

GUIDELINES ON REGISTRATION OF BOND PRICING AGENCIES

SC-GL/BPA-2006 (R2-2020)

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Suruhanjaya Sekuriti
Securities Commission
Malaysia

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¹ Save for the requirement to have policies and procedures on anti-corruption and whistleblowing under paragraph 4.3A of these Guidelines, which will take effect on 1 June 2020.

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1.0 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.

2.0 REGISTRATION CRITERIA

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 5 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 key personnel 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.

3.0 REGISTRATION PROCEDURE

In relation to an application to register as a BPA, an applicant is required to submit the following information and documents in its application letter to the SC:

- (a) corporate information and information pertaining to the operations of the BPA (as set out in Appendix 1);
- (b) Declaration letter (as set out in Appendix 2); and
- (c) in the case where the applicant is incorporated or established outside Malaysia, a letter from the relevant regulatory authority where the applicant is incorporated or established that the applicant is fit and proper and is adequately supervised.

4.0 CONTINUOUS COMPLIANCE AND REPORTING REQUIREMENTS

- 4.1 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.
- 4.2 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.
- 4.3 A BPA must maintain a code of conduct and ethics to uphold professionalism and to prevent any potential conflict of interest.
- 4.3A 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 4.3A

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*.

- 4.4 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.
- 4.5 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.
- 4.6 All submissions and correspondences with the SC should be addressed to:

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

(Attention: Head, Intermediary and Fund Supervision)

5.0 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.

Appendix 1

APPLICATION FOR REGISTRATION OF BOND PRICING AGENCY

1. Corporate Information

- (a) Name of company :
- (b) Date of incorporation :
- (c) Date of commencement of operations (if applicable) :
- (d) Company number :
- (e) Authorised Capital :
- (f) Paid-Up Capital :
- (g) Shareholders' funds :
- (h) Financial Year End :

2. Address and Contact Details

- (a) Registered Address :
- (b) Business Address :
- (c) Telephone Number :
- (d) Fax Number :
- (e) Website address :
- (f) Name and telephone number of contact person :

3. Shareholders (as at submission date)

Name of shareholder	Percentage of Shareholding
Total	

4. Directors

Name of Director	Status <i>(Please indicate independent or non-independent status as well Chairman of the Board. Also indicate if director has executive status)</i>

5. Senior Management and Bond Pricing Specialists

Name of Personnel	Position	Qualification and Experience	Telephone number

- 6. List of bonds and services that would be covered in addition to those stated in Paragraph 2.1(c) in the Guidelines.**
- 7. Details of due process in pricing, which includes pricing methodologies, source data, industry feedback and external verification.**
- 8. Details of fee structure and its basis.**
- 9. Any other relevant information to support the application.**

Appendix 2

Date: ...(Date of Application)...

The Chairman
Securities Commission Malaysia

Dear Sir,

DECLARATION LETTER PURSUANT TO THE APPLICATION FOR REGISTRATION AS A BOND PRICING AGENCY

We declare to the best of our knowledge that 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 above application.

We declare that we are satisfied after having made all reasonable enquiries that:

- (a) this application is in full compliance with the Guidelines on the Registration of Bond Pricing Agencies (Guidelines) and;
- (b) we have not been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law, for the last 10 years prior to this submission.

We declare that we will ensure continuous compliance with the requirements stipulated in the Guidelines and to the terms and conditions as may be imposed by the SC in relation to this application.

We undertake to provide to the SC all such information as the SC may require in relation to this application.

The above Declaration has been signed by me as ...(designation of director)... of the Applicant pursuant to the authority granted to me by a resolution of the Board of Directors on ...(date of resolution)...

Yours faithfully,

.....

Name:
Name of Applicant: