

**ANNEXURE 1**

**RULES OF BURSA MALAYSIA DERIVATIVES CLEARING BERHAD**

**RULE AMENDMENTS CONSEQUENTIAL TO THE OUTSOURCING REQUIREMENTS  
IN THE SECURITIES COMMISSION'S LICENSING HANDBOOK**

EXISTING PROVISIONS		AMENDED PROVISIONS
<b>Definitions and Interpretation</b>	New definition	<u>"Clearing and Settlement Functions"</u>  <u>The functions of a Clearing Participant in relation to clearing and settling Market Contracts.</u>
<b>Definitions and Interpretation</b>	New definition	<u>"Commission's Licensing Handbook"</u>  <u>The licensing handbook issued by the Commission pursuant to Section 377 of the Act and includes any subsequent amendments, modifications, variations, supplements or substitutes.</u>
<b>Definitions and Interpretation</b>	New definition	<u>"Service Provider"</u>  <u>The entity within the group or an external entity to which the Clearing Participant has outsourced the Clearing and Settlement Functions and includes any subsequent service provider(s) to whom the initial service provider or any subsequent service provider has further contracted the Clearing and Settlement Functions.</u>
<b>Rule 214A</b>	<b>Rule 214A Outsourcing by General Clearing Participants</b>	<b>Rule 214A Outsourcing by General Clearing Participants</b>
<b>Rule 214A</b>	(a) A General Clearing Participant is not permitted to outsource any of its functions as a General Clearing Participant except in accordance with these Rules.	<del>[Deleted]</del>
<b>Rule 214A</b>	(b) A General Clearing Participant may outsource its Back Office Functions if it:	<del>(b)</del> A General Clearing Participant <u>which outsources its may outsource its Back Office Clearing and Settlement Functions if</u> <u>it must :</u>

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	<p>(i) complies with the requirements that must be met prior to the outsourcing as set out under the Guidelines on Outsourcing as though the General Clearing Participant is the market intermediary mentioned in the Guidelines on Outsourcing; and</p> <p>(ii) has obtained the prior written approval of the Clearing House for any material outsourcing arrangement as required under the Guidelines on Outsourcing.</p>	<p><del>(i) —complies with these Rules, any directions that the Clearing House may issue and the requirements that must be met prior to the outsourcing as set out under the Commission's Guidelines-Licensing Handbook on Outsourcing as though the General Clearing Participant is the CMSL holder market intermediary—mentioned in the Commission's Licensing HandbookGuidelines on Outsourcing; and</del></p> <p><del>(ii) —has obtained the prior written approval of the Clearing House for any material outsourcing arrangement as required under the Guidelines on Outsourcing.</del></p>
<b>Rule 214A</b>	<p>(c) In relation to paragraph 3.02 of the Guidelines on Outsourcing, a General Clearing Participant may outsource a Back Office Function that involves decision making or interaction with clients where the functions relates to post trade, financing or custody services.</p>	[Deleted]
<b>Rule 214A</b>	<p>(d) A General Clearing Participant which has outsourced its Back Office Functions under this Rule 214A must, in relation to such functions:</p> <p>(i) comply with these Rules, the Guidelines on Outsourcing (as though the General Clearing Participant is the market intermediary mentioned in the Guidelines on Outsourcing) and any directives that may be issued by the Clearing House on this matter; and</p> <p>(ii) ensure that its service provider or sub-contractor complies with the Rules that are applicable to the outsourced functions in the same manner as the General Clearing Participant is required to.</p>	<p><del>(d) A General Clearing Participant which has outsourced its Back Office Functions under this Rule 214A must, in relation to such functions:</del></p> <p><del>(i) —comply with these Rules, the Guidelines on Outsourcing (as though the General Clearing Participant is the market intermediary mentioned in the Guidelines on Outsourcing) and any directives that may be issued by the Clearing House on this matter; and</del></p> <p><del>(ii) —ensure that its the sService pProvider(s) or sub-contractor complies with the Rules and directions that are applicable to the outsourced functions in the same manner as the General Clearing Participant is required to.</del></p>

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<b>Rule214A</b>	New provision	<u>(c) A General Clearing Participant remains accountable for all outsourced Clearing and Settlement Functions and will be held liable for any act or omission on the part of the Service Provider which results in a breach of these Rules.</u>
<b>Rule 214A</b>	(e) The Clearing House may, at any time, revoke any approval given to the General Clearing Participant for its material outsourcing or direct the General Clearing Participant to discontinue the outsourcing of the Back Office Functions, partly or wholly, for any reason whatsoever.	[Deleted]
<b>Rule 214A</b>	(f) For the purpose of this Rule, unless the context otherwise requires:  (i) “Back Office Functions” means back office functions as defined under the Guidelines on Outsourcing.	[Deleted]
	(ii) Guidelines on Outsourcing” means the “Guidelines on Outsourcing For Capital Market Intermediaries” issued by the Commission including subsequent amendments, modifications, variations, supplements or substitutes and any directives or guidelines as may be issued pursuant to the Guidelines on Outsourcing.	[Deleted]
	(iii) “service provider” has the same meaning as is assigned to it in the Guidelines on Outsourcing.	[Deleted]
	(iv) “sub-contractor” means the service provider to whom the initial service provider has further contracted the Back Office Functions.	[Deleted]
<b>Rule 214A</b>	(g) (i) This Rule 214A is not applicable to a General Clearing Participant which is an Investment Bank.	<u>(gd)</u> (i) This Rule 214A is not applicable to a General Clearing Participant which is an Investment Bank.

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	(ii) A General Clearing Participant which is an Investment Bank must instead comply with the Guidelines on Investment Banks and such other requirements of Bank Negara relating to the matter.	(ii) A General Clearing Participant which is an Investment Bank must instead comply with the Guidelines on Investment Banks and such other requirements of Bank Negara relating to the matter.
<b>Rule 214B</b>	<b>Rule 214B Outsourcing by Direct Clearing Participants</b>	<b>Rule 214B Outsourcing by Direct Clearing Participants</b>
<b>Rule 214B</b>	(a) For the purposes of this Rule, unless the context otherwise requires:  (i) "Back Office Functions" in this rule encompasses only the operational or administrative aspects of the entity's functions as a Direct Clearing Participant, including clearing and settlement of Open Contracts which have been concluded for its own account;	[Deleted]
	(ii) "service provider" means any entity which carries out the outsourced Back Office Functions; and	[Deleted]
	(iii) "sub-contractor" means the service provider to whom the initial service provider has further contracted the Back Office Functions.	[Deleted]
<b>Rule 214B</b>	(b) A Direct Clearing Participant is not permitted to outsource any of its functions as a Direct Clearing Participant except in accordance with this Rule.	[Deleted]
<b>Rule 214B</b>	(c) A Direct Clearing Participant may outsource its Back Office Functions relating to its function as a Direct Clearing Participant to a service provider or a sub-contractor provided that the Direct Clearing Participant complies with the conditions set out in this Rule 214B.	( <del>ea</del> ) A Direct Clearing Participant <del>which may outsource</del> s its <del>Back Office-Clearing and Settlement</del> Functions <del>relating to its function as a Direct Clearing Participant to a s</del> Service pProvider <del>or a sub-contractor provided that the Direct Clearing Participant</del> <del>must comply</del> es with the conditions set out in this Rule 214B.
<b>Rule 214B</b>	(d) The Direct Clearing Participant must ensure that:	[Deleted]

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	<p>(i) the service provider does not further assign the Back Office Functions to a sub-contractor unless the prior approval of the Direct Clearing Participant is first obtained; and</p> <p>(ii) the sub-contractor does not further assign the Back Office Functions to any party.</p>	
<b>Rule 214B</b>	(e) The Direct Clearing Participant must ensure compliance by the service provider and if applicable, the sub-contractor of all relevant requirements stipulated in any provision in these Rules, agreement between the Direct Clearing Participant and the Clearing House and direction issued by the Clearing House.	( <del>eb</del> ) The Direct Clearing Participant must ensure compliance by the <del>s</del> Service <del>p</del> Provider(s) and if applicable, the sub-contractor of all relevant requirements stipulated in any provision in these Rules, agreement between the Direct Clearing Participant and the Clearing House and direction issued by the Clearing House.
<b>Rule 214B</b>	(f) The Direct Clearing Participant will be deemed liable as a principal in relation to any breach by the service provider or the sub-contractor of any provision in these Rules, agreement between the Direct Clearing Participant and the Clearing House and direction issued by the Clearing House.	( <del>fc</del> ) <del>A Direct Clearing Participant remains accountable for all outsourced Clearing and Settlement Functions and will be held liable for any act or omission on the part of the Service Provider which results in a breach of these Rules. The Direct Clearing Participant will be deemed liable as a principal in relation to any breach by the service provider or the sub-contractor of any provision in these Rules, agreement between the Direct Clearing Participant and the Clearing House and direction issued by the Clearing House.</del>
<b>Rule 214B</b>	(g) Any direction issued by the Clearing House and directed to the Direct Clearing Participant, where applicable, is deemed to have also been issued and directed to the service provider and the sub-contractor and shall be regarded to be within the knowledge of the service provider and the sub-contractor.	[Deleted]
<b>Rule 214B</b>	(h) The Direct Clearing Participant must ensure that: <p>(i) the service provider and if applicable, the sub-</p>	[Deleted]

EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>contractor protects the confidentiality and security of the documents and information of clients and that the Direct Clearing Participant is immediately notified of any breach of this requirement by the service provider or the sub-contractor; and</p> <p>(ii) the service provider and if applicable, the sub-contractor has policies and procedures in place to maintain the confidentiality of clients' information and where there is a need to do so pursuant to any written law or contractual obligation, seek approval for or notify clients that their information may be disclosed to a service provider or a sub-contractor, as the case may be.</p>	
<b>Rule 214B</b>	(i) The Direct Clearing Participant must have in place an insurance policy to protect it against any liability, loss or damage arising from any action or omission of the service provider and if applicable, the sub-contractor in performing the said Back Office Functions.	( <del>id</del> ) The Direct Clearing Participant must have in place an insurance policy to protect it against any liability, loss or damage arising from any action or omission of the <del>s</del> Service <del>p</del> Provider <del>and if applicable, the sub-contractor</del> in performing the said <del>Back Office Clearing and Settlement</del> Functions.
<b>Rule 214B</b>	(j) The Direct Clearing Participant must ensure that the Clearing House or its agent shall at all times have access to and be allowed to make copies of the books (as defined in the Act) of the Direct Clearing Participant, the service provider or the sub-contractor. The Direct Clearing Participant shall procure a written consent through a letter of undertaking from the service provider or the sub-contractor to allow the Clearing House or its agent to exercise its powers as stated above.	( <del>je</del> ) The Direct Clearing Participant must ensure that the Clearing House or its agent shall at all times have access to and be allowed to make copies of the books (as defined in the Act) of the Direct Clearing Participant <del>or, the s</del> Service <del>p</del> Provider <del>or the sub-contractor</del> . The Direct Clearing Participant shall procure a written consent through a letter of undertaking from the <del>s</del> Service <del>p</del> Provider <del>or the sub-contractor</del> to allow the Clearing House or its agent to exercise its powers as stated above.
<b>Rule 214B</b>	(k) Save as otherwise approved by the Clearing House, a Direct Clearing Participant must not commence outsourcing of its Back Office Functions as permitted under Rule 214B(c) unless it has given prior notification to	( <del>kf</del> ) <del>Save as otherwise approved by the Clearing House, a A</del> Direct Clearing Participant must <u>notify the Clearing House within 2 weeks from the signing of the relevant agreement(s) setting out the terms and conditions of the outsourcing</u>

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	the Clearing House of its intention to outsource.	<del>arrangement, including where applicable, the agreement setting out the terms and conditions for sub-contracting the Clearing and Settlement Functions to another Service Provider ("relevant service level agreement(s))—not commence outsourcing of its Back Office Functions as permitted under Rule 214B(c) unless it has given prior notification to the Clearing House of its intention to outsource.</del>
<b>Rule 214B</b>	(l) The Direct Clearing Participant must notify the Clearing House of the termination or any variation of the services of the Direct Clearing Participant's service provider or any sub-contractor not later than 10 Business Days from the date of the termination or variation notice or the effective date of termination or variation, whichever the earlier.	(lg) <del>The A</del> Direct Clearing Participant must, <u>in respect of the outsourcing of the Clearing and Settlement Functions,</u> notify the Clearing House of: <ul style="list-style-type: none"> <li><u>(i) the termination or any variation of the relevant service level agreement(s) services of the Direct Clearing Participant's service provider or any sub-contractor; or</u></li> <li><u>(ii) any adverse development arising from or in connection with the outsourcing arrangement that could significantly affect the Direct Clearing Participant,</u></li> </ul> <u>within 2 weeks from the occurrence of such event.</u>  <del>not later than 10 Business Days from the date of the termination or variation notice or the effective date of termination or variation, whichever the earlier.</del>
<b>Rule 214B</b>	(m) Notwithstanding any provision in these Rules to the contrary, the Clearing House may, where it deems fit, revoke the right of the Direct Clearing Participant to outsource its Back Office Functions pursuant to this Rule, without assigning any reason for such revocation.	<del>[Deleted]</del>

EXISTING PROVISIONS		AMENDED PROVISIONS	
<b>Rule 900</b>	<p><b>Rule 900 Disciplinary action by the Clearing House</b></p> <p>(a) If a Clearing Member fails to comply with the Rules or is in default of its obligations to the Clearing House, the Clearing House may:</p> <p>(i) fine a Clearing Member up to RM 1 million; and/or</p> <p>(ii) suspend or terminate its Participantsip.</p>	<b>Rule 900</b>	<p><b>Disciplinary action by the Clearing House</b></p> <p>(a) If a Clearing <del>Member-Participant</del> fails to comply with the Rules <u>or directions issued by the Clearing House</u> or is in default of its obligations to the Clearing House, the Clearing House may <u>take any one or more of the following actions</u>:</p> <p>(i) fine a Clearing <del>Member-Participant</del> up to RM 1 million; <del>and/or</del></p> <p>(ii) suspend or terminate its Participantsip; <u>or</u></p> <p><u>(iii) in respect of a breach of these Rules that relates to a function that has been outsourced, impose any restriction or condition in relation to the breach committed or on the activities that a Clearing Participant undertakes.</u></p>
	(b) In complying with Rule 900(a) the Clearing House is not bound by strict legal rules of evidence and procedure. The decision of the Clearing House is final unless otherwise prescribed by the Clearing House.	(b)	[No change]
	(c) Deleted.	(c)	[No change]
	(d) The Clearing House must notify the Clearing Member in writing of any action taken under Rule 900(a).	(d)	The Clearing House must notify the Clearing <del>Member</del> <u>Participant</u> in writing of any action taken under Rule 900(a).

[End of Rule Amendments]