

PARTICIPATING ORGANISATIONS' CIRCULAR

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1. **AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD (“RULES OF BURSA SECURITIES”) IN RELATION TO THE ERROR TRADE POLICY**
2. **AMENDMENTS TO THE RULES OF BURSA SECURITIES IN RELATION TO THE SHARING OF REMUNERATION OR COMMISSION**

1. INTRODUCTION

1.1 Bursa Malaysia Securities Berhad (“**the Exchange**”) is replacing the Exchange’s current trade cancellation policy with a new framework (the “**Error Trade Policy**”) for handling error trades reported by Participating Organisations (“**POs**”), and to minimise disruptions to the market place when error trades occur.

1.2 The salient details of the Error Trade Policy include the following:

(a) Price adjustment

Under the Error Trade Policy, subject to satisfaction of the relevant criteria, a Participating Organisation (“**PO**”) may request for a price adjustment in respect of an error trade, rather than a trade cancellation. Following a price adjustment, the matched price for an error trade is adjusted upwards or downwards to the nearest price in a range prescribed by the Exchange. In the event the PO is unable to fulfil the securities delivery settlement obligations after the price adjustment of an error trade, the PO may request for manual buying-in or early cash settlement of the error trade. Price adjustment allows for continuity of trading and avoids the disruption to the market place that may be caused by the cancellation of trades.

(b) Trade cancellation

Trade cancellation under the Error Trade Policy may only be allowed in certain specified circumstances, including the following, provided that they fulfill certain stipulated requirements:

- (i) Trade cancellation which is mutually agreed between the buying and selling POs and their respective clients, where applicable;
- (ii) Error trades arising from a system failure or malfunction in the automated trading system (“**ATS**”) or any other system, service or facility of the Exchange or a mistake in the entries made by the Exchange in the ATS;
- (iii) Error trades arising from a system failure or malfunction in the trading system, service or facility of the PO or the unauthorised entry of an order; or

- (iv) Error trades which, in the opinion of the Exchange, pose a systemic risk to Bursa Malaysia Securities Clearing Sdn Bhd (“**the Clearing House**”).

1.3 Pursuant to the replacement of the current trade cancellation policy with the Error Trade Policy, the Exchange has amended the Rules of Bursa Securities. The amendments are explained below in paragraph 2.

1.4 The Participating Organisations’ Trading Manual (“**Trading Manual**”) is amended to reflect the changes made in respect of the replacement of the current trade cancellation policy with the Error Trade Policy. The amendments to the Trading Manual are explained below in paragraph 3.

2. RULE AMENDMENTS

2.1 The key amendments to the Rules of Bursa Securities are as follows:

- (a) Rule 8.10 has been amended to revise the categories of error trades which are eligible for trade cancellation, as described in paragraph 1.2(b) above. Any cancellation of an error trade or part of an error trade in accordance with Rule 8.10(1) will be effected on the day on which the error trade is executed and will be irrevocable;
- (b) Rule 8.11 currently sets out the provisions for trade cancellation for error trades arising from a system failure or malfunction or mistake done by the Exchange. Rule 8.11 has been amended so that it continues to apply to this category of error trade, as well as the new category of error trades which may pose a systemic risk to the Clearing House. Further amendments have been made to Rule 8.11 to clarify that in respect of error trades which may pose a systemic risk to the Clearing House, the Exchange has the discretion to effect a full or partial cancellation of the error trade. The Exchange may decide to cancel the error trade if the counterparty PO has not onward sold the securities which are the subject matter of the relevant error trade (“the Said Securities”). If the counterparty PO has onward sold the Said Securities, the Exchange may decide not to cancel the error trade, and to instruct the counterparty PO to transfer the gain made on such onward sale to the erring PO. Similarly, if the counterparty PO has onward sold only a part of the Said Securities, the Exchange may decide not to cancel such part of the error trade for which the Said Securities have been onward sold, and to instruct the counterparty PO to transfer the gain made on such onward sale to the erring PO.
- (c) Rule 8.12 currently sets out the provisions for a PO to request the cancellation of a Contract executed arising from a mistake done by the PO in entering orders in the ATS. Under the Error Trade Policy, this category of error trade is eligible for price adjustment instead of trade cancellation (please see the new Rule 8.12A for the provisions on price adjustment). The amended Rule 8.12 now sets out the provisions for a PO to make a request for the cancellation of a more specific type of error trade, namely an error trade arising from a system failure or malfunction in the trading system, service or facility of the PO or an unauthorised entry of an order. The criteria which must be fulfilled before a PO may request for a trade cancellation under the amended Rule 8.12 have been revised as follows:

- (i) the No Cancellation Range will no longer be applicable;
- (ii) the requirement that the PO must request the trade cancellation within 15 minutes of the execution of the error trade has been retained; and
- (iii) the potential trading loss of the error trade must not be less than RM50,000.

Under Rule 8.12(2), the Exchange has the discretion to effect a full or partial cancellation of the error trade. If the counterparty PO has not onward sold the Said Securities, the Exchange may decide to cancel the error trade. If the counterparty PO has onward sold the Said Securities, the Exchange may decide not to cancel the error trade and to instruct the counterparty PO to transfer the gain made on such onward sale to the erring PO. Similarly, if the counterparty PO has onward sold only a part of the Said Securities, the Exchange may decide not to cancel such part of the error trade for which the Said Securities have been onward sold, and to instruct the counterparty PO to transfer the gain made on such onward sale to the erring PO.

- (d) Rule 8.12A has been inserted to set out the provisions for the Exchange to carry out a price adjustment in respect of error trades. A PO may request the Exchange to adjust the price of an error trade if the error trade fulfils the following criteria:
 - (i) the error trade must have been executed outside the No Adjustment Range¹;
 - (ii) the price adjustment must be requested by the PO within 15 minutes of the execution of the error trade; and
 - (iii) the potential trading loss of the error trade must not be less than RM50,000.

Upon receipt of a request to adjust the price of an error trade, the Exchange may adjust the price of the error trade to the nearest price within the No Adjustment Range. A decision by the Exchange on whether to adjust the price of an error trade will be made on the day on which the Contract is executed.

- (e) Rule 8.12B has been inserted to provide that the Exchange is not precluded from taking other actions against POs, notwithstanding that a trade cancellation or price adjustment has been effected.
- (f) Rule 8.12C has been inserted to provide a general obligation on POs to indemnify the Exchange for losses incurred due to a request it has made for trade cancellation or price adjustment.
- (g) Rule 9.17 has been inserted to clarify that the Exchange may, upon a request made by a Participating Organisation or the Clearing House,

¹ If the Prevailing Price is below RM1.00, the No Adjustment Range is from RM0.10 below the Prevailing Price to RM0.10 above the Prevailing Price. If the Prevailing Price is RM1.00 and above, the No Adjustment Range is from the price 10% below the Prevailing Price to the price 10% above the Prevailing Price.

conduct buying-in in respect of any security under circumstances as may be prescribed by the Exchange or the Clearing House.

- 2.2 The detailed amendments to the Rules of Bursa Securities are set out in **Annexure 1**. These amendments have been approved by the Securities Commission.

3. TRADING MANUAL AMENDMENTS

- 3.1 The salient amendments to the Trading Manual are as follows:

- (a) To set out details of the circumstances in which the Exchange can allow a trade cancellation for an error trade;
- (b) To set out details on the applicable criteria for the Exchange to carry out a price adjustment or a trade cancellation; and
- (c) Other details relating to the operation of the Error Trade Policy by the Exchange.

- 3.2 The amended Trading Manual is set out in **Annexure 2**.

4. AMENDMENTS TO THE RULES OF BURSA SECURITIES IN RELATION TO THE SHARING OF REMUNERATION OR COMMISSION

- 4.1 The Exchange has amended the provisions on the sharing of remuneration or commission under Rules 3.49 and Rule 11.02(3).

- 4.2 The amendments are as follows:

- (a) Rule 3.49 has been amended to refer to Rule 11.02(3A);
- (b) Rule 11.02(3) has been amended to clarify that a Participating Organisation must not share any commission it receives in connection with a trade executed for a Client with any person except its Dealer's Representative or Registered Representative;
- (c) Rule 11.02(3A) has been inserted to clarify that a Dealer's Representative must not share any commission it receives in connection with a trade executed by a Client with any person except the Dealer's Representative's Participating Organisation or any of the Participating Organisation's Registered Representatives or other Dealer's Representatives; and
- (d) Rule 11.02(3)(b) has been amended and renumbered as Rule 11.02(3B).

- 4.3 These amendments are set out in **Annexure 3**.

5. EFFECTIVE DATE

- 5.1 The amendments to the Rules of Bursa Securities and the Trading Manual as set out in paragraphs 2, 3 and 4 take effect from **1 June 2015**.

6. CONTACT PERSONS

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