**CONSULTATION PAPER NO. 5/2018**
**PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD ("BMS") AND THE RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD ("BMSC") IN RELATION TO THE PROPOSED T+2 SETTLEMENT CYCLE**
**Date of Issue: 3 December 2018**

Bursa Malaysia Berhad ("Bursa Malaysia") invites your written comments on the proposals set out in this Consultation Paper by 28 December 2018 (Friday) via:

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Respondents to this Consultation Paper are requested to use the reply format as stipulated in the ***Attachment***.

Kindly contact the following persons if you have any queries in relation to this Consultation Paper:

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# A. INTRODUCTION

This Consultation Paper seeks to consult the public on the proposed migration to a T+2 settlement cycle and the proposed rule amendments to reflect this change, where relevant.

# B. BACKGROUND

The Committee on Payment and Systems (“**CPSS**”) and the Technical Committee of the International Organisation of Securities Commissions (“**IOSCO**”) had jointly published a report on Recommendations for securities settlement systems (“**RSSS**”) in November 2001, identifying 19 recommendations for promoting the safety and efficiency of securities settlement systems. Among the 19 recommendations, RSSS Recommendation 3 on settlement cycles proposes a settlement cycle shorter than T+3 to be evaluated.

In February 2010, CPSS and the Technical Committee of IOSCO launched a comprehensive review of three existing set of standards for financial market infrastructures (“**FMI**”), including the RSSS, resulting in the Principles for financial market infrastructures (“**PFMI**”) to be published in April 2012. While the PFMI is intended to contain a unified set of standards for all FMI, the RSSS Recommendation 3 on settlement cycles remains in effect.

Settlement cycle refers to the number of days a transaction gets settled in a stock market in which the securities is traded. It starts with a Trade date (refers to “T” day), in which the “buy” or “sell” transaction occurs and the settlement date in which the exchange of cash and securities takes place. The settlement date will depend on the settlement cycle adopted by the market. Bursa Malaysia currently settles on a T+3 settlement cycle, which was implemented in December 2000.

Over the last couple of years, global securities industry has progressed and moved to a shorter settlement cycle of T+2.

In Asia Pacific, some markets are already on a T+1 and T+2 settlement cycle. Taiwan, India, Korea, Dubai and Hong Kong settle on a T+2 settlement cycle. Australia and New Zealand have migrated to a T+2 settlement cycle in March 2016. The US market has migrated to a T+2 settlement cycle on 2 September 2017. Thailand has implemented T+2 settlement cycle on 2 March 2018 and Indonesia has implemented the same on 26 November 2018, while Singapore has announced an indicative date of 10 December 2018 to implement the T+2 settlement cycle.

In this connection, Bursa Malaysia Securities Clearing Sdn. Bhd. (BMSC) has also initiated a review on its current settlement cycle from T+3 to T+2. The migration to a shorter settlement cycle will increase efficiency, reduce settlement risk and market exposure, and align BMSC with international best practices of the leading global exchanges.

The proposed T+2 settlement cycle includes the introduction of multiple processing capabilities to facilitate the readiness of market participants and investors to embrace a shorter settlement cycle of T+2. The T+2 framework includes 2 settlement runs for both the On-Market Transactions and Direct Business Transactions. Proposed changes include amendments to the cut-off times relating to the delivery and settlement between a Participating Organisation ("**PO**") and its clients and between a Clearing Participant with the Clearing House.

BMSC believes that the benefits of the proposed T+2 settlement cycle to the market place are aplenty, which include the following:

- **Improved Operational Efficiency**

  A shorter settlement period will improve operational efficiency and avail securities and funds earlier for investors.

- **Reduced Counterparty Risk**

  A shorter settlement cycle will mitigate settlement risks market-wide as the exposure to unsettled trades is shortened from 3 days to 2 days.

- **Strengthened Market's Competitiveness**

  The move towards a T+2 settlement cycle harmonizes our post-trade infrastructure with that of major global exchanges in the US, Europe and Asia-Pacific which already operate a T+2 settlement cycle. This will strengthen the attractiveness and competitiveness of the Malaysian market as a listing and investment destination in the region.

Bursa Malaysia is targeting to introduce the changes by the second quarter of 2019.

## C. KEY PROPOSALS

The proposed amendments for consultation relate to the Rules of Bursa Malaysia Securities Berhad ("**BMS Rules**") and Rules of BMSC ("**BMSC Rules**") as summarised below:

(a) <u>**BMS Rules**</u>

(i) making amendments to the cut-off times relating to:
- tradeable balance in the securities account and delivery of securities; and
- settlement of payments between a PO and its clients;

(ii) making amendments to the applicable timing in respect of:
- buying-in;
- cash settlement;
- selling-out; and

- discretionary financing; and

(iii) removing provisions relating to 'Immediate Basis Contract'

("**Proposed Amendments to the BMS Rules**"); and

(b) <u>BMSC Rules</u>

(i) reflecting the change in automatic buying-in period for board lots failed trade;

(ii) removing the provision on the daily increase in the bidding price for buying-in for board lots failed trade;

(iii) removing BMSC's power to suspend the daily increase in the bidding price or revise the bid price;

(iv) amending the scheduled financial settlement time; and

(v) removing references to 'Immediate Basis Contract' as it is no longer feasible

("**Proposed Amendments to the BMSC Rules**")

The Proposed Amendments to the BMS Rules and Proposed Amendments to the BMSC Rules (collectively referred to as "**the Proposals**") will be discussed in greater detail below.

## D. STRUCTURE OF THE CONSULTATION PAPER

Details of the proposed migration to a T+2 settlement cycle, where relevant, and their rationale are provided in the "**Details of Proposals**" in **Section E** of this Consultation Paper.

The Proposed Amendments to the BMS Rules and Proposed Amendments to the BMSC Rules are provided in **Annexures A and B** respectively, and are reflected in the following manner:

- portions underlined are text newly inserted/added/replaced onto the existing rules; and
- portions struck through are text to be deleted.

The table below provides a snapshot of the relevant details of the Proposals as well as the related Parts and Annexures for ease of reference:

| Part No. | Details of Proposals | Proposed Amendments (Annexure) |
|---|---|---|
| **1.** | Proposed Amendments to the BMS Rules | **Annexure A** |
| **2.** | Proposed Amendments to the BMSC Rules | **Annexure B** |

*Note:*

*As the Proposals are open to comments and feedback from the public, the final amendments may be different from those stated in this Consultation Paper. Further, the Proposals have NOT been approved by the SC and as such are not the final amendments. Bursa Malaysia will submit the Proposals to the SC for approval after receipt of comments pursuant to this Consultation Paper and making the relevant changes, where appropriate, to the Proposals.*

# E. DETAILS OF PROPOSALS

## PART 1 PROPOSED AMENDMENTS TO THE BMS RULES

BMS proposes to make amendments to the BMS Rules to reflect the changes arising from the introduction of the T+2 settlement cycle. These include amendments to the cut-off times relating to tradeable balance in the securities account, delivery of securities and settlement of payments between a PO and its clients as well as the applicable timing in respect of buying-in, selling-out and discretionary financing. Amendments are also made to remove provisions relating to 'Immediate Basis Contract'.

**PROPOSAL 1.1: CHANGE IN CUT-OFF TIMES**

### Tradeable Balance and Delivery of Securities

1. Currently, for On-Market Transactions, a PO who is a seller in a Ready Basis Contract, must have the quantity of securities sold as Tradeable Balance in the Securities Account used for the sale not later than 4.00 p.m. on T+2. Delivery of securities to a buyer will be made on T+3, not later than 10.00 a.m.

2. Under the T+2 settlement cycle framework, where it is proposed that there will be 2 settlement-runs on T+2 instead, delivery to a buyer is proposed to be made on T+2, not later than 10.00 a.m. and 3.00 p.m. for the first and second batch settlement-runs respectively. Hence, the cut-off time for the selling PO to have the Tradeable Balance in the Securities Account is proposed to be revised to T+1 by 4.30 p.m. and T+2 by 11.30 a.m. for the first and second batch settlement-runs respectively.

3. As for Direct Business Transactions, currently, a selling PO in a Ready Basis Contract must have the Tradeable Balance in the Securities Account by 4.00 p.m. on T+2. Delivery of securities to a buyer will be made on T+3, not later than 12.00 p.m. Under the T+2 settlement cycle framework, where it is proposed that there will be 2 settlement-runs on T+2 instead, delivery to a buyer is proposed to be made on T+2, not later than 11.00 a.m. and 4.00 p.m. for the first and second batch settlement-runs respectively. The cut-off time for the selling PO to have the Tradeable Balance in the Securities Account is proposed to be revised to T+1 by 4.30 p.m. and T+2 by 11.30 a.m. for the first and second batch settlement-runs respectively.

### Settlement of Payments between a PO and its Clients

4. Presently, for both On-Market Transactions and Direct Business Transactions, a buying Client in a Ready Basis Contract must pay the buying PO **by** T+3 not later than 12.30 p.m. The same timing applies to a payment by a selling PO to a selling Client.

5. Under the T+2 settlement cycle, it is proposed that for On-Market Transactions, the cut-off time for payment by a buying Client is **by** T+2, not later than 3.00 p.m. In respect of payment to a selling Client, it is proposed that payment must be made **on** T+2 not later than 3.00 p.m.

6. In relation to Direct Business Transactions, the cut-off time for payment by a buying Client is proposed to be **by** T+2 not later than 3.00 p.m. In respect of payment to a selling Client, it is proposed that payment must be made an hour later i.e. **on** T+2 not later than 4.00 p.m.

7. Even though 2 settlement-runs are proposed under the T+2 settlement cycle, it is proposed that a single cut-off time for payment is applied on T+2 in order to facilitate the POs' back office operations. In respect of Direct Business Transactions, payment to selling Clearing Participants for the second batch settlement-run can only be effected **by 4pm on T+2** contingent on receipt of payment from the buying Clearing Participants **by 3pm on T+2**. Hence, the cut-off time for payment by the buying Client and payment to the selling Client for Direct Business Transactions under the T+2 settlement cycle is proposed to coincide with the said timing.

8. The changes in Proposal 1.1 are illustrated in the tables below for ease of reference:

On-Market Transactions

| Tradeable Balance in seller's account (Rule 9.03(1)) | Payment to selling Client (Rule 9.09(1)) | Delivery to buyer (Rule 9.03(2)) | Payment by buying Client (Rule 9.09(2)) | Selling-out (Rule 9.12(1)) |
|---|---|---|---|---|
| For first batch settlement-run: ~~T+2~~T+1 by ~~4.00~~4.30 p.m.<br><br>For second batch settlement-run: T+2 by 11.30 a.m.* | ~~T+3~~T+2, not later than ~~12.30~~3.00 p.m. | For first batch settlement-run: ~~T+3~~T+2, not later than 10.00 a.m.<br><br>For second batch settlement-run: T+2, not later than 3.00 p.m. | ~~T+3~~T+2, not later than ~~12.30~~3.00 p.m. | ~~T+3~~T+2 from ~~12.30~~3.00 p.m. until ~~T+4~~T+3 |

* *The Exchange will only commence buying-in without notice under Rule 9.05(1) if the Participating Organisation fails to have the quantity of securities sold in the Contract as the Tradeable Balance in the Securities Account used for the sale by the time stipulated for second batch settlement-run.*

Direct Business Transactions

| Tradeable Balance in seller's account | Payment to selling Client | Delivery to buyer | Payment by buying Client | Selling Out |
|---|---|---|---|---|
| For first batch settlement-run: ~~T+2~~T+1 by ~~4.00~~4.30 p.m. For second batch settlement-run: T+2 by 11.30 a.m. | ~~T+3~~T+2, not later than ~~12.30~~4.00 p.m. | For first batch settlement-run: ~~T+3~~T+2, not later than ~~12.00 p.m~~11.00 a.m. For second batch settlement-run: T+2 not later than 4.00 p.m. | ~~T+3~~T+2, not later than ~~12.30~~3.00 p.m. | ~~T+3~~T+2, from ~~12.30~~3.00 p.m. until ~~T+4~~T+3 |

## PROPOSAL 1.2: CHANGE OF APPLICABLE TIMING

### Buying-in and cash settlement

9. Currently, buying-in is carried out in 2 sessions in a day. The period for buying-in without notice is T+3 up to T+8 and if buying-in is unsuccessful, cash settlement takes place after T+8. However, based on historical data, more than 99% of the buying-in for the purpose of failed trades are done successfully on settlement day i.e. T+3. The success rate of buying-in diminishes after T+3.

10. Hence, with the introduction of the T+2 settlement cycle, it is proposed that buying-in without notice would only take place on settlement day, on T+2 from 2.00 p.m. to 5.00 p.m., in the event a selling PO does not have the quantity of securities sold as Tradeable Balance in the Securities Account used for the sale by 11.30 a.m. on T+2. The provision for buying-in to be continued up to T+8 is proposed to be removed. In addition, it is also proposed that cash settlement be allowed to take place after T+2 if the buying-in is unsuccessful to expedite the resolution of outstanding failed contracts.

### Selling-out

11. Currently, for both On-Market Transactions and Direct Business Transactions, a PO must institute a selling-out within the period from T+3 on 12.30 p.m. until T+4.

12. Under the T+2 settlement cycle, the above period is proposed to be changed to T+2 from 3.00 p.m. until T+3 for both On-Market Transactions and Direct Business Transactions.

## Discretionary Financing

13. Currently, for On-Market Transactions, the period when a Discretionary Financing is allowed for purposes of the payment of the buying Client's outstanding purchase position is between T+4 and T+7. This is provided that the Client has notified the PO not later than T+3 that Discretionary Financing is required, and the PO accepts the utilisation of the Discretionary Financing for the particular transaction.

14. With the introduction of the T+2 settlement cycle, it is proposed that Discretionary Financing be allowed between T+3 and T+7 instead, and the notification by the Client must be made not later than T+2.

## PROPOSAL 1.3: REMOVAL OF 'IMMEDIATE BASIS CONTRACT'

15. Under the current framework, the settlement period for an Immediate Basis Contract is one day earlier than the settlement for a Ready Basis Contract, i.e. on T+2 instead of T+3, in respect of which a selling PO must have the quantity of securities sold as Tradeable Balance in the Securities Account used for the sale not later than 4.00 p.m. on T+1.

16. Moving forward, with the introduction of the T+2 settlement cycle, the cut-off time for a selling PO to have the Tradeable Balance in the Securities Account would also need to be shortened by 1 day in an Immediate Basis Contract, i.e. on T day itself. To set the cut-off time at 4.30 p.m. on T day would not be feasible as trading is allowed up to 5.00 p.m.

17. In view of the above, the Immediate Basis Contract is no longer feasible under the T+2 settlement cycle. As such, all cut-off times and timing that are currently applicable to Immediate Basis Contracts and references to Immediate Basis Contracts are proposed to be removed.

## CHANGES TO DIRECTIVES

18. Please take note that as a result of the changes proposed above, corresponding amendments will also be reflected in the relevant directives issued pursuant to the BMS Rules.

**[End of Part 1]**

# PART 2 PROPOSED AMENDMENTS TO THE BMSC RULES

BMSC proposes to amend the BMSC Rules to facilitate and enable the changes arising from the introduction of the T+2 settlement cycle. These include the following:

## PROPOSAL 2.1: CHANGE OF THE PERIOD FOR BUYING-IN WITHOUT NOTICE

19 Currently, all failed trades for board lots ("**Failed Trades**") are subject to buying-in without notice from T+3 to T+8. In the event the buying-in is not successful on T+8, the outstanding contract will be cash settled on T+9. Under the proposed T+2 settlement cycle, buying-in without notice for Failed Trades will only be conducted in the 2nd session on T+2 (2.00pm – 5.00pm).

20. Accordingly, the proposed change in the buy-in without notice period for Failed Trades will be shortened from the current 6 days (T+3 – T+8) to 1 day (2nd session on T+2 only). If the buying-in is unsuccessful, the Failed Trades will be cash settled on T+3.

21. The proposal to shorten the period of buying-in without notice for Failed Trades is premised on analysis of historical data which shows that more than 99% of Failed Trades are bought-in on the settlement day (which is on T+3).

22. Rule 5.2A(a) of the BMSC Rules will be amended to reflect the change of the buying-in without notice period as mentioned above.

23. In this connection, the existing provisions relating to the buying-in on the second and succeeding market days following the Failed Trades and the relevant daily increase in the bidding price, as well as BMSC's power to suspend such daily increase or revise the bid will no longer be applicable. Therefore, Rules 5.2A(d)(iii) and (iv) will be removed.

24. Separately, it is proposed that failed trades for odd lots which is not subject to buying-in will be cash settled on T+3.

## PROPOSAL 2.2: FINANCIAL SETTLEMENT BETWEEN BMSC AND CLEARING PARTICIPANTS

25. Presently, pursuant to Rule 5.3(h) of the BMSC Rules, the Clearing Participants with a net buy position ("**Net Buy CP**") is required to pay the BMSC the financial settlement amount for the trades transacted on T-day by 10.00am on T+3. Similarly, Rule 5.3(h) also provides that the BMSC is required to pay the Clearing Participants with a net sell position ("**Net Sell CP**") for the trades transacted on T-day by 10.00am on T+3.

26. Moving forward under the proposed T+2 settlement cycle where there will be 2 batch-runs on T+2, the obligation for the Clearing Participant or the BMSC, as the case may be, to make payment for the transactions done on T-day is proposed to be segregated to 2 times depending on the batch run on T+2 as shown in the table below:

| | | |
|---|---|---|
| 1st batch run on T+2 | Net Buy CP to BMSC<br>BMSC to Net Sell CP | 10.00am |
| 2nd batch run on T+2 | Net Buy CP to BMSC<br>BMSC to Net Sell CP | 3:00pm |

27. To reflect the changes in the timing specified above, Rule 5.3(h)(i) will be amended accordingly.

**PROPOSAL 2.3: REMOVAL OF ‘IMMEDIATE BASIS CONTRACT’**

28. As stated above in Proposal 1.3, Immediate Basis Contract is no longer relevant as it would not be feasible for the settlement cycle in respect of the same to be shorter than the T+2 settlement cycle.

29. As such, it is proposed that the BMSC Rules be amended to remove all references to ‘Immediate Basis Contract’ and provisions related to the same.

**[End of Part 2]**

## F. FEEDBACK SOUGHT

We invite comments on the Proposals as discussed in this Consultation Paper. Comments can be given by filling up the template as attached in the ***Attachment.***

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# ANNEXURE A - B PROPOSED AMENDMENTS

*[Please see **Annexure A – B** enclosed with this Consultation Paper]*

## ATTACHMENT

**TABLE OF COMMENTS**

*[Please see the Attachment setting out the Table of Comments enclosed with this Consultation Paper]*

## APPENDIX BURSA MALAYSIA'S PERSONAL DATA NOTICE

In relation to the Personal Data Protection Act 2010 and in connection with your personal data provided to us in the course of this consultation, please be informed that Bursa Malaysia's personal data notice ("**Notice**") is available at www.bursamalaysia.com. Kindly ensure that you read and are aware of the Notice.

If you are submitting personal data of an individual other than yourself ("**data subject**"), please ensure that prior to such submission, you have provided the data subject with written notice of the Notice unless section 41 of the Personal Data Protection Act 2010 ("**PDPA**") applies or Bursa Malaysia otherwise specifies in connection with the PDPA.

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Jika anda mengemukakan data peribadi individu pihak ketiga ("**Subjek Data**"), anda mesti memastikan bahawa Subjek Data telah diberi notis bertulis mengenai Notis tersebut terlebih dahulu kecuali seksyen 41 Akta Perlindungan Data Peribadi 2010 ("**APDP**") terpakai atau Bursa Malaysia sebaliknya menyatakan berkenaan dengan APDP.

**[End of the Appendix]**
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