as may be necessary for or incidental to the carrying out of the receiver's or receiver and manager's functions. The receiver or receiver and manager is deemed to be an agent of the Trading Participant. The Trading Participant is solely responsible for the receiver's or receiver and manager's acts or defaults and for the payment of the receiver's or receiver and manager's remuneration. The Exchange may remove any receiver or receiver and manager and appoint another in the receiver's or receiver and manager's place;

- (c) upon notifying the Commission, present a petition to the High Court for the winding-up of the Trading Participant;
 - (d) upon notifying the Commission, require the Trading Participant to effect a transfer of the Trading Participant's Client's monies, existing Contracts and/or Open Positions to another Trading Participant. The Client concerned and the other Trading Participant must first consent to the transfer;
 - (e) upon consulting the Commission, require the Trading Participant to effect a corporate restructuring exercise to regularise the Trading Participant's financial position to an amount the Exchange determines. The corporate restructuring exercise may include a merger with or an acquisition of other Trading Participant or other entities.
- (2) The Exchange may also take any of the actions specified in paragraph 1.2(1) if it is satisfied that the actions in paragraph 1.1(2), if taken by the Exchange, would not be sufficient or adequate to protect the interest of the Trading Participant's Clients, the public or the Exchange or to ensure the existence of an orderly and fair Market.

[End of Directive]

Relevant to	: Rules 3.07, 3.15 and 3.20
Introduced with effect from	: 15 August 2019
Amended	: 13 January 2020 vide TP Circular No. 20/2019 and 8 March 2021 vide TP Circular No.3/2021
TPs' Circular No(s).	: N/A
Refer also to Directive No(s).	: N/A

Introduction

This Directive sets out the requirements for making applications to the Exchange under Chapter 3 of the Rules. Detailed requirements are set out in the Admission Guidelines made available on the Exchange's website.

1. Rule 3.15(h)

- (1) To become a Local Participant, Rule 3.15(h) requires an applicant to comply with such other requirements as the Exchange may prescribe.

1.1 Interview and 2-day familiarisation programme

- (1) An applicant must fulfil the following requirements pursuant to Rule 3.15(h):
- (a) attend an interview with the Exchange for the Exchange to assess the eligibility and suitability of the applicant to be a Local Participant; and
 - (b) attend a 2-day familiarisation programme that is carried out by the Exchange ("**Familiarisation Programme**"). The objectives of the Familiarisation Programme are as follows:
 - (i) to equip an applicant with the knowledge of regulatory and operational requirements; and
 - (ii) to provide an applicant with the relevant training for the keying-in of orders into the ATS.
- (2) The Exchange will only register an applicant upon completion of the Familiarisation Programme.

2. Rule 3.20

- (1) Rule 3.20 requires a Trading Participant to register the following persons with the Exchange:
- (a) Head of Dealing;
 - (b) Compliance Officer; and
 - (c) Registered Representative.
- (2) In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

2.1 Registration of a person falling within 2 or more categories of Registered Person

- (1) A Trading Participant must register the Trading Participant's proposed Registered Person under all categories applicable to that proposed Registered Person. A Head of Dealing must be registered as both a Head of Dealing and a Registered Representative.

3. Rule 3.07

- (1) Rule 3.07 requires a Participant to pay all fees and charges as prescribed by the Exchange.
- (2) In connection with the above Rule, a Participant must, amongst others, comply with the requirements set out below.

3.1 Registration and annual fees

The fees payable to the Exchange in connection with any application for admission or registration under Chapter 3 are set out in **Schedule 1** of this Directive.

3.2 Trading Fees

A Participant must pay the fees and charges for each Contract bought or sold by the Participant as set out in **Schedule 2** of this Directive.

3.3 Negotiated Large Trade ("NLT")

A Trading Participant must pay the fees and charges in respect of an NLT transaction as set out in **Schedule 3** of this Directive.

3.4 Other fees or charges

The Exchange may require a Participant to pay such monthly or other fees or charges the Exchange prescribes for the trading on the Exchange and the use of the Exchange's trading facilities.

[End of Directive]

Schedule 1**Fees for Participants and Registered Persons**

	Description	Registration Fee (RM)	Annual Fee* (RM)
(a)	Trading Participant	50,000	6,000
(b)	Associate Participant	10,000	1,200
(c)	Head of Dealing	Nil	Nil
(d)	Compliance Officer	Nil	Nil
(e)	Registered Representative	250	120

Note:

Pursuant to Trading Participant Circular No. 46/2008, the annual fee of RM120.00 imposed on Registered Representatives is waived with effect from 1 January 2009 until further notice.

* *The annual fee is payable no later than 31 January of each calendar year.*

[End of Schedule 1]

Schedule 2
1. Trading Fees

Trading fees are applicable to every 1 contract bought or sold, independent of whether the trade results in an Open Position or a Closed Out trade.

The Exchange may determine any other fees not contained in this Schedule. The Exchange may also introduce market incentives schemes for the promotion of the market.

Contract	General trading fee	Trading fee for Local Participant
	Amount	Amount
AGRICULTURE CONTRACTS		
Ringgit Malaysia (RM) Denominated Crude Palm Oil Futures Contract	RM 2.00	RM 2.00
Option on Ringgit Malaysia Denominated Crude Palm Oil Futures	RM 2.00	RM 2.00
United States Dollar (USD) Denominated Crude Palm Oil Futures Contract	USD 0.60	USD 0.60
Crude Palm Kernel Oil Futures Contract	RM 2.00	RM 2.00
United States Dollar (USD) Denominated RBD Palm Olein Futures Contract	USD 0.60	USD 0.60
Option on United States Dollar RBD Palm Olein Futures Contract	USD 0.60	USD 0.60
EQUITY CONTRACTS		
FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract	RM 4.00	RM 4.00
Option on FTSE Bursa Malaysia KLCI Futures	RM 4.00	RM 4.00
Mini FTSE Bursa Malaysia Mid 70 Index Futures Contract	RM 1.00	RM 1.00

Contract	General trading fee	Trading fee for Local Participant
	Amount	Amount
Single Stock Futures Contract:		
Tier 1	RM 1.00	RM 0.50
Tier 2	RM 3.00	RM 1.50
Tier 3	RM 5.00	RM 2.50
METAL CONTRACTS		
Gold Futures Contract	RM 0.50	RM 0.50
Tin Futures Contract	USD 0.60	USD 0.60
INTEREST RATE CONTRACTS		
3-Month KLIBOR Futures Contract	RM 0.50	RM 0.50
3-Year MGS Futures Contract	RM 0.50	RM 0.50
5-Year MGS Futures Contract	RM 0.50	RM 0.50
10-Year MGS Futures Contract	RM 0.50	RM 0.50

Notes:

- (1) The Exchange will prescribe, the various Single Stock Futures Contract that fall within Tier 1, 2 or 3.
- (2) For the avoidance of doubt, a market maker must pay the general trading fee above for each Contract bought or sold, subject to any incentive or waiver that may be stated in its market making agreement with the Exchange.

[End of Schedule 2]

Schedule 3

1. Facility Charges applicable to Negotiated Large Trade Transactions

Contract	Facility Charge	
	per Contract	Maximum Facility Charge per transaction
AGRICULTURE CONTRACTS		
Ringgit Malaysia (RM) Denominated Crude Palm Oil Futures Contract	RM 0.20	RM 80.00
Option on Ringgit Malaysia Denominated Crude Palm Oil Futures Contract	RM 0.20	RM 20.00
Crude Palm Kernel Oil Futures Contract	RM 0.20	RM 80.00
United States Dollar (USD) Denominated RBD Palm Olein Futures Contract	USD 0.10	USD 2.00
Option on United States Dollar RBD Palm Olein Futures Contract	USD 0.10	USD 2.00
EQUITY CONTRACTS		
FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract	RM 0.20	RM 40.00
Option on FTSE Bursa Malaysia KLCI Futures	RM 0.20	RM 20.00
Mini FTSE Bursa Malaysia Mid 70 Index Futures Contract	RM 0.20	RM 4.00
METAL CONTRACTS		
Gold Futures Contract	RM 0.20	RM 40.00
Tin Futures Contract	USD 0.10	USD 2.00

INTEREST RATE CONTRACTS

3-Month KLIBOR Futures Contract	RM 0.20	RM 4.00
3-Year MGS Futures Contract	RM 0.20	RM 4.00
5-Year MGS Futures Contract	RM 0.20	RM 4.00
10-Year MGS Futures Contract	RM 0.20	RM 4.00

Note: For the purpose of Schedule 3, the facility charge is applicable to every contract bought or sold.

[End of Schedule 3]

Relevant to : Rule 3.06(1)(d)
Introduced with effect from : 15 August 2019
Amended : N/A
TP Circular No(s). : 18/2010
Refer also to Directive No(s). : N/A

1. Introduction

- (1) Rule 3.06(1)(d) provides that throughout a Participant's participation, it must comply with the requirements of the United States Commodity Futures Trading Commission ("**CFTC**") in relation to trades or Clients from the United States.
- (2) In discharging the obligations under the above Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

2. Regulation 30.10 of the Commodity Exchange Act

- (1) The CFTC had issued an order dated 15 June 2010 to the Exchange pursuant to Regulation 30.10 of the Commodity Exchange Act, permitting Trading Participants of the Exchange to solicit and accept orders and funds directly from the customers located in the United States for trading on the Exchange without having to register with the CFTC as futures commission merchants ("**Regulation 30.10 Relief**").
- (2) A Trading Participant intending to open a Client Account for a Client located in the United States as stated in the Regulation 30.10 Relief must first apply to avail itself of the Regulation 30.10 Relief, must apply to the Exchange to be designated as an entity that is eligible for the relief and comply with the following:
 - (a) A Trading Participant must comply with the procedures and requirements stated in the Information Sheet attached as **Appendix 1**;
 - (b) A Trading Participant must submit all information, documents and provide representations to the Exchange and the CFTC as stated in the Information Sheet attached and the information, documents and representations must not be false or misleading; and
 - (c) A Trading Participant must at all times, comply with or give effect to all representations given to the Exchange, the CFTC and the National Futures Association and any other condition that may be imposed by the Exchange for the purpose of the Regulation 30.10 relief.

[End of Directive]

APPENDIX 1

INFORMATION SHEET ON REGULATION 30.10 EXEMPTION RELIEF UNDER U.S. COMMODITY EXCHANGE ACT APPLICABLE TO TRADING PARTICIPANTS OF BURSA MALAYSIA DERIVATIVES BHD

A. WHAT IS REGULATION 30.10 RELIEF

Introduction

Under the law of the U.S., the offer and sale of commodity futures and option contracts traded on or subject to the regulations of a foreign board of trade to customers located in the U.S. are contained under Part 30 of the regulations issued by the Commodity Futures Trading Commission ("CFTC") under the Commodity Exchange Act ("CEA"). These regulations include the requirements for intermediaries with respect to registration, disclosure, capital adequacy, protection of customer funds, record keeping and reporting and sales practice and compliance procedures that are generally comparable to those applicable to transactions on the U.S. markets.

The CFTC has on 22 June 2010 issued an order to Bursa Malaysia Derivatives Bhd ("the Exchange") pursuant to Regulation 30.10 of the CEA, exempting Trading Participants (as defined in the Rules of Bursa Malaysia Derivatives Berhad ("Rules of Bursa Derivatives")) designated by the Exchange from the application of certain provisions in Part 30 upon substituted compliance with comparable requirements under the Capital Markets and Services Act 2007 ("CMSA") and the Rules of Bursa Derivatives ("Regulation 30.10 Relief"). With this Regulation 30.10 Relief, the Trading Participants of the Exchange can solicit and accept orders and customer funds directly from U.S. customers located in the U.S. for trading on the Exchange based on the terms of the Regulation 30.10 Relief.

Please refer to **ANNEXURE 1** for the Regulation 30.10 Relief.

Exemption from Compliance with Certain CFTC Regulations

By the Regulation 30.10 Relief, the CFTC exempts Trading Participants of Bursa Derivatives subject to specified conditions, from:

- 1) Registration with the CFTC for firms and for firm representatives;
- 2) The requirement in Regulation 30.6(a) and (d), that firms provide customers located in the U.S. with the risk disclosure statements in Regulation 1.55(b), 17 CFR 1.55(b), and Regulation 33.7, 17 CFR 33.7, or as otherwise approved under Regulation 1.55(c), 17 CFR 1.55(c);
- 3) The separate account requirement contained in Regulation 30.7, 17 CFR 30.7;
- 4) Those sections of Part 1 of the CFTC's financial regulations that apply to foreign futures and options sold in the U.S. as set forth in Part 30; and
- 5) Those sections of Part 1 of the CFTC's regulations relating to books and records which apply to transactions subject to Part 30.

Exemptions like these are typically granted by the CFTC to foreign exchanges that request them as long as those exchanges can offer comparable regulations and customer safeguards in their home jurisdiction. The criteria for the CFTC's review of whether such regulations and customer safeguards are comparable are set forth in an Interpretative Statement contained in Appendix A to Part 30 of the CFTC's regulations.

In gist CFTC found that the regulatory framework governing persons in Malaysia who would be exempted provides:

- 1) A system of qualification or authorization of firms who deal in transactions subject to regulation under Part 30 that includes, for example, criteria and procedures for granting, monitoring, suspending and revoking licenses, and provisions for requiring and obtaining access to information about authorized firms and persons who act on behalf of such firms;

- 2) Financial requirements for firms including, without limitation, a requirement for a minimum level of working capital and daily mark-to-market settlement and/or accounting procedures;
- 3) A system for the protection of customer assets that is designed to preclude the use of customer assets to satisfy house obligations and requires separate accounting for such assets;
- 4) Recordkeeping and reporting requirements pertaining to financial and trade information;
- 5) Sales practice standards for authorized firms and persons acting on their behalf that include, for example, required disclosures to prospective customers and prohibitions on improper trading advice;
- 6) Procedures to audit for compliance with, and to redress violations of, the customer protection and sales practice requirements referred to above, including, without limitation, an affirmative surveillance program designed to detect trading activities that take advantage of customers, and the existence of broad powers of investigation relating to sales practice abuses; and
- 7) Mechanisms for sharing of information between the Commission, Bursa Derivatives, and the Malaysian regulatory authorities on an "as needed" basis including, without limitation, confirmation data, data necessary to trace funds related to trading futures products subject to regulation in Malaysia, position data, and data on firms' standing to do business and financial condition.

Further information on Part 30 can be viewed at CFTC's website.

Limited Marketing Order

A Trading Participant may with the Regulation 30.10 Relief, also engage in limited marketing conduct with respect to certain qualified customers located in the U.S. from a non-permanent location in the U.S., subject to the terms and conditions set out in the CFTC's Limited Marketing Order ("LMO").

Trading Participants are advised to read the LMO carefully and ensure that they comply with the terms of the LMO when conducting marketing activities in U.S. The Trading Participants must especially be mindful of the duration that they are permitted to be in U.S. to do the marketing which currently is for not more than 30 business days in a calendar year and the types of customers that they can market to. The list of customers that Trading Participants can market to, are also in the LMO.

A Trading Participant and its employees or other representatives who engage in marketing as described above are deemed to have consented to CFTC's jurisdiction over such marketing activities by the Trading Participant's filing of a valid and binding appointment of an agent in the U.S. for service of process. This filing is done when a Trading Participant applies to avail itself of the Regulation 30.10 Relief as explained under Part D below.

Please note that under the provisions of the CMSA, only licensed persons may carry out soliciting and marketing activities [See Schedule 2 of the CMSA]. Therefore a Trading Participant must ensure that only persons who hold Capital Markets and Services Representative License for regulated activity of trading in futures contracts may carry out soliciting and marketing activities in the U.S.

Trading Participants must keep a record of their marketing activities in the U.S. because the Exchange may audit such records during the Exchange's annual inspection of Trading Participants. A record of marketing activities in the U.S. includes marketing materials, itinerary of marketing events, list of persons met, list of products promoted and the duration of any such marketing trips to the U.S.

A copy of the LMO is enclosed in **ANNEXURE 2**.

B. WHEN IS REGULATION 30.10 RELIEF REQUIRED

The Regulation 30.10 Relief is only applicable if the Trading Participant intends to engage in business directly with a U.S. customer located in the U.S. For the purpose of Regulation 30.10, a U.S. customer located in the U.S. includes both a U.S. citizen and a U.S. resident, irrespective of where the U.S. citizen resides and irrespective of the citizenship of the US resident.

If the Trading Participant intends to do so, it is then mandatory for a Trading Participant to apply to the National Futures Association of U.S. ("NFA") to avail itself of the Regulation 30.10 Relief.

The Regulation 30.10 Relief is not automatically available to a Trading Participant unless approved by the NFA. A Trading Participant can only commence doing business directly with a U.S. customer located in the U.S. once the approval is obtained from the NFA.

The application and approval process is explained under Part D below.

If a Trading Participant has no intention of engaging in business directly with a U.S. customer located in the U.S., no further action is required on the part of the Trading Participant. If the Trading Participant decides later in time to engage in business directly with a U.S. customer located in the U.S., the Trading Participant will then need to apply to NFA as explained above.

There is no time frame for a Trading Participant to apply to avail itself of the Regulation 30.10 Relief. A Trading Participant can apply at any time when it decides to engage doing business directly with a U.S. customer located in the U.S. The Regulation 30.10 Relief only becomes unavailable if the CFTC decides to terminate the Regulation 30.10 Relief granted to the Exchange.

C. WHAT IS NOT COVERED UNDER REGULATION 30.10 RELIEF

The Regulation 30.10 Relief:

- 1) does not exempt the Trading Participants from complying with any other provisions of the CEA or regulations issued under the CEA not specified above, governing the offer and sale of futures and options contracts traded on a foreign board of trade to customers located in the U.S. such as the antifraud provision in Regulation 30.9.

In the event of doubt Trading Participants are advised to consult a U.S. legal counsel or NFA for information on provisions of the Act or regulations that may be applicable to the Trading Participants.

- 2) is limited to brokerage activities undertaken on behalf of customers located in the U.S. with respect to transactions on or subject to the regulations of the Exchange for products in the Exchange that customers located in the U.S. may trade. Currently customers located in the U.S. may only trade commodity futures. U.S. persons cannot purchase or sell securities or securities-based Bursa products without an order or no-action relief from the U.S. Securities and Exchange Commission ("SEC") and/or the CFTC.

The securities products listed on the Exchange include stock index options, stock index futures, futures on Malaysian Government Securities, and single-stock futures. Should the Exchange obtain relief for these other products the Exchange will inform Trading Participants accordingly. Trading Participants must not offer the products of other exchanges to customers located in the U.S. under the Regulation 30.10 Relief.

- 3) does not extend to regulations relating to trading, directly or indirectly, on U.S. exchanges. For example, a Trading Participant trading in U.S. markets for its own account would be subject to the CFTC's large trader reporting requirements. Similarly, if such a Trading Participant were to

carry positions on a U.S. exchange on behalf of foreign clients and submit such transactions for clearing on an omnibus basis through a firm registered as a futures commission merchant under the Act, it would be subject to the reporting requirements applicable to foreign brokers.

- 4) is not applicable where a Trading Participant solicits or accepts orders from customers located in the U.S. for transactions on U.S. markets. In that case, the Trading Participant must comply with all applicable U.S. laws and regulations, including the requirement to register in the appropriate capacity.

D. HOW DOES A TRADING PARTICIPANT AVAIL ITSELF OF THE REGULATION 30.10 RELIEF

Introduction

As mentioned earlier a Trading Participant does not enjoy the Regulation 30.10 Relief automatically. A Trading Participant must apply to the CFTC to avail itself of the Regulation 30.10 Relief. The NFA is delegated with the authority by the CFTC to administer the Regulation 30.10 Relief process for the CFTC. In this respect the CFTC has authorized the NFA to receive applications from firms for confirmation of the availability of the Regulation 30.10 Relief, to verify such firm's fitness and compliance with the conditions under Regulation 30.10 Relief and to grant exemptive relief from registration for qualifying firms. Further information on NFA can be viewed at NFA's website.

Application Process

A Trading Participant intending to avail itself of the Regulation 30.10 Relief must apply to the Exchange to be designated as an entity that is eligible for the Regulation 30.10 Relief. The Exchange will thereafter file each Trading Participant's application with the NFA.

A Trading Participant who wishes to apply for the Regulation 30.10 Relief must submit the following documents to the Exchange:

- 1) **Representations to CFTC**
Under the Regulation 30.10 Relief, a Trading Participant must make certain representations to the CFTC in order to enjoy the Part 30.10 Relief. These representations are stated in the Regulation 30.10 Relief. Trading Participants are required to make these representations by completing the form prescribed by the Exchange and marked as **ANNEXURE 3**. Further explanation and clarification on these representations are provided in Section E below.
- 2) **Representations to the Exchange**
A Trading Participant must provide certain representations to the Exchange for the purpose of ensuring compliance with the conditions in the Regulation 30.10 Relief. The Exchange will also be relying on these representations to make certain representations to the CFTC as required under the terms of the Regulation 30.10 Relief. A Trading Participant is required to make these representations to the Exchange by completing the form prescribed by the Exchange and marked as **ANNEXURE 4**. Further explanation and clarification on these representations are provided in Section F below.

A copy of the template for the Exchange's representations to the CFTC is marked as **ANNEXURE 5**. Further explanation and clarification on these representations are provided in Section G below.
- 3) **Appointment of agent for service of process**
It is a condition in the Regulation 30.10 Relief that Trading Participants consent to jurisdiction in the U.S. under the Act by filing a valid and binding appointment of an agent in the U.S. for service of process. A Trading Participant must submit a copy of the agency agreement as

confirmation of the appointment. Further details on the appointment of an agent for service of process are provided in Section E below.

The Exchange will submit the above documents to the NFA on behalf of the Trading Participant.

Approval Process

Once a filing is made with the NFA, NFA will send the filing to the CFTC for review. Upon completion of the review by the CFTC, the CFTC will provide confirmation to the NFA that the filing is in order. The NFA will in turn provide such confirmation to the Exchange who will then inform the Trading Participant. The approval for availability of the Regulation 30.10 Relief to the Trading Participant is valid until it is revoked by the CFTC.

The NFA will publish the name of the approved Trading Participant in the Background Affiliation Status Information Centre ("BASIC"). BASIC contains CFTC registration and NFA membership information and futures-related regulatory and non-regulatory actions contributed by the NFA, the CFTC and the U.S. futures exchanges. Trading Participants may access the above information at BASIC's webpage.

The CFTC may at any time after the approving the availability of the Regulation 30.10 Relief to a Trading Participant modify or restrict the Regulation 30.10 Relief granted as it deem appropriate on its own motion.

Annual Fee Payment to NFA

The NFA levies a record maintenance fee of USD100 on an annual basis which will be due at the same time each year. The first annual due date will be a year from the confirmation of exemption is granted. For example, if confirmation of exemption is granted in August 10, 2010, the annual due date will be September 1, 2011). NFA will invoice the Trading Participant directly (and not through the Exchange) for the fees. Trading Participants may make payment to the NFA via wire transfer or a cheque issued by a U.S. bank.

NFA will deem the failure to pay the required annual registration records maintenance fee within 30 days following the annual due date as a request to withdraw the confirmation of the exemption pursuant to the Regulation 30.10 Relief.

On-going Obligation

A Trading Participant has an ongoing obligation to notify the NFA and the Exchange if there is any material change to any of the representations made by the Trading Participant in its application for the Regulation 30.10 Relief.

Suspension/Termination of Approval

The Trading Participant's availability of the Regulation 30.10 Relief may be suspended or terminated by CFTC in the following circumstances:

- 1) any change in the status of a Trading Participant that would affect its continued eligibility for the relief, for instance, if the Trading Participant is suspended by the Exchange;
- 2) if a Trading Participant terminates its activities in the U.S.;
- 3) if the Trading Participant breaches the conditions imposed or the representations made pursuant to the Regulation 30.10 Relief; and
- 4) in any other circumstances that the CFTC determines.

Any misrepresentation or any non-compliance with any of the conditions imposed by the CFTC, NFA and the Exchange is a breach of the directives issued by the Exchange and thus a breach of the Rules of Bursa Derivatives.

E: REPRESENTATION BY TRADING PARTICIPANTS TO CFTC

A Trading Participant seeking to avail itself of the Regulation 30.10 Relief must make representations addressed to CFTC as stated in Annexure 3. An explanation and clarification of the representation required is provided below.

	Representation	Remarks
1)	Is located outside the U.S., its territories and possessions and, where applicable, has subsidiaries or affiliates domiciled in the U.S. with a related business (e.g. banks and broker/dealer affiliates) along with a brief description of each subsidiary's or affiliate's identity and principal business in the U.S.	<p>A Trading Participant must confirm that it is operating its futures broking business outside of U.S. This is because the Regulation 30.10 Relief is only available if the Trading Participant is operating its business outside of the U.S. and not within the U.S.</p> <p>The Trading Participant must also disclose the identity of each subsidiary and affiliate of the Trading Participant if any, domiciled in U.S. with a related business (banks/broker affiliates) and to provide a brief description of the principal business in the U.S. This is to serve as information to CFTC as to whether a Trading Participant has affiliates within the U.S.</p>
2)	Consents to jurisdiction in the U.S. under the Exchange Commodity Act by filing a valid and binding appointment of an agent in the U.S. for service of process in accordance with the requirements set forth in Regulation 30.5, 17 CFR 30.5	<p>A Trading Participants may appoint the following persons as an agent:</p> <ul style="list-style-type: none"> a) a FCM or U.S. affiliate; b) a person in the business of accepting service e.g. a legal firm; or c) the NFA (at no charge). <p>A copy of NFA's agency agreement and the guidelines to follow where NFA is not serving as the appointed agent are marked as ANNEXURE 6. A Trading Participant must ensure that the appointment is made before it submits its application to the Exchange.</p>
3)	Agrees to provide access to its books and records related to transactions under Part 30 required to be maintained under the applicable statutes and regulations in effect in Malaysia upon the request of any representative of the CFTC or U.S. Department of Justice at the place in the U.S.	The CFTC or U.S. Department of Justice would contact the U.S. agent for service of process and make a written request for records, which written request would typically specify the place records are to be

	Representation	Remarks
	designated by such representative, within 72 hours, or such lesser period of time as specified by that representative as may be reasonable under the circumstances after notice of the request	<p>produced. The agent would then contact the Trading Participant. Depending upon the urgency of the request extensions of time can often be negotiated.</p> <p>The Trading Participant must inform the Exchange of the request immediately. The Trading Participant must subsequently inform the Exchange of the books and records it plans to submit to the CFTC prior to submitting to the CFTC.</p>
4)	Has no principal or employee who solicits or accepts orders from customers located in the U.S. who would be disqualified under Section 8a(2) of the Act, 7 U.S.C. 12a(2), from doing business in the U.S.	<p>A Trading Participant needs to confirm this.</p> <p>See the definition of principal in regulation 3.1 and Section 8a(2) of the Act.</p> <p>The definition of principal covers:</p> <ul style="list-style-type: none"> • someone who has a title in the company e.g. CEO, COO • an individual who owns 10% or more of shares/ interest/ profits/ voting rights or has control over the futures transactions e.g. head of dealing. <p>In our context principal and employees who solicits or accepts orders from customers located in U.S. must hold Capital Markets and Services Representatives license for trading in futures contracts under the CMSA.</p>
5)	Consents to participate in any National Futures Association ("NFA") arbitration program that offers a procedure for resolving customer disputes on the papers where such disputes involve representations or activities with respect to transactions under Part 30, and consents to notify customers located in the U.S. of the availability of such a program	<p>Details of the NFA arbitration program can be found at NFA's website. :</p> <p>A Trading Participant and its U.S. client may agree to opt for either arbitration under the rules of the Exchange (Rule 4.26) or the NFA arbitration. If a U.S. client does not agree to arbitration under the rules of the Exchange, the Trading Participant may either not open the account or agree to the NFA arbitration. NFA would be amenable to the Trading Participant and its U.S. client negotiating the location of the</p>

	Representation	Remarks
		arbitration or even providing for a telephonic arbitration hearing. However in certain rare cases involving sales fraud, for example, the NFA reserves the right to override the contractual agreement as to location if it has reason to believe that the customer has been abused in the process.
6)	Undertakes to comply with the applicable provisions of Malaysian laws and the regulations of the Exchange including those provisions that form the basis upon which this exemption from certain provisions of the Act and Regulations thereunder is granted	This is self explanatory.

F: REPRESENTATION BY TRADING PARTICIPANTS TO THE EXCHANGE

A Trading Participant must provide certain representations to the Exchange for the purpose of ensuring compliance with the conditions in the Regulation 30.10 Relief. The Exchange will also be relying on these representations to make certain representations to the CFTC as required under the terms of the Regulation 30.10 Relief. A Trading Participant seeking to avail itself of the Regulation 30.10 Relief must make representations addressed to the Exchange as stated in Annexure 4. An explanation and clarification of the representation required is provided below.

	Representation	Remark
1)	We are located outside the U.S., its territories and possessions, and will disclose the identity of each subsidiary or affiliate of such Bursa Derivatives Participant domiciled in the U.S. with a related business (e.g., banks and broker affiliates) if any and provide a brief description of each subsidiary's or affiliate's principal business in the U.S.	This representation to the CFTC is also made to the Exchange to ensure that each Trading Participant complies with the conditions imposed by the CFTC and to enable the Exchange to take action against each Trading Participant for any breach of the conditions.
2)	We consent to jurisdiction in the U.S. under the Commodity Exchange Act (the "CEA") for activities conducted in the U.S. related to activities permitted under the Order and will file a valid and binding appointment of an agent in the U.S. for service of process in accordance with the requirement set forth in CFTC Rule 30.5, unless a currently effective valid and binding agency agreement has previously been filed by or on our behalf.	This representation to the CFTC is also made to the Exchange to ensure that each Trading Participant complies with the conditions imposed by the CFTC and to enable the Exchange to take action against each Trading Participant for any breach of the conditions.
3)	We agree to provide access to our books and records related to transactions under Part 30 required to be maintained under applicable statutes and regulations in effect in Malaysia upon the request of any representatives of the Commission or the U.S. Department of Justice at the place in the U.S. designated by such	This representation to the CFTC is also made to the Exchange to ensure that each Trading Participant complies with the conditions imposed by the CFTC and to enable the Exchange to take action against each

	Representation	Remark
	representative, within 72 hours, or such lesser period as specified by that representative as may be reasonable under the circumstances after notice of the request	Trading Participant for any breach of the conditions.
4)	Each principal and employee is registered, licensed or otherwise in good standing under the standards in place in Malaysia, we intend to engage in business with customers located in the U.S. and we have no principal or employee who solicits or accepts orders from clients located in the U.S. who would be disqualified from doing business in the U.S. under Section 8a(2) of the CEA and we agree to notify the Commission promptly of any change in that representation consistent with CFTC Rule 3.31	This representation to the CFTC is also made to the Exchange to ensure that each Trading Participant complies with the conditions imposed by the CFTC and to enable the Exchange to take action against each Trading Participant for any breach of the conditions.
5)	We consent to participate in the NFA's arbitration program that offers a procedure for resolving client disputes where such disputes involve representations or activities with respect to transactions under Part 30 and will notify the clients of the availability of the NFA program	This representation to the CFTC is also made to the Exchange to ensure that each Trading Participant complies with the conditions imposed by the CFTC and to enable the Exchange to take action against each Trading Participant for any breach of the conditions.
6)	We will maintain books and records of transactions with all clients resident in the U.S. including records of marketing activities conducted in U.S. for a minimum of five years	This requirement is imposed to facilitate the Exchange's inspection for compliance with the Regulation 30.10 Relief by the Trading Participant. The period of 5 years is following CFTC regulations that require that books and records be kept for a period of five years.
7)	We will comply with the requirements relating to the segregation of client funds as contained in the Rules of Bursa Derivatives and Capital Markets and Services Act 2007	This is self explanatory.
8)	We will supervise and accept liability for all conduct by our employees or other representatives taking place in the U.S. with respect to marketing activities	This is to ensure that the Trading Participants monitors and complies with the conditions imposed under the Limited Marketing Order.
9)	We will only conduct marketing activities within the U.S. that are reasonably limited in duration and frequency	The Trading Participant must be mindful of the duration that it is permitted to be in U.S. to do the marketing which currently is for not more than 30 business days in a calendar year
10)	All accounts opened and all orders for foreign futures or options accepted as a result of any client communications in the U.S. will be effected directly through our office in Malaysia	The Trading Participant may conduct soliciting and marketing activities in the U.S. but all client account openings and the effecting of orders

	Representation	Remark
		must be carried out in the Trading Participant's office in Malaysia.
11)	Soliciting or marketing activities occurring within the U.S. will be limited to such activities directed to specified persons, acting either for their own account or the account of another entity which is described in the CFTC's Limited Marketing Order and we will comply with the requirements in the Limited Marketing Order	The Trading Participant must ensure that marketing activities are targeted at persons specified in the Limited Marketing Order only.
12)	We undertake to comply with the provisions of Malaysian laws and the Rules of Bursa Derivatives including those provisions which form the basis upon which the exemption from certain provisions of the CEA is granted	This is self explanatory.
13)	We will notify Bursa Derivatives immediately if we or any of our principals as defined under Regulation 3.1 or employees are disqualified from registration under section 8a(2) of the CEA	The Exchange must inform CFTC of such disqualification. As such the Exchange requires the Trading Participant to provide the Exchange with such information.
14)	We will notify Bursa Derivatives immediately if there is request for books, records or information by the Commission or NFA and we will notify Bursa Derivatives of the books, records or information we will be submitting to the Commission or NFA prior to submission	As the information relates to the business of futures broking activities of the Trading Participant, the Exchange needs to be apprised on the information that will be submitted to another authority.
15)	We will notify Bursa Derivatives immediately if we become aware of any information that in our judgment affects our financial and operational viability of doing business under Part 30	<p>The Exchange has an obligation to inform CFTC of such events that would affect financial and operational viability of doing business under Part 30. As such the Exchange would require the Trading Participant to inform the Exchange of the happening of such events if it becomes aware of the same.</p> <p>Examples of the type of events that would affect a Trading Participant's financial and operational viability of doing business under Part 30 would be when a Trading Participant becomes insolvent, fails to meet capital requirements, suspension/revocation of the Trading Participant's Capital Markets and Services licence for trading in futures contracts and suspension/revocation of rights as a Trading Participant.</p>
16)	We will notify Bursa Derivatives immediately of any change in our status that would affect our	The Exchange must inform CFTC if a Trading Participant who has been

	Representation	Remark
	continued eligibility for the exemption granted hereunder, including the termination of our activities in the U.S.	<p>granted Regulation 30.10 Relief is no longer engaged in doing business with U.S. customers located in U.S.</p> <p>Pursuant to the above, a Trading Participant must inform the Exchange immediately if it no longer intends to do any business with U.S. Customers.</p> <p>Upon receipt of the above information, the CFTC will withdraw the Regulation 30.10 Relief granted in respect of the Trading Participant. If the Trading Participant wishes to do business with U.S. customers at a further point in time, the Trading Participant would have to re-apply for the Regulation 30.10 Relief based on the process stated in Section D above.</p>
17)	All representation made to the Commission, NFA and Bursa Derivatives in relation to our application for exemptive relief under the Order are true	This is self explanatory.
18)	We will comply with conditions imposed by the Commission, NFA and Bursa Derivatives in relation to our application for exemptive relief under the Order	This is to ensure that a Trading Participant complies with the conditions imposed. Non compliance with the conditions imposed will tantamount to a breach of directive issued by the Exchange to which the Exchange can take action against the Trading Participant.
19)	We agree that any misrepresentation or any non-compliance with any of the conditions imposed by the Commission, NFA and Bursa Derivatives is a breach of the directives issued by the Exchange and thus a breach of the Rules of Bursa Derivatives	All representations and conditions imposed are regarded as part of the Rules. This is because the Part 30,10 Relief governs the conduct of the Trading Participant when dealing with customers in the U.S. and as such forms part of the conduct of Trading Participant's futures broking activities
20)	We will inform the Exchange immediately if there is any change in any of the representations given to the Exchange here or the CFTC pursuant to the Order.	This is self-explanatory.

G: REPRESENTATION BY THE EXCHANGE TO CFTC

Under the terms of the Regulation 30.10 Relief, the Exchange must make certain representations to the CFTC in respect of each Trading Participant seeking to avail itself of the Regulation 30.10 Relief. CFTC will amongst others rely on the representations made by the Exchange to determine the eligibility of the Trading Participant for the Regulation 30.10 Relief. The template for the following representations is found in Annexure 5. An explanation and clarification of the representation required is provided below.

	Representations	Remarks
1)	The Trading Participant for which relief is sought is registered, licensed or authorized, as appropriate, and is otherwise in good standing under the standards in place in Malaysia; the Trading Participant is engaged in business with customers in Malaysia as well as in the U.S.; and the Trading Participant and its principals and employees who engage in activities subject to Part 30 would not be statutorily disqualified from registration under Section 8a(2) of the Act, 7 U.S.C. 12a(2)	Regulation 30.10 Relief will be only given to a Trading Participant and to relevant representative of the Trading Participant who is fit and proper and who intends to do business with a U.S. Customer located in the U.S.
2)	It will monitor the Trading Participant to which relief is granted for compliance with the regulatory requirements for which substituted compliance is accepted and will promptly notify the Commission or NFA of any change in status of the Trading Participant that would affect its continued eligibility for the exemption granted hereunder, including the termination of its activities in the U.S.	The Exchange is obligated to inform the CFTC of any change in the status of a Trading Participant that may affect its continued eligibility for the relief such as suspension of the Trading Participant. If there is any change in the status, the Regulation 30.10 Relief granted may be suspended immediately as to that Trading Participant. That suspension will remain in effect pending further notice by the CFTC or the NFA to the Trading Participant and the Exchange.
3)	All transactions with respect to customers resident in the U.S. will be made on or subject to the regulations of Bursa Derivatives and the Commission will receive prompt notice of all material changes to the relevant laws in Malaysia, any regulations promulgated thereunder and Bursa Derivatives regulations	This is self explanatory.
4)	Customers located in the U.S. will be provided no less stringent regulatory protection than Malaysian customers under all relevant provisions of Malaysian law	This is to ensure that U.S. Customers receive equal protection as any other customers who trade futures contracts on the Exchange.
5)	It will cooperate with the Commission with respect to any inquiries concerning any activity subject to regulation under the Part 30 Regulations, including sharing the information specified in Appendix A on an "as needed" basis and will use its best efforts to notify the Commission if it becomes aware of any information that in its judgment affects the financial or operational viability of a Trading Participant doing business in the U.S. under the exemption granted by this Order	This is self explanatory. Circumstances that affect financial or operational viability have been explained in Section F.

[End of Information Sheet]

ANNEXURE 1

conducted beginning with fiscal year 2009 and every fifth year thereafter. More detailed instructions are given on the report forms and instructions.

(b) *Who must report*- (1) *Mandatory reporting*. A report is required from each U.S. person that is a financial services provider or intermediary, or whose consolidated U.S. enterprise includes a separately organized subsidiary, or part, that is a financial services provider or intermediary, and that had transactions (either sales or purchases) directly with foreign persons in all financial services combined in excess of \$3,000,000 during its fiscal year covered by the survey on an accrual basis. The \$3,000,000 threshold should be applied to financial services transactions with foreign persons by all parts of the consolidated U.S. enterprise combined that are financial services providers or intermediaries. Because the \$3,000,000 threshold applies separately to sales and purchases, the mandatory reporting requirement may apply only to sales, only to purchases, or to both.

(i) The determination of whether a U.S. financial services provider or intermediary is subject to this mandatory reporting requirement may be based on the judgment of knowledgeable persons in a company who can identify reportable transactions on a recall basis, with a reasonable degree of certainty, without conducting a detailed manual records search.

(ii) Reporters that file pursuant to this mandatory reporting requirement must provide data on total sales and/or purchases of each of the covered types of financial services transactions and must disaggregate the totals by country and by relationship to the foreign transactor (foreign affiliate, foreign parent group, or unaffiliated).

(2) *Voluntary reporting*. If, during the fiscal year covered, sales or purchases of financial services by a firm that is a financial services provider or intermediary, or by a firm's subsidiaries, or parts, combined that are financial services providers or intermediaries, are \$3,000,000 or less, the U.S. person is requested to provide an estimate of the total for each type of service. However, submission of this information is voluntary. Because the \$3,000,000 threshold applies separately to sales and purchases, this voluntary reporting option may apply to sales, to purchases, or to both.

(3) *Exemption claims*. Entities that receive the BE-180 survey but are not subject to the mandatory reporting requirements and choose not to report data voluntarily must file an exemption claim by completing pages one through

five of the BE-180 survey and returning them to BEA.

(c) *BE-180 definition of financial services provider*. The definition of financial services provider used for this survey is identical to the definition of the term as used in the North American Industry Classification System, United States, 2007, Sector 52-Finance and Insurance, and holding companies that own or influence, and are principally engaged in making management decisions for these firms (part of Sector 55-Management of Companies and Enterprises). For example, companies and/or subsidiaries and other separable parts of companies in the following industries are defined as financial services providers: Depository credit intermediation and related activities (including commercial banking, savings institutions, credit unions, and other depository credit intermediation); non-depository credit intermediation (including credit card issuing, sales financing, and other non-depository credit intermediation); activities related to credit intermediation (including mortgage and nonmortgage loan brokers, financial transactions processing, reserve, and clearinghouse activities, and other activities related to credit intermediation); securities and commodity contracts intermediation and brokerage (including investment banking and securities dealing, securities brokerage, commodity contracts and dealing, and commodity contracts brokerage); securities and commodity exchanges; other financial investment activities (including miscellaneous intermediation, portfolio management, investment advice, and all other financial investment activities); insurance carriers; insurance agencies, brokerages, and other insurance related activities; insurance and employee benefit funds (including pension funds, health and welfare funds, and other insurance funds); other investment pools and funds (including open-end investment funds, trusts, estates, and agency accounts, real estate investment trusts, and other financial vehicles); and holding companies that own, or influence the management decisions of, firms principally engaged in the aforementioned activities.

(d) *Covered types of services*. The BE-180 survey covers the following types of financial services transactions (sales or purchases) between U.S. financial companies and foreign persons: Brokerage services related to equity transactions; other brokerage services; underwriting and private placement services; financial management services; credit-related services, except credit card services; credit card services;

financial advisory and custody services; securities lending services; electronic funds transfer services; and other financial services.

[FR Doc. 2010-14996 Filed 6-21-10; 8:45 am]

BILLING CODE 3510-06-P

COMMODITY FUTURES TRADING COMMISSION

17 CFR Part 30

Foreign Futures and Options Transactions

AGENCY: Commodity Futures Trading Commission.

ACTION: Order.

