

**BURSA MALAYSIA SECURITIES CLEARING SDN BHD**

<b>Date: 7 February 2017</b>	<b>No : SBL 2/2017</b>
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- 1. INTRODUCTION**
- 2. AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD (“BURSA CLEARING (S)”) IN RELATION TO EXPANSION OF THE PURPOSES OF SECURITIES BORROWING UNDER THE SECURITIES BORROWING AND LENDING - NEGOTIATED TRANSACTIONS (“SBLNT”) FRAMEWORK TO FACILITATE THE SETTLEMENT OF POTENTIAL FAILED TRADES**
- 3. AMENDMENTS TO THE SECURITIES BORROWING AND LENDING - NEGOTIATED TRANSACTIONS (SBLNT) OPERATIONAL GUIDELINES FOR LENDERS AND BORROWERS**

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**1. INTRODUCTION**

Currently, borrowing securities to settle potential failed trades can only be conducted under the Securities Borrowing and Lending – Central Lending Agency framework.

Bursa Clearing (S) will be expanding the purposes of securities borrowing under the SBLNT framework to facilitate the settlement of potential failed trades. An Approved SBLNT Borrower will be permitted to borrow securities to settle its own sale of Eligible Securities or the sale of its clients’ Eligible Securities where there are insufficient Securities or none to meet the delivery obligation to the purchaser as a result of mistake made in good faith when executing such sale.

An Approved SBLNT Borrower who intends to borrow securities for the borrowing purpose referred above must use the designated CDS account as detailed in the Guidelines On Account Qualifier in the CDS Procedures Manual for ADA/ADM and the Approved SBLNT Borrower must return the relevant Loaned Securities within 6 Market Days after the date of the execution of the potential failed trade.

**2. AMENDMENTS TO THE RULES OF BURSA CLEARING (S)**

Following the above, Bursa Clearing (S) has amended the Rules of Bursa Clearing (S) pursuant to section 9 of the Capital Markets and Services Act 2007. The amendments to the Rules of Bursa Clearing (S) are set out in **“ANNEXURE 1”**.

The changes to the rules are as follows:

- 2.1 including the settlement of a potential failed trade as a new purpose of securities borrowing under the SBLNT framework in Rule 8.5(a); and
- 2.2 specifying the requirement to return the loaned securities within the time specified by Bursa Clearing (S) as referred to above, in Rule 8.5(b).

The rule amendments have been approved by the Securities Commission.

Please be informed that the amendments are available on Bursa Malaysia's website at: <http://www.bursamalaysia.com>.

### 3. AMENDMENTS TO THE SBLNT OPERATIONAL GUIDELINES FOR LENDERS AND BORROWERS

In relation to this, consequential amendments have been made to the SBLNT's Operational Guidelines for Lenders and Borrowers.

In addition to the above, the Operational Guidelines has also been updated to notify the enhanced process in relation to the Loan Quantity Adjustment process for corporate actions.

Amendments to the Operational Guidelines are denoted with a vertical lines on the right side of the relevant pages as indicated in the table below:

No.	Document Name	Remark
1.	Section 4	To remove section 4 and insert the new document enclosed.
2.	Section 5	To remove Section 5 and insert the new document enclosed.
3.	Section 7	To remove Section 7 and insert the new document enclosed.

The amended document for the SBLNT - Operational Guidelines for Lenders and Borrowers in relation to the above is attached as "**ANNEXURE 2**".

The rule amendments and all directives as set out in this circular shall take effect on **27 February 2017**.

For further information or enquiries kindly contact the following person:

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### Securities Market

**“ANNEXURE 1”**

**AMENDMENTS TO THE RULES OF BURSA CLEARING (S)**

**ANNEXURE 1**

**RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD**

**RULE AMENDMENTS TO EXPAND THE PURPOSES OF SECURITIES BORROWING UNDER THE SECURITIES BORROWING AND LENDING -  
NEGOTIATED TRANSACTIONS FRAMEWORK**

RULE	EXISTING PROVISIONS	RULE	AMENDED PROVISIONS
<p align="center"><b>Rule 8.5</b></p>	<p><b>PURPOSES OF SECURITIES BORROWING</b></p> <p>(a) An Approved SBLNT Borrower may borrow Eligible Securities only for any one of the following purposes subject to such requirements as may be prescribed by the Clearing House:</p> <p>(i) to facilitate the settlement of a regulated short sale in Eligible Securities executed in accordance with the Exchange Rules;</p> <p>(ii) in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:</p> <p>(aa) the sale was executed by the Approved SBLNT Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Approved SBLNT Borrower for its client who is a Market</p>	<p align="center"><b>Rule 8.5</b></p>	<p><b>PURPOSES OF SECURITIES BORROWING</b></p> <p>(a) An Approved SBLNT Borrower may borrow Eligible Securities only for any one of the following purposes subject to such requirements as may be prescribed by the Clearing House:</p> <p>(i) to facilitate the settlement of a regulated short sale in Eligible Securities executed in accordance with the Exchange Rules;</p> <p>(ii) <u>to facilitate the settlement of a sale of Eligible Securities where there are no Securities or insufficient Securities in the securities account of the seller as will enable the seller to meet its delivery obligations to the purchaser (in accordance with the Exchange Rules relating to delivery and settlement) (“potential failed trade”) as a result of a mistake howsoever made when executing the sale provided always that the mistake was made in good faith and discovered only after the sale has been executed.</u></p> <p><u>(iii)</u> in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF</p>

RULE	EXISTING PROVISIONS	RULE	AMENDED PROVISIONS
	<p>Maker for that particular ETF Related Securities; and</p> <p>(bb) the Approved SBLNT Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved SBLNT Borrower's client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules;</p> <p>(iii) to onward lend the Loaned Securities provided that the participants in the onward lending transaction comply with these Rules and the Clearing House's requirements in relation to Bursa SBL Transaction or SBL Negotiated Transactions (as applicable), including being approved as a Lender or Lending Participant or an Approved SBLNT Lender (as applicable); or</p> <p>(iv) for such other purposes as may be determined by the Clearing House in consultation with the Commission.</p>		<p>Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as "the ETF Related Securities"), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:</p> <p>(aa) the sale was executed by the Approved SBLNT Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Approved SBLNT Borrower for its client who is a Market Maker for that particular ETF Related Securities; and</p> <p>(bb) the Approved SBLNT Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved SBLNT Borrower's client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules;</p> <p><del>(iii)</del>(iv) to onward lend the Loaned Securities provided that the participants in the onward lending transaction comply with these Rules and the Clearing House's requirements in relation to Bursa SBL Transaction or SBL Negotiated Transactions (as applicable), including being approved as a Lender or Lending Participant or an Approved SBLNT Lender (as applicable); or</p>

RULE	EXISTING PROVISIONS	RULE	AMENDED PROVISIONS
			<p>(iv) for such other purposes as may be determined by the Clearing House in consultation with the Commission.</p> <p><u>(b) Where the Loaned Securities are borrowed to facilitate the settlement of a potential failed trade as provided in Rule 8.5(a)(ii) above, the Approved SBLNT Borrower must return such Loaned Securities within the time prescribed by the Clearing House.</u></p>
	<p>(b) For the purpose of this sub-rule (a), unless the context otherwise requires –</p> <p>(i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;</p> <p>(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(iv) “Permitted Short Selling” shall have the meaning as is assigned to that expression in the Exchange Rules; and</p> <p>(v) “regulated short sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.</p>		<p><del>(b)</del> For the purpose of this sub-rule (a), unless the context otherwise requires –</p> <p>(i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;</p> <p>(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(iv) “Permitted Short Selling” shall have the meaning as is assigned to that expression in the Exchange Rules; and</p> <p>(v) “regulated short sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.</p>

[End of Rule Amendments]

**“ANNEXURE 2”**

**SBLNT – OPERATIONAL GUIDELINES FOR LENDERS AND BORROWERS**

#### **4.1 How to create a loan transaction**

- 4.1.1 An Approved SBLNT Lender and an Approved SBLNT Borrower must have a valid Master SBL Agreement before any SBLNT transaction can be created.
- 4.1.2 Approved SBLNT Lender and Approved SBLNT Borrower agree on SBL transaction outside the SBLNT system.
- 4.1.3 Once the SBL transaction has been agreed between the Approved SBLNT Lender and Approved SBLNT Borrower:
  - a. Approved SBLNT Borrower must ensure that it obtains a confirmation from an Approved SBLNT Lender. The minimum details in the loan confirmation issued by Approved SBLNT Lender to Approved SBLNT Borrower are as follows:
    - i. A clear statement that the confirmation relates to an order to borrow or to an order to hold securities;
    - ii. Name of the Approved SBLNT Lender;
    - iii. Name of the Approved SBLNT Borrower;
    - iv. Name and security code of the securities borrowed or to be held;
    - v. Quantity of the securities borrowed or to be held;
    - vi. Settlement date of the borrow/loan or number of days of the hold confirmation; and
    - vii. A date and time-stamp showing the date and time of receipt of the confirmation by the AB.

*(Please refer Appendix 4: Directive on Maintenance of Confirmation Information by Approved SBLNT Borrower).*

- b. Approved SBLNT Lender and Approved SBLNT Borrower must decide when loaned securities is to be moved from Approved SBLNT Lender to Approved SBLNT Borrower;
- c. Approved SBLNT Lender must report the lending transaction of the moved securities. This is achieved by the act of Accepting the Borrowing Request via the SBLNT system as stipulated in the following item 4.2.

#### **4.2 How to move loaned securities**

- 4.2.1 To move the loan securities, the following instructions must be given:-
  - a. Approved SBLNT Borrower will have to instruct the Borrowing Representative to Initiate a Borrowing Request; and
  - b. Approved SBLNT Lender will have to instruct the Lending Representative to Accept the Borrowing Request.
- 4.2.2 Upon successful acceptance of the borrowing request by the Lending Representative, securities transfer will be immediate from the Approved SBLNT Lender's depository account to Approved SBLNT Borrower's depository account.



### **4.3    Consequence of not reporting to SBLNT system**

4.3.1    The following are the consequences of not reporting to SBLNT system:

- a.    There will be no movement of securities from the Approved SBLNT Lender's depository account to Approved SBLNT Borrower's depository account;
- b.    Breach of Rule 8.12(b) of the Rules of Bursa Clearing which mandates the notification of the agreed SBLNT transaction to Bursa Clearing.

*Note:*

*Collateral arrangement is not handled via the SBLNT system and as such will have to be dealt with between the Approved SBLNT Lender and Approved SBLNT Borrower. It is advisable for this issue to be included in the Master SBL Agreement.*

In relation to Loaned Securities borrowed under Rule 8.5(a)(ii) for the purpose of settling a potential failed trade, the quantity of Loaned Securities that is permitted to be transferred by the Approved SBLNT Borrower to the relevant securities account to fulfil the delivery obligation in respect of that potential failed trade must not be higher than the quantity of securities needed to fulfil such delivery obligation.

*Please refer to diagram in **Appendix 5** which illustrates the Loan Initiation process.*



**CSO/SSO SBLNT OPERATIONAL GUIDELINES FOR LENDERS & BORROWERS**

Section: 5. LOAN TERMINATION

**5.1 Loan Termination**

- 5.1.1 The Approved SBLNT Lender and Approved SBLNT Borrower will have to agree on a date for the return of loaned securities.
- 5.1.2 Where the Loaned Securities are borrowed to facilitate the settlement of Potential Trade Failure (PTF), such Loaned Securities must be returned in full no later than 6 market days after the date of the execution of the potential failed trade (i.e. T+6).
- 5.1.3 Approved SBLNT Lender and Approved SBLNT Borrower must do the following:
  - a. Approved SBLNT Borrower to instruct its Borrowing Representative to Initiate the Loan Return; and
  - b. Approved SBLNT Lender to instruct its Lending Representative to Accept the Loan Return.
- 5.1.4 Once both instructions are matched and confirmed by Bursa Clearing’s SBLNT system, securities transfer will be immediate from the Approved SBLNT Borrower’s depository account to Approved SBLNT Lender’s depository account.

*Note:*  
 It is advisable (if item 5.2 does not apply) for an Approved SBLNT Lender to confirm the delivery of the recalled/returned loan from Approved SBLNT Borrower, prior to selling the securities. If the Approved SBLNT Borrower purchases the securities from the market to fulfil the recall/return to Approved SBLNT Lender, there will be a mismatch in the settlement timing.

The Approved SBLNT Lender will have to deliver the securities for the sale made by T+2 4:30pm but the delivery of securities from Approved SBLNT Borrower will only take effect on T+3. In this situation the Approved SBLNT Lender will be subject to the Buying-in rules and the relevant penalty applies.

The following table gives an illustration of this mismatch in timings:

	T	T+1	T+2	T+3
<b>Approved SBLNT Lender</b>	① Sells Loaned Securities		<i>Need to deliver loaned securities for settlement (cut off by 4.30pm)</i>	⑦ Receive Recalled loaned securities after the settlement delivery deadline
	② Recalls Loan			
<b>Approved SBLNT Borrower</b>	③ Receive Recall Notice		⑤ Received securities during settlement (after midnight)	⑥ Return loaned Securities to Approved SBLNT Lender
	④ Purchase Securities For Return to Approved SBLNT Lender			

**CSO/SSO SBLNT OPERATIONAL GUIDELINES FOR LENDERS & BORROWERS**

Section: 5. LOAN TERMINATION

Please refer to **Appendix 6** which illustrates the Loan Termination process.

**5.2 Withholding From Buying-in**

5.2.1 This facility is provided to an Approved SBLNT Lender to facilitate the withholding of their sell trade from buying-in due to the mismatch in settlement time when the loan is sold and recalled on the same day. The manner in which the Approved SBLNT Lender (seller) is required to notify Bursa Clearing (S) of the relevant details in connection with the sale and the recalled securities is through the Lending Representative initiating the withholding from buying-in process and confirming the same.

*Note: The mismatch of timing is illustrated in Section 5.1*

5.2.2 In order to withhold from buying-in, an Approved SBLNT Lender will have to furnish their respective Lending Representative with the following details:

- SBLNT Loan ID from where a recall has been made against the Approved SBLNT Borrower;
- Contact Date of the sell trade;
- Selling CDS account number from where the sell trade was transacted; and
- Quantity requested to withhold from buying-in.

5.2.3 The withholding from buying-in will be facility will only be effective for one for one (1) business day only (T+3).

*Note: A buying-in will be instituted against the Approved SBLNT Lender if the outstanding sell trade is not delivered within the Scheduled Delivery Time as set out under Exchange Rules. Please refer to the table below for an illustration of the allowable withholding from buying-in timing.*

The following table gives an illustration of the process of withholding from buying-in timing:

	T	T+1 and T+2	T+3	T+4
<b>Approved SBLNT Lender (AL)</b>	① Sells Loaned Securities	③ LRs to Initiate and Confirm the Withholding From Buying-in request  (8:30 am to 4:30pm)	④ Withholding from buying-in effected	⑤ Approved SBLNT Lender will be subjected to buying-in if SBL recalled securities is unsuccessfully delivered
	② Recalls Loan			



## **7.1 Corporate Actions**

- 7.1.1 Bursa Clearing will not perform any adjustment to the loan quantity or loan value pursuant to any corporate action undertaken by an issuer.
- 7.1.2 The Approved SBLNT Lender and Approved SBLNT Borrower will have to agree on the loan quantity to be adjusted.
- 7.1.3 The SBLNT system provides the facility to adjust the loan quantity arising from a corporate action.
- 7.1.4 To have the Loan Quantity Adjustment done, Approved SBLNT Lender and Approved SBLNT Borrower must do the following:
  - a. Approved SBLNT Borrower to instruct its Borrowing Representative to Initiate the Loan Quantity Adjustment; and
  - b. Approved SBLNT Lender to instruct its Lending Representative to Accept the Loan Quantity Adjustment.

*Note:*

*The loan quantity adjustment process for corporate actions will have to be carried out prior to the termination of the loan.*

