



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Framework for Electronic Trading Platforms Exposure Draft

Applicable to the following market participants in the wholesale financial markets:

1. Approved money brokers operating electronic broking platforms
2. Operators of electronic trading platforms

This Exposure Draft sets out the Bank's requirements and expectations on market participants who offer services of electronic trading platforms within the Malaysian wholesale financial markets, specifically money and foreign exchange markets. For illustration, money market instruments refer to products such as negotiable instruments of deposit, bills, bankers acceptance and repurchase agreements. Foreign exchange products include spot, forward, swaps and derivatives thereof of all currency pairs.

Electronic trading platforms covered under this Exposure Draft include multi-bank channels, and excludes single-bank platforms. Specifically –

- (a) approved money brokers which operate electronic broking platforms; and
- (b) other market participants which operate electronic trading platforms, whether or not any form of remuneration, fee, commission or subscription is chargeable.

Eligible platform operators are required to obtain the Bank's approval prior to offering their services in Malaysia. Platform operators that wish to offer electronic trading services for securities and instruments other than those specified in this Exposure Draft, are required to ascertain and obtain the necessary approvals from relevant authorities where applicable.

Submission of feedback –

- (a) The Bank invites written feedback on the proposed policy framework in this Exposure Draft, including suggestions on areas to be clarified and alternative proposals that the Bank should consider. The written feedback should be constructive and supported with clear rationale, including accompanying evidence, empirical analysis or illustrations where appropriate; and
- (b) In addition to providing general feedback, market participants are requested to respond to specific questions set out throughout this Exposure Draft.

Responses must be submitted to the Bank by 15 July 2019 to:

Pengarah
Jabatan Operasi Pelaburan & Pasaran Kewangan
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Email: fmd@bnm.gov.my

Electronic submission is encouraged. Feedback received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

In the course of providing your feedback, you may direct any queries to, or seek clarification through email from, fmd@bnm.gov.my or contact the following officers at 03-26988044 ext. number 7462 -

1. Shahredza Minhat;
2. Reza Baharin;
3. Kong Ei-Jean; or
4. Shafiq Roslan.

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PART A OVERVIEW

1 Introduction

- 1.1 In recent years, the use of technology within the wholesale financial markets space has increased in prominence. Over time, the increase in technology adoption across other financial markets have seen to provide positive value proposition to the intermediation and price discovery process within the wholesale financial markets space.
- 1.2 Automated systems are often location neutral, and its facilities allow for cross-border, multilateral transactions. A centralised trading venue has also been observed to increase connectivity and its potential to generate large economies of scale accords opportunities for cost efficiency and transparency. The design of automated systems often varies and evolves at a rapid pace, allowing for wider outreach among wholesale market participants.
- 1.3 The proliferation of operators of automated systems of electronic trading platforms from amongst market participants offering innovative solutions significantly underscores the importance of instituting risk management processes, given that the various dimensions of risk often occur on an ex-post basis, rendering the integrity of the service provider to be of utmost priority.
- 1.4 Against the backdrop of increased electronification within the wholesale financial markets and in order to maintain the orderly condition and integrity of the financial market, it is critical that only operators of electronic trading platforms which have adequate operational and governance capacity are allowed to offer their services to the Malaysian onshore market participants. Based on the Code of Conduct for Malaysia Wholesale Financial Markets, market participants in the money and foreign exchange markets are allowed to offer such services only upon being duly approved by the Bank.
- 1.5 This policy document sets out the approval requirements on platform operators to be eligible to provide their services on electronic trading platforms in the wholesale financial markets in Malaysia and the internal control requirements applicable on approved platform operators to safeguard the system integrity and data confidentiality of such platforms. In addition, this policy document imposes requirements on approved platform operators to put in place or maintain appropriate internal governance, policies and procedures in providing their services.
- 1.6 For avoidance of doubt, the prohibition on carrying on prohibited conducts as set out in section 141 of the Financial Services Act 2013 (FSA) and section 153 of the Islamic Financial Services Act 2013 (IFSA) are applicable to approved platform operators under this policy document in carrying out their activities.

2 Applicability

- 2.1 This policy document is applicable to approved platform operators as defined in paragraph 5.2.
- 2.2 For avoidance of doubt, this policy document will not apply to –
- i. non-money and/or non-foreign exchange product transactions carried out by operators of recognised markets under the Capital Markets and Services Act 2007 (CMSA);
 - ii. any stock market of an approved stock exchange, or facilities offered by an approved stock exchange; or
 - iii. a proprietary single-bank platform offered solely for bilateral transactions for money and/or foreign exchange market instruments.

3 Legal provisions

- 3.1 The requirements in this policy document are specified pursuant to sections 140 and 143 of the FSA, and sections 152 and 155 of the IFSA.
- 3.2 The guidance in this policy document is issued pursuant to section 266 of the FSA and section 277 of the IFSA.

4 Effective date

- 4.1 This policy document comes into effect on [date of publication of final policy document].

5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA and IFSA, unless otherwise defined in this policy document.
- 5.2 For the purpose of this policy document –

“**S**” denotes a standard, obligation, requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

“**approved platform operators**” means a market participant approved by the Bank under paragraph 8.4 to operate an electronic trading platform in the wholesale financial market;

“electronic trading platform” means any facility, system, trading venue, marketplace or organisation through which market participants¹ are able to execute binding transactions electronically based on established methods and standard market conventions and includes an electronic broking platform;

“platform operators” refers to–

- (a) approved money brokers which operate electronic broking platforms; and
- (b) other market participants which operate electronic trading platforms, whether or not any form of remuneration, fee, commission or subscription is chargeable;

“Management” refers to the Chief Executive Officer (CEO) and senior officers of the approved platform operators;

“users” in relation to an electronic trading platform, means market participants utilising the services offered by an approved platform operator.

Question 1

Is there any particular term in the Exposure Draft which requires further clarity in the Interpretation section?

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together² with other relevant legal instruments and policy documents that have been issued by the Bank, in particular –
- (i) Policy Document on the Code of Conduct for Malaysia Wholesale Financial Markets issued on 13 April 2017; and
 - (ii) Policy Document on Fit and Proper Criteria for Approved Person issued on 24 December 2018.³

7 Policy documents and circulars superseded

- 7.1 This policy document supersedes the Guidelines on Electronic Broking System by Licensed Money Brokers issued on 1 August 2005.

¹ As defined under the section 2 of FSA 2013, “market participant” means any person who (a) issues, sells, purchases, repurchases, borrow, lends or otherwise deals with currencies or other financial instruments traded in the money market or foreign exchange market including over-the-counter derivatives whose price, value or payment obligations are derived from, referenced to or based on interest rates or exchange rates; or (b) arranges transactions in the money market or foreign exchange market as an intermediary.

² For the purpose of managing technology risk, platform operators is also encouraged to be familiarised with the Exposure Draft on Risk Management in Technology issued on 4 September 2018.

³ This is only applicable to approved money brokers which operate electronic broking platforms.

PART B POLICY REQUIREMENTS

8 Approval requirements

- S** 8.1 A market participant who operates an electronic trading platform must obtain the Bank's prior written approval.
- S** 8.2 Given that there are different approval processes applicable to different types of services which may be offered by a market participant, prior to submitting an application for the purpose of paragraph 8.1, an applicant must first enquire with Jabatan Operasi Pelaburan & Pasaran Kewangan via e-mail at fmd@bnm.gov.my on the appropriate approval process to be undertaken.
- S** 8.3 An application for approval under paragraph 8.1 must be submitted in writing to the Bank together with the following documents:
- (i) details of the applicant, the type of the electronic trading platform, including the main characteristics, features, functionalities and capabilities of such platform and its *modus operandi*;
 - (ii) details of the applicant's Board of Directors (the Board), Management and business structure;
 - (iii) personal particulars of the applicant's chairman, directors and CEO;
 - (iv) a statutory declaration by each of the directors including the chairman declaring that they meet the fit and proper criteria;
 - (v) a statutory declaration by the CEO declaring that the CEO meets the fit and proper criteria⁴;
 - (vi) a copy of the applicant's latest audited financial statements;
 - (vii) details of the internal verification and due diligence conducted for the purpose of paragraph 8.8(a);
 - (viii) an independent external audit report on the electronic trading platform made for the purpose of paragraph 8.8(b);
 - (ix) a feasible business plan;
 - (x) if applicable, details of cloud services to be used by the applicant and whether its data centre infrastructure complies with any relevant international standards; and
 - (xi) any other information as may be required by the Bank.
- S** 8.4 Upon making an assessment of the application submitted under paragraph 8.1-
- (a) the Bank may approve such application for a period of three (3) years, with or without conditions or reject the application; and
 - (b) the Bank will notify the applicant of its decision in writing under paragraph 8.4(a).
- S** 8.5 Where the Bank approves an application under paragraph 8.4, the approved platform operator shall commence its operations within a period as may be specified by the Bank in the approval letter.

⁴ For purposes of paragraphs 8.3(iv) and (v), applicants may refer to the Policy Document on Fit and Proper Criteria for Approved Person issued by the Bank on 24 December 2018, or any other internationally accepted fit and proper criteria. In the case of approved money brokers, reference must be made to the Policy Document on Fit and Proper Criteria for Approved Person.

Renewal of approval

- S** 8.6 An application for a renewal of the approval granted under paragraph 8.4 shall be submitted to the Bank in writing at least ninety (90) days before the expiry of the approval period.
- S** 8.7 Upon making an assessment of the application for renewal submitted under paragraph 8.6 –
- (a) the Bank may approve such application for a period of three (3) years, with or without conditions or reject the application; and
 - (b) the Bank will notify the applicant of its decision in writing under paragraph 8.7(a).

Independent Audit Review

- S** 8.8 Prior to submitting an application under paragraph 8.1, the applicant is required to ensure that–
- (a) a competent and operationally independent internal audit team has verified the effectiveness of the procedures and controls for the operations of the electronic trading platform; and
 - (b) an independent external auditor has conducted due diligence on the electronic trading platform to ensure that all relevant regulatory requirements as specified in this policy document have been met.
- S** 8.9 An approved platform operator must submit to the Bank a report based on a post implementation review conducted by an independent external auditor within three (3) months from the date of the effective implementation of the electronic trading platform.

9 Scope of activities

- G** 9.1 Subject to paragraph 9.2, an approved platform operator may offer additional services (e.g. other ancillary facilities and services) in addition to trading execution on the electronic trading platform when there is demand by users.
- S** 9.2 Where an approved platform operator intends to offer additional services under paragraph 9.1, it shall notify the Bank in writing prior to offering such additional services.⁵

Question 2

Should this Exposure Draft provide clarification on algorithmic trading and high frequency trading? Please provide your justification.

- S** 9.3 An approved platform operator shall identify and manage any actual and potential conflict of interest situation arising from its services. For such purpose, the approved platform operator shall not act in the capacity of a principal⁶ and undertake any transaction with, or on behalf of a user of its platform as an agent.

Question 3

The Bank seeks to confirm the understanding of readers of this Exposure Draft that ‘users of the platform’ would imply non-retail institutions, and excludes retail (individual) accounts.

⁵ For avoidance of doubt, all related activities in addition to those approved under this policy should also be guided by the requirements under the Policy Document on Outsourcing issued on 28 December 2018 or other relevant requirements by the Bank, where applicable.

⁶ “Principal” refers to a market participant who transacts for its own account and not acting as an agent.

PART C OPERATIONAL REQUIREMENTS

10 Due Diligence

- S** 10.1 An approved platform operator shall establish and implement effective policies on due diligence on prospective users prior to their onboarding.
- S** 10.2 An approved platform operator must perform adequate due diligence on each application by a market participant to become a user of the electronic trading platform and ensure that such market participant fulfils all requirements to be eligible to access such platform.
- S** 10.3 Prior to onboarding, an approved platform operator must notify prospective users, particularly those that are non-financial institutions or new to accessing or using electronic trading platforms, the relevant obligations and prevailing rules and regulations, trading conventions and relevant requirements within the Malaysian wholesale financial markets.

Question 4

Should corporate dealers be subject to the same Persatuan Pasaran Kewangan Malaysia (PPKM) exam requirements? Please state the rationale.

- G** 10.4 An approved platform operator may institute internal processes to facilitate the prompt reporting of suspicious activities⁷ to the relevant enforcement agencies. For instance, training may be provided to the relevant personnel to be aware of money laundering and terrorism financing (ML/TF) threats or transactions, upon conducting due diligence and throughout the relationship with its users.
- S** 10.5 An approved platform operator which is also an approved money broker must at all times comply with applicable suspicious reporting requirements imposed under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001.

⁷ Principal 37 of the FX Global Code issued by the Foreign Exchange Working Group (updated as at August 2018) which states-

Market Participants should have internal processes in place to facilitate the prompt reporting of suspicious activities (for example, to the compliance officer or appropriate public authority, as necessary). Effective training should be provided for relevant personnel to raise awareness of the serious nature of these activities, and reporting obligations, while not revealing their suspicions to the entity or individual suspected of illegal activities. Such training should be regularly updated to keep pace with the rapidly changing methods of money laundering.

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11 Onboarding and pre-disclosures requirements

- S** 11.1 An approved platform operator shall establish, maintain and publish proper rules, criteria and procedures for usage of its electronic trading platform.
- S** 11.2 To promote legitimate access and safeguard the integrity of the systems of the electronic trading platform, the set of rules, criteria and procedures referred to in paragraph 11.1 must contribute towards fair, orderly and transparent use of the electronic trading platform and at minimum, must include the following –
- (i) transparent criteria for determining financial instruments that can be traded on the platforms;
 - (ii) non-discriminatory rules for determining access to the platforms;
 - (iii) rules to ensure fair and orderly trading on the platforms;
 - (iv) rules to facilitate efficient settlement of transactions concluded through the platforms;
 - (v) business continuity plan in the event of system malfunction or the handling of trading errors; and
 - (vi) mechanisms for resolution of trade disputes.

12 IT security and protection

- S** 12.1 An approved platform operator must establish and implement information technology (IT) security and protection policies for the purposes of the operations of the electronic trading platform.
- S** 12.2 Such policies should form part of the approved platform operator's standard operating procedures, which outline the technical, logical and administrative controls with regard to system protection. These procedures are expected to be robust and comprehensive and is subject to regular review by the Management and Board of the approved platform operator.
- S** 12.3 In upholding principles that reflect confidentiality, integrity and availability, an approved platform operator must establish an effective access control policy and relevant restrictions to manage the risk of unauthorised access to the electronic trading platform. For example, the use of encryption and other security controls can be utilised to achieve IT security and protection objectives.
- S** 12.4 Approved platform operators engaging in other business segments (e.g. news portal) shall establish controls to prevent unauthorised leakage of information which may lead to abuse of data.
- S** 12.5 Approved platform operators shall not, at any time, engage in or attempt to, engage in the business of commoditisation of market data, for both internal and external data.

13 Record keeping

- S** 13.1 An approved platform operator must establish and implement policies and procedures for record keeping which at minimum shall include the following –
- (i) data and transaction details executed on the electronic trading platform;
 - (ii) system properties;
 - (iii) system testing methodologies; and
 - (iv) system test results.
- S** 13.2 The records shall contain reasonable level of granularity and details and must be kept up to a period of seven (7) years and shall be made available to the Bank for monitoring purposes at all times.

Question 5

Is the seven-year period reasonable? Please provide justification of a reasonable time-frame for this requirement.

14 Cloud services

- G** 14.1 Cloud storage is a cloud computing model in which data is stored on remote servers accessible from the internet. Cloud storage provides users with virtual storage architecture that is scalable according to their requirements.
- S** 14.2 In the event that an approved platform operator intends to use cloud services to warehouse its data, it shall conduct a risk assessment prior to using cloud services which must include consideration of how risks associated with cloud usage (e.g. contagion, concentration, business continuity, cyber security, data accessibility risks) can be effectively managed.
- S** 14.3 Prior to obtaining approval to operate in Malaysia, the Bank will review the usage of cloud services by the approved platform operator.

Question 6

Currently, are there any standards for data centre infrastructure adopted or adhered to as part of your platform operations?

15 Business continuity plan

- S** 15.1 Business continuity is important as it reflects the ability of an approved platform operator to maintain essential functions during and after disaster recovery. An approved platform operator shall establish and implement business continuity arrangements in relation to its electronic trading platform to address disruptive incidents, including but not limited to system failures.

- S** 15.2 An approved platform operator must ensure a timely resumption of trading and the business continuity arrangements shall cover, at minimum the following –
- (i) governance for the development and deployment of the arrangements;
 - (ii) consideration of an adequate range of possible scenarios related to the operations of the electronic trading platform which require specific continuity arrangements;
 - (iii) the backing up of critical business data (including compliance) that flows through the electronic trading platform;
 - (iv) the procedures for moving to, and operating the electronic trading platform from a back-up site;
 - (v) staff training on the operations of the arrangements and individuals' roles and responsibilities in such arrangements; and
 - (vi) an on-going programme for the testing, evaluation and review of the arrangements including procedures for incrementally beneficial modifications of the arrangements that may arise from time to time.

16 System testing

- S** 16.1 An approved platform operator must carry out and complete a thorough testing of system functionalities and capabilities of the electronic trading platform prior to deployment. For instance, clearly delineated development and testing methodologies such as unit testing, integration testing, user acceptance testing, application security testing, stress and regression testing, exception and negativity testing could be used.
- S** 16.2 An approved platform operator must conduct periodic capacity testing of critical systems to safeguard and determine the system's ability to process transactions in an accurate, robust, and timely manner.
- S** 16.3 An approved platform operator must ensure that compliance and risk management controls are embedded in the systems (including controls to generate error reports automatically) of the electronic trading platform and that such systems can continue to work effectively under stressed market conditions.
- S** 16.4 In the event of any service disruption, an approved platform operator shall inform the Bank of such incident immediately and provide updates following the incident, including the relevant remedial and resolution actions.

PART D GOVERNANCE

17 Roles and Responsibilities of the Board of Directors

- S** 17.1 The Board of an approved platform operator is required to establish policies and procedures relating to the operations of an electronic trading platform as part of its business.
- S** 17.2 The Board is required to carry out the following functions –
- (i) to ensure that the policies and procedures approved by the Board in relation to the implementation of the electronic trading platform are effectively implemented and monitored continuously by the Management;
 - (ii) to review and update such policies and procedures on a periodic basis, where the Board deems necessary;
 - (iii) to ensure that the operations of the electronic trading platform are consistent with the strategies, resources and management expertise of the approved platform operator;
 - (iv) to ensure that the Management is responsible to inform and update the Board on the risk exposures arising from the development and operations of the electronic trading platform;
 - (v) to establish appropriate risk mitigations to address such risk exposures as updated by the Management under paragraph (iv); and
 - (vi) to ensure that the approved platform operator complies with all relevant rules and regulations at all times in relation to the operations of the electronic trading platform.

18 Roles and Responsibilities of the Management

- S** 18.1 The Management of an approved platform operator is responsible to effectively implement the policies and procedures established by the Board by ensuring that –
- (i) adequate operational policies, procedures and effective internal controls are in place for day-to-day operations of the electronic trading platform;
 - (ii) adequate resources and competencies are available to carry out the daily operations of the approved platform operator effectively;
 - (iii) clear lines of responsibility and accountability for managing the operations of the electronic trading platform are established;
 - (iv) comprehensive reporting structure and processes for the Management are in place;
 - (v) rules in relation to the operations of the electronic trading platform are established, in particular rules made pursuant to paragraph 11.2, and are monitored and implemented on an ongoing basis;
 - (vi) the Board is updated on risk exposures arising from the development and operations of the electronic trading platform; and
 - (vii) a set of comprehensive business rules to govern the operations of the electronic trading platform is established and implemented.

PART E REPORTING REQUIREMENTS

19 Monitoring and surveillance

- G** 19.1 Approved platform operators are encouraged to monitor the intraday health of their electronic trading platforms (e.g. capacity utilisation) and inform the Bank of any irregularities or suspicions of irregularities in trading patterns, if any.
- S** 19.2 An approved platform operator is required to submit to the Bank the following information:
- (a) a complete list of its onshore users, both banking and non-banking institutions on a quarterly basis which shall include details on the names, onboarding dates and business requirements of the onshore users; and
 - (b) any other information, in particular statistical and transactional information concluded on and relating to the electronic trading platform as may be required by the Bank.
- S** 19.3 An approved platform operator shall submit the information required under paragraph 19.2 to the Bank within ten (10) business days from the date of which submission is required.
- G** 19.4 Submission of information under paragraphs 19.1 to 19.3 must be provided to Jabatan Operasi Pelaburan & Pasaran Kewangan via e-mail at fmd@bnm.gov.my.