



Suruhanjaya Sekuriti
Securities Commission
Malaysia

STRUCTURED WARRANTS GUIDELINES

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1.0 APPLICATION OF GUIDELINES

- 1.01 The *Structured Warrants Guidelines* sets out the requirements for the issue of structured warrants to be listed on Bursa Securities.
- 1.02 The Securities Commission (SC) may vary the application of these guidelines for particular proposals or issues of structured warrants under such circumstances and state of affairs as the SC considers relevant, and where it considers appropriate, impose additional requirements or allow waivers from or modification to the requirements under these guidelines.

2.0 DEFINITION

2.01 In these guidelines:

American style	in respect of the right of a person under structured warrants, means the ability to exercise that right any time before or on expiry date.
bull equity-linked structure	means a contract under which a person has an actual, contingent or prospective right to receive on settlement date– <ul style="list-style-type: none"> (a) a pre-determined amount in the form of cash where the closing price of the underlying shares on expiry date is at or above the strike price; or (b) a specified number of the underlying shares or an amount in the form of cash calculated by reference to the value of the underlying shares where the closing price of the underlying shares on expiry date is below the strike price.
Bursa Securities	means Bursa Malaysia Securities Bhd.
call warrant	means a contract under which a person has an actual, contingent or prospective– <ul style="list-style-type: none"> (a) right to buy, a specified number of underlying shares or units of exchange-traded funds at a specified price on or by a specified future date; or (b) right to receive, an amount in the form of cash or other property, depending on the state of affairs that relate to fluctuations in the value or price of an underlying financial instrument, and the amount will be calculated in a particular manner by reference to that state of affairs in accordance with the contract.
closing price	in relation to a bull equity-linked structure, means the closing price of the underlying shares on the market day immediately before the expiry date.
corporation	has the meaning given to that term under the <i>Capital Markets and Services Act 2007</i> .

date of issue	means the date that a particular structured warrant issue is offered.
eligible brokers	means the collective reference to investment banks, universal brokers, special scheme brokers and 1+1 brokers.
European style	in respect of the right of a person under structured warrants, means the ability to exercise that right on expiry date.
exchange-traded fund	means a listed index-tracking fund structured as a unit trust scheme or any other approved structures whose primary objective is to achieve returns that correspond to the performance of a particular index.
exercise price or strike price	in relation to a particular structured warrant, means the pre-specified price at which the holder of such warrants may exercise the right under such structured warrants.
expiry date	in respect of the right of a person under a structured warrant, means the date in which the ability to exercise that right expires.
fully-collateralised call warrants	means call warrants where the underlying financial instrument is shares quoted on Bursa Securities, the issue of which is accompanied by a deposit of all shares, which is the subject of such warrants, with a custodian or trustee for the entire term of the warrants in issue.
in-the-money	in respect of call warrants, refers to a market situation where the price of the underlying financial instrument is higher than the exercise price or strike price.
investment bank	means an entity that holds a Capital Markets Services Licence under section 58 of the <i>Capital Markets and Services Act 2007</i> for the regulated activity of dealing in securities and a merchant banking licence under section 5 of the <i>Banking and Financial Institutions Act 1989</i> , and duly established under the <i>Guidelines on Investment Banks</i> issued jointly by Bank Negara Malaysia and the SC.
licensed institution	has the same meaning as given in the <i>Banking and Financial Institutions Act 1989</i> .

market making	has the same meaning as given in the <i>Rules of Bursa Malaysia Securities Berhad</i> .
non-collateralised structured warrants	means structured warrants where the underlying financial instrument is not held in deposit by a custodian or trustee as approved by the SC for the entire term of the warrants in issue.
performance guarantee	in relation to an issuer, means an unconditional and irrevocable guarantee to perform any and all of the issuer's obligations in the terms and conditions of the structured warrants issue in the event the issuer fails to perform such obligations.
prospectus	has the same meaning given to that term under the <i>Capital Markets and Services Act 2007</i> and, for the purpose of these guidelines, includes the term "base prospectus" and "term sheet".
related corporation	has the meaning given in section 4 of the <i>Companies Act 1965</i> .
settlement date	in relation to a bull equity-linked structure, means the date upon which the payment or delivery of underlying shares, as the case may be, is made to the holder of such issue.
shares	means shares of a corporation quoted on Bursa Securities or securities exchange outside Malaysia.
special scheme broker	means a foreign stockbroking company established under the <i>Application for Establishment of Foreign Stockbroking Companies Under the Special Scheme</i> .
structured warrants	comprise call warrants, basket warrants, bull equity-linked structures and such other structures that may be specified by the SC from time to time.
stockbroking company	refers to a holder of a Capital Markets Services Licence which carries on the business of dealing in securities as defined in Part 2 of Schedule 2 of the <i>Capital Markets and Services Act 2007</i> and is registered as a participating organisation under the <i>Rules of Bursa Malaysia Securities Berhad</i> .
underlying corporation	in relation to particular structured warrants, means the corporation that has issued the shares, which is the subject of such warrants.

underlying financial instrument	in relation to particular structured warrants, means the shares, exchange-traded fund or index, which is the subject of such warrants.
underlying index	in relation to particular structured warrants, means the index, which is the subject of such warrants.
underlying shares	in relation to particular structured warrants, means the shares, which is the subject of such warrants.
universal broker	means a stockbroking company that has merged with or acquired at least three other stockbroking companies, and has satisfied all the conditions and requirements stipulated by the SC under the <i>Guidelines for a Universal Broker</i> .
1+1 broker	means a stockbroking company that has complied with the <i>Policy Framework for Stockbroking Industry Consolidation</i> and has acquired, taken-over, amalgamated or merged with at least one other stockbroking company.

3.0 CRITERIA OF ISSUE

Issuer

- 3.01 Any person may issue fully-collateralised call warrants subject to–
- (a) the terms of the security arrangements for the underlying shares being approved by the SC;
 - (b) a custodian under section 121 of the *Capital Markets and Services Act 2007* or a company registered as a trust company under the *Trust Companies Act 1949* being appointed to hold the underlying shares and act in the interests of the warrant holders; and
 - (c) the person complying with these guidelines and all other applicable laws relating to the issue, sale or offer of structured warrants.
- 3.02 An issue of non-collateralised structured warrants may only be undertaken by–
- (a) an eligible broker with a credit rating of at least investment grade or, where it does not possess the required credit rating, on whose behalf a performance guarantee has been issued by–
 - (i) its holding company having a credit rating of at least investment grade; or
 - (ii) a financial institution with a credit rating of at least investment grade;
 - (b) a licensed institution approved by Bank Negara Malaysia, with a credit rating of at least investment grade; or
 - (c) a corporation that is a related corporation to an eligible broker, and that corporation possesses a credit rating of at least investment grade or, where such corporation does not possess the required credit rating, on whose behalf a performance guarantee has been issued by–
 - (i) its holding company having a credit rating of at least investment grade; or
 - (ii) a financial institution with a credit rating of at least investment grade.

For the purpose of this paragraph, the term “holding company” has the same meaning as given in section 5 of the *Companies Act 1965*.

- 3.03 An issuer of non-collateralised structured warrants must have in place adequate and satisfactory risk management arrangement with regard to the issue of such structured warrants, which is to be provided upon submission of the prospectus to the SC and upon request from time to time.

3.04 Deleted

Requirements Relating to the Underlying Financial Instrument

3.05 Structured warrants where the underlying financial instrument is an exchange-traded fund or shares quoted on Bursa Securities must satisfy the following criteria:

- (a) The underlying corporation or exchange-traded fund must have an average daily market capitalisation of at least RM1 billion in the past three months ending on the last market day of the calendar month immediately preceding the date of issue, or RM3 billion for newly listed corporations or exchange-traded funds that do not meet the three-month market capitalisation track record; and
- (b) The underlying corporation must be in compliance with the public shareholding spread requirement of Bursa Securities.

3.06 Structured warrants, where the underlying financial instrument is shares or an exchange-traded fund quoted on a securities exchange outside Malaysia, must satisfy the following criteria:

- (a) The underlying corporation or exchange-traded fund is listed or quoted on a securities exchange which is a member of the World Federation of Exchanges and is approved by the SC;
- (b) The underlying corporation or exchange-traded fund must have an average daily market capitalisation equivalent to at least, RM3 billion in the past three months ending on the last market day of the calendar month immediately preceding the date of issue, or RM5 billion for newly listed corporations or exchange-traded funds that do not meet the three-month market capitalisation track record;
- (c) The underlying corporation or exchange-traded fund must be in compliance with the listing rules and requirements of its home exchange at the date of issue; and
- (d) Information on the price and volume, financial information and price-sensitive information relating to the underlying corporation or exchange-traded fund must be available to investors in Malaysia.

3.07 Factors which the SC will consider in determining whether a securities exchange outside Malaysia is acceptable include, but are not limited to, the following:

- (a) The market is regulated in a fair and orderly manner by the government or properly constituted body pursuant to a body of laws, regulations or rules;
- (b) Quality of the reporting and timeliness of the disclosure of information on price and volume, financial information and price-sensitive information; and

- (c) The availability of price information to investors in Malaysia.
- 3.08 Structured warrants where the underlying financial instrument is an index, the index must satisfy the following criteria:
- (a) The index is based on Bursa Securities or is approved by the SC; and
 - (b) Information on the composition and performance of an index based on a securities exchange outside Malaysia must be available to investors in Malaysia.
- 3.09 In determining whether the index is acceptable, the SC will consider amongst others, whether the index:
- (a) is broadly based;
 - (b) has transparent components; and
 - (c) is a recognised benchmark.

Terms and Conditions of Issue

Maximum Issue Size

- 3.10 For structured warrants where settlement is by way of physical delivery and the underlying instrument is shares or an exchange-traded fund quoted on Bursa Securities, the aggregate outstanding collateralised and non-collateralised structured warrants issued at any one time including those already issued by third-party issuers on the same underlying shares that are still outstanding (unexercised and unexpired) must not exceed 20% of the share capital of the underlying corporation or fund size of the exchange-traded fund.
- 3.11 In computing the size of issue, company warrants issued by the underlying corporation must not be included in the calculation.
- 3.12 Deleted

Tenure of Issue

- 3.13 The tenure of structured warrants must be–
- (a) in relation to call warrants, no earlier than six months and no later than five years from the date of issue to the expiry date; and
 - (b) in relation to bull equity-linked structures, no earlier than twenty-eight calendar days and no later than two years from the date of issue to the expiry date.

- 3.13A The minimum tenure of six months for a structured warrant issue does not apply to further issues under paragraph 3.19 of these guidelines.

Minimum Issue Size

- 3.14 Each issue of structured warrants must be for a total face amount of at least RM5 million.
- 3.14A The minimum issue size does not apply to further issues under paragraph 3.19 of these guidelines.

Trading and Settlement of Structured Warrants

Board Lot

- 3.15 Trading of structured warrants must be in a board lot comprising 100 units or any other number of securities permitted by the *Rules of Bursa Malaysia Securities Berhad*.
- 3.16 Structured warrants based on indices must be issued in board lots of 100 warrants.

Conversion Ratio

- 3.17 For the purpose of exercising structured warrants where settlement is by way of delivery of the underlying shares, the conversion ratio must be as follows:
- (a) One structured warrant for one share;
 - (b) Ten structured warrants for one share; or
 - (c) Such other ratio as the SC may approve, provided it will convert to a whole number of a board lot of the underlying shares.

Liquidity Provision

- 3.18 An issuer of structured warrants must either fulfil the spread requirement or undertake market making for each structured warrant issue.
- 3.18A Where an issuer intends to fulfil the spread requirement, the issuer must comply with the requirement on minimum number of holders under Chapter 5 of the *Listing Requirements of Bursa Malaysia Securities Berhad*.
- 3.18B Where the issuer intends to provide liquidity for a structured warrant issue via market making instead of fulfilling the spread requirement, the issuer must–
- (a) be registered as a market maker under the *Rules of Bursa Malaysia Securities Berhad* and perform its obligations as disclosed in the prospectus; or

- (b) appoint and retain at all times a market maker who must be registered under the *Rules of Bursa Malaysia Securities Berhad* and ensure that the market maker performs its obligations in accordance with the disclosures in the prospectus.
- 3.18C An issuer which has fulfilled the spread requirement under paragraph 3.18A, may also undertake market making for a structured warrant issue by fulfilling the criteria under paragraph 3.18B.
- 3.18D The spread and market making requirement does not apply to issuers of bull equity-linked structures.

Further Issues

- 3.19 For the purpose of facilitating market making, an issuer may apply for further issues of structured warrants within an existing structured warrants issue provided that–
- (a) the terms and conditions of the further issue are identical to the existing issue except for the issue size and tenure;
 - (b) the issuer holds no more than 50% of the existing structured warrant issue at the time of application for the further issue; and
 - (c) the terms and conditions of the existing structured warrants issue either permit the further issue so as to form a single series with the existing issue or have been properly amended to give the issuer the right to make one or more further issues.
- 3.19A Application for further issues requires submission of a term sheet and approval of the SC.
- 3.19B An issuer may retain up to 100% of the structured warrants at the date of listing of further issues.

