



Suruhanjaya Sekuriti
Securities Commission

**GUIDELINES ON THE ESTABLISHMENT AND
LOCATION OF A BRANCH OFFICE BY UNIVERSAL
BROKERS AND ELIGIBLE NON-UNIVERSAL BROKERS**

(Amended as at 5 November 2004)

GUIDELINES ON THE ESTABLISHMENT AND LOCATION OF A BRANCH OFFICE BY UNIVERSAL BROKERS AND ELIGIBLE NON-UNIVERSAL BROKERS

1. Purpose

- 1.1 These Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers ("these Guidelines") are issued for the following purposes:
- (a) To serve as a minimum guide for the establishment of (a) branch office(s) by Universal Brokers and eligible Non-Universal Brokers (collectively referred to as "eligible stockbroking companies").
 - (b) To outline the Securities Commission's criteria on the location of a branch office.
 - (c) To outline the procedures for eligible stockbroking companies to establish branch office(s).
- 1.2 These Guidelines are issued in addition to the provisions already contained in the securities laws and the business rules of the exchanges, clearing houses and central depository pertaining to the establishment of a branch office and/or branch ADA.

2. Definitions

- 2.1 In these Guidelines:
- (a) "ADA" means authorised depository agent as defined under the Securities Industry (Central Depositories) Act 1991.
 - (b) "ATS" has the same meaning as assigned to that expression under the Rules of the Stock Exchange.
 - (c) "branch ADA" means a branch office of an ADA, which has been approved by BMD under the Rules of BMD, to perform any approved functions of the ADA.
 - (d) "branch office" means any premise other than the principal office where a stockbroking company conducts any business of or relating to dealing in securities.
 - (e) "BMD" means Bursa Malaysia Depository Sdn Bhd
 - (f) "BMSC" means Bursa Malaysia Securities Clearing Sdn Bhd

- (g) "central depository" means a company approved by the Minister of Finance under section 5 of the Securities Industry (Central Depositories) Act 1991.
- (h) "clearing house" has the same meaning as assigned to that expression under the Securities Industry Act 1983 or Futures Industry Act 1993.
- (i) "Core Capital" has the same meaning as assigned to that expression under the Rules of the Stock Exchange.
- (j) "dealing in securities" has the same meaning as assigned to that expression under the Securities Industry Act 1983.
- (k) "district" means a geographical location which comprises one or more municipalities as identified by the Department of Statistics Malaysia.
- (l) "Eligible Non-Universal Broker" means Non-Universal Brokers that have complied with the Securities Commission's Policy on the Consolidation of the Stockbroking Industry.
- (m) "eligible stockbroking companies" means Universal Brokers and those stockbroking companies that have merged with at least one (1) other stockbroking company pursuant to the Securities Commission's Policy of the Consolidation of the Stockbroking Industry.
- (n) "exchange" means a body corporate which have been approved by the Minister of Finance under section 8 of the Securities Industry Act 1983 or section 4 of the Futures Industry Act 1993.
- (o) "Non-Universal Broker" means a stockbroking company other than a Universal Broker.
- (p) "principal office" means a stockbroking company's business of dealing in securities conducted at a premise that has been approved by the Securities Commission as the principal office of the stockbroking company.
- (q) "Rules" means the rules of the Stock Exchange.
- (r) "securities account" has the same meaning as assigned to that expression under the Securities Industry (Central Depositories) Act 1991.
- (s) "securities laws" has the same meaning as assigned to that expression under the Securities Commission Act 1993.
- (t) "Stock Exchange" means the body corporate which has been approved by the Minister of Finance under section 8 of the Securities Industry Act 1983.

- (u) "stockbroking company" means a holder of a dealer's licence under the Securities Industry Act 1983.
 - (v) "Universal Broker" means a stockbroking company that has merged with or acquired at least three other stockbroking companies and has fulfilled the necessary qualifying criteria as set out in the Guidelines for a Universal Broker.
- 2.2 Unless the context otherwise requires, words denoting the singular number only shall include the plural and vice versa.
- 2.3 The headings are for convenience only and shall not affect the interpretation hereof.
- 2.4 References to clauses and appendices are to clauses and appendices to these Guidelines.
- 2.5 A reference to a statute or a statutory provision in these Guidelines shall be deemed to include regulations, rules, orders, notifications or other subsidiary legislation made pursuant thereto and all modifications, re-enactments or consolidation thereof.

3. Branching Incentives

- 3.1 The objectives of consolidation are to strengthen the industry and form a group of well-capitalised domestic stockbroking companies that are able to provide efficient and cost-effective intermediation for investors. Under the Securities Commission's Policy on the Consolidation of the Stockbroking Industry, to qualify as a Universal Broker, a stockbroking company must merge with or acquire at least three existing stockbroking companies and satisfy the necessary qualifying criteria.
- 3.2 A stockbroking company (Universal Broker or Non-Universal Broker) that merge with or acquire another stockbroking company shall surrender the licence of the acquired stockbroking company and may convert it into a branch office at the original location of the acquired stockbroking company. The acquiring stockbroking company may apply to the Securities Commission to relocate its branch office.
- 3.3 Eligible Non-Universal Brokers will be allowed to establish four (4) additional branches, or electronic access facilities (EAFs), or electronic access facilities with permitted activities (EAF-PAs), or a combination thereof, which shall not exceed four (4) in total. For the avoidance of doubt, only Universal Brokers shall continue to have the benefit to establish unlimited number of branches, EAFs and EAF-PAs.

- 3.4 Eligible stockbroking companies shall be given the latitude to open additional branch offices.
- 3.5 A stockbroking company that does not qualify as or does not intend to become a Universal Broker can continue its business activities as a Non-Universal Broker. Non-Universal Brokers that have not complied with the Securities Commission Policy on the Consolidation of the Stockbroking Industry shall not be given the latitude to open additional branch offices.
- 3.6 Clauses 3.2 to 3.4 shall always be subject to the Securities Commission's criteria on the location of the branch office as set out in clause 4 and the procedures for establishing a branch office as set out in clause 5.

4. Criteria On The Location Of The Branch Office

- 4.1 Eligible stockbroking companies shall be given the latitude to open branch offices throughout the country, whilst non-eligible stockbroking companies shall not have the opportunity to open additional branch offices.
- 4.2 The Securities Commission reserves the right to advise the eligible stockbroking companies to establish branch offices at other geographical locations, if necessary.

5. Procedures For A Stockbroking Company To Establish A Branch Office

This section outlines the procedures for a 'stand-alone' stockbroking company to establish a branch office in the following situations:

- 5.1 Establishing A Branch Office Through A Merger With Or Acquisition Of An Existing Stockbroking Company

In establishing a branch office through a merger with or acquisition of an existing stockbroking company, a stockbroking company shall undertake the following:

- (a) It shall submit a proposal to the Securities Commission and the Stock Exchange for the approval of the merger with or acquisition of another stockbroking company, together with a proposed plan to effect the merger or acquisition and may convert the acquired stockbroking company into a branch office. The proposal shall include the shareholding structure and the financial position of the acquiring stockbroking company after the merger or acquisition, and give an undertaking to convert the business of the acquired stockbroking company into a branch office and to surrender the acquired stockbroking company's dealer's licence to the Securities Commission.

- (b) If the acquiring stockbroking company submits an application to relocate the branch office, an assessment will be undertaken based on the Securities Commission's criteria on the location for the branch office as set out in Clause 4..
- (c) Upon receipt of the approval from the Securities Commission and the Stock Exchange to set up a branch office, the acquiring stockbroking company shall then apply to BMD for the following:
 - (i) Approval to establish a branch ADA in accordance with the Rules of BMD.
 - (ii) Conversion of all securities accounts maintained with the acquired stockbroking company to reflect that the securities accounts are now to be maintained with the acquiring stockbroking company.
- (d) The acquiring stockbroking company shall furnish the executed business merger or acquisition agreement to BMD to substantiate the aforementioned application.
- (e) The acquired stockbroking company shall also put BMD on notice of its impending termination as an ADA and its request for conversion of the securities accounts as described in clause 5.1(c) of these Guidelines.
- (f) The Stock Exchange, BMSC and BMD shall then conduct a joint branch readiness audit upon the notification and submission of the Stock Exchange's Branch Readiness Checklist by the acquiring stockbroking company. A copy of the joint branch readiness audit report with the appropriate recommendations shall then be submitted to the Securities Commission.
- (g) The acquiring stockbroking company shall seek the relevant approval for transfers of dealer's representatives from the acquired stockbroking company to the acquiring stockbroking company. (The request for change of principal through Form 12 of Securities Industry Regulations 1987 attaching the approval letter from the Stock Exchange for the change of principal).
- (h) The acquiring stockbroking company shall propose a date to the Securities Commission, the Stock Exchange, BMSC and BMD for the commencement of operations of the branch office and branch ADA. Once notified of the confirmed commencement date, BMD shall issue an approval letter to the acquiring stockbroking company for the establishment of the branch ADA.
- (i) The acquired stockbroking company shall notify BMD of the termination date of the acquired stockbroking company as an ADA. Once notified, BMD shall issue an approval letter to the acquired stockbroking company for the termination of its ADA status.
- (j) BMD shall thereafter instruct the acquired stockbroking company to issue a notice to depositors who would be in breach of Rule 26.02 of the Rules of BMD (i.e. individual depositors who would be having two securities accounts with the acquiring and acquired stockbroking companies on the commencement date of the operations of the branch ADA) to close one of the securities accounts prior to

the commencement date. In this respect, the depositors of Universal Brokers will be waived from paying the ordinary transfer fees.

- (k) BMD shall also issue a legal notice to all depositors who maintain securities accounts with the acquired stockbroking company informing them, amongst other things, of the transfer of the securities accounts' operations of the acquired stockbroking company to the branch ADA and the conversion of securities accounts.
- (l) Upon completion of this exercise, BMD shall issue a CDS Circular circulating the new ADA code for the branch ADA. Clients of the acquired stockbroking companies may then choose to transfer their securities to another ADA of their choice. In this regard, such clients shall open new securities accounts in accordance with the Rules of BMD.
- (m) The Stock Exchange shall then assign the branch code for the branch office. In addition, the Stock Exchange shall issue a Participating Organisation's Circular evidencing its recognition of the branch office of the acquiring stockbroking company.
- (n) The Securities Commission shall effect the transfer of the dealer's representatives' licences of the acquired stockbroking company. Thereafter, the Stock Exchange shall register the transferred dealer's representatives.
- (o) The acquired stockbroking company shall surrender its dealer's licence to the Securities Commission upon commencement of the operations of the branch office and shall comply with section 28A of the Securities Industry Act 1983.

5.2 Establishing (An) Additional Branch Office(s) By Eligible Stockbroking Companies

- (a) In establishing the additional branch office under Clauses 3.2 and 3.3 herein above, the eligible stockbroking companies shall undertake the following:
 - (i) Submit an application to the Securities Commission and the Stock Exchange for the approval to establish the additional branch office together with the following information:
 - (A) Specific information pertaining to the exact location of the branch office;
 - (B) The nature of the operation of the branch office and the activities to be undertaken;
 - (C) Details on the resources to be allocated to the branch office, including a profile of the management team; and

- (D) The date the branch office is intended to commence operations.
- (ii) Upon receipt of the approval-in-principle from the Securities Commission and the Stock Exchange to set up the additional branch office, the Stock Exchange, BMSC and BMD shall then conduct a joint branch readiness audit upon the notification and submission of the Stock Exchange's Branch Readiness Checklist by the eligible stockbroking company. A copy of the joint branch readiness audit report with the appropriate recommendations shall then be submitted to the Securities Commission.
- (iii) Upon receipt of the final approval from the Securities Commission, the eligible stockbroking company shall propose a date to the Securities Commission, the Stock Exchange, BMSC and BMD for the commencement of operations of the branch office.
- (iv) The operations of the additional branch office can only be commenced after the eligible stockbroking company has attained Universal Broker status.
- (v) BMD shall issue a CDS Circular circulating the new ADA code for the new branch office of the Universal Broker.
- (vi) The Stock Exchange shall then assign the branch code for the branch office. In addition, the Stock Exchange shall issue a Participating Organisation's Circular evidencing its recognition of the branch office of the Universal Broker.

6. Other Matters

- 6.1 All stockbroking companies that are undertaking merger or acquisition exercises are encouraged to apply for a vesting order. A vesting order is beneficial for the purposes of more expedient merger or acquisition exercises to effect transfer of assets.
- 6.2 All submissions to the Securities Commission in respect of these Guidelines should be addressed to:

General Manager
Institutions & Intermediaries Supervision Department
Market Supervision Division
Securities Commission
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

7. Review Of These Guidelines

- 7.1 These Guidelines shall be subject to review and amendment by the Securities Commission from time to time.