



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Regulated Short-Selling of Securities in the Wholesale Money Market

Issued on: 29 August 2014

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PART A OVERVIEW

1. Introduction

1.1 The regulated short-selling framework for Malaysian Government Securities (MGS) is currently accorded to interbank participants to achieve the following benefits:

- (a) facilitate market making activities;
- (b) facilitate portfolio hedging of interest rate risks; and
- (c) promote repo and securities borrowing and lending activities.

Policy Objective

1.2 This policy document aims to promote sound risk management practices by Eligible Market Participants particularly market risk and settlement risk for the conduct of short-selling activities.

Scope of Policy

- 1.3 This policy document sets out the terms and conditions for short-selling of securities in the wholesale money market.
- 1.4 This policy document applies to short selling transactions involving Eligible Securities and does not apply to “When Issued Trade” as defined in the Participation and Operation Rules for Payments and Securities Services issued by the Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear) dated 7 March 2014.

2. Applicability

2.1 The policy document is applicable to all Eligible Market Participants as defined in paragraph 5.2 of this policy document.

3. Legal Provisions

3.1 The requirements in this policy document are specified pursuant to section 140(1) of the Financial Services Act 2013 (FSA).

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4. Effective Date

4.1 This policy document comes into effect on 29 August 2014.

5. Interpretation

5.1 The terms and expressions in this policy document shall have the same meaning assigned to them in the FSA unless otherwise defined in this document.

5.2 For the purposes of this policy document-

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**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;

“**Eligible market participants**” means-

- (a) licensed banks and licensed investment banks; and
- (b) an entity approved by the Bank,

provided that each participant carry out short selling activities for its own account;

“**Eligible Securities**” means all Malaysian Government Securities (MGS) with an outstanding nominal amount of at least RM 2 billion;

“**ETP**” means the Electronic Trading Platform;

“**Short selling transaction**” refers to a sale of Eligible Securities where the seller does not have presently exercisable and unconditional right to vest the Eligible Securities in a purchaser at the time of the sale. Specifically,

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- (a) **“Covered short selling”** - short-selling activities with borrowed securities, obtained via reverse repo or securities borrowing and lending facilities on the short selling trade date;
- (b) **“Naked short selling”** - short-selling activities without borrowed securities where eligible market participants close-out the naked short-selling position by conducting an offsetting deal at a later date;

“RENTAS” means the Real Time Electronic Transfer of Funds and Securities System which is the real time gross settlement system operated by MyClear which provides for-

- (a) interbank funds transfers in Malaysia;
- (b) scripless securities transfers on delivery-versus-payment mode; and
- (c) such other transactions as may be approved by the Bank from time to time;

“Principal Dealers” refers to appointed Eligible Market Participants which are licensed banks that have certain obligations, by virtue of which are accorded certain incentives.

6. Related Legal Instruments and Policy Documents

- 6.1 This policy document must be read together with the following:
- (a) The ACI Model Code with Malaysia’s local addendum;
 - (b) Operational Procedures for Securities Services;
 - (c) Guidance Notes on Repurchase Agreement Transactions; and
 - (d) Guidelines on Securities Borrowing and Lending Programme under RENTAS.

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7. Policy Documents Superseded

- 7.1 This policy document supersedes the Guidelines on Regulated Short-Selling of Securities in the Wholesale Money Market issued by the Bank on 7 October 2005.

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PART B POLICY REQUIREMENTS

8. Permitted Short-Selling Transactions

- S** 8.1 Eligible Market Participants are only permitted to conduct short-selling of Eligible Securities in accordance with this policy document.
- S** 8.2 Eligible Securities to be short sold shall be covered by:
 - (a) T+2 for all Eligible Market Participants; and
 - (b) T+3 for Principal Dealers (PDs).
- S** 8.3 Illustrations of permitted short-selling transactions are provided in Appendix 1.

9. Securities Borrowing Agreement

- S** 9.1 An Eligible Market Participant must have executed the Global Master Repurchase Agreement or the Securities Borrowing and Lending Agreement with at least 2 other market participants (excluding the Bank) to ensure reasonable access to borrow Eligible Securities to cover short positions and mitigate settlement risk.

10. Period of Short-Selling

- S** 10.1 T_0 to T_v is the temporary uncovered allowable short sale period i.e. up to T_0+2 for all Eligible Market Participants and up to T_0+3 for PDs only
- S** 10.2 The short-selling position must be fully covered (where rollover is allowed) via repo or securities borrowing from T_v to later than T_x .
- S** 10.3 A short-selling transaction shall not exceed 12 months from the trade date, T_0 .
- S** 10.4 For forward sale more than 12 months, Eligible Market Participants must close-out the short-selling position by conducting an offsetting deal not later than 12 months from T_0 .

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11. Short Position Limit

- S** 11.1 An Eligible Market Participant's short position shall not exceed 10% of the outstanding nominal amount of each Eligible Securities issue.

12. Internal Controls

- S** 12.1 Eligible Market Participants shall establish internal guidelines for short-selling, taking into account the risks involved and their financial capacity to assume such risks prior to conducting short-selling transactions.
- S** 12.2 The internal guidelines of Eligible Market Participants referred to in paragraph 12.1 shall consist of internal control systems and procedures for the supervision and monitoring of covered short-selling activities by the Eligible Market Participants to ensure compliance with this policy document.
- 12.3 The Bank may revoke the eligibility of any Eligible Market Participant to conduct short-selling activities where the Bank is of the view that the Eligible Market Participant has weak internal controls systems and procedures.

13. Bank's Securities Lending and Repo Facilities

- G** 13.1 Eligible Market Participants may borrow Eligible Securities from the Bank via the securities lending or repo facilities to cover short sale positions.

14. Reporting Requirements

- S** 14.1 Eligible Market Participants shall report the following in the ETP or any other system specified by the Bank:
- (a) all short sale transactions reported as part of securities sale transactions on the short-selling trade date;
 - (b) all the borrowing transactions to cover the short-selling transactions on the trade date of the borrowing transactions;

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- (c) all close out transactions to the short-selling positions when conducting the offsetting deals at a later date;
- (d) on a weekly basis, the daily outstanding short positions to the Bank, categorized by tenure buckets and stock code in the format provided in Appendix II which must be based on the trade date; and
- (e) immediately report any short position of 5% or more of any Eligible Securities in the format provided in Appendix III.

15. Delivery and Settlement

- S** 15.1 All short-selling transactions and respective borrowings must be initiated and confirmed through RENTAS on the respective trade dates. Trade date and value date of short sale transactions must be keyed-in correctly as RENTAS will generate reports on naked short-selling position.
- S** 15.2 In the event of a failure on the part of the short seller to deliver the Eligible Securities on the value date, the procedure for such unsettled transactions shall be in accordance with the procedure specified in Part VIII “Settlement Principles and Procedures for Compensation of Delayed or Failed Settlement of Securities Transaction and Procedures for Buy-In or Sell-Out Arising From Unsettled Transactions” of the Operational Procedures for Securities Services under the purview of MyClear.

16. Dispute Resolution of Securities Borrowing Arrangements

- S** 16.1 Any dispute, difference, controversy, breach, termination or claim arising from borrowing transactions via repurchase arrangement or securities borrowing and lending, shall be settled in accordance with the Global Master Repo Agreement or Securities Borrowing and Lending Agreement executed by both parties.

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17. Suspension of Short-Selling Activities

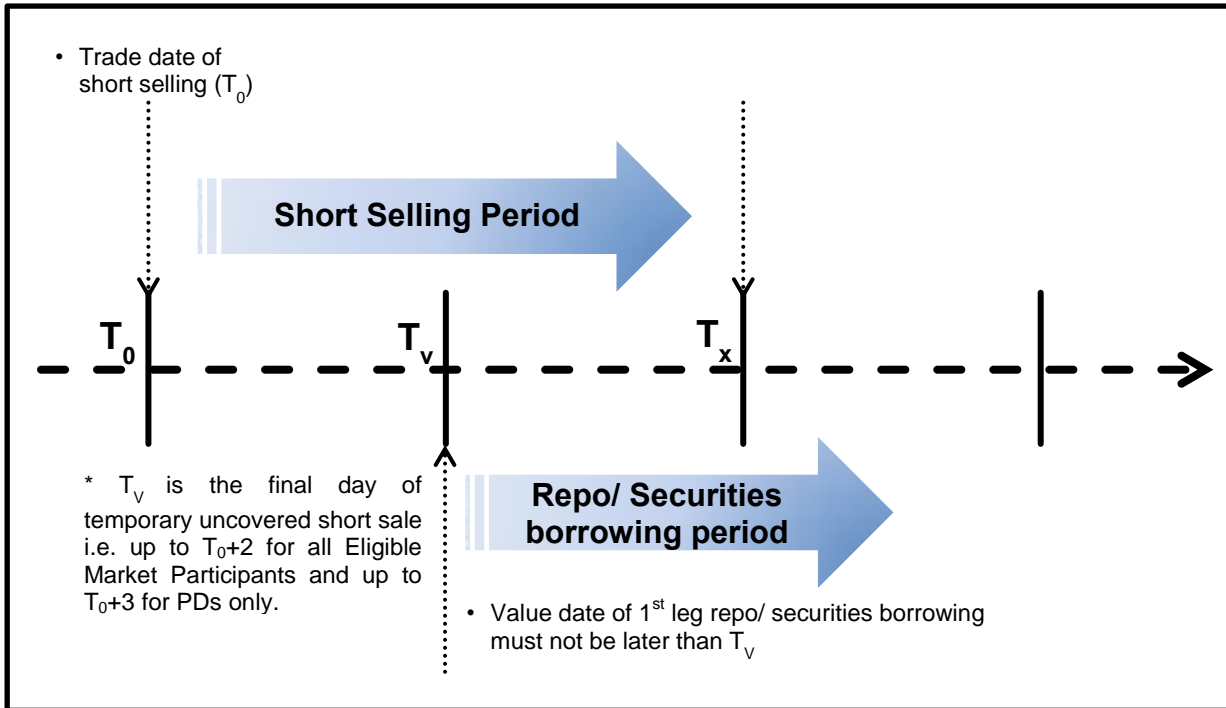
17.1 If market conditions warrant it, the Bank may exercise the following to safeguard market stability:

- (a) suspension or withdrawal of an Eligible Market Participant to conduct further short-selling transactions;
- (b) suspension of, or from the Bank's securities lending or repo facilities;
- (c) suspension of short-selling activities of specific securities; and
- (d) any other action that the Bank deems appropriate.

APPENDICES

Appendix I

Short Sale Transaction



Permitted Short Sale Transactions:

Scenario	Timeline	Example
Spot	$T_v = T_x = T_0+2$	On 2 nd September 2014, an Eligible Market Participant entered into a short-selling transaction for value spot (4 th September 2014). Eligible Market Participant must cover the short-selling position via repo or securities borrowing by T_v (4 th September 2014) to later than T_x (at least up to 5 th September 2014).
Forward (≤ 12 months)	$T_v = T_0+2$ for all Eligible Market Participants and T_0+3 for Principal Dealers	On 2 nd September 2014, an Eligible Market Participant entered into a short-selling transaction for value date 3 months forward (2 nd December 2014). Eligible Market Participant must cover the

	T_x = Value date of short sale	short-selling position via repo or securities borrowing by T_v (4 th September 2014) to later than T_x (at least up to 3 rd December 2014). In the case where repo or securities borrowing maturity is less than T_x , rollovers until later than T_x will be required.
Forward (> 12 months)	$T_v = T_0+2$ for all Eligible Market Participants and T_0+3 for Principal Dealers $T_x = T_0+12$ months = close-out date of short-selling position	On 2 nd September 2014, an Eligible Market Participant entered into a short-selling transaction for value date 2 years forward (2 nd September 2016). Eligible Market Participant must cover the short-selling position via repo or securities borrowing by T_v (4 th September 2014) to later than T_x (at least up to 3 rd September 2015). In the case where repo or securities borrowing maturity is less than T_x , rollovers until later than T_x will be required. However, Eligible Market Participant must close-out the short-selling position by conducting an offsetting deal not later than 12 months from T_0 (by 2 nd September 2015).

Appendix II

WEEKLY REPORTING REQUIREMENTS FOR REGULATED SHORT SELLING OF ELIGIBLE SECURITIES

(Attention: Monetary Policy Implementation Section, Investment Operations and Financial Market Department, Bank Negara Malaysia)

Institution Name: _____

Reporting Period: _____

(Figures in RM million)

	Stock Code	Day 1	Day 2	Day 3	Day 4	Day 5
Volume						
Outstanding						
Total Amount:						

Note:

- I. Weekly reporting must reflect the daily outstanding short position for the whole week according to maturity buckets.
- II. Report must be reported on excel spreadsheets and are to be submitted to the following addresses latest by next Monday or first business day of the following week:-
 - a. sou@bnm.gov.my
 - b. irmu@bnm.gov.my

Authorised by:

(Signature of Authorised Officer)

NAME:

DESIGNATION:

Appendix III

REPORTING OF SHORT POSITIONS EXCEEDING 5% OF ANY ELIGIBLE SECURITIES ISSUE

(Attention: Monetary Policy Implementation Section, Investment Operations and Financial Market Department, Bank Negara Malaysia)

Institution Name: _____

Reporting Period: _____

(Figures in RM million)

No.	Trade Date of Sale	Value Date of Sale	Stock Code	Maturity Date	Total Short Amount	Stock Outstanding Nominal Amount	%of Outstanding Nominal Amount

Note:

- I. Report must be submitted by the end of the business day to the following addresses or fax 03-2694 6240 / 03-2691 8936 :-
 - a. sou@bnm.gov.my
 - b. irmu@bnm.gov.my

Authorised by:

(Signature of Authorised Officer)

NAME:

DESIGNATION: