

GUIDELINES ON CONTRACTS FOR DIFFERENCE

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PART A: GENERAL

CHAPTER 1

INTRODUCTION

- 1.01 The *Guidelines on Contracts for Difference* (Guidelines) is issued by the Securities Commission Malaysia (SC) under section 377 of the *Capital Markets and Services Act 2007*. These Guidelines aim to provide a regulatory framework for over-the-counter (OTC) contracts for difference (CFD) in Malaysia.
- 1.02 A CFD provider and all parties to the contract must comply with the requirements specified and adhere to the ongoing compliance and reporting requirements under these Guidelines.
- 1.03 Any breach or non-compliance with these Guidelines can result in the SC taking any appropriate action under the securities law. Further, failure on the part of a licensed person and a registered person to observe these Guidelines will also be taken into account in the fit and proper assessment of a licensed person or a registered person.
- 1.04 The SC may, where it deems appropriate or upon application, exempt or vary any requirements in these Guidelines.

CHAPTER 2 DEFINITIONS

2.01 Unless otherwise defined, all words used have the same meaning as defined by the CMSA. For the purpose of these Guidelines, the words below have the following meaning:

Bursa Securities	means Bursa Malaysia Securities Bhd.
Bursa Derivatives	means Bursa Malaysia Derivatives Bhd.
CFD	means contract for difference. A contract made between a buyer and a seller to gain exposure in the allowable underlying instrument whereby differences in settlement are made through cash payments.
CFD provider	means any person who make available, offer or market CFD.
CMSA	means the <i>Capital Markets and Services Act 2007</i> .
CMSL	means Capital Market Services Licence.
CMSRL	means Capital Market and Services Representative's Licence.
disclosure document	<p>means any document that is intended to induce a person to subscribe for or purchase unlisted capital market products and contains any of the following information:</p> <ul style="list-style-type: none">(a) information that explains key characteristics of the unlisted capital market product;(b) information that explains the nature of the obligations assumed by the parties dealing in the unlisted capital market product;(c) information that sets out the risks associated with the unlisted capital market product;(d) information by the Shariah adviser on the basis and justification certifying the Shariah compliance of the unlisted Islamic capital market product; or(e) details of the essential terms of the unlisted capital market product, <p>but does not include –</p>

- (a) a prospectus;
- (b) an information memorandum;
- (c) a product highlights sheet;
- (d) any document that falls under the *Guidelines on Unit Trust Advertisements and Promotional Materials* or the chapter in relation to advertisement under the *Prospectus Guidelines*; or
- (e) any other documents as may be notified by the SC.

PHS means product highlights sheet. A PHS is a document that contains clear and concise information of the salient features of the CFD.

retail investor means any person other than a sophisticated investor.

SC means the Securities Commission Malaysia.

sophisticated investor means any person who falls within any of the categories of investors set out in Part 1 of Schedule 6 and 7 of the CMSA.

underlying instrument means financial instrument on which a CFD price is based.

OTC derivatives has the same meaning as given under the CMSA.

PART B: PRODUCT REQUIREMENTS

CHAPTER 3

PRODUCT PARAMETERS

Underlying instruments

- 3.01 A CFD provider is only allowed to offer CFD based on shares or indices that meet the criteria set out in paragraphs 3.02 to 3.04 below.
- 3.02 In the case where the underlying instrument is a share listed on Bursa Securities –
- (a) the share is listed on the Main Board of Bursa Securities;
 - (b) the underlying company has an average daily market capitalisation, excluding treasury shares, of at least–
 - (i) RM1 billion in the past three months ending on the last market day of the calendar month immediately preceding the date of issue; or
 - (ii) in the case of a newly listed company that does not meet the 3-month market capitalisation track record, RM3 billion; and
 - (c) The underlying company must meet the public shareholding spread requirement.
- 3.03 In the case where the underlying instrument is a share listed on a securities exchange outside Malaysia –
- (a) The underlying company is listed on an exchange in a jurisdiction where the capital market regulator is a signatory of the International Organization of Securities Commissions multilateral memorandum of understanding concerning consultation and co-operation, and the exchange of information among securities regulators (IOSCO MMoU);
 - (b) The underlying company has an average daily market capitalisation equivalent to at least–
 - (i) RM3 billion in the past three months ending on the last market day of the calendar month immediately preceding the date of issue; or
 - (ii) In the case of a newly listed company that does not meet the 3-month market capitalisation track record, RM5 billion;
 - (c) The underlying company 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, volume, financial information and price-sensitive information in relation to the underlying company must be available to investors in Malaysia.

3.04 In the case where the underlying instrument is an index:

- (a) The constituents of the index must be listed on a securities exchange in or outside Malaysia; and
- (b) The index must meet the following criteria:
 - (i) is broadly based;
 - (ii) has a transparent composition;
 - (iii) is a recognised benchmark; and
 - (iv) the information on composition and performance of the index must be conveniently accessible by investors.

Margin requirements

3.05 The minimum margin requirements for different types of CFD is dependent on the underlying instrument as follows:

Types of CFD	Minimum margin
Single share CFD	<ul style="list-style-type: none">• 10% for index shares• 20% for non-index shares
Index CFD	<ul style="list-style-type: none">• 5%

Underlying instruments which are suspended, halted or delisted

3.06 When there is a trading halt on the underlying instrument, or when the trading in the underlying instrument has otherwise been suspended in accordance with the rules of the relevant securities exchange, the CFD provider is prohibited from creating new CFD positions.

3.07 A CFD provider must provide its clients with clear information on its procedure to address open position on CFD where the underlying instrument is suspended, halted or delisted.

Stop loss measures

3.08 A CFD provider must make available stop loss measures for its clients.

3.09 In relation to a stop loss order, a CFD provider must set out clear information, including additional cost imposed, if any.

Mode of settlement

3.10 A CFD must only be settled in cash and not by delivery of the underlying instruments.

3.11 A share CFD offered shall neither carry any voting rights nor embedded options for the conversion into the underlying shares.

PART C: PROVIDER REQUIREMENTS

CHAPTER 4 REQUIREMENTS ON PROVIDER

Licensing requirements

- 4.01 The offering of CFD may only be carried out by –
- (a) a CMSL holder for dealing in derivatives; or
 - (b) a CMSL holder for dealing in derivatives restricted to CFD.
- 4.02 CFD can only be offered exclusively to sophisticated investors.

Risk management practices

- 4.03 A CFD provider must practice the basic principles of prudence and ensure that it has –
- (a) adequate infrastructure for risk management including processes and contingency arrangements in the event the CFD provider is unable to carry out its operations;
 - (b) adequate risk management process that integrate prudent risk limits, continuous risk monitoring and regular management reporting; and
 - (c) comprehensive internal control and audit procedures.
- 4.04 The board of directors and/or senior management of the CFD provider must ensure that adequate personnel are in place with the necessary skills and knowledge to perform the risk management function. Any resignation of staff must not leave a gap in the capability of the CFD provider to manage risks. Therefore, the CFD provider must have in place a system which facilitates identification and training of replacement key personnel.
- 4.05 The board of directors and/or senior management of the CFD provider must approve written policies and procedures which describe the overall framework for managing risks including the following aspects:
- (a) Identification, measurement and management of risks involved;
 - (b) Risk measurements and reporting methodologies that commensurate with the CFD provider's business strategies, size and complexity of its operations and risk profile of the product on an ongoing basis;
 - (c) Clear delineation of lines of responsibility for managing product-related risks;

- (d) Provision of sufficient resources, which include competent staff and information technology system and infrastructure to support the risk management and daily operations;
- (e) Regular review of the product's risk exposures to ensure all material risks are identified and monitored when market condition changes;
- (f) Reviews of stress scenarios, prepared by the business line responsible for risk monitoring, that measure the impact of market conditions that may cause volatility swings or reduced liquidity; and
- (g) Comprehensive and regular reports to the board of directors and/or senior management that include the degree of compliance with policies and procedures for managing product risks, current assessment of product risks and any change in the direction of risks.

Managing conflict of interest

- 4.06 A CFD provider must put in place supervisory and internal control procedures and systems to ensure that –
- (a) any potential conflict of interest is addressed; and
 - (b) there are adequate and effective Chinese walls between the various divisions of the CFD provider's business.
- 4.07 A CFD provider must take all reasonable measures to avoid situations that are likely to involve a conflict of interest. Where such a conflict exists, the CFD provider must –
- (a) take all possible steps to resolve or adequately mitigate the conflict and make full disclosure to its clients in the disclosure document and PHS, the nature of the conflict of interest and the steps taken to address the conflict; or
 - (b) withdraw or decline from being a CFD provider for the contract concerned, where it is not possible to resolve or adequately mitigate the conflict.

Segregation of clients' assets

- 4.08 For a CFD provider who also offers other derivatives contracts, the clients' assets for CFD trades must be further segregated from the client's other assets.
- 4.09 Rehypothecation of clients' assets by a CFD provider is prohibited.

White label arrangements

- 4.10 A CFD provider who enters into any white label agreements for purposes of CFD offerings in Malaysia, must trade as principal to its client and adhere to the outsourcing requirements as set out in the *Licensing Handbook*.
- 4.11 The transaction entered into between the CFD provider and the entity that provides the white label solutions must be separated and must not involve the client's transaction.

Margin requirements and payment

- 4.12 A CFD provider shall obtain from each client a minimum initial margin and maintain the amount of the minimum margin on all open positions. This margin shall be at least equivalent to the amount of margin required in Chapter 3 of these Guidelines. The CFD provider may request from its clients, at its absolute discretion, a margin above the minimum requirement stated in Chapter 3.
- 4.13 A CFD provider shall not accept any new orders for CFD from a client unless the minimum initial margin for the contract has been deposited and that client's pre-existing open position complies with the margin requirements established by the CFD provider.
- 4.14 Each client's open position must be marked to market daily and additional call for margin must be made, if necessary.
- 4.15 A CFD provider may close out all or any open positions of a client where the client fails to comply with a demand for margin within a reasonable time after a margin call has been made by the CFD provider.

Maintenance of records

- 4.16 A CFD provider must maintain separate records for trades with clients and other trades (e.g., trades that the CFD provider enters into to hedge, such as swaps).
- 4.17 For the purposes of paragraph 4.16, a CFD provider must maintain records that set out the particulars of –
- (a) in the case of trades with clients –
 - (i) the instructions by a client to trade in CFD;
 - (ii) the date and time of receipt, sending and carrying out of those instructions; and
 - (iii) the person by whom those instructions are received, the person by whom they are sent and the person by whom they are carried out;

(b) in the case of other trades –

(i) the date and time of receipt, sending and carrying out of instructions for the other trade on the CFD provider's own account;

(ii) the identity of each person who had given, received or carried out such instruction referred to in paragraph 4.17(b)(i) above; and

(iii) the source of funds used for such other trade on the CFD provider's own account.

4.18 A CFD provider must maintain proper accounting records, trade transactions and other records related to its business as necessary –

(a) to enable a complete and accurate view of the CFD traded; and

(b) to ensure that the CFD provider's business is operated and managed in compliance with these Guidelines, securities laws and any other relevant laws.

4.19 Such record must be produced for the SC's inspection on demand. Where the record is not retained in a written form, the CFD provider must reproduce such record in a written form.

Reporting requirements

4.20 A CFD provider must submit to the SC a monthly report of transaction information in the manner provided in Form 1 of Appendix 4, on or by the 15th calendar day of the following month.

4.21 The CFD provider is also required to submit to the SC the following financial information on a monthly basis on or by the 15th calendar day of the following month or where specified by the SC –

Where the CFD provider is a CMSL holder for dealing in derivatives –

(a) A statement of financial condition;

(b) A statement of income or loss; and

(c) A statement of adjusted net capital. If a CFD provider carries on more than one regulated activity, the highest of the minimum financial requirements would apply.

Where the CFD provider is a CMSL holder for dealing in derivatives restricted to CFD –

(a) A statement of financial condition;

(b) A statement of income or loss; and

(c) Computation of liquid capital in the manner as provided in Form 2 of Appendix 4.

4.22 A CFD provider who is already reporting the financial information specified in paragraph 4.21 to Bursa Derivatives is not required to report the same to the SC.

Continuous obligations

4.23 These Guidelines place the responsibility or compliance with all applicable laws, regulations and guidelines on the Board of Directors. The Board of Directors must also ensure that the CFD provider establishes, maintains and implements an effective internal control framework to prevent and detect abusive or inappropriate practices or conflict of interest.

4.24 A CFD provider must –

(a) ensure compliance of all the requirements under these Guidelines including any direction issued or any term or condition imposed by the SC;

(b) ensure proper procedures are in place for its electronic facilities for trading of CFD and make satisfactory provisions to –

- promote fairness and transparency;
- maintain a secure environment taking into account the CFD provider's cyber security resilience and preparedness including confidentiality, integrity and availability of data and services pursuant to the *Guidelines on Management of Cyber Risk*;
- manage any conflict of interest that may arise; and
- promote fair treatment of its users or any person who subscribes for its services.

(c) establish and maintain policies and procedures to –

- monitor trading and other market activity to detect non-compliance with the securities laws or its own rules;
- monitor anti-money laundering requirements; and
- ensure compliance with all relevant laws and regulations;

(d) immediately notify the SC –

- of any irregularity or breach of any provision of the securities laws, these Guidelines or its rules, including any alleged or suspected violations of any law or guidelines in relation to money laundering and terrorism financing by its participants or clients;
- of any material change in the information submitted to the SC; and
- if it becomes aware of any matter which adversely affects or is likely to adversely affect its ability to meet its obligation or to carry out its functions under these Guidelines.

Chapter 5

MARKETING AND EDUCATION REQUIREMENTS

Suitability assessment on clients

- 5.01 A CFD provider is required to conduct a suitability assessment on an investor who wishes to invest in CFD.
- 5.02 Where a CFD provider allows the opening of a trading account online, an online questionnaire may be part of the process of account opening, to assess the client's risk profile, experience and suitability.
- 5.03 A CFD provider must record all information gathered during the suitability assessment exercise and updates thereto, including any recommendation made.

Sales and marketing practices

- 5.04 A CFD provider must have a set of policies and procedures on product marketing and sales activities for its CFD. The CFD provider must ensure that clients are fully informed through the appropriate disclosures on the key features and risks associated with the product, prior to client's account being approved.
- 5.05 A CFD provider must highlight in its website that CFD are leveraged products and the risks of trading CFD.
- 5.06 A CFD provider must put in place a system for handling customer complaints.

Advertisement and marketing materials

- 5.07 A CFD provider must ensure that any advertising and marketing material is consistent with the information provided in the PHS.
- 5.08 A CFD provider is required to have a written warning in each advertising and marketing material for CFD, explaining the risk of losing substantially more than the initial investment and that the investors do not own or have any rights over the underlying instruments.
- 5.09 Advertising and marketing materials must be clear and not contain any hedge clause or disclaimer which is confusing, or attempts to disclaim responsibility for the contents of such material or opinion expressed in the material which is inconsistent to such communication.

Education requirements

- 5.10 A CFD provider must have in place continuous educational programmes which may include seminars or workshops, media briefings and interviews to educate investors on CFD. The seminars/workshops must be carried out at least on a quarterly basis.

5.11 The educational programmes must include, at a minimum, the following:

- (a) Product features;
- (b) Type of underlying instruments available and the different characteristics, when based on different underlying;
- (c) Risks associated with CFD, especially –
 - (i) Counterparty risk;
 - (ii) High leverage or gearing of the product; and
 - (iii) Possibility of additional margin call and unlimited losses;
- (d) Methods investors can use to trade CFD;
- (e) Margin requirements and implications of having different underlying instruments;
- (f) Numerical scenarios highlighting potential profits and losses;
- (g) Effects of corporate activities of the underlying instruments on the CFD; and
- (h) Fee structure.

PART D: DISCLOSURE REQUIREMENTS

Chapter 6

DISCLOSURE DOCUMENT AND PRODUCT HIGHLIGHTS SHEET

General

- 6.01 A CFD provider must, prior to opening an account for a client –
- (a) furnish the client with a disclosure document and a PHS; and
 - (b) receive a signed acknowledgement by the client stating that he has received the disclosure document and PHS, and understood the nature of the risks attached to the CFD. As guidance, a sample template is provided in Appendix 2 of these Guidelines.
- 6.02 The minimum information to include in a disclosure document and PHS is set out in Schedules 1 and 2 of these Guidelines. A CFD provider must also disclose additional relevant information, as may be necessary to enable investors to make an informed decision.
- 6.03 The SC may require additional information if deemed necessary.
- 6.04 Any revision to the documents originally deposited with the SC must be updated and furnished to the SC accordingly.
- 6.05 Full accountability for the accuracy of all information in the disclosure document and PHS and the responsibility to ensure there is no omission of facts which would make any of the statements therein misleading, remains with the CFD provider.
- 6.06 The SC may take action against any person who fails to comply with any of the provisions in these Guidelines.

Registration of disclosure document

- 6.07 The CFD provider must deposit the disclosure document and PHS with the SC prior to the offer of the CFD. A disclosure document is considered to be registered when the document is deposited with the SC as prescribed in the *Guidelines on Disclosure Document*.
- 6.08 The disclosure document and PHS must be prepared in either Bahasa Malaysia or English language.
- 6.09 Where the CFD provider proposes to issue the disclosure document and PHS in various languages, the disclosure document and PHS in each language must be deposited with the SC.

Supplementary or replacement disclosure document

- 6.10 A supplementary or replacement disclosure document is required where the CFD provider becomes aware that –
- (a) a matter has arisen and information in respect of that new matter would have been required to be disclosed in the disclosure document if the matter had arisen when the disclosure document was prepared;
 - (b) there had been a significant change affecting a matter disclosed in the disclosure document;
 - (c) the disclosure document contains material statement or information that is false or misleading; or
 - (d) the disclosure document contains a statement or information from which there is a material omission.
- 6.11 The CFD provider must, within 14 days after becoming aware of any changes in the disclosure document or PHS, deposit a supplementary or replacement disclosure document or replacement PHS.
- 6.12 Once the supplementary or replacement disclosure document or PHS is deposited with the SC, the CFD provider must –
- (a) in the case of an existing client, provide a written notice accompanied by a copy of the supplementary disclosure document to person or other notices as may be specified by the SC, advising the person that a supplementary or replacement disclosure document or replacement PHS has been deposited with the SC; and
 - (b) publish a notice on the website on the availability of supplementary or replacement disclosure document or replacement PHS.

Documents to be submitted for registration

- 6.13 For the deposit of a disclosure document and PHS, the CFD provider must submit to the SC the following:
- (a) Cover letter signed by at least one of the directors of the CFD provider, for deposit of the disclosure document and PHS;
 - (b) Declaration by the CFD provider as per Appendix 3;
 - (c) Two copies of the disclosure document and PHS;

- (d) The prescribed fees for the deposit of disclosure document and PHS;
 - (e) A CD-ROM containing electronic images of the disclosure document and PHS in text searchable Portable Document Format (PDF). The CD-ROM must be labelled with a description of what the contents relate to and the date of deposit; and
 - (f) Confirmation that the electronic copy of disclosure document and PHS in PDF contained in the CD-ROM is identical to the documents deposited with the SC.
- 6.14 For deposit of a supplementary or replacement disclosure document or a replacement PHS, the documents under paragraph 6.13, where applicable, and a list highlighting the original statements from the previously deposited documents and the amended statements must be submitted to the SC.

Fees payable to the SC

- 6.15 Payment of the prescribed fees must be made in the form of a crossed cheque or bank draft made in favour of “Suruhanjaya Sekuriti Malaysia” or “Securities Commission Malaysia”.

PART E: SUBMISSION

Chapter 7

SUBMISSION FOR REGISTRATION OF DISCLOSURE DOCUMENT AND LODGEMENT OF PHS

7.01 Submission to the SC for the registration of disclosure document and lodgement of PHS for offering of CFD may only be made by the CFD provider.

7.02 All submission for the offering of CFD as set out in these Guidelines must be submitted in two copies and addressed to –

Chairman
Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
(Attention: Managing Director, Corporate Finance and Investments)

7.03 The SC may, at its full discretion, request any further information or documents other than those specified in these Guidelines.

Chapter 8

SUBMISSION OF PERIODIC REPORTS

8.01 All periodic reports required under paragraphs 4.21 of these Guidelines shall be submitted to the SC at the following address:

Supervision Department
Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

PART F: SCHEDULES

SCHEDULE 1

MINIMUM CONTENT OF A DISCLOSURE DOCUMENT

1. The purpose of a disclosure document is to provide information to enable investors to make informed investment decisions in CFD. Emphasis should be given to provide relevant and accurate information that is material to understand the management and operation of the types of CFD.
2. Where possible, the disclosure document must avoid using technical terms. Terms used must be easily understood by the investors.
3. The disclosure document must be legible and appear in type size of not less than eight-point Arial. All pages in the disclosure document must be numbered.
4. The following statements must be disclosed on either the front or inside cover of the disclosure document:

“Responsibility Statements

The directors of the CFD provider have seen and approved this disclosure document. They collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable inquiries, they confirm to the best of their knowledge and belief, there are no false or misleading statements, or omission of other facts which would make any statement in the disclosure document false or misleading.”

“Statements of Disclaimer

A copy of this disclosure document has been registered with the Securities Commission Malaysia.

“The registration of this disclosure document should not be taken to indicate that the Securities Commission Malaysia recommends the CFD or assumes responsibility for the correctness of any statement made or opinion or report expressed in this disclosure document. The Securities Commission Malaysia has not, in any way, considered the merits of the CFD being offered for investment.

The Securities Commission Malaysia is not liable for any non-disclosure on the part of the CFD provider and takes no responsibility for the contents in this disclosure document, makes no representation as to the accuracy or completeness of this disclosure document, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents in this disclosure document.

Investors should rely on their own evaluation to assess the merits and risks of the investment. Investors who are in any doubt as to the action to be taken should consult their professional advisers immediately”.

5. A disclosure document must include, but is not limited to, the following information:
 - (a) Background information on the CFD provider
 - (i) Brief background of the CFD provider;
 - (ii) Director and/or key personnel in-charge of CFD;
 - (iii) Financial resources available; and
 - (iv) Related party transaction and/or conflicts of interest.
 - (b) Product features
 - (i) Explain the product features of the CFD and highlight that it is a leveraged derivatives product.
 - (c) Fees and commission
 - (i) Clearly disclose all fees and costs such as fees relating to the opening and operating of the CFD account, fees to trade CFD and administration charges; and
 - (ii) State whether fees are variable and when it varies.
 - (d) Treatment of client’s monies
 - (i) The CFD provider is to describe its client’s money policy (how the CFD provider deals with its client’s money and when it makes a withdrawal); and
 - (ii) If the CFD provider has no such policy, to state how the deposited money is used and when it makes a withdrawal.
 - (e) Hedging activity
 - (i) To provide a broad overview of any hedging activity the CFD provider may undertake to mitigate counterparty risk and other risks related to the CFD business.
 - (f) Operations and system
 - (i) The type of model adopted (e.g., direct market access or market maker);
 - (ii) Risk management features in place (e.g., stop loss features);
 - (iii) Trading procedures including margin call practices and to provide brief examples, where necessary;
 - (iv) Procedures and risk management when introducing new CFD; and
 - (v) The CFD provider’s practices or procedures when the underlying instrument is halted or suspended.
 - (g) Corporate exercise by underlying instrument that are shares
 - (i) Explain the impact to the CFD; and
 - (ii) State that a client’s benefit does not extend to any voting rights from the corporate exercise.

(h) Risks associated with trading in CFD

(i) Describe the type of risks associated with trading in CFD and provide brief examples, where necessary. This may include the following:

- Effect of leverage or gearing;
- Effect of risk-reducing orders or strategies (e.g., stop loss);
- Risk of inadequate margin;
- Suspension or restriction of trading;
- Deposited cash and property;
- Loss caused by spread (commission and other charges);
- Transaction in other jurisdictions;
- Currency risk;
- Liquidity and market risk;
- Trading facilities;
- Electronic trading; and
- Over-the-counter transactions.

(i) Account opening/closing

(i) State the procedures and criteria in opening/closing of an account including any implications if the account becomes dormant.

SCHEDULE 2

MINIMUM CONTENT OF A PRODUCT HIGHLIGHTS SHEET

1. The information required by the SC under this schedule is the minimum that must be included in a PHS, which is a summary of key information pertaining to CFD.
2. A PHS must highlight information to potential investor in a clear, concise and effective manner. It must be prepared in clear and simple language. Where necessary, a PHS can use simple examples and diagrams for illustrative purposes.
3. There must be a warning in bold in a prominent position advising potential members that this PHS is only a summary of the salient information about CFD and that potential investors must not invest in the CFD based on the PHS alone.
4. The PHS must be legible and appear in type size of not less than eight-point Arial. All pages in the disclosure document must be numbered.
5. The PHS must include, but is not limited to, brief information on the following: –
 - (a) Background information on the CFD provider;
 - (b) Product description and key features of the CFD;
 - (c) Key risks associated with trading in CFD;
 - (d) Information explaining the approach when an underlying instrument is suspended, halted or delisted including additional risk of opening new CFD positions;
 - (e) All relevant fees, charges and commission including financing charges, stop loss charges, and whether fees are variable and when it varies;
 - (f) Description of the type of model or strategy used by the CFD provider (e.g., direct market access model or market making model); and
 - (g) Contact information to facilitate enquiries or complaints.
6. Appendix 1 to these Guidelines provides guidance in respect of the form that may be used for the purposes of preparing a PHS.

PART G: APPENDIX

APPENDIX 1

GUIDE ON PRODUCT HIGHLIGHTS SHEET

Date of Issuance:

PRODUCT NAME

RESPONSIBILITY STATEMENT

This Product Highlights Sheet has been reviewed and approved by the directors and/or authorised committee and/or persons approved by the Board of (name of product issuer) and they collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable inquiries, they confirm to the best of their knowledge and belief, there are no false or misleading statements, or omission of other facts which would make any statement in the Product Highlights Sheet false or misleading.

STATEMENT OF DISCLAIMER

A copy of this Product Highlights Sheet for (name of unlisted capital market product) has been lodged with the Securities Commission Malaysia. The lodgement of this Product Highlights Sheet, should not be taken to indicate that the Securities Commission Malaysia recommends the (name of unlisted capital market product) or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Product Highlights Sheet.

The (name of unlisted capital market product) is not authorised by the Securities Commission Malaysia and is not allowed to be offered to retail investors.

The Securities Commission Malaysia is not liable for any non-disclosure on the part of the (name of product issuer) responsible for the (name of unlisted capital market product) and takes no responsibility for the contents of this Product Highlights Sheet. The Securities Commission Malaysia makes no representation on the accuracy or completeness of this Product Highlights Sheet, and expressly disclaims any liability whatsoever arising from, or in reliance upon, the whole or any part of its contents. **INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT THEIR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

STATEMENT OF RISK

"Investors are warned that the price/level of the underlying financial instruments and contracts for difference (CFD) may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore make sure they understand the terms and conditions of the CFD offered, the risk factors involved, and where necessary seek professional advice before investing in the CFD."

"The CFD constitute general unsecured contractual obligations of the CFD provider and of no other person. Therefore, if you purchase the contracts for difference, you are relying on the creditworthiness of the CFD provider (and/or the guarantor) and have no recourse/rights against the underlying corporation/index provider."

This Product Highlights Sheet only highlights the key features and risks of this unlisted capital market product. Investors are advised to request, read and understand the disclosure documents before deciding to invest.

PRODUCT HIGHLIGHTS SHEET

ISSUER INFORMATION

BRIEF INFORMATION ON THE ISSUER

1. Description of the issuer, its subsidiaries, affiliates, guarantor and risk manager

- *The history and business.*
- *Its place of incorporation and business.*
- *Its directors and management.*
- *Its experience in the issuance and management of CFD and other equity derivatives.*
- *Credit rating.*
- *CFD provider business model (DMA/Market Making).*
- *Related-party transaction and/or conflict of interest.*

FINANCIAL STATEMENT

2. Disclose the published audited consolidated financial statements

- *Snapshot of the CFD provider's audited accounts for the past three financial years for comparison.*
- *The website address for the complete accounts.*
- *If there is performance guarantee, to also disclose the guarantor audited accounts for the past three financial years.*
- *The website address for the guarantor's audited accounts.*
- *To also provide the latest quarterly and quarterly cumulative financial statements of the CFD provider including the explanatory notes.*

RISK MANAGEMENT

3. Disclose the risk management practices

- *Adequate infrastructure for risk management.*
- *Adequate risk management process that integrates prudent risk limits, continuous risk monitoring and regular management reporting.*
- *Comprehensive internal control and audit procedures.*

TREATMENT OF CLIENT'S MONIES

4. Client's Monies policy

- *CFD provider to describe its client's money policy.
For example, how CFD providers deal with client's money, including how they handle it and what they can do with it?*
- *Do the CFD providers pool all their clients' money together in one or more accounts?*

PRODUCT HIGHLIGHTS SHEET

PRODUCT NAME

BRIEF INFORMATION ON THE PRODUCT

1. What is this product about?

Brief description of the product could include the following information:

- *Explain the type of products available (value derived from what types of *underlying).*
 - *Highlight that it as a leveraged derivatives product.*
 - *Briefly describe the nature of the product (product mechanism- in particular the situations under which investors will make gains / incur losses (with reference to the scenario analysis).
Examples should also demonstrate margin call, overnight financing.*
- Scenario analysis:
- Worst case scenario
 - Middle case scenario
 - Best case scenario
- *General product features (stop loss features and its mechanism, online platform mechanism and availability of data and research tools).*
 - *Adjustments to the terms and conditions of the product upon the occurrence of extraordinary events*

2. What am I investing in? (terms and conditions specifically for each type of CFD)

- *Type of CFD.*
- *Tenor of issue.*
- *Maximum loss/gain.*
- *Representations and warranties.*
- *Selling restriction/tradability.*
- *Details of proceeds utilisation.*
- *Margin requirements.*
- *Type of margins.*
- *Treatment for share CFD during corporate exercises or suspension or halt of underlying instruments.*
- *Risk management features in place (e.g., stop loss feature).*
- *Trading platform.*

****To describe these features with relevant tables, diagrams or illustrations where applicable. If historical price/performance is used, there should be a disclaimer indicating that past performance is not an indication of future performance.***

****List of underlying in Attachment.***

3. Is the product tradable?

- *[Product name] is not listed on any stock exchange. [There is no liquid secondary market.]*
- *The market agent [may/will] provide [limited] market making arrangements [Please state frequency and who the investors should contact to obtain indicative bid prices].*
- *The sell-back price of your [product name] will be determined by [whom] and may be substantially less than your initial investment.*

4. Pricing mechanism

- *How does the CFD provider determine the prices of CFDs they offer?
For example, some OTC CFD providers' prices mirror the price of the underlying instrument (direct market access providers). Other OTC CFD providers (market makers) may add an extra amount ('spread') to the underlying market price. The spread may be fixed or may vary.*
- *Can the CFD provider change or re-quote the price after you have already placed your order?*

5. Does the CFD provider enter into a corresponding position in the market for the underlying instrument?

- *Direct market access CFD providers usually 'hedge' all client trades in the underlying market.*
- *Market maker CFD providers may also hedge the CFDs they offer, but these arrangements are generally less transparent than for direct market access providers. Market makers may not hedge all the CFD trades you place, and so may directly benefit if you lose on your trade.*

KEY RISK

6. Who is this product suitable for?

Briefly state the types of investors this product is suitable for. Information provided could include:

- *Return objectives e.g., income/capital growth/hedging;*
- *Whether their principal investment will be at risk;*
- *How long they're prepared to hold their investment for?;*
- *Risk appetite/can you afford to lose all your money;*
- *Trading experience/ tolerance toward volatile market conditions; and*
- *Any other key information peculiar to the product which would help investors to determine if the product is suitable for them.*

7. What are the key risks associated with this product?

- *State key risks that would commonly occur, or which may cause significant losses if they occur, or both. Risks peculiar to the product should also be stated. Give appropriate formatting emphasis where investors might lose all of their initial investment. (i.e., price volatility, no central clearing counterparty, warning on the segregated client's fund account may not provide full protection, liquidity, gapping and execution risk by changes in market condition and the mechanics of trading).*
- *Maximum loss - you could lose all of your investment.*
- *No first priority to collateral realisation proceeds – [Please elaborate as appropriate].*
- *Unlisted structured investment product NOT protected deposit - Investment involves risks. This is an unlisted structured investment product which involves derivatives and is not equivalent to nor should it be treated as a time deposit. The [product name] is not a protected deposit for the purposes of the Deposit Protection Scheme.*
- *[No liquid secondary market - CFD has no liquid secondary market. If you try to sell your [product name], you may not be able to find a buyer, or the sale price could be much lower than the amount you invested.]*

- *Counterparty risk - When you buy [product name], you will be relying on [ultimate counterparty/CFD provider]'s creditworthiness. If [ultimate counterparty/CFD provider] becomes insolvent or defaults on its obligations under [product name] [you can only claim as an unsecured creditor].*
- *Trading CFD is not the same as reference asset - Investing in CFD is not the same as investing in the reference assets. [Please elaborate as appropriate].*
- *Client money risk- the risk of losing some or all of your money held by the provider.*
- *Risk of stop loss features- can the CFD provider guarantee a stop loss for a CFD trade.*

FEES & CHARGES

8. What are the fees and charges involved?

- *All relevant fees and charges payable (e.g., commission, overnight financing, account management and administration charges).*
- *Indicate how fees and charges are payable.*
- *If fees may be increased later, please state so.*
- *To state if charges are negotiable.*

9. How can I exit from this investment and what are the risks and costs involved?

- *Explain how investor can exit investment.*
- *Closed/rolled over positions.*

CONTACT INFORMATION

10. Who should I contact for further information or to lodge a complaint?

- * *Contact details of CFD providers investors may contact if they have enquiries.*
- * *Website address and email address.*

1. *For internal dispute resolution, you may contact:*

(Contact details for the product CFD provider's internal dispute resolution)

2. *If you are dissatisfied with the outcome of the internal dispute resolution process, please refer your dispute to the Securities Industry Dispute Resolution Center (SIDREC):*

(a) via phone to : 03-2282 2280

(b) via fax to : 03-2282 3855

(c) via email to : info@sidrec.com.my

*(d) via letter to : Securities Industry Dispute Resolution Center (SIDREC) Unit A-9-1,
Level 9, Tower A
Menara UOA Bangsar
No. 5, Jalan Bangsar Utama 1
59000 Kuala Lumpur*

3. *You can also direct your complaint to the SC even if you have initiated a dispute resolution process with SIDREC. To make a complaint, please contact the SC's Consumer and Investor Office:*

(a) via phone to the Aduan Hotline at : 03 – 6204 8999
(b) via fax to : 03 – 6204 8991
(c) via e-mail to : aduan@seccom.com.my

(d) via online complaint form available at www.sc.com.my

(e) via letter to : Consumer and Investor Office
Securities Commission Malaysia
No 3 Persiaran Bukit Kiara Bukit Kiara
50490 Kuala Lumpur

APPENDIX: GLOSSARY

- Explain terms used in Product Highlights Sheet which the investors may not understand.
- May include special terms (i.e. legal jargon/ finance jargon).
- Product issuers are encouraged to use simple terms and then explain them in the glossary.

APPENDIX 2
CLIENT'S ACKNOWLEDGEMENT

NOTE:

The contents and type of information below may be expanded, where relevant.

I/We hereby acknowledge that I/we have received a copy of the **disclosure document** and the **Product Highlights Sheet**.

I/We also hereby acknowledge that I/we understand the risks associated with trading in contracts for difference (CFD), as detailed in the **Risk Statement** below and disclosed in the disclosure document and Product Highlights Sheet.

Risk Statement

This statement does not disclose all the risks and other significant aspects of trading in CFDs. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to the risks. Trading in CFDs may not be suitable for many members of the public. You should carefully consider whether such trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

You should be aware of the following when considering whether to trade in leveraged products:

(1) Effect of leverage or gearing

Transactions in CFD carry a high degree of risk. The amount of initial margin is small relative to the value of the CFD so that the transaction is leveraged or geared. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you as well as for you. You may sustain a total loss of the initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased you may be called upon to pay substantial additional funds on short notice in order to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss as you will be liable for any resulting deficit in your account.

(2) Risk-reducing orders or strategies

The placing of certain orders (e.g., stop-loss orders, where permitted under local law, or stop-limit orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. At times, it is also difficult or impossible to liquidate a position without incurring substantial losses. Strategies using combinations of positions, such as spread and straddle positions may be as risky as taking simple long (buy) or short (sell) positions.

(3) Risk of inadequate margin

Positions are marked-to-market on a daily basis with payment being settled daily to account for the underlying market movements. You must maintain the minimum margin requirement on your open positions at all times. You will be responsible to monitor your margin account balance and may be called upon at short notice to make additional margin deposits. If required margin is not made within the prescribed time, the firm may liquidate any or all of your CFDs positions. This may result in a loss for you, which may be substantial.

(4) Suspension or restriction of trading and pricing relationship

Market conditions (e.g., illiquidity) or the operation of the rules of certain markets (e.g., the suspension of trading in any contract or contract month because of price limits or circuit breakers) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate or offset positions.

Further, normal pricing relationships between the underlying that is the subject of a CFD transaction and the CFD transaction may not exist. This can occur when, for example, the absence of an underlying reference price may make it difficult to judge fair value.

(5) Deposited cash and property

You should familiarise yourself with the protections accorded to money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm's insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

(6) Commission and other charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

(7) Transactions in other jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subjected to a rule which may offer different or diminished investor protection. Before you trade, you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of the regulatory authorities or markets in other jurisdictions where your transactions have been affected. You should ask the firm with which you conduct your transactions for details about type of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

(8) Currency risks

The profit or loss in transactions in foreign currency-denominated contracts will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

(9) Liquidity and market risks

Adverse market conditions may result in you not being able to affect CFD, liquidate all or part of your CFD, assess a value or your exposure or determine a fair price, as and when you require. The pricing relationships between a derivatives and the underlying instrument may not exist in certain circumstances. The absence of an underlying reference price may make it difficult to judge fair value.

It is also important to understand that the fluctuation of the underlying instrument may influence the value of the derivative product and affect your profitability. Sudden market movements, known as gapping may occur, causing a dramatic shift in the price of an underlying instrument. This gapping event can result in a significant profit or loss on your account. Gapping can occur when the underlying instrument/market is open and when it is closed.

(10) Trading facilities

Electronic trading facilities are supported by computer-based component systems for order-routing, execution or registration of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider or firms. Such limits may vary. You should ask the firm with which you deal for details in this respect.

(11) Electronic Trading

Trading on an electronic trading system may differ not only from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

(12) Over-the-counter (OTC) Transactions

CFD is an OTC transaction or off-exchange transaction. The firm with which you conduct your transaction is acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. Thus, these transactions may involve increased risks. OTC transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarise yourself with the applicable rules and attendant risks.

Signature of client
Or client's Authorised
Signatory:

Name of client:

*Designation of
Authorised Signatory

*Company name:

Date:

*Note: * For companies only*

APPENDIX 3
DECLARATION BY THE CFD PROVIDER

Date: (Date of Application)

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

Dear Sirs,

CFD PROVIDER: [Name of CFD Provider]

Declaration and Undertaking Pursuant to the Guidelines on Contracts for Difference (“CFD”)

We, [Name of CFD Provider] propose to undertake to issue, offer, or make available, CFD.

2. We confirm that after having made all reasonable enquiries, and to the best of our knowledge and belief, there is no false or misleading statement contained in, or material omission from, the information that is provided to the SC in relation to the CFD offered by us.

3. We declare that we are satisfied after having made all reasonable enquiries that the CFDs offered are in full compliance with the following:-

- (i) *Guidelines on Contracts for Difference*; and
- (ii) Other requirements under the *Capital Markets and Services Act 2007* as may be applicable.

4. We declare that we have not committed a breach of these Guidelines under a previous deposit to the SC. We declare that any breach under these Guidelines in relation to a previous deposit has been remedied to the satisfaction of the SC.

5. We undertake to ensure continuous compliance with the requirements and the conditions imposed by the SC in relation to the CFD offered. We further undertake that in the event of any breach of the same, we will suspend any further issuance or offering of, or invitation for, or making available, the CFD. We shall notify the SC of such breach and remedy the same to the SC’s satisfaction.

6. We undertake to provide to the SC all such information as the SC may require in relation to the CFD offered.

Yours faithfully,

.....
[Name of Authorised Signatory]
[Designation of Authorised Signatory]

APPENDIX 4
REPORTING TEMPLATE

FORM 1 - TRANSACTION REPORTING BY THE CFD PROVIDER

Name of CFD Provider: _____

Reporting for month of: _____

Table 1: List of CFDs Offered

No.	Name of CFD	Details of underlying	Country (where applicable)	Trade currency	Indicate type of CFD offered (√)		Minimum trade size	Margin requirement (%)
					Long	Short		
1								
2								
3								

Table 2: CFD Transaction Information

No.	Name of CFD	Total volume (no. of contracts)	Total notional value (RM)	Total open position (notional value) (RM)
1				
2				
3				

Table 3: Counterparty Exposure (Client positions)

No.	Name of client	Country of incorporation / citizenship	Number of CFD traded (no. of contracts)		Total initial margin requirements (RM)	Outstanding margin calls (RM)	Total notional value (RM)	Total open position (notional value) (RM)	Net marked-to-market gains / (losses) (RM)
			Long	Short					
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
Remaining clients (aggregated)									

Table 4: Counterparty Exposure (Other positions)

No.	Name of counterparty	Country of incorporation / citizenship	Total volume (no. of contract)	Total initial margin requirements (RM)	Outstanding margin calls (RM)	Total open position (notional value) (RM)	Net marked-to-market gains / (losses) (RM)
1							
2							
3							

Notes:

(1) Please denote date by dd/mm/yyyy.

(2) Please convert amount which are in foreign currency to Ringgit Malaysia (RM) using the prevailing rate at reporting date, where applicable.

- (3) For Table 3 rows 1 to 10 are for the top 10 individual clients. Row 11 should be populated with an aggregated number for all other clients of the CFD provider. The top 10 individual clients are to be ranked according to their open positions.
- (4) Please insert rows for Table 1, 2 and 4 to complete the list, where necessary.

FORM 2 – LIQUID CAPITAL COMPUTATION TEMPLATE

Name of CFD Provider: _____

Reporting for month of: _____

	Liquid assets ⁽¹⁾	Non-liquid assets	Total
	RM	RM	RM
Assets			
Property, plant and equipment			
Intangible assets			
Investment properties			
Goodwill			
Investment in subsidiaries			
Investment in associate			
Amount due from related companies/associate person			
Investment			
- Listed equities			
- Fixed income securities			
- Unit trusts			
- Others			
Derivative financial instruments			
Deferred tax assets			
Receivables ⁽²⁾ - owing by clients and brokers (net of impairment)			
- collateralised			
- non-collateralised			
Receivables ⁽²⁾ from business other than CFD (net of impairment)			
- collateralised			
- non-collateralised			
Other receivables, prepayment and advances			
Deposits with approved licensed banks and financial institutions			
Deposits with non-approved licensed banks and financial institutions			
Cash			
Total Assets	A	B	

	Total
	RM
Liabilities	
Long-term liabilities (including subordinated loans)	
Balance due to clients and brokers	
Derivative financial liabilities	
Other creditor and accruals	
Borrowings	
Provision for taxation	
Provision for dividend	
Amount due to related companies/associate person	
Other liabilities	
Total Liabilities	C
Shareholders' Funds	
Share Capital	
Subordinated loan	
Reserves	
- Capital reserve	
- Share premium	
- Statutory reserve	
- Regulatory reserve	
- Available-for-sale reserve	
- Other reserves	
Retained profits/accumulated loss	
Total Shareholders' Funds	D

	RM
Shareholders' Funds	D
Less: Non-liquid assets	B
Less: Liquid assets charged to third party ⁽³⁾	E
Less: Guarantee issued by the company ⁽⁴⁾	F
Liquid Capital	<u>G</u>
% of Liquid Capital to Shareholders' fund	H=G/D

Notes:

(1) Liquid assets means –

- securities or other current assets that have a ready market, or that are capable of realisation within 30 days; and
- in relation to an asset, "ready market" means a market where the asset can be realised without materially and adversely affecting that asset's value.

- (2) The amount of receivables that have been outstanding (unpaid) by clients, brokers or other debtors for more than 30 days from the transaction date will not qualify as liquid capital.
- (3) Charged assets means liquid assets charged to third parties.
- (4) A CFD provider must exclude guarantees issued by the CFD provider from the computation of liquid capital.
- (5) A CFD provider must exclude trust money received from client in the liquid capital computation.