

FREQUENTLY-ASKED QUESTIONS

DIGITAL ASSET EXCHANGE FRAMEWORK

(Issued: 15 November 2022)

GENERAL

1. Following the 31 Oct 2022 announcement, what does “opening up of application” mean in the context of a Recognized Market Operator – Digital Asset Exchange (RMO-DAX)?

The opening up will allow eligible applicants to apply for the registration of the RMO-DAX.

Players that fulfil the SC’s requirements, including offering different value propositions to the Malaysian market, will be registered as the RMO-DAX and allowed to operate legally in Malaysia.

Only registered DAX are allowed to carry out digital asset trading activities in the Malaysian capital market.

2. What type of trading models can a DAX operator operate in Malaysia?

Currently, the SC only facilitates DAX operators that operate an order book model or a Digital Broker (DB) model.

In this regard, a DAX operator can now trade Digital Assets (DA) through:

- (a) an order book;
- (b) Digital Broker (DB) model; or
- (c) both,

subject to the requirements stipulated in the *Guidelines of Recognized Markets* (RMO Guidelines).

A DAX operator operates an order book model if the DAX Operator facilitates trading of Digital Asset (DA) by matching the buy/sell orders listed on its exchange through its trading engine.

A DB model refers to where a DAX operator acts as a counterparty to the investor for every buy/sell order on or through its platform. However, the SC does not allow privately negotiate trades (such as OTC desks) under this model.

3. What are the requirements to operate a DB model?

In addition to complying with the general requirements as set out under the RMO Guidelines, a DAX Operator who wishes to operate a DB model must also comply with the specific requirements including the following:

- (a) Having a minimum of shareholders' funds of RM5 million maintained at all times. For the avoidance of doubt, paid-up capital can form part of the shareholder funds.
- (b) Requirements relating to the sourcing of DA to mitigate ML/TF risks.
- (c) Requirement for any DA to be sent to its investors must be transferred from the DAX Operator's own wallet.
- (d) To have in place liquidity risk management framework to ensure that it has sufficient funds to match the DA ordered or sold by the investors on its platform.
- (e) To disclose and display its explanatory notes and methodology of how the price of the DA is being offered (e.g. best price, average price etc.).

4. Can I as a DAX Operator, operate both through an order book and a DB model?

DAX operators are permitted to operate either through an order book, a DB model or both, provided that they comply with their relevant requirements and any other requirements the SC deems necessary.

5. If I am a registered RMO-DAX operator that currently offers trade through an order book, do I need to register/apply as a separate DB?

Both models are registered as a 'DAX operator' within the RMO Guidelines. Therefore, if you are registered as a DAX operator, you do not require a separate registration to be a DB.

However, as there are additional requirements and operational processes to operate a DB model that differs from operating through an order book, you are required to obtain prior approval from the SC by demonstrating certain operational capabilities to operate as a DB.

Similarly, if you are registered to operate a DB model and would want to facilitate trade through an order book, you are required to obtain prior approval from the SC by demonstrating certain operational capabilities to operate through an order book.

DIGITAL ASSET SOURCING

6. As a DAX operator undertaking a DB model, where can I source DAs from?

DBs must ensure that the DA offered are sourced from Virtual Asset Service Providers (VASP) which are—

- (a) registered, authorised, licensed, or regulated by a regulatory authority having similar regulatory authority or function as the SC; or
- (b) is in compliance with the Financial Action Task Force (FATF) recommendations relating to the supervision or monitoring of VASP.

Therefore, the DB must undertake the necessary assessments on the counterparty VASP to ensure that such VASP is compliant with the FATF recommendations or compliance standards that commensurate with its risk appetite and adopt the necessary risk-based approach to mitigate any risk of facilitating ML/TF.

DBs are expected to have in place the necessary screening processes of the DAs to mitigate any transfer of risks to its investors. Consequently, all DAs sent to its clients must be transferred directly from the DAX Operator's wallet to the investor's wallet.

TRADABLE DIGITAL ASSETS

7. What are the DAs currently offered by DAX Operators?

Please check the [SC's website](#) from time to time for the updated list of DAs that are currently being offered by the DAX Operators.

8. If I want to offer a DA that is already traded by other registered DAX operators, can I just list that DA to be traded on my DAX platform?

No, any DAX operator who would like to offer a new DA (whether currently offered by another DAX operator or not) must submit its rulebook amendments to demonstrate that it has the necessary operational capabilities to offer such DA.

Operational capabilities in this regard means the DAX operator has, among others, trading rules for that DA, custodian management (how custody function supports such DA), conflict of interest management, liquidity for such offering, applicability of market makers or proprietary trading and its corresponding rules, and volatility thresholds.

9. How can I introduce a new DA (DA not currently offered by any other DAX Operator) to be traded on my platform?

First, a DAX operator must establish its own internal policies and procedures to assess the suitability of a DA to be listed on its platform.

A DAX operator must submit their assessment and recommendation based on the policies and procedures established for the SC's concurrence prior to offering such new DA on its platform.

The assessment and recommendation submission to the SC shall include (as specified in the RMO Guidelines)–

- (a) information relating to the DA; and
- (b) that the DA has met the minimum criteria.

10. How can I delist a DA from being offered on my DAX platform?

A DAX operator must establish its own internal policies and procedures to manage the delisting of any DAs that is offered on its platform.

Prior to delisting any DA, a DAX operator must notify the SC and submit the necessary information as prescribed in the RMO Guidelines.

Notwithstanding the above, the SC may direct for an involuntary delisting of certain DA in accordance with the RMO Guidelines.

Except for when the delisting is directed by the SC, the DAX Operator must provide prior notification to the SC together with the information required as prescribed under the RMO Guidelines.

MARKET INTEGRITY

11. Are there any restrictions regarding how I can price DA traded on my platform?

All DAX operators must ensure DAs offered for trading purposes on its platform are priced in a fair and transparent manner.

There are no restrictions on how a DB prices its DA provided that it discloses and displays prominently on its platform, explanatory notes for the methodology and how prices of DAs are derived.

12. What is the expectation in terms of disclosure of pricing?

You are expected to explain in general how you derive the price of the DA offered by explaining whether the DA sold is from your own inventory and/or from other exchanges. For example, the algorithm may be adopted is "*the price offered is the average price/best price of "x" number of exchanges*".

Such price disclosure and algorithm adopted must be consistent with its rulebook that is disclosed to the SC and any amendments thereof would require the approval of the SC.