

CHAPTER 3

**PARTICIPANTS, REGISTERED PERSONS
AND MARKET MAKERS**

PART A PARTICIPANTS

3.01 Participantship Classes

The classes of participantship are:

- (a) Trading Participants;
- (b) Local Participants;
- (c) Associate Participants; and
- (d) such other class of participantship as the Exchange may create.

3.02 Application procedure

(1) To become a Participant, an applicant must:

- (a) apply to the Exchange in accordance with the Exchange's requirements; and

[Refer to Directive No. 3-001]

- (b) satisfy the qualification criteria stated in Rules 3.10, 3.15 or 3.18, as the case may be.

(2) Admission as a Participant is at the Exchange's absolute discretion. In deciding, the Exchange may have regard to:

- (a) the character, business integrity, financial probity and trading expertise of the applicant and its directors and principal officers;
- (b) the effect of the applicant's admission to Market development, including whether the admission of the applicant is in the interest of an orderly and fair Market;
- (c) the effect of the applicant's admission to the optimum utilisation of the Exchange's facilities, taking into account risk management and any other considerations;
- (d) the applicant's compliance with any other requirement of the Securities Laws, these Rules and the Directives;
- (e) whether the applicant is the subject of an investigation or proceeding involving an allegation of fraud or dishonesty, whether in or out of Malaysia; and
- (f) such other financial, business, market and regulatory considerations as the Exchange may regard as relevant.

(3) Once approved, the applicant's name will be entered into the Register as a Participant.

3.03 Right of Appeal

If the Exchange rejects an application to be a Participant, the applicant may appeal in writing to the Exchange within 14 days after the applicant is notified of the Exchange's decision.

3.04 Participantship

- (1) Admission as a Participant gives the Participant the following rights:
 - (a) access to the markets or facilities established, maintained or operated by the Exchange, subject to these Rules and the Directives; and
 - (b) the right to describe itself as a Participant of the Exchange.
- (2) A Participant may not transfer its participantship in the Exchange to any other person.

3.05 Cessation of rights

- (1) A Participant will immediately cease to enjoy the rights set out in Rule 3.04(1)(a), 3.11, 3.16 or 3.19, as the case may be, if the Participant:
 - (a) is suspended;
 - (b) no longer holds a Capital Markets Services Licence for dealing in derivatives or has its Capital Markets Services Licence for dealing in derivatives suspended;
 - (c) defaults in its payment or delivery obligation to the Clearing House arising from the purchase or sale of Contracts;
 - (d) ceases to be a Participant; or
 - (e) ceases to have the ability or access to the ability to clear its Contracts which are traded on the Exchange through the Clearing House.
- (2) A Trading Participant must immediately notify the Exchange upon becoming aware of the circumstance stated in Rules 3.05(1)(b) and (e).

3.06 Continuing Obligations

- (1) Throughout a Participant's participantship, it must:
 - (a) continuously satisfy the qualification criteria stated in these Rules;
 - (b) comply with and give effect to the Securities Laws and the Commission's requirements;
 - (c) comply with and give effect to these Rules and the Directives whether or not the provisions are directed at the Participant specifically and to any undertaking given to the Exchange before or after admission as a Participant;
 - (d) comply with the requirements of the United States Commodity Futures Trading Commission in relation to trades or Clients from the United States;

[Refer to Directive No. 3.06-001]

- (e) ensure that its constitution, if any, comply with or is consistent with these Rules or the Directives;
- (f) register with the Exchange the business address of its Principal Office and not change the business address without the Exchange's prior approval;
- (g) notify the Exchange of any change of its registered address within 7 days after the change;

- (h) not go into voluntary liquidation or apply for any order under Section 366 of the Companies Act without the Exchange's prior approval;
 - (i) notify the Exchange of any change to its name as registered by the Exchange within 7 days after the change; and
 - (j) if it is also a Clearing Participant, comply with and give effect to the Clearing House Rules.
- (2) Rules 3.06(1)(d), (e), (f), (g), (h), (i) and (j) do not apply to a Local Participant.

3.07 Fees

- (1) A Participant must pay all fees and charges as prescribed by the Exchange.

[Refer to Directive 3-001]

- (2) The Exchange may issue a written demand to a Participant that omits to pay the Exchange any fees or charges within the time frame the Exchange specifies. If the amount due is not paid within the period stipulated in the written demand, the Exchange may summarily suspend, terminate or take any other action the Exchange thinks fit against the Participant.
- (3) There will be no refund on any part of the fees, charges or premiums which has been paid by a Participant.
- (4) All fees or charges which are due and unpaid by a Participant who has ceased to be a Participant or whose participantship has been suspended, will remain due and payable by the Participant regardless of the cessation or suspension.

3.08 Resignation

- (1) If a Participant intends to resign, it must:
- (a) give the Exchange at least 30 days' notice stating the proposed date of resignation;
 - (b) in the case of a Trading Participant, also satisfy the Exchange that it has taken, or will take, proper and adequate steps before the proposed date of resignation for the orderly winding down of its business of dealing in derivatives on the Market including being able to fulfil all its obligations to the Exchange, the Clearing House and its Clients; and
 - (c) stop entering into transactions within the time frame the Exchange prescribes.
- (2) The acceptance of the resignation is at the absolute discretion of the Exchange.
- (3) The resigning Trading Participant is bound to comply with such restrictions on its participantship as may be imposed by the Exchange and/or Clearing House until the effective date of its resignation as notified by the Exchange.
- (4) If the resignation of a Trading Participant or an Associate Participant is accepted, the Exchange will notify all Trading Participants and Associate Participants of the effective date of resignation.
- (5) The Trading Participant's resignation will not in any way diminish any liability which that Trading Participant may have to the Exchange or the Clearing House or any other Participant or any Client of that Trading Participant arising out of its participantship up to the effective date of its resignation and such liability shall continue to subsist until satisfied or discharged.

3.09 Continuing liability

- (1) A former Participant remains liable to disciplinary action for any breach of these Rules and all Directives issued by the Exchange, committed during the period while it was a Participant.
- (2) A former Trading Participant must retain all its records for at least 7 years from the date of cessation and produce such records in a legible form to the Exchange upon demand.
- (3) All provisions in these Rules continue to apply in respect of the former Participant to the extent required to give effect to Rules 3.09(1) and 3.09(2).

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PART B TRADING PARTICIPANTS

3.10 Trading Participant - Qualification criteria

To be eligible for admission as a Trading Participant, an applicant must:

- (a) be a company incorporated in Malaysia and if the company has a constitution which states the objects of the company, having as one of the applicant's objects, the carrying on of the business of dealing in derivatives;
- (b) hold a valid Capital Markets Services Licence for dealing in derivatives;
- (c) upon admission as a Trading Participant, satisfy all the financial requirements set out in Chapter 8 of these Rules;
- (d) have adequate facilities and personnel for the expeditious and orderly carrying on of the business of trading in derivatives on the Market;
- (e) be a Clearing Participant or if not, it must have entered into an arrangement with a Clearing Participant to clear its Contracts which are traded on the Exchange;
- (f) upon admission as a Trading Participant, register all the Trading Participant's Registered Person under these Rules; and
- (g) comply with such other requirements as the Exchange may prescribe.

3.11 Trading Participant - Rights

Admission as a Trading Participant gives the Trading Participant the following rights:

- (a) the right to trade for itself in the Market, in such manner as the Exchange may direct; and
- (b) the right to trade for Clients and to charge a commission on all business transacted by it on behalf of these Clients.

3.12 Change of Status to Investment Bank

A Trading Participant must notify the Exchange in the manner the Exchange prescribes if it obtains approval to operate as an Investment Bank.

3.13 Trading Participant - Voluntary Suspension of Participantship

- (1) A Trading Participant may apply to the Exchange in the manner the Exchange prescribes to suspend its participantship for a period of up to 12 months.
- (2) The Exchange may extend the duration of the voluntary suspension for a period of 6 months or for such other duration at the Exchange's absolute discretion.
- (3) A Trading Participant which has been voluntarily suspended must immediately cease to trade and remains liable in all respects to fulfil all its obligations under these Rules.

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3.14 Reinstatement of Participantship

- (1) A Participant may apply to the Exchange in the manner the Exchange prescribes to reinstate its participantship which was suspended pursuant to Rule 3.13.
- (2) Reinstatement of a Participant's participantship is at the absolute discretion of the Exchange.

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PART C LOCAL PARTICIPANTS

3.15 Local Participant - Qualification criteria

To be eligible for admission as a Local Participant, an applicant must satisfy the Exchange that he:

- (a) is of good character and has not been convicted of any offence involving fraud or dishonesty;
- (b) is not an undischarged bankrupt;
- (c) has made arrangement to trade through a Trading Participant;
- (d) has a risk capital of such amount as prescribed by the Exchange;
- (e) has entered into an arrangement with a Clearing Participant for the clearing of any of the applicant's Contracts which are traded on the Exchange;
- (f) is at least 21 years old;
- (g) is not a director or employee of any Trading Participant unless as approved by the Exchange; and
- (h) complies with such other requirements as the Exchange may prescribe.

[Refer to Directive 3-001]

3.16 Local Participant - Rights

Admission as a Local Participant gives the Local Participant the right to trade for himself in the Market through a Trading Participant from anywhere within or outside Malaysia, in such manner as the Exchange may direct.

3.17 Local Participant – Summary Suspension or Termination

- (1) The Exchange may summarily suspend or terminate the participantship of a Local Participant if the Local Participant:
 - (a) becomes of unsound mind;
 - (b) is made bankrupt, whether in or out of Malaysia;
 - (c) is convicted, whether within or outside Malaysia, of an offence involving fraud or other dishonesty or violence or the conviction of which involved a finding that he acted fraudulently or dishonestly; or
 - (d) is convicted of an offence under the Securities Laws.
- (2) If a Local Participant's participantship has been suspended or terminated, the Local Participant must immediately cease to trade and remains liable in all respects to fulfil all the Local Participant's obligations under these Rules.

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PART D ASSOCIATE PARTICIPANTS

3.18 Associate Participant – Qualification criteria

To be eligible for admission as an Associate Participant, an applicant must:

- (a) be a Corporation;
- (b) not carry on the business of dealing in derivatives within Malaysia;
- (c) have made arrangement to trade through a Trading Participant;
- (d) be a Clearing Participant or if not, it has entered into an arrangement with a Clearing Participant to clear its Contracts which are traded on the Exchange; and
- (e) comply with such financial or other requirements as the Exchange may prescribe.

3.19 Associate Participant – Rights

Admission as an Associate Participant gives the Associate Participant the right to trade for itself or for its Related Corporation in the Market through a Trading Participant for trading in Contracts, in such manner as the Exchange may direct.

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PART E REGISTERED PERSONS

3.20 Obligation to register

A Trading Participant must register the following persons with the Exchange:

- (a) Head of Dealing;
- (b) Compliance Officer; and
- (c) Registered Representative.

[Refer to Directive 3-001]

3.21 Registration procedures

(1) To register a person under Rule 3.20, a Trading Participant must:

- (a) submit the relevant documents to the Exchange in accordance with the Exchange's requirements; and
- (b) make the submission only in respect of a person that satisfies the relevant qualification criteria applicable for the relevant category of Registered Person as stated in these Rules.

(2) Admission as a Registered Person is at the Exchange's absolute discretion. In deciding, the Exchange may have regard to the following:

- (a) the proposed Registered Person's compliance with any other requirement of the Securities Laws, these Rules and the Directives;
- (b) whether the proposed Registered Person is the subject of an investigation or proceeding involving an allegation of fraud or dishonesty, whether in or out of Malaysia; or
- (c) whether the conduct of a Registered Person is in the interest of an orderly and fair market.

3.22 Appeals on Refusal to Register

If the Exchange rejects an application to be a Registered Person, the applicant may appeal in writing to the Exchange within 14 days after the applicant is notified of the Exchange's decision.

3.23 Prohibition on performing functions until registered

No person may perform the functions of a Registered Person of a Trading Participant unless registered with the Exchange as such.

3.24 Continuing Obligations

(1) Throughout a Registered Person's registration, a Registered Person must:

- (a) continuously satisfy the qualification criteria applicable to that Registered Person;
- (b) comply with and give effect to the Securities Laws and the Commission's requirements;

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- (c) comply with and give effect to these Rules and the Directives and to any undertaking given to the Exchange before or after registration as a Registered Person;
 - (d) observe professional conduct, standards of integrity and fair dealing;
 - (e) exercise proper skill, care and diligence;
 - (f) act honestly and in the best interest of the Client and the Trading Participant;
 - (g) carry out the Registered Person's duties in a manner that contributes to the maintenance of an orderly and fair Market;
 - (h) effectively discharge the Registered Person's duties while in office;
 - (i) not act in a manner which may compromise the Registered Person's function and position;
 - (j) comply with the Clearing House Rules;
 - (k) comply with and give effect to the structures, policies, procedures and internal controls implemented by the Trading Participant pursuant to Rule 4.03;
 - (l) not cause, aid or abet a breach of these Rules or the Directives by a Trading Participant;
 - (m) not permit, either knowingly or where the Registered Person had reasonable means of obtaining such knowledge, a Trading Participant to commit a breach of these Rules or the Directives;
 - (n) not engage in or hold any interest in any other business unless:
 - (i) the directorship or appointment is non-executive in nature;
 - (ii) there is no conflict of interest or duty with being a Registered Person of a Trading Participant;
 - (iii) the engagement or interest is not in breach of conditions of the Capital Markets Services Representative's Licence (if applicable); and
 - (iv) the Registered Person has obtained the Trading Participant's prior approval; and
 - (o) exercise all such diligence to prevent the commission of the breach of these Rules or the Directives by the Trading Participant as the Registered Person ought to have exercised, having regard to the nature of the Registered Person's functions in the Trading Participant and to all relevant circumstances.
- (2) For the purpose of Rule 3.24(1), 'engaging in any business' includes being a director or a debenture holder in any entity.

3.25 Duty to manage conflict of interest

A Registered Person must identify and manage any potential or actual conflict of interest in relation to the discharge of obligations and functions under the Securities Laws, these Rules and the Directives.

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3.26 Notice of cessation

A Trading Participant must notify the Exchange within 14 days after the effective date of the Registered Person ceasing to hold the relevant office.

3.27 Vacancy of Registered Person

- (1) Rule 3.27 only applies to a Head of Dealing and Compliance Officer.
- (2) If a vacancy occurs in the office of a person described in Rule 3.27(1), the Trading Participant must fill the vacancy within 6 months from the date the vacancy occurs.
- (3) In the interim, the Trading Participant must identify a person and require that person to temporarily assume the responsibility for the functions of the vacated office. The Trading Participant must ensure that the person:
 - (a) has the relevant experience and seniority to undertake the relevant functions;
 - (b) complies with these Rules and the Directives except for the requirement for the Commission's approval to be appointed to the relevant vacated office; and
 - (c) undertakes only such functions for a period not exceeding 6 months.
- (4) The Trading Participant must notify the Exchange of the person assuming responsibility for the functions of the vacated office.

3.28 Striking off the Register

- (1) A Registered Person will summarily cease to be registered under these Rules if the Registered Person:
 - (a) becomes of unsound mind;
 - (b) is made bankrupt, whether in or out of Malaysia;
 - (c) no longer holds a Capital Markets Services Representative's Licence where the Registered Person is required to hold such licence under these Rules;
 - (d) is convicted, whether within or outside Malaysia, of an offence involving fraud or other dishonesty or violence or the conviction of which involved a finding that he acted fraudulently or dishonestly; or
 - (e) is convicted of an offence under the Securities Laws.
- (2) A Trading Participant and Registered Person must immediately notify the Exchange upon becoming aware of any of the above circumstances.

3.29 Continuing liability

A former Registered Person remains subject to disciplinary action for any breach of these Rules and the Directives committed during the period while the person was a Registered Person and all provisions in these Rules continue to apply in respect of the former Registered Person to the extent required to give effect to this Rule 3.29.

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PART F HEAD OF DEALING

3.30 Requirement

- (1) A Trading Participant must appoint at least 1 Head of Dealing.
- (2) A Trading Participant that appoints more than 1 Head of Dealing must:
 - (a) clearly delineate and document the area and scope of responsibility of each Head of Dealing at the time of appointment of a Head of Dealing and if there is any change in the area and scope of responsibility, the Trading Participant must update the relevant documentation accordingly; and
 - (b) have every area of the Trading Participant's business relating to trading in derivatives fall under the responsibility of at least 1 Head of Dealing.
- (3) All Heads of Dealing of a Trading Participant are jointly responsible for any area relating to trading in derivatives that has not been assigned by the Trading Participant to be within the responsibility of any Head of Dealing.

3.31 Qualification criteria

A Head of Dealing appointed by a Trading Participant must fulfil the following requirements:

- (a) is approved by the Commission as a licensed director or head of regulated activity;
- (b) holds a Capital Markets Services Representative's Licence for dealing in derivatives; and
- (c) is registered with the Exchange as a Head of Dealing.

3.32 Obligations

Throughout a Head of Dealing's registration, the Head of Dealing must:

- (a) continuously satisfy the qualification criteria stated in Rule 3.31;
- (b) be responsible for the activities of the Trading Participant related to trading in derivatives; and
- (c) supervise and direct compliance with these Rules and the Directives by the Trading Participant, Registered Persons, employees and agents on matters relating to trading in derivatives.

3.33 Reporting

- (1) The Head of Dealing must report directly to the board of directors of the Trading Participant.
- (2) Rule 3.33(1) is not applicable to a Head of Dealing of an Investment Bank.

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PART G COMPLIANCE OFFICER

3.34 Requirement

- (1) A Trading Participant must appoint at least 1 Compliance Officer.
- (2) A Trading Participant that appoints more than 1 Compliance Officer must:
 - (a) clearly delineate and document the area and scope of responsibility of each Compliance Officer at the time of appointment of a Compliance Officer and if there is any change in the area and scope of responsibility, the Trading Participant must update the relevant documentation accordingly; and
 - (b) have every area relating to the compliance functions referred to in Rule 3.36(b) fall under the responsibility of at least 1 Compliance Officer.
- (3) Where a Trading Participant outsources its compliance functions to the Group under Rule 4.22, the Trading Participant must ensure that:
 - (a) the Group designates at least 1 dedicated compliance officer who must be responsible to ensure that the compliance functions of the Trading Participant as stated in Rule 3.36 are carried out; and
 - (b) the dedicated compliance officer is registered with the Exchange in accordance with these Rules as a Compliance Officer for the Trading Participant.
- (4) All Compliance Officers of a Trading Participant are jointly responsible for any compliance function referred to in Rule 3.36(b) that has not been assigned by the Trading Participant to be within the responsibility of any Compliance Officers.

3.35 Qualification criteria

A Compliance Officer appointed by a Trading Participant must fulfil the following requirements:

- (a) is approved by the Commission as a Compliance Officer;
- (b) does not hold a Capital Markets Services Representative's Licence; and
- (c) is registered with the Exchange as a Compliance Officer.

3.36 Obligations

Throughout a Compliance Officer's registration, the Compliance Officer must:

- (a) continuously satisfy the qualification criteria stated in Rule 3.35;
- (b) supervise and carry out proper checks and reviews to monitor and ensure the overall compliance by the Trading Participant and the Trading Participant's Registered Persons, employees and agents with the Securities Laws, these Rules and the Directives; and

[Refer to Directive No. 3.36-001]

- (c) ensure matters pertaining to compliance are highlighted to the Trading Participant's board of directors or in the case of an Investment Bank, to the board of directors or committee to whom the person in charge of compliance is required to report under the Guidelines on Investment Banks.

[Refer to Directive No. 3.36-002]

PART H REGISTERED REPRESENTATIVES

3.37 Requirement

A Trading Participant must register the Trading Participant's Registered Representative with the Exchange.

3.38 Qualification criteria

A Registered Representative appointed by a Trading Participant must hold a Capital Markets Services Representative's Licence for dealing in derivatives.

3.39 Continuing Obligations of a Registered Representative

(1) Throughout a Registered Representative's registration with the Exchange, the Registered Representative must:

- (a) continuously satisfy the qualification criteria stated in Rule 3.38;
- (b) act for only 1 Trading Participant;
- (c) be of good character;
- (d) observe high standards of integrity, market conduct and fair dealing;
- (e) not accept payment from Clients or hold any Client's assets in the Registered Representative's name and ensure that Clients make payments and lodgement of assets directly to the Trading Participant;

[Refer to Directive No. 3.39(1)-001]

- (f) not carry on the business of dealing in derivatives outside the Principal Office or a Branch Office of the Trading Participant unless the Registered Representative has obtained the Trading Participant's prior approval;

[Refer to Directive No. 3.39(1)-002]

- (g) not undertake trading for the Trading Participant's Client or a client of a holder of a Capital Markets Services Licence for dealing in securities if the Registered Representative undertakes proprietary trading for the Trading Participant and vice versa;
- (h) not, without proper authority, make use of another person's account particulars; and
- (i) not apply any amount paid or securities deposited by a Client:
 - (i) to any person not entitled; or
 - (ii) for payment into an account other than the said Client's trading account.

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PART I MARKET MAKERS

3.40 Market Makers

- (1) The Exchange may appoint a market maker to undertake the obligation of quoting a bid and an offer in respect of any Contract subject to such terms and conditions as it deems fit. A market maker may be an individual who or corporation who meets with the criteria prescribed by the Exchange.
- (2) A market maker must provide quotes upon request at all times during trading hours based on the requirements prescribed by the Exchange and must comply with the requirements in this Part in performing its role.

3.41 Obligations of a market maker

- (1) Transactions of a market maker should constitute a course of trading reasonably calculated to contribute to the maintenance of an orderly and fair market.
- (2) A market maker must not enter into transactions or make bids or offers that may result in the market for any Contract for which the market maker holds an appointment not being orderly or fair.
- (3) With respect to each Contract for which the market maker holds an appointment, the market maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in trading for itself. Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining an orderly and fair market:
 - (a) to compete with other market makers to improve markets in the Contracts for which the market maker holds an appointment;
 - (b) to make markets of such number of contracts, as may be prescribed by the Exchange, in all the Contracts for which the market maker holds an appointment;
 - (c) to update market quotations in response to changed market conditions in all the Contracts for which the market maker holds an appointment; and
 - (d) to price Contracts fairly by bidding and offering with a spread between the market maker's bid and offer no wider than such spread as may be prescribed by the Exchange.
- (4) A Local Participant who is a market maker must make arrangements to finance his transactions as market maker and must identify to the Exchange the source of this financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

3.42 Privileges and prerogatives of a market maker

The Exchange may accord or grant privileges and prerogatives to market makers, which are not accorded or granted to Participants.

[Refer to Directive 3.42-001]

3.43 Summary Suspension or Termination by the Exchange

The Exchange may summarily suspend or terminate a market maker upon a determination that such market maker has failed to properly perform its obligations as a market maker.

3.44 Voluntary Suspension or Termination

- (1) A market maker may apply to the Exchange in the manner the Exchange prescribes to terminate or suspend its rights and obligations as a market maker with respect to any Contract for which it is an approved market maker.
- (2) The Exchange may accept or reject the market maker's application for suspension or termination subject to such terms and conditions as the Exchange may prescribe, including restricting the termination or suspension to one Contract upon such time interval as the Exchange may deem fit.
- (3) A market maker who has terminated or suspended its rights and obligations in accordance with Rule 3.44 will not be approved as a market maker for another Contract within the period of 30 days from the date of such termination or such time period as the Exchange may prescribe.

[End of Chapter 3]