

GUIDELINES ON REGULATED SHORT-SELLING OF CORPORATE BONDS

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CHAPTER 1

INTRODUCTION

- 1.01 These Guidelines are issued by SC pursuant to *section 377 of the Capital Markets and Services Act 2007 (CMSA)*.
- 1.02 These Guidelines set out the requirements to be complied with by any person carrying out short-selling transactions of corporate bonds.
- 1.03 In recognising the need to facilitate market-making activities, and thus enhance liquidity and increase the attractiveness of the Malaysian corporate bond market, SC allows Eligible Market Participants to conduct regulated short-selling activities of Eligible Securities that are undertaken in accordance with these Guidelines.
- 1.04 Short-selling transactions that are not conducted in accordance with these Guidelines may be in breach of the short-selling prohibition under section 98 of the CMSA.

CHAPTER 2

DEFINITIONS

2.01 Unless otherwise defined, all words used in these Guidelines shall have the same meaning as defined in the CMSA:

BNM	means Bank Negara Malaysia or the Central Bank of Malaysia a body corporate which continues to exist under the <i>Central Bank of Malaysia Act 2009</i> ;
CMSA	means <i>Capital Markets and Services Act 2007</i> ;
Eligible Market Participants	means a licensed bank, licensed investment bank or any other entity appointed by BNM as a Principal Dealer;
Eligible Securities	means securities that are eligible to be short sold pursuant to these Guidelines, as specified in paragraph 3.05;
ETP	means the Electronic Trading Platform established by Bursa Malaysia Bonds Sdn Bhd and registered as a Recognised Market Operator under the CMSA;
FAST	means Fully Automated System for Issuing/Tendering operated by BNM;
licensed bank	has the same meaning assigned to it under the <i>Financial Services Act 2013</i> ;
licensed investment bank	has the same meaning assigned to it under the <i>Financial Services Act 2013</i> ;
MyClear	means the Malaysian Electronic Clearing Corporation Sdn Bhd a wholly-owned subsidiary of Bank Negara Malaysia;
RENTAS	means the Real Time Electronic Transfer of Funds and Securities System which is the real time electronic funds and securities transfer settlement system operated by MyClear;
SC	means the Securities Commission Malaysia established under the <i>Securities Commission Malaysia Act 1993</i> .

CHAPTER 3

ELIGIBILITY AND REQUIREMENTS TO CARRY OUT SHORT-SELLING OF CORPORATE BONDS

Regulated short-selling transactions

- 3.01 Eligible Securities allowed to be short sold must be covered via reverse repurchase or securities borrowing and lending facilities prior to creating a short-selling position.
- 3.02 Illustration of regulated short-selling transaction is provided in Appendix I where at T_0 (day 0), a short-selling transaction is entered into by an Eligible Market Participant for value date T_x (day x). To avoid a naked short-selling position, the Eligible Market Participant must borrow the Eligible Securities on T_0 for settlement not later than value T_2 via reverse repo (1st leg) or securities borrowing. The maturity date of the reverse repo (2nd leg) and securities borrowing must be at least on T_x or later.

Period of short-selling

- 3.03 A short-selling transaction shall not exceed 12 months from the trade date, T_0 .
- 3.04 The borrowing transaction for each covered short sale must be entered on T_0 for a borrowing period that begins not later than value T_2 to at least T_x .

Eligible securities

- 3.05 Only corporate bonds with the following features are eligible for a short-selling transaction under these Guidelines:
- (a) Free from any encumbrance or optionality;
 - (b) Denominated in ringgit Malaysia;
 - (c) Non-convertible and non-equity linked;
 - (d) Not an asset-backed security or mortgage-backed security;
 - (e) Having an issue size of at least RM500 million; and
 - (f) Guaranteed by the Government of Malaysia, or has a minimum credit rating of "AA" by a credit rating agency regulated by SC.

Repurchase agreement and securities borrowing agreement

- 3.06 An Eligible Market Participant must, prior to placing a short-selling order,
- (a) borrow the Eligible Securities; or

(b) enter into a bona fide arrangement to borrow the Eligible Securities.

- 3.07 For the purpose of subparagraph 3.06(b), an Eligible Market Participant must have executed a global master repurchase agreement or a securities borrowing and lending agreement with at least two market participants other than BNM, to ensure reasonable access to borrow Eligible Securities in order to cover a short position and mitigate settlement risks.
- 3.08 The repurchase or borrowing of Eligible Securities by an Eligible Market Participant must be in accordance with any relevant policy documents issued by BNM in relation to repurchase agreement transactions and securities borrowing and lending programme and any relevant documents issued by MyClear in relation to the securities services, from time to time.
- 3.09 The nonconformity by an Eligible Market Participant with the requirements in paragraph 3.08 would give rise to a breach under these Guidelines.

Short position limit

- 3.10 An Eligible Market Participant's short position shall not exceed 10% of the outstanding nominal amount of each Eligible Securities issue.

Delivery and settlement

- 3.11 The short-selling transaction and the respective borrowings must be initiated and confirmed through RENTAS on the respective trade dates.
- 3.12 In the event an Eligible Market Participant fails to deliver the Eligible Securities in a short-selling transaction on the value date, the Eligible Market Participant is required to buy-in, in accordance with the relevant operational procedures relating to buying-in or selling-out as specified by MyClear.

Suspension of short-selling activities

- 3.13 To ensure orderliness of the corporate bond market, SC may exercise one or more of the following actions:
- (a) Disallow an Eligible Market Participant to conduct further short-selling transactions;
 - (b) Suspend short-selling activities of specific Eligible Securities; and
 - (c) Any other action that SC deems appropriate.

CHAPTER 4

OVERSIGHT AND REPORTING

Internal controls

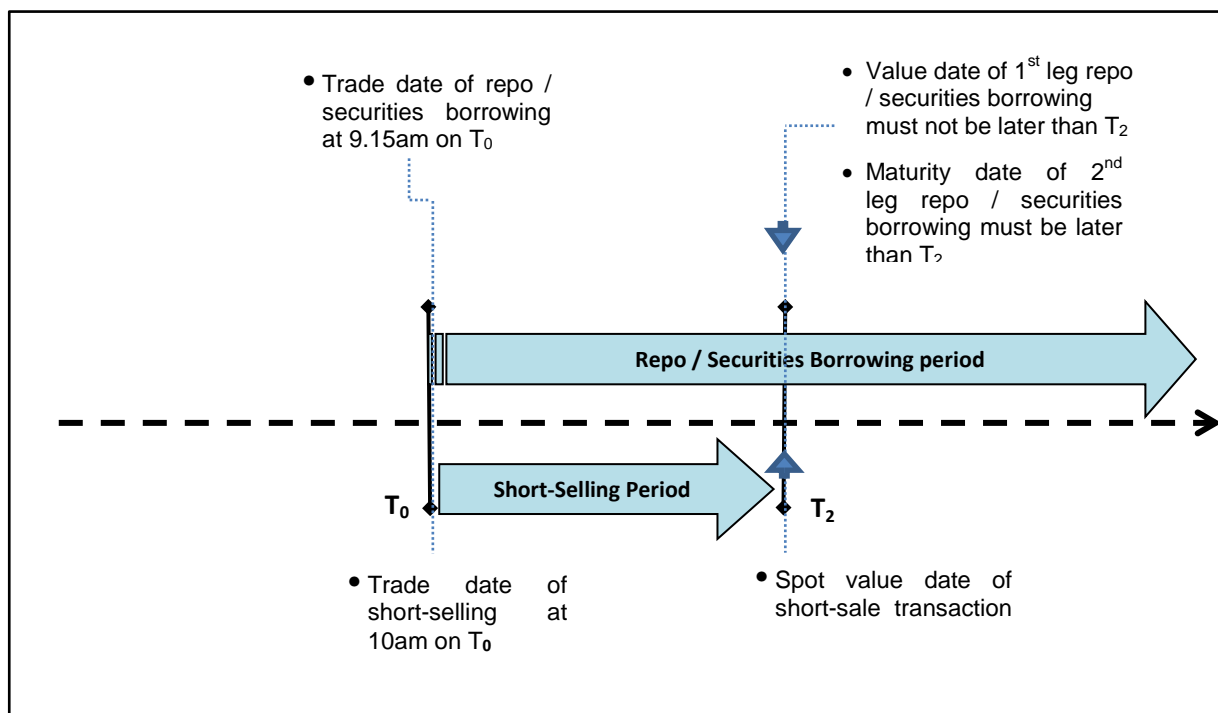
- 4.01 Eligible Market Participants shall establish internal guidelines for short selling, taking into account the risks involved and their financial capacity to assume such risks prior to conducting short-selling transactions.
- 4.02 The internal guidelines of Eligible Market Participants referred to in paragraph 4.01 shall consist of internal control systems and procedures for the supervision and monitoring of short-selling activities by the Eligible Market Participants to ensure compliance with these Guidelines.
- 4.03 SC may revoke the eligibility of any Eligible Market Participant to conduct regulated short-selling activities where SC is of the view that the Eligible Market Participant has weak internal controls systems and procedures.

Reporting requirements

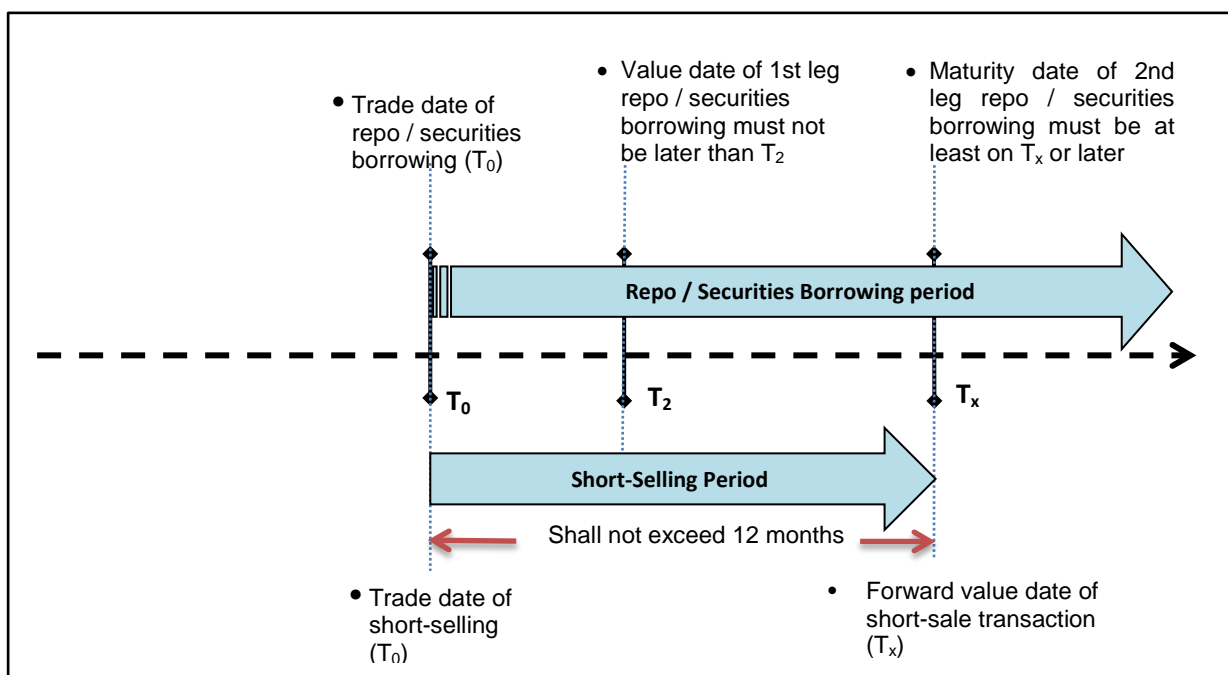
- 4.04 Eligible Market Participants shall report the following in the ETP or any other system specified by SC:
- (a) All short sale transactions reported as part of securities sale transactions on the short-selling trade date;
 - (b) All the borrowing transactions to cover the short-selling transactions on the trade date of the borrowing transactions; and
 - (c) All close out transactions to the short-selling positions when conducting the offsetting deals at a later date.
- 4.05 Eligible Market Participants shall report the following to SC:
- (a) On a weekly basis, the daily outstanding short positions, categorised by stock code in the format provided in Appendix II which must be based on the trade date;
 - (b) Immediately report any short position of 5% or more of any Eligible Securities in the format provided in Appendix III; and
 - (c) Immediately report failure to deliver any Eligible Securities in the format provided in Appendix IV.

ILLUSTRATION OF REGULATED SHORT-SELLING TRANSACTION

(i) Covered Spot Short-Sale Transaction



(ii) Covered Forward Short-Sale Transaction



**WEEKLY REPORTING REQUIREMENT FOR REGULATED SHORT-SELLING
OF CORPORATE BONDS**

(Attention: Bond Market Surveillance Department, SC)

Institution Name :

Reporting Period :

(Figure in RM million)

	Stock Code	Stock Description	Day 1	Day 2	Day 3	Day 4	Day 5
Volume							
Outstanding							
Total Amount							

Note:

- I. Weekly reporting must reflect the volume and daily outstanding short position for the whole week by stock code.
- II. Report must be reported on excel spreadsheets and are to be submitted to the following email address latest by the next Monday or first business day of the following week:

SCBondRSS@seccom.com.my

Authorised by:

(Signature of Authorised Officer)

NAME:

DESIGNATION:

**REPORTING OF SHORT POSITIONS EXCEEDING 5% OF ANY ELIGIBLE
SECURITIES ISSUE**

(Attention: Bond Market Surveillance Department, SC)

Institution Name :

Reporting Period :

(Figure in RM million)

No.	Trade Date of Sale	Value Date of Sale	Stock Code	Stock Description	Maturity Date	Total Short Amount	Stock Outstanding Nominal Amount	% of Outstanding Nominal Amount

Note:

Report must be submitted by the end of the business day to the following email address:

SCBondRSS@seccom.com.my

Authorised by:

(Signature of Authorised Officer)

NAME:

DESIGNATION:

**REPORTING OF FAILURE TO DELIVER ELIGIBLE SECURITIES ON
THE VALUE DATE**

(Attention: Bond Market Surveillance Department, SC)

Institution Name :

(Figure in RM million)

No.	Trade Date of Sale	Value Date of Sale	Stock Code	Stock Description	Total Amount Failed to be Delivered	Reason for Failure to Deliver

Note:

Report must be submitted by the end of the next business day to the following email address:

SCBondRSS@seccom.com.my

Authorised by:

(Signature of Authorised Officer)

NAME:

DESIGNATION: