FREQUENTLY-ASKED QUESTIONS
Guidelines on Contracts for Difference

(Issued: 6 April 2018)
(Revised:5 February 2024)

1. GENERAL

1.1 What is a contract for difference (CFD)?

A CFD is a leveraged derivatives product that tracks the price movement of an underlying instrument. Essentially, a CFD is a contract an investor enters into with a CFD provider to gain exposure to an underlying instrument whereby differences between the closing and the opening value will be settled through cash payments.

Unlike options or futures contracts, a CFD does not have an expiry date and an investor's position can be closed by making a 'reverse' trade with the CFD provider.

The CFD offered by CFD providers are traded over-the-counter (OTC) or off-exchange. Thus, it is a bilateral trade where the CFD provider will be the investor's counterparty.

1.2 Why has the Securities Commission Malaysia introduced the CFD framework?

In line with the Securities Commission Malaysia's (SC) *Capital Market Masterplan 2* to promote and develop the derivatives market, the CFD framework is intended to widen the range of investment products to cater to the needs and risk appetites of our investors. It is also in recognition of the increased sophistication of certain segments of the market.

Further, the framework provides additional opportunities to licensed intermediaries.

1.3 When will the requirements under the Guidelines on Contracts for Difference be implemented?

The *Guidelines on Contracts for Difference* was issued on 6 April 2018 to enable the industry to familiarise itself with the requirements for offering of CFD.

It is effective since 1 July 2018.

1.4 Would the offering of CFD in Malaysia constitute a new regulated activity?

CFD is defined as derivatives under the *Capital Markets and Services Act 2007* (CMSA). Thus, the business of offering CFD is to carry out the activity of 'dealing in derivatives'.

2. PROVIDER

2.1 Who can offer CFD?

Entities who wish to offer CFD will be required to hold either a licence for dealing in derivatives or dealing in derivatives restricted to CFD, and comply with the requirements as specified in the *Licensing Handbook*.

Existing licensed intermediaries with licence to deal in derivatives are allowed to offer CFD with prior notification to the SC. Other licensed intermediaries who wish to offer CFD must vary their licence to add on the required regulated activity.

2.2 How does one make an application for a licence?

A new applicant must complete the relevant forms as specified in the *Licensing Handbook* and submit the application to the SC's Authorisation and Licensing Department.

An application by existing licensed intermediaries for a licence variation to add on the regulated activity of dealing in derivatives must be made online to the SC via the Electronic Licensing Application system (ELA).

Detailed forms and application procedures are available on the SC website.

2.3 What is the financial requirement for a CMSL holder who is licensed for both activities of dealing in derivatives and clearing, who wishes to offer CFD?

The financial requirements are as follows:

- Minimum paid-up capital and shareholders' funds unimpaired by losses of RM10 million at all times; and
- Minimum adjusted net capital: The higher of
  - RM500,000; or
  - 10% of aggregate margins

  at all times.

Once licensed, the CMSL holder must maintain at least the minimum financial requirement throughout the validity of its licence.

2.4 What is the financial requirement for a CMSL holder who is licensed for dealing in derivatives and wishes to offer CFD?

The financial requirements are as follows:

- Minimum paid-up capital and shareholders' funds of RM10 million at all times; and

- Minimum adjusted net capital: The higher of
  - RM500,000; or
  - 10% of aggregate margins

  at all times.

Once licensed, the CMSL holder must maintain at least the minimum financial requirement throughout the validity of its licence.

2.5 What is the financial requirement for a CMSL holder that is licensed for dealing in derivatives restricted to CFD only?

The financial requirements are as follows:

- Minimum paid-up capital and shareholders' funds of RM10 million at all times; and
- Minimum 50% of total shareholders' funds in the form of liquid capital at all times.

Once licensed, the CMSL holder must maintain at least the minimum financial requirement throughout the validity of its licence.

2.6 How is liquid capital calculated?

In calculating the liquid capital, the provider must deduct all fixed or non-liquid assets whereby liquid asset 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.

For avoidance of doubt–

(a) unaudited profits must be included in the computation of liquid capital;
(b) unaudited losses (including all unrealised losses except unrealised losses from principal positions that are mentioned in paragraph (d)) must be deducted from liquid capital;
(c) unrealised gains from principal positions must be included in the computation of liquid capital; and
(d) unrealised losses from principal positions must be deducted from liquid capital.

2.7 Are there any examination requirements relating to the offering of CFD?

In relation to the offering of CFD by the CMSL holder, the following persons are required to sit for the relevant licensing examinations:

- Licensed director;
- Key management;

- Compliance officer; and
- CMSRL holders.

However, the SC may consider exempting the examination requirement if an applicant is able to demonstrate that he has–

(a) been licensed for at least three years in a recognised jurisdiction to undertake dealing in derivatives; and

(b) at least five years direct and relevant experience in the CFD business.

In respect of an existing CMSL holder for dealing in derivatives who wish to offer CFD, its licensed director, key management, compliance officer and CMSRL holders will not be required to resit the examinations.

2.8 Is there a specific arrangement on how a CFD provider is to maintain records for trades with clients, and other trades?

The CFD provider can decide on the method of record keeping, provided that separate records for its clients and other trades can be presented when requested by the SC.

2.9 What does the statement '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' as stated in paragraph 4.11 of the Guidelines mean?

The CFD provider must always act as principle to the client and segregate its own assets from client's assets. Thus, any transactions entered into between the CFD provider and other entities must remain separated and recorded as such from those trades with clients.

2.10 Can a CFD provider (who is also a Trading Participant) place all its clients' assets into a single segregated account?

A separate account must be maintained for purposes of CFD trades and should not be co-mingled with clients' other trades e.g. futures contracts.

2.11 Are there specific requirements relating to investor education?

Licensed intermediaries offering CFD will be required to conduct educational programmes to assist investors to better understand CFD and provide the necessary skills for trading. Such programmes must be held on a quarterly basis, at minimum.

2.12 Are CFD providers required to contribute to the Capital Market Compensation Fund?

The Capital Market Compensation Fund provides an avenue for recourse for individual investors in the event a licensed holder fails to pay amounts owing to its investors. Thus, licensed intermediaries offering CFD will be required to contribute to the Capital Market Compensation Fund.

New licensed intermediaries will be required to contribute RM30,000 upon being licensed and thereafter RM5,000 on each licence anniversary date.

For an existing licensed intermediary who is a –

(a) holder of a CMSL for dealing in securities or dealing in derivatives, it will be required to contribute RM5,000 on each licence anniversary date, in addition to the contribution currently made under its existing licence;
(b) holder of a CMSL for other regulated activities, it will be required to contribute RM30,000 upon varying its licence and thereafter RM5,000 on each licence anniversary date, in addition to the contribution currently made under its existing licence.

2.13 How should periodic reports be submitted to the SC, as required under Chapter 4 of the Guidelines?

All periodic reports under Chapter 4 of the Guidelines shall be submitted electronically to the SC via the SC Common Reporting Platform (ComRep).

Please refer to the SC's website for an Excel-based filling preparation tool and user manuals.

(Link: https://www.sc.com.my/analytics/common-reporting-platform-xbrl)

2.14 Is a CFD provider required to obtain approval(s) from Bank Negara Malaysia?

A CFD provider may require approval from Bank Negara Malaysia (BNM) depending on their targeted investor types (i.e., resident and/or non-resident) and the currency of denomination of their CFD. CFD providers should ensure compliance to requirements under the Foreign Exchange Policy Notices issued by BNM.

3. MARKETING AND EDUCATION

3.1 Is a suitability assessment required to be conducted?

A CFD provider is required to conduct a suitability assessment when an investor intends to trade CFD.

The suitability assessment is required even if the investor has been previously assessed for purposes of futures trading.

3.2 Is there a requirement for a CFD provider to conduct educational programmes?

CFD providers are required to conduct educational programmes to educate investors on CFD. The programmes can be in the form of seminars, workshops or interviews and must be conducted at least on a quarterly basis.

3.3 What areas are required to be covered in the educational programme?

The educational programme should include at least the following areas:

(a) Product features;
(b) Type of underlying instrument available and the different characteristics;
(c) Risk associated with CFD;
(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) Fees and charges.

Comparison between the features of CFD and other similar investment products such as futures, shares and warrants are encouraged when explaining the features of the CFD product.

4. DISCLOSURE DOCUMENT AND FEES

4.1 How is a registration of disclosure document and lodgement of Product Highlights Sheet (PHS) for CFD performed?

A lodgement and registration must be made to the SC by depositing the disclosure document and PHS together with relevant documentation required as specified in Chapter 6 of the *Guidelines on Contracts for Difference*.

Depositing the PHS and disclosure document to the SC does not mean that the SC has verified or endorsed the product or the CFD provider in any way.

4.2 Is the CFD provider required to prepare a different set of disclosure document and PHS for CFD based on different underlying assets?

A CFD provider can choose to either –

(a) prepare a single set of disclosure document and PHS for CFD with different underlying assets; or

(b) prepare separate sets of disclosure document and PHS for each CFD with a different underlying asset type.

The disclosure document and PHS must disclose information to potential investor in a clear, concise and effective manner.

Should the CFD provider choose to prepare a single set of disclosure document and PHS as in (a) above, the CFD provider must ensure that specific and distinguishable information attributable to each particular underlying asset type (such as the specific features and risks associated with the different underlying asset) is disclosed to enable the investor to arrive and make an informed decision.

4.3 When must the disclosure document and PHS be deposited with the SC?

The disclosure document and PHS must be deposited with the SC at least one (1) business day prior to the offer of the CFD.

4.4 In what form must a disclosure document and PHS be provided to an investor of CFD?

A disclosure document and PHS can be provided to an investor in either a hardcopy version or in electronic form. However, a hardcopy version of these documents must be given if an investor requests for one. These documents must be provided to an investor before he makes an investment decision.

4.5 What are the applicable fees under this framework?

The relevant fees for the lodgement and registration of PHS and disclosure document are provided under the *Capital Markets and Services (Fees) Regulations 2012*.

5. PRODUCT PARAMETERS

5.1 What are the types of CFD that can be offered?

CFD offered in Malaysia are only allowed to be based on shares and indices that meet the specified criteria prescribed in Chapter 3 of the *Guidelines on Contracts for Difference*.

Generally, the underlying shares have to meet the average daily market capitalisation requirement and the underlying companies listed are in compliance with the exchange's listing rules. For indices, the underlying index must consist of constituents that are listed on an exchange and is a recognised benchmark, among others.

5.2 Are there any minimum margin requirements on the CFD?

The SC is imposing minimum margin requirements on the CFD depending on the underlying instrument. The minimum margin requirements are necessary to prevent excessive leverage by investors.

The minimum margin requirements are set out in the table below:

Type of CFD	Minimum margin
Single share CFD	• 10% for index shares • 20% for non-index shares
Index CFD	• 5%

For avoidance of doubt, a CFD provider may opt to set more stringent margin requirements.

5.3 Can an investor request for physical settlement of his CFD position?

No. CFD must be cash settled only. This serves to prevent any 'stealthy stake' build up in single shares CFD.

5.4 For a CFD where the underlying instrument is a share, what happens if there is a corporate exercise on the underlying share?

A corporate exercise involving dividend payment, bonus issue or rights issue may impact an investor's CFD holdings or obligations. The investor may be required to take further action arising from a corporate exercise.

For example, in the event of a rights issue, an investor holding a long CFD position may be given the opportunity to trade the CFD arising from the rights issue. Alternatively, an investor may be required to close his open CFD position before the ex-date of the entitlement for the rights issue.

A CFD Provider is required to explain the impact of a corporate exercise on an investor's CFD holdings or obligations in the disclosure document.

6. INVESTORS

6.1 Who can invest in a CFD offered by a CFD provider?

Currently, CFD can only be traded by sophisticated investors (i.e., any person who is determined to be a sophisticated investor under the *Guidelines on Categories of Sophisticated Investors*). CFD is a complex leveraged product, and investors are advised to fully understand the risks associated with CFD before trading them.

6.2 What information should investors expect to receive from a CFD provider?

Licensed intermediaries offering CFD are required to provide potential clients the Product Highlights Sheet and any other disclosure documents on the CFD. They are also required to obtain acknowledgement that the client has received the said documents and understand the risks associated with trading in CFD as stated in the risk statement.

6.3 What is the purpose of the risk statement?

The risk statement serves to ensure potential clients are aware and understand the risks involved in trading CFD.

6.4 Is a CFD provider required to conduct a suitability assessment on an investor who wishes to invest in CFD?

Yes, a CFD provider must conduct a suitability assessment on an investor who wishes to invest in CFD for the first time in Malaysia.

6.5 What happens when there is a complaint or dispute regarding the investment?

A CFD provider must have in place processes for complaints handling or dispute resolution. Such information must also be made accessible to all investors.