



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

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**Suruhanjaya Sekuriti**  
Securities Commission

3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur Malaysia

1 Julai 2005

**To all Chief Executive Officers  
of Merchant Banks  
and Discount Houses**

Tuan/Puan,

### **Guidelines on Investment Banks**

Pursuant to Section 126 of the Banking and Financial Institutions Act 1989 and Section 158 of the Securities Commission Act 1993, Bank Negara Malaysia (BNM) and the Securities Commission (SC) are jointly issuing the Guidelines on Investment Banks that specify the requirements and processes to transform into investment banks as well as the regulatory framework within which investment banks would operate.

2. The creation of investment banks is in line with the overall efforts of BNM and the SC to enhance the capacity and capabilities of domestic capital market players to be able to compete meaningfully in an increasingly dynamic and globalised environment. The emergence of investment banks also represents a significant milestone towards enhancing the dynamism and vibrancy of the capital market to contribute towards economic transformation. Financial groups should therefore capitalise on this opportunity to rationalise their operations to reap greater benefits from synergies and economies of scale. A one-year period commencing from 1 July 2005 is hereby given for all financial groups to undertake the rationalisation exercise to transform into investment banks. To facilitate this process, the Government has agreed to grant stamp duty and real property gains tax exemptions and tax credits for the accumulated losses of the acquiree financial institutions involved in the rationalisation.

3. Recognising that greater participation of foreign financial institutions would facilitate greater transfer of skills, expertise and technological know how to the investment banks, the foreign equity participation limit for investment banks would also be increased to 49%. The leveraging of such expertise would enhance their capacity to compete, thereby strengthening their competitive advantage and linkages, domestically and internationally.

4. For any queries regarding the Guidelines, please do not hesitate to contact the following officers:

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Sekian, terima kasih.

Yang benar,



(Dato' Mohd Razif Abdul Kadir)  
Penolong Gabenor  
Bank Negara Malaysia

Yang benar,



(Dato' Siow Kim Lun)  
Pengarah  
Suruhanjaya Sekuriti

21/2005/MB/DH

**Lampiran**



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA



**Suruhanjaya Sekuriti**  
Securities Commission

## ***Guidelines on Investment Banks***

**1 Julai 2005**

**Guidelines on Investment Banks  
1 Julai 2005**

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### **1.0 Introduction**

- 1.1 The establishment of investment banks, in line with the recommendation of the Financial Sector Masterplan, aims to strengthen the capacity and capabilities of domestic banking groups through internal rationalisation so that they can contribute to the economic transformation process and better face the challenges of liberalisation and globalisation. Following the successful rationalisation of the commercial banks and finance companies within the banking groups, the model is now extended to the merchant banks, discount houses and stockbroking companies within the banking groups to achieve greater efficiency and effectiveness. With enhanced capacity, the new investment banks would also play a greater role in developing a more dynamic and efficient domestic capital market.
- 1.2 The framework for the investment bank has been developed by Bank Negara Malaysia (BNM) and the Securities Commission (SC) based on the following principles:-
- Enhancing the scope of activities for the merged entity;
  - Enhancing capacity for growth and business expansion through industry-wide rationalisation; and
  - Minimising unnecessary regulatory burden that may arise from the dual regulatory regime.
- 1.3 The Guidelines on Investment Banks (the Guidelines) are therefore issued jointly by BNM and the SC pursuant to Section 126 of the Banking and Financial Institutions Act 1989 (BAFIA) and Section 158 of the Securities Commission Act 1993 (SCA). It sets out the requirements and processes for the setting up of the investment bank and the regulatory framework within which the investment bank would operate.

### **2.0 Setting up of investment banks**

- 2.1 The setting up of investment banks would require the existing merchant banks, stockbroking companies, which has complied with the Framework on Consolidation of Stockbroking Companies that was issued by the SC on 21 April 2000, and discount houses within the same banking groups to be merged before the new entities are transformed into investment banks. While the consolidation may involve entities conducting futures business within the banking group, flexibility would be allowed for investment banks to retain such entities as separate subsidiaries.
- 2.2 Stand-alone discount houses (that are not part of any banking group) would be required to merge with another discount house to become a merchant bank. These institutions will then be transformed into investment banks, upon their merger with a stockbroking company which has complied with the SC Framework on Consolidation of Stockbroking Companies.

### **3.0 Scope of activities**

- 3.1 Investment banks will continue to be able to conduct activities based on the types of licences the investment bank entity held prior to the rationalisation. In addition, investment banks will also be allowed to undertake fund management and unit trust businesses in line with securities laws and

guidelines issued by the SC. Such businesses will be prescribed as additional businesses under merchant banking business under Section 2 of BAFIA.

- 3.2 In relation to the banking activities of investment banks, the following applies:
- **Deposit-taking:** Investment banks will continue to be allowed to mobilise deposits. However, the minimum deposit threshold will be raised from the present RM200,000 to RM500,000 (excluding repurchase agreements where the minimum transaction amount is RM50,000). Investment banks will also be interbank players. In the longer term, investment banks should tap the capital market to meet their funding needs, as practiced by the international investment banks.
  - **Lending:** In principle, lending activities should be confined to those that are necessary for investment banks to complement their fee-based activities and to offer comprehensive investment banking packages to their clients. The granting of loans for purposes of cultivating a relationship with customers to become fee-based clients in the future should be done by the commercial banking arm of the banking group. Investment banks are however allowed to extend share margin financing facilities to their customers.

- 3.3 As investment banks will conduct banking and capital market activities in a single entity, rules to address issues on conflict of interest and to ensure adequate Chinese Walls between these divisions of businesses will be prescribed.

#### 4.0 Licensing requirements

- 4.1 Investment banks will hold two licences, namely, a merchant banking and a dealer's licence, issued pursuant to Section 5 of BAFIA and Section 12 of Securities Industry Act 1983 (SIA) respectively. Where the investment bank undertakes futures activities, it will need to hold the necessary licences pursuant to the Futures Industry Act 1993 (FIA).
- 4.2 With the dealer's licence, the existing exempt dealer status accorded to the merchant banks will therefore be revoked. The commercial bank and finance company will however continue to be exempt dealers.
- 4.3 ***Application for merchant bank, dealer's and futures (where relevant) licences***
- 4.3.1 Prior to the commencement of business as investment banks, banking groups that already have a merchant bank licence are required submit their proposal for rationalisation and apply for licensing as per Appendix 1. The submission of information required by BNM and the SC when applying for the merchant bank and dealer's licence is outlined in Appendix 2 and 3 respectively. Discount houses that are not part of any banking groups are required to submit information pursuant to Section 5 of BAFIA, in addition to those in Attachment A, when they submit the rationalisation scheme to BNM.
- 4.3.2 Application for the dealer's licence and the relevant futures licence will be made in hard copy and soft copy (diskettes or CD-Roms) forms as may be

downloaded from the SC's website [www.sc.com.my](http://www.sc.com.my). Such application shall comply with the relevant SC guidelines on licensing.

4.3.3 Investment banks are also required to be admitted as participating organisations of Bursa Malaysia Securities Berhad (Bursa Malaysia), authorised depository agents of Bursa Malaysia Depository Sdn Bhd and trading clearing participants of Bursa Malaysia Securities Clearing Sdn Bhd. Where the investment banks undertake futures activities, they will also need to become trading participants of Bursa Malaysia Derivatives Berhad and clearing participants of Bursa Malaysia Derivatives Clearing Berhad. Documentation requirements for admission will be subject to the rules of the relevant market institution.

4.3.4 In terms of licensing fees, investment banks would need to pay for the merchant banking, dealer's licences and other licences, where applicable, based on the existing schedule and quantum of payment:

- Fee on merchant banking licence – RM100,000 for the head office and RM10,000 per branch office
- Fee on dealer's licence – licensing fee of RM2,000, with processing fee of RM50
- Fee for futures broking licence – licensing fee of RM2,000 with processing fee of RM50

**4.4 Licensing of personnel involved in capital market activities**

4.4.1 Personnel of investment banks that undertake functions related to dealing in securities, fund management, investment advice, futures broking, futures fund management and futures trading advice are required to meet the licensing requirements imposed by the SC. Such personnel shall pass the relevant examinations and be licensed as representatives prior to undertaking the said activities. The licensing process and checklist are as per Appendix 4 and 5.

4.4.2 In this regard, the licensing, registration and examination requirements for personnel will be as follows:

| <b>Type of Personnel</b>                         | <b>Licensing, Registration and Examination requirements</b>  |
|--|--|
| Dealing in equity and exchange traded securities | <ul style="list-style-type: none"> <li>• Module 6: Stock Market and Securities Law (Securities Industry Development Centre (SIDC) examinations)</li> <li>• Module 7: Financial Statement Analysis and Asset Valuation (SIDC examinations)</li> <li>• Licensed as dealer's representative</li> </ul>  |
| Dealing in debt securities                       | <ul style="list-style-type: none"> <li>• Modules of examinations under the Financial Markets Association (PPKM)</li> <li>• Exemption for existing bond dealers that have passed all four modules of the examinations under the Financial Markets Association (Persatuan Pasaran Kewangan Malaysia)</li> <li>• Licensed as dealer's representative</li> </ul> |
| Fund management                                  | <ul style="list-style-type: none"> <li>• Module 9: Funds Management Regulation (SIDC examinations)</li> <li>• Module 10: Asset and Funds Management (SIDC</li> </ul>   |

## **Guidelines on Investment Banks**

| <b>Type of Personnel</b> | <b>Licensing, Registration and Examination requirements</b>  |
|--------------------------|--|
|                          | examination) <ul style="list-style-type: none"> <li>• Licensed as dealer's representative designated to undertake fund management activities on a full-time basis and shall not undertake proprietary trading</li> </ul>   |
| Financial planning       | <ul style="list-style-type: none"> <li>• Certified Financial Planner (CFP) qualification and membership of the Financial Planning Association of Malaysia (FPAM); or</li> <li>• Chartered Financial Consultant (ChFC) qualification and membership of the Malaysian Association of Chartered Financial Consultants Association (MAChFC); or</li> <li>• Registered Financial Planner (RFP) qualification and ordinary membership of the Malaysian Financial Planning Council (MFPC)</li> <li>• Licensed as dealer's representative designated to undertake wealth management/financial planning on a full-time basis</li> </ul> |
| Compliance               | <ul style="list-style-type: none"> <li>• Module 11: Fundamentals of Compliance (SIDC examinations)</li> <li>• Such modules of the SIDC examination as may be relevant to the scope of responsibilities of the compliance officer</li> <li>• Registration with the SC and Bursa Malaysia</li> </ul>   |
| Corporate finance        | <ul style="list-style-type: none"> <li>• Notification of appointment to the SC</li> <li>• No licensing/examinations required</li> </ul>  |
| Futures broking          | <ul style="list-style-type: none"> <li>• Module 14: Futures and Options (SIDC examinations)</li> <li>• Module 16: Rules and Regulations of Futures and Options</li> <li>• Licensed as futures broker representative</li> </ul>   |
| Futures fund management  | <ul style="list-style-type: none"> <li>• Module 9: Funds Management Regulation (SIDC examinations)</li> <li>• Module 10: Assets and Fund Management (SIDC examinations)</li> <li>• Licensed as relevant futures representative</li> </ul>  |
| Futures trading advice   | <ul style="list-style-type: none"> <li>• Module 12: Investment Management and Corporate Finance (SIDC examinations)</li> <li>• Module 15: Investment Advisory (Rules and Regulations) (SIDC examinations)</li> <li>• Licensed as relevant futures representative</li> </ul>  |

4.4.3 In addition to the above examination requirements, personnel are also subject to the relevant requirements with respect to education and experience as per the relevant SC guidelines on licensing of representatives.

4.4.4 Such guidelines also provide for exemption from examination requirements in certain circumstances. Personnel of investment banks should however apply to the SC for such exemption and upon approval of the SC, they would then be able to apply for the licences.

4.4.5 Chief executive officers (CEOs) of investment banks will be subject to licensing requirements if they undertake dealing in securities and futures



activities. However, if they comply with the exemption criteria imposed by the SC and upon approval of the SC, they will not be required to meet the examination requirements currently imposed on representatives.

- 4.4.6 CEOs, directors, Head of Dealing, Head of Operations, Head of Compliance and compliance officers of investment banks will be required to register with the SC.

#### **4.5 Renewal of licences**

- 4.5.1 Investment banks are not required to renew their merchant banking licence on a yearly basis. They should however continue to pay the annual licence fee for the merchant banking licence to BNM by the 15<sup>th</sup> of December each year.
- 4.5.2 The licences issued by the SC are required to be renewed on a yearly basis. Applications to renew the licence shall be done via the Electronic Licensing Application (ELA), together with the necessary documents and fees, and for representatives, where relevant, proof of compliance with Continuing Professional Education (CPE) requirements. Such renewal shall comply with the relevant SC guidelines on licensing.

#### **4.6 Conditions of licence**

- 4.6.1 Investment banks shall be required to comply with the conditions of the dealer's licence and where applicable, the relevant futures licence. During the application for the dealer's licence, and where applicable, the relevant futures licence, the investment banks have to demonstrate that they have complied with the 30% Bumiputera requirement for representatives. The conditions relating to Bumiputera requirements on equity participation and employees shall no longer be part of the conditions of the dealer's and futures licence. However, BNM will continue to monitor the compliance by investment banks with these Bumiputera requirements. Investment banks are required to submit plans to comply with the conditions of the dealer's licence and where applicable, the relevant futures licence, if they have not done so.
- 4.6.2 BNM will be responsible to approve changes in shareholders of the investment banks pursuant to Section 45 of BAFIA.

#### **5.0 Minimum capital requirement**

- 5.1 Pursuant to Section 14 of BAFIA, investment banks that are part of banking groups will be required to comply with the minimum capital funds unimpaired by losses requirement of RM2 billion on a banking group basis, while investment banks that are not part of banking groups will be required to comply with a minimum capital funds requirement of RM500 million.

#### **6.0 Regulatory and supervisory framework**

- 6.1 To ensure smooth and efficient coordination of roles and responsibilities between BNM and the SC with regard to matters relating to investment banks, BNM and the SC will enter into a specific Memorandum of Understanding, which will outline all aspects of cooperation and consultation between BNM and the SC.

- 6.2 BNM and the SC will adopt an objective-driven and functional regulatory approach to maximise efficiency and effectiveness in regulating investment banks pursuant to the powers under BAFIA, securities laws and other relevant legislation. BNM will be responsible for the prudential regulation of investment banks to ensure safety and soundness in the interest of depositors whilst the SC will be responsible for the business and market conduct of investment banks in order to promote market integrity and investor protection in the capital market. This regulatory framework however does not apply to the holding companies of investment banks.
- 6.3 All notices, circulars, conditions or guidelines issued pursuant to banking and securities laws will continue to apply unless otherwise specified in these Guidelines.
- 6.4 As participants of market institutions, investment banks will need to comply with their rules, including being subject to day-to-day market surveillance. However, to minimise regulatory burden, Bursa Malaysia rules with respect to governance and capital adequacy requirements will be disapplied to the extent that those areas are covered by these Guidelines. Bursa Malaysia will also outline the rules that will be specifically applied to investment banks under Chapter 5A of the Bursa Malaysia rules.
- 6.5 **Secrecy requirements**
- 6.5.1 To enable the SC to perform its statutory roles and responsibilities as the joint regulator of investment banks, investment banks will be given approval pursuant to Section 99(1)(i) of BAFIA to disclose information of individual customers to the SC. BNM will also share information pertaining to the investment banks with the SC to facilitate this process.
- 6.5.2 As investment banks will also be subject to the day-to-day surveillance of market institutions, investment banks will be given approval pursuant to Section 99(1)(i) of BAFIA to disclose information of their individual customers' trading, share margin financing and other designated accounts to the market institutions to enable them to perform their statutory roles and responsibilities.
- 6.6 **Corporate governance**
- 6.6.1 **Appointment of Board of Directors and CEOs**
- 6.6.1.1 BNM will be responsible for the approval of the appointment and reappointment of directors and CEOs of investment banks pursuant to Section 55 and Section 57 of BAFIA. In this regard, investment banks are required to comply with BNM's Circular on the Appointment of Directors and Chief Executive Officers of Banking Institutions dated 6 August 2003 and 5 April 2000. However, in the approval process, the SC will also provide input on their assessment of the fit and proper criteria of the directors and CEOs. Therefore, investment banks are also required to inform the SC via the ELA for the appointment and reappointment concurrently with their submission to BNM.

**6.6.2 Heads of Dealing, Operations and Compliance Functions**

- 6.6.2.1 In relation to the brokerage activities of investment banks, there must be clear segregation of functions between personnel involved in the front office, middle office and back office operations. The person in charge of dealing (Head of Dealing) must be licensed as a dealer's representative and there must be a separate person in charge of operations (Head of Operations). Where the CEO is a licensed person, controls are to be put in place to segregate the reporting channels of both the Heads of Dealing and Operations.
- 6.6.2.2 The person in charge of compliance (Head of Compliance) should report directly to the Board of Directors, the Audit Committee or the Risk Management Committee.
- 6.6.2.3 There is no requirement for the Heads of Dealing, Operations and Compliance to be members of the Board of the investment bank.
- 6.6.2.4 The Heads of Dealing, Operations and Compliance will be subject to all other SC or market institution rules as they apply to the Executive Director Dealing, Executive Director Operations and Executive Director Compliance, respectively.

**6.6.3 Board Committees**

- 6.6.3.1 Investment banks should adhere to the requirements on Board Committees imposed in BNM's Guidelines on the Establishment of Board Committees, Minimum Qualification and Training Requirements for Directors, and Definition and Responsibilities of Individual Directors, dated 29 May 2003.
- 6.6.3.2 In the area of corporate finance, there is no requirement for these activities to be overseen by an independent Corporate Finance Committee. Such activities can be reported to the Risk Management Committee provided that the Committee comprises personnel that are not licensed dealer representatives and do not undertake dealing in securities activities, and there are appropriate procedures to preserve client confidentiality and limit disclosure of price sensitive information with respect to securities.

**6.6.4 Appointment of external auditors**

- 6.6.4.1 BNM will approve the appointment of external auditors pursuant to Section 40 of BAFIA.

**6.7 Capital and Liquidity Requirements**

**6.7.1 Capital adequacy requirements**

- 6.7.1.1 Investment banks shall be subject to the Investment Bank Capital Adequacy Framework ("IBCAF") which is based on the Risk Weighted Capital Ratio (RWCR) framework. The framework shall be read in conjunction with all relevant BNM's circulars relating to the RWCR. Investment banks will not be subject to Bursa Malaysia's Capital Adequacy Requirements (CAR).

- 6.7.1.2 Each investment bank shall ensure that the IBCAF is maintained above the minimum 8% level at all times or any other minimum level as may be specified by BNM.
- 6.7.1.3 The entity level IBCAF and consolidated RWCR of the investment bank shall be reported to BNM on a monthly basis in the specified format. Investment banks shall also submit any other reports that may be specified by BNM from time to time.
- 6.7.2 **Liquidity requirements**
- 6.7.2.1 Investment banks will be subject to the liquidity framework as per BNM's circular entitled "*Rangka Kerja Mudah Tunai Baru*" dated 1 July 1998 and all relevant amendments to the framework as and when issued by BNM.
- 6.7.2.2 All investment banks shall maintain at all times a net cumulative cashflow surplus:
- in the up-to three-days maturity bucket of 3% of the investment banks' total deposits funding; and
  - in the four-days up-to one month maturity bucket of 5% of the investment banks' total deposits funding.
- 6.7.2.3 Investment banks shall submit their monthly liquidity position to BNM as per format specified.

The IBCAF and liquidity framework is attached as Appendix 6.

## **7.0 Establishment of branches**

- 7.1 Investment banks will be allowed to open branches subject to compliance with prudential rules such as capital adequacy, risk management and operational requirements.
- 7.2 BNM approval is required for the establishment of branches. Where dealing in securities or futures activities are conducted at the branches or where the branch has electronic access facilities, the SC's input will be sought and Bursa Malaysia may conduct a readiness audit before such approval is granted.

## **8.0 Examination/Audits**

- 8.1 BNM and the SC will conduct joint examinations on the investment banks. As front-line regulators for the SC, Bursa Malaysia will join BNM and the SC in these audits. The scope of examination between BNM, the SC and Bursa Malaysia will be clearly demarcated.
- 8.2 BNM, the SC and Bursa Malaysia may conduct independent examinations on investment banks where any of the authorities is of the view that there is a need to do so, pursuant to their regulatory objectives. Such examinations may arise from examination findings or matters that are of due concern to the authorities.

## **9.0 Intervention and investigation**

- 9.1 BNM and the SC will retain their powers under banking and securities laws to take intervention actions against the investment bank and/or its personnel. As joint regulators of investment banks, there will be close consultation between

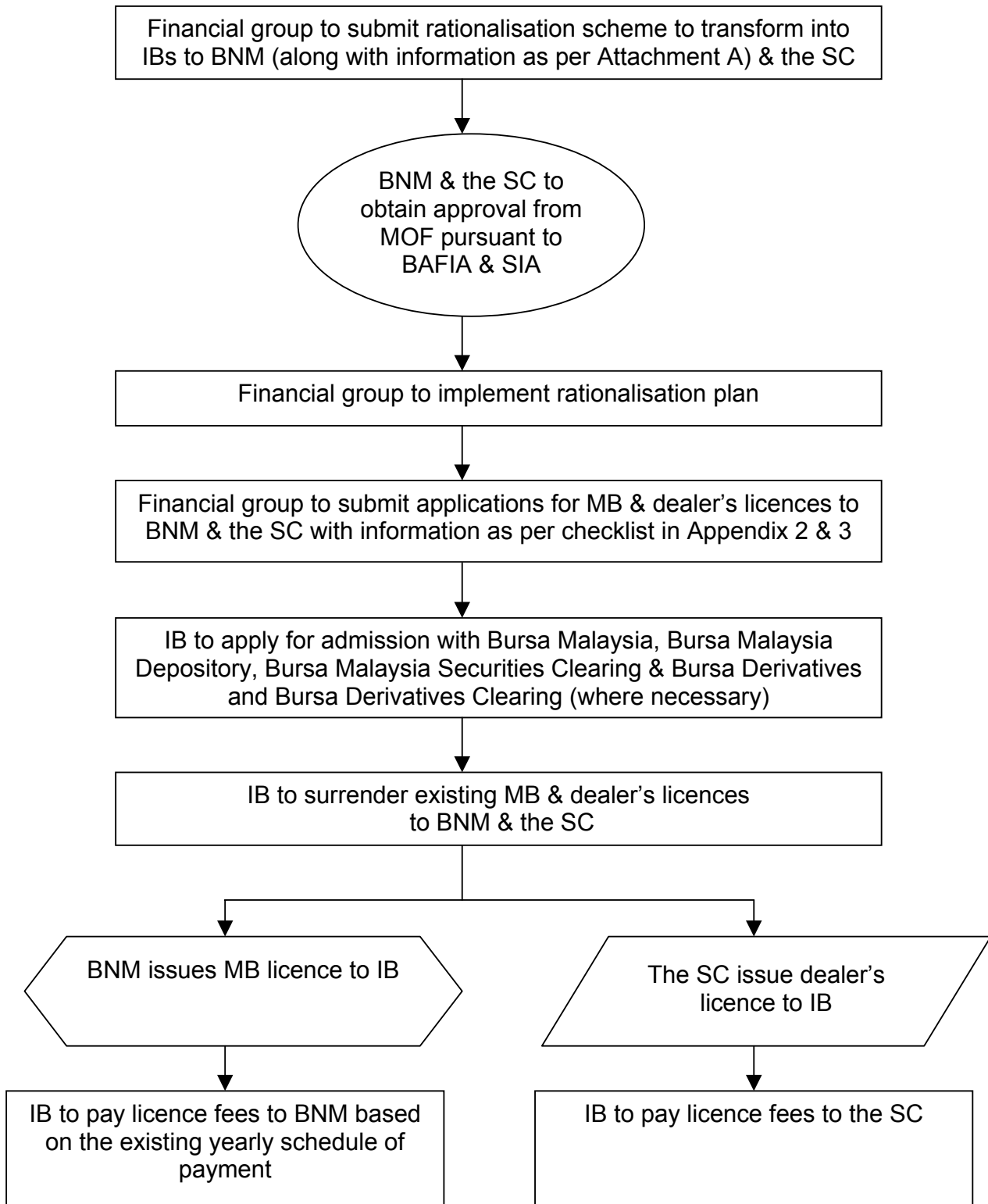
BNM and the SC before any action is taken against an investment bank or its senior personnel pertaining to matters that can pose a material adverse impact on the safety and soundness of the investment bank and the financial system as a whole.

- 9.2 As participants of Bursa Malaysia and other market institutions, investment banks will be subject to actions by the relevant market institutions for breach of its rules.
- 9.3 BNM and the SC will also retain their powers under banking and securities laws to conduct investigations on investment banks, either jointly or individually, depending on the subject matter to be investigated.

**10.0 Approval of financial statements and information submission**

- 10.1 Investment banks are required to submit statistical information to BNM through the Financial Institutions Statistical System (FISS). Where necessary, investment banks shall also submit and disclose information requested by the SC, Bursa Malaysia and the relevant market institutions to enable them to carry out their duties and functions. BNM and the SC will issue further guidelines on the information submission requirements in due course.
- 10.2 BNM will approve the financial statements of investment banks pursuant to Section 41 of BAFIA. Upon approval of the financial statements, investment banks are required to lodge four copies of their financial statements with BNM and two copies with the SC.

**Licensing Process for Investment Banks**



**Checklist on Information Submission to Bank Negara Malaysia on Rationalisation Scheme pursuant to Section 45, 46 and 49 of BAFIA**

1. Details on parties involved in the rationalisation scheme
  - Acquiror and acquirees
2. Change of name of investment bank (proposed name)
3. Proposed merger date(s) of the merchant bank, stockbroking company and discount house, as well as futures company (where applicable)
4. Estimated capital of the investment bank
5. Source of funding for the merger (either by internal funds or borrowing), where relevant. If via borrowing, the leverage ratio of the financing entity must be provided
6. Transfer pricing for the assets and liabilities transferred from one entity to the other
7. Financial impact on the investment bank
  - Risk weighted capital position before and after the merger
8. Corporate profile of the investment bank
  - Shareholding structure and list of persons having deemed interest of more than 5% in the shares of the investment bank
    - Note: Please provide similar information for corporate shareholders right up to the ultimate individual shareholders if have deemed interest of more than 5% in the shares of the investment bank

| <b>Shareholding structure of .....</b> |                      |               |
|--|----------------------|---------------|
| <b>As at ..... (latest)</b>            |                      |               |
| <b>Name</b>                            | <b>No. of shares</b> | <b>%</b>      |
|  |                      |               |
|  |                      |               |
|  |                      |               |
|  |                      |               |
| <b>Total</b>                           |                      | <b>100.00</b> |

9. Group structure of the investment bank
10. Level of foreign equity participation, if any and details on the foreign shareholder
11. Level of Bumiputera equity participation
12. Operational impact on systems

**Checklist on Information Submission to Bank Negara Malaysia  
on Application for Merchant Banking Licence**

1. Change in name of investment bank
2. Approval from the Board of Directors of merchant bank, stockbroking company and discount house, as well as futures company (where applicable) for merger
3. Approval from shareholders of merchant bank, stockbroking company and discount house, as well as futures company (where applicable) for merger
4. Change in proposed merger date(s) of merchant bank, stockbroking company and discount house, as well as futures company (where applicable), if any
5. Change in the Memorandum & Articles of Association, if any
6. Confirmation on the corporate profile of the investment bank
  - Details of board members and senior management (names/qualification/working experience)
  - Confirmation of the shareholding structure and list of persons having deemed interest of more than 5% in the shares of the investment bank as a result of the merger as per format below
    - Note: Please provide similar information for corporate shareholders right up to the ultimate individual shareholders if have deemed interest of more than 5% in the shares of the investment bank

| <b>Shareholding structure of .....</b> |                      |               |
|--|----------------------|---------------|
| <b>As at ..... (latest)</b>            |                      |               |
| <b>Name</b>                            | <b>No. of shares</b> | <b>%</b>      |
|  |                      |               |
|  |                      |               |
|  |                      |               |
|  |                      |               |
| <b>Total</b>                           |                      | <b>100.00</b> |

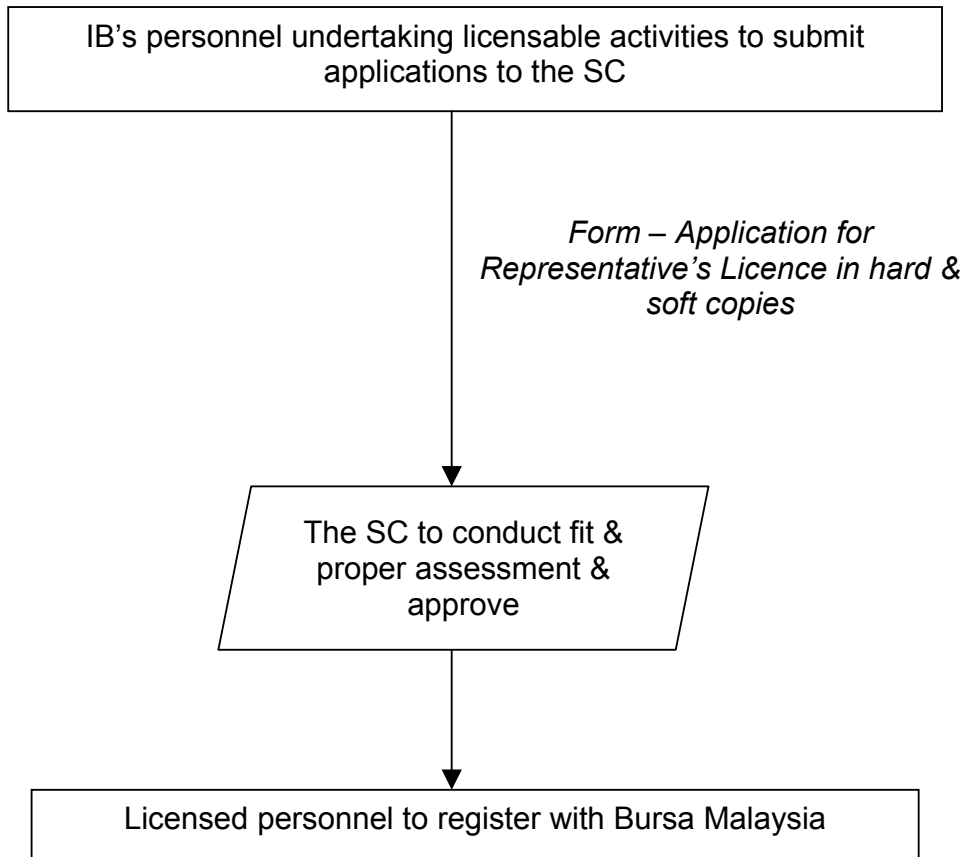
7. Branch rationalisation plan that includes:
  - Opening, relocation or closing of branches (including the branches of the stockbroking company); and
  - Related matters such as staffing issues, voluntary separation scheme (if any), union matters.
8. Preliminary business plan for the investment bank
9. Plan for subsidiary/ies for the investment bank (where applicable)
10. Possible non-compliance with Section 61, Section 62 or other relevant sections of the BAFIA, as the case may be
11. Indication of whether the entities that are absorbed into the investment bank would retain their titles pursuant to Section 15 of the Banking and Financial Institutions Act 1989 for a specified timeframe, where relevant.



**Checklist on Information Submission to the Securities Commission  
on Application for Dealer's Licence**

1. Application for New Company Licence and processing fee of RM50
2. Detailed description of the:
  - Management and organisation structure;
  - Reporting principles and procedures;
  - Internal audit procedures;
  - Procedures for compliances with securities laws, where applicable; and
  - Risk management policies that has been adopted or proposed to be adopted
3. Details of any associates of the investment bank which are or were involved in any activities related to trading in securities/futures contract or carrying on a fund management business or advise business in Malaysia or elsewhere
4. An organisation chart showing details as provided in the "Shareholder's Detail" section of the application form for new company licence
5. Memorandum and Articles of Association
6. Form 9 of the Companies Act 1965
7. Forms 24, 44 and 49 of the Companies Act 1965 that has been duly certified by the Registrar of Companies
8. Form 13 of the Companies Act 1965 (if applicable)
9. Form 32A of the Companies Act 1965 (if applicable)
10. Latest audited financial statements
11. Director's report on the financial standing, affairs, current assets and contingent liabilities of the investment bank for the period between the date of last account and a date no earlier than fourteen (14) days before the date of the application
12. List of employees and confirmation of Bumiputera employees
13. Profile and organisational structure of the investment bank (2 copies)
  - Related, subsidiary, associate and holding companies, with the percentage of shareholding in each category
14. Operational and Compliance Manual (2 copies) for the stockbroking and corporate finance business of the investment bank
15. Detailed layout plan of the business premises (2 copies) including branches
16. Approval in principle from Bursa Malaysia Securities Sdn Bhd to be a Participating Organisation
17. Application for new company licence that is completed by all Principal Officers, with following documents for each of the investment bank's directors, company secretaries and heads of compliance, trading, operations and corporate finance:
  - A copy of the Principal Officer's new identity card (for Malaysian citizens) or passport (for Non-Malaysian citizens)
  - A copy of the Principal Officer's recent passport-sized coloured photograph; and
  - A copy of the Principal Officer's relevant academic certificates
18. Registration for Compliance Officer
  - A copy of the Compliance Officer's new identity card (for Malaysian citizens) or passport (for Non-Malaysian citizens)
  - A copy of the Compliance Officer's recent passport –sized coloured photograph; and
  - A copy of the Compliance Officer's relevant academic certificates
19. Application for representative's licence, where necessary

**Application process for Licensing Process for Dealer's Representatives of Investment Banks**



## **Appendix 5**

### **Checklist on Information Submission to the Securities Commission on Application for Representative Licence**

1. Application for Representative's Licence and processing fee of RM50
2. A copy of the applicant's new identity card (for Malaysian citizens) or passport (for Non-Malaysian citizens)
3. A copy of the applicant's recent passport-sized coloured photograph
4. A copy of the applicant's relevant academic certificates
5. Details of securities sold/purchased by the applicant for his own account during the last 12 months immediately preceding the date of application
6. A copy relevant examination results
7. Work permit (for Non-Malaysian citizens)

## THE CAPITAL ADEQUACY FRAMEWORK AND THE NEW LIQUIDITY FRAMEWORK FOR INVESTMENT BANKS

### 1.0 Capital Adequacy Requirements

- 1.1 The capital adequacy requirement for the investment bank shall be measured using the Risk Weighted Capital Ratio (RWCR) which is computed based on the following formula:

$$\text{RWCR} = \frac{\text{Capital Base}}{\text{Total Risk Weighted Assets (RWA)}}$$

where,

**Total RWA**

**= Credit RWA**

**+ Market RWA**

**+ Counterparty Risk Requirements RWA for Unsettled Trades and Free Deliveries (*arising from brokerage activities*)**

**+ Large Exposure Risk Requirements RWA for Equity Business**

- 1.2 Every investment bank shall ensure that its RWCR is maintained above the minimum 8% level at all times or any other minimum level as may be specified by BNM.

### 2.0 Capital Base

- 2.1 The definition of the investment banks' Capital Base is as per the circular entitled "*Capital Adequacy Requirements – Risk Weighted Capital Ratio*" (RWCR Framework) dated 4 August 1989 issued by BNM and all other amendments issued by BNM from time to time.

- 2.2 The components of the capital base are as follows:

#### Tier 1 Capital

- 2.2.1 Ordinary share capital
- 2.2.2 Share premium
- 2.2.3 Statutory reserve fund
- 2.2.4 General reserve fund
- 2.2.5 Retained profit/ (Accumulated losses)
- 2.2.6 Approved half-yearly profit/ (loss)
- 2.2.7 Current unaudited unadjusted loss
- 2.2.8 Prior year's profit/(loss)
- 2.2.9 Non-cumulative perpetual preference shares
- 2.2.10 Current surplus/ loss from sale of fixed and long term assets
- 2.2.11 Less: Goodwill
- 2.2.12 ADD Maximum Allowable Innovative Tier 1 capital<sup>1</sup>

<sup>1</sup> Limited to 15% of total Tier 1 capital (net of goodwill) as calculated per BNM's circular entitled "Innovative Tier 1 Capital Instruments" which was issued on 24 December 2004.

ADD Tier 2 Capital

- 2.2.13 Property revaluation reserve
- 2.2.14 Cumulative preference shares
- 2.2.15 Approved hybrid debt capital securities issued
- 2.2.16 General provision for bad and debts
- 2.2.17 Maximum allowable subordinated debt capital

(LESS) Investments

- 2.2.18 Investments in subsidiaries
- 2.2.19 Investments in capital instruments of other licensed financial institutions<sup>2</sup>

**3.0 Measurement of Risk Weighted Assets/Capital Charges**

3.1 Under the Investment Bank Capital Adequacy Framework (IBCAF), the calculation of the risk weighted assets for the four risk elements shall be as follows:

**3.1.1 Credit Risk**

3.1.1.1 The computation of the credit risk weighted assets ("Credit RWA") shall be based on the RWCR Framework and all other relevant amendments issued by BNM from time to time. (The computation of credit risk weighted assets for contra losses and margin accounts shall follow the RWCR framework. The outstanding amount for the computation of RWA is net of specific provisions.<sup>3</sup>)

**3.1.2 Market Risk**

3.1.2.1 For market risk, the capital charges will be computed using the standardised methodology as per the circular entitled "*Market Risk Capital Adequacy Framework: Incorporation of Market Risk into the RWCR*" (MRCAF) issued by BNM on 17 September 2004 and all subsequent amendments which may be issued by BNM from time to time. The capital charges will be multiplied by a factor of 12.5 to arrive at a risk-weighted asset equivalent for market risk ("Market RWA").

3.1.2.2 Financial instruments held in the trading book as defined in the MRCAF will be subjected to market risk capital requirements as per the framework. Conversely, positions held in the banking book will be subjected to credit risk capital requirements as specified in the RWCR framework. In addition, equity-related financial instruments in the trading book may also incur additional capital requirements as described in the section on "Large Exposure Risk Requirements".

**3.1.3 Counterparty Risk Requirements**

3.1.3.1 An investment bank shall be subjected to counterparty risk requirements (CRR) for unsettled trades<sup>4</sup> and free deliveries with respect to its equity business. The CRR will be measured as follows:

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<sup>2</sup> Subject to BNM's circular entitled "Capital Treatment on Holdings of Other Financial Institutions' Capital Instruments" which was issued on 2 July 2004.

<sup>3</sup> The framework for the computation of specific provisions for contra losses, overdue purchase contracts and margin accounts shall be issued by BNM in due course.

<sup>4</sup> An unsettled agency purchase/sale or an unsettled principal sale/purchase.

**Agency Trade Transactions**

|                          | <b>Time Period</b> | <b>Counterparty Risk Requirement (CRR)</b>   |
|--------------------------|--------------------|--|
| <b>Sales contract</b>    | Day, T to T+2      | CRR = 0  |
|                          | T+3 to T+30        | <ul style="list-style-type: none"> <li>• CRR = 8% of market value (MV) of contract X Counterparty Risk Weight, if <i>current MV of contract &gt; transaction value of contract</i></li> <li>• CRR = 0, if <i>current MV of contract ≤ transaction value of contract</i></li> </ul> |
|                          | Beyond T+30        | <ul style="list-style-type: none"> <li>• CRR = MV of contract X Counterparty Risk Weight, if <i>current MV of contract &gt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract ≤ transaction value of contract</i></li> </ul>                              |
| <b>Purchase contract</b> | Day, T to T+3      | CRR = 0  |
|                          | T+4 to T+30        | <ul style="list-style-type: none"> <li>• CRR = 8% of MV of contract X Counterparty Risk Weight, if <i>MV of contract &lt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract ≥ transaction value of contract</i></li> </ul>                                |
|                          | Beyond T+30        | <ul style="list-style-type: none"> <li>• CRR = MV of contract X Counterparty Risk Weight, if <i>MV of contract &lt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract ≥ transaction value of contract</i></li> </ul>                                      |

**Principal Trade Transactions**

|                          | <b>Time Period</b> | <b>Counterparty Risk Requirement (CRR)</b>  |
|--------------------------|--------------------|---|
| <b>Sales contract</b>    | Day, T to T+3      | CRR = 0   |
|                          | T+4 to T+30        | <ul style="list-style-type: none"> <li>• CRR = 8% of MV of contract X Counterparty Risk Weight, if <i>MV of contract &lt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract ≥ transaction value of contract</i></li> </ul> |
|                          | Beyond T+30        | <ul style="list-style-type: none"> <li>• CRR = MV of contract X Counterparty Risk Weight, if <i>MV of contract &lt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract ≥ transaction value of contract</i></li> </ul>       |
| <b>Purchase contract</b> | Day, T to T+3      | CRR = 0   |
|                          | T+4 to T+30        | <ul style="list-style-type: none"> <li>• CRR = 8% of MV of contract X Counterparty</li> </ul>   |

|  |             |  |
|--|-------------|--|
|  |             | <p>Risk Weight, if <i>MV of contract &gt; transaction value of contract</i></p> <ul style="list-style-type: none"> <li>• CRR = 0, if <i>MV of contract &lt;= transaction value of contract</i></li> </ul>  |
|  | Beyond T+30 | <ul style="list-style-type: none"> <li>• CRR = <i>MV of contract X Counterparty Risk Weight</i>, if <i>MV of contract &gt; transaction value of contract</i></li> <li>• CRR = 0, if <i>MV of contract &lt;= transaction value of contract</i></li> </ul> |

### Free Deliveries<sup>5</sup>

|  | Time Period                | Counterparty Risk Requirement (CRR)                                  |
|--|----------------------------|--|
|  | Day, D <sup>6</sup> to D+1 | CRR = 8% of Transaction value of contract X Counterparty Risk Weight |
|  | Beyond D+1                 | CRR = Transaction value of contract                                  |

3.1.3.2 The CRR will be multiplied by a factor of 12.5, to arrive at the CRR Risk Weighted Assets (“CRR RWA”).

### 3.1.4 Large Exposure Risk Requirements

3.1.4.1 An investment bank shall compute its’ Large Exposure Risk Requirement (LERR) in relation to:

3.1.4.1.1 its exposure to a single counterparty<sup>7</sup> arising from unsettled trades and free deliveries; and

3.1.4.1.2 its direct exposure to a single equity for all amounts arising in the normal course of trading in equity securities.

3.1.4.2 The LERR to a single counterparty would be imposed on an ongoing basis on exposures to a single counterparty arising from unsettled trades and free deliveries that are greater than 10% of the investment

<sup>5</sup> Where an investment bank delivers equities without receiving payment, or pays for equities without receiving the equities.

<sup>6</sup> Due date where the investment bank delivers equities without receiving payment shall be the date of such delivery, and where the investment bank pays for equities without receiving the equities, shall be the date of such payment.

<sup>7</sup> A single counterparty includes:

i) Where a counterparty is an individual, the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all companies/corporations which the individual exercise control. For purposes of this framework, an individual is deemed to exercise ‘control’ over a company/corporation if the individual or the individual’s spouse, severally or jointly:

a. Holds, directly or indirectly, more than 50% of the shares of the corporation,

b. Has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or

c. Has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.

ii) Where a counterparty is a company or corporation, the company or corporation, its related company or corporation and its associated companies.

bank's capital base. The LERR capital charge is equivalent to the corresponding counterparty risk requirement (CRR) calculated as per Paragraph 3.1.3.

3.1.4.3 The LERR for a single equity capital charge will be imposed on an ongoing basis if an exposure to a single equity is greater than either the lower of 15% of the investment bank's capital base or 10% of the issuer's paid-up capital. An exposure to a single equity<sup>8</sup> shall be computed by including the market value of the equity from the following positions:

3.1.4.3.1 The investment banks' own proprietary equity positions; and

3.1.4.3.2 Net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or Immediate Basis Contract, to the extent that it has not been paid for on and subsequent to the due settlement date.

3.1.4.4 The LERR for a single equity will be applied on the amount in excess of the threshold defined in Paragraph 3.1.4.3. The capital charge is determined by multiplying the market value of the equity position in excess of the defined threshold, with the sum of the corresponding general and specific risk weights as per the MRCAF.

3.1.4.5 The LERR capital charges for a single counterparty and single equity as computed under Paragraphs 3.1.4.2 and 3.1.4.4 respectively shall be multiplied by a factor of 12.5 to arrive at a risk-weighted asset equivalent.

#### **4.0 Collateral management**

4.1 All investment banks must ensure that there are robust policies and procedures in place to measure, manage and control the risks emanating from the collateral pledged by clients of the investment bank. The coverage of these policies and procedures shall include but should not be confined to:

- The assessment on the appropriateness of collateral accepted from clients;
- Ensuring the legal certainty of the collateral;
- The recovery process of the collateral;
- The valuation process of the collateral pledged; and
- The monitoring of the investment banks' exposure and the risks that may arise from the collateral accepted, particularly relating to concentration risk.

4.2 All investment banks shall also ensure that robust risk management systems are in place to effectively monitor the collateral pledged by the clients.

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<sup>8</sup> Shall also include an equity OTC option or equity warrant that is in the money at its full underlying value.



**5.0 Investment in Share Limit**

- 5.1 The 5% investment in shares limit as per the circular entitled '*Investment in Shares and Interest in Shares*' dated 28 January 2000 issued by BNM shall no longer be applicable. However, in aggregate, the investment banks' holdings of shares on an overall basis shall not exceed 25% of the investment banks paid-up capital and published reserves.
- 5.2 Shares acquired by the investment bank as a result of an underwriting commitment shall not be included in the overall limit but have to be disposed of within 12 months or such longer period as BNM may allow.
- 5.3 While limits on holdings of shares to an individual counter are no longer applied, the investment bank should set and observe their own internal limits to ensure that the bank is not overly exposed to shares of a single company.

**6.0 Reporting Requirements**

- 6.1 All investment banks shall be required to report to BNM the following:
- 6.1.1 The overall RWCR on a monthly basis; and
  - 6.1.2 Any other reports that may be specified by BNM from time to time.

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## 7.0 Liquidity Framework

- 7.1 All investment banks shall be required to comply with the liquidity framework as per BNM's circular entitled "*Rangka Kerja Mudah Tunai Baru*" dated 1 July 1998 and all relevant amendments to the framework as and when issued by BNM.
- 7.2 Reflective of the short-term nature of equity business to be conducted by investment banks, the liquidity framework for investment banks shall incorporate an up to three-day maturity bucket to cater for short-term cash flows particularly associated with the brokerage activities of investment banks. As a result, the up-to one-month maturity bucket in the current liquidity framework is now amended to reflect a four-days up-to one-month bucket.
- 7.3 All cash inflows and outflows arising from brokerage activities shall be clearly and separately identified and reported in the framework. All behavioural assumptions used in cash flow projections for the brokerage activities must be approved by BNM. Investment banks may also be required to apply supervisory haircuts to the value of their future expected cash in-flows. The haircuts may be determined based on the historical experience and possibilities of stress scenarios involving equity business.
- 7.4 In recognition of the liquid nature of equities, investment banks are also allowed to classify Main Board equities held in its proprietary book (that are subject to daily mark-to-market) as liquefiable assets subject to a haircut of 30% or at the fair value of the equity, whichever is lower.

## 8.0 Compliance and Reporting Requirements

- 8.1 All investment banks shall:
- 8.1.1 maintain at all times, a net cumulative cashflow surplus in the up-to three-days maturity bucket of 3% of the investment banks' total outstanding deposits<sup>9</sup> (excluding repos); and
  - 8.1.2 maintain at all times, a net cumulative cashflow surplus in the four-days up-to one month maturity bucket of 5% of the investment banks' total outstanding deposits (excluding repos); and
  - 8.1.3 comply with reporting requirements pertaining to the liquidity framework as specified by BNM.

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<sup>9</sup> As defined per BNM's New Liquidity Framework currently applicable to merchant banks.