

# **GUIDELINES ON CONTRACTS FOR DIFFERENCE**

**SC-GL/3-2018 (R3-2024)**

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**DECLARATION BY THE CONTRACTS FOR DIFFERENCE  
PROVIDER**

# **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* (CMSA). These Guidelines aim to provide a regulatory framework for over-the-counter (OTC) contracts for difference (CFD) in Malaysia.
- 1.02 A CFD provider 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 to observe these Guidelines will also be taken into account in the fit and proper assessment of a licensed person.
- 1.04 The SC may, upon application, grant an exemption from or a variation to the requirements of these Guidelines if the SC is satisfied that–
- (a) such variation is not contrary to the intended purpose of the relevant requirement in these Guidelines; or
  - (b) there are mitigating factors which justify the said exemption or variation.
- 1.05 These Guidelines are in addition to and not in derogation of any requirements provided for under securities laws or any other guidelines issued by the SC.

## 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:

business day means a day on which licensed banks settle payments in Kuala Lumpur;

Bursa Securities means Bursa Malaysia Securities Bhd;

Bursa Derivatives means Bursa Malaysia Derivatives Bhd;

CFD or contract for difference means an OTC derivative 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 makes available, offers for purchase or issues an invitation to purchase CFD;
CMSL	means Capital Market Services Licence;

CMSRL means Capital Market and Services Representative's Licence;

disclosure document has the meaning assigned to it in the *Guidelines on Disclosure Documents*;

ETF or exchange-traded fund has the meaning assigned to it in the *Guidelines on Exchange-Traded Funds*;

inverse ETF has the meaning assigned to it in the *Guidelines on Exchange-Traded Funds*;

leveraged ETF has the meaning assigned to it in the *Guidelines on Exchange-Traded Funds*;

licensed bank	means a bank licensed under the <i>Financial Services Act 2013</i> or the <i>Islamic Financial Services Act 2013</i> ;
PHS or product highlights sheet	means a document that contains clear and concise information of the salient features of the CFD;
REIT or real estate investment trust	has the meaning assigned to it in the <i>Guidelines on Listed Real Estate Investment Trusts</i> ;
retail investor	means any person other than a sophisticated investor;
senior management	has the meaning assigned to it in the <i>Guidelines on Conduct for Capital Market Intermediaries</i> ;
sophisticated investor	means any person who is determined to be a sophisticated investor under the <i>Guidelines on Categories of Sophisticated Investors</i> ;
underlying instrument	means the instrument on which a CFD's market value is derived from, referenced to or based on.

## **PART B: REQUIREMENTS ON PRODUCT AND CFD PROVIDER**

### **Chapter 3**

### **PRODUCT PARAMETERS**

#### **Underlying instruments**

3.01 A CFD provider is only allowed to offer CFD with the following underlying instruments:

- (a) shares, units of a REIT or units of an ETF, listed on Bursa Securities or a stock exchange outside Malaysia;
- (b) commodity derivatives listed on Bursa Derivatives or a Specified Exchange;  
or
- (c) indices,

that meet the criteria set out in paragraphs 3.02 to 3.11 below.

#### **Shares, Units of REIT or Units of ETF as underlying instrument**

3.02 In the case where the underlying instrument is shares, units of a REIT or units of an ETF listed on Bursa Securities, such underlying instrument must be listed on the Main Board of Bursa Securities.

3.02A In addition to the requirements set out in paragraph 3.02, where the underlying instrument is shares or units of a REIT listed on Bursa Securities—

- (a) the underlying corporation or REIT must have an average daily market capitalisation, excluding treasury shares, of at least—
  - (i) RM500 million in the past three months ending on the last market day of the calendar month immediately preceding the date of offer; or
  - (ii) in the case of a newly listed corporation or REIT that does not meet the 3-month market capitalisation track record, RM3 billion; and
- (b) the underlying corporation or REIT must meet the public shareholding spread requirement at the date of offer.



3.03 In the case where the underlying instrument is shares, units of a REIT or units of an ETF listed on a securities exchange outside Malaysia–

- (a) the underlying corporation, REIT or ETF 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 corporation, REIT or ETF 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 offer; or
  - (ii) In the case of a newly listed company, REIT or ETF that does not meet the 3-month market capitalisation track record, RM5 billion;
- (c) the underlying corporation, REIT or ETF must be in compliance with the listing rules and requirements of its home exchange at the date of offer; and
- (d) information on the price, volume, financial information and price-sensitive information in relation to the underlying corporation, REIT or ETF must be easily accessible by investors.

**Additional requirement where the underlying instrument is units in an ETF**

3.03A In the case where the underlying instrument is units of an ETF, the CFD provider must ensure that the ETF is not a leveraged ETF or inverse ETF.

**Indices as underlying instrument**

3.04 In the case where the underlying instrument is indices–

- (a) The constituents or components of the index must be listed on a securities or derivatives 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 easily accessible by investors.

### **Commodity derivatives as underlying instrument**

3.04A In the case where the underlying instrument is commodity derivatives–

- (a) The underlying commodity derivatives is listed on Bursa Derivatives or a Specified Exchange; and
- (b) Information relating to the underlying commodity derivatives traded on the Specified Exchange, including price, volume, and contract specifications must be easily accessible by investors.

3.05 **[Deleted]**

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### **Settlement of CFDs**

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

3.11 A CFD (where the underlying instrument is shares or units of a REIT) offered shall neither carry any voting rights nor embedded options for the conversion into the underlying shares or units of a REIT.

## **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 processes that integrate prudent risk limits, continuous risk monitoring and regular management reporting; and
  - (c) comprehensive internal control and audit procedures.
- 4.04 The 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 as set out below and maintain the amount of the minimum margin on all open positions. The CFD provider may request from its clients, at its absolute discretion, a margin above the minimum requirement.

Type of Underlying Instrument	Minimum margin
Shares of a single stock	<ul style="list-style-type: none"><li>• 10% for index shares</li><li>• 20% for non-index shares</li></ul>
Indices	<ul style="list-style-type: none"><li>• 5%</li></ul>
Units of an ETF	<ul style="list-style-type: none"><li>• 20%</li></ul>
Units of a REIT	<ul style="list-style-type: none"><li>• 10% for index REITs</li><li>• 20% for non-index REITs</li></ul>
Commodity derivatives	<ul style="list-style-type: none"><li>• 15%</li></ul>

- 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.

## Underlying instruments that are suspended, halted or delisted

- 4.15A 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 or derivatives exchange, the CFD provider is prohibited from creating new CFD positions.

- 4.15B A CFD provider must provide its clients with clear and sufficient information on its procedure to address open position on CFD where the underlying instrument is suspended, halted, or delisted.

### **Stop loss measures**

- 4.15C A CFD provider must make available stop loss measures for its clients and must set out clear information, including additional cost imposed on clients, if any.

### **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 of sending and carrying out trades 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) the transaction information as specified by the SC; and
  - (b) the financial information as set out in paragraphs 4.21 or 4.21A,
- on a monthly basis by 25 business days after the end of each reporting month.
- 4.21 Where the CFD provider is a CMSL holder for dealing in derivatives, the financial information required to be submitted to the SC are as follows:
- (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.
- 4.21A Where the CFD provider is a CMSL holder for dealing in derivatives restricted to CFD, the financial information required to be submitted to the SC are as follows:
- (a) a statement of financial condition;
  - (b) a statement of income or loss; and
  - (c) computation of liquid capital in the manner as specified by the SC.
- 4.22 A CFD provider who is already reporting the financial information specified in paragraph 4.21 or 4.21A 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—
  - (i) promote fairness and transparency;
  - (ii) 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*;
  - (iii) manage any conflict of interest that may arise; and
  - (iv) promote fair treatment of its users or any person who subscribes for its services.
- (c) establish and maintain policies and procedures to—
  - (i) monitor trading and other market activity to detect non-compliance with the securities laws or its own rules;
  - (ii) monitor anti-money laundering requirements; and
  - (iii) ensure compliance with all relevant laws and regulations; and
- (d) immediately notify the SC—
  - (i) 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;
  - (ii) of any material change in the information submitted to the SC; and
  - (iii) 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.

#### **Submission of periodic reports**

- 4.25 All periodic reports required in paragraphs 4.20, 4.21 and 4.21A above shall be submitted electronically to the SC via the reporting system as prescribed by the SC.



## **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 disclosure document and 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 that is confusing, or attempts to disclaim responsibility for the contents of such material or opinion expressed in the material that 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 or 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.

## **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 product highlights sheet (“PHS”), either in hardcopy or an electronic version; 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 3 of these Guidelines.

#### **Guidance to Paragraph 6.01(a)**

For the purposes of Paragraph 6.01(a), where a CFD provider has issued a supplementary disclosure document or PHS, “disclosure document” and “product highlights sheet” would include the supplementary disclosure document or supplementary PHS, as the case may be.

6.01A A hardcopy of the disclosure document and PHS must be given to a CFD client upon such a request from the client.

6.02 The minimum information to include in a disclosure document is set out in Schedule 1 of these Guidelines. A CFD Provider must comply with the requirements applicable to a PHS in the Guidelines on Sales Practices of Unlisted Capital Market Products (“Guidelines on Sale Practices”). In addition, a CFD provider must also comply with the minimum information to include in a PHS as set out in Schedule 2 of these Guidelines. A CFD provider must also disclose in a disclosure document and PHS additional relevant information, as may be necessary to enable investors to make an informed decision.

#### **6.03 [Deleted]**

6.03A The disclosure document and PHS should not contain any hedge clause or disclaimer that is confusing, or attempts to disclaim responsibility for the material or opinion expressed therein.

6.04 Any revision to the documents originally deposited with the SC must be updated and furnished to the SC in the manner described in paragraphs 6.11.

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 with the SC at least one (1) business day prior to the offer of the CFD. A disclosure document is considered to be registered when the document is deposited with the SC in the manner described in paragraph 6.13.
- 6.08 The disclosure document 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 and PHS**

- 6.10 A supplementary or replacement disclosure document or PHS 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 or PHS if the matter had arisen when the disclosure document or PHS was prepared;
  - (b) there had been a significant change affecting a matter disclosed in the disclosure document or PHS;
  - (c) the disclosure document or PHS contains material statement or information that is false or misleading; or
  - (d) the disclosure document or PHS contains a statement or information from which there is a material omission.
- 6.11 The CFD provider must, within 10 business 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 or replacement disclosure document, PHS, or other notices as may be specified by the SC, advising the person that a supplementary or replacement disclosure document or 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 PHS.

### **Submission Procedure**

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 4;
- (c) Two copies of the disclosure document and PHS;
- (d) The prescribed fees for the deposit of disclosure document and PHS;
- (e) An electronic copy of the disclosure document, PHS and all accompanying documents in a text searchable Portable Document Format (PDF). The electronic copy submitted to the SC must be easily identifiable and complete;
- (f) A confirmation that the electronic copy of documents in PDF format is the same as the physical copy of documents deposited with the SC including physical copies of the documents submitted under para 6.13(a) to (c); and
- (g) A completed compliance schedule.

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.

6.14A The SC may, at its full discretion, request any further information or documents other than those specified in these Guidelines.

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".

6.16 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.

6.17 All submissions for the offering of CFD as set out in these Guidelines must be in two copies and addressed to—

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

6.18 **[Deleted]**

## **PART C: 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 each type of CFD.
2. Where possible, the disclosure document must avoid using technical terms. Terms used must be easily understood by the investors. Should technical terms be used, there must be a glossary explaining the technical terms in plain English.
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 and the settlement currency.

(c) Fees and commission

- (i) Clearly disclose and itemise 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, including the terms and conditions for stop loss facility;
- (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 suspended, halted, or delisted.

(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 IN ADDITION TO REQUIREMENTS IN THE GUIDELINES ON SALES PRACTICES

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.

1. 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.
2. 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.
3. The PHS must include, but is not limited to, brief information on the following:
  - (a) Product description and key features of the CFD;
  - (b) Key risks associated with trading in CFD;
  - (c) Information explaining the approach when an underlying instrument is suspended, halted, or delisted including additional risk of opening new CFD positions;
  - (d) All relevant fees, charges and commission including financing charges, stop loss charges, and whether fees are variable and when it varies; and
  - (e) Description of the type of model or strategy used by the CFD provider (e.g., direct market access model or market making model).
4. **[Deleted]**
5. The first page of every PHS must contain the following:
  - (a) **Responsibility Statement** – this statement states that the PHS has been reviewed by the Board, authorised committee or persons authorised by the Board of the CFD provider;
  - (b) **Statement of Disclaimer** – this statement states that the SC shall not be held responsible for the offering of the CFD or the PHS although a copy of the PHS has been lodged with the SC; and

- (c) **Statement of Risk** – this statement states that investors may lose more than their initial investment and is entering into a contractual agreement with the CFD provider.
6. Appendix 1 to these Guidelines provides guidance as to the information that should be contained in a PHS.
  7. Appendix 2 to these Guidelines provide guidance in respect of the form that may be used for the purpose of preparing a PHS.

## **PART D: APPENDIX**

### **Appendix 1**

#### **RESPONSIBILITY STATEMENT, STATEMENT OF DISCLAIMER AND STATEMENT OF RISK**

##### **PRODUCT HIGHLIGHTS SHEET**

**Date of Issuance:**

##### **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 CFD provider) and they have collectively and individually accepted full responsibility for the accuracy of the information. Having made all reasonable inquiries, they confirm to the best of their knowledge and belief, that there are no false or misleading statements, or omissions of other facts, which would make any statement in the Product Highlights Sheet false or misleading.

##### **STATEMENT OF DISCLAIMER**

The relevant information and document in relation to the (name of CFD), including a copy of this Product Highlights Sheet has been lodged with the Securities Commission Malaysia. The lodgement of the relevant information and document in relation to the (name of CFD), including this Product Highlights Sheet, should not be taken to indicate that the Securities Commission Malaysia recommends the (name of CFD) or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Product Highlights Sheet.

The (name of CFD) 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 CFD provider) responsible for the (name of CFD) 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.

##### **STATEMENT OF RISK**

Investors are warned that the price/level of the underlying 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 CFD, you are relying on the creditworthiness of the CFD provider and have no recourse/rights against the issuer or provider of the underlying instrument.

## Appendix 2

### GUIDE ON PRODUCT HIGHLIGHTS SHEET

**NOTE:** This template serves only as a GUIDE. The presentation, style, contents and type of information below should be amended according to the CFDs offered. Notwithstanding that, the information required on paragraph 5 of Schedule 2 must be included in the PHS according to the CFDs offered. This guide is to be read in addition to the requirements of the *Guidelines on Sales Practices of Unlisted Capital Market Products*.

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

### PRODUCT NAME

#### BRIEF INFORMATION ON THE CFD PROVIDER

##### 1. Description of the provider

- *CFD provider and place of business.*
- *Its experience in offering CFD.*
- *CFD provider business model (Direct Market Access/Market Making).*
- *Related-party transaction and/or conflict of interest.*

#### INFORMATION ON THE PRODUCT

##### 2. What am I investing in?

- *Explain the type of CFDs available and where an investor can obtain details on the list of underlying offered.*
- *Maximum loss/gain. Highlight that **it is a leveraged derivatives product**.*
- *Type of margins, brief explanation on how these margins are calculated and when these margins are collected. State where an investor can obtain more details on the actual margin requirements.*
- *Treatment for CFD when there is a corporate exercise on the underlying instrument.*
- *Treatment for CFD when the underlying instrument is suspended, halted, or delisted.*
- *Risk management features in place (e.g., stop loss feature).*
- *Trading platform.*
- *Settlement method and currency*

**Note:** To describe these features with relevant tables, diagrams or illustrations where applicable.

##### 3. Is the product tradable?

- *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.*

#### 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.*

#### 6. What are the possible outcomes of my investment?

- *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, gross profit/loss, net profit/loss.***  
Scenario analysis:
  - Worst case scenario
  - Middle case scenario
  - Best case scenario
- *Adjustments to the terms and conditions of the product upon the occurrence of extraordinary events*

### KEY RISK

#### 7. 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*
- *Any other key information peculiar to the product which would help investors to determine if the product is suitable for them*

#### 8. What are the key risks associated with this product?

- *List the different types of risks and this should include specific risks particular to the product or may cause significant losses if they occur, or both. Risks peculiar to the product should also be stated. Give appropriate formatting emphasis (e.g., italic, bold, underline) where investors might lose all of their initial investment.*
- *No first priority to collateral realisation proceeds – [Please elaborate as appropriate].*
- *[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 (CFD provider)'s creditworthiness. If (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

### 9. What are the fees and charges involved?

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

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

- *Explain how investor can exit investment.*
- *Close/roll over positions.*
- *Cost involved in exiting the investment.*

## CONTACT INFORMATION

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

- \* *Contact details of the CFD provider for investors to contact if they have queries.*
- \* *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](mailto:aduan@seccom.com.my)

(d) via online complaint form available at [www.sc.com.my](http://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 the Product Highlights Sheet that investors may not understand.
- Words may include special terms (i.e. legal jargon/ finance jargon).
- CFD providers are encouraged to use simple terms and then explain them in the glossary.



## Appendix 3

### 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 CFD provider 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 CFD provider 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 CFD provider'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 CFD provider 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 CFD providers. Such limits may vary. You should ask the CFD provider 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 transactions

CFD is an over-the counter (OTC) transaction or off-exchange transaction. The CFD provider 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:

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Name of client:

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\*Designation of  
Authorised Signatory

---

\*Company name:

---

Date:

---

*Note: \* For companies only*

## **Appendix 4**

### **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]