

PARTICIPATING ORGANISATIONS' CIRCULAR

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AMENDMENTS TO THE RULES AND DIRECTIVES OF BURSA MALAYSIA SECURITIES BERHAD (“BMS RULES AND DIRECTIVES”) PURSUANT TO THE EXPANSION OF THE MARKET MAKING FRAMEWORK

1.0 INTRODUCTION

1.1 Bursa Malaysia Securities Berhad (“**the Exchange**”) has made amendments in relation to the expansion of the market making framework.

1.2 The amendments are detailed in paragraph 2 below.

2.0 EXPANSION OF THE MARKET MAKING FRAMEWORK

2.1 The amendments seek to ensure efficiency in market making, by according market makers with greater flexibility to quote prices and respond to market demands. It is also crucial for market makers to manage risk by hedging their exposure to price volatility in the underlying securities.

2.2 The amendments pursuant to the Expansion of the Market Making framework have been approved by the Securities Commission Malaysia.

Amendments to the Rules

2.3 The salient amendments made to the Rules are as follows:

- (a) expanding the qualification criteria of Market Makers to a foreign corporation which fulfils the following criteria;
 - (i) has a minimum paid up capital equivalent to RM2,000,000.00;
 - (ii) has the relevant market making experience in securities or derivatives markets for at least 3 years; and
 - (iii) is regulated by either of the following:
 - (aa) a securities or derivatives exchange in a jurisdiction which regulator is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding (“**IOSCO MMOU**”) or the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organisations (“**BOCA Declaration**”) respectively; or

- (bb) a regulator who is a signatory to the IOSCO MMOU or the BOCA Declaration respectively;
- (b) registering market makers of single stock futures contract (“**SSF**”) and stock option contract (“**SSO**”) from Bursa Malaysia Derivatives Bhd (“**BMD**”) as Derivatives Specialists on the Exchange, and allowing such Derivatives Specialists to carry out Permitted Short Selling (“**PSS**”) on the underlying securities of SSF and SSO which are Approved Securities on the securities market. The key requirements for a Derivatives Specialist are as follows:
 - (i) the Derivatives Specialist is appointed by BMD to do market making for SSF or SSO;
 - (ii) if the Derivatives Specialist is a foreign corporation, it must be regulated by either of the following:
 - (aa) a securities or derivatives exchange in a jurisdiction which regulator is a signatory to the IOSCO MMOU or the BOCA Declaration respectively; or
 - (bb) a regulator who is a signatory to the IOSCO MMOU or the BOCA Declaration respectively; and
 - (iii) the Derivatives Specialist must open a designated trading account and securities account, in the manner prescribed by the Exchange and Bursa Malaysia Depository Sdn Bhd respectively.

Similar to the requirements placed on Market Makers, a Derivatives Specialist must comply with the applicable rules on conduct as a Derivatives Specialist. The existing rules in Chapter 4 of the BMS Rules relating to resignation, termination, suspension or restriction of market making activity, continuing liability and action by the Exchange will also apply to Derivatives Specialists;

- (c) expanding the PSS framework to allow short selling by the market makers of structured warrants (“**SW**”), SSF and SSO in respect of the underlying securities of SW, SSF and SSO which are Approved Securities. Prior to the execution of an order to short sell the underlying securities of a SW, SSF or SSO, under the PSS framework, a Market Maker or a Derivatives Specialist must have either:
 - (i) borrowed the underlying securities through Securities Borrowing and Lending (“**SBL**”) or purchased them through Islamic Securities Selling and Buying-Negotiated Transaction (“**ISSBNT**”), as the case may be; or
 - (ii) obtained a confirmation from an Authorised SBL Participant or Authorised ISSBNT Participant, as the case may be, that the underlying securities are available for the Market Maker or the Derivatives Specialist to settle the sale;
- (d) liberalising the PSS of ETF and Constituent Securities by:

- (i) removing the requirement that ETF market makers must borrow the ETF units or Constituent Securities prior to executing the PSS order (or obtain confirmation that the same are available for settlement). Instead, ETF market makers are only required to have entered into an agreement to borrow the ETF units or Constituent Securities for the settlement of a short sale prior to commencing PSS; and
- (ii) removing the requirement that an ETF market maker must always hedge a short sale within the same market day;
- (e) replacing the current PSS limits with a 10% net short position limit on the combined RSS and PSS net short aggregated positions; and
- (f) clarifying that the disciplinary proceedings in Chapter 15 of the BMS Rules apply to a Market Maker and a Derivatives Specialist in view of their roles in the enhanced market making and PSS frameworks.

Amendments to the Directives

2.4 The salient amendments made to the Directives are as follows:

(a) Directives in relation to Market Makers and Derivatives Specialists (No. 4-001)

Amendments in relation to an application as a Derivatives Specialist.

(b) Directives on the Use of Day Trading Activities Account (No. 7.05(1)-001)

Amendments to clarify that if the securities eligible for day trading under the Directive are also securities eligible for PSS and a suspension on PSS is imposed on the said securities, the short selling under the Directive will be suspended as well.

(c) Directives on Regulated Short Selling (No. 8-002)

Amendments to clarify that the 10% total net short positions limit imposed on the RSS applies to PSS as well. Hence, RSS and PSS have a combined net short aggregated positions limit.

2.5 The amendments pursuant to the Expansion of Market Making framework are set out in detail in **Annexures 1 (Rules) and 2 (Directives)**.

Amendments to the Participating Organisations' Trading Manual ("Trading Manual")

2.6 The relevant provisions on short selling have been amended under Chapter 2 and Chapter 7 of the Trading Manual in relation to Permitted Short Selling.

2.7 The updated version of the Trading Manual is attached as **Annexure 3**.

Frequently Asked Questions (FAQs”)

- 2.8 The FAQs in relation to the Expansion of the Market Making Framework can be accessed at the following link:
https://www.bursamalaysia.com/regulation/faqs_relating_to_bursa_malaysia_rules

3.0 EFFECTIVE DATE

- 3.1 The amendments to the BMS Rules, Directives and Trading Manual as set out in paragraph 2 above will take effect from 7 December 2020.

4.0 CONTACT PERSON

- 4.1 In the event of any queries in relation to the above matter, kindly contact the Exchange as follows:

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This Circular is available at:

https://www.bursamalaysia.com/regulation/securities/rules_of_bursa_malaysia_securities

Regulation