

Frequently Asked Questions on the Rules of Bursa Securities

- (1) **Issue** : **Knowledge about client**
- Relevant Rule : Rule 5.15(1)(a) and Paragraph 8 of Directive 5-001
- Question : Any guideline(s) or benchmarks(s) from the Exchange on how this Rule be implemented?
- Answer : Participating Organisations should start with the account opening forms where adequate questionnaires be provided for new clients to fill up. For existing clients, the same questionnaires should be filled up by clients as to the requirements of the said Rule. Thereon Dealer's Representatives should categorize their clients as to their creditworthiness, background, investment objectives and knowledge in investment management. This will assist the Dealer's Representative to know which clients need detailed guidance and which clients can be left to their own complete judgment.
- Participating Organisations may also obtain essential information about a client through the usage of reliable electronic know-your-client database services.
- (2) **Issue** : **Account opening through electronic means**
- Relevant Rule : Rule 5.15(1)
- Question : Can a Participating Organisation allow a Client to submit an application form to open a trading account through electronic means?
- Answer : A Participating Organisation may allow the submission of an account opening application through an online or paperless account opening submission, which may include the use of digital signature or electronic signature complying with the relevant laws such as Digital Signature Act 1997 and Electronic Commerce Act 2006.
- (3) **Issue** : **New Technology to on-board a client**
- Relevant Rule : Paragraph 9.1(4)(f) of Directive on Conduct of Business (No. 5-001)
- Question : What are the standards that Participating Organisations need to adhere to in using new technology, such as biometric technology, to on-board a client?
- Answer : Participating Organisations that rely on new technology solutions to perform a non face-to-face verification method should ensure that these solutions must be able to effectively identify and verify the identity of the client. For example, the solution should be able to, amongst others:
- a) perform facial recognition and match against the photo on the client's identification document;

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b) detect any manipulation or alteration made to a video or photo, if any; or

c) verify the biometric or information of the client against a government database.

(4) **Issue** : **Client's financial position**

Relevant Rule : Rule 5.15(1)(a) and Paragraph 8 of Directive 5-001

Question : What are the relevant information on client's financial position required to be maintained by a Participating Organisation?

Answer : A Participating Organisation should have in place sufficient credit policies for the continued assessment of all their clients. The type or nature of information required to be kept as records are dictated by the Participating Organisation's internal policies.

(5) **Issue** : **Scope of Internal Audit**

Relevant Rule : Rule 6.14(1)(a)

Question : Under the said Rule, by what specific criteria should "the performance of management of the Participating Organisation" be required?

Answer : The scope of the internal audit envisaged under this Rule should, in the minimum, ensure compliance with internal policies and procedures, rules, laws and best business practices.

(6) **Issue** : **Internal audit responsibility and scope**

Relevant Rule : Rule 6.14(1)(f) and (j)

Question : What internal audit responsibility and scope are envisaged here? Does it entail performing a financial audit which may duplicate what the statutory auditor does?

Answer : Yes.

Question : Does it involve a limited review of periodical financial records and statements?

Answer : Yes.

(7) **Issue** : **Internal audit - reporting**

Relevant Rule : Rule 6.15(1)

Question : Does this apply even to those highlighted issues, which were subsequently rectified by the time the audit was completed?

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Answer : Yes.

(8) **Issue : Internal audit - reporting**

Relevant Rule : Rule 6.15(2)

Question : Are the audit reports by IAD and the report submitted by Audit committee to BOD/the Exchange the same?

Answer : Yes but the report submitted by Audit Committee to BOD/the Exchange should contain the deliberations and decisions/recommendations of the Audit Committee on the audit report submitted by IAD to the Audit Committee.

(9) **Issue : Margin facilities – purpose and period**

Relevant Rule : Rule 7.30

Question : A Participating Organisation may extend facilities to its clients for a period of 3 months only, with rollover, if necessary. When does the effective date commence for the 3 months period – from the date of contract or date amount is drawn down? What are the maximum and minimum rollover fees?

Answer : The commencement date for the period of three (3) months, with rollover (if necessary) permitted under this Rule for any extension of credit facilities by the Participating Organisation is to be determined in accordance with the terms of the margin agreement made between the PO and its clients.

(10) **Issue : Types and method of valuation of collateral that a client may deposit into margin account**

Relevant Rule : Rule 7.30(7)

Question : Can a Participating Organisation include securities to be issued and credited into a Client's account under a corporate action in the computation of collateral in that Client's margin account?

Answer : Yes.

Question : What price is the valuation of securities in a margin account based on?

Answer : The Last Done Price. In the absence of the Last Done Price, the Reference Price.

(11) **Issue : Clearing fee**

Relevant Rule : Rule 11.05

Question : Can a broking house waive clearing fee for certain in-house approved client?

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Answer : A broking house (PO) cannot waive Clearing Fees which are charged by the Clearing House and must charge the same to its clients accordingly.

(12) **Issue** : **Guidelines on the suspension of interest and provision for bad and doubtful debts**

Relevant Rule : Rule 12.04 and Best Practice 12.04-001

Question : Paragraph 4 of Best Practice 12.04-001 – Treatment of interest on impaired accounts, refers.

To confirm the following:

Suspension of interest is to be reflected by a PO in its books based on the types of accounts maintained by the PO, i.e. whether under contra losses, overdue purchase contracts or margin accounts?

Answer : Yes.

(13) **Issue** : **Qualifying criteria for trading in leveraged and inverse Exchange Traded Funds (“L&I ETFs”)**

Relevant Rule : Rule 7.40(2) and Directive No. 7.40-001

Question : Would a client’s written declaration pursuant to paragraph 2(2)(a) of Directive 7.40-001 (“**Directive**”), confirming the client’s fulfilment of one or more of the qualifying criteria for trading in L&I ETFs, be sufficient for a Participating Organisation to determine that a client is a qualified client under paragraph 1(2) of the Directive?

Answer : Yes. However, if a Participating Organisation is of the view that further information to support the declaration above is required pursuant to its internal policies and procedures, the Participating Organisation may request such further information from the client.

[End of FAQs]