

GUIDELINES ON THE REGISTRATION OF BOND PRICING AGENCIES

SC-GL/BPA-2006 (R3-2022)

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¹ Save for the requirement to have policies and procedures on anti-corruption and whistleblowing under paragraph 3.3A of these Guidelines, which took effect on 1 June 2020.

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CHAPTER 1

INTRODUCTION

- 1.1 These Guidelines set out the regulatory requirements and procedures for registration as a bond pricing agency with the Securities Commission Malaysia (SC).
- 1.2 Pursuant to the *Securities Industry (Bond Pricing Agency) Regulations 2006*, a bond pricing agency shall be an entity registered by the SC in accordance with these Guidelines.
- 1.3 Under these Guidelines, the term 'bond pricing agency' or 'BPA' means an entity which is registered with the SC to provide daily fair prices for bonds on an independent and objective basis.
- 1.4 Guidance on the application of the relevant requirements of these Guidelines has been inserted, where appropriate. Any departure from the Guidance will be taken into account in the SC's assessment on whether a breach of these Guidelines had occurred.
- 1.5 The SC may, upon an application, grant an exemption from or a variation to the requirements of these Guidelines, subject to any terms and conditions as it deems necessary if the SC is satisfied that-
 - (a) such variation is not contrary to the intended purpose of the relevant provisions in these Guidelines; or
 - (b) there are mitigating factors which justify the said exemption or variation.

CHAPTER 2

REGISTRATION CRITERIA

2.1 The following minimum criteria must be met by an applicant prior to submitting an application to the SC for registration as a BPA:

(a) **Capital requirement**

The applicant, which is incorporated or established in Malaysia or outside Malaysia, must maintain a minimum shareholders' funds of RM10 million or its equivalent in foreign currency.

(b) **Shareholder's requirement**

(i) The applicant must at all times maintain its independence and objectivity in pricing bond issues.

(ii) Where a shareholder is a financial institution or a credit rating agency that is able to exert significant influence over the applicant, there must be adequate segregation of management and operational resources between the applicant and the financial institution or credit rating agency, as the case may be, to ensure full independence of the operations of the applicant.

(iii) For the purposes of these Guidelines, the term financial institution includes institutions licensed under the *Banking and Financial Institutions Act 1989* and *Islamic Banking Act 1983*.

(c) **Indemnity Insurance**

The applicant must obtain indemnity insurance coverage of not less than RM10 million to cover the risks from its operations.

(d) **Coverage**

(i) The applicant must provide daily fair prices for at least all Ringgit-denominated bonds, excluding irredeemable convertible unsecured loan stocks, which are tradable in the over-the-counter market.

(ii) For the purposes of these Guidelines, 'bonds' include securities issued or guaranteed by the Government of Malaysia, State Government and Bank Negara Malaysia as well as corporate bonds and Islamic securities approved by the SC.

(e) **Due process in bond pricing**

- (i) The applicant must use relevant data obtained from reliable sources in determining the fair prices of bonds. In particular, the data on transaction price must be obtained directly or indirectly from a centralised trade reporting system that is recognised by the SC.
- (ii) Where a credit rating agency is also a shareholder in the applicant, the applicant must only use publicly available credit information in arriving at the fair prices for bond issues rated by that credit rating agency.
- (iii) The applicant must formulate sound and well-established pricing methodologies for bond pricing and apply these methodologies consistently.
- (iv) The applicant must use its best endeavours to seek feedback from its subscribers and to conduct external verification by a group of selected financial institutions latest by 5pm daily before publishing the daily fair prices for bonds. Nevertheless, a BPA must retain the discretion to incorporate the feedback in arriving at the final prices for the bond issues.

(f) **Bond pricing expertise**

The applicant must at all times employ at least two qualified bond pricing specialists with at least five years of relevant working experience each in either bond trading or in areas related to bond pricing.

(g) **Operational requirements**

- (i) The applicant must maintain the bond pricing data and facilities with adequate security, system capacity and contingency arrangements, including having in place a business continuity plan and processes.
- (ii) The applicant must maintain full record of its operations, including audit trails of its bond pricing due process and activity for at least seven years.
- (iii) The applicant must undertake to disclose, to the extent possible, the broad description and salient features of its pricing methodologies to its customers.

(h) **Fit and proper requirements**

- (i) The applicant and every person who is, or is to be, a director, chief executive and senior management of the applicant must be fit and proper persons.
- (ii) In determining whether a person is fit and proper to hold the above position in a BPA, regard shall be had as to his probity, diligence, competence and soundness of judgment of fulfilling the responsibilities of that position, to whether the interest of customers, if any, of the applicant are likely to be in any way threatened by his holding that position as well as to the previous conduct and activities in business or financial matters of the person in question.

(i) **Fees**

- (i) The applicant must undertake to impose a reasonable amount of fees for its bond pricing services. The quantum of fees shall be proportionate to the costs involved in setting up and operating its bond pricing services.
- (ii) The applicant must develop a clear and consistent fee structure for its pricing services which must be duly disclosed to its customers upon their request. The applicant must distinguish the fee chargeable on bond pricing services from its other auxiliary services.

CHAPTER 3

CONTINUOUS COMPLIANCE AND REPORTING REQUIREMENTS

- 3.1 A BPA must at all times undertake to comply with the requirements stipulated in these Guidelines and to any terms and conditions as may be specified by the SC.
- 3.2 A BPA may provide other services to its customers subsequent to the registration with the SC, subject to prior notification to the SC. These services shall not be in conflict with its principal role of providing bond pricing services.
- 3.3 A BPA must maintain a code of conduct and ethics to uphold professionalism and to prevent any potential conflict of interest.
- 3.3A A BPA must have policies and procedures on anti-corruption and whistleblowing that are appropriate to the nature, scale and complexity of its business.

Guidance to paragraph 3.3A

The policies and procedures on anti-corruption should be guided by the *Guidelines on Adequate Procedures* issued pursuant to section 17A(5) of the *Malaysian Anti-Corruption Commission Act 2009*.

- 3.4 A BPA must submit to the SC:
 - (a) its latest audited financial statements within 3 months after the close of each financial year; and
 - (b) any other relevant information or documents as required by the SC.
- 3.5 A BPA must notify the SC with the relevant information upon the occurrence of the following events:
 - (a) material change that affects its operations;
 - (b) change in fees charged to clients;
 - (c) change of its controlling or majority shareholder; and
 - (d) where there is an occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the SC.

CHAPTER 4

SUBMISSION PROCEDURE

General

- 4.1 Unless specified otherwise, all submissions under these Guidelines must be made to the SC via the Electronic Application System (EASy), in accordance with the forms and accompanied by the supporting documentations as specified on the SC website. Further information on EASy can also be found on the SC website.
- 4.2 A submitting party must ensure that the relevant persons as indicated in the forms have authorised the submission of information and particulars stated in the forms, and the supporting documentation.
- 4.3 Any person who furnishes to the SC, directly or indirectly, any statement, information or document (collectively referred to as 'representation'), by whatever means or in any form, must ensure that the representation is not false or misleading, and does not contain any material omission. Breach of this requirement can result in enforcement action under the securities laws. For the avoidance of doubt, this requirement includes any clarification or additional representation submitted to the SC.
- 4.4 The SC must be immediately informed of any change or development in circumstances and information—
 - (a) that may impact the application subsequent to the submission of the application; and
 - (b) relating to an application occurring subsequent to the SC giving its approval.

Submission for Registration

- 4.5 Upon satisfying relevant criteria as set out in these Guidelines, an applicant is required to submit the relevant forms and supporting documentation as specified on the SC website.
- 4.6 Where necessary, the SC may request for other relevant or additional information and documentation to be submitted.
- 4.7 In the case where a BPA is appointing its director, senior management (including chief executive) and bond pricing specialists, the BPA is responsible for verifying the good character, reputation and competency of the respective individual.

- 4.8 Application results may be released through the system or via any other method deemed appropriate by the SC.

Withdrawal of Application

- 4.9 A submission made to the SC may be withdrawn prior to communication of decision by the SC. Any withdrawal must be accompanied by an explanation.

Changes That Require Prior Approval

- 4.10 The SC's prior approval is required prior to the appointment of chief executive.

Changes That Require Notification

- 4.11 A BPA must notify the SC via EASy on any of the following material changes within 14 days of the occurrence of the event:
- (a) Change in shareholders or shareholding details;
 - (b) Appointment of director or senior management, and change of designation for director;
 - (c) Change of entity particulars such as name, and registered, business or correspondence address, including its corporate shareholder's particulars;
 - (d) Cessation of business or deregistration;
 - (e) Change of individual particulars for individual shareholder, director, senior management and bond pricing specialist;
 - (f) Cessation of director, senior management or bond pricing specialist; and
 - (g) Any other material change.
- 4.12 Notwithstanding paragraph 4.11, for any resignation or cessation of director or senior management, a BPA must inform the SC immediately via email to the Head of Authorisation and Licensing Department, followed by submission of the relevant forms.

Application for Extension of Time

- 4.13 A BPA seeking an extension of time to comply with any registration requirements and conditions must submit an application with accompanying justifications and relevant supporting materials to the Head of Authorisation and Licensing Department at least 14 days prior to the expiry of the stipulated time frame for the SC's consideration.

CHAPTER 5

REVOCATION OF REGISTRATION

- 5.1 The SC may suspend the registration of or deregister a BPA or vary any terms and conditions of the registration as may be specified, if the BPA involved-
- (a) ceases to provide bond pricing services;
 - (b) is being wound up or otherwise dissolved;
 - (c) provides false and misleading information which is material to the SC;
 - (d) is contravening or has contravened any key requirements as stipulated in the Guidelines; or
 - (e) is contravening or has contravened any material terms and conditions imposed by the SC.
- 5.2 The BPA shall be given an opportunity to be heard prior to suspension or deregistration by the SC.