



BURSA MALAYSIA BERHAD

MARKET MAKING IN EXCHANGE TRADED FUNDS AND STRUCTURED WARRANTS LISTED ON BURSA MALAYSIA SECURITIES BERHAD

DISCLAIMER

This document is the intellectual property of Bursa Malaysia. No part of this document is to be reproduced, transmitted, published, broadcasted, displayed, distributed, sold, licensed to any third person whether for commercial purposes, for pecuniary gain or otherwise, without the prior written consent of Bursa Malaysia.

Although care has been taken to ensure the accuracy of the information within this document, Bursa Malaysia does not warrant or represent, expressly or impliedly, as to the accuracy or completeness of the information herein.

Bursa Malaysia disclaims any liability pertaining to the consequences of any errors or omissions. In no event shall Bursa Malaysia be liable in respect of any claim arising out of or relating to the information herein, including, but not limited to, any decision made or action taken in reliance upon such information, or for damages suffered, whether direct, consequential, special, punitive, indirect or otherwise, notwithstanding having been advised of the possibility of such damages.



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

TABLE OF CONTENTS

1.	General	1
2.	Effective Date of Market Making Framework	1
3.	Qualification Criteria	1
4.	Registration Application	2
5.	MM Performance	
5.1	MM Obligations, Requirements and Incentives	3
5.2	Non-fulfillment Of MM Obligations	7
6.	Rules	8
7.	Trading via Direct Market Access	8
8.	Enquiries	8
	Appendix 1 – Form of Application for Registration as Market Maker	10



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

1 GENERAL

This document outlines the salient information in relation to Bursa's Market Making Framework for Exchange Traded Funds ("ETF") and Structured Warrants ("SW") listed on Bursa Malaysia Securities Berhad ("Bursa Securities").

2 EFFECTIVE DATE OF MARKET MAKING FRAMEWORK

- 2.1 The Market Making Framework, which replaces the voluntary market making practice in the market, takes effect on 8 May 2009.
- 2.2 Market makers who are currently undertaking voluntary market making activities are given a timeframe of three (3) months i.e. by 8 Aug 2009 to migrate to the Market Making Framework via a registration process with Bursa Securities.

3 QUALIFICATION CRITERIA

- 3.1 Any of the following corporations are eligible to apply to Bursa Securities to be registered as a Market Maker ("MM") :-
 - a) a Participating Organization of Bursa Securities;
 - b) a licensed bank or a licensed merchant bank as defined in the Banking and Financial Institutions Act 1989 ("BAFIA");
 - c) a locally –incorporated related corporation of (a) or (b) above;
 - d) a foreign securities or derivatives dealer regulated in a jurisdiction which is a signatory to IOSCO MMOU or BOCA Declaration; or



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

- e) a locally-incorporated related corporation of (d) above.

3.2 In addition to the requirements in Rule 302A.1(1), an applicant as a MM must also fulfill the following:

- a) have in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of market making; and
- b) have in place proper supervisory program and a system, of internal controls for proper conduct of business, undertaking of risk management and management of conflict of interest.

4 REGISTRATION APPLICATION

4.1 For an applicant applying for the first time to be registered as a MM, it shall submit to Bursa Securities the following :-

- i) Cover letter detailing the approval sought addressed to Bursa Securities. The applicant shall specify each Specified Security that the applicant intends to do market making for.
- ii) Duly completed Form of Application for registration as Market Maker (Please refer to **Appendix 1** for the Application Form).
- iii) For applicant which is **not** a Participating Organisation or a licensed bank or a licensed merchant bank as defined in BAFIA, the application shall be accompanied with:
 - a) certified true copies of the memorandum and articles of association or any other constituent documents, of the applicant



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

company and if any, its corporate shareholders;

- b) such documents and information as may be appropriate in respect of its financial standing such as:
 - Auditor's Certification;
 - Balance Sheet;
- c) Form 9, 49, 13, 24 and 44 or similar documents of its nature; and
- iv) Any other documents that may be required or relevant to the application.

4.2 For an existing MM applying to be a market maker for a subsequent Specified Security, it is required to only submit a cover letter detailing the approval sought addressed to Bursa Securities and specifying each Specified Security that the applicant intends to market make.

5 MM PERFORMANCE

5.1 MM OBLIGATIONS, REQUIREMENTS AND INCENTIVES

The following are the respective obligations and requirements which are to be complied with by a MM in the specified securities (which at present are ETF and SW) and the incentives enjoyed by a MM in ETF :-



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

	MM OBLIGATIONS/ REQUIREMENTS/ INCENTIVES	EXCHANGE TRADED FUNDS (ETF)	STRUCTURED WARRANTS (SW)
1.	MM Presence	Competitive two-way quotes with minimum presence of 70% during the 'main trading phase' as referred to in Rule 701.5A(4) of the Rules of Bursa Securities on each calendar day when the Exchange is open for trading in each ETF issue*	Competitive two-way quotes with minimum presence of 70% during the 'main trading phase' as referred to in Rule 701.5A(4) of the Rules of Bursa Securities on each calendar day when the Exchange is open for trading in each SW issue
	Maximum Price Spread	25 bids*	25 bids
	Minimum Volume Size	Ten (10) board lots (1,000 ETF units)*	Ten (10) board lots (1,000 SW units)
2.	Short Selling	<p>Permitted Short Selling (PSS) of ETF by a MM is allowed</p> <ul style="list-style-type: none"> ❖ Provided that such PSS is supported by securities borrowing and the MM complies with requirements on PSS as prescribed by the Exchange; ❖ Short selling of ETF can be covered by the corresponding purchase of the underlying securities or the purchase (long contract) of a highly correlated futures contract. 	Not applicable
3.	Number of MMs	Multiple MM is allowed for each ETF.	Only one (1) MM is to be appointed by the issuer for each



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

	MM OBLIGATIONS/ REQUIREMENTS/ INCENTIVES	EXCHANGE TRADED FUNDS (ETF)	STRUCTURED WARRANTS (SW)
			SW issue
4.	Designated Accounts for MMs	<p>Market making must be carried out through designated CDS accounts.</p> <ul style="list-style-type: none"> ❖ Only one (1) CDS account can be opened for each ETF that MM is market making for; ❖ MM can maintain 1 or more trading accounts for the purposes of market making for a particular ETF, all of which must be tagged to the CDS account for each ETF; ❖ The CDS account must be designated in the manner prescribed in the CDS Circular issued by Bursa Depository; ❖ CDS Naming Account Convention for MMs in ETFs is as follows:- MM ETF <ETF Product Name> 	<p>Market making must be carried out through designated CDS accounts.</p> <ul style="list-style-type: none"> ❖ MM can maintain 1 or more CDS accounts for market making in a SW. A market maker may also carry out market making for more than 1 SW in a particular CDS account; ❖ MM can maintain 1 or more trading accounts for the purposes of market making for a SW. ❖ All CDS accounts must be designated in the manner prescribed in the CDS Circular issued by Bursa Depository; ❖ CDS Naming Account Convention for MMs in SW is as follows:- MM SWP
5.	Exemptions from MM Obligations	MMs are exempted from performing their MM obligations in circumstances prescribed in the directives issued by the Exchange	MMs are exempted from performing their MM obligations in circumstances provided for in the prospectus of the structured warrant issue



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

	MM OBLIGATIONS/ REQUIREMENTS/ INCENTIVES	EXCHANGE TRADED FUNDS (ETF)	STRUCTURED WARRANTS (SW)
			❖ Announcements must be made by issuer to the Exchange when MMs cease to provide quotes in the market and upon the resumption of quotation.
6.	Re-issuance	Not applicable.	SW issuer is allowed to issue additional units of SW on the same issue when SW inventory reaches the 50% level.
7.	Incentives	<p>Incentives will be provided to MMs for ETF</p> <p>❖ In the form of fee rebate / waivers :-</p> <p>(i) 50% Rebate on Clearing Fee on all trade transactions in ETF units which MMs are appointed and registered as market makers;</p> <p>(ii) 50% Rebate on Clearing Fee on all trade transactions in ETF underlying securities pertaining to Permitted Short Selling ("PSS"), creation and redemption activities;</p> <p>(iii) Waiver of Transfer Fee for transfers of ETF units and</p>	Not applicable.



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

	MM OBLIGATIONS/ REQUIREMENTS/ INCENTIVES	EXCHANGE TRADED FUNDS (ETF)	STRUCTURED WARRANTS (SW)
		<p>constituent securities pertaining to creation and redemption activities; and</p> <p>(iv) Waiver of SBL Processing Fee and Borrowing Fee in relation to borrowing of ETF units and constituent securities for PSS.</p> <ul style="list-style-type: none">❖ Subject to fulfillment of conditions prescribed by the Exchange;❖ Granted with immediate effect till 31 Dec 2012❖ Submissions for incentives are to be made via POs for MMs who are not trading participants of the Exchange.	

* MM obligations for specific ETFs, will be discussed amongst ETF issuer, MM and the Exchange and announced via Exchange circulars before commencement of market making.

5.2 Non-fulfillment of MM obligations

Follow-up with MMs who did not manage to fulfill their MM obligations set out in item 1 of the above table, are undertaken by Bursa on a weekly basis. Review and evaluation of the non-fulfillment of obligations by MMs are conducted by Bursa on a monthly basis.



RULES

- 5.3 The rules governing the market-making activities of MM are contained in Chapter 3A of the Rules of Bursa Securities, respective rules in the relevant chapters therein and directives issued by the Exchange from time to time.
- 5.4 The rules governing the issuer of a structured warrant issue are contained in Chapter 5 of the Listing Requirements of Bursa Securities.

6 TRADING VIA DIRECT MARKET ACCESS

- 6.1 Market making activities can be carried out by MMs in a more effective and efficient manner with the introduction of the Direct Market Access (DMA) facility by Bursa Securities which is targeted to take effect by second half of 2009.
- 6.2 In the interim, an alternative to DMA access is made available to MMs i.e. by utilising the ECOS Gateway where the MM orders and trades may be channeled to the Exchange via remote access.

7 ENQUIRIES

Any enquiries pertaining to the Market Making Framework may be forwarded to the following personnel :-



Market Making in Exchange Traded Funds and Structured Warrants Listed on Bursa Malaysia Securities Berhad

Subject-Matter	Contact Person	Contact Number	Email Address
<i>Admission & PSS Registration Counterparty Risk Rules Framework</i>	Ng G-Ming Ahmad Sufian Mokhtar Lum Chee Wah Benothini Bascaran	03-2034 7364 03-2034 7242 03-2034 7734 03-2034 7317	ng_gm@bursamalaysia.com sufian@bursamalaysia.com cheewah_l@bursamalaysia.com benothini@bursamalaysia.com
<i>MM Guidelines, MM Monitoring & Evaluation</i>	Ponniah P. Ramiah	03-2034 7448	ponniah@bursamalaysia.com
<i>MM Concept</i>	Lee Siew Pin/ Hor Su Fern	03-2034 7344/ 03-2034 7296	lee_sp@bursamalaysia.com sfhor@bursamalaysia.com
<i>SW Guidelines</i>	Suzalina Harun/ Wan Choon Yen	03-2034 7353/ 03-2034 7318	suzalina@bursamalaysia.com wan_cy@bursamalaysia.com



**APPLICATION FOR REGISTRATION AS MARKET MAKERS
PURSUANT TO RULE 302A OF THE RULES OF BURSA MALAYSIA SECURITIES
BERHAD**

Please complete all sections of the form in full.
Please type or use black ink as the form will be photocopied.
Read the *Guidance Notes* carefully before completing the form.

1. Applicants' Category (Please tick relevant category) (see note 2 for Qualification Criteria)

1.	Participating Organisation ("PO") of Bursa Malaysia Securities Berhad	
2.	A licensed bank or licensed merchant bank as defined in the Banking and Financial Institutions Act 1989	
3.	Related Company of the PO, licensed bank or merchant bank, incorporated under Companies Act 1965	
4.	Foreign Securities Broker ("FSB") / Foreign Derivatives Broker ("FDB")	
5.	Related Company of FSB / FDB, incorporated under the Companies Act 1965	
6.	Others (please specify)	

**2. Specified
Security:**

3. Particulars of the Applicant

Corporation's name in full

Date of incorporation

Place of incorporation

Company No.

Principal Business

4. Address and contact details

Registered address (Please notify of any change of address immediately) **Business address** (Please notify of any change of address immediately)



**Market Making in Exchange Traded Funds and Structured Warrants
listed on Bursa Malaysia Securities Berhad**

APPENDIX 1

Telephone no.

Telephone no.

Facsimile no.

Facsimile no.

Website /
E-Mail Address

Website /
E-Mail Address

5. State the names of shareholders of the Applicant and their respective shareholdings: -

Name	No. of Shares	% of shareholding

6. Authorised Capital

7. Paid-Up Capital

8. Name and Identity Card No. (IC No.) / Passport No. (for non-Malaysian citizen only) of Directors:

Director's Name	I.C. No. / Passport No.	Status (Executive Director / Non-Executive Director) or Designation



Market Making in Exchange Traded Funds and Structured Warrants listed on Bursa Malaysia Securities Berhad

APPENDIX 1

9. Contact Person(s)

Name	Designation	Tel. No.	E-mail address

10. Declaration

(Answer "Yes" or "No". If "Yes", please give details.)

Has the applicant been: -

- (a) a member or partner in a member firm or director of a member company or participant of any stock exchange or futures exchange? Yes No
- (b) refused membership of or the right to participate in or admission to any stock exchange or futures exchange? Yes No
- (c) expelled from or suspended from trading on any stock exchange or futures exchange? Yes No
- (d) subjected to any form of disciplinary action by any stock exchange or futures exchange? Yes No
- (e) convicted of any offence in or outside Malaysia or had disciplinary actions taken for breaches involving dishonesty or fraud? Yes No

11. Undertaking from Director and Company Secretary of the Applicant



Market Making in Exchange Traded Funds and Structured Warrants listed on Bursa Malaysia Securities Berhad

APPENDIX 1

We:-

- (a) acknowledge that we the applicant declare that all information given herein and the attached document(s) (if any) are true and correct.
- (b) agree and undertake to at all times abide by the Rules of Bursa Malaysia Securities Berhad and all directives issued by the Exchange upon being duly registered as a Market Maker by the Exchange.

--	--

Director of applicant authorised to sign on its behalf

Company Secretary

Dated

Guidance Note

Please read before completing application forms

These guidance notes are to be used as a generic guide to the registration of the applicant as Market Makers of Bursa Malaysia Securities Berhad ("Bursa Securities").

Filling in the application form

You should ensure that you complete all required information on the application form in full.

If the space provided is insufficient, applicant may attach a separate sheet for the required information provided each piece of paper attached is initialed by the applicant.

Note 1: Definition

In this document: -

"applicant" means a corporation applying for registration as Market Maker of Bursa Securities;

"Bursa Securities" or "Exchange" means Bursa Malaysia Securities Berhad, a company established under the Companies act 1965 which operates ETP;

"CMSA" means Capital Market & Services Act 2007.

"corporation" has the same meaning as is assigned to that expression in the Companies Act, 1965;

"market maker" means a person who performs market making;

"market making" means unless the context otherwise requires, refers to the act of entering bid and offer prices in the ATS for a Specified Security based on the requirements stipulated by the Exchange in Rule 303A.1(1).

"Specified Security" means the security specified by the Exchange as available for market making.

Note 2: Qualification Criteria

- (1) An applicant who intends to apply to be a Market Marker for a Specified Security must fulfill any one of the following requirements:



Market Making in Exchange Traded Funds and Structured Warrants listed on Bursa Malaysia Securities Berhad

APPENDIX 1

- (a) A Participating Organisation;
- (b) A licensed bank or licensed merchant bank as defined in the Banking and Financial Institutions Act 1989;
- (c) A related company of (a) or (b) above, incorporated under Companies Act 1965 and it fulfills the following:
 - (i) has a minimum paid up capital of RM 2 million; and
 - (ii) has at least 2 personnel with at least 5 years experience in the following:
 - (aa) trading in securities as a Dealer's Representative or trading in futures contracts as a futures broker's representative;
 - (bb) trading in treasury related instruments of a financial institution;
 - (cc) trading in securities as a dealer on a recognised stock exchange; or
 - (dd) trading in futures contracts as a dealer on a Specified Exchange as defined in the business rules of the exchange company;
- (d) A foreign securities broker or foreign derivatives broker in a jurisdiction where the broker is regulated by a regulator who 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 ("Foreign Broker") and it fulfills the following:
 - (i) has a minimum paid up capital of equivalent RM 2 million; and
 - (ii) has the following:
 - (aa) it has at least 3 years market making experience; or
 - (bb) it has at least 2 personnel with at least 3 years experience in market making experience and it is related to a company who is also a Foreign Broker which has at least 3 years market making experience; or
- (e) A related company of (d) above, incorporated under the Companies Act 1965 and it fulfills the following:
 - (i) has a minimum paid up capital of RM 2 million;
 - (ii) has at least 2 personnel with at least 3 years' experience in market making; and
 - (iii) the Foreign Broker which is its related company has at least 3 years experience in market making.

Note 3: Other Requirements

An applicant as a Market Maker must also fulfill the following requirements:

- (a) have in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of market making; and
- (b) have in place proper supervisory programme and a system of internal controls to ensure the following:
 - (i) proper conduct of the business of market making;
 - (ii) proper undertaking of risk management; and
 - (iii) proper management of conflict of interest; and
 - (iv) compliance with these Rules.

Note 4: Application to the Exchange

For an applicant applying for the first time, it shall submit to Bursa Securities the following:

- j) Cover letter detailing the approval sought addressed to Bursa Securities. The applicant shall specify each Specified Security that the applicant intends to do market making for.
- v) Duly completed Form of Application (Form of Application for Registration as Market Maker).



Market Making in Exchange Traded Funds and Structured Warrants listed on Bursa Malaysia Securities Berhad

APPENDIX 1

- vi) For applicant which is **not** a Participating Organisation or a financial institution licensed under BAFIA, the application shall be accompanied with:
 - d) certified true copies of the memorandum and articles of association or any other constituent documents, of the applicant company and if any, its corporate shareholders;
 - e) such documents and information as may be appropriate in respect of its financial standing such as:
 - Auditor's Certification;
 - Balance Sheet;
 - f) Form 9, 49, 13, 24 and 44 or similar documents of its nature; and
- vii) Documentary evidence on the status of the applicant as a foreign securities broker or foreign derivatives broker or its related company as the case may be.
- viii) Documentary evidence on the requisite experience of the personnel of the applicant as required under the Rule.
- ix) Any other documents that may be required or relevant to the application.
- x) For an existing Market Maker applying to be a Market Maker for a subsequent Specified Security, it is required to only submit a cover letter detailing the approval sought addressed to Bursa Securities and specifying each Specified Security that the applicant intends to market make.