

ANNEXURE 1
in relation to the Readiness Audit – Self Assessment Approach,
Declaratory Approach and Green Lane

DIRECTIVES ON READINESS AUDIT – SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE	No. 401.4(k)-001
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Relevant to : Rule 401.4(k)
Introduced with effect from : 16 June 2016
Amended : N/A
TPs' Circular No(s). : TP 33/2012
Refer also to Directive No(s). : N/A

1. Rule 401.4(k)

- (1) Rule 401.4(k) provides that the Exchange shall be empowered to require the Participants to submit reports, information and/or documents to the Exchange in the manner, mode and frequency as shall be prescribed by the Exchange.
- (2) Pursuant to the above Rule, a Trading Participant must undertake a readiness audit in the circumstances prescribed below and in the manner set out below, and to submit the required document, declaration or notification as prescribed 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 ("Commission") and the Exchange must first undertake a readiness audit in accordance with these Directives.
- (2) An applicant wishing to commence new activities requiring the Exchange's approval only must also first undertake a readiness audit in accordance with these Directives. These activities are:
 - (a) the opening of a new Branch Office of a Trading Participant;
 - (b) the opening of a Trading Kiosk by a Trading Participant;
 - (c) the establishment of new/additional trading floor;
 - (d) the relocation of business premises or change of business address (applicable to Principal Office and Branch Office)¹;
 - (e) the commencement or relocation of trading in a dual licensed branch of a related stock broking company;
 - (f) the conversion of a Trading Kiosk to a Branch Office or vice-versa;
 - (g) the appointment of a designated representative to act for more than one corporate client;
 - (h) the offering of Discretionary Account Trading facilities to clients; and

¹ For the avoidance of doubt, the relocation of business premises 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.

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- (i) 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) Opening of a new Branch Office by a Trading Participant
 - (i) The SAA will apply to readiness audits required for approval to open the first 3 Branch Offices.
 - (ii) The DA will apply to readiness audits required for approval to open subsequent Branch Offices.
 - (c) All other activities of a Trading Participant (including Trading Kiosk)
 - (i) The SAA will apply to readiness audits required for approval to commence an activity for the first time.
 - (ii) The DA will apply to readiness audits required for approval of subsequent applications of the same nature.
- (5) Notwithstanding items (a), (b) and (c) 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

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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;

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- (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 opening of a new Branch Office of a Trading Participant;
- (b) the opening of a new Trading Kiosk by a Trading Participant;
- (c) the establishment of new/ additional trading floor;
- (d) the relocation of business premises or change of business address (applicable to Principal Office and Branch Office)²;
- (e) the commencement or relocation of trading in a dual licensed branch of a related stock broking company;
- (f) the conversion of a Trading Kiosk to a Branch Office or vice-versa;
- (g) the appointment of a new designated representative to act for an identified group of corporate clients (“Corporate Clients”), provided that the Exchange has earlier given its approval for one designated representative to act for the Corporate Clients;
- (h) the offering of Discretionary Account Trading facilities to clients; and
- (i) the commencement of proprietary trading.

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 the following manner:

² For avoidance of doubt, the relocation of business premises 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.

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- (a) in relation to the opening of a new Branch Office of a Trading Participant, the Green Lane Policy will apply to readiness audits required for approval to open the Trading Participant's 5th Branch Office onwards; and
- (b) in relation to the other activities, the Green Lane Policy will apply 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]

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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.

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- 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***
12th Floor, 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, Branch Office(s) and/or any of Trading Kiosk(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 Code 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.

Signed _____
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
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**BURSA MALAYSIA DERIVATIVES BERHAD/BURSA MALAYSIA DERIVATIVES
CLEARING BERHAD***
12th Floor, 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, Branch Office(s) and/or any of Trading Kiosk(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 Code 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. For Branch Office, to indicate the systems employed and whether the back office and operations are centralized at the Principal Office/ other Branch Office or whether there are remote terminals for processing of transactions.

[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.

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[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. For Branch Office, to indicate the systems employed and whether the back office and operations are centralized at the Principal Office/other Branch Office or whether there are remote terminals for processing of transactions.

[End of Appendix 5]