SUMMARY: The Commodity Futures Trading Commission (Commission or CFTC) is granting an exemption to firms designated by Bursa Malaysia Derivatives Berhad (Bursa Derivatives), a subsidiary of Bursa Malaysia Berhad (Bursa Malaysia), from the application of certain of the Commission's foreign futures and options regulations based upon substituted compliance with certain comparable regulatory and self-regulatory requirements of a foreign regulatory authority consistent with conditions specified by the Commission, as set forth herein. This Order is issued pursuant to Commission Regulation 30.10, which permits persons to file a petition with the Commission for exemption from the application of certain of the Regulations set forth in Part 30 and authorizes the Commission to grant such an exemption if such action would not be otherwise contrary to the public interest or to the purposes of the provision from which exemption is sought.

DATES: *Effective Date:* June 22, 2010.

FOR FURTHER INFORMATION CONTACT: Andrew V. Chapin., Associate Director or Andrea Musalem, Attorney-Advisor, Division of Clearing and Intermediary Oversight, Commodity Futures Trading Commission, 1155 21st Street, NW., Washington, DC 20581. *Telephone:* (202) 418-5430 or (202) 418-5167. *E-mail:* achapin@cftc.gov or amusalem@cftc.gov.

SUPPLEMENTARY INFORMATION: The Commission has issued the following Order:

Order Under CFTC Regulation 30.10 Exempting Firms Designated by Bursa Malaysia Derivatives (Bursa Derivatives) From the Application of Certain of the Foreign Futures and Options Regulations the Later of the Date of Publication of the Order Herein in the Federal Register or After Filing of

Consents by Such Firms and Bursa Derivatives, as Appropriate, to the Terms and Conditions of the Order Herein.

Commission Regulations governing the offer and sale of commodity futures and option contracts traded on or subject to the regulations of a foreign board of trade to customers located in the U.S. are contained in Part 30 of the Commission's regulations.¹ These regulations include requirements for intermediaries with respect to registration, disclosure, capital adequacy, protection of customer funds, recordkeeping and reporting, and sales practice and compliance procedures that are generally comparable to those applicable to transactions on U.S. markets.

In formulating a regulatory program to govern the offer and sale of foreign futures and option products to customers located in the U.S., the Commission, among other things, considered the desirability of ameliorating the potential extraterritorial impact of such a program and avoiding duplicative regulation of firms engaged in international business. Based upon these considerations, the Commission determined to permit persons located outside the U.S., and subject to a comparable regulatory structure in the jurisdiction in which they were located, to seek an exemption from certain of the requirements under Part 30 of the Commission's regulations based upon substituted compliance with the regulatory requirements of the foreign jurisdiction.

Appendix A to Part 30, "Interpretative Statement With Respect to the Commission's Exemptive Authority Under § 30.10 of Its Rules" (Appendix A), generally sets forth the elements the Commission will evaluate in determining whether a particular regulatory program may be found to be comparable for purposes of exemptive relief pursuant to Regulation 30.10.² These elements include: (1) Registration, authorization or other form of licensing, fitness review or qualification of persons that solicit and accept customer orders; (2) minimum financial requirements for those persons who accept customer funds; (3) protection of customer funds from misapplication; (4) recordkeeping and reporting requirements; (5) sales practice standards; (6) procedures to audit for compliance with, and to take action against those persons who violate, the requirements of the

program; and (7) information sharing arrangements between the Commission and the appropriate governmental and/or self-regulatory organization to ensure Commission access on an "as needed" basis to information essential to maintaining standards of customer and market protection within the U.S.

Moreover, the Commission specifically stated in adopting Regulation 30.10 that no exemption of a general nature would be granted unless the persons to whom the exemption is to be applied: (1) Submit to jurisdiction in the U.S. by designating an agent for service of process in the U.S. with respect to transactions subject to Part 30 and filing a copy of the agency agreement with the National Futures Association (NFA); (2) agree to provide access to their books and records in the U.S. to Commission and Department of Justice representatives; and (3) notify NFA of the commencement of business in the U.S.³

On July 13, 2009, Bursa Malaysia Berhad (Bursa Derivatives' holding company) originally petitioned the Commission on behalf of its member firms, located and doing business in Malaysia, for an exemption from the application of the Commission's Part 30 Regulations to those firms. Subsequently, however, and due to the corporate restructuring following the joint venture between Bursa Malaysia and the CME Group, Inc., Bursa Malaysia amended its original petition by withdrawing the request for Part 30 relief on behalf of Bursa Malaysia. The amended petition, submitted by letter to the Commission on December 30, 2009, was filed by and requests Regulation 30.10 relief solely to Bursa Derivatives and all eligible Bursa Derivatives Trading Participants. In support of its petition, Bursa Derivatives states that granting such an exemption with respect to such firms that it has authorized to conduct foreign futures and option transactions on behalf of customers located in the U.S. would not be contrary to the public interest nor to the purposes of the provisions from which the exemption is sought because such firms are subject to a regulatory framework comparable to that imposed by the Commodity Exchange Act (Act) and the regulations thereunder.

Based upon a review of the petition, supplementary materials filed by Bursa Derivatives and the recommendation of the Commission's staff, the Commission has concluded that the standards for relief set forth in Regulation 30.10 and, in particular, Appendix A thereof, have been met and that compliance with

applicable Malaysian law and Bursa Derivatives rules may be substituted for compliance with those sections of the Act and regulations thereunder more particularly set forth herein.

By this Order, the Commission hereby exempts, subject to specified conditions, those firms identified to the Commission by Bursa Derivatives as eligible for the relief granted herein from:

—Registration with the Commission for firms and for firm representatives;

—The requirement in Commission Regulation 30.6(a) and (d), 17 CFR 30.6(a) and (d), that firms provide customers located in the U.S. with the risk disclosure statements in Commission Regulation 1.55(b), 17 CFR 1.55(b), and Commission Regulation 33.7, 17 CFR 33.7, or as otherwise approved under Commission Regulation 1.55(c), 17 CFR 1.55(c);

—The separate account requirement contained in Commission Regulation 30.7, 17 CFR 30.7;

—Those sections of Part 1 of the Commission's financial regulations that apply to foreign futures and options sold in the U.S. as set forth in Part 30; and

—Those sections of Part 1 of the Commission's regulations relating to books and records which apply to transactions subject to Part 30,

based upon substituted compliance by such persons with the applicable statutes and regulations in effect in Malaysia.

This determination to permit substituted compliance is based on, among other things, the Commission's finding that the regulatory framework governing persons in Malaysia who would be exempted hereunder provides:

(1) A system of qualification or authorization of firms who deal in transactions subject to regulation under Part 30 that includes, for example, criteria and procedures for granting, monitoring, suspending and revoking licenses, and provisions for requiring and obtaining access to information about authorized firms and persons who act on behalf of such firms;

(2) Financial requirements for firms including, without limitation, a requirement for a minimum level of working capital and daily mark-to-market settlement and/or accounting procedures;

(3) A system for the protection of customer assets that is designed to preclude the use of customer assets to satisfy house obligations and requires separate accounting for such assets;

(4) Recordkeeping and reporting requirements pertaining to financial and trade information;

(5) Sales practice standards for authorized firms and persons acting on their behalf that include, for example, required disclosures to prospective customers and prohibitions on improper trading advice;

(6) Procedures to audit for compliance with, and to redress violations of, the customer protection and sales practice

¹ Commission regulations referred to herein are found at 17 CFR Ch. I (2009).

² 52 FR 28990, 29001 (Aug. 5, 1987).

³ 52 FR 28980, 28981 and 29002.

requirements referred to above, including, without limitation, an affirmative surveillance program designed to detect trading activities that take advantage of customers, and the existence of broad powers of investigation relating to sales practice abuses; and

(7) Mechanisms for sharing of information between the Commission, Bursa Derivatives, and the Malaysian regulatory authorities on an "as needed" basis including, without limitation, confirmation data, data necessary to trace funds related to trading futures products subject to regulation in Malaysia, position data, and data on firms' standing to do business and financial condition.

Commission staff has concluded, upon review of the petition of Bursa Derivatives and accompanying exhibits, that Malaysia's regulation of futures and options exchanges is comparable to that of the U.S. in the areas specified in Appendix A of Part 30, as described above.

This Order does not provide an exemption from any provision of the Act or regulations thereunder not specified herein, such as the antifraud provision in Regulation 30.9. Moreover, the relief granted is limited to brokerage activities undertaken on behalf of customers located in the U.S. with respect to transactions on or subject to the regulations of Bursa Derivatives for products that customers located in the U.S. may trade.⁴ The relief does not extend to regulations relating to trading, directly or indirectly, on U.S. exchanges. For example, a firm trading in U.S. markets for its own account would be subject to the Commission's large trader reporting requirements.⁵ Similarly, if such a firm were carrying positions on a U.S. exchange on behalf of foreign clients and submitted such transactions for clearing on an omnibus basis through a firm registered as a futures commission merchant under the Act, it would be subject to the reporting requirements applicable to foreign brokers.⁶ The relief herein is inapplicable where the firm solicits or accepts orders from customers located in the U.S. for transactions on U.S. markets. In that case, the firm must comply with all applicable U.S. laws and regulations, including the requirement to register in the appropriate capacity.

The eligibility of any firm to seek relief under this exemptive Order is subject to the following conditions:

(1) The regulatory or self-regulatory organization responsible for monitoring the compliance of such firms with the regulatory requirements described in the

Regulation 30.10 petition must represent in writing to the Commission⁷ that:

(a) Each firm for which relief is sought is registered, licensed or authorized, as appropriate, and is otherwise in good standing under the standards in place in Malaysia; such firm is engaged in business with customers in Malaysia as well as in the U.S.; and such firm and its principals and employees who engage in activities subject to Part 30 would not be statutorily disqualified from registration under Section 8a(2) of the Act, 7 U.S.C. 12a(2);

(b) It will monitor firms to which relief is granted for compliance with the regulatory requirements for which substituted compliance is accepted and will promptly notify the Commission or NFA of any change in status of a firm that would affect its continued eligibility for the exemption granted hereunder, including the termination of its activities in the U.S.;

(c) All transactions with respect to customers resident in the U.S. will be made on or subject to the regulations of Bursa Derivatives and the Commission will receive prompt notice of all material changes to the relevant laws in Malaysia, any regulations promulgated thereunder and Bursa Derivatives regulations;

(d) Customers located in the U.S. will be provided no less stringent regulatory protection than Malaysian customers under all relevant provisions of Malaysian law; and

(e) It will cooperate with the Commission with respect to any inquiries concerning any activity subject to regulation under the Part 30 Regulations, including sharing the information specified in Appendix A on an "as needed" basis and will use its best efforts to notify the Commission if it becomes aware of any information that in its judgment affects the financial or operational viability of a member firm doing business in the U.S. under the exemption granted by this Order.

(2) Each firm seeking relief hereunder must represent in writing that it:

(a) Is located outside the U.S., its territories and possessions and, where applicable, has subsidiaries or affiliates domiciled in the U.S. with a related business (*e.g.*, banks and broker/dealer affiliates) along with a brief description of each subsidiary's or affiliate's identity and principal business in the U.S.;

(b) Consents to jurisdiction in the U.S. under the Act by filing a valid and binding appointment of an agent in the U.S. for service of process in accordance with the requirements set forth in Regulation 30.5, 17 CFR 30.5;

(c) Agrees to provide access to its books and records related to transactions under Part 30 required to be maintained under the applicable statutes and regulations in effect in Malaysia upon the request of any representative of the Commission or U.S. Department of Justice at the place in the U.S. designated by such representative, within 72 hours, or such lesser period of time as specified by that representative as may be

reasonable under the circumstances after notice of the request;

(d) Has no principal or employee who solicits or accepts orders from customers located in the U.S. who would be disqualified under Section 8a(2) of the Act, 7 U.S.C. 12a(2), from doing business in the U.S.;

(e) Consents to participate in any NFA arbitration program that offers a procedure for resolving customer disputes on the papers where such disputes involve representations or activities with respect to transactions under Part 30, and consents to notify customers located in the U.S. of the availability of such a program;

(f) Undertakes to comply with the applicable provisions of Malaysian laws and Bursa Derivatives regulations that form the basis upon which this exemption from certain provisions of the Act and Regulations thereunder is granted; and

As set forth in the Commission's September 11, 1997 Order delegating to NFA certain responsibilities, the written representations set forth in paragraph (2) shall be filed with NFA.⁸ Each firm seeking relief hereunder has an ongoing obligation to notify NFA should there be a material change to any of the representations required in the firm's application for relief.

The Commission also confirms that Bursa Derivatives members that receive confirmation of relief set forth herein may engage in limited marketing conduct with respect to certain qualified customers located in the U.S. from a non-permanent location in the U.S., subject to the terms and conditions set forth in prior Commission Orders.⁹ The Commission notes that any firm and their employees or other representatives which engage in marketing conduct pursuant to this relief are deemed to have consented to the Commission's jurisdiction over such marketing activities by their filing of a valid and binding appointment of an agent in the U.S. for service of process.

This Order will become effective as to any designated Bursa Derivatives firm when the consents set forth in paragraphs (2)(a)–(g) have been filed. Upon filing of the notice required under paragraph (1)(b) as to any such firm, the

⁸ 62 FR 47792, 47793 (Sept. 11, 1997). Among other duties, the Commission authorized NFA to receive requests for confirmation of Regulation 30.10 relief on behalf of particular firms, to verify such firms' fitness and compliance with the conditions of the appropriate Regulation 30.10 Order and to grant exemptive relief from registration to qualifying firms.

⁹ See 57 FR 49644 (November 3, 1992) (permitted limited marketing of foreign futures and foreign option products to certain governmental and institutional customers located in the U.S.); 59 FR 42156 (August 17, 1994) (expanding the relief set forth in the 1992 release to conduct directed towards "accredited investors", as defined in the Securities and Exchange Commission's Regulation D issued pursuant to the Securities Act of 1933).

⁴ See, *e.g.*, Sections 2(a)(1)(C) and (D) of the Act.

⁵ See, *e.g.*, 17 CFR Part 18 (2009).

⁶ See, *e.g.*, 17 CFR Parts 17 and 21 (2009).

⁷ As described below, these representations are to be filed with NFA.

relief granted by this Order may be suspended immediately as to that firm. That suspension will remain in effect pending further notice by the Commission, or the Commission's designee, to the firm and Bursa Derivatives.

This Order is issued pursuant to Regulation 30.10 based on the representations made and supporting material provided to the Commission and the recommendation of the staff, and is made effective as to any firm granted relief hereunder based upon the filings and representations of such firms required hereunder. Any material changes or omissions in the facts and circumstances pursuant to which this Order is granted might require the Commission to reconsider its finding that the standards for relief set forth in Regulation 30.10 and, in particular, Appendix A, have been met. Further, if experience demonstrates that the continued effectiveness of this Order in general, or with respect to a particular firm, would be contrary to public policy or the public interest, or that the systems in place for the exchange of information or other circumstances do not warrant continuation of the exemptive relief granted herein, the Commission may condition, modify, suspend, terminate, withhold as to a specific firm, or otherwise restrict the exemptive relief granted in this Order, as appropriate, on its own motion.

The Commission will continue to monitor the implementation of its program to exempt firms located in jurisdictions generally deemed to have a comparable regulatory program from the application of certain of the foreign futures and option regulations and will make necessary adjustments if appropriate.

Dated: June 15, 2010.

By the Commission.

Sauntia S. Warfield,

Assistant Secretary of the Commission.

[FR Doc. 2010-15021 Filed 6-21-10; 8:45 am]

BILLING CODE 6351-01-P

DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 165

[Docket No. USCG-2010-0512]

RIN 1625-AA00

Safety Zone; Marquette 4th of July Fireworks, Marquette Harbor, Lake Superior, Marquette, MI

AGENCY: Coast Guard, DHS.

ACTION: Temporary final rule.

SUMMARY: The Coast Guard is establishing a temporary safety zone on Marquette Harbor, Lake Superior, Marquette, MI. This zone is intended to restrict vessels from a portion of Marquette Harbor during the Marquette 4th of July Fireworks display. This temporary safety zone is necessary to protect spectators and vessels from the hazards associated with a firework display.

DATES: This rule is effective from 9 p.m. on July 4, 2010, until 11 p.m. on July 5, 2010.

ADDRESSES: Documents indicated in this preamble as being available in the docket are part of docket USCG-2010-0512 and are available online by going to <http://www.regulations.gov>, inserting USCG-2010-0512 in the "Keyword" box, and then clicking "Search." They are also available for inspection or copying at the Docket Management Facility (M-30), U.S. Department of Transportation, West Building Ground Floor, Room W12-140, 1200 New Jersey Avenue, SE., Washington, DC 20590, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

FOR FURTHER INFORMATION CONTACT: If you have questions on this temporary rule, call or e-mail BMC Gregory Ford, Marine Event Coordinator, U.S. Coast Guard Sector Sault Sainte Marie; telephone: 906-635-3222, e-mail: Gregory.C.Ford@uscg.mil. If you have questions on viewing the docket, call Renee V. Wright, Program Manager, Docket Operations, telephone 202-366-9826.

SUPPLEMENTARY INFORMATION:

Regulatory Information

The Coast Guard is issuing this temporary final rule without prior notice and opportunity to comment pursuant to authority under section 4(a) of the Administrative Procedure Act (APA) (5 U.S.C. 553(b)). This provision authorizes an agency to issue a rule without prior notice and opportunity to comment when the agency for good cause finds that those procedures are "impracticable, unnecessary, or contrary to the public interest." Under 5 U.S.C. 553(b)(B), the Coast Guard finds that good cause exists for not publishing a notice of proposed rulemaking (NPRM) with respect to this rule because it is contrary to the public interest to delay the effective date of this rule. Delaying the effective date by first publishing an NPRM would be contrary to the safety zone's intended objective since immediate action is needed to protect person's and vessels against the hazards

associated with fireworks displays on navigable waters. Such hazards include premature detonations, dangerous detonations, dangerous projectiles and falling or burning debris. Additionally, the zone should have negligible impact on vessel transits due to the fact that vessels will be limited from the area for only two hours on the day of the zone enforcement. Accordingly, under 5 U.S.C. 553(b)(B), the Coast Guard finds that good cause exists for not publishing an NPRM.

Under 5 U.S.C. 553(d)(3), the Coast Guard finds that good cause exists for making this rule effective less than 30 days after publication in the **Federal Register**. Delaying this rule would be contrary to the public interest of ensuring the safety of spectators and vessels during this event and immediate action is necessary to prevent possible loss of life or property.

Basis and Purpose

This temporary safety zone is necessary to ensure the safety of vessels and spectators from hazards associated with a fireworks display. Based on the explosive hazards of fireworks, the Captain of the Port Sault Sainte Marie has determined that fireworks launches proximate to watercraft, piers and shore areas presents a significant risk to public safety and property. The likely combination of large numbers of recreation vessels, congested waterways, darkness punctuated by bright flashes of light, alcohol use, and debris falling into the water presents a significant risk of serious injuries or fatalities. Establishing a safety zone to control vessel movement around the location of the launch platform will help ensure the safety of persons and property at this event and help minimize the associated risks.

Discussion of Rule

A temporary safety zone is necessary to ensure the safety of spectators and vessels during the setup and launching of fireworks in conjunction with the Marquette 4th of July fireworks display. The fireworks display is planned to occur between 9:45 p.m. and 10:15 p.m. on July 4, 2010. If the fireworks event is postponed for any reason, the fireworks display would occur between 9:45 p.m. and 10:15 p.m. on July 5, 2010.

The safety zone will be enforced from 9 p.m. to 11 p.m. on July 4, 2010. If the event is postponed for any reason, the zone will be enforced from 9 p.m. to 11 p.m. on July 5, 2010.

The safety zone for the fireworks will encompass all waters of Marquette Harbor within a 1,000-foot radius of the

ANNEXURE 2

COMMODITY-FUTURES ¶25,506, Limited Marketing Activities From a United States Location by Certain Firms and Their Employees or Other Representatives Exempted Under Commodity Futures Trading Commission Rule 30.10., (Nov. 03, 1992), Commodity Futures Trading Commission, (Nov. 3, 1992)

<http://prod.resource.cch.com/resource/scion/document/default/%28%40%40CFA01+57FR49644%294d7f4ad7becc7af42925483e48590d52?cfu=Legal>

Limited Marketing Activities From a United States Location by Certain Firms and Their Employees or Other Representatives Exempted Under Commodity Futures Trading Commission Rule 30.10.

Commodity Futures Trading Commission. 57 F.R. 49644. November 3, 1992. Order in full text.

Limited Marketing Activities--Rules--Relief--Foreign Transactions.--The CFTC is granting relief under Reg. §30.10 to permit firms that have received Reg. §30.10 relief to engage in limited marketing conduct with respect to foreign futures or option contracts within the U.S. through their employees or other representatives.

See ¶12,825, "Liabilities--Prohibitions" division, Volume 1.

AGENCY: Commodity Futures Trading Commission.

ACTION: Order.

SUMMARY: The Commodity Futures Trading Commission ("Commission") is granting relief under rule 30.10, 17 CFR 30.10 (1992), to permit firms that have received rule 30.10 relief, ¹ to engage in limited marketing conduct with respect to foreign futures or option contracts within the United States through their employees or other representatives. The relief granted by this order, which responds to requests for clarification from certain persons granted rule 30.10 relief as to what marketing activities such relief permits to be undertaken in the United States, will apply only to firms which have both received such relief and which are located in a foreign jurisdiction whose comparable regulatory regime extends to the supervision of the activities engaged in by a firm, its employees or other representatives operating in a jurisdiction other than the licensing or "home" jurisdiction.

EFFECTIVE DATE: December 3, 1992.

FOR FURTHER INFORMATION CONTACT: Jane C. Kang, Esq. or Robert Rosenfeld, Esq., division of Trading and Markets, Commodity Futures Trading Commission, 2033 K Street, NW., Washington, DC 20581. Telephone (202) 254-8955.

SUPPLEMENTARY INFORMATION: Part 30 of the Commission's regulations establishes a regulatory framework governing the offer and sale of foreign futures and option contracts to persons located in the United States. ² Commission rule 30.10, adopted on July 23, 1987, provides a framework pursuant to which persons located in a foreign jurisdiction which imposes a comparable regulatory regime may be exempted from certain of the Commission's part 30 rules and regulations subject to, among other things, appropriate information sharing arrangements between the Commission and relevant foreign authorities and assurances that the activities subject to regulation will be supervised by the appropriate regulatory authorities in that jurisdiction.

In adopting the exemptive provision of rule 30.10 the Commission stated that the exemption would be available only to persons located outside the United States who are subject to a comparable regulatory system and who engage in activities subject to regulation and supervision in their home jurisdiction by their home regulator. ³ This restrictive application of relief was premised, in part, on the desire of the Commission to proceed in a cautious manner in the implementation of a new program which could implicate the customer protections accorded United States customers. Specifically, the Commission was concerned that conduct not occur in the United States which would not be supervised either by the Commission or the foreign regulator.

Consistent with the above, foreign firms which have received rule 30.10 relief could, from a location outside of the United States, offer or sell foreign futures or option contracts to persons located in the United States,

as long as such conduct did not violate the anti-fraud provision of Commission rule 30.9 and was not otherwise inconsistent with the provisions of the Commodity Exchange Act ("Act") or regulations thereunder or the law of the other jurisdictions in which the firm is located. This conduct could include telephone calls, mailings (both printed material as well as electronically encoded material such as compact discs or computer diskettes), or advertising in media such as radio, television or newspapers (including the transmission of advertising via computer screens).⁴ Such solicitation activities, which (in addition to the acceptance of orders)⁵ otherwise would require registration with the Commission regardless of the point of origin, currently may be undertaken by foreign firms which have been exempted from the registration requirement under a rule 30.10 order based on that firm's compliance with the rules of a comparable regulatory system.

The Commission notes, however, that policies established under one set of circumstances may not necessarily be appropriate in light of change circumstances. In particular, the existence of a four year operational history under the part 30 program, as well as requests from various foreign regulations for a more flexible interpretation of the rule 30.10 orders or equivalent arrangements to permit limited conduct within the United States, warrant a reexamination of the Commission's policy under rule 30.10 so as to determine whether conduct in the United States by employees or other representatives of rule 30.10 firms directed to existing and prospective customers can be permitted consistent with the Commission's responsibilities under the Act.

The Commission initially observes that its experience with the operation of the part 30 program has been positive. To date, over 100 firms have received rule 30.10 relief and the Commission is aware of no problems under the program. The Commission believes that the success of the rule 30.10 program as well as the existence of working relationships established under that program with foreign regulatory and self-regulatory authorities provide assurances that the conduct of rule 30.10 exempted firms through their employees or other representatives located in the United States, if of a limited duration and subject to proper supervisory controls, will not be inconsistent with the Commission's obligations under the Act to ensure appropriate customer protection.

In addition, Commission staff previously has broadened the ability of certain foreign firms to communicate with United States persons from United States locations. For example, Commission staff made clear that the use by such a firm of a United States registered introducing broker ("IB"), whether affiliated or unaffiliated, as a sales agent would not disqualify the foreign firm from eligibility for rule 30.10 relief.⁶ A Commission staff no-action position permitted representatives of a firm exempted under rule 30.10 to solicit certain U.S. institutional entities under certain specified circumstances and conditions.⁷ This relief was of limited duration, however, and required, among other things, that the representatives of the foreign firm be accompanied by a registered associated person of an affiliated Commission registered firm and that any accounts ultimately opened with the foreign firm be introduced by the Commission registered firm. More recently, Commission staff has provided guidance to a foreign futures exchange with respect to the permissible scope of activities that the members of that exchange could engage in during a limited one-day promotional event in the United States at a specified location to promote the exchange and its products to certain United States institutional customers.⁸

The above positions were based on a recognition by Commission staff that in order for rule 30.10 relief to better serve the interests of existing and prospective United States customers of rule 30.10 firms consistent with relevant customer protection concerns, certain direct contacts between such firms and their customers which would not contravene the Commission's original intent to permit marketing by firms without permanent locations in the United States could be permitted. The Commission concurs and, accordingly, has determined that firms subject to a rule 30.10 exemption should be permitted to engage in reasonably limited marketing activities in the United States with respect to foreign futures and options from a United States location with certain customers or potential customers as described and subject to the conditions specified below.

As specified below, the Commission initially is limiting its relief to conduct directed towards certain institutions and governmental entities whose description in terms of status and assets has been derived generally from the definition of "qualified eligible participant" ("QEP") as that term is defined in recently adopted Commission rule 4.7(a)(1)(ii), 57 FR 34853, 34860 (August 7, 1992). The Commission believes that direct

contacts by rule 30.10 firms through their employees or other representatives with such institutions and governmental entities, who have a high degree of sophistication and financial resources, may facilitate appropriate supervision by the relevant foreign regulator.⁹

The Commission's policy is intended only to permit marketing activities in the United States for limited periods by rule 30.10 exempted firms and their employees or other representatives. Clearly, any person who establishes a fixed location for the solicitation or acceptance of business in the United States, or whose marketing activities involve long or repeated periods within the United States that can be characterized as a *de facto* fixed presence, will be required to register with the Commission. In order to eliminate requests for guidance and to permit its new marketing policy to be implemented generally on a self-executing basis, the Commission Order includes as a condition an objective standard governing the permissible duration and frequency of conduct in the United States. Essentially, the Commission believes that for purposes of this Order marketing activity subject to regulation under part 30 which in the aggregate does not exceed thirty business days in any calendar year does not constitute a *de facto* fixed presence which would disqualify the rule 30.10 firm from eligibility for such relief.¹⁰ This relief is conditioned on the requirement that the foreign regulatory or self-regulatory organizations granted rule 30.10 relief interpret their authority to encompass supervision of firms which engage in marketing conduct from United States locations and undertake to use such authority to impelment measures to monitor compliance with the criteria of this Order.¹¹ In addition, the foreign regulatory organization to which the Commission's rule 30.10 order is issued must request that the Order herein apply to firms in its jurisdiction with confirmed rule 30.10 relief and the Commission must confirm its applicability in writing.

Based upon the foregoing analysis and pursuant to its authority under sections 2(a)(1)(A), 4 and 4c of the Act, 7 U.S.C. 2, 6 and 6c, the Commission hereby authorizes any firms soliciting or accepting orders for foreign futures or options from U.S. customers for whom relief under rule 30.10 has been confirmed to market their services from non-permanent locations in the United States without prior notification to the Commission, *Provided, That*:

- (1) The regulatory or self-regulatory organization to which rule 30.10 relief has been granted undertakes to supervise conduct by firms with such relief which takes place outside of that foreign jurisdiction through such firms' employees or other representatives under this Order;
- (2) Any such firm supervises and accepts liability for all conduct by its employees or other representatives taking place in the United States with respect to its marketing activities;
- (3) Marketing activities within the United States are reasonably limited in duration and frequency. (For this purpose, visits which do not in the aggregate exceed thirty business days in any one calendar year will be deemed to be reasonably limited);
- (4) All accounts opened and all orders for foreign futures or options accepted as a result of any customer communications in the United States will be effected directly through the foreign office of the rule 30.10 firm;
- (5) Such soliciting or marketing activities occurring within the United States will be limited to such activities directed to the following persons, acting either for their own account or the account of another entity which is described below:
 - (a) An FCM, IB, commodity pool operator or commodity trading advisor registered as such with the Commission;
 - (b) A broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934;
 - (c) An investment company registered under the Investment Company Act of 1940 or a business development company defined in section 2(a)(48) of that Act;
 - (d) A bank as defined in section 3(a)(2) of the Securities Act of 1933 ("Securities Act"), or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act;
 - (e) An insurance company as defined in section 2(13) of the Securities Act;
 - (f) A plan established by and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000;

- (g) An employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, *Provided*, That the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is a bank, savings and loan association, insurance company, or registered investment adviser; or that the employee benefit plan has total assets in excess of \$5,000,000;
- (h) A private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;
- (i) An organization described in section 501(c)(3) of the Internal Revenue Code, with total assets in excess of \$5,000,000;
- (j) A corporation, Massachusetts or similar business trust, or partnership, other than a pool, which has total assets in excess of \$5,000,000;
- (k) A pool, trust, insurance company separate account or bank collective trust, with total assets in excess of \$5,000,000; or
- (l) A governmental entity (including the United States, a state, or a foreign government) or political subdivision thereof, or a multinational or supranational entity or an instrumentality, agency or department of any of the foregoing; and

Provided Further That:

(6) Before the Order herein may become effective as to any rule 30.10 order, the regulatory or self-regulatory organization to which rule 30.10 relief has been granted requests, and the Commission confirms in writing, the applicability of the Order herein to such rule 30.10 order.

The Commission wishes to make clear that firms and their employees or other representatives which engage in marketing conduct within the United States pursuant to this Order will be deemed by the Commission to have consented to the agent named in the agency agreement filed by the firm as a condition of rule 30.10 relief as their agent for service of process with respect to their activities regulated under the Act.

Any rule 30.10 firm operating under this Order will remain subject to all of the requirements contained in Part 30 of the Commission's regulations concerning the offer and sale of foreign futures or options to United States persons, including the antifraud prohibitions of rule 30.9. The Commission intends to evaluate the operation of this Order to determine whether the conditions noted above for the limited presence of foreign firms in the United States are appropriate. The Commission reserves the right to modify or revoke this Order, in its discretion, as it deems appropriate, including to terminate the authority granted hereunder to any specific firm operating hereto.

Issued in Washington, DC on October 28, 1992.

Lynn K. Gilbert,

Deputy Secretary to the Commission.

¹ For purposes of this Order, the term "rule 30.10 relief" will include any comparability order of the Commission under rule 30.10 granting relief from the application of certain of the Commission's part 30 rules, including registration, as well as any order which in its effect is identical to such relief (e.g., Mutual Recognition Memorandum of Understanding, 55 FR 23902 (June 13, 1990)). To date the Commission has granted the following orders under rule 30.10: 55 FR 23903 (June 13, 1990) (Mutual Recognition Memorandum of Understanding between the CFTC and the French Commission des Operations de Bourse); 54 FR 21614 (May 19, 1989) (Investment Management Regulatory Organization Limited); 54 FR 21609 (May 19, 1989) (The Securities Association ("TSA")) and 54 FR 21604 (May 19, 1989) (Association of Futures Brokers and Dealers ("AFBD")) [the AFBD and TSA have since merged to form the Securities and Futures Authority]; 54 FR 21599 (May 19, 1989) (Securities and Investments Board); 54 FR 21599 (May 19, 1989) (Montreal Exchange); 54 FR 806 (January 10, 1980) (Singapore International Monetary Exchange Limited); and 53 FR 44856 (November 7, 1988) (Sydney Futures Exchange Limited).

² 17 CFR Part 30 and Appendix A thereto, which was adopted by the Commission on July 23, 1987, 52 FR 23880 (August 5, 1987). Rule 30.1, 17 CFR 30.1, defines "foreign futures" and "foreign option" in terms contracts that are "made or to be made on or subject to the rules of any foreign board of trade. The relief granted in the order applies only with respect to foreign futures and options.

³ See 52 FR 28W, 28981 (August 5, 1907) ("It is not the Commission's intention to grant such exemptions to persons located in the United States that solicit or accept orders for execution on a foreign board of trade"); see also Division of Trading and Markets Interpretative Letter 90-14, July 24, 1990, 2 Comm. Fut. L. Rep. (CCH) ¶24,888, and Division of Trading and Markets Interpretative Letter 88-3, January 15, 1988. Comm. Fut. L. Rep. (CCH) ¶24,085

⁴ Such activities have been deemed by the Securities and Exchange Commission ("SEC") to constitute "solicitation" in the context of broker-dealer registration. As noted by the SEC in its release adopting rule 15a-6 (exemptions from broker-dealer registration for foreign firms), "the term solicitation includes efforts to induce a single transaction or to develop an ongoing securities business relationship. Conduct deemed to be solicitation includes telephone calls from a broker-dealer encouraging use of the broker-dealer to effect transactions, as well as advertising one's function as a broker or market maker in newspapers or periodicals of general circulation in the United States or on any radio or television station whose broadcasting is directed into the United States." 54 FR 30013, 30018 (July 18, 1989). See also 55 FR 18306, 18310 (May 2, 1990) (adopting SEC Regulation S).

⁵ The Commission wishes to make clear that its registration requirements do not distinguish between the solicitation or acceptance of orders. See e.g., Rule 30.4(a), 17 CFR 30.4(a).

⁶ See Division of Trading and Markets Interpretative Letter 88-3, January 15, 1988. Comm. Fut. L. Rep. (CCH) ¶24.888.

⁷ See, Division of Trading and Markets Interpretative Letter 90-14, July 24, 1990. 2 Comm. Fut. L. Rep. (CCH) 124,888.

⁸ See letter dated August 17, 1992 from Andrea Corcoran, Commission, to Patrick Stephen, Marche a Terme International de France.

⁹ The QEP definition includes a portfolio test for certain persons which is intended to reflect objective evidence of investment experience. Such prior investment experience was deemed necessary by the commission in order to ensure that investors who do not receive the specific commodity-pool related disclosures of rule 4.21 would have a relatively high degree of investment acumen and resources. See 57 FR 34853, 34855 (August 7, 1992). In the context of direct United States marketing contacts between rule 30.10 firms and certain institutions in the United States with whom such firms could communicate directly from offshore locations, the Commission does not believe that such a portfolio standard is necessary. Specifically, the portfolio test of rule 4.7 is intended to assure prior investment experience and thereby diminish the need for the mandated disclosures in rule 4.21. In contrast, the disclosure obligations to United States customers contacted directly pursuant to this Order by a firm with rule 30.10 relief will not in any way be diminished by this Order, as rule 30.10 contemplates disclosure pursuant to the Act.

The Commission notes, however, that this Order should be viewed as a first step. Absent any problems that would warrant a reconsideration of the appropriateness of permitting rule 30.10 firms to operate in accordance with the terms of this Order, the Commission may in due course expand the Order to include any customer located in the United States.

¹⁰ This order addresses marketing and other sales activities by firms with rule 30.10 relief and their employees or other representatives from United States locations and does not encompass any other activities subject to regulation under the Act. To the extent that a rule 30.10 firm has an affiliate (which is separately incorporated or otherwise has a separate legal existence) in the United States which is registered with the Commission (e.g., an IB), the Commission wishes to make clear that such registrant's conduct will not be attributed to the rule 30.10 firm for purposes of the limitation on duration and frequency of activities in the United States imposed by this Order. The Commission recognizes that employees or other representatives of a rule 30.10 firm may routinely conduct business in the United States that is unrelated to the Act. It is the Commission's intent that the 30 day limit apply only with respect to conduct subject to regulation under the Act.

¹¹ It should be noted of course that notwithstanding the supervision that a foreign regulator may apply to the activities of a rule 30.10 firm operating from relevant foreign jurisdictions or in the United States

pursuant to this Order, the Commission retains its direct jurisdiction over such firms and their employees or representatives who engage in activities subject to part 30. In this connection, the Commission notes that every order granting rule 30.10 relief has required a firm seeking relief under such an order to consent to jurisdiction in the United States under the Act and file a valid and binding appointment of an agent in the United States for service of process in accordance with the requirements set forth in Commission rule 30.5, 17 CFR 30.5.

COMMODITY-FUTURES ¶26,166, Limited Marketing Activities From a United States Location by Certain Firms and Their Employees or Other Representatives Exempted Under Commodity Futures Trading Commission Rule 30.10., (Aug. 17, 1994), Commodity Futures Trading Commission, (Aug. 17, 1994)

<http://prod.resource.cch.com/resource/scion/document/default/%28%40%40CFA01+59FR42156%294413d1c3da8951f7818ebaf75d2450e2?cfu=Legal>

Limited Marketing Activities From a United States Location by Certain Firms and Their Employees or Other Representatives Exempted Under Commodity Futures Trading Commission Rule 30.10.

Commodity Futures Trading Commission. 59 F.R. 42156. August 17, 1994. Order in full text.

Orders--Limited Marketing Activities--U.S. Location.--The category, of persons to whom firms operating pursuant to the Limited Marketing Order issued on October 28, 1992 may direct limited marketing conduct with respect to foreign futures or option contracts within the U.S. through their employees or other representatives has been expanded to include conduct directed towards all "accredited investors" as that term is defined in the SEC's Regulation D issued pursuant to the Securities Act of 1933.

See ¶12,825, "Liabilities--Prohibitions" division, Volume 1.

AGENCY: Commodity Futures Trading Commission.

ACTION: Order.

SUMMARY: The Commodity Futures Trading Commission ("Commission" or "CFTC"), subject to the conditions specified below, is expanding the category of persons to whom firms operating pursuant to the Limited Marketing Order issued on October 28, 1992 may direct limited marketing conduct with respect to the foreign futures or option contracts within the United States through their employees or other representatives. The relief as originally issued was limited to conduct directed towards institutions and governmental entities identified in condition 5 of the Limited Marketing Order whose description in terms of status and assets has been derived generally from the definition of "qualified eligible participant" ("QEP") as that term is defined in Commission rule 4.7(a)(1)(ii), 17 CFR 4.7(a)(1)(ii). This Order will expand the relief to conduct directed towards all "accredited investors" as that term is defined in the Securities and Exchange Commission's ("SEC") Regulation D issued pursuant to the Securities Act of 1933.

EFFECTIVE DATE: August 17, 1994.

FOR FURTHER INFORMATION CONTACT: Jane C. Kang, Esq., or Francey L. Youngberg, Esq., Division of Trading and Markets, Commodity Futures Trading Commission, 2033 K Street, N.W., Washington, D.C. 20581. Telephone: (202) 254-89-55.

SUPPLEMENTARY INFORMATION: On October 28, 1992, the Commission issued an Order under rule 30.10, 17 CFR 30.10, to permit firms that have received rule 30.10 relief, to engage in limited marketing conduct with respect to foreign futures or option contracts within the United States through their employees or other representatives. 57 FR 49644 (November 3, 1992).

Among other conditions,¹ the Order provided that such solicitation or marketing activities occurring within the United States be limited to such activities directed towards certain institutions and governmental entities whose description in terms of status and assets has been derived generally from the definition of QEP as that term is defined in Commission rule 4.7(a)(1)(ii), 17 CFR 4.7(a)(1)(ii). The Commission noted that the Order was a first step and that absent any problems that would warrant a reconsideration of the appropriateness of permitting rule 30.10 firms to operate in accordance with the Order, the Commission may in due course expand the scope of the relief. Upon consideration of the matter, in particular, that no issues have arisen in connection with the operation of the Limited Marketing Order in the two years since its issuance, the CFTC is amending condition (5) of the Order issued on October 28, 1992 expanding the relief to be generally consistent with the term "accredited investors" as defined in section 230.501(a) of Securities Exchange Commission Regulation D promulgated pursuant to the Securities Act of 1933, 17 CFR

230.501(a), who are not already included within the scope of current condition (5) of the Limited Marketing Order.

Accordingly, condition (5) of the Order is amended as follows (new language is italic):

“(5) Such soliciting or marketing activities occurring within the United States will be limited to such activities directed to the following persons, acting either for their own account or the account of another entity which is described below:

- (a) A futures commission merchant, introducing broker, commodity pool operator or commodity trading advisor registered as such with the Commission;
- (b) A broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934;
- (c) An investment company registered under the Investment Company Act of 1940 or a business development company defined in section 2(a)(48) of that Act;
- (d) A bank as defined in section 3(a)(2) of the Securities Act of 1933 (“Securities Act”), or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Securities Act;
- (e) An insurance company as defined in section 2(13) of the Securities Act;
- (f) A plan established by and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000;
- (g) An employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, Provided, That the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is a bank, savings and loan association, insurance company or registered investment adviser, or that the employee benefit plan has total assets in excess of \$5,000,000; or, *if a self-directed plan, with investment decision made solely by persons that are accredited investors as defined in 17 CFR 230.501(a);*
- (h) A private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940.
- (i) An organization described in section 501(c)(3) of the Internal Revenue Code, with total assets in excess of \$5,000,000;
- (j) A corporation, Massachusetts or similar business trust, or partnership, other than a pool, which has total assets in excess of \$5,000,000;
- (k) A pool, trust, insurance company separate account or bank collective trust, with total assets in excess of \$5,000,000;
- (l) A government entity (including the United States, a state, or a foreign government) or political subdivision thereof, or a multinational or supranational entity or an instrumentality, agency or department of any of the foregoing;
- (m) *A Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958;*
- (n) *Any natural person whose individual net-worth, or joint net worth with that person’s spouse, at the time of his purchase exceeds \$1,000,000;*
- (o) *Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person’s spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year, and*
- (p) *Any entity in which all of the equity owners are accredited investors as defined in 17 CFR 230.501 (a).”*

In all other respects, the terms and conditions of the Commission’s Part 30 Order issued on October 28, 1992, including the requirement that the foreign regulatory or self-regulatory organization to which the Commission’s rule 30.10 Order was issued obtain a written confirmation from the Commission that the Order applies to firms in its jurisdiction with confirmed rule 30.10 relief, remain unchanged.

List of Subjects in 17 CFR Part 30

Commodity futures, Consumer protection, Fraud.

Issued in Washington, DC, on August 4, 1994.

Jean A. Webb,

Secretary of the Commission.

Accordingly, Chapter I of Title 17 of the CFR is amended as set forth below:

PART 30--FOREIGN FUTURES AND FOREIGN OPTIONS TRANSACTIONS

1. The authority citation for part 30 continues to read as follows:

Authority: 7 U.S.C. 1a, 2, 4, 6, 6c and 12a, unless otherwise noted.

2. Appendix A to part 30 is amended by adding new center heading and listing at the end of the appendix to read as follows:

Appendix A to Part 30--Interpretative Statement With Respect to the Commission's Exemptive Authority Under §30.10 of its Rules

Marketing Activities by Firms Granted Rule 30.10 Relief

FR date and citation: November 3, 1992, 57 FR 49644; August 17, 1994, 59 FR [insert FR page number].

¹ The Limited Marketing Order also required that the regulatory or self-regulatory organization to which the Commission issued 30.10 relief or its equivalent obtain written confirmation from the Commission that the Order applies to such rule 30.10 order. To date, the following regulatory or self-regulatory organizations have requested and received confirmation from the Commission that the Order will apply to their members: 1) Commission des Operations de Bourse (December 4, 1992); 2) The Securities and Investment Board (December 30, 1992); 3) Investment Management Regulatory Organization (December 30, 1992); 4) Securities and Futures Authority (December 30, 1992); 5) The Montreal Exchange (February 10, 1993); and 6) Sydney Futures Exchange (June 30, 1993). In this connection, the Commission would need to confirm the application of this expanded relief to each of the organizations referred to above.

ANNEXURE 3

NOTICE PURSUANT TO EXEMPTIVE ORDER UNDER CFTC REGULATION 30.10
BY TRADING PARTICIPANT OF BURSA MALAYSIA DERIVATIVES BERHAD

The undersigned hereby delivers this notice on behalf of the below named Trading Participant (the "Trading Participant") of Bursa Malaysia Derivatives Berhad ("Bursa Derivatives") in connection with the Trading Participant's application to the Commodity Futures Trading Commission ("Commission") for relief under the "*Order Under CFTC Regulation 30.10 Exempting Firms Designated by Bursa Malaysia Derivatives (Bursa Derivatives) From the Application of Certain of the Foreign Futures and Options Regulations the Later of the Date of Publication of the Order Herein in the Federal Register or After Filing of Consents by Such Firms and Bursa Derivatives, as Appropriate, to the Terms and Conditions of the Order Herein,*" dated June 22, 2010 (the "Order"). The Trading Participant seeks to conduct foreign futures and option transactions on behalf of customers located in the U.S. pursuant to the terms of the Order.

- (1) The name of the Trading Participant is:
- (2) The business address of the Trading Participant is:
- (3) The firm representative of the Trading Participant is:
- (4) The Trading Participant hereby represents to the Commission that it:
 - (a) is located outside the U.S., its territories and possessions and (*check one*)
 _____ has no subsidiaries or affiliates domiciled in the U.S. with a related business (e.g., banks and broker/dealer affiliates);
 _____ has the following subsidiaries or affiliates as stated below domiciled in the U.S. with a related business (e.g., banks and broker/dealer affiliates):
Insert the name, address and principal business in the U.S. of each such subsidiary or affiliate if applicable.
 - (b) consents to jurisdiction in the U.S. under the Commodity Exchange Act (the "Act") and has filed a valid and binding appointment of an agent in the U.S. for service of process in accordance with the requirements set forth in Regulation 30.5, 17 CFR 30.5.
Attach a copy of the agency agreement.
 - (c) agrees to provide access to its books and records related to transactions under Part 30 required to be maintained under the applicable statutes and regulations in effect in Malaysia upon the request of any representative of the Commission or U.S. Department of Justice at the place in the U.S. designated by such representative, within 72 hours, or such lesser period of time as specified by that representative as may be reasonable under the circumstances after notice of the request;
 - (d) has no principal or employee who solicits or accepts orders from customers located in the U.S. who would be disqualified under Section 8a(2) of the Act, 7 U.S.C. 12a(2), from doing business in the U.S.;
 - (e) consents to participate in any NFA arbitration program that offers a procedure for resolving customer disputes on the papers where such disputes involve representations or activities with respect to transactions under Part 30, and consents to notify customers located in the U.S. of the availability of such a program; and
 - (f) undertakes to comply with the applicable provisions of Malaysian laws and Bursa Derivatives regulations that form the basis upon which the exemption from certain provisions of the Act and Regulations thereunder is granted.

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of _____, ____.

Name of Trading Participant

By: _____

Name:

Title:

ANNEXURE 4

NOTICE AND REPRESENTATION BY TRADING PARTICIPANT TO BURSA MALAYSIA DERIVATIVES BERHAD IN RELATION TO THE EXEMPTIVE ORDER UNDER CFTC REGULATION 30.10

We, _____, are desirous to apply to the Commodity Futures Trading Commission of U.S. ("Commission") for relief under the "*Order Under CFTC Regulation 30.10 Exempting Firms Designated by Bursa Malaysia Derivatives (Bursa Derivatives) From the Application of Certain of the Foreign Futures and Options Regulations the Later of the Date of Publication of the Order Herein in the Federal Register or After Filing of Consents by Such Firms and Bursa Derivatives, as Appropriate, to the Terms and Conditions of the Order Herein,*" dated June 15, 2010 (the "Order"), to conduct foreign futures and option transactions on behalf of customers located in the U.S. pursuant to the terms of the Order.

Pursuant to the above we would like Bursa Derivatives' to designate us as an entity that is eligible for the relief under the Order and thereafter to make the application for the relief under the Order on our behalf to the Commission.

For the purpose of the above application we have attached here the representation to the Commission as required under the Order.

We also further represent to Bursa Derivatives that:

- (1) we are located outside the U.S., its territories and possessions, and will disclose the identity of each of our subsidiary or affiliate domiciled in the U.S. with a related business (e.g., banks and broker affiliates) if any and provide a brief description of each subsidiary's or affiliate's principal business in the U.S.;
- (2) we consent to jurisdiction in the U.S. under the Commodity Exchange Act (the "CEA") for activities conducted in the U.S. related to activities permitted under the Order and will file a valid and binding appointment of an agent in the U.S. for service of process in accordance with the requirement set forth in CFTC Rule 30.5, unless a currently effective valid and binding agency agreement has previously been filed by or on our behalf.;
- (3) we agree to provide access to our books and records related to transactions under Part 30 required to be maintained under applicable statutes and regulations in effect in Malaysia upon the request of any representatives of the Commission or the U.S. Department of Justice at the place in the U.S. designated by such representative, within 72 hours, or such lesser period as specified by that representative as may be reasonable under the circumstances after notice of the request;
- (4) each principal and employee is registered, licensed or otherwise in good standing under the standards in place in Malaysia, we intend to engage in business with customers located in the U.S. and we have no principal or employee who solicits or accepts orders from clients located in the U.S. who would be disqualified from doing business in the U.S. under Section 8a(2) of the CEA and we agree to notify the Commission promptly of any change in that representation consistent with CFTC Rule 3.31;
- (5) we consent to participate in the NFA's arbitration program that offers a procedure for resolving client disputes where such disputes involve representations or activities with respect to transactions under Part 30 and will notify the clients of the availability of the NFA program;
- (6) we will maintain books and records of transactions with all clients resident in the U.S. including records of marketing activities conducted in U.S. for a minimum of five years;
- (7) we will comply with the requirements relating to the segregation of client funds as contained in the Rules of Bursa Derivatives and Capital Markets and Services Act 2007;
- (8) we will supervise and accept liability for all conduct by our employees or other representatives taking place in the U.S. with respect to marketing activities;

- (9) we will only conduct marketing activities within the U.S. that are reasonably limited in duration and frequency;¹
- (10) all accounts opened and all orders for foreign futures or options accepted as a result of any client communications in the U.S. will be effected directly through our office in Malaysia;
- (11) soliciting or marketing activities occurring within the U.S. will be limited to such activities directed to specified persons, acting either for their own account or the account of another entity which is described in the CFTC's Limited Marketing Order and we will comply with the requirements in the Limited Marketing Order;
- (12) we undertake to comply with the provisions of Malaysian laws and the Rules of Bursa Derivatives including those provisions which form the basis upon which the exemption from certain provisions of the CEA is granted;
- (13) we will notify Bursa Derivatives immediately if we or any of our principals as defined under Regulation 3.1 or employees are disqualified from registration under section 8a(2) of the CEA;
- (14) we will notify Bursa Derivatives immediately if there is a request for books, records or information by the Commission or NFA and we will notify Bursa Derivatives of the books, records or information we will be submitting to the Commission or NFA prior to submission;
- (15) we will notify Bursa Derivatives immediately if we become aware of any information that in our judgment affects our financial and operational viability of doing business under Part 30;
- (16) we will notify Bursa Derivatives immediately of any change in our status that would affect our continued eligibility for the exemption granted hereunder, including the termination of our activities in the U.S.;
- (17) all representations made to the Commission, NFA and Bursa Derivatives in relation to our application for exemptive relief under the Order are true;
- (18) we will comply with all conditions imposed by the Commission, NFA and Bursa Derivatives in relation to our application for exemptive relief under the Order;
- (19) we agree that any misrepresentation or any non-compliance with any of the conditions imposed by the Commission, NFA and Bursa Derivatives is a breach of the directives issued by the Exchange and thus a breach of the Rules of Bursa Derivatives; and
- (20) we will inform the Exchange immediately if there is any change in any of the representations given to the Exchange here or the Commission pursuant to the Order.

IN WITNESS WHEREOF, I have hereunto set my hand this __ day of _____, ____.

Name of Trading Participant

By: _____

Name:

Title:

¹ For this purpose, visits which do not in the aggregate exceed 30 business days in any one calendar year will be deemed to be reasonably limited. See Limited Marketing Activities From the United States Location by Certain Firms and their Employees or other Representatives Exempted under Commodity Futures Trading Commission Rule 30.10 ("Limited Marketing Order"), 57 Fed. Reg. 49644 (November 3, 1992) as amended by 59 Fed. Reg. 42156 (August 17, 1994).

ANNEXURE 5

NOTICE PURSUANT TO EXEMPTIVE ORDER UNDER CFTC REGULATION 30.10 BY BURSA MALAYSIA DERIVATIVES BERHAD, IN RELATION TO TRADING PARTICIPANT

The undersigned hereby delivers this notice on behalf of Bursa Malaysia Derivatives Berhad ("Bursa Derivatives") in connection with the below named Trading Participant's (the "Trading Participant") application to the Commodity Futures Trading Commission ("Commission") for relief under the *CFTC Regulation 30.10 Order, Exempting Firms Designated by Bursa Malaysia Derivatives (Bursa Derivatives) From the Application of Certain of the Foreign Futures and Options Regulations the Later of the Date of Publication of the Order Herein in the Federal Register or After Filing of Consents by Such Firms and Bursa Derivatives, as Appropriate, to the Terms and Conditions of the Order Herein*, dated June 15, 2010 (the "Order"). The Trading Participant seeks to conduct foreign futures and option transactions on behalf of customers located in the U.S. pursuant to the terms of the Order.

- (1) The name of the Trading Participant is:
- (2) The business address of the Trading Participant is:
- (3) Bursa Derivates hereby represents to the Commission that:
 - (a) the Trading Participant for which relief is sought is registered, licensed or authorized, as appropriate, and is otherwise in good standing under the standards in place in Malaysia; the Trading Participant is engaged in business with customers in Malaysia as well as in the U.S.; and the Trading Participant and its principals and employees who engage in activities subject to Part 30 would not be statutorily disqualified from registration under Section 8a(2) of the Act, 7 U.S.C. 12a(2);
 - (b) it will monitor the Trading Participant to which relief is granted for compliance with the regulatory requirements for which substituted compliance is accepted and will promptly notify the Commission or NFA of any change in status of the Trading Participant that would affect its continued eligibility for the exemption granted hereunder, including the termination of its activities in the U.S.;
 - (c) all transactions with respect to customers resident in the U.S. will be made on or subject to the regulations of Bursa Derivatives and the Commission will receive prompt notice of all material changes to the relevant laws in Malaysia, any regulations promulgated thereunder and Bursa Derivatives regulations;
 - (d) customers located in the U.S. will be provided no less stringent regulatory protection than Malaysian customers under all relevant provisions of Malaysian law; and
 - (e) it will cooperate with the Commission with respect to any inquiries concerning any activity subject to regulation under the Part 30 Regulations, including sharing the information specified in Appendix A on an "as needed" basis and will use its best efforts to notify the Commission if it becomes aware of any information that in its judgment affects the financial or operational viability of a Trading Participant doing business in the U.S. under the exemption granted by this Order.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, _____.
BURSA MALAYSIA DERIVATIVES BERHAD
By: _____
Name:
Title:

ANNEXURE 6

REQUEST TO APPOINT
NATIONAL FUTURES ASSOCIATION
AS AGENT FOR SERVICE OF PROCESS

Other Names Used by Firm:

Name of Firm

Contact Name

Street Address 1

Street Address 2

Street Address 3

City

Province

Zip/Postal Code

Country

International Telephone Number

International Facsimile Number

E-Mail Address

WHEREAS, the Commodity Futures Trading Commission of the United States of America ("CFTC") has provided for the registration and regulation of persons engaged in the offer or sale in the United States, its territories or possessions, of futures contracts and options transactions made or to be made on or subject to the rules of a board of trade, exchange or market located outside the United States, its territories or possessions;

WHEREAS, the firm desires to engage in activities which would require it to register with the CFTC as a futures commission merchant;

WHEREAS, the firm has been granted an exemption from registration pursuant to CFTC Regulation §30.10 on the condition that it appoint a United States agent for service of process and other communications;

WHEREAS, National Futures Association ("NFA") is a Delaware corporation authorized by the CFTC to act as agent for service of process and other communications for purposes of the alternative procedure; and

WHEREAS, Requestor desires to appoint NFA as its agent for service of process and other communications;

NOW THEREFORE, the firm agrees as follows:

1. Services. The firm appoints NFA as its agent for service of process and other communications, as contemplated by CFTC Regulation §30.5 (a) and (b). NFA shall accept service of process and other communications on behalf of the firm and shall transmit such communications to the firm. Such communications shall be transmitted to the address set forth above, or to such other address as the firm directs in writing, by guaranteed four-day delivery if the firm is located in a major metropolitan area serviced by generally recognized international air carriers or by the fastest available means of delivery if the firm is not located in such a major metropolitan area. Provided, however, that nothing in this Agreement shall require NFA to transmit communications by electronic or telephonic means except as provided below.

If communications served on NFA on behalf of the firm require a response in five days or less, NFA shall make a reasonable attempt to telephone the firm and advise it of the nature of the communication. At the firm's expense, NFA shall follow any reasonable instructions from the firm concerning the delivery of the communication. Provided, however, that NFA shall not be required to transmit any written communication by electronic or telephonic means without assurance, acceptable to NFA, that the firm will pay any costs connected with such transmission.

Nothing in this Agreement shall authorize or require NFA to do any of the following: determine validity of service or refuse to accept service; enter an appearance on behalf of the firm; or settle, compromise, or defend any claim or action on behalf of the firm.

2. Termination of Agreement. This Agreement shall remain in force until terminated. The firm may terminate this Agreement upon five days' written notice to NFA in accordance with Paragraph 10 of this Agreement. This Agreement can be terminated by NFA upon thirty days' written notice to the firm. The withdrawal of the firm's confirmation of exemption from registration pursuant to CFTC Regulation 30.10 shall automatically terminate this Agreement effective on the date of such withdrawal.

Notwithstanding the termination of this Agreement, NFA's appointment as agent shall continue in effect for, and this Agreement shall govern, service of process or other communications with respect to any foreign futures or foreign options transactions entered into on or before the date this Agreement terminated.

3. Liability. NFA shall not be liable for incidental, consequential, or other special damages arising out of any actual or alleged breach of contract, negligence, or other action or inaction by NFA, its directors, officers, employees or agents in regard to the performance or nonperformance of this Agreement. NFA shall not be liable for any losses or damages, including actual damages, which are or could be mitigated by the firm.

If the firm defaults in any of the terms of this Agreement, it shall pay all costs and expenses, including reasonable attorneys' fees incurred by NFA in enforcing this Agreement.

4. Indemnification. Except as provided in Paragraph 3 of this Agreement, the firm shall indemnify and hold NFA harmless from any and all claims, liability, loss, damage, or expenses, including reasonable attorneys' fees, arising from NFA's performance of the services specified under this Agreement.
5. No Assignment. This Agreement shall not be assigned by either party without the written consent of the other.
6. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, United States of America. Provided, however, that nothing in this Agreement shall be construed in any manner that is inconsistent with the Commodity Exchange Act and CFTC Regulations.
7. Execution of Agreement, Choice of Forum and Consent to Jurisdiction. This Agreement shall be deemed to have been made by both parties in Cook County, State of Illinois, United States of America. Each party hereto consents to the personal jurisdiction of the courts of the State of Illinois and the United States District Court for the Northern District of Illinois over any action at law, suit in equity, or judicial proceeding under or which may otherwise arise out of this Agreement and agrees not to contest venue for any such proceeding in Cook County, State of Illinois. The firm agrees that any action at law, suit in equity, or judicial proceeding under or which may otherwise arise out of this Agreement shall be instituted by the firm only in the Courts of the State of Illinois or the United States District Court for the Northern District of Illinois.
8. Severability. If any provision of this Agreement is held by any Court of competent jurisdiction to be invalid, illegal or unenforceable for any reason, the remaining provisions of this Agreement shall not be affected and this Agreement shall be construed and enforced as if this Agreement did not contain the provision which is held to be invalid, illegal, or unenforceable.
9. Heirs, Successors, and Assigns. This Agreement shall be binding on and shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto, but nothing contained in this paragraph shall be construed as a consent by either party to any assignment of this Agreement except as provided in Paragraph 5 of this Agreement.
10. Notices. Except as otherwise provided in this Agreement, all notices or communications required by or given under this Agreement shall be deemed given as of the date of receipt or, if earlier, as of the date five days after such notices or communications are deposited in the United States mail, airmail postage prepaid, or in the mails of any other country, airmail postage prepaid, or delivered to any generally recognized international air carrier.

All notices to NFA shall be addressed as follows:

Vice President, Registration and Membership
National Futures Association
300 South Riverside Plaza
Suite 1800
Chicago, Illinois 60606
U.S.A.

All notices to the firm shall be addressed to the address set forth at the beginning of this Agreement, or to such other address as the firm directs in writing.

11. Effective Date. Confirmation of the exemption from registration pursuant to CFTC Regulation 30.10 shall constitute NFA's acceptance of this Agreement and this Agreement shall be effective upon such confirmation.

Name of Firm

Print Name of Signatory

Title of Signatory

Signature

**GUIDELINES AND REQUIREMENTS FOR
AGENCY AGREEMENTS FILED WITH NFA
UNDER CFTC REGULATIONS 30.5 and 30.10**Authorized Agent

CFTC Regulation 30.5 (17 C.F.R. § 30.5) sets out the requirements and procedures for appointing a U.S. agent for service of process. Among other things, § 30.5(a) generally limits the person who may act as agent to 1) a registered futures commission merchant through whom the foreign entity conducts business, 2) a registered futures association (i.e., NFA) or 3) any other person located in the United States in the business of acting as agent for service of process.

NFA will accept an agreement appointing a U.S. law firm as agent under the third category if the law firm provides or has provided NFA with a written representation that it acts as agent for service of process in the regular course of business. Other persons attempting to qualify under the third category must provide NFA with evidence, acceptable to NFA that they are in the business of acting as agent for service of process.

The Division of Clearing and Intermediary Oversight at the Commodity Futures Trading Commission may approve additional categories of entities to act as agent on a case-by-case basis.¹ A written request for such approval should be addressed as follows:

Director
Division of Clearing and Intermediary Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

The request should include information regarding the relationship between the foreign firm and the proposed agent, as well as any other information relevant to the CFTC's determination. Copies of the request and the CFTC's reply should be sent to the Vice President, Membership and Registration, NFA.

¹ In this connection, the Division has confirmed that a foreign firm may appoint its U.S. subsidiary or affiliate as its agent if such subsidiary or affiliate is registered as an introducing broker or broker-dealer. [See CFTC Interpretive Letter No. 88-13, Comm. Fut. L. Rep. (CCH) ¶ 24,291 (July 28, 1988).] The foreign firm must provide NFA with evidence of the affiliation and of the agent's broker-dealer registration, if applicable.

Contents of Agreement

In order to comply with CFTC Regulation 30.5 (17 C.F.R. § 30.5), an agency agreement should contain the following:

1. The name, address and telephone number of the principal;
2. The name, address and telephone number of the agent;
3. Language making or acknowledging the agency appointment;²
4. An original signature on behalf of the principal and the title of the person signing the agreement;
5. An original signature on behalf of the agent and the title of the person signing the agreement;
6. Effective date; and

A signed original of the agreement must be sent to:

Vice President, Registration and Membership
National Futures Association
300 S Riverside Plaza
Suite 1800
Chicago, Illinois 60606

² There is no prescribed language for making the agency appointment. NFA will accept any language that is broad enough and sufficient to make the appointment. For your convenience, however, the following are examples of acceptable language:

X hereby appoints Y to act as its U.S. agent for service of process and other communications for purposes of CFTC Regulation(s) 30.5 (and 30.10), and Y hereby accepts such appointment.

X and Y hereby agree that Y will act as X's U.S. agent for service of process and other communications with respect to transactions subject to the jurisdiction of the Commodity Futures Trading Commission.

C:\MY DOCUMENTS\REG DOCS\CFTC REG 30.5.DOC

Relevant to : Rules 3.36 and 5.05
Introduced with effect from : 15 August 2019
Amended : 30 June 2021 vide TP Circular No. 10/2021
TPs' Circular No(s). : 6/ 2012
Refer also to Directive No(s). : N/A

1. Rule 3.36(b)

- (1) Rule 3.36(b) provides that throughout a Compliance Officer's registration, the Compliance Officer must supervise and carry out proper checks and reviews to monitor and ensure the overall compliance by the Trading Participant and the Trading Participant's Registered Persons, employees and agents with the Securities Laws, these Rules and the Directives.
- (2) In discharging the obligations under the said Rule, a Compliance Officer must, amongst others, comply with the requirements set out below.

1.1 Guidelines for Compliance Functions

- (1) All Compliance Officers must comply with the Guidelines for Compliance Functions ("**Guidelines**").
- (2) The Guidelines are set out in **Appendix 1** of this Directive.

APPENDIX 1

GUIDELINES FOR COMPLIANCE FUNCTIONS

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1. PREFACE

The compliance function in the derivatives industry is of critical importance in the context of the rapid change and growth taking place in the financial services sector. Increasing competition, pressure to operate profitably and to improve performance, introduction of new derivative products and rapid advancements in information processing and dissemination technology may result in risk management by Trading Participants lagging behind in their emphasis on sound operational controls. The most important message that this document intends to convey is that compliance should be looked upon as an entire system of –

- (a) complying with laws, rules and guidelines issued by the relevant authorities under the regulatory framework;
- (b) assuring a high quality of service to clients in order to maintain long-term profitable relationships with business partners;
- (c) managing risk, particularly operational risk, as part of an enterprise-wide risk management framework that is aimed at providing greater certainty for cashflow management purposes, and hence enhancing risk-adjusted returns to shareholders of a broking firm; and
- (d) encouraging one's peers to equally adopt a high standard in order to minimise credit, systemic and reputational risk in the interest of promoting long-term development of the industry.

Hence, this document is issued to address current compliance issues and to enhance compliance through guidance that will encourage self-regulation and sound risk management of derivatives. It is our expectation that senior management and compliance officers will play a more proactive and meaningful role in evaluating Trading Participants' internal controls system and cultivating a compliance culture in their organisation.

The compliance guidelines contained in this document are presented with the following functional objectives in mind:

- a) to improve the quality and effectiveness of the compliance function;
- b) to promote a compliance culture within, and self-regulation by the Trading Participants; and
- c) to provide a uniform practice guide on compliance which would serve as a basis for guidance and measurement of performance of the compliance function by the compliance officer.

Senior management and compliance officers may find these guidelines useful in reassessing their supervisory, monitoring and compliance procedures. These Guidelines are organised into 4 major parts:

- a) Part I encompasses an overview of the compliance function;
- b) Part II covers compliance control and responsibilities. This part prescribes the requirement to establish a compliance culture within a Trading Participant and outlines the roles to be played by the board of directors and employees;
- c) Part III describes the role, duties and responsibilities of the compliance officer;
- d) Part IV addresses the skills required by a compliance officer.

2. OVERVIEW OF THE COMPLIANCE FUNCTION

- (1) To comply means compliance with all relevant laws, policies, procedures, guidelines, directives, rules

and regulations. Compliance essentially refers to proper supervision and competent system of internal controls within a Trading Participant to maintain the integrity of its dealing practices, the safeguarding of its assets and compliance with all relevant regulatory requirements. Compliance is a component of proper business support and applies to all individual business activities and functions. Effective compliance requires the willingness of Trading Participants to police their own activities, eliminate bad practices and to maintain routine contact with the regulators.

- (2) The biggest pitfalls of setting up a compliance function are:
- a) the compliance function is seen as being solely the province of the compliance department. No one sees a specific compliance dimension to their job nor has one been expressly communicated to them;
 - b) personnel in the compliance department are inadequately trained and under-resourced;
 - c) the organisational objectives or corporate mission has failed to recognise the compliance function. The purpose of establishing a compliance department has not been communicated to the staff and the setting up of the compliance department is merely in response to the requirements of the Commission and the Exchange;
 - d) lack of acceptance by the board of directors and senior management of the role and importance of the compliance department/officer;
 - e) the compliance officer is often distracted by other duties and has not been designated with the appropriate seniority for the job;
 - f) failure to identify and manage conflict of interests;
 - g) failure to maintain professional independence; and
 - h) weak management supervision and control.

3. COMPLIANCE CONTROL AND RESPONSIBILITIES

- (1) Compliance is a '*state of mind*' which needs to penetrate the whole fabric of the Trading Participant in the way it is organised, managed and controlled. Each regulated business area of a Trading Participant e.g. dealing activities, customer documentation, payments and settlement activities, the handling of clients' funds, is responsible for complying with the relevant rules and laws and must maintain procedures that will ensure compliance.
- (2) Each Trading Participant needs to adopt a '*compliance mission statement*' that will cultivate an environment, which encourages compliance. Problems arising from daily operations or key decisions and actions taken may impose a strategic or financial impact on the Trading Participant's compliance. In these cases, the compliance mission statement serves as a reference to ensure the Trading Participant remains compliant.

Roles and Responsibilities of the board of directors

The board of directors, besides approving all significant policies and procedures throughout the Trading Participant, should also ensure that:

- a) a sound system of internal controls is maintained to safeguard shareholders' interests company's assets and clients' interests. This covers not only financial controls but operational

and compliance controls, and risk management;

- b) management effectively implements all policies and procedures set by the board of directors;
- c) a fully-staffed compliance department is established and delegated with the responsibility of managing the Trading Participant's compliance with all relevant laws, rules, regulations, directives, guidelines, policies and procedures;
- d) competent compliance personnel are available to review the effectiveness of organisational controls and procedures as well as verify the reliability of information reported;
- e) proper procedures are in place to anticipate likely changes in the regulatory regime and compliance requirements that may be against the interest of the Trading Participant;
- f) there are periodic discussions with management concerning the effectiveness of internal controls and risk management, and ensure the management has appropriately taken action on recommendations and concerns expressed by the compliance officer and auditors (regulatory auditors, internal and external auditors) with regards to internal control weaknesses and issues on non-compliance.

A strong and pro-active board of directors will foster an environment of strong internal controls and compliant procedures and practices.

3.1 Establishment of compliance culture within the organisation

- (1) To establish an effective compliance culture within the organisation, the organisation needs to:
 - a) have a well-documented and up to date operations manual incorporating practices that ensure compliance. The operations manual should:
 - i. contain procedures that are practical and able to explain the rationale behind each requirement and the consequences if that requirement is not met; and
 - ii. clearly explain the individual responsibilities for each function to be performed.
 - b) have a proper system for record keeping. Complete and accessible records are vital in enabling the organisation to demonstrate it has complied effectively.
 - c) have effective channels of communication to ensure that all staff are fully aware of policies and procedures affecting their duties and responsibilities and any changes thereto.
 - d) provide induction training to new staff. Induction training should encompass explanation of the procedures relevant to the job and the corresponding compliance responsibilities.
 - e) assess staff for their competencies on a regular basis to identify training needs and promote personal development.
 - f) have a competent compliance officer to advise regulated business areas on key matters of compliance, to monitor that the business is complying in practice and to educate everyone in the organisation on how compliance is best achieved.
 - g) have a system of regular reporting. Regular reporting to board of directors is critical and should include both routine and exceptional matters. Compliance issues such as results of monitoring, changes in regulations, results of regulatory visits etc., should be compiled in a Compliance Report and be made a standing item to be discussed at the board of directors' meetings.

- h) have an effective internal control system. When establishing an internal control system, management should include the following:

i. *Organisational structure*

This sets out the hierarchical structure within and the division of functions across, the Trading Participant. Its purpose is to provide a clear and accurate picture of:

- which department is responsible for each business function.
- the levels of responsibility and reporting structure within the department.
- the levels of responsibility and reporting structure for the heads of department.
- the levels of responsibility and reporting structure for the executive director or chief executive officer.

ii. *Managerial Control*

This control includes all manner of supervisory that is exercised by senior management.

iii. *Segregation of duties*

The segregation of duties is a crucial method of management control. It involves allocating certain tasks within a business activity amongst the employees in such a manner that one employee's task acts as a check and balance over another employee's task. This ensures that the activities of a Trading Participant are being carried out in a proper and authorised manner and helps prevent the occurrence of fraudulent activities. In a Trading Participant, the usual examples of segregation are between:

- procurement of clients and credit risk analysis
- trading activities and dealing duties and settlement transactions
- funds transfer and transaction booking
- daily maintenance of general ledger balance and validation of general ledger balance
- maintenance of record balance and physical release of collateral

The size of certain Trading Participants may make it impracticable to separate tasks within an activity to 2 or more employees. The management will then have to rely on other methods of control such as audits and management reviews and conduct these on a frequent and in-depth basis.

iv. *Supervisory control*

Authorised and appropriate qualified personnel should independently supervise all activities

v. *Review, authorisation and approval*

All transactions should require approval by an appropriate authorised official. Approval limits should commensurate with the level of each individual's degree of authority. All transactions must be properly documented to provide for review and accountability.

vi. Independent review

An independent review conducted by an identified personnel functions to ensure that a task or process is carried out properly and efficiently.

vii. Accounting control and arithmetical accuracy

Accounting control is essentially a system for checking the accuracy of the information contained in the accounting records and books of the company on a daily basis. Accounting control activities encompass verifying the arithmetical methods used and their results as shown by the figures in financial statements such as account totals and trial balances, proving control account balances and performing reconciliations.

viii. Physical security

This control relates to the custody and safeguarding of assets, and restriction of access to business premises, systems and departmental records.

- i) maintain comprehensive documentation and written procedures on the supervisory and compliance system ("Written Procedures"). These procedures must be regularly updated to take into account any changes that may occur in the current regulatory framework. These procedures and any amendments in it must be effectively disseminated and enforced throughout the Trading Participant. In addition, the Trading Participant is to maintain an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective.
- j) establish written procedures of all transactions and correspondence of its Registered Representatives pertaining to the solicitation or execution of any transaction.

3.2 Compliance responsibilities

- (1) Management is responsible for setting the tone of the Trading Participant to promote a compliance culture within the entity. It is imperative that management provides support to the compliance function and actions taken by management must be indicative of this. Weaknesses in the Trading Participant's internal controls or inefficiencies in operating procedures must be identified and rectified immediately. Non-compliance must be dealt with to ensure that the breach will not occur again.
- (2) It is the responsibility of the staff to comply with relevant industry laws, and internal control policies and procedures set up by the Trading Participant. Both management and staff must bear in mind that compliance is everyone's responsibility. An ethos of professionalism and best practice which is essential for an effective compliance can only be achieved if everyone plays his/her part rather than relying just on the compliance officer or compliance department.
- (3) The ultimate responsibility for proper supervision and compliance rests with the Trading Participant and its board of directors. The compliance officer facilitates the attainment of these objectives and does not relieve the Trading Participant or its board of directors of any of its responsibilities. The formulation of supervisory or compliance programmes may be within the compliance officer's job function but the effective implementation and maintenance of such programmes lies with the Trading Participant and its board of directors. Any failure to effectively supervise and ensure compliance by the Trading Participant or its employees will be deemed a failure on the part of the Trading Participant and its board of directors.

4. ROLE OF THE COMPLIANCE OFFICER**4.1 An independent function**

- (1) The compliance officer acts as the “conduit” through which a Trading Participant achieves the compliance objectives, whilst proving an independent check and balance within the Trading Participant, thereby ensuring that its activities are in compliance with the relevant securities laws, rules, regulations, directives, guidelines, policies and procedures.
- (2) To carry out his duties without any conflict of interest, the compliance officer must be independent of the back and the front offices. He must not have sales and operational functions, and must not be directly involved in trading (e.g. he must not be allowed to solicit or execute any orders on behalf of client), settlement, funding, processing or reconciliation activities of a Trading Participant, and should not act in a manner which may compromise his function and position. He should only be engaged in the compliance function. He must not engage in personal dealing in derivatives.

4.2 Role of the compliance officer in relation to other departments and functions within the organisation

- (1) The compliance officer undertakes an overall supervisory responsibility over the trading and operational activities of a Trading Participant. He monitors on-going business activities on a pro-active basis to ensure compliance by the Trading Participant. He oversees and supplements other supervisory measures already in place within a Trading Participant and ensures that the relevant supervisors/Heads of Department perform their supervisory responsibilities effectively. However, the compliance officer does not relieve any supervisor/Head of Department of their responsibilities. The burden of executing designated job functions still remains with the respective supervisors/Heads of Department.
- (2) In this respect, the compliance officer should keep in constant communication and work closely with all supervisory heads within the Trading Participant's structure, with a view to supplementing existing reviews of the supervisors and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments.
- (3) The compliance officer and the internal audit department should strive to complement each other and work towards achieving a high standard of compliance. It is important to note that the compliance officer does not resume or take over the duties and functions of any of the other departments within the Trading Participant.

4.3 Role of the compliance officer in relation to the board of directors

- (1) The compliance officer must report directly to the board of directors of the Trading Participant. He should have access to the board of directors to report, update, inform and make recommendations on all matters pertaining to compliance, including events of non-compliance. However, in the course of his duties, the compliance officer may bring compliance matters to the attention of the Executive Director or other senior management personnel so as to enable appropriate action to be taken.
- (2) The compliance officer must submit monthly written reports to the board of directors on all matters pertaining to compliance, including matters that had been brought to the attention of the Executive Director or other senior management personnel and the actions taken. The board of directors must deliberate matters reported to it by the compliance officer at its proper meeting so that appropriate action or decision can be taken. Proper records of such deliberations must be maintained.

- (3) To maintain the independence of the compliance officer, his performance should preferably be appraised by the board of directors.

4.4 Duties and Responsibilities of the compliance officer

- (1) The main duties and responsibilities of the compliance officer are summarised below:

- a) to advise on compliance matters

The compliance officer has the responsibility to ensure compliance with all relevant laws, rules, regulations, directives, guidelines, policies and procedures.

- b) to review the adequacy of internal controls and risk management system

The compliance officer must continually review the adequacy of the Trading Participant's internal control system, which includes the risk management system, in light of changes in internal and external conditions.

- c) to review, monitor and supervise other supervisory measures to ensure compliance

One of the ways to ensure compliance by all levels of staff is to have effective monitoring which should cover front office, back office and accounting activities. It is the responsibility of the supervisors/Department Heads to ensure compliance by their staff members. In this respect, it is the duty of compliance officer to review the adequacy of the supervisory measures undertaken by the supervisors/Department Heads. The frequency of reviewing and monitoring should be determined by assessing the level of risk involved, and the frequency and nature of changes in the operating environment. The reviewing and monitoring should also focus on areas of risk. A checklist should be used for such purposes.

- d) to assist in training and educating staff members on compliance matters

Training is critical to the successful implementation of a compliance culture. All new recruits and existing staff members must be adequately trained and equipped with the necessary capabilities to carry out the responsibilities assigned to them. The compliance officer must assist in the training and educating of staff members on compliance related aspects of their jobs and should ensure that they are kept up-to-date with changes in regulatory requirements.

- e) to report to the board of directors

It is the duty of the compliance officer to inform and report to the board of directors on all matters pertaining to compliance at least once a month. However, he should immediately report to the board of directors and the relevant Exchange(s) if a matter requires urgent attention, e.g. breaches of the laws, and matters pertaining to segregation of clients' assets and risk position of the Trading Participant.

- f) to liaise with the regulatory bodies on compliance matters

Due to the independence of the compliance officer's functions, he is the most suitable personnel in the Trading Participant to play the role of liaison officer between the Trading Participants and the regulators for the purpose of information sharing, clarification of rules and regulations, requests for advice, and reporting of incidence of non-compliance.

(Annex I elaborates the main duties and responsibilities of the compliance officer)

5. ESSENTIAL SKILLS REQUIRED OF A COMPLIANCE OFFICER

- (1) It is important that the right person is employed as a compliance officer. The individual must have at least a minimum level of competence in the particular activities they are required to monitor, and must also be a person equipped with authority to carry out his responsibilities as a compliance officer and of an appropriate level of seniority to act independently and to effect decisions. He must have unlimited access to all information and records in relation to the Trading Participants business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharging of his duties.
- (2) A compliance officer needs to have proper professional qualifications and experience appropriate to the duties that he/she is expected to perform.
- (3) A compliance officer needs to have some **technical expertise** in the areas of business he/she is to monitor, for example, general principles relating to the use of derivatives products in hedging, market making, portfolio management, arbitrage and yield enhancement, as well as the risks involved, services offered by the Trading Participant and market practices. He/she must be **professionally competent** in assessing industry rules that apply to the business and able to interpret them in a practical business way.
- (4) As the compliance officer needs to work closely with colleagues within the Trading Participant and with the regulators, it is essential that Compliance Officer possesses **good communication and interpersonal skills**. He/she must be a good listener, open and approachable and have negotiation skills to be able to put over an argument in persuasive rather than dictatorial terms.
- (5) A compliance officer must be able to **apply knowledge and experience** gained to the business he/she works in and understand the critical problems and constraints faced by the business in order to gain credibility when discussing issues with management. Nevertheless, he/she must maintain an **independent frame of mind** and be able to make an independent decision whether to report or discuss with the board of directors and regulators on particular issues as seen appropriate.

6. COMPLIANCE MANUAL

- (1) A Trading Participant must establish and maintain a comprehensive "Compliance Manual" tailored to its respective needs and must be approved by its board of directors. Such manual will be subject to review for adequacy by the compliance officer, who will then ensure that the requirements in the manual are adhered to.
- (2) The Compliance Manual must elaborate on the practical applications of a compliance officer's detailed functions. The manual must specify among others his monitoring, supervisory and review procedures in relation to all his functions.
- (3) The manual must among others include:
 - (a) the outline for the compliance policies, procedures and controls of the Trading Participant, to safeguard the Trading Participant and its customers from serious risks of loss and defalcation; and
 - (b) a Code of Conduct outlining standards of personal integrity expected from the staff.
- (4) The compliance officer must ensure the following:

- (a) the procedures established in the manual are adequate. Adequate procedures are those designated to meet industry standards, regulatory requirements, and the circumstances of the Trading Participant;
- (b) the compliance procedures are designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Trading Participant;
- (c) each compliance programme must be appropriate for the size and nature of the Trading Participant;
- (d) the compliance procedures established are effectively communicated within the Trading Participant;
- (e) the manual be subjected to regular periodic review or whenever there are major changes to the relevant Securities laws, rules, and regulations;
- (f) once the compliance procedures are established, the compliance officer must ensure that the compliance procedures are monitored and enforced.

7. CONCLUSION

- (1) Obviously, compliance will result in a lower incidence of disciplinary actions imposed on a Trading Participant e.g. fines and suspension from trading which may disrupt the business as well as damage the Trading Participant's reputation. More importantly, compliance by way of establishing control principles like segregation of duties and independent review serves to protect the Trading Participant's business assets by decreasing the occurrences of unintentional errors or outright fraud through quick detection and rectification.
- (2) The effective penetration of a proper compliance culture into all business and administrative units of a Trading Participant will bring about lower operational risk, facilitate earlier detection of market risk or concentration risk result in a higher level of operational efficiency which in turn will translate into a reduction of operating costs and financial risk.

ANNEX I – DUTIES AND RESPONSIBILITIES OF THE COMPLIANCE OFFICER

In order to maintain high standards of business conduct, strong internal controls and ensuring compliance with laws, rules and regulations, a Trading Participant is required to have a compliance officer to manage the compliance aspects of its dealing in derivatives business. The main duties and responsibilities of the compliance officer are:

a) to advise on compliance matters

In carrying out the above duty, the compliance officer should:

- i. understand all relevant laws, rules, regulations, directives, guidelines, policies and procedures, and changes thereto, and interpreting them with regards to the size and complexity of the Trading Participant;
- ii. advise all personnel of the Trading Participant on how these requirements can be translated into practical procedures and all matters compliance; and
- iii. ensure that the Trading Participant has policies and procedures to govern all key activities.

The compliance officer has the responsibility for ensuring that compliance is met within all business areas.

b) to review the adequacy of internal controls and risk management system

Internal control is defined as follows:

“Internal control is the process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a) *reliability of financial reporting*
- b) *compliance with applicable laws and regulations and*
- c) *effectiveness and efficiency of operations”*

Internal control comprises 5 interrelated elements:

- i. management oversight and the control culture
- ii. risk assessment
- iii. control activities
- iv. information and communication and
- v. monitoring activities

It is the responsibility of Trading Participant to maintain a sound system of internal controls, which covers not only financial controls but operational and compliance controls, and risk management.

In reviewing the adequacy of the internal control system with the Trading Participant, the compliance officer needs to consider the degree of existence and effectiveness of the following control factors:

- i. *evidence of control operation*

Once a control is introduced in the Trading Participant, its effectiveness and reliability largely depend on the ability of the Trading Participant to ensure and confirm that it is being operated. This confirmation should ideally take the form of documentary evidence such as a report or acknowledgement in writing from the person operating that control.

The absence of such documentary evidence increases the risk that the control is not being operated and undermines the Trading Participant's ability to detect any breaches of the control.

ii. *preventive and detective control*

The purpose of having controls is to discourage, and "blow the whistle" on improper or unauthorised activities. These preventive and detective elements can be put in place by locating controls beginning from the point at which the risk first arises within an activity or process. This will reduce the time between the occurrence of the unauthorised activity and the whistle being blown, and prevent the situation from becoming worse and irreparable without detection. A common example of this is the exposure or position limit that an individual Trading Participant is assigned by the management. Any breach in the limit is not left to be detected and reported by the Trading Participant itself, but also at the point of the position-keepers, limit monitors and risk management officers who would typically have controls at their end to ensure that they complete their tasks by the end of the day or before the beginning of the following trading day. This means that the breach should not continue undetected beyond a day and the situation should not have the opportunity to worsen past that day.

iii. *addressing missing controls or weak ones*

There should be procedures for improving or modifying the control system where weaknesses or gaps in the controls are discovered. The process of initiating and implementing the improvements should be prompt to reduce the Trading Participant's exposure to the weakness or gap. The Trading Participant should also be able to assess and quantify the risk to which it is exposed as a result of the weakness or gap.

The derivatives industry is a dynamic, rapidly evolving industry and as such, the compliance officer must continually review the adequacy of the Trading Participant's internal control system, which includes the risk management system, in light of changes in internal and external conditions. In this respect, the compliance officer must review the assessment of the internal audit department on the adequacy of the Trading Participant's internal controls.

Annex II lists some functional control standards of key dealing in derivatives activities that will serve as a guide for reviewing the Trading Participant's overall internal control system.

c) *to review, monitor and supervise other supervisory measures to ensure compliance*

One of the ways to ensure compliance by all levels of staff is to have effective reviewing and monitoring. It is the responsibility of the supervisors/Department Heads to ensure compliance by their staff members. In this respect, it is the duty of the compliance officer to review the adequacy of the supervisory measures undertaken by the supervisors/Department Heads. Compliance review and monitoring should cover front office, back office and accounting activities. Reviewing, monitoring and supervision include:

- i. review of control procedures to ensure derivatives activities are conducted according to existing policies and guidelines laid down by the board of directors and management;
- ii. review of procedures carried out in opening and approving the opening of client accounts and ensure compliance with Rules, Directives and relevant statutory requirements;
- iii. review of operations to ensure that trading rules such as timely allocation of trades and transaction confirmations;

- iv. review execution of trades to ensure compliance with the Exchange's order taking rules;
- v. review of clients' deposits and withdrawals to ensure compliance with laws and business rules;
- vi. review of accounting entries processing and general ledger account validation;
- vii. review of general ledger account opening process. A control process must exist to prevent creating dummy or suspense ledger accounts which may be used to park unauthorised or loss making trades;
- viii. review of reconciliation activities of the back office;
- ix. ensuring proper segregation of clients' funds;
- x. review correspondence between Registered Representatives and clients pertaining to solicitation or execution of contracts from time to time;
- xi. review of Adjusted Net Capital level and any other internal or external minimum capital standard and ensure the Trading Participant is able to meet minimum financial requirements at all times;
- xii. review of error trades;
- xiii. review proprietary account to ensure compliance with credit/position limits imposed and that over-limits are reported to management;
- xiv. review Discretionary Accounts for the following:
 - (a) to ensure compliance with the Rules and Directives;
 - (b) to ensure that prior written authorisation from the client has been obtained;
 - (c) to ensure that the Trading Participant has entered into a written agreement with the Client which sets out the terms and conditions for the operation of the Client's Discretionary Account, including adequate and accurate disclosure of the risks involved;
 - (d) to ensure each discretionary order must be identified as a discretionary order at the time of the entry;
 - (e) to review the trades done in a Discretionary Account regularly;
 - (f) to ensure that in operating a Discretionary Account, the Trading Participant must at all times act in the best interest of the Client. In this regard, the review must include the assurance that there is a mechanism in place to prevent the churning of such accounts purely to generate commission;
 - (g) to ensure that all discretionary trades are executed within the proper discretionary authority granted to the Trading Participant and that such trades are properly recorded;
 - (h) to ensure the maintenance of complete and accurate documentation of every transaction undertaken under any Discretionary Account; and

- (i) to review the Discretionary Account transactions to ensure there is no conflict of interest in the execution of Client trades and proprietary trades.
- xv. review of all proprietary account transactions, and ensure there is no conflict of interests during the execution of client trades and proprietary trades;
- xvi. review clients' position limits to ensure compliance with Exchange imposed position limits and reportable position limit;
- xvii. review margin calls issued to clients to ensure collection of margins are within the stipulated time frame;
- xviii. review of employee transactions to ensure that such transactions are authorised, executed and recorded in compliance with proper procedures;
- xix. review of client's complaints, i.e. analyse trends in complaints, the general causes and the average length of time taken to respond to and resolve clients' complaints. The compliance officer should review the handling of complaints by a designated officer to ensure that the handling of complaints, including any subsequent investigation and action taken, are in compliance with proper procedures;
- xx. review of all advertisements, sales literature and any other types of information pertaining to recommendations/business disseminated to the client/public to ensure accuracy and compliance with relevant laws, rules and regulations, before being published and made accessible to the public; and
- xxi. follow up on audit findings. The compliance officer should ensure that audit finds raised by internal, external and regulatory auditors are addressed and rectified promptly.

The frequency of reviewing and monitoring should be determined by assessing the level of risk involved, and the frequency and nature changes occurring in the operating environment. The reviewing and monitoring programme may be carried out daily, weekly or monthly, or as issues-based reviews of particular risk issues identified from past reviewing and monitoring or issues raised by the auditors during periodic audits. Ongoing reviewing and monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the system. Examples of such ongoing activities include the review and monitoring programme effectively, the compliance officer should have some measures such as a checklist to confirm that the reviewing and monitoring process have been performed and to record any deficiencies found. The checklist could also be used as a reference when having discussions with staff and management. A sample of reviewing and monitoring checklist is shown in **Annex III**.

When performing the reviewing and monitoring process, the compliance officer should focus on areas of risk. The compliance officer should assess the risk in financial terms if activities are not controlled properly or a critical control step is missing, examples:

- i. risk of loss resulting from weaknesses in credit control and/or portfolio concentration- counterparty default on transactions in the process of being settled and where value had been delivered to the counterparty but not yet received in return;
- ii. risk of loss resulting from weaknesses in control of liquidity- failure to meet its payment obligations on settlement dates or in the event of margin calls;
- iii. risk of loss resulting from weaknesses in internal control- inaccurate financial information reported as a result of incorrect data used to value financial positions;

- iv. risk of loss resulting from weaknesses in legal control- contracts or collateral not legally enforceable and exercisable.

In this regard, the compliance officer should also:

- i. review the effectiveness of internal controls relevant to measuring, reporting and limiting risks
- ii. review the credit approval process to ensure that the risks of specific products are adequately captured and the credit approval procedures are followed. As a matter of general policy, business with a counterparty should not commence until a credit line has been approved
- iii. review risk exposure and concentration of risk, ensure that trading activities are within the limits approved by the board of directors and adequate capital is maintained to support derivative activities
- iv. review to ensure that margin policy complies with the Exchange's rules on margin trading
- v. review the legal documentation process and ensure guidelines and procedures are followed and consider the quality, marketability and enforceability of collateral pledged

The reviewing and monitoring process would only be effective if the compliance officer holds regular meetings with management and staff involved to review past findings. This is because regular meetings are helpful to review how procedures are working, to consider the weaknesses and any recommendations for change. This will help to establish an effective compliance culture.

Annex IV describes in general some of the risks involved and risk management of exchange-traded derivatives. It serves as a reference for the compliance officer to enhance his/her compliance reviewing and monitoring process.

d) to assist in training and educating staff members on compliance matters

All new recruits and existing staff members must be adequately trained and equipped with the necessary capabilities to carry out the responsibilities assigned to them. Training is critical to the successful implementation of a compliance culture. The compliance officer must assist in training and educating staff members on compliance related aspects of their jobs and should ensure that they are kept up-to-date with changes in regulatory requirements. Training can comprise both formal and on the job training. Some examples of on the job training that can be conducted by the compliance officer are:

- i. informing staff of weakness found during the compliance review and monitoring process;
- ii. explaining regulatory requirements and the consequences if such requirements are not met; and
- iii. disseminate information that the regulators have communicated through circulars, e.g. changes in regulatory requirements or disciplinary action taken by the regulators.

e) to report to the board of directors

A timely information reporting system will foster an environment of compliant practices. It is duty of the compliance officer to inform and report to the board of directors on all matters pertaining to compliance at least once a month. However, the compliance officer should immediately report to the board of directors and the relevant Exchange(s) if a matter requires urgent attention, e.g. breaches of the laws, and matters pertaining to segregation of clients' assets and risk position of the Trading Participant.

The compliance report should report at the minimum, the following issues:

- i. *credit exposure*
The board of directors should be informed of any breach in limits that has occurred and follow-up actions taken, any overdue payments and follow-up on non-payments.
- ii. *funding*
The board of directors should be apprised of the level of the organisation's Adjusted Net Capital and the impact of business activities on the organisation's overall liquidity position.
- iii. *collateral received*
The board of directors should be informed of the type and financial exposure of collateral pledged by clients and measures taken by the organisation to satisfy itself that the documentation has been appropriately reviewed.
- iv. *error trades*
The board of directors should be informed in detail on how the error trades occurred and the amount of profit/loss absorbed by the organisation.
- v. *segregation of clients' assets*
The board of directors should be informed of any deficiency in clients' segregated assets.
- vi. *audit findings by the internal, external and regulatory audits*
The board of directors should be informed of the audit finds raised by the internal. External and regulatory audits and the actions taken by management to address the issues highlighted.
- vii. *other compliance issues and amendments to laws, rules and regulations*

The compliance officer is responsible for ensuring that new compliance issues are properly addressed and reported to the board of directors, and compliance risks are brought to the board of directors' attention. The compliance officer must also report to the board of directors matters that had been brought to the attention of the Executive Director or other senior management personnel and the actions taken.
- viii. *Other matters*
The board of directors should also be informed of situations of potential conflicts of interests.

f) to liaise with the regulatory bodies on compliance matters

Managing the Trading Participant's relationship with the regulator is very important. The compliance officer is the most suitable personnel in the organisation to play the role of liaison officer between the Trading Participant and the regulators due to the independence of his/her functions. Report must be cultivated to facilitate information sharing, clarification of rules and regulations and requests for advice. Consequently the compliance officer should:

- i. ensure monthly financial statements are submitted to the regulators within the stipulated time;
- ii. inform the regulators immediately of any non-compliance and the actions or remedy to be taken by the organisation;
- iii. inform the regulators of any constitutional changes in relation to the organisation's operations and any changes affecting the Capital Markets Services Licence or licences issued to its Registered Representatives;
- iv. inform the regulators immediately of any circumstances affecting the organisation's solvency or any condition that would materially impair its ability to meet any of its obligations; and

- v. be able to produce documents and information as and when requested by regulators and is answerable to any queries that the regulators may have in relation to his/her compliance duties and responsibilities.

The compliance officer is encouraged to maintain routine contact with the regulators to discuss contentious issues and seek advice and suggestions to problems encountered.

However, the regulators are not obliged to provide solutions, as this is the responsibility of the broker.

Finally, the compliance officer should understand the reason inspection visits by regulators are conducted and be aware of the frequency of such visits. The purpose of audit inspections conducted by regulators are as follows:

That the Trading Participants and Clearing Participants:

- i. comply with the relevant laws, rules, regulations, directives, guidelines, policies and procedures;
- ii. maintain adequate internal controls in all areas;
- iii. protect clients' assets by maintaining proper segregation;
- iv. maintain proper records that support and explain its activities, e.g. trading, settlement records, etc.;
- v. maintain a proper and up-to-date operations manual;
- vi. have experienced management, qualified staff and an adequate back office system to carry out the business of dealing in derivatives;
- vii. safeguard the company's and its clients' assets against unauthorised use or disposal by having proper controls in place;
- viii. maintain proper accounting records i.e. all transactions reported in the monthly financial reports are fairly stated, supported by relevant documents, and classified and disclosed in accordance with the Rules; and
- ix. maintain adequate capital and financial resources to support its trading activities.

Regulators assess internal controls and risk management as the focus is on detective and preventive measures. A reactive approach is not deemed appropriate in this industry due to the high risks involved due to the inherent leverage. Hence, during the inspection visit, the regulators expect, at the minimum the following, in order to conduct the audit in an efficient and effective manner:

- i. availability of front office, back office and accounting records;
- ii. all records have been maintained properly, in compliance with rules and regulations and can be substantiated;
- iii. trading activities conducted comply with the rules and regulations;
- iv. accurate and full information to be given to all inquiries; and
- v. co-operation from all levels of staff.

The compliance officer therefore should build positive long-term relationships with the regulators and is encouraged to exchange ideas on good compliance principles and activities to further develop a positive compliance culture across the industry.

ANNEX II FUNCTIONAL CONTROL STANDARDS FOR DEALING IN DERIVATIVES

The need for an effective system of internal control is more relevant and important to a business today. Technology and the growth of globalised institutions have not only speeded up execution and trading processes worldwide and the transmission of information across borders, but they have arguably also introduced a new dimension of systemic risk of a magnitude that regulators, analysts and economists are still grappling to quantify. A good set of systems and internal controls may not eliminate external systemic risk but they will help a firm to detect and quantify the risk faster, giving the firm added valuable time to plan and respond to risk. Apart from systemic risk, good internal controls will help to substantially minimise a firm's operations risk.

Great attention has been placed on the need for effective control in establishing the rules and other arrangements for the operation of the derivatives market itself. This section has set down the basic functional control standards that should be established across derivatives activities:

Managerial oversight and understanding

It is the responsibility of the board of directors to establish policies and procedures, and maintain a sound system of internal controls, which covers not only financial controls but operational and compliance controls, and risk management. It is the responsibility of senior management to effectively implement all policies and procedures set by the board of directors. However, the ultimate responsibility or control effectiveness in the organisation will rest with the board of directors. Control is exercised through the issuance of internal control policy and procedures and regular performance monitoring by senior management.

It is fundamentally important that senior management fully understand and are familiar with all types of risk involved in derivatives activities. They must be aware of and understand the nature of profitable activity and whether profit expectations are commensurate with the risk level of the activity.

Segregation of duties

There must be a high degree of segregation of duties between front office, back office and accounting:

Front office

The following functions are not part of the day-to-day activities of Registered Representatives:

- confirmation of contract notes and monthly statements
- monitoring and prescribing of trading, position and credit limits, except for ensuring that clients operate within the limits imposed by the Credit Control Department/company
- authorisation of increase in limits or breaches of controls
- opening of general ledger accounts. This control is intended to prevent Registered Representatives from setting up dummy or suspense accounts for storing unauthorised trades. The Registered Representative's request to open an account and the justification for doing so is checked by another employee.
- accounting entries
- transfer of funds
- reconciliations relating to the organisation's trading position and financial statements

In addition to the day-to-day supervision of the Registered Representative's trading practices by a senior personnel who is familiar with trading practices, there must also be a review by the compliance officer. The function of the supervisor is to monitor the following activities (where applicable) on a real-time basis:

- open positions of each Registered Representative
- position limits and their status
- compliance with time requirements for placing trade orders and entering trades into the system
- sequence of placements of orders and trade entries

- trading practices
- degree of error in placing or inputting trades application of internal and external business ethics and standards
- compliance with trading room policy
- intra-day market activities particularly market movements and their effect on the financial positions of the trades

Dealing Room Security:

- access to the dealing room should be restricted to only properly authorised personnel
- entry to the dealing room should be restricted to, for example, card key access
- visitors to the dealing floor should be properly supervised

Client complaints should be monitored by the front office in conjunction with the back office customer service unit. Where client complaints indicate a systemic weakness in the underlying process, steps should be taken to resolve the matter internally and to communicate with the customer to reassure them that action is being taken.

Back Office

The back office must have a comprehensive policy and procedures manual. The policy and procedures manual must be up to date in all respects. Back office procedures must ensure the completeness and accuracy of:

- trade transactions posted to the back office system
- funds transfer processing
- trade adjustments, reversals and corrections
- other revenue posting (such as fees)

To ensure all trade positions are identified and reconciled:

- positions reconciliation must be completed independently from the dealing room and must be completed before the start of the next trading day
- all positions must be reconciled
- all reconciling items must be investigated promptly
- unreconciling items must be brought to the attention of the Head of Dealing
- a copy of the position reconciliation must be retained as evidence of work done

To ensure accuracy of back office records:

- a contract note should be sent to the customer for every trade
- a daily system audit trail must be produced which lists in detail all changes made to previously input data (regardless of the data field concerned)
- back office transactions must be completed in all respects and on a timely basis
- supervisory controls over funds transfer should be adequate to prevent unauthorised payments being made
- control procedures must be established and maintained over instructions received via phone, telex and fax
- whenever possible, payment should be based on standing customer's instruction
- any settlement instruction not in accordance with standing customer's instruction should be authenticated and approved before payment is made, e.g. call customer for confirmation
- all phone calls to customers must be logged and where possible taped for security reasons
- procedures must establish for verification of customers' payment instructions
- customer instructions must be checked against authorised signature lists
- procedures must exist to highlight and report any instruction which require payment to a non-standard or unusual account or address. Further approval and authentication should be required before any payment is made

- there should be proper controls over segregation of duties and review and authorisation for payment. The person initiating payment instructions should not for example be able to authorise payment or in charge of accounting entry
- the withdrawal amount should be checked prior to payment
- payment instructions must be stamped "PAID" after payment is made and be filed securely to prevent resubmission for duplicate payment
- controls should be established to ensure collection of margin or follow up action have been taken in the event margin was not paid on time
- all documents should be properly filed

Any errors in processing must be investigated and corrected without delay. An audit trail of processing errors should be maintained to help trace causes, trends and to monitor level of errors. Recurring error and other deficiencies must be brought to management's attention. A corrective action plan should be formulated and implemented as soon as practicable to correct the cause of systemic processing errors.

To ensure that appropriate collateral is received, monitored, safeguarded against loss and only released under the correct authority, the following controls over the receipt, recording and maintenance of collateral should be practised:

- policy and procedures on acceptance of collateral should be established before collateral is received
- the circumstances whereby collateral can be used to satisfy an outstanding customer obligation must be clearly stated and this will include an event of default, liquidation or bankruptcy of the counterparty
- a legal opinion should be obtained which expressly comments on the adequacy of the security arrangements that are contained in the underlying documentation such that the security is well founded and that off-set can be utilised according to contractual terms
- collateral once received, should be verified and details of the collateral should be loaded on the back office system
- recording of collateral must be in accordance with the CMSA and must include the following:
 - a) client name
 - b) type of collateral received
 - c) amount (in face value terms)
 - d) quantity (number of bonds or shares)
 - e) date of receipt
 - f) date updated to back office system
 - g) place of safekeeping
- collateral physically received into safekeeping must be placed in a secure place (e.g. fire proof vault)
- person who has no authority over the recording process must make receipt into custody of a vault
- collateral must be independently reconciled to third party records if relevant
- movement in the value of the collateral should be updated on the back office system. Shortfalls should be highlighted. Procedures must be established to ensure that operations identify shortfalls and make the necessary margin calls
- collateral should only be released in accordance with contract terms and on instructions from the customer and upon verification that customer obligations have been satisfied
- all release instructions must be checked against customer authorisation lists
- a final independent review must take place before collateral are released to ensure that:
 - a) all authentication procedures have been performed
 - b) sufficient documentation evidence

Accounting

Care should be taken to ensure that an appropriate level of segregation of duties exists in respect of the accounting function and that all entries are authorised before data is input to the general ledger. Independent check is a crucial management tool in ensuring accuracy and integrity of accounting information and records.

To ensure that accounting information are complete, accurate and process on a timely basis, the following accounting controls should be practiced:

Reconciliation

- any accounting related reconciliation must be performed independently, evidenced in writing, verified by independent officer and filed
- all reconciling items must be followed up and resolved promptly
- unknown difference should be investigated
- any write-off of a difference must be approved at the appropriate level of management
- problems items in dispute, long dated outstanding items must be highlighted to management
- a build-up of reconciling items or unusually high levels must be brought to management's attention for remedial action

Inter-company balances

- inter-company receivable and payable balances must be reconciled periodically
- balances should be confirmed between parties through the exchange of a periodic statement of the balance
- reconciliation differences must be investigated and promptly resolved
- the reconciliation process must be documented and verified by an independent officer

Documentation and recording of transactions

There should be a system of well-designed accounting forms and documents to record all activities.

The accounting vouchers should capture consistently and completely all the accounting entries with their corresponding account code, nature of the entries, date of the entry, persons who prepared, checked/authorised and posted the entries into the general ledger system. In addition, any supporting documents, e.g. invoices, debit/credit notes and any schedules/computation which support the amount posted into the general ledger should be attached together. All accounting vouchers should be serially numbered or pre-numbered so that it can be used as a reference for the related entries in the general ledger as well as a control to ensure transactions are not omitted from the general ledger.

The implementation of a proper accounting voucher system would ensure existence of an audit trail and provide accountability to the accounting data captured in the system.

Cash

- all cash which should have been received was in fact received and recorded promptly and accurately
- cash receipts are deposited on a timely basis
- cash disbursements are properly recorded
- all disbursements are made by way of issuance of cheque or telegraphic transfer
- bank reconciliation be performed by staff not responsible for issuance of cheques or custody of cash
- cash balances are maintained at adequate levels
- do not permit any one employee to handle a transaction in its entirety

Fixed assets

A proper fixed asset register should be maintained as this will assist in monitoring each of the fixed assets owned (for example fully depreciated fixed assets). Any additions or disposals of fixed assets should be updated into the fixed asset register promptly and accurately. A system of authorisation requiring senior management approval of all acquisitions and disposal of fixed assets should be established. Depreciation charge per month should be computed based on the depreciation policy adopted, charged into the Profit and Loss Account and updated into the register. A proper capitalisation policy is encouraged in order to avoid assets of insignificant amount being included as fixed assets.

Prepayments and accruals

A prepayment and accruals schedule should be maintained as this could assist in monitoring of prepayments and accruals amounts

Others

- the potential impact on profit and loss resulting from any problem item should be identified and where necessary a reserve taken for potential expected loss
- adjusting entries must be passed to clear resolved items
- the creation and use of suspense, error or sundry accounts should be avoided

Safekeeping of important documents

For security purposes, all important documents and back up diskettes should be kept in fire proof safe or at a secure location.

Internal control over electronic data processing (EDP)

In a manual accounting system, an important element of internal control consists of division of duties among several persons in such a manner that the work of one employee is to verify that of another, to avoid one person handling a transaction in its entirety. If an electronic data processing system is installed, machines may do work formerly done by several employees. Despite the integration of several functions in an EDP system, the importance of internal control is not in the least diminished.

a) Control over input

Input controls are designed to provide assurance that data received for processing represent properly authorised transactions and are accurate and complete when read in the computer. Control over input begins with proper authorisation and initiation of the transactions to be processed. When transaction data are originally recorded on 'hard copy' source documents, the appropriate person initiating the document should indicate authorisation. In online systems transaction data may be entered directly into the computer from remote terminal device located in the departments initiating the transactions. In these cases, access to the terminals must be limited to those persons authorised to initiate transactions.

If transactions documents are collected into batches for processing in sequence as on batch, input controls are necessary in batch processing to determine that no data is lost or added to the batch.

The sequence of serial numbers of source documents comprising each batch should be accounted for.

b) Control over processing

Processing controls are designed to assure the reliability and accuracy of data processing. A major method of achieving control over processing is the use of program controls, which are written into the computer programs such as item count, control total, validity, self-checking number etc.

c) Control over output

Output controls are designed to assure the reliability of computer output and to determine that output is distributed only to authorised personnel. Control over output begins with independent verification and follow up on exceptions and errors reported.

ANNEX III COMPLIANCE CHECKLIST (SAMPLE)

(This checklist is intended to provide guidance and is not exhaustive).

COMPLIANCE CHECKLIST as at _____ (date)

DAILY FUNCTIONS:	PERFORMED YES/NO	REMARKS
Beginning of day:		
a) Check with Back Office Department whether any margin call from the Clearing House and appropriate action has been taken		
b) Check back office report to ensure follow up actions have been done on clients having margin call or breach position limits and ensure no breach of Rules		
c) Check to ensure daily bank reconciliation, back office reconciliation and other reconciliations have been performed		
d) Check to ensure contract notes are printed and issued to clients as prescribed by the Rules and CMSA		
Mid of day:		
a) Check and review all transactions executed		
b) Check and review clients opening position to ensure the positions do not exceed the limit determined by the board of directors		
End of day:		
a) Check whether all cash transactions related to clients accounts were updated into the back office system on a timely basis and all client deposits are banked into segregated bank by T+1		
b) Check whether all transactions relating to give up trades and position transfer were updated in the back office system on a timely basis		
c) Review error reports, if any and ensure error trades are closed out immediately, review all trade amendments		
d) Review the ANC to ensure its compliance with the minimum financial requirement		

WEEKLY FUNCTIONS	PERFORMED YES/NO	REMARKS
Check accounting vouchers to ensure all vouchers are prepared during the week are properly prepared, checked and approved.		
MONTHLY FUNCTIONS:		

DIRECTIVE FOR COMPLIANCE OFFICERS	No. 3.36-001
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Check to ensure Back Office Department print and send the monthly statements to clients and ensure compliance with the Rules and CMSA		
Check the monthly financial reports to ensure accuracy before submit to the relevant authorities		
Preparation of Compliance report		

AD HOC FUNCTIONS	PERFORMED YES/NO	REMARKS
Check to ensure annual subscription and fidelity fund contributions are paid on time to the Exchange		
Check to ensure annual report is submitted to the Exchange within stipulated time		
Opening of new accounts: i. Check to ensure initial deposit received/cleared before commencement of trading (or as company's policy) ii. Check to ensure supporting documents required are available, approved by ED iii. Check to ensure that the client's background and financial information verification is carried out		
Advertisement i. Check to ensure that the material issued been reviewed and approved in advance (by CO) ii. Check to ensure copies of all advertisements, sales literature and educational materials, the names of person approved the materials and the source of recommendation have been retained		
Check to ensure that the operation manual has been updated to reflect the current procedures practised by the staff		
Check to ensure audit findings raised in the audit reports have been followed-up and practised		
Check to ensure the Trading Participant's Capital Markets and Services Licences and the Registered Representative's Capital Markets Services Representative's Licence for dealing in derivatives have been renewed		
Disseminate information throughout the organisation upon receipt of circulars from the Exchange and other regulatory bodies		
Review internal controls when necessary e.g. reorganisation		

changes in size of the operations

Review closing of accounts

ANNEX IV TYPES OF RISK AND RISK MANAGEMENT OF EXCHANGE TRADE DERIVATIVES

The basic risk associated with exchange traded derivatives transactions are credit risk, market risk, liquidity risk, operations risk and legal risk.

(A) Credit risk

- (1) Broadly defined, credit risk is the risk that the counterparty fails to perform an obligation to the Trading Participant. The Trading Participant should evaluate both settlement and pre-settlement credit risk at the counterparty level across the products. On settlement day, the exposure to counterparty default may equal the full value of any cash flows or securities the Trading Participant is to receive. Prior to settlement, credit risk is measured as the sum of the replacement cost of the position, plus an estimate of the Trading Participant's potential future exposure from the instrument as a result of market changes.
- (2) The first line of defence that is employed in countering the threat of counterparty default is internal controls that ensure credit risk is assessed prior to entering into transactions with a given counterparty. Assessment of credit risk posed by a potential counterparty must involve taking into consideration the capital adequacy of the party, its debt/equity ratio, its assets/liabilities ratio with particular emphasis on liquidity assets, its earning ratio and the types of assets held and liabilities incurred by that party.
- (3) Certain credit circumstances structure may be used to reduce the credit exposure dealing with counterparties. Such structure may include collateral or third party guarantees. In such cases, a Trading Participant's credit exposure should reflect these risk-reducing features only to the extent that the resource provisions are legally enforceable in all relevant jurisdictions. The Trading Participant should be able to demonstrate that it has exercised due diligence in evaluating the enforceability of these resource provisions and provides adequate protection to the Trading Participant.
- (4) Credit limits should be established for all counterparties with whom the Trading Participant conducts business. As a matter of policy, business with counterparty should not commence until a credit line has been approved. It is important that Trading Participant set up an independent credit risk management team responsibility for:
 - a) approving credit exposure measurement standards
 - b) setting credit limits and monitoring their use
 - c) reviewing credit and concentration of credit risk
 - d) reviewing and monitoring risk reduction arrangements.
- (5) Credit exposure should be monitored continuously and compared to the approved limits. Management should be informed of any breach that has occurred. Follow-up action on unresolved excess exposures should be updated and reported to management. For settlement risk, the settlement process should be monitored daily and overdue payments be reported to management daily. Follow-up action on non payment should be updated and reported to management.

(B) Market risk

- (1) Market risk is the risk to a Trading Participant's financial condition resulting from adverse movements in the level or volatility of market prices. The market risks created by Contracts are exposure to changes in the price of the underlying cash instrument and changes in interest rates. There are three components to the management of market risk.
 - a) mark-to-market valuation

The proper market risk management derivatives begins with their valuation. Inaccurate valuation leads to incorrect income recognition and inaccurate hedging strategies. Valuation on a mark-to-market basis will reflect the current value of cash-flows and provide information about market risk and appropriate hedging actions.

b) stress simulations

Trading Participant should subject their portfolio to stress simulations. The stress simulations should take into account extreme market movements. The results of the stress tests should be evaluated and contingency plans developed accordingly.

c) risk limits

Trading Participant should apply a consistent measure of the market risk of their derivative portfolios and compare them regularly with the predetermined market risk limits.

(C) Liquidity risk

(1) A Trading Participant faces two types of liquidity risk in its derivatives activities:

- a) Market liquidity- the risk that a Trading Participant cannot easily unwind or offset a particular position at or near the previous market price because of inadequate market depth or because of disruption in the market place.
- b) Funding liquidity- the risk that the Trading Participant is unable to raise funds to meet its payment obligations on settlement date or in the event of margin calls.

(2) Because neither type of liquidity risk is necessarily unique to derivatives activities, management should evaluate these risks in the broader context of the Trading Participant's overall liquidity. In controlling liquidity risk, a Trading Participant should:

- a) be able to assess its liquidity demands over a particular period; and
- b) be able to assess the amount it could raise in the markets for funding and managing its exposure.

(D) Operation risk

(1) Operation risk is the risk of loss occurring as a result of inadequate systems and control, human error, or management failure.

(2) The board of directors and management should ensure there is proper dedication of resources (financial and personnel) to support operations systems development and maintenance. System support and operational capacity should be adequate to accommodate the types of derivatives activities in which the Trading Participant engages in. This includes being able to:

- a) capture all relevant details of transactions
- b) provide for accurate and timely input
- c) identify errors
- d) efficiently process and settle all transactions accurately and in a timely manner

- e) facilitate efficient reconciliation and
 - f) provide for proper risk exposure monitoring
- (3) Segregation of operational duties, exposure reporting and risk monitoring from dealing and marketing is critical to proper internal control. Proper internal control should be provided over the entry of transactions into the database, transaction numbering, date and time notation, confirmation and settlement process.
- (4) There should be a unit responsible for ensuring proper reconciliation of front and back office database on regular basis. This includes verification of position data, profit and loss figures and transaction by transaction detail.
- (5) Management should ensure that a mechanism exists whereby derivatives contract documentation is confirmed, maintained and safeguarded. There should be an approved policy that specifies documentation requirements and formal procedures for safeguarding of important documents that are consistent with legal requirements and internal policies.
- (6) Operations risk can be assessed through periodic reviews of procedures, documentation requirements, data processing systems and other operational practices. Such reviews may help to reduce the likelihood of errors and breakdowns in controls, improve the control of risk and the effectiveness of the limit system and prevent unsound marketing practices and the premature adoption of new products or lines of business.

(E) Legal risk

- (1) Legal risk is the risk that contracts are not legally enforceable or documented correctly. Participants in the derivatives markets have experienced significant losses because they were unable to recover losses from a defaulting counterparty when a court held that the counterparty had acted outside its authority in entering into such transactions. Hence prior to engaging in derivatives transactions, a Trading Participant should:
- a) adequately evaluate the enforceability of its agreements. If the governing law of the agreement is specified to be located in a third country, the Trading Participant must ensure that judgment obtained can be enforced in the Trading Participant's and counterparty's jurisdictions.
 - b) satisfy itself that the terms of any contract governing its derivatives activities with a counterparty are legally sound.
 - c) satisfy itself that its counterparties have the necessary authority to engage in the derivatives transactions.
 - d) ensure that its right with respect to any margin or collateral received from a counterparty is enforceable and exercisable.
- (2) In addition to the above, a Trading Participant should have approved policies that specify documentation requirements for derivatives activities and formal procedures for saving and safeguarding important documents. The Trading Participant should have knowledge of relevant tax laws and interpretations governing the use of derivatives instruments. It should also regularly review and update its legal opinion to ascertain that the legal position of its dealing in derivatives business has not changed with regard to the enforceability of the Contract.

[End of Appendix 1]

Relevant to : Rules 3.36 and 5.05
 Introduced with effect from : 15 August 2019
 Amended : N/A
 TPs' Circular No(s). : 21/2010, 6/2012
 Refer also to Directive No(s). :

1. Rule 3.36(c)

- (1) Rule 3.36(c) provides that throughout a Compliance Officer's registration, the Compliance Officer must ensure matters pertaining to compliance are highlighted to the Trading Participant's board of directors or in the case of an Investment Bank, to the board of directors or committee to whom the person is in charge of compliance is required to report under the Guidelines on Investment Banks.
- (2) In discharging the obligations under the said Rule, a Compliance Officer must, amongst others, comply with the requirements set out below.

1.1 Reporting on compliance matters

- (1) A Compliance Officer may bring matters pertaining to compliance to the attention of the senior management of the Trading Participant for appropriate action to be taken.
- (2) A Compliance Officer must submit monthly written reports to the board of directors of the Trading Participant on all matters pertaining to compliance with the Securities laws, these Rules, Directives.
- (3) In the case of an Investment Bank, the reporting and monthly written reports referred to in paragraph 1.1(2) above must be made to the board of directors or committee to whom the person in charge of compliance reports to under the Guidelines on Investment Banks.
- (4) The Trading Participant's board of directors or in the case of an Investment Bank, the board of directors or committee to whom the person in charge of compliance reports to under the Guidelines on Investment Banks, must deliberate on the written reports and decide on the appropriate action to be taken.
- (5) The Compliance Officer must submit the written reports in paragraph 1.1(2) above to the Exchange on a monthly basis, not later than the last day of the following month or such other period as may be prescribed by the Exchange.
- (6) All Compliance Officers of Trading Participants must use the format appended to this Directive as **Appendix 1 ("Standard Compliance Report")** when submitting the compliance reports referred to in paragraph 1.1(2) above.
- (7) The Standard Compliance Report is not intended and must not be construed to limit the scope of reporting or the scope of duties and responsibilities of a Compliance Officer as stipulated in the Rules. The Standard Compliance Report serves to streamline and standardise the form and manner in which breaches of the Securities Laws, these Rules, and Directives, issued by the Exchange and any other matters pertaining to compliance or otherwise are to be reported to the Exchange.
- (8) All items stated in the respective sections of the Standard Compliance Report shall be completed in accordance with the directive prescribed in the table below:

Section No.	Item	Directives
1.0	Summary of Non Compliance	This section provides for a brief description of the non compliances noted in the month reported and the remedial action(s) taken, if any.
2.0	Status of Non Compliances Reported Earlier	This section provides for the status of the remedial action(s) on the non compliances reported in the previous Standard Compliance Report.
3.0	Status of Compliance With The Conditions Imposed by the Exchange and the Commission	<p>This section provides for the status of compliance with the terms and conditions imposed by the Exchange and/or the Commission on the Trading Participant arising from its operations as a Trading Participant whether the same were imposed arising from applications made by the Trading Participants to the Exchange and/or the Commission or otherwise and where the compliance is required on a continuing basis.</p> <p>For example the status of compliance with the terms and conditions imposed pursuant to the readiness audit conducted and applications made under these Rules for approvals or waivers.</p>
4.0	Matters To Be Highlighted To the Exchange	<p>This section is optional. Trading Participant may wish to highlight to the Exchange general matters in relation to compliance other than breaches of the Rules or otherwise with a view of improving the standard of compliance and regulations.</p> <p>For example areas in these Rules that lack clarity or require enhancements.</p>
5.0	Report On General Compliance Level of Trading Participant	This section is for the Compliance Officer to provide his opinion or make an assessment of the general compliance level of the Trading Participant for the month.
6.0 to 16.0	Detailed Report	<p>This section prescribes the “mandatory areas” where Trading Participant has to expressly state whether the requirements stated in the mentioned areas have been complied with or not.</p> <p>This is to ensure that the Trading Participant's level of compliance with the Securities laws, these Rules, and Directives issued by the Exchange in relation to the areas set out in these sections are fully disclosed to its board of directors and to the Exchange.</p>
17.0		Reporting in relation to compliance by the Trading Participant with the areas in the Securities laws, these Rules and Directives

Section No.	Item	Directives
		<p>issued by the Exchange other than the areas itemised in sections 6.0 to 16.0 is only required if there is a non compliance with the same.</p> <p>Trading Participant must add section 17.0 to the Standard Compliance Report for the purpose of reporting the above non compliances. Where the areas involved in the above reporting are varied and many, Trading Participant may for ease of reporting add more section numbers after section 17.0.</p>

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1.2 Ad-hoc reporting of breaches or irregularities

- (1) A Compliance Officer must immediately report to the Trading Participant's board of directors and the Exchange if the Compliance Officer becomes aware of any matter with reasonable diligence or assessment that:
 - (a) constitutes a breach of any provision of the Securities Laws;
 - (b) involves the potential default of the Trading Participant against the Clearing House or other counterparty;
 - (c) results in a significant drop to the financial position of the Trading Participant;
 - (d) has significant adverse effect on the risk position and financial integrity of the Trading Participant;
 - (e) has significant adverse effect on the Client's assets that Trading Participant holds;
 - (f) has resulted in a regulatory or disciplinary action being taken against the Trading Participant or any of the Trading Participant's Registered Persons, employees or agents by any other regulatory authority;
 - (g) involves fraudulent conduct by the Trading Participant's Registered Person, employee or agent of the Trading Participant; or
 - (h) adversely affects the Trading Participant's ability to comply with these Rules.
- (2) In addition to the reporting requirement in paragraph 1.2(1) above, the Compliance Officer must immediately report to the Commission upon becoming aware of any matter under paragraph 1.2(1)(a).
- (3) The Compliance Officer must inform the Exchange (in relation to matters reported under paragraph 1.2(1) above and the Commission (in relation to matters reported in paragraph 1.2(2) above) of:
 - (a) the board of directors' decisions in relation to the matter, the corrective measures and decided course of actions the board of directors will take or have taken, within 30 days of his reporting to the board of directors under paragraph 1.2(1) above; and
 - (b) the completion of the measures and actions taken, if any.
- (4) In the case of an Investment Bank, the matters set out in paragraph 1.2(1) above must be reported to the board of directors or committee to whom the person in charge of compliance reports to under the Guidelines on Investment Banks. In this regard, references to the board of directors in paragraphs 1.2(1) and 1.2(3) above are to be read to include the board of directors or committee a person in charge of compliance reports to under the Guidelines on Investment Banks.

[End of Directive]

(NAME OF TRADING PARTICIPANT)

**COMPLIANCE REPORT
FOR THE MONTH OF
XXX 20xx**

DATE:

EXECUTIVE SUMMARY

1. SUMMARY OF NON-COMPLIANCE

No	Ref	Relevant Rule/Guidelines/Acts	Description of non-compliance	Action(s) taken

2. STATUS OF NON-COMPLIANCES REPORTED EARLIER

(to the extent that the issue has not been rectified and reported)

No	Reported in Compliance Report for the month of	Description of non-compliance	Status of rectification

3. STATUS OF COMPLIANCE WITH THE CONDITIONS IMPOSED BY BURSA DERIVATIVES AND THE SECURITIES COMMISSION MALAYSIA

No	Readiness or applications (include the date of approval)	Condition	Status of compliance

Note: The TP is to report all the conditions that the TP has yet to comply. Those conditions that have been complied with and reported need not be included in the reports of subsequent months.

4. MATTERS TO BE HIGHLIGHTED TO BURSA DERIVATIVES

- (a) Comments on existing Bursa Derivatives Rules
- (b) Regulatory burden encountered

5. REPORT ON GENERAL COMPLIANCE LEVEL OF TP

The Compliance Officer to express opinion/assessment on the general compliance level of the TP for the month.

DETAILED REPORT

6. On Adjusted Net Capital (“ANC”) and financial requirement, the Compliance Officer must report whether:

Note: This section is not applicable to Investment Banks or the exposures of Trading Participants that have been reported under the Capital Adequacy Framework

- (a) There is any exception noted in respect of Trading Participant’s ANC and minimum financial requirement reports and daily reports generated and kept for record purposes, paying particular attention to the accuracy and timeliness of the reports and also the integrity of the data;
- (b) There is any item/transaction not recorded/reported, including trading in overseas market and off balance sheet transactions that may affect Trading Participant’s ANC; and
- (c) For existing Subordinated Loans which have less than 2 years to expiry, highlight any intention to renew/extend the same.

7. On complaints, the Compliance Officer must report whether:

All complaints received have been promptly resolved. To indicate the number and nature of complaints received and resolved in the following table:-

No	Nature of Complaint	Date of Complaint	Date complaints is resolved/Action taken

8. On transaction by employees and directors, the Compliance Officer must report whether upon receipt of the notifications of transactions under Rule 4.04, the necessary steps to ensure compliance with the TP's obligations to manage conflict of interests and risks under Rule 4.02 have been taken by the TP.

Total number of employees involved	Total number of lots traded	Total notional value of transactions (RM)	Type of Contract

Total number of directors involved	Total number of lots traded	Total notional value of transactions (RM)	Type of Contract

9. On trading accounts, the Compliance Officer must report whether:

- (a) The internal policies and procedures on “Know your client” and opening of accounts have been complied with; and
- (b) The Rules and Regulations on segregated account have been complied with.

10. On error trades, the Compliance Officer must report whether:

- (a) Errors are closed out immediately or promptly liquidated.

To summarise the total error trades occurred in the month, the reasons for error trades as well as the amount of profits/losses from error trades in the following table:

Date	Product	Qty (Lot)	Profit/(Loss) RM	Remarks

11. On Registered Representatives (either salaried or commissioned), the Compliance Officer must report:

- (a) Exceptions on Registered Representatives who are not engaged on a full timebasis and/or involved in back office operations;
- (b) Exceptions on registration, renewal and cessation of Registered Representative's licence;
- (c) Exceptions on unlicensed trading; and
- (d) Exceptions on instances of sharing of user-ids and passwords and leaving trading terminals unattended without temporarily logging off.

12. On segregation of duties and policies and procedures, the Compliance Officer must report:

- (a) Irregularities noted on the segregation of duties especially between the back and front office;
- (b) Exceptions noted on the inadequacies of policies and procedures of the Trading Participant.

13. On segregated account, the Compliance Officer must report whether:

- (a) All deficiencies in the segregated account have been addressed in a timely manner
- (b) Irregularities noted on withdrawal of monies from the client's segregated account To state the deficiency in the segregated account in the following table:-

Date	Deficiency (RM)	Action taken/Remarks

14. On client's margin, the Compliance Officer must report whether:-

- (a) There is any exception noted in respect of minimum initial margin obtained from client prior to trading;
- (b) Margin calls are promptly issued to clients when required;
- (c) Forms of margin payment are in line with the requirements of the Trading Participant's internal policies and procedures;

(d) Irregularities were noted on withdrawal of excess margin by clients;

(e) New positions were allowed for clients who have insufficient margin above T+3 days. To indicate in the following table:

No of clients	Total new position allowed (lots)	Total margin shortfall

15. On advertising, and publicity the Compliance Officer must report :

(a) Exceptions noted on the compliance with the requirements on advertising, and publicity.

16. On training, the Compliance Officer must report:

(a) Exceptions noted on the sufficiency and comprehensiveness of the training system and program;
and

(b) Exceptions noted on the maintenance of training records.

17. On non-compliances other than in the areas itemized in sections 6 to 16 above.

[End of Appendix 1]

DIRECTIVE ON MEASURES TO CURB CLIENTS MAKING PAYMENTS DIRECTLY TO REGISTERED REPRESENTATIVES TO SETTLE AMOUNTS OWING TO TRADING PARTICIPANTS	No. 3.39(1)-001
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Relevant to : Rule 3.39(1)(e)
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 3.39(1)(e)

- (1) Rule 3.39(1)(e) provides that throughout a Registered Representative's registration with the Exchange, the Registered Representative must not accept payment from Clients or hold any Client's assets in the Registered Representative's name and must ensure that Clients make payments and lodgement of assets directly to the Trading Participant.
- (2) Rule 4.03(1)(a) further states that a Trading Participant must have in place structures, internal controls and written policies and procedures designed to facilitate the supervision of the Trading Participant's business activities and the conduct of the Trading Participant's Registered Persons, employees and agents.
- (3) In discharging the obligations under Rule 3.39(1)(e), a Trading Participant must, amongst others, comply with the requirements set out below.

1.1 Measures to be taken

A Trading Participant must:

- (a) place proper notices to Clients in the public gallery prohibiting the practice of making payments directly to Registered Representatives;
- (b) remind Clients (for example through monthly statements, letters) not to make payments directly to Registered Representatives;
- (c) issue internal circulars to all Registered Representatives highlighting the requirements contained in Rule 3.39(1)(e); and
- (d) sanction Registered Representatives who are known to accept such payments from Clients.

[End of Directive]

Relevant to : Rule 3.39(1)(f)
 Introduced with effect from : 15 August 2019
 Amended : N/A
 TPs' Circular No(s). : N/A
 Refer also to Directive No(s). : N/A

1. Rule 3.39(1)(f)

- (1) Rule 3.39(1)(f) provides that throughout a Registered Representative's registration with the Exchange, the Registered Representative must not carry on the business of dealing in derivatives outside the Principal Office or a Branch Office of the Trading Participant unless the Registered Representative has obtained the Trading Participant's prior approval.
- (2) In discharging the obligations under the said Rule, a Trading Participant and a Registered Representative must, amongst others, comply with the requirements set out below.

1.1 Requirements

- (1) A Trading Participant must ensure that the following are satisfied in allowing Registered Representative to carry on the business of dealing in derivatives outside the Principal Office or a Branch Office of the Trading Participant ("**mobility privileges**"):
 - (a) A Trading Participant must develop appropriate written internal policies, procedures and controls to govern mobility privileges granted to a Registered Representative to ensure that the Registered Representative does not abuse his mobility privileges, including criteria which a Registered Representative has to fulfill to be allowed mobility privileges. A Trading Participant must ensure that the Registered Representative complies with, amongst others, the Securities Laws and other applicable laws, these Rules and all Directives issued by the Exchange from time to time, in relation to the following areas:
 - (i) account opening;
 - (ii) receipt of payments and collection of funds from Clients with a view to ensuring that Clients' assets are safeguarded;
 - (iii) upholding the high standards of conduct of Registered Representatives when dealing with Clients as set out in these Rules, in particular, the requirement of carrying out Client's instructions in a timely manner; and
 - (iv) such other areas as the Trading Participant deems necessary in upholding the principles of sound investor protection.
 - (b) A Trading Participant must develop appropriate supervisory and compliance programme to ensure compliance with these internal policies, procedures and controls referred to in paragraph 1.1(1)(a).
 - (c) The discretion whether or not to grant mobility privileges to a Registered Representative lies with the Trading Participant. The discretion must be exercised based on the criteria set out in the internal policies, procedures and controls referred to in paragraph 1.1(1)(a). The Trading Participant must carry out periodic reviews to determine whether a Registered Representative may continue to be granted mobility privileges.

- (d) A Trading Participant must maintain records of the location where each Registered Representative normally carries on the business of dealing in derivatives.
- (e) A Trading Participant has the right to revoke at any time mobility privileges granted to any Registered Representative in the following circumstances:
 - (i) the Registered Representative no longer satisfies or is no longer capable of satisfying the criteria referred to paragraph 1.1(1)(a); or
 - (ii) the Registered Representative has committed breach(es) of any of the Trading Participant's internal policies, procedures and controls referred to in paragraphs 1.1(1)(a) imposed on the Registered Representative.
- (3) Registered Representative who is granted mobility privileges by a Trading Participant must comply with the following requirements:
 - (a) remain contactable during trading hours; and
 - (b) not put up or place any signage, banner or description in any form which indicates or has the effect of indicating that such premises or location where he is operating as a Registered Representative is the Principal Office or a Branch Office of a Trading Participant.

[End of Directive]

DIRECTIVE IN RELATION TO THE PRIVILEGES AND PREROGATIVES OF A MARKET MAKER	No. 3.42-001
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Relevant to : Rule 3.42
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 3.42

- (1) Rule 3.42 provides that the Exchange may accord or grant privileges and prerogatives to market makers, which are not accorded or granted to Participants.
- (2) Pursuant to the above rule, the Exchange may relieve the obligations of market makers under a fast market. The Exchange will announce the fast market which is generally defined as a situation when the Underlying Market is experiencing volatile price movements and high trading volume.

[End of Directive]

Relevant to	: Rules 4.01, 4.02, 4.03, 4.05, 4.12, 4.14 and 4.15
Introduced with effect from	: 1 September 2016
Amended	: 15 August 2019 vide TP Circular No. 12/2019, 9 July 2020 vide TP Circular No. 17/2020 and 30 June 2021 vide TP Circular No. 10/2021
TPs' Circular No(s).	: N/A
Refer also to Directive No(s).	: N/A

Introduction

Chapter 4 of the Rules sets out the general requirements relating to a Participant's conduct of business. This directive sets out the minimum obligations in relation to those general requirements.

1. Rule 4.01

- (1) Rule 4.01 provides that a Participant and Registered Person must in the conduct of the Participant's business:
 - (a) adhere to just and equitable principles and act with due skill, care and diligence and with due regard for the integrity of the market; and
 - (b) not through any act or omission, do anything which may result in or has the effect of the market not being orderly and fair.
- (2) In discharging the obligations under the said Rule, a Participant and Registered Person must, amongst others, comply with the requirements set out below.

1.1 Standard of Conduct

- (1) A Participant and Registered Person must:
 - (a) observe professional conduct and high standards of integrity and fair dealing;
 - (b) conduct their business in a manner that contributes to the maintenance of an orderly and fair market;
 - (c) prevent misuse of material non-public information or confidential information, and the commission of other offences relating to the abuse of confidential information. In doing so, a Participant and Registered Person must strictly maintain the confidentiality of all relevant information, including information that on becoming generally available would or would tend to have a material effect on the price or value of a Contract;
 - (d) not engage in any unlawful or irregular or unhealthy practice;
 - (e) not engage in any act that may damage the confidence of investors or hamper the sound development of the Market;
 - (f) not do or cause or permit to be done any act which would affect the financial integrity, reputation or interests of the Exchange;
 - (g) not engage in any act or practice:

- (i) that might lead to a false or misleading appearance of active trading in any Contracts on the Market or a false or misleading appearance with respect to the market for, or the price of, any such Contracts;
- (ii) that is directly or indirectly tantamount to manipulation of the Market, or of the Underlying Market; or
- (iii) that creates a corner, or attempts to create a corner, in any Instrument underlying the Contract;
- (h) not unlawfully delegate powers or assign duties properly vested in the Participant or Registered Person to unauthorised person or persons;

and must not participate in any operation by others that might have the same result.

(2) In addition to the requirements above, a Trading Participant must:

- (a) exercise strict supervision over the Trading Participant's business activities and the activities of the Trading Participant's Registered Persons and employees to achieve compliance with the Rules, these Directives and the Securities Laws;
- (b) effect and maintain such form of indemnity as the Exchange may from time to time determine to be appropriate to protect the interests of Clients.

(3) In addition to the requirements above, the following requirements apply:

- (a) a Local Participant must not to sell or otherwise trade in Contracts for any person other than for the Local Participant himself; and
- (b) an Associate Participant must not sell or otherwise trade in Contracts for any person other than for the Associate Participant itself or for its Related Corporation.

2. Rule 4.02

Rule 4.02(a) requires a Trading Participant to have in place adequate arrangements to manage all conflict of interest that may arise in the conduct of the Trading Participant's business. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

2.1 Segregation of functions

- (1) A Trading Participant must segregate the Trading Participant's front office, middle office and back office operations to prevent any conflict of interest, potential or actual.
- (2) A Trading Participant must establish and maintain separate reporting structures that ensure the segregation of the Trading Participant's front office, middle office and back office operations.

2.2 Proprietary trading

- (1) A Trading Participant must not allow a Registered Representative who undertakes proprietary trading for the Trading Participant to also deal for the Trading Participant's Clients or a client of a holder of a Capital Markets Services Licence for dealing in securities.

- (2) A Trading Participant may allow a Registered Representative who undertakes proprietary trading for the Trading Participant to conduct proprietary trading for the Trading Participant's Related Corporation.

2.3 Transactions by Trading Participants, its Registered Persons or employees

- (1) A Trading Participant must not knowingly enter into any transaction in which it has any interest which conflicts or may conflict with the interest of any Client. A Trading Participant must also ensure that its Registered Persons and employees comply with the above requirements in relation to Registered Persons and employees' own transactions.
- (2) In cases where conflict of interest cannot be avoided, the Trading Participant or Registered Person must fully disclose such conflict to the Trading Participant and the Client prior to the execution of the transaction.

3. Rule 4.03

- (1) Rule 4.03(1) requires a Trading Participant to have in place structures, internal controls and written policies and procedures designed to:
- (a) facilitate the supervision of the Trading Participant's business activities and the conduct of the Trading Participant's Registered Persons, employees and agents;
 - (b) identify, monitor and manage conflict of interest and risk that may arise in the conduct of the Trading Participant's business;
 - (c) achieve compliance with these Rules, the Directives and the Securities Laws; and
 - (d) provide for investor protection.
- (2) In discharging the obligations under the above Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

3.1 Written policies and procedures and internal controls

A Trading Participant must have adequate and effective written policies and procedures in relation to:

Supervision of business activities

- (1) Clients:
- (a) opening accounts for Clients including:
 - (i) steps to verify the Client's identity and the authenticity of the application;
 - (ii) evaluating and assessing applicants; and
 - (iii) assisting the Trading Participant's Registered Representatives and Marketing Representatives in learning essential information about the applicant;
 - (b) handling complaints received by the Trading Participant, including reviewing complaint files to ensure that all complaints are duly investigated and dealt with within the time stipulated under such procedures;

(c) the treatment of Client's assets;

(2) Trading, transactions and business:

- (a) on reviewing unusual patterns of trading to detect a breach of these Rules and the Securities Laws in relation to market misconduct;
- (b) on supervising, monitoring and approving requests for and amendments to Contracts;
- (c) on supervising and monitoring Off-Balance Sheet Transactions that must include the items listed in **Appendix 1** of this Directive;
- (d) on the operation and monitoring of the Trading Participant's accounts and Client accounts including maintaining adequate records on Registered Representatives conducting trading;
- (e) to ensure all transactions and commitments entered into are recorded and are within the scope of authority of the Trading Participant or the individual acting on behalf of the Trading Participant;
- (f) on credit policies, capital allocations, trading limits and designated approving authorities;
- (g) to control liabilities and safeguard assets including assets belonging to other persons for which the Trading Participant is accountable;
- (h) to monitor the activities of the Trading Participant's Registered Representatives including transactions carried out and correspondences undertaken or received by the Trading Participant's Registered Representatives on the solicitation or execution of transactions;

(3) Advertising:

On reviewing the Trading Participant's advertising and publicity materials;

(4) Employees:

- (a) on prompt dissemination of these Rules, the Directives and requirements the Exchange and the Commission issues, to the Trading Participant's Registered Person and relevant employees;
- (b) on the ethical standards and conduct at work required of the Trading Participant's Registered Person and employees and the Trading Participant's internal disciplinary procedures;
- (c) to monitor the business transacted for the Trading Participant's employees, Registered Representatives and Directors;

Governance

(5) Governance:

- (a) on reporting requirements by the Branch Office to the Principal Office to ensure sufficient supervision and control of the Branch Office;
- (b) on supervising and monitoring the Trading Participant's back office system and operations that include:

- (i) timely reporting and transmission of data from a Trading Participant's Branch Office to the Principal Office;
- (ii) daily reconciliation of all records of the Trading Participant's Principal Office and the Branch Office(s); and
- (iii) reconciling and accounting for all trading and transactions undertaken by the Trading Participant's Branch Office(s).

(6) Frequency of board of directors' meetings:

To have a policy on the frequency of board of directors' meetings.

Risk management

- (7) Generally, and in particular to minimise the risk of losses to the Trading Participant from irregularities, fraud or error and to identify such matters should they occur so that prompt remedial action may be taken by the management;

Compliance

- (8) Compliance, to prevent any contravention by the Trading Participant or any of its Registered Person, employees and agents of:
- (a) these Rules and the Directives;
 - (b) the Securities Laws and other applicable laws and regulations; and
 - (c) the Trading Participant's own internal policies and procedures;

Conflict of Interest

- (9) Conflict of interest:
- (a) to minimise conflict of interest, whether actual, potential or perceived between the Trading Participant or Registered Representative and the Client and in particular in the area of front running; and
 - (b) to ensure a clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Trading Participant.

3.2 Error account

- (1) In facilitating the supervision of the Trading Participant's business activities, the Trading Participant is required to designate an account as an error account and to transfer all bona fide erroneous trades into the error account.
- (2) A Trading Participant must use all reasonable endeavours to have the erroneous trade rectified as soon as possible.

4. Rule 4.05(1)

Rule 4.05(1) requires a Trading Participant to keep proper records to evidence compliance with the requirements in these Rules. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

4.1 Record keeping

- (1) A Trading Participant must:
- (a) not make, or cause to be made, a false or misleading entry in any books, records, slips, documents, statements relating to the business, affairs, transactions, conditions, assets or accounts ("the Documents") of a Trading Participant;
 - (b) make all material entries in any of the Documents;
 - (c) not alter or destroy any of the Documents without a valid reason; and
 - (d) ensure the integrity and security in the transmission and storage of the Documents.
- (2) A Trading Participant may keep records in either hard copy form or electronic form. If a Trading Participant keeps records in electronic form, the Trading Participant must be able to reproduce such records in a hard copy form.
- (3) The records must be maintained by the Trading Participant for a period as specified under the relevant laws in Malaysia or in the absence of such laws, for a period of not less than 7 years.

5. Rule 4.12(1)(a)

Rule 4.12(1)(a) requires a Trading Participant to obtain all essential information about the Client relevant to the services to be provided before a Trading Participant opens a trading account for the Client. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

5.1. Essential information

The essential information referred to in Rule 4.12(1)(a) includes essential facts about the Client's background including:

- (a) the Client's investment objectives,
- (b) the Client's knowledge and experience in dealing in derivatives;
- (c) the Client's financial position; and
- (d) whether the Client is associated, within the meaning in section 3 of the Capital Markets and Services Act, to an employee, a director or a Registered Representative of the Trading Participant.

6. Rule 4.12(1)(b)

Rule 4.12(1)(b) requires a Trading Participant to verify the Client's identity and the authenticity of the application to open a trading account with the Trading Participant. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

6.1 Authentication of account opening application for individual Client

- (1) A Trading Participant must take all reasonable steps to verify, by reliable means, the individual Client's identity and the authenticity of the application before a Trading Participant opens a trading account for the Client.
- (2) A Trading Participant must comply with the following in verifying the Client's identity and the authenticity of the application:
 - (a) where the Client appears in person before the Trading Participant to submit the application, the Trading Participant must ensure the Client signs the account opening application form in the presence of an officer or a Registered Representative authorised by the Trading Participant, and the officer or Registered Representative verifies the Client's identity and the authenticity of the application;
 - (b) where the Client does not appear in person before the Trading Participant to submit the application, the Trading Participant must, as the case may be:
 - (i) ensure that the account opening application form is signed in the presence of an Acceptable Witness as referred to in paragraph 6.1(3) of this Directive and the Acceptable Witness has verified the Client's identity and the authenticity of the application; or
 - (ii) where such form is not signed in the presence of an Acceptable Witness, take any of the steps set out in paragraph 6.1(4) to verify the Client's identity and the authenticity of the application ("**Non Face-to-face Verification**").
- (3) Pursuant to paragraph 6.1(2)(b)(i), the Client's identity and the authenticity of the application must be verified by any of the following persons ("**Acceptable Witnesses**"):
 - (a) an officer or a Registered Representative authorised by the Trading Participant;
 - (b) an authorised officer of a Malaysian Embassy or High Commission Consulate;
 - (c) a lawyer in any jurisdiction who has a valid license to practice law in that jurisdiction;
 - (d) a commissioner for oaths in any jurisdiction;
 - (e) a Justice of the Peace in any jurisdiction;
 - (f) a notary public in any jurisdiction;
 - (g) an officer of a registered person referred to under the third column of Item 1(b) of Part 1 of Schedule 4 to the Capital Markets and Services Act, who is authorised by such registered person to perform the activities referred to under the second column of the said Item 1(b);
 - (h) an authorised officer of:
 - (i) a licensed bank as defined under Financial Services Act 2013; or
 - (ii) an Islamic bank as licensed under the Islamic Financial Services Act 2013, and with which the Client holds an account;
 - (i) in relation to a Trading Participant which trades on a Specified Exchange, the following persons;

- (i) any person who holds a licence equivalent to a licence held by a Registered Representative; or
 - (ii) any other person authorised by such Trading Participant, or
 - (j) such other person as may be approved by the Exchange from time to time provided that notification of such approval is forwarded to the Commission within 3 Market Days from the date of such approval.
- (4) In conducting a Non Face-to-face Verification, a Trading Participant must verify the Client's identity and the authenticity of the application through 1 or more of the following methods:
- (a) obtain confirmation of the Client's identity from an independent source, for example, by contacting the human resources department of the Client's employer on a listed business number to confirm his employment;
 - (b) receive and encash a personal cheque of the Client for an amount of not less than RM100, where the name appearing on the cheque and the signature of the Client on the cheque must match the name and signature of the Client in the account opening application form;
 - (c) initiate contact with the Client through video conference or a video recording of the Client;
 - (d) obtain confirmation of the Client's identity and relevant details of the Client from another entity within the Trading Participant's Group which is a reporting institution under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and has previously verified the Client's identity in accordance with such entity's standard operating procedures and ensure that the details of the Client obtained from such other entity match the information in the Client's account opening application form;
 - (e) request the Client to make a nominal payment to the Trading Participant from his own account with a licensed bank under the Financial Services Act 2013 or licensed Islamic bank under the Islamic Financial Services Act 2013 or the Trading Participant transfers a nominal sum into the Client's account; or
 - (f) use any other technology solution to verify the identity of a Client including, but not limited to, biometric technologies, which is able to verify the Client's identity effectively.
- (5) In relation to paragraph 6.1(4), a Trading Participant must be satisfied that it is reasonable for the Trading Participant to rely on the methods for Non Face-to-face Verification.
- (6) A Trading Participant must require a Client to be present in person before the Trading Participant in relation to the opening of an account or for the Client's account opening application form to be signed in the presence of an Acceptable Witness if:
- (a) the Trading Participant is not satisfied that it is reasonable for the Trading Participant to rely on the methods for Non Face-to-face Verification, or it is unable to conduct Non Face-to-face Verification through any of the methods stated in paragraph 6.1(4) to its satisfaction;
 - (b) the Trading Participant is of the view that the Client's identity and the authenticity of the application cannot be reasonably established through Non Face-to-face Verification conducted or intended to be conducted on the Client; or

- (c) the Client is an individual from a high risk country or a country with anti-money laundering or counter financing of terrorism deficiencies as referred to in the Commission's Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.

7. Rule 4.15(2)

Rule 4.15(2) provides that a Trading Participant and Registered Person must make adequate and accurate disclosure of the risks, benefits and conflict of interest to the Clients in the Trading Participant's and Registered Person's dealings with the Clients. In discharging the obligations under the said Rule, a Trading Participant and Registered Person must, amongst others, comply with the requirements set out below.

7.1 Risk Disclosure Statement

(1) The Trading Participant must:

- (a) give to the prospective Client a document which contains, at the minimum, the following:
 - (i) an explanation of the nature of Contracts;
 - (ii) an explanation of the nature of the obligations assumed by a Client who instructs a Trading Participant to enter into a Contract;
 - (iii) a Risk Disclosure Statement as prescribed by the Exchange in Appendix 2; and
 - (iv) the specifications and details of the essential terms of each kind of Contract in which the Trading Participant trades for the Client;
- (b) obtain a written acknowledgement, signed by the prospective Client, that the Client has received the document referred to in paragraph (a). Similarly, the Client must sign the Risk Disclosure Statement that is furnished by the Trading Participant, prior to the Client's account being approved.

8. Rule 4.05(2)

Rule 4.05(2) requires a Trading Participant to record and maintain up-to-date relevant information on the Trading Participant's Clients, their trading accounts and trades executed in the Client's trading account. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

8.1 Information required to be maintained

In relation to Rule 4.05(2), a Trading Participant must, in respect of each Client's account maintain records that include:

- (a) the date of opening of the account;
- (b) the name of the officer who approved the opening of the account and the date of approval;

- (c) the types of transactions, products and investments for which the account is approved;
- (d) in respect of the transactions effected under the account, the following information:
 - (i) particulars of all transactions including amount of commissions charged in respect of each transaction and type of transaction;
 - (ii) current position of the account including compliance with any margin set by the Trading Participant; and
- (e) the Registered Representative handling the account.

9. Rule 4.14

Rule 4.14 provides that a Trading Participant must send any such relevant information to a Client for the purchase or sale of a Contract as may be prescribed by the Exchange. In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

9.1 Contract Note

- (1) Issuance of Contract Notes
 - (a) A Trading Participant must issue contract notes to the Trading Participant's Clients and the contract notes must comply with the regulations issued under the Capital Markets and Services Act on contract notes. The currency values reflected in the contract note must be the currency in which the Contracts are traded.
 - (b) The names of the buyer and seller in the contract notes issued in respect of trades done on the Exchange must be the name of the Client.
- (2) Exchange rate for conversion from foreign currency
 - (a) A Trading Participant must indicate the exchange rate used for conversion from foreign currency to RM on each contract note for transactions involving Contracts denominated in foreign currency irrespective of whether the settlement between the Client and the Trading Participant is in foreign currency or otherwise.
 - (b) The exchange rate in paragraph (a) above must be an exchange rate which is quoted by a licensed on-shore bank to the Trading Participant.

9.2 Monthly statements

- (1) A Trading Participant must send each Client a statement of account on a monthly basis on all transactions in the Client's account, unless there is no change from the last statement.
- (2) The statement of account must contain relevant details of the Client's transactions including all charges imposed, payments made and assets the Trading Participant holds for the Client.
- (3) A Trading Participant may determine the mode and manner the statement of account is to be sent to the Client.

10. Rule 4.15(1)

Rule 4.15(1) requires a Trading Participant and Registered Person to act honestly and fairly and in the best interests of the Trading Participant's Clients. In discharging the obligations under the said Rule, a Trading Participant and Registered Person must, amongst others, comply with the requirements set out below.

10.1 Doing business with Clients

A Trading Participant, Head of Dealing and Registered Representative must not:

- (a) accept a share in the profits of a Client's accounts or have any arrangement with a Client to share in the profits of the Client's account unless it is in accordance with the provisions on operating a Discretionary Account under Rule 4.17;
- (b) have any arrangement with a third party to allocate profits or losses in a Client's account; or
- (c) lead a Client to believe that the Client will not suffer loss as a result of opening an account or dealing in derivatives.

10.2 Unauthorised trading through Client's account

A Trading Participant, Head of Dealing and Registered Representative must not:

- (a) execute the personal trades of the Trading Participant's Head of Dealing or Registered Representative (as applicable) in the Client's account; or
- (b) use a Client's account to trade for a third party.

10.3 Facilitating account

A Trading Participant may maintain a facilitating account for the purpose of facilitating faster execution of a Client's order when the Registered Representative is unfamiliar with or uncertain of the correct client code, subject to the following requirements:

- (a) the Trading Participant must institute the necessary controls for the facilitating account and subject the facilitating account to periodic reviews; and
- (b) the Trading Participant is not allowed to use any Client's Account as a facilitating account.

10.4 Recommendations to Clients

A Trading Participant or a Registered Representative that recommends any transaction for the buying or selling of Contracts to a Client must:

- (a) take into account and ensure the suitability for the Client of such recommended transaction based on the Client's:
 - (i) investment objectives;
 - (ii) knowledge and experience in trading in derivatives;

- (iii) knowledge and experience in financial matters;
- (iv) financial background; and
- (v) other relevant information;
- (b) disclose to the Client the potential risk involved in such recommended transactions so as to enable the Client to evaluate such risks; and
- (c) satisfy itself that the Client has the financial capability to bear any risk attached to such recommended transactions.

11. Rule 4.15(6)

- (1) Rule 4.15(6) requires a Trading Participant to account for and adequately safeguard the assets of its Clients and Registered Representatives,
- (2) In discharging the obligations under the said Rules, a Trading Participant must, amongst others, comply with the requirements set out below.
- (3) For the purposes of the following paragraph 11.1, "Client" includes any Associate Participant or Local Participant, and "client's asset", "relevant liabilities" and "relevant credit balance" have the meaning ascribed to it in Section 117 of the Capital Markets and Services Act.
- (4) For the purposes of paragraph 11.3, "RR Security Deposit" means any cash, letter of credit, securities or other form of security acceptable to the Trading Participant deposited with the Trading Participant:
 - (a) to secure the Registered Representative's obligations to the Trading Participant under the agreement setting out the Trading Participant's arrangement with the Registered Representative; or
 - (b) as security for the repayment of all monies that are or may be owing by the Registered Representative or the Registered Representative's Client to the Trading Participant arising from or in connection with transactions in Contracts.
- (5) The term "property" has the meaning ascribed to it in Section 51 of the Capital Markets and Services Act.

11.1 Segregation of Client's assets

- (1) If any money or property is deposited with, or are received by, a Trading Participant by a Client of that Trading Participant or is received by the Trading Participant for or on behalf of a Client of the Trading Participant in connection with—
 - (a) dealing in derivatives effected or proposed to be effected, whether in Malaysia or elsewhere, by a Trading Participant; or
 - (b) instructions by such client, whether in Malaysia or elsewhere, the Trading Participant must –
 - (i) in respect of monies, deposit the monies in an account or accounts of the Trading Participant designated as Clients' Segregated Account kept and maintained within Malaysia or in the place where the monies was deposited with or received by the Trading Participant; or

- (ii) in respect of property, deposit the property in safe custody within Malaysia or in the place where the property was deposited with or received by the Trading Participant, in such a manner that the property is segregated from property other than property deposited by the Trading Participant in safe custody under this Rule,

no later than the next bank business day or such other day that may be specified by the Commission after the monies or property is deposited with or received by the Trading Participant that is a day on which the amount or property can be deposited as first mentioned in paragraph 11.1(1)(b)(i) or (ii), as the case may be.

- (2) Without prejudice to the generality of paragraph 11.1(1) above, if in connection with trading in Contracts effected, whether within or outside Malaysia, by a Trading Participant, the Trading Participant receives from a person an amount of monies, some or all of which is attributable to dealing in derivatives so effected, whether within or outside Malaysia, on behalf of the Clients of the Trading Participant, the Trading Participant must, no later than the next bank business day or such other day that may be specified by the Commission on which the amount can be so deposited, deposit the amount in a Clients' Segregated Account of the Trading Participant kept and maintained in Malaysia or in the place where the Trading Participant receives the amount.
- (3) If, under this Rule, a Trading Participant deposits money in respect of a Client in a Clients' Segregated Account, the Trading Participant must not withdraw any of the money unless such withdrawal falls within the circumstances permitted under the Capital Markets and Services Act.
- (4) A Trading Participant must not deal with property deposited by the Trading Participant in safe custody under paragraph 11.1(1) above except in accordance with the terms and conditions on which the property was deposited with or received by the Trading Participant.
- (5) A Trading Participant must not invest an amount withdrawn from a Client's Segregated Account under paragraph 11.1(3) above, by depositing it with a person for that person to invest unless the Trading Participant –
 - (a) has told the person that the amount has been withdrawn from a Clients' Segregated Account of the Trading Participant and is money to which the Clients of the Trading Participant are entitled; and
 - (b) has obtained from the person a written statement that is signed by the person, setting out the amount and acknowledging that the Trading Participant has informed the person as required under paragraph 11.1(5)(a).
- (6) If, at any particular time, the total amount of the relevant liabilities of a Client of a Trading Participant exceeds the relevant credit balance of the Client, the Trading Participant may in respect of the Client, deposit in a Clients' Segregated Account of the Trading Participant an amount of money not greater than the amount of the excess, and if the Trading Participant does so, the amount so deposited is to be taken, subject to paragraph 11.1(7), to be money to which the Client is entitled.
- (7) If –
 - (a) a Trading Participant has, in respect of a Client of the Trading Participant, deposited an amount under paragraph 11.1(6) above in a Clients' Segregated Account of the Trading Participant; and
 - (b) the relevant credit balance of the Client exceeds the total amount of the relevant liabilities of the Client,

the Trading Participant may withdraw from the account an amount deposited under paragraph 11.1(7)(a) above, provided that the amount withdrawn is not more than the amount of the relevant credit balance which exceeds the relevant liabilities of the Client under paragraph 11.1(7)(b).

- (8) A Trading Participant must keep, in relation to a Clients' Segregated Account, accounting records that –
- (a) are separate from any other accounting records of the Trading Participant;
 - (b) record separately in respect of each Client of the Trading Participant particulars of the amounts deposited in and the amounts withdrawn from the Clients' Segregated Account; and
 - (c) record, separately from the particulars referred to in paragraph 11.1(8)(b):
 - (i) particulars (including particulars of withdrawals) of so much of the amounts deposited in accordance with paragraph 11.1(2) in the account as was not attributable to dealing in derivatives effected by the Trading Participant on behalf of Clients of the Trading Participant;
 - (ii) particulars of all amounts deposited in the account under paragraph 11.1(6); and
 - (iii) particulars of all amounts withdrawn from the account under paragraph 11.1(7).
 - (d) A Trading Participant must keep records that –
 - (i) relate to the deposits of property in safe custody by the Trading Participant under paragraph 11.1(1); and
 - (ii) record separately in respect of each Client of the Trading Participant particulars of the property deposited in respect of the Client. For the purpose of this paragraph 11.1(8)(d), the minimum information that must be kept are:
 - (A) the date the property or document of title to the property is received;
 - (B) the date the property or document of title to the property is deposited in safe custody;
 - (C) the particulars of the property or document of title so deposited; and
 - (D) the place where the property has been deposited.
- (9) Trading Participants are required to keep accounting records and any other records that are required by paragraph 11.1(8) to be kept by the Trading Participant in accordance with the provisions of section 108 of the Capital Markets and Services Act. Section 108 of the Capital Markets and Services Act applies as if those accounting records and other records were accounting records required by that section to be kept by the Trading Participant.

11.2 Segregation of Proprietary Account and Client Account

The Trading Participant must maintain its Proprietary Account and its Client Account segregated at all times. The Open Positions in the Proprietary Account may not (unless permitted by these Rules) be used to offset the Open Positions of any Client Account.

11.3 Segregation of RR Security Deposit

- (1) A Trading Participant must segregate and safeguard the RR Security Deposit from:
 - (a) the Trading Participant's assets and securities; and
 - (b) other assets the Trading Participant holds on behalf of the Trading Participant's Clients.
- (2) A Trading Participant must place all cash RR Security Deposits the Trading Participant receives in a trust account maintained with a Bank.

12 Rule 4.17

- (1) Rule 4.17 provides that in operating a Discretionary Account, a Trading Participant or a Registered Representative must comply with the requirements the Exchange prescribes in respect of Discretionary Accounts.
- (2) In discharging the obligations under the said Rule, a Trading Participant or a Registered Representative must, amongst others, comply with the requirements set out below.

12.1 Eligibility criteria for Registered Representative

A Trading Participant must ensure that a Registered Representative is able to fulfil the following criteria before the Registered Representative begins operating a Discretionary Account:

- (a) a minimum of 5 years' experience in dealing in derivatives; or
- (b) a minimum of 5 years' direct experience in fund management; and
- (c) no adverse findings or enforcement proceedings or actions commenced or taken against the Registered Representative under the Rules and Directives or Securities Laws.

12.2 Obligations of a Trading Participant with respect to Discretionary Accounts

In order for a Trading Participant to exercise discretionary authority in a Client's Discretionary Account, the Trading Participant must ensure compliance with the following requirements:

- (a) before any discretionary authority can be exercised, prior written authorisation from the Client must be obtained. Comprehensive records of such authorisation must be maintained;
- (b) the Trading Participant must enter into a written agreement with the Client which sets out the terms and conditions for the operation of the Client's Discretionary Account, including adequate and accurate disclosure of the risks involved;
- (c) complete and accurate records of every transaction undertaken under any Discretionary Account must be documented and maintained including the details of the Contract, the date and time the transaction is effected and the name of the Registered Representative who executed the transaction;

- (d) in operating a Discretionary Account, the Trading Participant must at all times act in the best interest of the Client. In this regard, there must be a mechanism in place to prevent the churning of Discretionary Accounts purely to generate commission; and
- (e) there must be no conflict of interest arising from such transactions.

12.3 Requirements pertaining to trading in a Discretionary Account

- (1) A Trading Participant and a Registered Representative must ensure the following:
 - (a) operate a Discretionary Account by opening for each of its Client, a new trading account, and ensuring that a new Sub-Account is opened for the client in accordance with the requirements in the Clearing House Rules; and
 - (b) ensure that the trading account and SubAccount are designated as a Discretionary Account, which is subject to each account code containing the letters "DT" at the end, and the account name containing the full name of the client, followed by the word "-DISC". An example is set out below:

Illustration:
Account code: 1234DT
Account name: Tan Chong Wei-DISC
- (2) A Trading Participant and a Registered Representative must comply with the following requirements in operating a Discretionary Account:
 - (a) trading must be carried out in the designated Discretionary Account;
 - (b) trading in a Discretionary Account must be confined to the Contracts which are traded on the Exchange;
 - (c) trading in a Discretionary Account must commence with a cash transfer from a Client instead of a transfer of Open Positions or other types of collateral in lieu of cash, and must be carried out on a cash upfront basis; and
 - (d) funds in a Client's Discretionary Account must be identifiable from the funds in the Client's non-Discretionary Account, if the funds are maintained in the same trust account.
- (3) For the purposes of paragraph 12.3(1), "SubAccount" has the meaning ascribed to it in the Clearing House Rules.

12.4 Profit-sharing or fee arrangement

- (1) A Trading Participant or a Registered Representative may charge a Client in the following manner for the service of operating a Discretionary Account:
 - (a) have an arrangement with a Client to accept a share in the profits from the Client's Discretionary Account; or
 - (b) charge a fee calculated based on a percentage of the total value of assets or portfolio managed under a Client's Discretionary Account.

- (2) A Trading Participant or a Registered Representative must not share in the profits under paragraph 12.4(1)(a) and concurrently charge a fee under paragraph 12.4(1)(b).

[End of Directive]

APPENDIX 1**[Paragraph 3.1(2)(c)]****Off-Balance Sheet Transactions:
Minimum requirements for written policies and procedures and internal controls**

- (1) Policy statement(s) on circumstances under which the Trading Participant is permitted to enter into Off-Balance Sheet Transactions;
- (2) Adequate risk assessment, monitoring and management policies and procedures with the objective of ensuring that the risks assumed by the Trading Participant in respect of Off-Balance Sheet Transaction(s) entered into by the Trading Participant will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective;
- (3) Establishment of procedures and requirements for adequate reporting of information to be made to the Trading Participant's board of directors to enable the board of directors to make informed decisions in a timely manner;
- (4) Establishment and maintenance of organisational and reporting structures in relation to the Trading Participant's activities in the entry into Off-Balance Sheet Transactions that ensure regular reporting to the Trading Participant's board of directors;
- (5) Computation of Adjusted Net Capital, in the manner prescribed in the Directive on Adjusted Net Capital; and
- (6) A detailed action plan describing the Trading Participant's decided course of action or measures taken or to be taken to fully perform and discharge the Trading Participant's obligations under Off-Balance Sheet Transaction(s).

[End of Appendix 1]

APPENDIX 2**RISK ASSOCIATED WITH CONTRACTS**

All Trading Participants must furnish to all clients a document containing at minimum the terms prescribed in the following Risk Disclosure Statement.

This brief statement does not disclose all of the risks and other significant aspects of trading in Contracts. In light of the risks, you should undertake such transactions only if you understand the nature of the Contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in Contracts is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

RISKS ASSOCIATED WITH CONTRACTS**1. Effect of “Leverage” or “Gearing”**

Transactions in Contracts carry a high degree of risk. The amount of initial margin is small relative to the value of a Contract so that transactions are “leveraged” or “geared”. A relatively small market movement will have proportionately larger impact on the funds you have deposited or will have to deposit - this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the Trading Participant to maintain your position. If the market moves against your position or margin levels are increased you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss as you will be liable for any resulting deficit.

2. Risk-reducing Orders or Strategies

The placing of certain orders (e.g. “stop-loss” orders, where permitted under the business rules of an exchange company) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as “spread” and “straddle” positions may be as risky as taking simple “long” or “short” positions.

3. Terms and Conditions of Contracts

You should ask the Trading Participant with which you deal about the terms and conditions of the specific Contracts which you are trading and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying instrument of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the Exchange or clearing house to reflect changes in the underlying instrument or state of affairs that is the subject of the futures contract.

4. Suspension or Restriction of Trading and Pricing Relationship

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying that is the subject of a futures contract and the futures contract, may not exist. This can occur when, for example, the absence of an underlying reference price may make it difficult to judge “fair” value.

5. Deposited Cash and Securities

You should familiarise yourself with the protections accorded to money or other securities you deposit, particularly in the event of a Trading Participant's insolvency or bankruptcy. The extent to which you may recover your money or securities may be governed by specific legislation.

6. Commission and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increases your loss.

7. Currency Risks

The profit or loss in transactions in foreign currency-denominated contracts will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

8. Trading Facilities

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or Trading Participants. Such limits may vary - you should ask the Trading Participant with which you deal for details in this respect.

9. Electronic Trading

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

ADDITIONAL RISKS ASSOCIATED WITH OPTIONS**10. Variable Degree of Risk**

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying instrument. If the option is on a futures contract, the purchaser will acquire a long position or short position (as the case may be) in relation to the futures

contract, with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment (which is the option premium) in addition to incurring transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by a seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying instrument. If the option is on a futures contract, the seller will acquire a position in the futures contract with associated liabilities for margin. If the option is "covered", for example by the seller assuming a corresponding long position in the underlying that is the subject of the option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

I hereby acknowledge that I have received and understood this risk disclosure statement.

Date

Signature of Client

End of Document

(End of Appendix 2)

DIRECTIVE ON THE OFFICE OF FOREIGN ASSETS CONTROL ("OFAC") REQUIREMENTS	No. 4-002
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Relevant to : Rule 4.12(1)
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : TP 26/2010
Refer also to Directive No(s). : N/A

1. Introduction

- (1) The Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury administers and enforces economic sanction programmes against certain countries and groups of individuals.
- (2) As a U.S. entity, the CME group is prohibited from facilitating the matching of trades involving parties prohibited by OFAC ("OFAC Prohibited Parties") on CME Globex.

2. Rule 4.12(1)

- (1) Rule 4.12(1) provides that before opening a trading account for a Client, a Trading Participant must obtain all essential information about the Client relevant to the services to be provided, verify the Client's identity and the authenticity of the application to open a trading account, and enter into a written agreement with the Client.
- (2) In discharging the obligations under the above Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

3. OFAC Requirements

- (1) Any parties trading on CME Globex must not be OFAC Prohibited Parties.
- (2) In view of the above prohibition, Trading Participants must comply with the directives issued by the Exchange as set out in **Appendix 1** ("OFAC Directives").

[End of Directive]

APPENDIX 1

1. Trading Participants must identify Clients (as defined in the Rules of Bursa Derivatives) that are parties prohibited by OFAC.
2. To that end, Trading Participants must conduct OFAC screening to determine whether any Clients or other known parties involved in an investment (such as ultimate beneficial owners, trustees, beneficiaries, general partners or authorized signatories):
 - a) are on the OFAC List of Specially Designated Nationals and Blocked Persons ("the SDN List")¹ ;
 - b) are otherwise the target of an OFAC sanctions programme – i.e., a national, resident, or government of, or any entity organized under the laws of, Cuba, Iran, or Sudan; or
 - c) are parties owned or controlled by or acting on behalf of any parties named under subparagraphs a) and b).

All parties listed under subparagraphs a) through c) are collectively referred to as "OFAC Prohibited Parties".²

3. OFAC screening must be performed:
 - i) upon admission of a new Client; and
 - ii) once each year from 1 January to 28 February against the updated SDN List for all Clients who have trading accounts with the Trading Participant as at 1 January of the year.
4. Trading Participants are prohibited from processing any transactions on CME Globex for, or on behalf of, any OFAC Prohibited Parties.
5. Should a Client be found to be an OFAC Prohibited Party, a Trading Participant must ensure that:
 - i) all positions taken by the Client are closed off;
 - ii) the Client's account is closed and the Trading Participant not execute any more trades for the Client; and
 - iii) all funds held on behalf of the Client are returned immediately to the Client.
6. A Trading Participant must notify the Head of Participants' Supervision Division of the Exchange in writing if a Client is identified as an OFAC Prohibited Party. The Trading Participant must confirm that it has taken the steps stated in Item 6 to comply with the Exchange's directives on OFAC.

[End of Appendix 1]

¹ This List is available on the U.S. Department of Treasury's Website .

² Ownership and control are presumed when the party owns 50% or more of the OFAC Prohibited Party.

Relevant to : Rules 4.11(1) and 4.11(2)
Introduced with effect from : 3 January 2017
Amended : 15 August 2019 vide TP Circular No. 12/2019
TPs' Circular No(s). : 14/2008
Refer also to Directive No(s). : N/A

1. Rules 4.11(1) and 4.11(2)

- (1) Rules 4.11(1) provides that a Trading Participant must have adequate and effective resources for the proper performance of the Trading Participant's business activities, including:
- (a) business premises that are adequately and properly equipped for the conduct of the Trading Participant's business; and
 - (b) adequate security and emergency arrangements to provide continuous business operations with minimal disruptions.
- (2) Rule 4.11(2) provides that a Trading Participant is responsible for the quality, reliability and integrity of all systems the Trading Participant uses in the Trading Participant's business in trading in Contracts on the Exchange.
- (3) In discharging the obligations under the above Rules, a Trading Participant must, amongst others, comply with the Trading Participants' IT Security Standards ("**TP IT Security Standards**") in **Appendix 1** of this Directive.

[End of Directive]



BURSA MALAYSIA DERIVATIVES BERHAD
TRADING PARTICIPANTS' IT SECURITY STANDARDS

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GOVERNANCE OF TECHNOLOGY RISKS

1.0 GOVERNANCE OF TECHNOLOGY RISKS

OBJECTIVE

The objective of the requirements under Governance of Technology Risks is to ensure that the board of directors and senior management have oversight of technology risks as part of the Trading Participant ("TP")'s overall framework of managing risk.

1.1 Roles and Responsibilities of Board of Directors

- 1.1.1 Ensure that the policies and procedures in relation to information technology are established, implemented and communicated to all employees.
- 1.1.2 Ensure sufficient allocation of resources and security measures to manage cyber security risks, computer systems, networks, data centre, operations and backup facilities.
- 1.1.3 Ensure that a robust and effective risk management framework to manage technology risk including risk assessment, monitoring and reporting is established.
- 1.1.4 Ensure sufficient and continuous awareness and education programmes are provided to all employees.

1.2 Technology Risk Management

- 1.2.1 A robust technology risk management framework should be established and be reviewed on a periodical basis. It may include the risk identification, risk assessment, risk mitigation, risk monitoring and reporting.
- 1.2.2 Sufficient and proper risk identification policies, procedures and processes to determine relevant security threats and vulnerabilities should be established and may include scenarios such as denial of service attack, internal sabotage and malware infestation which can harm and disrupt the organisation's operations.
- 1.2.3 Relevant and sufficient risk mitigation measures should be in place to mitigate the identified risk to minimise the risk exposure to the organisation.

1.3 Information Security Policies

- 1.3.1 Policies for information security including cybersecurity must be defined and set out the organisation approach to achieving its information security objectives.
- 1.3.2 The information security policy must be approved by the Board of Directors and communicated to all employees.



GOVERNANCE OF TECHNOLOGY RISKS

1.3.3 Information security policies should contain the following statements:

- a) definition, objectives and principles to guide all activities relating to the information security of all relevant activities;
- b) defined roles, responsibilities and accountabilities of key personnel to manage information security risks, including that of a chief information security officer, chief technology officer, head of business unit and risk management; and
- c) processes for handling deviation and exceptions.

1.3.4 Information security policies must be regularly reviewed for continuing suitability, adequacy and effectiveness.

1.3.5 The information security policies should be assessed in response to changes to the organizational environment, business circumstances and regulatory requirements.



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ORGANISATION OF INFORMATION SECURITY

2.0 ORGANISATION OF INFORMATION SECURITY

OBJECTIVE

The objective of the requirements under Organisation of Information Security is to ensure that a management framework is established to initiate and control the implementation and operation of information security within the TP.

2.1 Internal Organisation

2.1.1 Responsibilities for the management and administration of information technology security must be defined and assigned to the relevant personnel.

2.1.2 For each application system, the following must be identified:

a) **Data Owners**

Responsible for business data captured, stored and processed by information systems.

b) **System Owners**

Responsible for business systems and approving changes to the applications. Owners of the system software must be similarly responsible for approving change in their area.

c) **System Users**

Any persons using the information processing facilities in the course of their normal duties and responsible to ensure that the information processing facilities are used only for authorised purposes.

d) **System Providers**

Functional groups who are responsible for providing information systems to System Owners and System Users.

e) **Procedure Owners**

Managers who are responsible for ensuring that the procedures supporting the business process are up-to-date.



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ORGANISATION OF INFORMATION SECURITY

2.2 Information Security Responsibilities

2.2.1 All information security responsibilities must be defined, allocated and approved by the IT Management.

a) Security Administration Responsibilities

- i. The assignment of the Security Administration roles and responsibilities must be clearly set out and documented.
- ii. Persons responsible for Security Administration must be appointed with responsibility for:
 - (1) administration of access controls software;
 - (2) reviewing access rights on a regular basis to ensure compliance with these Standards; and
 - (3) monitoring and investigating security violation attempts.

b) Data Owner Responsibilities

Data Owners must:

- i. in conjunction with Security Administration, ensure that the controls over user access have been defined and documented;
- ii. authorise users' access and their required access rights to the data;
- iii. authorise amendments made to sensitive data; and
- iv. review access profiles at least once a year.

c) System Owner Responsibilities

- i. System Owners must:
 - (1) specify the processes for each business function. Where a process uses information processing facilities, the functional requirements of an application and the manual procedures should be defined and agreed;
 - (2) verify that the systems meet with users' requirements;



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ORGANISATION OF INFORMATION SECURITY

- (3) ensure that the controls required within the process are defined and agreed; and
- (4) authorise users to use system functions. When authorising access, the System Owner must consider the following to ensure the allocation of appropriate access rights:

- compatibility with other responsibilities and existing access rights of the user
- the classification of the information
- whether the requested level of access is required in order to allow the user to carry out in accordance to his/her job function

- ii. The System Owner and Data Owner may be the same individual.
- iii. The System Owner and Data Owner must ensure that regular checks which include penetration testing for compliance with security requirements for all information processing facilities are carried out.

d) System User Responsibilities

System Users must:

- i. ensure the confidentiality of their user IDs and passwords; and
- ii. ensure that the information processing facilities are used only for authorised purposes to protect the information processing equipment placed in their care.

e) System Provider Responsibilities

System Providers must:

- i. provide defined and agreed levels of security for computing facilities;
- ii. ensure that application systems are free from interference by other systems; and
- iii. administer any specified controls that have been defined and agreed.



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ORGANISATION OF INFORMATION SECURITY

f) Procedure Owner Responsibilities

Procedure Owners must:

- i. provide documented procedures to the users of the system;
- ii. ensure that the procedures for all the systems are up-to-date; and
- iii. ensure that the procedures conform to the TP IT Security Standards.

2.3 Segregation of Duties

2.3.1 Where the performance of the duties and areas of responsibility by the same person could give rise to conflicts of interests, such duties and areas of responsibility must be segregated. Hence, the following duties should be segregated based on the size and complexity of the business:

- a) application development;
- b) technical support;
- c) computer operations;
- d) quality assurance;
- e) internal audit;
- f) security administration; and
- g) user departments.



ACCESS CONTROL

3.0 HUMAN RESOURCE SECURITY

OBJECTIVE

The objective of the requirements under Human Resource Security is to ensure that employees understand their roles and responsibilities and are suitable for the roles to which they have been assigned, to minimize the risks of theft, fraud or misuse of TPs' information processing facilities.

3.1 Prior to Employment

3.1.1 Pre-Employment - Screening

- a) Background verification checks on all candidates for employment must be carried out and should include an investigation into a candidate's career history and the verification of academic and professional qualifications.
- b) New employees must be placed on probationary status for IT functions and their progress be reviewed to ensure that they are performing their duties adequately.

3.1.2 Terms and Conditions of Employment

- a) All employees must sign a contract of employment that establishes their duties with respect to information technology security.
- b) The contract of employment or other relevant documents must include the following arrangements for all employees:
 - i. a confidentiality undertaking relating to disclosure of information;
 - ii. the requirement to report any observed or suspected security weaknesses;
 - iii. the intellectual property rights over any designs, procedures or inventions made, created or designed by the employee; and
 - iv. the disciplinary procedures that will apply for employees found to have violated the TP IT Security Standards.



ACCESS CONTROL

3.2 During Employment

3.2.1 Management Responsibilities

- a) All employees must be briefed on their information security roles and responsibilities prior to being granted access to confidential information or information systems.
- b) The Management must ensure all employees conform to the terms and conditions of employment, which include the TP IT Security Standards.

3.2.2 Roles and Responsibilities

- a) Detailed employee's roles and responsibilities (including IT security responsibilities) must be documented and communicated to the individual employee.
- b) Roles and responsibilities must be acknowledged by the employee.

3.2.3 Training On Information Security Awareness

- a) Information security training must be provided to all new employees and reinforced on an on-going basis to create and maintain awareness among the employees.
- b) An information security awareness programme should be established in line with the organisation's information security policies and relevant procedures and updated regularly.
- c) Reinforcement of information security training should be given to all employees on periodic basis.

3.2.4 Disciplinary Procedures

- a) A formal disciplinary process must be established to take action against employees who have committed the information security breach.

3.3 Termination and Change of Employment

3.3.1 Termination or Change of Employment Responsibilities

- a) There must be a policy established to ensure that prompt notification of all employees' resignations/movements is made by relevant departments to Security Administration and prompt action is taken to revoke or amend access rights.



ACCESS CONTROL

4.0 ASSET MANAGEMENT

OBJECTIVE

The objective of the requirements under Asset Management is to ensure a TP's assets are appropriately defined and are adequately protected from unauthorised access.

4.1 Inventory of Assets

- 4.1.1 TPs must maintain an inventory of assets associated with information and information processing facilities.
- 4.1.2 The inventory listings must be accurate, up to date, consistent and aligned with other inventories.
- 4.1.3 TPs must identify the owner for all assets.
- 4.1.4 The owner of the assets should be responsible for the following:-
 - a) Define the classification of the information and the assets associated with information processing;
 - b) Review the classification level and keep it up to date; and
 - c) Ensure proper handling of the asset when the asset is deleted or destroyed.

4.2 Information Classification

- 4.2.1 TPs may classify the assets based on legal requirements, value, criticality and sensitivity to unauthorised disclosure or modification.
- 4.2.2 TPs may consider the business needs and impacts when defining the classification and protective controls for the information and such classification and protective controls should include the confidentiality, integrity and availability of the information.
- 4.2.3 TPs may establish an Information Classification Policy for the entire organisation.
- 4.2.4 TPs may classify the assets as follows:-
 - a) Restricted
 - b) Confidential
 - c) Public



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ACCESS CONTROL

- 4.2.5 TPs may establish procedures for information labelling in accordance to the Information Classification Policy adopted by the TPs.
- 4.2.6 TPs may use other means of classification of information if labelling is not feasible and such other means of classification must be approved by the owner.



ACCESS CONTROL

5.0 ACCESS CONTROL

OBJECTIVE

The objective of the requirements under Access Control is to restrict access to information and information processing facilities to authorised users.

5.1 Logical Access Policy

5.1.1 Logical Access Policy must be established, documented and approved by the Data Owner based on the following:

- a) business and information security requirements;
- b) the organization and departmental policies for information dissemination and entitlement; and
- c) contractual obligations and legal requirements regarding the limitation of access to data or services.

5.1.2 The Logical Access Policy must include the access to the critical application system, operating system and network services.

5.1.3 The Logical Access Policy must be used to enforce the segregation of duties between incompatible job functions.

5.2 User Access Administration

5.2.1 The Logical Access Policy for the creation, amendment and maintenance of user ID and user profiles must be defined, agreed and documented.

5.2.2 The Logical Access Policy must take into account the following:

- a) controlling what data can be accessed by a particular user; and
- b) controlling the access rights of users, e.g. read, write, delete and execute.

5.2.3 The requests for user access to the application function, operating system and network resources must be granted on the basis of written requests authorised by the Data Owner.

5.2.4 Remote access to third party service providers/vendors may only be granted upon approval by the Data Owner. All remote access must be under the control of Security Administration



ACCESS CONTROL

and the remote users' activities must be logged and monitored by the Security Administration.

5.2.5 TPs must establish a policy on revoking access rights granted to user, taking into the consideration the following:-

- a) Users who have changed roles or jobs;
- b) Users who have left the organisation; and
- c) Termination of contract for external third party users.

5.3 User Authentication Management

5.3.1 Each user must be required to identify himself or herself to the system with a recognised approved user ID and a secret authentication (password) to authenticate his/her identity.

5.3.2 Procedures must be established to verify the identity of a user prior to providing new, replacement or temporary secret authentication information.

5.3.3 Secret authentication must be unique to an individual and must not be easily guessable.

5.3.4 Users must change their secret authentication at first log on.

5.3.5 Users must not divulge their secret authentication.

5.3.6 Users must not share their user ID.

5.3.7 TPs must establish a policy for the usage of shared user ID where sharing is necessary for business or operational reasons.

5.3.8 All default user ID must be disabled.

5.3.9 TPs must establish a policy on secret authentication when passwords are used as secret authentication. The password management system must include the following minimum requirements:

- a) The system must allow case sensitive password;
- b) The system must allow Administrator to change and set expiry of the password;
- c) The system must force users to change their passwords at the first log-on;
- d) The system must maintain a history of user passwords and prevent reuse of recent or similar passwords; and



ACCESS CONTROL

- e) Cryptography techniques must be used to authenticate the authorised access if access is done through public network for all critical transactions such as fund transfers or high value trading transactions.

5.4 Management of Privileged IDs

- 5.4.1 The privileged IDs must be restricted, controlled and granted upon the approval by the Data Owner in accordance to the Logical Access Policy.
- 5.4.2 The privileged access rights associated with each system i.e. operating system, database management system and each application must be identified.
- 5.4.3 The privileged IDs assigned to a user must be different from those used for normal operation functions.

5.5 Review of User Access Rights

- 5.5.1 TPs must establish a policy to ensure the access to all information system be reviewed to ensure all access granted is restricted to authorised personnel only. The policy must include review of the following areas:
 - a) unauthorised access attempts;
 - b) maintenance to security profiles or security tables;
 - c) use of sensitive commands;
 - d) privileged user's activity;
 - e) access by third party vendors / engineers; and
 - f) identifying redundant user IDs.
- 5.5.2 The User Access Profile must be reviewed on a regular basis by the relevant authorised personnel. At a minimum, the review must be undertaken at least once a year.



ACCESS CONTROL

5.6 Secure Log on Procedures

5.6.1 The access to operating systems and applications must be controlled by a secure log-on procedure.

5.6.2 A good log on procedure should have the following features:-

- a) does not display system or applicant identifiers until the log-on process has been successfully completed;
- b) validates the log-on information only on completion of all input data. If an error condition arises, the system should not indicate which part of the data is correct or incorrect;
- c) displays previous successful log-on upon completion of successful log-on; and
- d) provides details of any unsuccessful log-on attempts since the last successful log-on.



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PHYSICAL AND ENVIRONMENTAL SECURITY

6.0 PHYSICAL AND ENVIRONMENTAL SECURITY

OBJECTIVE

The objective of the requirements under Physical and Environmental Controls is to prevent unauthorised physical access, damage and interference to the TP's information and information processing facilities.

6.1 Secure Area

- 6.1.1 Secure locations of sensitive areas must be identified and documented as part of the physical access control procedures.
- 6.1.2 Security perimeters must be defined and used to protect areas that contain sensitive and critical information. A manned reception area or other means of physical access control must be in place to ensure access is restricted to authorised personnel only.
- 6.1.3 Appropriate physical entry controls to offices, rooms and facilities should be established and access by visitors and non-authorised personnel to secure locations must be authorised, logged and supervised by an authorised personnel.
- 6.1.4 The access rights to secure locations and sensitive areas must be regularly reviewed and updated.
- 6.1.5 Physical protection against natural disaster, malicious attack or accidents should be designed and applied.

6.2 Equipment

- 6.2.1 Equipment should be sited and protected to reduce the risks from environmental threats and hazards, and opportunities for unauthorised access.
- 6.2.2 Critical computer related equipment and information system must be protected by an automatic fire detection and alarm system. Installation of fire suppression systems must comply with local regulations.
- 6.2.3 Equipment must be protected from power failures and other disruptions caused by failures in supporting utilities. Power supplies to critical system must be protected and backup sources must be available to ensure continuity of processing.
- 6.2.4 Supporting utilities must conform to equipment manufacturer's specification and be subject to regular inspection.



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- 6.2.5 Equipment should not be taken off-site without prior authorisation. Movement of the assets should be recorded accordingly.

6.3 Storage Media

- 6.3.1 Access to computerised storage media must be restricted only to authorised personnel and adequately protected from physical and environmental damage.
- 6.3.2 All movement of computerised storage media to and from storage must be logged accordingly.
- 6.3.3 All items of equipment containing storage media must be verified to ensure that any sensitive data and licensed software has been removed or securely overwritten prior to disposal or re-use.

6.4 Secure disposal or re-use of equipment

- 6.4.1 Authority to dispose the equipment containing storage media must be granted to authorised personnel.
- 6.4.2 The equipment containing storage must be destroyed, deleted or overwritten using techniques that ensure the original information is non-retrievable before disposal.
- 6.4.3 Records for the disposed equipment should be maintained.

6.5 Emergency Procedures

- 6.5.1 Emergency and evacuation procedures must be documented and made available to all personnel.
- 6.5.2 The emergency procedures must be tested at least once a year.
- 6.5.3 Personnel must be adequately trained to handle emergencies.



OPERATIONS SECURITY

7.0 OPERATIONS SECURITY

OBJECTIVE

The objective of the requirements under Operations Security is to ensure the correct and secure operation of the information processing facilities.

7.1 Documented Operational Procedures

7.1.1 TPs must establish and document procedures for operational activities associated with information processing and communication facilities such as computer start-up and close-down, backups, media handling, equipment maintenance, and computer room.

7.1.2 The operating procedures should specify the operational instructions, including:

- a) the installation and configuration of systems;
- b) processing and handling of information both automated and manual;
- c) backup;
- d) scheduling requirements such as job starts and day end job;
- e) instructions for handling errors or other exceptional conditions, which might arise during job execution;
- f) support and escalation contacts including third party support;
- g) media handling instructions;
- h) system restart and recovery procedures; and
- i) management of audit-trail and system log information.

7.1.3 All documentation in relation to Operations Security must be maintained and regularly updated to ensure information is up-to-date, complete and accurate. The changes must be reviewed and approved by the Management.



OPERATIONS SECURITY

7.2 Change Management

7.2.1 All changes to the systems and information processing must be documented, assessed on the potential impacts, approved and tested prior to its implementation.

7.2.2 In particular, the following items should be considered:

- a) identification and recording of significant changes;
- b) planning and testing of changes;
- c) assessment of the potential impacts, including security impacts;
- d) formal approval procedure for proposed changes;
- e) verification that information security requirements have been met;
- f) communication of change details to all relevant parties;
- g) fall-back procedures including procedures for recovering from unsuccessful changes and unforeseen events; and
- h) provision of an emergency change process.

7.2.3 All changes made must be logged and the audit log containing all relevant information must be retained.

7.3 Capacity Management

7.3.1 TPs must monitor and plan future capacity requirements for hardware, software and network to ensure the required performance is retained.

7.3.2 The business criticality of the concerned system should be taken into account in any capacity planning.

7.3.3 Capacity management plan should be established for mission critical systems.

7.3.4 Capacity planning must be performed and reviewed on a regular basis, at least once a year.

7.4 Segregation of Logical System Environments

7.4.1 The following logical system environments should be established to mitigate the risks of accidental change and unauthorised access to operational software and business data:



OPERATIONS SECURITY

- a) Development;
- b) Test; and
- c) Production.

7.4.2 TPs must segregate the following duties within the IT activities:

- a) Computer Operations;
- b) Technical Support; and
- c) Application Development.

7.4.3 End users must be restricted to business application functions and must not have access to systems software and utilities.

7.4.4 The testing environment should be consistent with the production environment to ensure adequate levels of confidence in the testing.

7.5 Handling of Information Backup

7.5.1 All backup media must be recorded, uniquely identified, stored securely and subjected to secure disposal procedures.

7.5.2 Backups should be protected by means of encryption where confidentiality is of importance.

7.5.3 All storage media must be uniquely labelled to identify the contents.

7.5.4 Centralised inventory listings of all storage media must be maintained for both on-site and off-site locations.

7.5.5 The retention period of backups must be defined and agreed by System Owners and Data Owners in accordance with relevant regulatory requirements, taking into account any requirement for archive copies to be permanently retained.

7.5.6 If a third party has been authorised to store backup media, a Supplier Agreement must be defined and documented, and in compliance with the TP IT Security Standards.



OPERATIONS SECURITY

7.6 Security over Computer Reports

- 7.6.1 Access to confidential output and printers generating confidential information must be restricted only to authorised personnel.
- 7.6.2 Documents containing confidential information must be rendered unreadable prior to disposal.

7.7 Logging and Monitoring

- 7.7.1 Event logs, including the operator console activity, where applicable, must be maintained as an audit trail and reviewed.
- 7.7.2 Details of event logs should include the following, where relevant but which is not exhaustive:
 - a) User IDs;
 - b) System activities;
 - c) Dates, times and details of key events;
 - d) Device identity or location and system identifier;
 - e) Records of successful and rejected system access attempts;
 - f) Changes to system configuration;
 - g) Use of privileges;
 - h) Use of system utilities and applications;
 - i) Files accessed and the details of access;
 - j) Network addresses and protocols;
 - k) Alarm raised by the access control system;
 - l) Activation and de-activation of protection systems e.g. anti-virus systems and intrusion detection systems; and
 - m) Records of transaction executed by users in applications.
- 7.7.3 The event log:
 - a) must be archived until all outstanding problems which require reference to it have been resolved, after which it may be purged;



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- b) must be archived for a minimum period of at least one year; and
 - c) must be audited.
- 7.7.4 System exceptions must be identified, highlighted and monitored by Computer Operations personnel or other personnel designated to respond to such exception conditions.
- 7.7.5 Controls must be in place to ensure the following:
- a) No alterations are made to the recorded message types;
 - b) Log files are not edited or deleted; and
 - c) No failure in recording the events or over-writing past recorded events in the event the storage of the log file media has exceeded its storage capacity.
- 7.7.6 System administrators must not have permission to erase or de-activate logs of their own activities.
- 7.7.7 Computer operations personnel must not be able to bypass the logging process and update or delete entries from the system log.
- 7.7.8 The correct setting of computer clock is important to ensure accuracy of audit logs. A network time protocol can be used to keep all servers in synchronisation with master clock.
- 7.7.9 Powerful utility programs capable of bypassing logical access controls must be:
- a) Stored in secured libraries;
 - b) Restricted to a minimum number of authorised users; and
 - c) Protected from being copied or renamed.
- 7.7.10 Access to powerful utilities must be authorised. The use of powerful utilities must be monitored and logged by Security Administration.
- 7.7.11 All unauthorised access attempts and other security related events must be logged and should be subjected to review by Security Administration.
- 7.7.12 Where systems permit, violation report must be produced for review by Security Administration on a daily basis.



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7.7.13 All unauthorised access attempts and other security violations reported must be investigated by Security Administration.

7.8 Protection from Malware

7.8.1 Controls should be in place to ensure information and processing facilities are protected against malware.

7.8.2 TPs must put in place the following controls:

- a) Establishing a formal policy prohibiting the use of unauthorised software;
- b) Implementing controls that prevent or detect the use of unauthorised software;
- c) Implementing controls that prevent or detect the use of known or suspicious malicious websites;
- d) Establishing a formal policy to protect against risks associated with obtaining files and software either from or via external networks or on any other medium;
- e) Defining procedures to deal with malware protection on systems, training in their use, reporting and recovering from malware attacks;
- f) Implementing procedures to verify information relating to malware to ensure warning bulletins are accurate and informative, and all users should be made aware of the problem of hoaxes;
- g) Regular reviews of the software and data content of systems supporting critical business processes must be conducted and the presence of any unapproved files or unauthorised amendments must be formally investigated;
- h) Installing and regularly updating of malware detection software ; and
- i) Business continuity plans must include recovering from malware attacks and any other cyber threats covering all necessary data and software backup and recovery arrangements, and isolating environments when there is catastrophic impacts.



NETWORK AND COMMUNICATION SECURITY

8.0 NETWORK AND COMMUNICATION SECURITY

OBJECTIVE

The objective of the requirements under Network and Communication Security is to ensure information in networks and its supporting information processing facilities are adequately protected from unauthorised access.

8.1 Network Controls

- 8.1.1 TPs must establish the responsibilities and procedures for the management of networking equipment.
- 8.1.2 TPs must establish controls to safeguard the confidentiality and integrity of data that are transmitting over public networks or wireless networks.
- 8.1.3 TPs must establish controls to ensure the availability of the networks and services connected.
- 8.1.4 TPs must ensure appropriate logging and monitoring controls are established to enable recording and detection of actions that may affect the information security.
- 8.1.5 TPs should ensure controls are in place to identify equipment or systems that can be connected to the TPs' private network.
- 8.1.6 TPs must establish adequate controls if the use of dial-back are allowed. TPs are advised to test the dial back procedures to prevent unauthorised and unwanted connection to TPs' private network.
- 8.1.7 TPs must ensure all changes to the network configuration require authorisation.
- 8.1.8 TPs must maintain a list of network users and systems communicating via the network.
- 8.1.9 TPs should disable all network services and facilities when not in use.



NETWORK AND COMMUNICATION SECURITY

8.2 Segregation of Networks

- 8.2.1 TPs must segregate the group of information services, users and information based on different network domain in accordance to the TPs' access control policy.
- 8.2.2 TPs may consider segregation based on the following domain:
 - a) Internal network domains;
 - b) External network domains; and
 - c) Wireless network domains.
- 8.2.3 The network segregation should be based on the value and classification of the information stored or processed in the network.

8.3 Network Security

- 8.3.1 Procedures to control the flow of information and access control between the internal and external network should be established.
- 8.3.2 TPs must define the perimeter and firewalls must be used to protect and segregate the internal network, external networks and wireless network.
- 8.3.3 Cryptographic method and strong authentication should be considered for wireless network implementation.
- 8.3.4 Network diagrams must be maintained and any changes must be updated.
- 8.3.5 Access to network port for remote diagnostic activity and configuration must be approved by the System Owner.
- 8.3.6 TPs should use cryptographic techniques to protect the confidentiality, integrity and authenticity of information transmitted through mobile or removable media, devices or across communication lines.
- 8.3.7 TPs must establish policies to perform vulnerability assessment and penetration testing on its network or internet based application system.
- 8.3.8 All network management software should at least include the following features:
 - a) Monitoring of users' activity and attempted security violations; and



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- b) Monitoring capabilities to track and report network status or network error.
- 8.3.9 Procedures must be developed to minimize the risk of viruses causing damage to data and program.
- 8.3.10 All critical servers and workstations must be installed with anti-virus software.
- 8.3.11 All anti-virus software must be auto-executed upon login to the local area network and upon PC start-up.



SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE

9.0 SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE

OBJECTIVE

The objective of the requirements under System Acquisition, Development and Maintenance is to ensure that information security is an integral part of information systems across the entire systems life cycle.

9.1 Security Requirements of Information Systems

9.1.1 TPs must ensure that the following information security related requirements be included for new information system or enhancements to the existing system:

- a) access provisioning and authorisation processes, for business users as well as for privileged or technical users;
- b) the required protection needs of the assets involved, in particular regarding availability, confidentiality and integrity;
- c) requirements derived from business processes, such as transaction logging and monitoring; and
- d) requirements on other security controls, e.g. interfaces to logging and monitoring or data.

9.1.2 TPs must ensure that security requirements and controls reflect the business value of the information assets and the potential business impact resulting from lack of adequate security.

9.1.3 TPs must integrate security requirements and the processes for implementing security in the early stages of information system projects.

9.1.4 TPs must ensure that a formal testing process is completed for any product before an acquisition or procurement.

9.1.5 Any contracts with the vendor should address the security requirements.

9.2 Access Control to Source Code

9.2.1 TPs must ensure that access control to program source code be restricted and controlled, in order to prevent unauthorised



SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE

functionality and to avoid unintentional changes as well as to maintain the confidentiality of valuable intellectual property.

9.2.2 For program source code, this can be achieved by having a controlled central storage of such code, preferably in program source libraries. The following guidelines may be considered to control access to such program source libraries:

- a) program source libraries should not be held in production environment;
- b) the program source code and the program source libraries should be managed according to established procedures;
- c) the updating of program source libraries associated items and the issuing of program sources to programmers should only be performed after appropriate authorisation has been received;
- d) an audit log must be maintained of all accesses to program source libraries; and
- e) maintenance and copying of program source libraries must be subject to strict change control procedures.

9.3 Security in Development and Support Process

9.3.1 Secure Development Policy

- a) TPs must ensure the policy on the development of software and systems be established and the following should be considered:-
 - i. security of the development environment;
 - ii. guidance on the security in the software development lifecycle;
 - iii. security in the software development methodology;
 - iv. secure coding guidelines for each programming language used;
 - v. security requirements in the design phase;



SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE

vi. security checkpoints within the project milestones; and

vii. security in the version control.

9.4 System Change Control Procedures

9.4.1 TPs must ensure the changes for new systems and major changes to the existing system within the development lifecycle are subjected to formal change control procedures.

9.4.2 The change control procedures must include the following:

- a) changes must be via formal written instructions by authorised users;
- b) controls and integrity procedures must be subject to review to ensure that they will not be compromised by the changes;
- c) all software, information, database entities and hardware that require amendment must be identified;
- d) formal approval for detailed proposals must be obtained before work commences;
- e) changes are subject to acceptance by the users prior to implementation;
- f) the system documentation is updated on the completion of each change and that old documentation is archived or disposed of;
- g) a version control for all software updates is maintained;
- h) an audit trail of all change requests is required;
- i) that operating documentation and user procedures are approved prior to any changes; and
- j) the implementation of changes takes place at the appropriate time and does not disturb the business processes involved.



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9.5 Restrictions on changes to software packages

- 9.5.1 When a vendor supplied software package needs to be modified, TPs must ensure that the processes comply with the established change or modification policies and procedures.
- 9.5.2 TPs must ensure that if changes are necessary, the original software is retained and the changes applied to a designated copy.
- 9.5.3 TPs must ensure that the software update management process is implemented with the most up-to-date approved patches and application updates are installed for all authorised software.
- 9.5.4 TPs must ensure that all changes and modification are fully tested, validated by an independent party and documented, so that they can be reapplied, if necessary, to future software upgrades.

9.6 System Security Testing Control

- 9.6.1 TPs must ensure the testing of security functionality is carried out during the development phase.
- 9.6.2 TPs must require thorough testing and verification during the development processes.
- 9.6.3 For in-house developments, tests must initially be performed by the development team. Independent acceptance testing must be undertaken to ensure that the system works as expected.

9.7 System Acceptance Testing Control

- 9.7.1 TPs must establish acceptance testing programs and related criteria for new information systems, upgrades and new versions of software.
- 9.7.2 System acceptance testing must also include testing of information security requirements.
- 9.7.3 Testing should be performed thoroughly to ensure that the system will not introduce vulnerabilities to the TP's environment and that the tests are reliable.



SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE

9.8 Test data

9.8.1 TPs must ensure the following guidelines are applied to protect operational data, when used for testing purposes:

- a) authorisation is required each time when operational information is copied to a test environment;
- b) data masking and massaging must be carried out for sensitive information;
- c) operational information should be erased from a test environment immediately after the testing is complete; and
- d) copying and use of operational information should be logged to provide an audit trail.



SUPPLIER MANAGEMENT

10.0 SUPPLIER MANAGEMENT

OBJECTIVE

The objective of the requirements under Supplier Management is to ensure that the information access granted to a supplier is adequately protected.

10.1 Information Security in Supplier Management

10.1.1 TPs must establish a policy to address the information security risks for its outsourcing activities such as data centre operations, network administration, disaster recovery site, application hosting and cloud computing. TPs may consider the following areas:

- a) Identify the types of suppliers whom a TP will allow to access its information;
- b) Define types of allowable information access for different types of suppliers and procedures on monitoring and controlling the access;
- c) Put controls in place to ensure the integrity of the information processing provided by the suppliers; and
- d) Put in place recovery and contingency arrangements to ensure the availability of information processing by the suppliers within the required recovery time objective ("RTO").

10.2 Engagement of Suppliers

10.2.1 Background verification checks on all suppliers must be carried out and suppliers engaged to handle sensitive information must be subjected to adequate investigation and review before being engaged.

10.2.2 Work undertaken by supplier's service providers must be subject to compliance with the TP IT Security Standards.

10.2.3 Suppliers must sign a statement of confidentiality.



SUPPLIER MANAGEMENT

10.3 Suppliers Agreements

10.3.1 TPs must establish the suppliers' agreement to document both parties' obligations in fulfilling relevant security requirements.

10.3.2 TPs may include the following terms in the suppliers' agreements:

- a) legal and regulatory obligations, including data protection and intellectual property rights;
- b) an agreed set of controls of each contractual party to be implemented including access control, performance review, monitoring, reporting and auditing;
- c) incident management requirements and procedures;
- d) contractual rights to audit the supplier's process;
- e) escrow arrangement for outsourced software development;
- f) provisions of evidence that sufficient testing has been applied to guard against the malicious content upon delivery known vulnerabilities; and
- g) suppliers' obligations to comply with the TP's security requirements.

10.4 Management of Suppliers Service Delivery

10.4.1 TPs must regularly monitor service performance levels of the supplier to verify adherence to the terms defined in the suppliers' agreements.

10.4.2 TPs must review service reports produced by the supplier.

10.4.3 TPs must ensure that the supplier maintains sufficient service capability together with workable plans designed to ensure that agreed service continuity levels are maintained following major service failures or disaster.



INFORMATION SECURITY INCIDENT MANAGEMENT

11.0 INFORMATION SECURITY INCIDENT MANAGEMENT

OBJECTIVE

The objective of the requirements under the Information Security Incident Management is to ensure that the information security incidents and communication on security events are managed effectively.

11.1 Responsibilities and Procedures

11.1.1 TPs must establish the following procedures to ensure effective and orderly response to information security incidents:

- a) Procedures for monitoring, detecting, analysing and reporting of information security events and incidents;
- b) Procedures for logging incidents;
- c) Procedures for incident response planning and preparation; and
- d) Procedures for escalation and recovery from an incident and communication to internal and external parties.

11.1.2 TPs should integrate the information security incident response plan with the Business Continuity Plan.

11.2 Reporting Information Security Events

11.2.1 TPs must ensure that all its employees and contractors are made aware of their responsibility to report any information security events. Information security events may include the following:

- a) Ineffective security controls;
- b) Breach of information integrity, confidentiality or availability expectations i.e. denial of service;
- c) Human errors;
- d) Non-compliances with policies and procedures or guidelines;
- e) Breaches of physical security arrangements;
- f) Malfunctions of software or hardware;



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- g) Access violations; and
- h) Misuse or abuse of facilities.

11.3 Incident Logging

11.3.1 All incidents reported must be formally logged in a consistent format in a central location.

11.3.2 TPs must ensure that access to the incident log is restricted to authorised personnel.

11.3.3 TPs must include the following details in the incident log:

- a) the date and time the incident was logged;
- b) a summary description of the nature of the incident ;
- c) how the incident was identified;
- d) who reported the incident (i.e. name / department / designation);
- e) the extent of the incident and its implications on other components of the system;
- f) the priority of the incident ; and
- g) details of all diagnostic or attempted recovery actions taken.

11.3.4 The priority of the incident must be determined with consideration given to the nature of the incident, its impact on data confidentiality, integrity and availability, and the business functions to which the incident relates.

11.4 Incident Investigation and Diagnosis

11.4.1 All logged incidents must be promptly assigned to the appropriate personnel for investigation, diagnosis and correction.

11.4.2 The incident assignee should conduct an impact analysis and diagnosis of the potential cause of the problem before taking action to resolve the incident. A summary of the analysis,



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diagnosis, and proposed action to be taken to resolve the incident should be documented.

11.4.3 The incident assignee must ensure that each logged incident has been correctly classified in respect of priority before workaround or taking any action.

11.4.4 If the incident assignee cannot diagnose the cause or find a suitable solution, the incident should be escalated to the Management.

11.5 Incident Resolving and Recovery

11.5.1 All incidents must be resolved and recovered on a timely basis according to their priority and agreed dates and time of resolution.

11.5.2 An investigation should be conducted on the root cause of all logged incidents to determine the recognised incident solving techniques that can be used to help in resolving and recovery.

11.5.3 The action taken to resolve the logged incident must be documented with appropriate details to enable an independent person to analyse the actions taken without recourse to the incident assignee.

11.6 Incident Closure and Evaluation

11.6.1 All logged incidents that have been completely resolved must be formally closed and signed-off by the incident assignee and the user.

11.6.2 All logged incidents and their status must be reviewed by the Management on a regular basis.

11.6.3 All logged incidents must be subjected to periodic reporting to ensure that the incidents have been resolved in a timely manner and the correct solutions applied.

11.6.4 Senior Management should be provided with the following information on a periodic basis at least once a month:

- a) a summary analysis of all logged incidents and causes distinguishing all incident by priority;
- b) a summary report of the times taken to respond to the logged incident;
- c) an ageing analysis of all outstanding logged incidents by priority;



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- d) a detailed analysis of all logged incidents exceeding their agreed resolution dates;
- e) a detailed report of all incidents where the agreed resolution may affect service levels; and
- f) any outstanding or unresolved incident.



BUSINESS CONTINUITY MANAGEMENT

12.0 BUSINESS CONTINUITY MANAGEMENT

OBJECTIVE

The objective of the requirements under Business Continuity Management is to minimize disruptions to the trading activities and operations of the TPs from the effects of major failures of the critical systems or disaster.

12.1 Business Continuity Plan (BCP)

- 12.1.1 A BCP must be established to formalize the procedures and controls to ensure the required level of continuity of the business during adverse situation.
- 12.1.2 A BCP should be undertaken with business impact analysis to ensure that all key business activities, business support systems and operational functions are identified.
- 12.1.3 The responsibility for the development, documentation and implementation of the BCP must be defined, agreed and documented. The BCP must at least include the roles and responsibilities of the Plan Co-ordinator(s) and the respective team members.
- 12.1.4 Any services provided by third parties and their responsibilities must be formally defined and documented in a Supplier Agreement.
- 12.1.5 Personnel must be trained in the implementation of BCP procedures. Backup personnel must also be identified and trained.
- 12.1.6 Backup copies of the BCP must be kept securely off-site and there must be a policy established for access procedures.
- 12.1.7 All BCP must be kept up-to-date and reviewed at least on an annual basis. The review process must be documented and signed-off by management.
- 12.1.8 Any amendments to the BCP must be issued to all plan holders.

12.2 Testing of BCP

- 12.2.1 The BCP must be comprehensively tested to ensure that they are workable. Test plans must be developed and must at least include test objectives, scope, sequence of activities and timing/schedule. Problems arising during the testing and the actions taken to resolve these problems must be documented and reviewed.
- 12.2.2 Training should also be provided to all employee for any updates to the BCP and as refresher courses.

[End of Appendix 1]

Relevant to : Rule 4.18
Introduced with effect from : 23 August 2017
Amended : 15 August 2019 vide TP Circular No. 12/2019
TP Circular No(s). : Trading Members' Circular 6/2000
Refer also to Directive No(s). : N/A

1. Rule 4.18 and Margin Guideline

Rule 4.18 sets out the obligations of the Trading Participant in relation to obtaining margin from its Client. In discharging the obligations under the said Rule, the Trading Participant must, amongst other requirements, comply with the Margin Guideline set out in **Appendix 1** of this Directive.

[End of Directive]

APPENDIX 1

MARGIN GUIDELINE

GUIDELINE 1 – MARGIN RATES AND DEPOSITS**1.1 MARGIN RATES**

Trading Participants are required to collect margins from their Clients for all open positions maintained by them to ensure performance of the contracts. The minimum initial margins required are set by the Clearing House and regular circulars are issued by the Clearing House on changes in the initial margin levels.

In accordance with Business Rule 4.18, the amount of margin to be collected from Clients shall be at least equivalent to the prevailing minimum initial margins of the Clearing House. However, Trading Participants may, at their absolute discretion, prescribe margin rates/requirements above the Clearing House's minimum margin requirements.

1.2 FORMS OF MARGIN DEPOSITS

A Trading Participant may accept from its Clients as margin, such forms of margins in the manner and subject to conditions determined by the Clearing House pursuant to the Clearing House Rules. A Trading Participant may accept the following collateral from its Clients for the purposes of margin payment subject to the minimum haircut for such collateral as set out below:

Collateral Type	Description	Minimum Haircut		
Cash	Cash currencies of any denomination with Investment Grade in Country Credit Rating, subject to Bank Negara exchange control	Currencies	Minimum Haircut Rate	
			RM Performance Bond Obligation	USD Performance Bond Obligation
		AUD	3.00 %	3.50 %
		EUR	3.00 %	3.00 %
		GBP	2.50 %	2.50 %
		JPY	3.50 %	3.00 %
		SGD	1.50 %	1.50 %
		USD	1.50 %	0.00 %
		MYR	0.00 %	1.50 %
		CNY	2.50%	1.00%
		HKD	2.50%	1.00%
		Others – 10%		
Stocks	Securities listed on country's exchange with Investment Grade in Country Credit Rating	30%		
Letters of Credit	Letters of Credit	Subject to the currency haircut		
Government Securities	Malaysia Government Securities Foreign Government	Malaysia Government Securities = 5% Foreign Government Securities = 10%		

Collateral Type	Description	Minimum Haircut
	Securities with Investment Grade	
Gold	“London Good Delivery” gold, as defined by the London Bullion Market Association	15%
Others	Bank Guarantee Bank Certificates of Deposit	Subject to the currency haircut

**Acceptance of any type of collateral is subject to haircut rate deemed appropriate by the Trading Participant in accordance with its risk management procedure, provided that it is nothing lower than haircut prescribed by the Clearing House.

GUIDELINE 2 – MARGIN CALLS

2.1 ISSUANCE OF MARGIN CALLS

Margin deposit acts as good faith deposit or performance bond for Contracts traded on the Exchange and for this purpose, margin call is issued to collect the required margin from the Client.

It is the responsibility of the Trading Participants to call for margins from their Clients once the Clients' accounts become undermargined. An account is undermargined if the account's total net equity plus acceptable margin deposit is less than the margin requirement. The difference between the total net equity plus acceptable margin deposit and the margin requirement denotes the amount of margin the Trading Participant must call in order to restore the account's margin deficiency status.

Margin call must be made within one business day after the occurrence of the event giving rise to the call. If the Trading Participant is unable to contact the Client personally, a written margin call notice sent to the Client at the latest address provided by the Client shall be deemed as sufficient.

Trading Participants may, at their absolute discretion, call for additional margin intra-day or at any time that the Trading Participants deem it necessary to cover any additional risks associated with the Clients' positions.

2.2 COMPUTATION OF MARGIN CALLS

For the purpose of determining the amount of margin call, the account shall be reviewed as of the close of the trading day.

A required margin call is calculated as follows:

$$\text{Required Margin Call} = \text{Margin Requirement} - (\text{Net Equity} + \text{Margin Deposit} + \text{Outstanding Margin Calls})$$

where:

Margin requirement refers	Trading Participant's margin requirement or if this is not applicable, the Clearing House margin requirement
Net equity refers	the total of an account's cash ledger balance, profit or loss on open futures contract and the net current market value of open options contract.
Margin deposit refers	acceptable forms of margin payment determined by the Clearing House (as mentioned in this Guideline 1.2)
Outstanding margin calls refers	margin calls previously issued which remain unpaid

2.3 AGING OF MARGIN CALLS AND MONITORING PROCEDURES

Margin calls issued must be aged individually and separately throughout their existence. An account's total margin call is the sum of all individually aged margin calls and the oldest outstanding margin call shall be reduced first.

In aging of margin calls and for monitoring of margin payments, the following definitions shall apply:

T	=	the transaction date when position is established/account becomes undermargined
T+1	=	first business day after transaction date/day margin call is issued
T+2	=	second business day after transaction date
T+3	=	third business day after transaction date

Trading Participants must ensure that they have adequate procedures in place to ensure that appropriate margin calls are made promptly and are properly monitored and followed up. To achieve this, Trading Participants are required to establish procedures to include maintenance of written records indicating for each Client:

- amount of margin call made
- date that the Client is contacted and whether contacted by telephone or in writing
- age of the margin call
- status of the margin call i.e. is the margin call met by funds received, liquidation of position, etc and the date this event occurred.

2.4 TIMING OF MARGIN PAYMENT

In accordance with Rule 4.18, Trading Participants are required to collect margin from their Clients for all open positions held. Margin is required to be collected either on an upfront basis or within a reasonable time frame as prescribed by the Exchange.

For this purpose, the Exchange has defined the reasonable time frame to be 3 business days from transaction date. However Trading Participants, may at their absolute discretion, exercise a more stringent margin collection time frame (i.e. of less than 3 business days).

The reasonable time frame is considered met when the cash funds have been remitted and banked-into the Client's Segregated Account. Trading Participants should not treat the cash funds as received although the Client's remittance shows the funds are forthcoming on a future value date.

For example, if the Trading Participant received a confirmation from the Client's banker advising that on T+1, the Client has remitted RM1 million for value date T+3, then the funds can only be included in the Client's net ledger balance at the close of trading on T+3. In this situation, the margin is considered as forthcoming within the reasonable time frame i.e. the margin call is met within the prescribed time frame.

However, in the case where the Trading Participant received a confirmation from the Client's banker advising that on T+1, the Client has remitted RM1 million for value date T+5, then the funds can only be included in the Client's net ledger balance at the close of trading on T+5. In this situation, the margin is not considered as forthcoming within the reasonable time frame and thus, the margin call is not met within the prescribed time frame.

For margin payment using cheques, the call is considered met upon banking-in of cheques.

2.5 REDUCTION AND NEGATION OF MARGIN CALLS

Reduction of margin call means the total outstanding amount of margin call in an account is partially reduced or decreased but, the remaining amount of margin call must still be met by the Client. A margin call may only be reduced through the receipt of cash and/or other acceptable margin deposits, which are less than the amount of margin call.

In contrast, negation of margin call means cancellation or elimination of an account's margin call in its entirety. A margin call may be negated through:

- receipt of cash and/or acceptable margin deposits, which are equal or greater than the amount of the margin call; or
- inter-day favorable market movement and/or liquidation of position only if the account's total net equity is equal or greater than the margin requirement as of the close of the trading day. In such a case, the account is no longer in a margin deficiency status and hence, justify the reason for a negation of margin call; or
- a combination of the two factors above which results in the account's total net equity being equal or greater than the margin requirement as of the close of the trading day.

(NB: An account's total net equity means net equity plus acceptable margin deposit.)

The margin requirement here is defined as the Trading Participants' margin requirements. This would mean, if the Trading Participants prescribe a margin requirement higher than the minimum margin requirement of the Clearing House, then the higher margin requirements shall apply.

In addition, it is important to note that the **practice of liquidation and re-establishment of position to circumvent the margin rules is disallowed.**

2.6 ILLUSTRATIONS OF MARGIN CALL REDUCTION AND NEGATION

Tabled below are the various illustrations on how margin calls can be reduced or negated based on the concepts laid down in Guideline 2.5 above.

Please note the following assumptions used in all the illustrations:

1. Account balances and margin requirements are as of the close of trading day.
2. The account was properly margined on the previous trading day (Friday).
3. Margin call issued is equal to:

Margin Requirement less (Net Equity + Margin Deposit + Outstanding Margin Calls)

Illustration One**Impact On Margin Calls Due To Receipt Of Margin Deposits**

	Mon	Tue	Wed	Thurs
Cash ledger balance	60,000	60,000	60,000	60,000
Cash received	0	0	8,000	0
Open position profit/(loss)	(5,000)	(15,000)	(15,000)	(15,000)
Net equity	55,000	45,000	53,000	53,000
Margin requirement	63,000	63,000	63,000	63,000
Margin excess/(deficiency)	(8,000)	(18,000)	(10,000)	(10,000)
Margin call amount/(age of margin call)	8,000 (T)	8,000 (T+1) 10,000 (T)	- 10,000 (T+1)	- 10,000 (T+2)

Note A

Note A: Margin call of RM8,000 was negated through receipt of cash on Wednesday. However, margin call of RM10,000 remained outstanding.

Illustration Two**Impact On Margin Calls Due To Receipt Of Margin Deposits In Excess Of Total Margin Calls**

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	40,000
Open position profit/(loss)	5,000	(8,000)	(10,000)	(10,000)
Net equity	55,000	42,000	40,000	80,000
Margin requirement	75,000	75,000	75,000	75,000
Margin excess/(deficiency)	(20,000)	(33,000)	(35,000)	5,000
Margin call amount/(age of margin call)	20,000 (T)	20,000 (T+1) 13,000 (T)	20,000 (T+2) 13,000 (T+1) 2,000(T)	- - -
	Note A		Note B	Note C

Note A: An additional margin call of RM13,000 was issued due to unfavorable market movement on Tuesday on top of the RM20,000 margin call.

Note B: On Wednesday, further unfavorable market movement created another additional margin call RM2,000. Both the margin calls of RM20,000 and RM13,000 were still outstanding.

Note C: Margin deposit of RM40,000 was received on Thursday. This deposit was sufficient to negate all the outstanding margin calls amounting to RM35,000. Account's net equity was higher than the margin requirement hence, no longer in margin deficiency status on Thursday.

Illustration Three**Impact On Margin Calls Due To Receipt Of Insufficient Margin Deposits**

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	15,000
Open position profit/(loss)	5,000	(8,000)	(10,000)	(10,000)
Net equity	55,000	42,000	40,000	55,000
Margin requirement	75,000	75,000	75,000	75,000
Margin excess/(deficiency)	(20,000)	(33,000)	(35,000)	(20,000)
Margin call amount/(age of margin call)	20,000 (T)	20,000 (T+1) 13,000 (T)	20,000 (T+2) 13,000 (T+1) 2,000(T)	5,000 (T+3) 13,000 (T+2) 2,000 (T+1)
		Note A	Note B	Note C

Note A: An additional margin call of RM13,000 was issued due to unfavorable market movement on Tuesday on top of the RM20,000 margin call.

Note B: On Wednesday, further unfavorable market movement created another additional margin call of RM2,000. Both the margin calls of RM20,000 and RM13,000 were still outstanding.

Note C: Margin deposits of RM15,000 was received on Thursday. This deposit was only sufficient to reduce the oldest aged outstanding margin call of RM20,000 to RM5,000 but not enough to negate the call. Apart from the RM5,000 balance, margin calls of RM13,000 and RM2,000 were still outstanding. Account was still in margin deficiency status as its net equity is lower than the margin requirement.

Illustration Four**Impact On Margin Calls Due To Liquidation Of Position(s)**

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	0
Open position profit/(loss)	9,000	10,000	6,000	6,000
Net equity	59,000	60,000	56,000	54,000
Margin requirement	63,000	63,000	63,000	40,000
Margin excess/(deficiency)	(4,000)	(3,000)	(7,000)	14,000
Margin call amount/(age of margin call)	4,000 (T)	4,000 (T+1)	4,000 (T+2) 3,000 (T)	- -
	Note A	Note B	Note C	

Note A: Despite a small favorable market movement on Tuesday, account's net equity was still below margin requirement. Margin call of RM4,000 was outstanding since this favorable market movement was not enough to negate the margin call and no margin deposit was received.

Note B: Unfavorable market movement resulted in another fresh margin call amounting to RM3,000. Margin call of RM4,000 was still outstanding

Note C: Positions partially liquidated on Thursday thus, reduction in margin requirement to RM40,000. Both margin calls were negate as net equity was above margin requirement. Account was no longer in margin deficiency status.

Illustration Five**Impact On Margin Calls Due To Liquidation Of Position(s) & Unfavorable Inter-Day Market Movement**

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	48,000	44,000
Cash received	0	0	0	0
Open position profit/(loss)	9,000	10,000	3,000	(5,000)
Net equity	59,000	60,000	51,000	39,000
Margin requirement	63,000	63,000	55,000	40,000
Margin excess/(deficiency)	(4,000)	(3,000)	(4,000)	(1,000)
Margin call amount/(age of margin call)	4,000 (T)	4,000 (T+1)	4,000 (T+2)	4,000 (T+3)

Note A**Note B****Note C**

Note A: Despite a small favorable market movement on Tuesday, account's net equity was still below margin requirement. Margin call of RM4,000 was outstanding as this favorable market movement was not enough to negate the margin call and no margin deposit was received.

Note B: Position partially liquidated thus, reduction in margin requirement to RM55,000 on Wednesday. However, market moved unfavorable to a deficit of RM7,000 on this day. Therefore, despite partial liquidation, the unfavorable market movement resulted in net equity lower than margin requirement. Account in margin deficiency status and margin call of RM4,000 was still outstanding.

Note C: Further liquidation of positions on Thursday thus, reduction in margin requirement to RM40,000. However, market moved unfavorable to a deficit of RM8,000 on this day. Therefore, despite partial liquidation, the unfavorable market movement resulted in net equity lower than margin requirement. Despite account in a lower margin deficiency level, margin call of RM4,000 was still outstanding.

Illustration Six**Impact On Margin Calls Due To Liquidation Of Position(s) & Favorable Inter-Day Market Movement**

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	40,000	46,000	44,000
Cash received	0	0	0	0
Open position profit/(loss)	(15,000)	(2,000)	1,000	1,500
Net equity	35,000	38,000	47,000	45,500
Margin requirement	63,000	49,000	35,000	35,000
Margin excess/(deficiency)	(28,000)	(11,000)	12,000	10,500
Margin call amount/(age of margin call)	28,000 (T)	28,000 (T+1)	-	-

Note A**Note B**

Note A: On Tuesday, occurrence of favorable market movement of RM13,000 and position was partially liquidated thus, reduction in margin requirement to RM49,000. However, margin call of RM28,000 was not negated as both of these conditions were insufficient to improve net equity above the margin requirement. Account remained in margin deficiency status.

Note B: Favorable market movement occurred on Wednesday. Position was further liquidated thus, reduction in margin requirement to RM35,000. Margin call of RM28,000 was properly negated as net equity was greater than margin requirement as a result of further favorable market movement and liquidation of position.

Illustration Seven**Impact On Margin Calls Due To Favorable Inter-Day Market Movement**

	Mon	Tue	Wed	Thurs
Cash ledger balance	45,000	45,000	45,000	45,000
Cash received	0	0	0	0
Open position profit/(loss)	(4,000)	(1,500)	3,200	5,300
Net equity	41,000	43,500	48,200	50,300
Margin requirement	50,000	50,000	50,000	50,000
Margin excess/(deficiency)	(9,000)	(6,500)	(1,800)	300
Margin call amount/(age of margin call)	9,000 (T)	9,000 (T+1)	9,000 (T+2)	-
	Note A	Note B	Note C	

Note A: Favorable market movement occurred on Tuesday of RM2,500. However, net equity was still lower than margin requirement hence, the margin call of RM9,000 was still outstanding as no margin deposit was received.

Note B: Favorable market movement occurred on Wednesday of RM4,700. However, net equity was still lower than margin requirement hence, the margin call of RM9,000 was still outstanding as no margin deposit was received.

Note C: Further favorable market movement of RM2,100 was noted on Thursday. This resulted in net equity greater than margin requirement. Account no longer under margin deficiency status and margin call was negated.

Illustration Eight**Impact On Margin Calls Due To Receipt Of Margin Deposits, Partial Liquidation Of Positions & Favorable Inter-Day Market Movement**

	Mon	Tue	Wed	Thurs
Cash ledger balance	45,000	40,000	55,000	60,000
Cash received	0	15,000	0	0
Open position profit/(loss)	(15,000)	(5,000)	(2,000)	(1,500)
Net equity	30,000	50,000	53,000	58,500
Margin requirement	63,000	56,000	45,000	45,000
Margin excess/(deficiency)	(33,000)	(6,000)	8,000	13,500
Margin call amount/(age of margin call)	33,000 (T)	18,000 (T+1)	-	-

Note A**Note B**

Note A: Favorable market movement occurred on Tuesday of RM10,000 and position partially liquidated thus, reduction in margin requirement to RM56,000. Also, cash deposit of RM15,000 was received on the same day. These conditions would reduced margin call to RM18,000 due to receipt of cash but not negated as net equity was less than margin requirement despite favorable market movement on the day and partial liquidation of position. Account was still under margin call.

Note B: Favorable market movement occurred on Wednesday. Margin call was negated as net equity was more than margin requirement as a result of further favorable market movement of RM3,000 and partial liquidation of position.

GUIDELINE 3 – UNDERMARGINED AND DEBIT ACCOUNTS TRADING

3.1 UNDERMARGINED AND DEBIT ACCOUNTS

An account is considered as undermargined when it is in a margin deficiency status i.e.: the account's total net equity plus acceptable margin deposits is less than the margin requirement. In such a case, margin call will be issued on the account for the deficit amount. If an account has an outstanding margin call in excess of the allowable time frame for margin payment, then the account is considered to be undermargined for an unreasonable time.

On the other hand, a debit account refers to:

- unsecured debit account
an account who has a negative net equity balance that is not secured by acceptable margin deposit. It may also arise in a situation where an account has liquidated all its positions resulting in a debit balance.

- secured debit account
an account with debit balance (i.e. a negative net equity balance) but is secured by acceptable margin deposit. In such a case the account may trade and hold positions provided the debit balance plus the value of acceptable margin deposit does not result in a negative balance.

3.2 PERMISSIBLE TRADING ACTIVITIES

In accordance with Rule 4.18(5), except for trades which reduce a Client's margin requirements, a Trading Participant must not accept orders for new Contracts from a Client unless the minimum initial margin for the Contracts is on deposit or is forthcoming within 3 business days after a call for initial margin has been made by the Trading Participant and that Client's pre-existing Open Positions comply with the margin requirements established by the Trading Participant.

It is further provided in Rule 4.18(7) that *"a Trading Participant may close out all or any of Open Position of a Client where the Client fails to comply with a demand for margin after a Margin Call has been made by the Trading Participant"*.

Essentially, Trading Participants are required to ensure that margins are collected either upfront or within 3 business days from transaction day failing which, the Trading Participants must ensure that no new Contracts are entered into by the Client which will further increase the margin exposure of the Client. However, orders for risk reducing trades which would reduce the margin requirements of the Client may be allowed.

For Trading Participants who exercise a more stringent margin collection time frame (i.e.: of less than 3 business days), they may, at their absolute discretion, ensure that no new Contracts are entered into by the Clients which will further increase the margin exposure of the Clients if the Clients fail to meet with the demand of their margin calls. In this situation, the Trading Participants may also reserve the right to close out all or any of the open positions of their Clients who fail to meet with the demand of their margin calls.

Therefore, the types of trading activity a Client is permitted to conduct is very much dependent on the margin call status of the Client.

A Trading Participant shall only allow the following types of trading activities if the Client of the Trading Participant fails to comply with the relevant margin requirements or upon notification by the Clearing Participant of the Client's failure to comply with the relevant margin requirements:

1. for account which is properly margined or in the case of undermargined account with margin being forthcoming within a reasonable time
 - trading activities such as day trade, addition trade and/or liquidating trade are permissible.

(Please refer to Illustration 1 in the following Guideline 3.3)

2. for undermargined account with margin not forthcoming within a reasonable time
 - may conduct liquidating trade only. Addition trade and/or day trade activities are disallowed.

(Please refer to Illustration 2 in the following Guideline 3.3)

3. for debit account which is not secured with acceptable margin deposit
 - liquidating trading and/or no trading is allowed for the account until sufficient cash or acceptable margin deposit equal or greater than the debit amount are deposited.

(Please refer to Illustration 3 and 4 in the following Guideline 3.3)

4. for debit account which is secured by acceptable margin deposit
 - if the debit amount plus value of the acceptable margin deposit is equal or greater than zero, then trading activities such as day trade, addition trade and/or liquidating trade are permissible.

(Please refer to Illustration 5 in the following Guideline 3.3)

- if the debit amount plus value of the acceptable margin deposit is less than zero, only liquidating trade may be permitted. Addition trade and/or day trade activities are disallowed.

(Please refer to Illustration 6 in the following Guideline 3.3)

The types of permissible trading activity as referred to above are defined as follows:

- day trade – establishment and closure of trades on the same trading day
- liquidating trade – closure of an established position for purposes of reducing an account's margin requirement. Addition of positions like "spreads" or "lock-ups" which will result in a reduction in margin requirement will be allowed as this is line with risk reducing strategies.
- addition trade – establishment of trade which will increase an account's position and margin requirement

3.3 ILLUSTRATIONS OF PERMISSIBLE TRADING ACTIVITIES

Please note the following assumptions used in all the illustrations:

1. Account balances and margin requirements are as of the close of trading day.
2. The account was properly margined on the previous trading day (Friday)
3. All margin calls are promptly issued and aged.

Legends used to denote trading activity

- All** - refers to day trade, liquidating trade and/or addition trade
- LT** - refers to liquidating trade
- NT** - refers to no trading allowed

Illustration One

Undermargined Account With Margin Forthcoming Within Reasonable Time

	Mon	Tue	Wed	Thurs
Net equity	10,000	14,000	15,500	12,500
Margin requirement	15,000	22,500	22,500	0
Margin excess/ (deficiency)	(5,000)	(8,500)	(7,000)	12,500
Margin call amount/ (Age of margin call)	5,000(T)	5,000 (T+1) 3,500 (T)	5,000 (T+2) 3,500 (T+1)	- -
Permissible trading activity	All	All	All	All

Remarks

Margin call was properly negated by full liquidation of positions on Thursday. Thus, the account was permitted to conduct all trading activities since there was no margin call outstanding beyond T+3 period.

Illustration Two

Undermargined Account With Margin Not Forthcoming Within Reasonable Time

	Mon	Tue	Wed	Thurs	Fri	Mon
Net equity	10,000	14,000	15,500	16,000	15,000	23,500
Margin requirement	15,000	22,500	22,500	22,500	22,500	22,500
Margin excess/ (deficiency)	(5,000)	(8,500)	(7,000)	(6,500)	(7,500)	1,000
Margin call amount/ (Age of margin call)	5,000(T)	5,000 (T+1)	5,000 (T+2)	5,000 (T+3)	5,000 (T+4)	-
		3,500 (T)	3,500 (T+1)	3,500 (T+2)	3,500 (T+3)	-
Permissible trading activity	All	All	All	All	LT	All

Note 1

Note 2

Remarks

Note 1 On Friday, the account was allowed to conduct liquidating trade only as the margin call of RM5,000 was now outstanding beyond the reasonable time frame of T+3. No margin deposit was received to date.

Note 2 On the following Monday, a cash deposit of RM8,500 was received to negate the margin calls. Once the account was properly margined, all trading activities would be allowed.

Illustration Three

Unsecured Debit Account

	Mon	Tue	Wed	Thurs	Fri
Net equity	10,000	12,500	(2,500)	(2,500)	12,500
Margin requirement	15,000	22,500	0	0	7,500
Margin excess/ (deficiency)	(5,000)	(10,000)	(2,500)	(2,500)	5,000
Margin call amount/ (Age of margin call)	5,000(T)	5,000 (T+1)	-	-	-
		5,000 (T)	-	-	-
Allowable trading activity	All	All	All	NT	All

Note 1

Note 2

Remarks

Note 1 No trading activity was allowed as account was in debit balance as a result of full liquidation of position on Wednesday.

Note 2 RM15,000 on Friday to settle the debit balance of RM2,500. Hence, the account was allowed to resume trading.

Illustration Four

Unsecured Debit Amount

	Mon	Tue	Wed	Thurs	Fri
Net equity	6,500	(5,000)	(2,500)	(5,000)	(4,500)
Margin requirement	15,000	22,500	22,500	22,500	22,500
Margin excess/ (deficiency)	(8,500)	(27,500)	(25,000)	(27,500)	(27,000)
Margin call amount/ (Age of margin call)	8,500(T)	8,500 (T+1) 19,000 (T)	8,500 (T+2) 19,000 (T+1)	8,500 (T+3) 19,000 (T+2)	8,500 (T+4) 19,000 (T+3)
Allowable trading activity	All	All	All	ALL	LT

Note 1

Remarks

Note 1 Liquidating trading activity was allowed as margin call of RM8,500 was outstanding beyond the permissible payment time frame of T+3.

Illustration Five

Debit Account Secured by Adequate Margin Deposit

	Mon	Tue	Wed	Thurs
Net equity	10,000	12,500	(2,500)	(2,500)
Margin requirement	15,000	22,500	0	7,500
Margin excess/ (deficiency)	(5,000)	(10,000)	(2,500)	(10,000)
Margin call amount/ (Age of margin call)	-	-	-	-

Margin deposit (e.g. letter of credit)	20,000	20,000	20,000	20,000
Permissible trading activity	All	All	All	All

Remarks

The account was permitted to conduct all types of trading activity since it was properly margined by adequate margin deposit.

Illustration Six

Debit Account Secured by Inadequate Margin Deposit

	Mon	Tue	Wed	Thurs	Fri	Mon
Net equity	(5,000)	(3,000)	(5,000)	(15,000)	(15,000)	10,000
Margin requirement	22,500	22,500	30,000	30,000	30,000	7,500
Margin excess/ (deficiency)	(27,500)	(25,500)	(35,000)	(45,000)	(45,000)	2,500
Margin call amount/ (Age of margin call)	17,500 (T)	17,500 (T+1)	17,500 (T+2) 7,500 (T)	17,500 (T+3) 7,500 (T+1) 10,000 (T)	17,500 (T+4) 7,500 (T+2) 10,000 (T+1)	- - -
Margin deposit (e.g. letter of credit)	10,000	10,000	10,000	10,000	10,000	10,000
Allowable trading activity	All	All	All	All	LT	LT

Note 1 Note 2

Remarks

Note 1 On Friday, margin call of RM17,500 made on Tuesday was outstanding beyond the reasonable time of payment. Thus, the account could trade for liquidation only to reduce its margin exposure on Friday.

Note 2 Similarly on Monday, the account could only conduct liquidating trade until the margin calls issued had been properly negated and account was no longer in a margin deficiency status. Subsequently, the account could resume normal trading on Tuesday.

Relevant to : Rule 4.19(1)
Introduced with effect from : 15 August 2019
Amended : N/A
TP Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 4.19(1)

- (1) Rule 4.19(1) provides that a Trading Participant must not accept securities from Clients as margin payment unless:
- (a) the securities are Approved Securities; and
 - (b) the Trading Participant and each Client has executed a memorandum of deposit in such form as may be prescribed by the Exchange ("Memorandum of Deposit").
- (2) Pursuant to the above Rule, the template of the Memorandum of Deposit is prescribed in **Appendix 1**.

[End of Directive]

Appendix 1

TEMPLATE OF THE MEMORANDUM OF DEPOSIT UNDER RULE 4.19(1)

[Name and registered address of Trading Participant]

Dear Sirs,

MEMORANDUM OF DEPOSIT

In consideration of you trading in derivatives contracts on my behalf from time to time, I, *[Fill in name of client]* of *[Fill in the address of the client]*, have deposited or will deposit with you from time to time as may be required by you, the securities enumerated in Schedule 1 and such other securities that may be accepted by you ("the Securities") on the following terms and conditions:

1. I confirm that I am entitled to pledge the Securities to you and where necessary, have obtained the relevant authorisation to do so in accordance with the requirements of the law, and that the Securities are free from liens, encumbrances or any prior pledge(s). I pledge the Securities as part of or the total margin required by you in accordance with Rule 4.18 of the business rules of Bursa Malaysia Derivatives Berhad ("Bursa Derivatives"), arising from the Open Positions in respect of derivatives contracts traded on my behalf on the exchange i.e. Bursa Derivatives by you or given up to you. Open Positions means the position of a party under a derivatives contract whose rights or obligations have not expired or been discharged or where the rights/and or obligation under the derivatives contract are yet to be fulfilled.
2. I represent and confirm that the Securities are held in a central depository system maintained by Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") and in this respect I will transfer and/or cause to be transferred the Securities which are pledged to you under Clause 1 to a securities account held in your name or the name of your nominee with Bursa Depository, the particulars of which will be furnished by you.
3. Upon transfer of the Securities in accordance with Clause 2, the Securities pledged under Clause 1 will include all stocks, shares and other securities, rights or other property paid, distributed, accruing or offered at any time (by way of dividends, bonus, redemption rights, preference, option, warrant or otherwise) on, to or in respect of or in substitution of any of the Securities ("the Additional Securities") and all dividends paid or payable on the Securities and the Additional Securities ("the Dividends"). Reference to the word Securities wherever appearing in this Memorandum of Deposit, will include Additional Securities unless the context otherwise requires, or unless expressly excluded.
4. Even though the Securities are transferred to you in accordance with Clause 2 and pledged to you in accordance with the terms of this Memorandum of Deposit, you will have no duty or responsibility and will be under no obligation to exercise any rights incident to the Securities including the exercise of power to purchase shares or stocks under any warrant or option or to take up any rights issue or voting rights. In the event that I intend to exercise any rights incident to the Securities including the exercise of power to purchase shares or stocks under any warrant or option or to take up any rights issue or voting rights, I acknowledge that I will have to withdraw the Securities and that the withdrawal will only be allowed by you in circumstances stipulated under Clause 8 unless determined otherwise by you and when withdrawn I will be entitled to exercise the same in the manner that I deem fit without any further reference to you. In relation to Dividends, the same will immediately be released to me upon clearance of the Dividend cheques/s or if the Dividends are credited directly into your bank account, receipt by you of the Dividends, even though the securities have been pledged to Bursa

Malaysia Derivatives Clearing Bhd ("Bursa Clearing (D)") pursuant to Clause 5 of this Memorandum of Deposit.

5. I consent and authorise that any or all of the Securities deposited and pledged with you in accordance with the terms of this Memorandum of Deposit may be pledged at any time and from time to time to Bursa Clearing (D) who is the clearing house for the derivatives contracts traded on Bursa Derivatives as part of or the total margin required by Bursa Clearing (D) as security against the non-performance of your obligations to Bursa Clearing (D) in respect of clearing of derivatives contracts traded on Bursa Derivatives and that Bursa Clearing (D) will at any time have full rights to sell, exchange, convert into money or otherwise dispose of or realise or concur in selling, exchanging, converting into money or otherwise dispose of or realise the Approved Securities or any part of it as Bursa Clearing (D) may in its absolute discretion select and for such consideration and on such terms as Bursa Clearing (D) may think fit and to do all such acts and things as Bursa Clearing (D) may consider necessary or desirable for the realising of the Approved Securities or any part of it if you default on your obligations to Bursa Clearing (D). These are subject to the following conditions:
 - i. That the utilisation of the Securities must be strictly limited to the purpose/s above;
 - ii. That the Securities must be made available to me for withdrawal in circumstances permitted in this Memorandum of Deposit and in the event that the Securities are not returned to me pursuant to the above, my recourse will be against you as stipulated in Clause 10 and not against Bursa Clearing (D); and
 - iii. That the Securities must be taken into account in computing the margin that has been deposited by me with you under Clause 1; and
 - iv. That the value of the Securities must be set off as against the sum owed to you arising from a default under Clause 11.
6. I further agree to execute all relevant documents as may be required by you at any time and from time to time for the purpose of facilitating and giving effect to Clause 5.
7. I agree and consent that my rights to the exercise of and/or all or any dealings with respect to and in relation to the rights, benefits, powers and privileges in respect of or arising from the Securities and/or as conferred under the relevant laws and/or the Memorandum and Articles of Association of the issuer of the Securities shall be subject to the terms of this Memorandum of Deposit. I further agree that I shall not enter into any dealings and/or any arrangement howsoever called with respect to the Securities except where permitted in this Memorandum of Deposit and/or by you.
8. I will be entitled to withdraw any or all of the Securities deposited and pledged in this Agreement, by providing you with written notice of my withdrawal, in any of the following circumstances:
 - (i) where the Securities are in surplus of the amount of margin required by you for the purposes stipulated in Clause 1 of this Memorandum of Deposit, to the extent of the surplus amount; or
 - (ii) where the value of the Securities to be withdrawn is replaced/exchanged with any other securities or form/s of collateral acceptable by you or cash of equal value; or
 - (iii) where I no longer have any Open Positions in respect of derivatives contracts traded on my behalf by you or given up to you and have no sums outstanding owed to you with regards to my obligations stipulated in Clause 1 of this Memorandum of Deposit.
9. Subject to Clause 11, where the withdrawal of the Securities is permitted under Clause 8, the Securities will be transferred to a securities account(s) designated by me subject to the rules and

procedures of Bursa Depository and the said transfer must not be effected later than 2 clear market day from the date of the receipt by you of the notice stipulated in Clause 8.

10. In the event that you are not able to return the Securities and/or the Additional Securities to me within the timeframe stipulated in Clause 9 ("Initial Period") for any reason(s) whatsoever, you must within 5 clear market days from the expiry of the Initial Period take measures to procure and return to me those Securities in specie and in the event that you are unable to procure such securities due to circumstances beyond your control, you must provide me with the market value of those Securities in monetary form. Market value of the Securities must be computed based on the weighted average price of the Securities plus 1% (of the weighted average price of the Securities) on the trading day or the last trading day, as the case may be, preceding the date that delivery of Securities in specie should have been made under this clause. I agree that once these Securities in specie is returned or monetary compensation is paid to me pursuant to this clause, the same will serve as full and final settlement of your obligation under Clause 8, Clause 9 and this clause and I will have no further claim against you in relation thereto.
11. Where I default in the performance of any of my obligations arising from the Open Positions in respect of derivatives contracts traded on my behalf by you or given up to you, I acknowledge that you will have full rights to sell, exchange, convert into money or otherwise dispose of or realise or concur in selling, exchanging, converting into money or otherwise disposing of or realising the Securities or any part thereof as you may in your absolute discretion select and for such consideration and on such terms as you may think fit to do all such acts and things as you may consider necessary or desirable for the realising of the Securities or any part of it. The consideration received from the above, must be utilised towards the discharge of the monies owing by me to you pursuant to the above default and the residue of it (if any) must be paid to me.
12. I consent and agree to the transfer of the legal ownership of the Securities to any party arising from the exercise of your powers under Clause 11 and in connection to it I authorise you to execute all relevant documents at any time and from time to time and accord to you all rights and powers to take the necessary steps to execute and give effect to the above said transfer. Despite the above, where required by you, I will also execute all relevant documents for the purpose of executing and giving effect to the above said transfer.
13. I acknowledge and agree that the terms stipulated in this Memorandum of Deposit will be subject to the Rules and Directives issued by Bursa Derivatives from time to time in connection with the depositing of securities for the purpose stipulated under Clause 1 ("the Provisions") and I will comply with the Provisions as if the same is stipulated in this Memorandum of Deposit. In the event of any inconsistency between the terms stipulated in this Memorandum of Deposit and the Provisions, the Provisions will prevail.
14. Where additional securities are deposited with you to satisfy the margin required by you for the purpose stipulated in Clause 1, the provisions of this Memorandum of Deposit will equally apply to those additional securities deposited. In this respect, Schedule 1 of this Memorandum of Deposit will be read to include the above additional securities as if enumerated in it and the word Securities wherever appearing in this Memorandum of Deposit will also include the above additional securities.
15. Pursuant to Clause 14, where additional securities are deposited with you as margin, you must provide me with written confirmation of such a deposit of securities.
16. Any demand, request or notice made under this Memorandum of Deposit by me or you must be in writing and addressed to the address specified in this Memorandum of Deposit or such address as notified in writing from time to time.

17. I agree that you may deduct, from monies held by you, all fees, cost incurred, stamp duty and other charges relating to or in connection with the execution of this Memorandum of Deposit.
18. This Memorandum of Deposit will be binding and enure to my and your benefit and our successors, legal representatives and permitted assigns.
19. I indemnify you and hold you indemnified for any loss, legal costs (including third party costs), damage or liability suffered or incurred by you, whether directly or otherwise, arising as a result of your reliance on the representations made in Clause 1 in accepting the securities pledged under this Memorandum of Deposit.
20. I agree that this Memorandum of Deposit will be governed by and construed in all respects in accordance with the laws of Malaysia and I will submit to the jurisdiction of the courts of Malaysia in all matters set out in this Memorandum of Deposit.

Dated this [] day of [] Year []

.....
Common Seal or Signature

Name:

Designation of Authorised Signatory/ies(where it is a corporation):

In the presence of,

.....
Signature

Name:

NRIC No:

[End of Appendix 1]

Relevant to : Rule 4.25(3)
Introduced with effect from : 1 September 2016
Amended : 15 August 2019 vide TP Circular No. 12/2019
TP Circular No(s). : 11/2016
Refer also to Directive No(s). : N/A

1. Rule 4.25(3)

- (1) Rule 4.25(3) provides that if parties are unable to agree on an arbitral forum for the settlement of disputes under Rule 4.25(1) or (2), then such parties must settle the dispute by arbitration before an arbitral forum prescribed by the Exchange.
- (2) In discharging the obligation under the said Rule, a Participant must, amongst others, comply with the requirement set out below.

1.1 Arbitral Forum

If parties are unable to agree on an arbitral forum for the settlement of disputes under Rule 4.25(1) or (2), then such parties must settle the dispute by arbitration administered by the Asian International Arbitration Centre (“**AIAC**”) in accordance with the AIAC Fast Track Arbitration Rules.

For further information on the AIAC, please refer to their website:

<https://www.aiac.world/>

[End of Directive]

Relevant to : Rules 5.05 and 5.17
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rules 5.05 and 5.17

- (1) Rule 5.05 states that a Trading Participant must establish and maintain a compliance function which is responsible to monitor compliance with these Rules, Directives and the Securities Laws and to provide advice on all the relevant requirements that a Trading Participant must comply with, in carrying out the Trading Participant's business.
- (2) Rule 5.17 states that a Universal Broker, 1+1 Broker, Special Scheme Broker or Investment Bank may carry out the business of dealing in derivatives through its subsidiary or a subsidiary of its holding company which is a Trading Participant.
- (3) In discharging the obligations in the said Rules, a Trading Participant must, amongst others, comply with the requirements set out below.

1.1 Compliance Functions for Dealing in Derivatives at the Universal Broker's, 1+1 Broker's, Special Scheme Broker's and Investment Bank's principal office and/or branch office(s).

- (1) Where a Universal Broker, 1+1 Broker, Special Scheme Broker or Investment Bank undertakes dealing in derivatives under Rule 5.17(1), unless otherwise required by the Exchange, Bursa Securities and/or the Commission, the Trading Participant may elect to have the department that is carrying out the compliance functions for the Universal Broker, 1+1 Broker, Special Scheme Broker and Investment Bank, undertake the compliance function for the Trading Participant. However, the Trading Participant must ensure that:
 - (i) the Universal Broker's, 1+1 Broker's, Special Scheme Broker's and Investment Bank's Compliance Officers' roles and responsibilities are not in any way whatsoever compromised or affected; and
 - (ii) the Universal Broker's, 1+1 Broker's, Special Scheme Broker's and Investment Bank's Compliance Officer so acting must have passed the relevant Commission's examination.
- (2) The Universal Broker, 1+1 Broker, Special Scheme Broker and Investment Bank must submit all compliance reports pertaining to the business of dealing in derivatives to the Trading Participant's Compliance Officer.
- (3) The Compliance Officer of the Trading Participant and the Trading Participant are ultimately responsible for the compliance functions in relation to dealing in derivatives at the Universal Broker's, 1+1 Broker's, Special Scheme Broker's and Investment Bank's principal office and/or branch office(s).

[End of Directive]

Relevant to : Rule 6.03
Introduced with effect from : 15 August 2019
Amended : N/A
TPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 6.03

(1) Rule 6.03 requires that:

- (a) a Participant and Registered Representative must not take advantage of a situation which arises as a result of a breakdown, malfunction or error in the ATS (committed by the Exchange or by other Participant) or in any other system, service or facility of the Exchange ("Systems Malfunction or Error");
- (b) a Participant who encounters a Systems Malfunction or Error must immediately notify the Exchange;
- (c) a Participant must take all necessary and appropriate actions to mitigate any potential losses arising from the Systems Malfunction or Error immediately after the Participant becomes aware or should have known that there is a Systems Malfunction or Error; and
- (d) the Exchange may provide prior notification that there is a Systems Malfunction or Error and direction to the Participants of any action to be taken by the Participants arising from the Systems Malfunction or Error.

(2) In discharging the obligation under the said Rule, a Participant must, amongst others, comply with the requirements set out below.

1.1 Notification of Systems Malfunction or Error

(1) Where a Participant becomes aware of any Systems Malfunction or Error, the following procedures must apply:

- (a) The Participant must make a report to the Exchange immediately upon becoming aware of the Systems Malfunction or Error or in any event, not later than the end of the Market Day in which the Participant becomes aware. Such report may be made orally, through electronic mail or facsimile transmission and must include the following information:
 - (i) details of the Systems Malfunction or Error;
 - (ii) circumstances in which the Systems Malfunction or Error was discovered by the Participant;
 - (iii) effect of the Systems Malfunction or Error on any transaction carried out by the Participant; and
 - (iv) steps taken or to be taken by the Participant to mitigate any adverse effect of the Systems Malfunction or Error on the Participant.
- (b) The report in paragraph 1.1(1)(a) ("Preliminary Report") must be followed by a written report made by the Compliance Officer on the Systems Malfunction or Error containing the information required under the Preliminary Report. The report must be submitted

before the commencement of the trading session of the Market Day immediately following the Market Day in which the Preliminary Report was submitted.

- (c) A Participant will be liable to the Exchange for all costs and expenses incurred by the Exchange arising from the Systems Malfunction or Error if, in the opinion of the Exchange, the purported Systems Malfunction or Error was caused directly or indirectly by the Participant.

1.2 Mitigation by Participants

- (1) A Participant is required to take all reasonable and necessary steps to alleviate any adverse effect of the Systems Malfunction or Error on the Participant and/or contracts effected by or through the Participant. Such steps must be taken by the Participant immediately upon the discovery of the Systems Malfunction or Error and/or the consequences of it. In any event, such steps must be taken not later than the end of the Market Day in which the Systems Malfunction or Error was discovered.
- (2) If, for any reason beyond its reasonable control, the Participant is unable to take the steps described in paragraph 1.2(1), the Participant is to immediately report its inability to the Exchange. The report must be made in the same manner as prescribed in paragraphs 1.1(1)(a) and 1.1(1)(b).
- (3) A Participant must ensure that each of its Registered Representatives:
 - (a) complies with the guidelines, instructions and directions issued by the Exchange pertaining to the systems; and
 - (b) does not intentionally take advantage of a situation arising as a result of any Systems Malfunction or Error.

[End of Directive]

DIRECTIVE ON THE LIST OF SPECIFIED EXCHANGES**No. 6.25(1)-001**

Relevant to : Rule 6.25(1)(b)
Introduced with effect from : 16 June 2014
Amended : 1 September 2016 vide TP Circular No. 11/2016; 15 August 2019 vide TP Circular No. 12/2019; 16 January 2020 vide TP Circular No. 5/2020 and 23 September 2021 vide TP Circular No. 16/2021
TP Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 6.25(1)(b)

- (1) Rule 6.25(1)(b) states that a Participant must not trade in contracts on another exchange unless the other exchange has been prescribed as a Specified Exchange by the Exchange in relation to any or all of the approved classes of standardized derivatives as defined in Section 105(3)(b) of the Capital Markets and Services Act.
- (2) Pursuant to the above Rule, the Exchange prescribes the requirements set out below.

1.1 List of Specified Exchanges and approved classes of contracts**List of Specified Exchanges**

- (1) An exchange may be prescribed as a Specified Exchange if it fulfills the following requirements:
- (a) it is a derivatives exchange which is:
 - (i) in a jurisdiction which regulator is a signatory to Appendix A of the International Organisation of Securities Commissions Multilateral Memorandum of Understanding; and
 - (ii) a member or an affiliate of the World Federation of Exchanges; and
 - (b) trading on the exchange does not contravene any of the Malaysian legal, regulatory or governmental policies and requirements.
- (2) In making an assessment under paragraph 1.1(1)(b) above, the Exchange will have regard to the following considerations:
- (a) trading in the exchange is not against any of Malaysia's international policies;
 - (b) the exchange is not from a sanctioned country under the United Nations;
 - (c) the exchange does not fall under the high-risk countries identified by the Financial Action Task Force;
 - (d) the exchange is not from a country that has no diplomatic relations with Malaysia; and
 - (e) any other considerations after consultation with the Commission, including matters falling under the purview of the Central Bank.
- (3) The Exchange may decide not to prescribe an exchange as a Specified Exchange even though the exchange fulfils the requirements set out in paragraph 1.1(1) above.

- (4) The list of Specified Exchanges is attached to this Directive as **Appendix 1**.

List of approved classes of contracts

- (5) Except for Contracts prohibited by the Malaysian regulatory authorities, all Contracts of a Specified Exchange in Appendix 1 of this Directive are of an approved class of standardized derivatives as defined in Section 105(3)(b) of the Capital Markets and Services Act.

[End of Directive]

APPENDIX 1

List of Specified Exchanges

Item No.	Country	Derivatives Market
1.	United States of America	Chicago Mercantile Exchange Group ICE Futures U.S. Cboe Exchange, Inc Cboe Futures Exchange, LLC
2.	Japan	Tokyo Financial Exchange Inc. Osaka Securities Exchange Tokyo Stock Exchange Tokyo Commodity Exchange
3.	United Kingdom	Euronext, Liffe ICE Futures Europe London Metal Exchange
4.	Australia	Australian Securities Exchange
5.	China	Dalian Commodity Exchange
6.	Hong Kong	HKEx
7.	Korea	Korea Exchange
8.	Singapore	SGX

DIRECTIVE ON THE LIST OF SPECIFIED EXCHANGES**No. 6.25(1)-001**

9.	Taiwan	Taiwan Futures Exchange
10.	Germany	Eurex Germany
11.	Switzerland	Eurex Switzerland
12.	France	Euronext Paris
13.	Italy	Italian Derivatives Market
14.	Spain	MEFF
15.	Austria	Wiener Borse
16.	Belgium	Euronext Brussels
17.	South Africa	SAFEX
18.	Sweden	Stockholm Stock Exchange
19.	Netherlands	Euronext Amsterdam
20.	India	National Stock Exchange of India The Stock Exchange Mumbai (BSE)
21.	Canada	Montreal Exchange
22.	United Arab Emirates	Dubai Mercantile Exchange
23.	Thailand	Thailand Futures Exchange

[End of Appendix 1]

Relevant to : Rule 6.44
 Introduced with effect from : 16 June 2014
 Amended : 31 October 2016 vide TP Circular 18/2016, 23 August 2017 vide TP Circular 14/2017, 26 February 2018 vide TP Circular 2/2018, 27 August 2018 vide TP Circular 14/2018 and 15 August 2019 vide TP Circular No. 12/2019, 13 January 2020 vide TP Circular No. 20/2019, 14 December 2020 vide TP Circular No. 27/2020 and 8 March 2021 vide TP Circular No. 3/2021
 TP Circular No(s). : N/A
 Refer also to Directive No(s). : N/A

1. Rule 6.44

- (1) Rule 6.44(1) empowers the Exchange, in consultation with the Clearing House, to determine the limits on the Open Positions which may be held or controlled by any Client or a Participant in any Contract ("position limits") or the number of Options that can be exercised by any Client or a Participant ("exercise limits") and grant exemption, modification or variation in relation to the position limits or exercise limits.
- (2) Pursuant to Rule 6.44(2), a Participant must ensure that a Client or Participant complies with the position limits and exercise limits which are applicable to the Client or Participant.
- (3) In connection with the above Rules, a Client or Participant must, amongst others, comply with the requirements set out below.
- (4) Any reference to the following terms will be construed as follows:
 - (a) 'omnibus account' means a Client Account utilised by a Client for the trading of Contracts for the Underlying Clients of the Client.
 - (b) 'Underlying Clients' means the persons whom the Client is trading in Contracts for.

1.1 Position Limits for Client or Participant

- (1) A Client or Participant acting alone or in concert with others, must not directly or indirectly hold or control Open Positions in a Contract in excess of the limits on Open Positions stated in **Schedule 1** of this Directive.
- (2) For purposes of Options, the limits stated are in relation to Open Positions net on the same side of the Market. A long Call Option, a short Put Option and a long underlying Futures Contract are taken as being on the same side of the Market; similarly a short Call Option, a long Put Option and a short underlying Futures Contract are taken as being on the same side of the Market.
- (3) For purposes of Futures Contracts, the limits stated are in relation to Open Positions net long or net short.
- (4) If a Client or a Participant holds or controls a combination of a futures contract and an option with the futures contract as the underlying Instrument, the Client or Participant must comply with the position limits for such option, as stated in **Schedule 1** of this Directive.
- (5) For instance, if a Client or a Participant holds or controls a combination of Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts and Options on Ringgit Malaysia Denominated Crude Palm Oil Futures, the Client or Participant must comply with the position limits stated for Option on Ringgit Malaysia Denominated Crude Palm Oil Futures.

- (6) Notwithstanding any provisions contained in Chapter 11, Trading Participants or Associate Participants who are in breach of position limits may be ordered by the Exchange, without notice, to limit trading to liquidation only. The Exchange may take any other action deemed appropriate in the circumstances.

1.2 Position Limits for Market Makers

- (1) A Market Maker acting alone or in concert with others, must not directly or indirectly hold or control Open Positions in a Contract in excess of twice the limits stated in **Schedule 1** of this Directive.
- (2) Market makers may seek an exemption to the position limits stated in paragraph 1.2(1) to assure that there is sufficient depth and liquidity in the marketplace.
- (3) In respect of paragraph 1.2(2) above, Market Makers must submit to the Exchange a written request seeking approval for the exemption and state the reasons why an exemption should be granted.

1.3 Exemption for Bona Fide Hedging Transactions

- (1) A Participant may apply to the Exchange for an approval to exceed the position limit as stated in **Schedule 1** of this Directive for bona fide hedging transactions. For the avoidance of doubt, a Client or an Underlying Client may apply for such approval through their Trading Participant. The Exchange may approve such application only if the person's open positions and proposed open positions are for bona fide hedging transactions. The Exchange's approval must be obtained before a person assumes positions which exceed the position limits as stated in **Schedule 1** of this Directive.
- (2) In considering an application received from a Participant in paragraph 1.3(1), the Exchange may require that the Participant provides or causes to be provided to the Exchange the details of exposure to the underlying market to justify the granting of the exemption for hedging purposes.
- (3) In approving an application received from a Participant under paragraph 1.3(1), the Exchange may impose any terms and conditions as it deems fit.
- (4) If a Participant receives the Exchange's approval, positions in Contracts which result from bona fide hedging transactions will not be included in the computation of positions restricted by the position limits as stated in **Schedule 1** of this Directive.
- (5) In respect of hedging with FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract or Option on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures, such transactions will only qualify for an exemption if the underlying stock portfolio:
- (i) contains at least 3 FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI) stocks and none of these stocks account for more than 50% of the total value of the underlying stock portfolio; and
 - (ii) comprises stocks in at least 3 sectors.
- (6) The Exchange reserves the right to approve other underlying stock portfolio that may not meet the requirements in paragraph 1.3(5), if it is of the opinion that the underlying stock portfolio does represent a bona fide hedge.
- (7) The Exchange may revoke the exemption granted to a Participant under paragraph 1.3.

1.4 Limit on Uncovered Short Positions for Stock Option Contract

- (1) The uncovered short in the money positions for Stock Option Contract on a market wide basis must not be more than 10% of the underlying free float, or any other percentage as may be determined by the Exchange in light of the prevailing market conditions in the Market and Underlying Market.
- (2) If the limit in paragraph 1.4(1) is breached, the Exchange may prohibit any further opening writing transactions in that class of options, or it may prohibit the uncovering of any existing covered Short Positions in one or more series of that class of Options.

1.5 Exercise Limits for Stock Option Contract

- (1) The exercise limits for Stock Option Contract will be equivalent to the position limits as stated in **Schedule 1** of this Directive.
- (2) In relation to paragraph 1.5(1), a Client or Participant acting alone or in concert with others, must not directly or indirectly exercise more than the exercise limits within 5 consecutive Business Days its aggregate Long Positions for all contract months combined.
- (3) Notwithstanding any provisions contained in Chapter 11, Trading Participants or Associate Participants who are in breach of the exercise limits may be ordered by the Exchange, without notice, to stop any further exercise of the Options. The Exchange may take any other action deemed necessary in the circumstances.

1.6 Exemption from Position Limits and Exercise Limits for Omnibus Accounts

- (1) A Participant may allow a Client who maintains an omnibus account to hold positions or exercise Options that exceed the position limits or exercise limits as stated in **Schedule 1** of this Directive subject to the following conditions:
 - (i) the Participant is satisfied as to the financial probity of the Client;
 - (ii) the open positions held or controlled or the exercise of Options by each of the Underlying Clients in the omnibus account must not exceed the position limits or exercise limits as stated in **Schedule 1** of this Directive except as allowed under paragraph 1.3 above; and
 - (iii) compliance with any other terms or conditions that the Exchange may prescribe as it deems fit.
- (2) A Participant who allows a Client to exceed the position limits or exercise limits pursuant to paragraph 1.6(1) above must notify the Exchange immediately of the following:
 - (i) that the conditions in paragraph 1.6(1) have been complied with;
 - (ii) the details of the omnibus account including the identity of the Client and the Underlying Clients; and
 - (iii) any other information as may be requested by the Exchange.
- (3) If any of the provisions in this paragraph 1.6 is not complied with, the Exchange may direct the Participant to revoke the exemption granted to the Client pursuant to paragraph 1.6(1) above.

- (4) Where an exemption has been granted pursuant to paragraph 1.6(1), the provisions in Part F of Chapter 6 and paragraphs 1.1 and 1.5 above in relation to position limits or exercise limits and any provisions relating to a breach of such limits that are applicable to a Client directly or indirectly ("the relevant provisions") will also be applicable to each of the Underlying Clients. In this respect, all actions of each of the Underlying Clients will be construed to be the actions of the Client.
- (5) The Participant must ensure that an omnibus account in relation to which an exemption has been granted under paragraph 1.6(1) is identified as such in the books and records of the Participant.

[End of Directive]

DIRECTIVE ON POSITION LIMITS AND EXERCISE LIMITS	No. 6.44-001
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Schedule 1

Stock Option Contract

The position limits in relation to Stock Option Contract are set out in 3 tiers as follows:

Past 6 Months Trading Volume For The Underlying Market		Underlying Market Free Float	Position Limits for all contract months combined (net on the same side of the Market)
More than 45 million	and	More than 500 million	5,000
More than 60 million	and	More than 250 million	5,000
More than 45 million	and	More than 250 million	2,500
More than 60 million	and	250 million or less	2,500
45 million or less	and	More than 500 million	2,500
None of the above			1,000

All other Contracts

Contract	Position Limits	
	All contract months combined	Others
AGRICULTURE CONTRACTS		
Ringgit Malaysia (RM) Denominated Crude Palm Oil Futures Contract	30,000 Contracts	a) 1,500 Contracts for spot month b) 20,000 Contracts for any one contract month (except for spot month)
Option on Ringgit Malaysia Denominated Crude Palm Oil Futures	an equivalent of 30,000 Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts (Option on Ringgit Malaysia	an equivalent of 20,000 Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts for any one contract month

Contract	Position Limits	
	All contract months combined	Others
	Denominated Crude Palm Oil Futures and Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts combined)	(Option on Ringgit Malaysia Denominated Crude Palm Oil Futures and Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts combined)
United States Dollar (USD) Denominated Crude Palm Oil Futures Contract	8,000 Contracts	a) 500 Contracts for spot month b) 5,000 Contracts for any one contract month (except for spot month)
Crude Palm Kernel Oil Futures Contract	3000 Contracts	a) 500 Contracts for spot month b) 2,000 Contracts for any one contract month (except for spot month)
United States Dollar (USD) Denominated RBD Palm Olein Futures Contract	15,000 Contracts	a) 800 Contracts for spot month b) 10,000 Contracts for any one contract month (except for spot month)
Option on United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract	an equivalent of 15,000 United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract (Option on United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract and United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract combined)	an equivalent of 10,000 United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract for any one contract month (Option on United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract and United States Dollar Denominated Refined, Bleached and Deodorized Palm Olein Futures Contract combined)

Contract	Position Limits	
	All contract months combined	Others
EQUITY CONTRACTS		
FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract	10,000 Contracts	n/a
Option on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures	an equivalent of 10,000 FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract (Option on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures and FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract combined)	n/a
Single Stock Futures Contract (for each individual Single Stock Futures Contract)	1) 1,350 Contracts; or 2) 2,300 Contracts (if Average Daily Trading Volume of the underlying stocks is more than 20 million units of stocks for the most recent 6-month period)	1) 1,350 Contracts for any month; or 2) 2,300 Contracts for any month (if Average Daily Trading Volume of the underlying stocks is more than 20 million units of stocks for the most recent 6-month period)
Mini FTSE Bursa Malaysia Mid 70 Index Futures Contract	15,000 Contracts	n/a
METAL CONTRACTS		
Gold Futures Contract	25,000 Contracts	n/a
Tin Futures Contract	1,000 Contracts	500 Contracts for spot month
INTEREST RATE CONTRACTS		
3-Month KLIBOR Futures Contract	5,000 Contracts	n/a

Contract	Position Limits	
	All contract months combined	Others
3-Year MGS Futures Contract	10,000 Contracts	10,000 Contracts in any one quarterly month
5-Year MGS Futures Contract	10,000 Contracts	10,000 Contracts in any one quarterly month
10-Year MGS Futures Contract	10,000 Contracts	10,000 Contracts in any one quarterly month

[End of Schedule 1]

Relevant to : Rules 7.01 and 7.02
Introduced with effect from : 15 August 2019
Amended : N/A
Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 7.01

- (1) Rule 7.01 requires a Trading Participant to keep up-to-date accounting and other books and records, and which must comply with the Exchange's requirements.
- (2) In discharging the obligations in the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

1.1 Accounting and other books and records

- (1) A Trading Participant must prepare the Trading Participant's accounting and other books and records to:
 - (a) sufficiently show and explain the transactions and financial position of its business such that they are able to disclose with substantial accuracy the financial position of the Trading Participant at the close of business on any day;
 - (b) comply with the requirements set out in **Appendix 1** of this Directive;
 - (c) enable outstanding Client and debtor balances to be readily identified with specific transactions and with the dates on which these transactions occur.
- (2) A Trading Participant must ensure that bank reconciliations are prepared at least once a month by not later than the 10th day of the following month.
- (3) A Trading Participant with Branch Office(s) must prepare the Trading Participant's financial statements and accounts in the following manner:
 - (a) on a consolidated basis reflecting detailed breakdowns for the Principal Office and the Branch Office(s); and
 - (b) computations of all matters prescribed in these Rules or directed by the Exchange for the Trading Participant's Principal Office and Branch Offices must be on an aggregated basis as matters relating to a single entity.

2. Rule 7.02

- (1) Rule 7.02 requires a Trading Participant to submit to the Exchange all financial statements the Exchange specifies within the period prescribed, and which must comply with the Exchange's requirements.
- (2) Pursuant to Rule 7.02, a Trading Participant must comply with the accounting and financial reporting requirements in **Appendix 1** of this Directive in preparing its financial statements.

[End of Directive]

APPENDIX 1

ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS

(1) Requirements not applicable to Investment Banks

The requirements in paragraphs (5) to (11) below are not applicable to a Trading Participant which is an Investment Bank.

(2) Date of record

All financial transactions must be recorded at the date on which the Trading Participant enters into an irrevocable commitment to carry out the transaction.

(3) Reconciliation of balances

A Trading Participant must reconcile all balances as frequently as is appropriate for the volume of transactions on the accounts. Any differences, other than differences in timing, must be immediately corrected.

(4) Trade date accounting

A Trading Participant must use trade date accounting.

(5) Agreement with records

A Trading Participant must prepare the financial reporting statements from its books and records, and ensure that the financial reporting statements are in agreement with these books and records.

(6) True and fair

A Trading Participant must prepare the financial reporting statements so as to give a true and fair view of the result for the period, the financial position and state of affairs of the Trading Participant.

(7) Offsetting or netting

A Trading Participant may not offset amounts on the balance sheet and profit and loss account in the Trading Participant's financial reporting statements for items representing assets or income against amounts for items representing liabilities or expenditure except in the case of balances with counterparties where the parties to the transaction have expressly agreed that they shall be settled on a net basis for the same value date.

(8) Reporting currency

A Trading Participant must use the Malaysian Ringgit as the Trading Participant's reporting currency in the Trading Participant's financial reporting statements.

(9) General rule

A Trading Participant must prepare the Trading Participant's financial reporting statements in a form that is appropriate for the Trading Participant's business and in a manner that complies with the Companies Act and generally accepted accounting principles.

(10) **Substance over legal form**

A Trading Participant must include each item in the Trading Participant's financial reporting statements in such a way as to reflect the substance and not merely the legal form of the underlying transactions and balances.

(11) **Provision for taxation**

A Trading Participant must make adequate provision for both current and deferred taxation.

[End of Appendix]

Relevant to : Rules 7.05 and 7.06
Introduced with effect from : 15 August 2019
Amended : N/A
POs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 7.05

- (1) Rule 7.05 requires a Trading Participant to maintain a Record that sufficiently explains Off-Balance Sheet transactions entered by it.
- (2) In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

1.1 Records on Off-Balance Sheet transactions

A Trading Participant must keep the following Records on Off-Balance Sheet transactions:

- (a) the duly executed agreements relating to the Trading Participant's entry into Off-Balance Sheet transactions;
- (b) specific reasons for entering into the Off-Balance Sheet transactions;
- (c) description of the counterparties to the Off-Balance Sheet transactions, their identities, corporate profiles and background, in sufficient detail to apprise of the Trading Participant's potential risks related or incidental to the Off-Balance Sheet transactions;
- (d) description of the collateral intended to be provided in relation to the Off-Balance Sheet transactions, if applicable;
- (e) the resolution of the Trading Participant's board of directors at a meeting approving the entry into the Off-Balance Sheet transactions by the Trading Participant; and
- (f) such other documents and information as may be required by the Exchange.

2. Rule 7.06

- (1) Rule 7.06 requires a Trading Participant to lodge with the Exchange a monthly report on Off-Balance Sheet transactions in the form as prescribed by the Exchange.
- (2) In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

2.1 Reporting on Off-Balance Sheet transactions

- (1) A Trading Participant must submit a monthly report to the Exchange in the form prescribed in **Appendix 1**.
- (2) A Trading Participant must submit the monthly report referred to in paragraph 2.1(1) by the 10th Market Day of the immediately following month in respect of the following matters:
 - (a) any Off-Balance Sheet transaction entered into by a Trading Participant during the preceding month;

- (b) any Off-Balance Sheet transaction performed or discharged by the Trading Participant during the preceding month;
 - (c) any Off-Balance Sheet transaction which remains to be performed or discharged during the preceding month;
 - (d) any occurrence of an Adverse Event; and
 - (e) any change to the original terms and conditions of the Off-Balance Sheet transactions specified in paragraph 2.1(2)(a), (b) and (c).
- (3) For purposes of the reporting requirement under this Directive, 'Adverse Event' refers to any one or more of the events specified in the Off-Balance Sheet transaction(s) agreement that obliges a Trading Participant to perform and discharge the Trading Participant's obligations under the Off-Balance Sheet transaction(s).
- (4) The monthly report must be submitted by way of electronic transmission as notified by the Exchange.

[End of Directive]

DIRECTIVE ON OFF-BALANCE SHEET TRANSACTIONS	No. 7-002
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APPENDIX 1

OFF-BALANCE SHEET TRANSACTIONS
MONTH OF: _____

TRADING PARTICIPANT: _____

No.	Date of Transaction / Agreement	Nature of Transaction	Name of Instruments (if applicable)	Quantity	Value (RM)	Counterparty	Transaction Period	Nature of Financial Arrangement and Financier (if applicable)

- Note: 1. Report(s) on Adverse Events in relation to the abovementioned Off-Balance Sheet transaction(s) must be appended to this attachment.
2. Report(s) relating to any changes, amendments, variations or supplements to the terms and conditions of the abovementioned Off-Balance Sheet transaction(s) must be appended to this attachment.

Relevant to : Rule 8.04
Introduced with effect from : 15 August 2019
Amended : N/A
TP Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Introduction

- (1) This Directive set out the requirements on the calculation of the various components making up the Adjusted Net Capital.
- (2) The following terms have the following meanings in this Directive unless the context requires otherwise.

Term	Meaning
Related Company	Means any corporation: <ul style="list-style-type: none">(i) in which the Trading Participant owns or effectively controls 20% or more of the issued share capital;(ii) which owns or effectively control 20% or more of the issued share capital of the Trading Participant;(iii) which effectively directs or has the ability to direct or indirectly influence the management policies of the Trading Participant;(iv) of which management policies the Trading Participant effectively directs or has the ability to directly or indirectly influence;(v) where one party holds or effectively controls 20% or more of the issued share capital of that corporation and simultaneously holds or effectively controls 20% or more of the issued share capital of the Trading Participant.
computation date	Means any day on which the Adjusted Net Capital of a Trading Participant is computed.

2. Rule 8.04

- (1) Rule 8.04 provides that a Trading Participant must calculate the Trading Participant's Adjusted Net Capital in the manner the Exchange determines.
- (2) In discharging the obligations under the said Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

2.1 Computation of Adjusted Net Capital

- (1) For the purpose of calculating Adjusted Net Capital:
- (a) all Contracts must be marked to their current market value;

- (b) all unrealised profits and losses on all Contracts, forward and fixed price commitment contracts must be treated as realised profits and losses; and
- (c) unless otherwise specifically stated, the value ascribed to all other assets and liabilities must be their current market value.

Adjusted Net Capital is:

Permitted Assets

less

Total Liabilities

less

Additional Deductions

Permitted Assets

- (2) Permitted assets are cash and other assets which are commonly identified in accordance with generally accepted accounting principles prevailing as being current assets and are realisable for cash or collectible within 10 Business Days from the computation date, but must exclude:
 - (a) all prepaid expenses and deferred charges;
 - (b) all advances, loans and other receivables which are not secured except:
 - (i) brokerage, fees and commissions which have not been outstanding for longer than 10 Business Days from the due date;
 - (ii) all dividends which have not been outstanding for longer than 10 Business Days from the payable date;
 - (iii) receivables from the Clearing House but not including any asset lodged with the Clearing House in respect of contributions to the clearing fund or as security deposits;
 - (iv) receivables from the Exchange;
 - (v) receivables due in the ordinary course of business from a financial institution licensed by the Central Bank including interest due to be paid on the next Business Day but excluding any other accrued interest;
 - (vi) receivables, other than fees, commission and brokerage, from other affiliates of the Clearing House;
 - (vii) receivables from another clearing house approved by the Exchange;
 - (viii) receivables resulting from the sale of inventories commonly associated with the business activities of the Trading Participants, which in the opinion of the Trading Participant's auditors, are good for collection; and
 - (ix) such other amounts as may be determined by the Exchange;
 - (c) any asset the possession, or control over the disposal, of which has been given to a financial institution as security for any credit facility provided by the financial institution

to the Trading Participant or as security for an irrevocable letter of credit, bank guarantee or surety or any line of credit provided by that financial institution to the Clearing House, the Exchange, another clearing house or to any other person;

- (d) shares held in a Related Company unless otherwise approved by the Exchange;
- (e) all advances or loans to any director or employee of the Trading Participant or any third party;
- (f) all amounts owed to the Trading Participant by its Related Companies other than amounts falling within the description in paragraph 2.1(2)(b)(v);
- (g) all intangible assets;
- (h) all exchange participations and participations of clearing houses;
- (i) all securities except:
 - (i) Malaysian government securities;
 - (ii) bills, notes and debentures traded in the money market;
 - (iii) medium to long term bills, notes and debentures issued by financial institutions licensed by the Central Bank for which there are readily ascertained market prices;
 - (iv) securities listed on a stock exchange approved by the Exchange; and
 - (v) such other securities as may be approved by the Exchange;
- (j) such other items as may be determined by the Exchange.

Total Liabilities

- (3) Total liabilities are those liabilities which are commonly identified in accordance with generally accepted accounting principles prevailing as being short term and long term liabilities but exclude:
 - (a) liabilities under a subordinated loan agreement which fulfil the minimum criteria set out in paragraph 2.1(4) up to a maximum amount of 4 times the shareholders' funds of the Trading Participant;
 - (b) long term liabilities owed to a financial institution under a commercial loan secured by a fixed charge over real property or motor vehicles owned by the Trading Participant and applied for use in normal course of the business of the Trading Participant, up to an amount equal to the lower of net book value or 80% of the market value of the real property or motor vehicles;
 - (c) such other liabilities as may be determined by the Exchange.
- (4) For the purpose of paragraph 2.1(3)(a), a subordinated loan agreement must fulfil the following criteria:
 - (a) the Exchange is notified of the subordinated loan agreement;
 - (b) the repayment (including prepayment) of the whole or part of the loan must be made with the Exchange's prior written approval;

- (c) has at least 1 year remaining period;
- (d) the subordinated creditor will not claim or receive from the Trading Participant, by set-off or in any other manner, any subordinated debt unless and until all other debts of the Trading Participant not being subordinated debts has been paid or except with the prior written approval of the Exchange;
- (e) in the event of a dissolution, winding-up, liquidation or re-organisation of the Trading Participant, the creditors of the Trading Participant other than the creditor of the subordinated debt has the prior right to receive payment in full of the other creditors' debts before the subordinated creditor receives any payment in respect of the subordinated debts;
- (f) if despite paragraph 2.1(4), the subordinated creditor of the subordinated debt receives any distribution in respect of the subordinated debts, the creditor will pay such distribution over to the other creditors of the Trading Participant. This payment will be made rateably against the other creditors' debt until the other creditors' debts are paid in full; and
- (g) the Exchange reserves the right to suspend repayment of the loan at maturity date if it is of the opinion that the Trading Participant fails to meet the minimum financial resources requirements as stated in Rule 8.02(1).

Additional Deductions

- (5) The Exchange may prescribe as an additional deduction an amount, in relation to each of the following categories of permitted assets, expressed as percentage of the value of the relevant permitted asset, or in relation to other matters, from which the total value of permitted assets is to be deducted:
 - (a) Malaysian government securities;
 - (b) readily marketable Malaysian securities listed on a stock exchange approved by the Exchange;
 - (c) such other securities that may be approved by the Exchange;
 - (d) amounts due from Clients in respect of margin where such amounts are outstanding for more than 3 Business Days as at the computation date;
 - (e) the margin requirement on open contracts in the Proprietary Account of a Trading Participant which are not bona fide hedged contracts;
 - (f) the net debit balance arising from the marking-to-market or interim settlement of outstanding Contracts held by Clients as at the close of business on the computation date;
 - (g) inventories which are not hedged in any market or association;
 - (h) inventories which are not hedged by any hedging position in any market or association; and
 - (i) such other assets or amounts as may be determined by the Exchange.

- (6) For the purpose of this Directive, except in subparagraph (3)(b), a loan or other form of receivable is considered to be secured if:
- (i) collateral of the type, approved by the Clearing House and/or the Exchange, has been given to the Trading Participant as security for that loan or receivable and is at least of such value approved by the Clearing House and/or the Exchange;
 - (ii) the collateral is in the possession or control of the Trading Participant; and
 - (iii) the Trading Participant has a legally enforceable written security agreement executed by the debtor in its favour under which the Trading Participant has the power to readily sell or otherwise convert the collateral into cash in the event of the receivable being placed in jeopardy.

[End of Directive]

Relevant to : Rule 8.06
Introduced with effect from : 15 August 2019
Amended : N/A
TP Circular No(s). : TM Circular 33/98
Refer also to Directive No(s). : 2.01(2)-003

1. Rule 8.06

- (1) Rule 8.06 provides that a Trading Participant must comply with the early warning requirements for Adjusted Net Capital as prescribed by the Exchange.
- (2) In discharging the obligations under the above Rule, a Trading Participant must, amongst others, comply with the requirements set out below.

1.1 Early Warning Requirements for Adjusted Net Capital

- (1) A Trading Participant must observe their reporting obligations as specified in this directive when the respective trigger levels are breached.
- (2) A Trading Participant must monitor their Adjusted Net Capital at all times to ensure full compliance with this reporting requirements.

1.2 Early Warning Levels

- (1) The 2 levels of early warning are as follows:

(a) First Level

When a Trading Participant's Adjusted Net Capital is between 131% to 150% of the minimum Adjusted Net Capital required (being the greater of 10% of the amount of margin required or RM500,000.00) as computed based on Rule 8.02(1).

(b) Second Level

When a Trading Participant's Adjusted Net Capital is between 100% to 130% of the minimum Adjusted Net Capital required as computed based on Rule 8.02(1).

1.3 Obligations of a Trading Participant when its Adjusted Net Capital triggers the First Level of Warning

- (1) When a Trading Participant's Adjusted Net Capital triggers the first warning level as stated in paragraph 1.2(1)(a), a Trading Participant must:
 - (a) inform the Exchange;
 - (b) submit a concrete action plan to strengthen its financial position;
 - (c) compute and monitor its Adjusted Net Capital on a daily basis;
 - (d) update its general accounting records promptly to enable an effective monitoring of its Adjusted Net Capital; and

- (e) submit the following reports to the Exchange on a daily basis for review:
 - (i) List of Undermargined Accounts, total number of open positions and total initial margin required (**FORM EWL 1**);
 - (ii) List of Overloss Accounts (**FORM EWL 2**);
 - (iii) Statement of Segregation Requirements and Funds in Segregation (Form A) (please refer to Directive No. 2.01(2)-003 (Directives on Submission of Periodic Reports)); and
 - (iv) Statement of Adjusted Net Capital (Form B) (please refer to Directive No. 2.01(2)-003 (Directives on Submission of Periodic Reports)).
- (2) The Trading Participant must submit the reports in paragraph 1.3(1)(e) to the Exchange by 12.00 noon the next Business Day.

1.4 Obligations of a Trading Participant when its Adjusted Net Capital triggers the Second Level of Warning

- (1) When a Trading Participant's Adjusted Net Capital triggers the second warning level as stated in paragraph 1.2(1)(b), a Trading Participant must:
 - (a) inform the Exchange;
 - (b) compute and monitor its Adjusted Net Capital on a daily basis;
 - (c) continue to comply with paragraph 1.3(1)(e);
 - (d) submit a Statement of Financial Condition (Form C) (please refer to Directive No. 2.01(2)-003 (Directives on Submission of Periodic Reports)) on a daily basis by 12.00 noon the next Business Day.

[End of Directive]

LIST OF OVERLOSS ACCOUNT AS AT _____

Name of Member								
Account Number	Name of Client	Commodity / Exchange	Hedger / Speculator	Ledger Balance (RM)	Approved Securities	Floating Profit / Loss (RM)	Equity (RM)	Remarks

STATEMENT OF UNDERMARGINED CLIENTS' POSITIONS AS AT _____

Name of Member									
Clients Name / Account Number	Contract / Exchange	Delivery Period	Gross Open Position		Equity Balance	Approved Securities	Maintenance Margin Required	Amount Undermargined	Total Charged to ANC
			Long	Short					

DIRECT MARKET ACCESS HANDBOOK	No. 6-001
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Relevant to : Rule 6.27(1)
 Introduced with effect from : 15 August 2019
 Amended : N/A
 TPs' Circular No(s). : TP Circular No. 15/2008, TP Circular No. 23/2010 and TP Circular No. 11/2017
 Refer also to Directive No(s) : N/A

1. Rule 6.27(1)

- (1) This Rule provides that a Trading Participant may provide Direct Market Access if the Direct Market Access complies with the requirements prescribed by the Exchange.
- (2) In discharging the obligations under the said Rule, a Trading Participant is encouraged to adopt the best practices as set out below.

1.1 DMA Handbook

- (1) The best practices in providing Direct Market Access is set out in the DMA Handbook attached as **Appendix 1**.

[End of Best Practice]

BURSA MALAYSIA DERIVATIVES BERHAD
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BACKGROUND

The introduction of Direct Market Access (“DMA”) by Bursa Malaysia Derivatives Bhd (“Bursa Derivatives”) will enable direct electronic access by clients to Bursa Derivatives’ Automated Trading System (“the ATS”).

The DMA regulatory framework encompasses the Rules of Bursa Derivatives and the Trading Participants’ IT Security Standards (“TP IT Security Standards”).

KEY OBJECTIVES

Bursa Derivatives is issuing the “Direct Market Access Handbook” (“DMA Handbook”) with the following objectives:

1. To highlight key obligations of Trading Participants (“TPs”) under the Rules in relation to DMA.
2. To provide guidance to TPs in respect of practices recommended to be observed in relation to the discharge of their obligations under some of the Rules. Whilst not mandatory, these recommended practices are instructive of the minimum standards required to be observed by TPs, which may adopt additional controls as deemed fit in relation to their DMA business.

DEFINITIONS

Unless otherwise stated, words or expressions defined in the Rules of Bursa Derivatives shall when used in the DMA Handbook, carry the same definition. The term “DMA Participant” shall refer to TPs offering DMA, and the term “DMA Client” shall refer to Clients accessing the ATS via DMA.

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GUIDELINE ON RISK MANAGEMENT REQUIREMENTS

1. Conditions for Connectivity of DMA Clients

1.1. Clients' knowledge of the process for the submission of orders, Laws and Rules in relation to Trading on the Malaysian Derivatives Market

1.1.1 Rule 6.29(1) provides that a Trading Participant must only make DMA available to a Client and a person authorised by the Client to act on behalf of the Client, who has:

- knowledge of the process of entering DMA orders;
- knowledge of the requirements in the Rules, Directives and Trading Procedures in relation to trading on the market; and
- knowledge of the relevant laws pertaining to trading on the Market

1.1.2 For the purpose of discharging its obligations under Rule 6.29(1), we recommend DMA Participants to have procedures in place to ensure that the DMA Client demonstrates that it has knowledge of the matters set out in Rule 6.29(1) (refer to Section C.1.1.1 above). For example, the level of knowledge of DMA Clients can be assessed by asking relevant questions on the matters set out in Rule 6.29(1). The DMA Participant should also implement review procedures, such as discussions with DMA Clients and updates, to ensure that the DMA Client's required level of knowledge remains satisfactory.

In this respect, we recommend that the DMA Participant should provide its DMA Clients with information, guidance and training¹ on the following areas:

- The ATS features and functionalities i.e. trading phases, market timing, matching mechanism, order types, execution conditions and instrument state²;
- Contract specifications of products listed on Bursa Derivatives;
- Prohibited trading practices and trading offences; and
- Margining requirements.

1.1.3 In relation to DMA Clients accessing the ATS via Internet (refer to Section C.1.2.2 below), a DMA Participant may rely on a confirmation from the DMA Client that the Client and the persons authorised by the Client have knowledge of the matters set out in Rule 6.29(1).

1.2. DMA Client – Criteria and Requirements

The DMA regulatory framework encompasses the Rules of Bursa Derivatives, and regulates all forms of access to Bursa Trade where there is no intervention by a FBR. This includes direct connectivity to the DMA Participant's OMS Server to facilitate

¹ The requirements for the DMA Participant to train the DMA Client in the requirements of the Exchange Rules in relation to the entry of orders and trading and other applicable requirements, and to ensure that revisions and updates to the Laws, Exchange Rules are promptly communicated to the DMA Client should be incorporated in the Agreement between DMA Participant and DMA Client. Refer Section C.1.3.1 on Recommended Terms of Agreement.

² Refer to the "Trading Participant's Manual".

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order routing and algorithmic trading by buy-side institutions and hedge funds (sometimes referred to as “direct access”), and internet trading to facilitate retail participation in the derivatives market.

1.2.1 DMA Clients Accessing the ATS via an Access Device connected to a DMA Participant's OMS Server

The DMA Participant should limit access to the ATS via an Access Device connected to a DMA Participant's OMS server, to the following classes of entities:

- Licensed entities/ individuals under the CMSA;
- Participants of Bursa Malaysia Group;
- Licensed banks, licensed investment banks and approved money-brokers under the Financial Services Act 2013 / Islamic licensed banks under the Islamic Financial Services Act 2013; or
- Regulated entities in a recognized regulatory jurisdiction³ including, but not restricted to, brokers, financial institutions, insurance companies, investment companies, asset managers, discretionary funds, trust funds and employee benefit plans.

These classes of entities may be subject to simplified Client Due Diligence (“CDD”) due to the regulated nature of their business.

Clients that do not fall within the categories set out above may be allowed to connect “directly” to the DMA Participant's OMS server only if enhanced CDD measures (refer Section C.1.2.3 below) and careful consideration of the client risk profile have been carried out.

1.2.2 DMA Clients Accessing the ATS via Internet

Bursa Derivatives envisages that Clients that access the market via internet (“Internet Clients”) will comprise primarily retail clients and should be subject to enhanced CDD measures (refer Section C.1.2.3 below), unless there are special mitigating circumstances e.g. where reliable information on the Client can be obtained publicly, or where the Client has a good track record.

Internet Clients must be connected via an additional Web server, which is connected to an OMS server. The Web server may contain enhanced security features and added risk management controls/filters.

1.2.3 Know Your Client (“KYC”) Requirements

The requirements to monitor and report suspicious transactions are set out under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001⁴ and the Guidelines on Prevention of Money

³ A jurisdiction where there is an exchange that is recognised as a Specified Exchange pursuant to Section 105 of the Capital Markets and Services Act 2007 (“CMSA”) and Rule 6.25 of the Rules of Bursa Derivatives.

⁴ <http://www.parlimen.gov.my/actindexbi/pdf/ACT-613.pdf>

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Laundrying and Terrorism Financing for Capital Market Intermediaries⁵ issued by the Securities Commission Malaysia. In this respect, the DMA Participant must ensure that all reasonable steps are taken to ensure adherence to these KYC requirements.

We recommend that all reasonable steps should be taken to accurately establish the DMA Client's business and financial background, and its' investment objectives. The DMA Participant should be assured of the financial probity of the DMA Client and that it has sufficient financial resources to meet its obligations.

Enhanced CDD should be undertaken for clients with higher risk profiles, whilst simplified CDD may be conducted for clients with lower risk profiles e.g. regulated entities. The KYC measures undertaken in relation to eligibility requirements for DMA Clients should be reviewed regularly, at least on an annual basis. Suggested and recommended data to be obtained for simplified or enhanced CDD are as follows:

Client Type	Simplified CDD	Enhanced CDD
Individual	<ul style="list-style-type: none"> • IC or passport • Address – residential and permanent address, if different 	<ul style="list-style-type: none"> • IC or passport • Address – residential and permanent address, if different • Occupation • Latest 3 months' payslip or latest income tax statement or bank statement
Corporation	<ul style="list-style-type: none"> • Notice of registration • Constitution (if any) • Board Resolution on opening of account • Specimen signature of authorised signatories 	<ul style="list-style-type: none"> • Notice of registration • Constitution (if any) • Board Resolution on opening of account • Specimen signature of authorised signatories • Information on the nature of business and its corporate structure • Latest audited financial statement and/or management financial statements • Latest 3 month bank statement • Power of Attorney (if applicable)

In carrying out the above, the TP should exercise due diligence and be aware of any suspicious client behaviour(s) that warrant further enquiry or probe (herein referred to as "Red Flag"). Some of the situations of Red Flag are as follows:-

- a series of transactions or activities which are senseless or irrational in nature (e.g. constantly buying and selling securities at a loss)

⁵ Revised edition issued in December 2016

http://www.sc.com.my/eng/html/resources/guidelines/2007%20AML-G%20Final_1.pdf

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- the client requests to pay third parties or receives funding from third parties
- the client is reluctant to co-operate in verifying his/her identity
- the client frequently makes last minute changes to payment instructions
- orders are received from persons other than the account holder.

TPs should properly monitor other doubtful circumstances where clients' accounts may be subjected to abuse, including but not limited to cases where a few clients' accounts carry identical correspondence addresses.

Any unexplained information should always be investigated.

Assessments of the expected pattern of the activity of the client on a continuous basis throughout the business relationship with the client should also be considered.

1.2.4 Record of DMA Clients

Refer to Rule 4.14

1.3. Agreement between DMA Participant and DMA Client

Rule 6.29(2) requires a Trading Participant to execute a written agreement with the Client to whom the Trading Participant intends to provide Direct Market Access which addresses :

- The duties, obligations and rights of the Trading Participant and Client in relation to the Direct Market Access; and
- The Clients' compliance with the Rules, Directives and Trading Procedures.

1.3.1 Recommended Terms of Agreement

The following terms are recommended to be incorporated in the written agreement between the DMA Participant and the DMA Client to ensure that crucial provisions are agreed to prior to trading, to mitigate disputes, and to empower DMA Participants to take immediate preventive and corrective measures with respect to fair and orderly trading.

- The DMA Client shall enter orders and trade in compliance with the Rules of the Exchange and other applicable regulatory requirements;
- Specific parameters defining the orders that may be entered by the DMA Client are stated, including restriction to specific instruments or size of orders, and the DMA Participant shall have the right to reject orders that do not fall within the designated parameters of authorised orders;
- The DMA Participant has the right to reject an order for any reason;
- The DMA Participant has the right to change or remove an order in the Order Book and has the right to cancel any trade by the DMA Client for any reason;
- The DMA Participant has the right to discontinue accepting orders from the DMA Client at any time without notice;

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- The DMA Participant agrees to train the DMA Client in the requirements of the Exchange Rules in relation to the entry and trading of orders and other applicable requirements;
- The DMA Participant agrees to ensure that revisions and updates to Laws and Rules are promptly communicated to the DMA Client.

2. DMA Participant Internal Control Requirements

The DMA Participant shall have written policies and procedures and comply with the following internal control requirements in relation to the provision of connectivity to DMA Clients.

2.1. Internal Controls: Areas of Focus for DMA Participants

Whilst the fundamental requirements of effective internal control as set out in the Guidelines for Compliance Functions⁶ remain relevant for all TPs regardless of the medium of communication or delivery, there are a few critical internal control areas in relation to DMA trading that the DMA Participant should focus on:

2.1.1 Segregation of Duties

It is stated in the Compliance Guidelines that there must be strict separation between the credit control function, and the trading, dealing and marketing functions to ensure independence, and mitigate the risk and consequences of conflicts of interests.

It is recommended for DMA Participants to segregate the DMA direct execution desk from other Agency desks to ensure confidentiality of DMA Client Orders. Anonymity, along with increased control and speed of execution are the key benefits of trading via DMA, and the DMA Participant should endeavour to maximise these features.

2.1.2 Credit Controls

It is stated in the Compliance Guidelines that TPs must ensure that suitable credit limits are set for their clients. It is recommended that the CDD assessment of DMA Client's financial probity must be decided independently of the trading, dealing or marketing functions.

We recommend for DMA Participants to consider enforcing stricter credit control for clients requiring enhanced CDD requirements, especially in relation to overseas accounts. These may include the requirement to pay higher upfront maintenance margins, the collection of deposits and/or collateral as guarantee of performance, more frequent margin calls, restriction on total open positions and/or strict cut-loss policies.

⁶ The Guidelines for Compliance Functions is prescribed in the Directive No. 3.36-001 (Directives for Compliance Officers).

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It is recommended that credit limits and any subsequent variation of credit limits are authorised by a senior management officer of the DMA Participant who is independent of trading, dealing and marketing functions, and is not associated with the DMA Client in question.

It is stated in the Compliance Guidelines that TPs must ensure that proper systems and control procedures are implemented to ensure that their clients do not trade beyond the credit limits imposed. Further, risk filters (automated pre-execution checks) must be undertaken for all DMA Clients' orders. The risk filters are covered in greater detail under Section C.2.2 below.

2.1.3 Post-Trade Review

DMA Participants should also ensure that proper and adequate post trade risk management monitoring systems and procedures are set in place to monitor risk exposure of DMA Clients' trades with respect to total open positions, total Initial and Variation Margin etc. DMA Participants should ensure that account activity is monitored at least on a daily basis.

2.2. Risk Filters

Rule 6.28 states that a TP must have appropriate automated risk filters or have made the necessary arrangements for appropriate automated risk filters to check or screen a DMA Order before the DMA Order is executed in the ATS, for the purpose of ensuring that the DMA Order does not affect the orderliness and fair functioning of the Market. Filters are intended to establish points at which DMA Orders are tested and passed to the market only when pre-set conditions are met.

TPs need to have appropriate automated filters in relation to DMA. However, the Exchange will not prescribe the filters as the TPs are the ultimate parties bearing their clients' risk exposure. Each TP must determine what constitutes "appropriate filters" for their business. The nature and scope of the filters adopted is a matter for the TP to determine based upon its regulatory risk profile. They have the discretion to decide and impose the types of pre-trade risk filters that they require their clients to adopt which they are comfortable with.

The ATS offers a pre-execution credit check functionality ("Globex Credit Controls"). TPs will have to make the necessary arrangements with the Clearing Participants to ensure that the Globex Credit Controls are activated. Clearing Participants in arrangement with the TPs will access the Globex Credit Controls tools to set pre-execution credit checks for the TPs and their clients.