

CHAPTER 12 AUDITS, INSPECTION AND INVESTIGATION

RULE 1201 STATUTORY AUDIT ON CORPORATE PARTICIPANTS

RULE 1201.1 ANNUAL STATUTORY AUDIT AND ANNUAL REPORT

- (1) Every Participating Organisation shall cause accounts relating to its business to be audited by a company auditor ("statutory auditor") for each financial year of the Participating Organisation in accordance with the Companies Act and Capital Markets and Services Act.
- (2) Every Participating Organisation shall furnish to the Exchange and all relevant statutory authority within three (3) months after the close of the financial year, or such other period as permitted by the relevant statutory authority, an audited financial statement, any other documents deemed necessary or expedient and an Annual Report stating -
 - (a) whether the Minimum Paid-Up Capital and the capital adequacy requirements have been maintained and complied with as required by these Rules;
 - (b) whether, in the opinion of the statutory auditor, the financial position of the Participating Organisation is such as to enable it to conduct its business on sound lines, having regard to the nature and volume of the business transacted during its past financial year as shown in its books of accounts and records;
 - (c) whether, in the opinion of the statutory auditor, the provisions of Sections 111 to 114 of the Capital Markets and Services Act and these Rules, have been complied with;
 - (d) whether in the opinion of the statutory auditor, the provisions relating to the treatment of clients' assets under these Rules have been complied with;
 - (e) whether, in the opinion of the statutory auditor, the books of accounts and records of the Participating Organisation are those usual in a business of this nature and appear to have been kept in a proper manner and in accordance with the relevant laws; and
 - (f) whether the statutory auditor has obtained all the necessary information and explanations for the proper conduct of the audit and to enable the auditor to furnish his Annual Report.
- (3) Each Participating Organisation shall notify the Exchange, in writing, of any change to -
 - (a) the date of its financial year end; and
 - (b) the name of the statutory auditor who will furnish the Annual Report.
- (4) A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.1(3).

RULE 1201.2 PARTICIPATING ORGANISATIONS' DECLARATION

- (1) Each Participating Organisation shall, annually within one (1) month after the close of the financial year of the Participating Organisation, furnish to the Exchange a statutory declaration in the form specified in Appendix 9 and signed by all its directors stating that no securities received by it from or on behalf of a client for safe custody or sale have been dealt with otherwise than in accordance with the client's instructions or in the absence of specified instructions from the client, that such securities are held by it or lodged with its bank for safe custody only.
- (2) A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall, within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.2(1).

RULE 1202 INTERNAL AUDIT

RULE 1202.1 INTERNAL AUDIT FUNCTIONS AND AUDIT COMMITTEE

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]
- (4) [Deleted]
- (5) [Deleted]
- (6) [Deleted]
- (7) [Deleted]
- (8) [Deleted]

RULE 1202.2 SCOPE OF INTERNAL AUDIT

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]

RULE 1202.3 REPORTING

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]

RULE 1202.4 INVESTMENT BANKS

- (1) [Deleted]

RULE 1203 INSPECTION

RULE 1203.1 EXCHANGE'S RIGHT TO INSPECTION

- (1) Every Participating Organisation shall from time to time, with or without notice, be subject to inspections and/or audits by the Exchange to ensure and appraise the Participating Organisation's compliance with provisions of the Depository Rules, Clearing House Rules, these Rules, Participating Organisation's internal policies and procedures and/or on other rules and regulations related to its business in dealing in securities.
- (2) Without prejudice to Rule 1203.1, a Participating Organisation shall afford, and shall procure its registered person(s) and/or its employees to produce to the Inspector (as hereinafter defined) such documents, books or records for purposes of inspection and this may include to make copies of, and/or take extracts from such documents, books or records to enable the Exchange to properly perform its inspection and its other duties under the Securities Laws and these Rules.
- (3) No Participating Organisation, its registered person(s) and its employees shall hinder or obstruct the Inspector from discharging his duties and shall without reasonable excuse give the Inspector such assistance that he may reasonably require to discharge his duties.

RULE 1203.2 APPOINTMENT

- (1) Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint –
 - (a) an officer of the Exchange;
 - (b) an officer of the Exchange holding company; and/or
 - (c) a qualified accountant or an advocate and solicitor,as the Exchange's inspector ("Inspector"), for the purposes of exercising all or any of the inspection powers vested in it under Rule 1203.

RULE 1203.3 INSPECTION COST

- (1) The Exchange may, at its absolute discretion, charge a fee proportionate for the work performed by the Inspector, which shall be payable by the Participating Organisation on which the inspection and/or audit was conducted, and there shall be no dispute as to the fee payable to the Exchange.

RULE 1203.4 REPORTING

- (1) The Exchange, may forward to the Participating Organisation the whole, parts or a summary of any report issued by the Exchange as a result of an inspection under Rule 1203.
- (2) The Participating Organisation shall table the findings of the Exchange's inspection to the Participating Organisation's board of directors as soon as practicable.
- (3) The decided course of action and corrective measures taken (if any) by the Participating Organisation's board of directors to address any non-compliance or irregularities in respect of the inspection report shall be submitted to the Exchange together with a written declaration, by the Participating Organisation's chairman or Head, in such form acceptable to the Exchange stating that the decided course of action and corrective measures (if any) have been duly carried out or completed, within one (1) month or such other period determined by the Exchange at any time from the date of the relevant meeting of the board of directors.

RULE 1204 INVESTIGATION

RULE 1204.1 POWER OF INVESTIGATION

- (1) The Exchange may, at any time and from time to time as it thinks expedient or if requested by the Commission or other relevant authorities, conduct investigations on the accounts and affairs of any Participating Organisation, and on any matter regarding Participating Organisations, their registered person(s) and employees which may involve a breach of the Depository Rules, the Clearing House Rules and/or these Rules.
- (2) Without prejudice to generality of the foregoing, the Exchange shall be particularly empowered-
 - (a) to require Participating Organisations, registered person(s) and/or their employees to attend at the premises of the Exchange at any time and to give such information as may be in their possession relevant to any matter brought before or under investigation by the Exchange;
 - (b) to require a registered person or a Participating Organisation to procure the attendance of any agent, consultant, its registered person(s) and/or employees before any authorized officer of the Exchange and to give such information as may be in the possession of such person relevant to any matter brought before or under investigation by the Exchange;
 - (c) to require any Participating Organisation, registered person(s) and/or their employees to furnish any particulars required and to produce to any authorized officer of the Exchange, all books, letters, telexes or copies thereof, and any other document in its possession relevant to any matter brought before or under investigation by the Exchange. The production of document, books, letters, and telexes may also include requiring the Participating Organisation or the registered person to make copies and/or taking extracts of the same;
 - (d) through its Investigation Officers (as hereinafter defined), to seize, detain or take possession of any property, books or other document or article found, upon the premise or in direct or indirect possession of the Participating Organisation or registered person, and/or their employees for the purpose of the investigation being carried out;
 - (e) to investigate the accounts and affairs of any Participating Organisation, its Dealers' Representatives, registered person(s) and/or employees whenever in its opinion there is sufficient reason to do so; and/or
 - (f) in addition to any action taken by the Exchange, to require a registered person or Participating Organisation to discipline its registered person(s) and/or employees in an appropriate manner if such person shall have caused the registered person or the Participating Organisation to violate the Securities Laws, the Depository Rules, the Clearing House Rules and/or these Rules.
- (3) The powers conferred by this Rule is in addition to and not in derogation of any powers conferred upon the Exchange under any written law.

RULE 1204.2 APPOINTMENT

- (1) Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint -
 - (a) an officer of the Exchange
 - (b) an officer of the Exchange holding company; and/or
 - (c) a qualified accountant or an advocate and solicitor,

as the Exchange's investigation officer ("Investigation Officer"), for the purposes of exercising all or any of the investigative powers vested in it under Rule 1204.1.

- (2) An investigation may be carried out by a team of personnel headed by a senior officer of the Exchange or otherwise by any person appointed by the Exchange pursuant to the foregoing Rule.

RULE 1204.3 RECORDING OF STATEMENTS

- (1) Where the Investigation Officer is of the opinion that registered person(s) and/or employees are acquainted with the facts and circumstances of a case, the Investigation Officer may record statements from such persons.
- (2) Where such statements recorded from registered person(s) and/or employees may be used in disciplinary proceedings against such person(s) whose statement is recorded, the Investigation Officer shall inform such person(s) of such fact before the recording of the statement.

RULE 1204.4 INVESTIGATION COST

Where the report submitted to the Exchange pursuant to any investigation carried out under Rule 1204 discloses or reveals any breach of the Securities Laws, the Depository Rules, the Clearing House Rules and/or these Rules, the Exchange may, at its absolute discretion, require the Participating Organisation and/or registered person(s) concerned to pay or reimburse the Exchange all cost incurred by it in connection with such investigation.

RULE 1205 SUPPLY OF INFORMATION

RULE 1205.1 SUPPLY OF INFORMATION

- (1) The Exchange may, for purpose of obtaining information about any matter which it considers may relate to these Rules or the integrity of the Exchange's market –
 - (a) require the provision forthwith by a Participating Organisation, registered person(s) and/or employees of accurate information about its business and transactions in a format, electronic or otherwise, specified by the Exchange;
 - (b) require the production forthwith by a Participating Organisation, registered person(s) and/or employees of documents (which, for the purpose of this Chapter, shall include anything in which information of any description if recorded) in his possession, custody, power or control and if, any such documents cannot be produced, require the Participating Organisation, registered person(s) and/or employees to state to the best of his knowledge and belief where and in whose possession, custody, power or control they are and require the Participating Organisation, registered person(s) and/or employees to use his best endeavours to secure the documents;
 - (c) interview any registered person(s) or , employee or agent (or any employee of such registered person(s) or agent of a Participating Organisation and require him to answer questions and provide explanations and/or require answers and explanations from the registered person or Participating Organisation and record such answers and explanations electronically or otherwise;
 - (d) require the attendance, upon reasonable notice, of any registered person(s) or, employee or agent (or any employee of such registered person(s) or agent) of a Participating Organisation at a specified date, time and place, to answer questions, provide explanations and/or give evidence and require the registered person or Participating Organisation to procure such attendance;
 - (e) require the provision of information relating to any person who is to be, is or has been a registered person(s) or employee of the Participating Organisation or engaged in its business or any person who is to be, is or has been employee of registered person or engaged in its business;
 - (f) send any officer of the Exchange or Exchange holding company, as the case may be, to a Participating Organisation's or registered person's premises at any time, for the purpose of investigations and to ensure compliance with these Rules; and
 - (g) make copies or require copies to be made of documents or information for retention by it or otherwise to take extracts from such documents or information and/or require any person who was a party to the compilation or preparation of such documents or information to provide an explanation for any of them.
- (2) A Participating Organisation and registered person shall comply or as the case may be shall procure compliance with any requirement of the Exchange made pursuant to this Rule.
- (3) A Participating Organisation is responsible to the Exchange for the conduct of its registered person(s), employees and agents. Such conduct shall be treated for the purpose of these Rules as conduct of the Participating Organisation.
- (4) A Participating Organisation or registered person shall not provide the Exchange any information which is false, misleading or inaccurate in a material particular and shall comply or as the case may be procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange.
- (5) For the purpose herein, "information" includes without limitation information in writing or in any other means of electronic, magnetic, mechanical or other recording whatsoever or on any medium, substance, material, thing or article.

RULE 1206 CONFIDENTIALITY

RULE 1206.1 CONFIDENTIALITY OF FINDINGS

- (1) The findings and results of all investigations under Rule 1204 shall be deemed to be confidential and shall not be revealed other than to the Exchange, the Committee concerned with such information or any authorised officer of the Exchange or Exchange holding company, as the case may be, the Commission or any authorised officer of the Commission or any investigating governmental authorities or agencies. No findings or results of such investigations shall be used, except in connection with a hearing (whether conducted by the Exchange, Exchange holding company, the Commission or a court of law), resulting from the investigations or except when permitted under these Rules or required by law.

[End Of Chapter]