Exercise Style

- 3.20 Other than bull equity-linked structures, the right of the structured warrant holders may be exercisable in American style, European style or such other style as the SC may approve.
- 3.21 For bull equity-linked structures, the right is exercisable only European style.

Settlement of Structured Warrants

- 3.22 The settlement of the structured warrants must be by way of delivery of the underlying shares, units of exchange-traded fund or cash and the same must be clearly specified by the issuer in the terms and conditions of the structured warrants issue. Issuers do not have the option to elect for an alternative mode of settlement upon exercise by warrant holders or at the expiry date. However, in the event that the mode of settlement is by way of delivery of underlying shares or units of exchange-traded fund and the warrant holders

receive odd lots of shares or units of exchange-traded fund upon exercise of the structured warrants or at expiry date, the issuer must settle these odd lots in cash.

- 3.23 For structured warrants where the underlying financial instrument is shares quoted on a securities exchange outside Malaysia, an index or an exchange-traded fund quoted on a securities exchange outside Malaysia, the settlement must be by way of cash and the same must be clearly specified by the issuer in the terms and conditions of the structured warrants issue.
- 3.24 Subject to paragraph 3.23, in relation to settlement of bull equity-linked structures, the terms and conditions of the issue must clearly specify–
- (a) that the holders must receive on settlement date a pre-determined amount in the form of cash where the closing price of the underlying shares on expiry date is at or above the strike price; and
 - (b) that in the event the closing price of the underlying shares is below the strike price on expiry date, the holder must receive on settlement date delivery of underlying shares or an amount in the form of cash calculated by reference to the value of those underlying shares.

Settlement Price of Structured Warrants

- 3.25 Where settlement of a structured warrant issue is in the form of cash, an issuer should specify in the terms and condition of the structured warrants issue, the method of determining the settlement price as described below.
- (a) Where the underlying financial instrument is shares or an exchange-traded fund, the settlement price must be determined based on any of the following:
 - (i) The volume weighted average price of the underlying share or exchange-traded fund (subject to any adjustment as may be necessary to reflect any capitalisation, rights issue, distribution or others) for the five market days prior to and including the market day immediately before the exercise or expiry date; or
 - (ii) The average closing price of the underlying share or exchange-traded fund (subject to any adjustment as may be necessary to reflect any capitalisation, rights issue, distribution or others) for the five market days prior to and including the market day immediately before the exercise or expiry date; or
 - (iii) The closing price of the underlying share or exchange-traded fund on the market day immediately before the exercise or expiry date.
 - (b) Where the underlying financial instrument is an index, the settlement price must be calculated using one of the following methods:

- (i) The closing level of the underlying index on the market day immediately before the exercise or expiry date; or
- (ii) The final settlement price for settling the corresponding index futures contract on the expiry date; or
- (iii) The average of the closing levels of the underlying index for the five market days prior to and including the market day immediately before the exercise or expiry date.

3.26 For American-style structured warrants, in addition to the methods of calculating the settlement price set out in paragraph 3.25, where the structured warrant is exercised before the expiry date, the following calculation method may be used:

- (a) Where the structured warrant is exercised before 12.30 p.m., the settlement price must be calculated using the closing price of the underlying share or exchange-traded fund or the closing level of the underlying index, where applicable, on the day that the structured warrant is exercised; and
- (b) Where the structured warrant is exercised on or after 12.30 p.m., the settlement price must be calculated using the closing price of the underlying share, or exchange-traded fund or the closing level of the underlying index, where applicable, on the day immediately following the day that the structured warrant is exercised,

provided that the issuer has specified this in the terms and conditions of the structured warrants issue.

3.27 Where settlement is in the form of cash, the terms and conditions must provide for automatic settlement (warrant holders are not required to serve a notice of exercise) if the call warrants expire in-the-money.

Anti-dilution Provisions

3.28 In the event of consolidation, bonus or rights issues, or any other event having a similar effect on the rights of warrant holders, the terms and conditions of each issue of structured warrants must provide for adjustment to the exercise price and/or conversion ratio and may not provide for issuance of additional warrants to existing warrant holders.

Take-over, Liquidation, Dissolution and Winding Up

3.29 The terms and conditions of each issue of structured warrants must specify the rights of the warrant holders in the event of–

- (a) a take-over, merger, liquidation, dissolution or winding-up of the underlying corporation or issuer;
- (b) a scheme of arrangement involving the shareholders of the underlying corporation or issuer;

- (c) winding-up of the underlying exchange-traded fund; or
- (d) any other events having a similar effect on the rights of warrant holders as the above.

Issue of Basket Warrants

- 3.30 Basket warrants are call warrants that are issued on a basket of two or more underlying shares. Basket warrants may be issued subject to the relevant terms and conditions applicable to the issue of structured warrants as provided under these guidelines, with the following additional requirements:
- (a) For fully-collateralised issue of basket warrants, the settlement may either be by way of delivery of the underlying shares or cash; and
 - (b) For non-collateralised issue of basket warrants, the settlement must be by way of cash only.

Issue Price

- 3.31 The minimum issue price for a structured warrants issue must be RM0.15 per warrant.
- 3.32 The minimum issue price does not apply to further issues under paragraph 3.19 of these guidelines.

4.0 DISCLOSURE REQUIREMENTS

- 4.01 An issuer must submit in relation to an issue of structured warrants-
- (a) a prospectus as a single document where an issue of structured warrant is sought; or
 - (b) a base prospectus supported by term sheet where multiple issues of structured warrants are sought.
- 4.02 Where multiple issues of structured warrants are sought, the base prospectus and the term sheet must between them comply with the *Prospectus Guidelines – Structured Warrants*, subject to any modification as may be approved by the SC and each should form a constituent part of the other thereby attracting similar liability in terms of disclosure in a prospectus under the *Capital Markets and Services Act 2007*.
- 4.03 The base prospectus must, among others, contain–
- (a) general information on the structured warrants issue and other information as required under the *Prospectus Guidelines – Structured Warrants* subject to any modification as may be approved by the SC; and
 - (b) sufficient information necessary to enable an investor to make an informed assessment of the credit risk of the issuer or guarantor to fulfil the obligations under the terms of issue and the risks, rights and obligations associated with the structured warrants issue.
- 4.04 The base prospectus, once approved and registered with the SC, is valid for up to 12 months from the date of issuance of the prospectus.
- 4.05 Within the validity period of the base prospectus, a registrable copy of the term sheet containing specific information of a particular structured warrants issue must be submitted to the SC at least four clear market days prior to the date of issue of each structured warrants issue except for the pricing of such structured warrants which may be furnished to the SC two clear market days after the date of issue of each structured warrants issue.

5.0 SUBMISSION OF PROPOSALS

5.01 Submission of proposals to the SC for the issue of structured warrants may only be made by the following persons on behalf of the issuer:

- (a) Eligible brokers; or
- (b) Merchant banks.

However, where the issuers themselves are eligible brokers, merchant banks, or licensed institutions approved by Bank Negara, they may submit the proposals on their own behalf.

5.02 All proposals for the issue of structured warrants as set out in these guidelines must be submitted in three copies and addressed to:

The Chairman
Securities Commission
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

(Attention: Issues and Investment Division)

5.03 For an issue of collateralised structured warrants, the issuer is required to outline the proposed security arrangement and submit the name of the proposed trustee or custodian of the underlying shares for approval.

5.04 For all issuance of structured warrants, the issuer must specify the timetable for the implementation of the proposal.

5.05 The issuer must ensure that all requirements specified under these guidelines pertaining to the submission of proposals are fully complied with. Submissions that do not comply with any of the requirements of the guidelines or deemed unsatisfactory may be returned to the applicant. In addition, the SC may, at its full discretion, request any further information or document other than those specified in these guidelines.

5.06 All proposals for the issue of structured warrants submitted to the SC must be accompanied by a plan for the marketing and promotion of the issue.

5.07 Approval of the SC under these guidelines may be given subject to conditions as the SC sees fit.

5.08 The SC must be immediately informed–

- (a) of any material change in circumstances that would affect the consideration of the SC; and
- (b) of any material change or development occurring subsequent to the approval of the SC.

- 5.09 The SC may review its decision in the event of circumstances that are known to the SC after it has considered the proposal, which circumstances, if known at the time of the proposal being considered, might have resulted in a different decision by the SC.