

ANNEXURE 1
AMENDMENTS TO THE BMS DIRECTIVES

In relation to review of the (1) Guidelines for Compliance Function and (2) Compliance Reporting for Participating Organisation, Trading Participants and Clearing Participants

DIRECTIVES ~~ON~~FOR HEAD-OF-COMPLIANCE FUNCTION

No. 3.36-001

Relevant to : Rules 3.36, 6.07 and 6.08
Introduced with effect from : 05 May 2013
Amended : 17 July 2013 vide R/R 10 of 2013, 22 February 2016 vide R/R 2 of 2016, ~~and~~ 21 August 2020 vide R/R 11 of 2020, and 30 November 2021 vide R/R 6 of 2021
POs' Circular No(s). : R/R 4 of 2012
Refer also to Directive No(s). : ~~N/A~~Directive 6.08-001

1. Rule 3.36(b) Introduction

(1) Rule 3.36(b) provides that throughout the term of the Head of Compliance's registration, the Head of Compliance must supervise and carry out proper checks and reviews to monitor and ensure overall compliance by the Participating Organisation and the Participating Organisation's Registered Person, employees and agents with the Securities Laws, these Rules and the Directives.

~~(2)~~ Rule 6.07 states that every Participating Organisation must carry out the compliance function to monitor compliance with these Rules, Directives and the Securities Laws and to provide advice on all the relevant requirements that a Participating Organisation must comply with, in carrying out the Participating Organisation's business.

~~(3)~~ In addition, Rule 6.08 provides that a Participating Organisation and the Participating Organisation's Board of Directors are responsible and accountable for compliance with these Rules, the Directives and Securities Laws by the Participating Organisation, the Participating Organisation's Registered Persons, employees and agents.

~~(42)~~ In discharging the obligations under the said Rules, the Head of Compliance, Board of Directors and Participating Organisation must, amongst other requirements, comply with the following guidelines.

1.1 GUIDELINES FOR COMPLIANCE OFFICERS—FUNCTION FOR PARTICIPATING ORGANISATIONS

(1) A Head of Compliance, Board of Directors and Participating Organisation must comply with the Guidelines for Compliance Function for Participating Organisations ("**Compliance Guidelines**") and a Head of Compliance must supervise and direct all compliance officers of its Participating Organisation to comply with the Compliance Guidelines.

(2) The Compliance Guidelines are formulated to cater for all possible business and operational activities of a Participating Organisation. A Head of Compliance, Board of Directors and Participating Organisation must apply and comply with the requirements that are relevant to its business and operational activities. A Head of Compliance and Participating Organisation may omit to report those requirements which the Participating Organisation deems as inapplicable if it does not undertake the stated business and operational activities. For example, a Participating Organisation which is not carrying out discretionary trading need not comply with obligations on discretionary trading.

~~(32)~~ The Compliance Guidelines are set out in **Appendix 1** of this Directive.

[End of Directive]

As at ~~30 June 2021~~30 November 2021

APPENDIX 1

**GUIDELINES
FOR
COMPLIANCE
~~OFFICERS~~
FUNCTION
FOR
PARTICIPATING
ORGANISATIONS
("COMPLIANCE
GUIDELINES")**

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1. **INTRODUCTION**

~~In order to attract both local and foreign investors to our capital market there is a need to increase confidence by enhancing investor protection. The most effective way to do this is through exercising a high standard of compliance and the implementation of best sales practices. A high standard of compliance lends confidence and enhanced credibility to the Securities Industry whilst promoting solidity and growth.~~

~~In light of the above, it is pertinent that a Participating Organisation's business activities be governed by the following:~~

a) **~~Supervisory Programme~~**

~~Compliance and best sales practices refer to a proper supervisory programme and a competent system of internal controls within a Participating Organisation. Proper management controls and diligent management enhances the credibility and reputation of a Participating Organisation and provides the necessary investor protection. Indeed, the supervisory and control responsibilities of a Participating Organisation are crucial to the maintenance of the integrity of the market place.~~

~~Compliance has sometimes been defined as the management of regulatory risk. This would entail the adherence to the regulatory framework within which an intermediary carries on its business. In addition, it means adherence to:-~~

~~relevant Securities Laws, rules and regulations;
ethical standards, principles and internal policies; and
standards of self-regulatory bodies.~~

~~The elements of a competent supervisory programme should be as follows:~~

~~Supervisory System~~

~~A Participating Organisation is required to establish, maintain and enforce an adequate supervisory and compliance system to generally, supervise the overall proper running of its business activities and particularly, to supervise the activities of each registered dealer's representative, agent and other personnel. Such a system must be reasonably designed to achieve compliance with the applicable Securities Laws, rules and regulations.~~

~~In this regard, it is recommended that an independent compliance officer be appointed within a Participating Organisation to ensure its activities are in compliance with the provisions of relevant Securities Laws, rules and regulations. However, the final responsibility for proper supervision rests with the Participating Organisation and its Board of Directors.~~

~~Written Procedures~~

~~Comprehensive documentation and written procedures on the system established pursuant to the above must be maintained and regularly updated to take into account any changes that may occur in the current regulatory framework. These procedures and any amendments thereto must be effectively disseminated and enforced throughout the Participating Organisation.~~

~~In addition, a Participating Organisation is to maintain an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective.~~

~~Internal Inspection~~

~~A Participating Organisation must ensure that, pursuant to the above, the relevant Supervisors/Heads of Department perform their supervisory responsibilities effectively. Regular and periodic reviews of its business activities and its office must be carried out to assist in detecting and preventing violations of any Securities Laws, rules and regulations. A written record of the dates of such reviews and the inspection conducted is to be maintained.~~

~~Written procedures~~

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~~A Participating Organisation must establish written procedures of all transactions and correspondence of its dealer's representatives pertaining to the solicitation or execution of any transaction.~~

~~Qualification Investigated~~

~~A Participating Organisation must have the responsibility and duty to investigate into the good character, business repute, qualification and experience of any person prior to making a certification of such person for registration with the Exchange and its Board of Directors must be held responsible and accountable for the same.~~

b) Client Compliance Programme

~~Opening of a Client's Account~~

~~Before commencing to trade in an account for or on behalf of a client, a Participating Organisation must ensure that such account has been approved in accordance with the provisions of the Rules and the relevant business conduct and best sales practice requirements, including the following:~~

- ~~i. A Participating Organisation must exercise due diligence to obtain the essential facts about a client's investment objectives and financial situation, which is to be reflected in the written records of the account. Such recorded information must include:~~

~~Particularly, for retail clients~~

~~investment objectives
employment status
estimated annual income from all sources
estimated net worth
marital status and number of dependents
age
investment experience and knowledge~~

~~Generally, for all clients~~

~~source of background and financial information, including the basis of any estimates made by the Participating Organisation
the nature and types of transaction for which the account is approved
name of approving party and date of approval date~~

~~The account opening documents must be subjected to review by the compliance officer.~~

- ~~ii. A Participating Organisation is to effect a written Client agreement that the account must be handled in accordance with the rules, and that a client, must not violate the position or exercise limits prescribed by the Participating Organisation and/or the Exchange.~~
- ~~iii. A Participating Organisation is to obtain proper authorisation from a client in relation to accepting instructions from any person(s) on behalf of the client. If a client has granted discretionary trading authority to any person, a written agreement must be on file and the account records must show the name, relationship to the client and experience of the person holding the discretionary trading authority.~~

~~Suitability of Recommendations~~

~~In general, the suitability rules provide that any time a person at the Participating Organisation recommends a transaction to a client, he must have reasonable grounds for believing that the recommended transaction is not unsuitable for the client. No recommendation should be made unless the person making the recommendation has explained and discloses to the client all risks involved in transaction and that there is a reasonable basis for believing that the client has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risk of the recommended transactions.~~

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~~In this regard, a Participating Organisation must ensure that its dealer's representatives have reasonable grounds when making recommendations for the purchase or sale of stocks/products to clients, and that these recommendations have taken into account the information obtained when the client's account was opened (as mentioned above) and would be based on, among other things, the following:~~

- ~~the type of client, i.e. whether retail or institutional;~~
- ~~the recommendation is suitable on the basis of the client's investment objectives, financial situation and other known information;~~
- ~~the client has such knowledge and experience in financial matters that he is capable of evaluating the risks of the recommended transaction; and~~
- ~~the client is financial able to bear the risk of the recommended position(s) in the account/transaction.~~

~~A Participating Organisation must ensure that the information provided by a client as well as other available information is being considered by a dealer's representative when determining whether and to what extent a client should be approved for a transaction/recommendation in an account.~~

~~Record-keeping and the Supervision of Accounts~~

~~In order to conduct an effective programme of client account supervision, comprehensive records of all client accounts and transactions done must be maintained. Such records must be readily available to persons performing supervisory functions and must enable the review of, among other things, the size and frequency of purchase transactions, the amount commission generated, the P&L status, any undue concentration in any type of transaction, compliance with rules on margin (where applicable).~~

~~Consequently, a Participating Organisation is required to develop and implement written procedures for the review of client accounts. This programme should not only require that customer and proprietary account be reviewed by the relevant supervisor/authorised person, but must also require that selected accounts be reviewed on a regular basis at the appropriate principal supervisory office. The written procedures for this programme must specify the manner in which individual accounts are to be reviewed, the frequency of such reviews and where the responsibility for each stage in the review process lies within the Participating Organisation's structure.~~

~~Consideration should also be given to developing additional tests that will identify the need for special reviews of particular accounts. These tests may relate to unusual patterns in trading, large or frequent margin calls, or other signs of apparent increase in risk exposure of an account.~~

~~Discretionary Accounts~~

~~In order for a Participating Organisation to exercise discretionary authority in a client's account, the following must be observed:~~

- ~~Before any discretionary authority can be exercised, prior written authorisation from the client and written approval from the authorised person in charge must be obtained. Comprehensive records of such approval must be maintained.~~
- ~~Full and complete records of every transaction undertaken under any discretionary account must be documented and maintained.~~
- ~~There must be no conflict of interests arising from such transactions.~~

~~Advertisements, Sales Literature and Other Forms of Communications to the Client/Public~~

~~All persons responsible for preparing and/or reviewing all communications (oral or written) to the client/public must be thoroughly familiar with such publications and the correspondent Securities Laws, rules and regulations.~~

~~All promotional material and other forms of communication issued by a Participating Organisation to the client/public must observe truth, avoid misrepresentation and make no promise in respect of profits and must always indicate the possibility of loss if profit is mentioned. Clients/the public must not be misled as to the contents of such information. Such~~

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~~information must always be balanced and accurate and must not contain any false statements or omit any material facts that may distort the understanding of the information as provided. Special care must be taken where forecasts or projections are included. Such information must be clearly identified as such and all underlying assumptions, risks and cost must be clearly stated.~~

~~Transactions by Employees, Dealer's Representatives, Trading Representatives and Directors~~

~~An employee, Dealer's Representative, Trading Representative and Director of the Participating Organisation is allowed to trade in securities for his own account subject to compliance with the provisions on conflicts of interests as set out in Rules 3.16 and 5.02 of the Rules. The employee, Dealer's Representative, Trading Representative and Director of the Participating Organisation must notify the Participating Organisation of such trades. To ensure strict adherence to the above mentioned requirements, a Participating Organisation is to maintain proper records of all employee accounts and any transactions undertaken. In addition, such accounts must be subject to active monitoring by a compliance officer.~~

~~Client Complaints~~

~~A proper register to document all client complaints must be maintained by a Participating Organisation. At best, such register must contain the following information:~~

- ~~the identity of the complainant;~~
- ~~the date the complaint was received;~~
- ~~the dealer's representative servicing the account (where applicable);~~
- ~~a general description of the complaint; and~~
- ~~a record of the action taken in respect of the complaint.~~

~~The overall objective of the above mentioned programmes is to inculcate a proper compliance culture amongst members of the industry and by doing so, Participating Organisations would be able to safeguard the interest of their clients as well as the risk position of their firms.~~

~~Such a person will be the "conduit" through which a Participating Organisation achieves the above mentioned objectives, whilst providing an independent check and balance with the Participating Organisation, thereby ensuring that its trading activities are in compliance with the relevant Securities Laws, rules and regulations. A compliance officer will also act as a deterrent against any wrongdoing by market participants and provide the necessary foundation for the protection of investors' interests in the equity market.~~

~~However, it must be stressed that the ultimate responsibility for proper supervision and client compliance rests with the Participating Organisation and its Board of Directors. The compliance officer merely facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The formulation and coordination of any given supervisory or compliance programme may be within the purview of a compliance officer's job function but the effective implementation and maintenance of such programmes lies with the Participating Organisation and its Board of Directors. Any failure to effectively supervise the overall business undertaking of the Participating Organisation or the activities of its employees will be deemed a failure on the part of the Participating Organisation and its Board of Directors.~~

~~The main purpose of the compliance officer's function is to achieve the following:~~

~~**1. Maintenance of high standards of business conduct and strong internal controls within the Participating Organisation**~~

- ~~to perform overall supervision to ensure that the Participating Organisation adheres to all current laws, regulations, rules, codes, guidelines and good practice with which the Participating Organisation is required to comply with;~~
- ~~to ensure that the Participating Organisation establishes, maintains, updates and enforces a proper system and corresponding written procedures to supervise the activities of each dealer's representative, agent and other personnel; and~~

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~~— to ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance).~~

~~2. Promoting the Participating Organisation's compliance culture~~

~~— by consolidating compliance manuals, seeing to its effective implementation and ensuring that compliance procedures are properly disseminated and followed by the staff.~~

~~3. To assist in situations of non-compliance by the Participating Organisation~~

~~— recommending remedial action and seeing to its effective implementation.~~

~~4. Liaison between the Exchange/regulators and the Participating Organisation~~

~~— the middle person between the Exchange/regulators and the Participating Organisation on all compliance matters; and
— the focal point for all staff of the Participating Organisation in relation to the compliance matters.~~

This guideline is an elaboration of the duties of the compliance officer already provided by the Rules:

The purpose of this guideline is:

- ~~(1) to provide a general guide on compliance which will serve as a basis for the formulation of the compliance manual and the measurement for the performance of the compliance officer;~~
- ~~(2) to emphasize the role, duty and responsibility of the compliance officer to the board of Directors; and~~
- ~~(3) to enhance the quality and effectiveness of the functions of the compliance officer.
This set of guidelines is no way exhaustive and the Exchange may from time to time, upon consultation with the Commission, amend these guidelines or prescribe further guidelines.~~

2. DEFINITIONS

In this guideline, unless the context otherwise requires or the contrary intention appears:

Rules means Rules of Bursa Malaysia Securities Bhd.

3. The Concept of "compliance officer"

A "middle office" function

~~To review the activities of both the front and back office of a Participating Organisation without any conflict of interest, the compliance officer must be independent of both back and front office. He must have no sales and/or operational function and must not be involved in trading (e.g. he must not be allowed to solicit or execute any orders on behalf of client), settlement, funding, processing or reconciliation activities of a Participating Organisation. In this respect, the compliance officer is only to engage in full time compliance work.~~

Overall Supervision of Participating Organisation Activities

~~The compliance officer undertakes an overall supervisory responsibility over the trading and operational functions of a Participating Organisation. He monitors ongoing business activities on a proactive basis and ensures that the Participating Organisation complies with all its internal control, sales practices, all relevant Securities Laws, rules and regulations including all directives and guidelines issued by the Exchange (referred to as the "regulatory framework").~~

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~~He oversees and supplements other supervisory measures already in place within a Participating Organisation and ensures that the relevant supervisors/Heads of Department perform their supervisory responsibilities effectively.~~

~~However, the compliance officer does not relieve any supervisor/Head of Department of their responsibilities. The burden of executing designated job functions still remains with the respective supervisors/Heads of Department. The compliance officer merely oversees that such supervisors/Heads of Department carry out their duties and obligations to the Participating Organisation in compliance with the Securities Laws, rules and regulations including all directives and guidelines issued by the Exchange.~~

~~*Qualifications of a compliance officer*~~

~~The compliance officer must be a person qualified to perform supervisory duties. In addition to the qualifications laid down in the Rules, the compliance officer must be equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. He must have unlimited access to all information and records in relation to the Participating Organisations business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharging of his duties.~~

4. THE ROLE AND POSITION OF A COMPLIANCE OFFICER

~~*The Role of the compliance officer in relation to other departments or functions within the Participating Organisation*~~

~~The compliance officer plays a supervisory role over every management level within the Participating Organisation to ensure that the Participating Organisation complies with all the relevant Securities Laws, rules and regulations. In this respect, the compliance officer keeps in constant communication and works closely with all supervisory heads within the Participating Organisation structure, with a view to supplementing existing reviews of the supervisors and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments.~~

~~The internal audit department and the compliance officer should strive to complement each other and work towards achieving a high standard of compliance. It is important to note that the compliance officer does not resume or take over the duties and functions of any of the other departments within the Participating Organisation.~~

~~*The Role of the compliance officer in relation to the Board of Directors*~~

~~He reports directly to the Board of Directors of the Participating Organisation. He has access (when necessary) to the Board of Directors to report, update, inform and make recommendations to the Board of Directors on all matters pertaining to compliance and breach thereto. Take note that the Board of Directors is ultimately responsible and accountable for non-compliance of the regulatory framework that a Participating Organisation is subjected to. Therefore when the Board of Directors fails to act upon a notification from the compliance officer, the Exchange deems it a failure to act, on the part of the Board of Directors. Hence, a copy of any reports and recommendations pertaining to compliance and any breach thereto is to be submitted by the compliance officer to the Exchange.~~

5. DUTIES AND FUNCTIONS OF A COMPLIANCE OFFICER

~~The duty of the compliance officer is to do everything within his powers to ensure that the Participating Organisation achieves compliance with the regulatory framework. A compliance officer is responsible for ensuring that there is adequate system or a set of written procedures that provides for the system of monitoring in the front and back office. Areas of compliance in the business of a Participating Organisation are generally clients, operational and financial compliance. He further supervises to ensure that this system is strictly enforced by the supervisory personnel.~~

~~These guidelines are framework within which the compliance officer must operate and conduct his duties and functions. The bigger and more varied a Participating Organisation's business, the more supervision and monitoring is expected from a compliance officer. Below are some of~~

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~~the general areas where strict compliance is required and the compliance officer's responsibility in relation thereto.~~

~~Where the Participating Organisation is also an Advisor or a Sponsor (only applicable in the context of ACE Market), the compliance officer is required to monitor and supervise compliance with the relevant provisions of the Listing Requirements pertaining to Advisors, and Sponsors.~~

~~It is stressed that the responsibilities of a compliance officer must always be associated with and be based on the Supervisory and Client Compliance Programmes of the Participating Organisation. In this regard, a compliance officer must always be mindful of the requirements of the supervisory and client compliance objectives of the Participating Organisation when effecting his duties.~~

I. General

- ~~• Intermediary between the Exchange/regulators and Participating Organisation on compliance issues.~~
- ~~• Responsible for creating, promoting and cultivating a compliance culture and making a high standard of compliance part of the day-to-day management of the Participating Organisation.~~
- ~~• Oversees that compliance is met by ensuring that all systems and procedures are in place and maintained by all supervisory personnel.~~
- ~~• To ensure that the regulatory framework is strictly adhered to by all employees of the Participating Organisation.~~
- ~~• Upon being notified of or identifying an event of non-compliance, to inform the relevant supervisor/Head of Department and to work with the appropriate person to rectify the matter in an efficient and practical manner.~~
- ~~• To recommend remedial action to the Participating Organisation in the event of non-compliance and to see to its successful implementation.~~
- ~~• To ensure that all violations are properly disciplined.~~
- ~~• To review course of action in the event of non-compliance, examine the extent of non-compliance and report to the Exchange with remedies.~~
- ~~• To advise the management and personnel of the Participating Organisation in relation to conformity to all rules and regulations.~~
- ~~• To ensure that all staff of the Participating Organisation are properly trained in relation to the regulatory framework and all the relevant Securities Laws, rules and regulations.~~
- ~~• To ensure that any regulatory changes are properly implemented within the Participating Organisation and to ensure strict adherence thereto.~~
- ~~• To review that appropriate structures, controls and procedures that will promote and ensure compliance within the Participating Organisation are in place.~~
- ~~• To ensure that the Participating Organisation has adequate systems for record-keeping to enable the effecting of a competent supervisory and client compliance programme.~~
- ~~• Keep himself up to date on compliance issues over the week and review other regulatory issues, including new products, new policies to be introduced by the respective departments, and generally keeping himself updated on current issues in the industry.~~

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- ~~• To ensure that any changes in written procedures are communicated effectively throughout the Participating Organisation.~~
- ~~• To ensure that all notifications from the Exchange are properly disseminated within the Participating Organisation.~~
- ~~• To ensure that there are constant and regular meetings with the supervisory personnel and dealer's representatives pertaining to issues of compliance and enforcement with a view to identifying existing and prospective issues and problem pertaining to compliance.~~
- ~~• To minimise conflict of interests between the client's interests and the interests of the Participating Organisation e.g. by constructing and safeguarding proper information barriers. Where there is conflict, to ensure that client's interest is given priority.~~

~~To establish an effective and quick mechanism of resolving problems that may arise which pertain to compliance.~~

~~To ensure that all the necessary steps and procedures for the settlement of disputes are adhered to.~~

II. The compliance officer's duties in respect of the Client

~~This is a very important function of the compliance officer as it involves dealings between the Participating Organisation and members of the public.~~

a) Client Account Opening

~~Review to ensure that the information quintessential to the opening of a client's account has been obtained, including the essential facts about the client's financial background, investment objectives and investment experience. Any approval for the opening of the said account will then be based on such information as obtained.~~

~~Review to ensure that the client's written agreement and the written approval necessary for the opening of the account has been obtained.~~

~~Review to ensure that the Participating Organisation maintains at all times proper records of its clients' accounts and to review the Participating Organisation's written procedures pertaining to the opening of client accounts.~~

~~Review to ensure that all requirements have been met prior to the approval of new client amounts and all necessary documentation are in place, including checking that the client's background and financial information verification is carried out within the stipulated time.~~

b) Client orders/dealings in securities

~~Review to ensure that client order procedures are complied with and reviewed regularly.~~

~~Review to ensure the provision of sales solicitation training.~~

~~Review to ensure that dealer's representatives do not give unpermitted incentives to clients or prospective clients.~~

~~Review to ensure that policies pertaining to best sales practice and "Know your Customer"/"Know your Client and Product" rules are complied with. This would include ensuring that unsuitable recommendations are not made to clients and that dealer's representatives have reasonable basis for making recommendations to clients. The necessary information must have been considered when forming the basis of such recommendation. Such information would include the type of client (retail or institutional), the client's investment objectives, investment experience and his ability to evaluate the risks involved in the said recommendation.~~

c) Client Account Review

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~~The review of accounts is important in ensuring that the procedures for account opening as well as the suitability rules have been strictly adhered to. In addition, such reviews will enable the detection of unusual patterns in trading or signs of apparent increase in the risk exposure in an account. With this in mind, a compliance officer should conduct/supervise account reviews based on the following:~~

~~Ensure that client and proprietary accounts are reviewed regularly by the relevant supervisor/authorised person and to supervise such reviews.~~

~~Maintain regular and periodic review of high exposure accounts or accounts of high-risk clients.~~

~~Based on the review as above, to maintain regular meetings with the relevant supervisor for the purpose of identifying problematic or potentially problematic accounts and that they are monitored more closely by the supervisor.~~

~~Ensure that any problem arising from any client's account be addressed promptly and resolved as soon as possible and where necessary, to be reported to the Exchange.~~

~~*d) Client Complaints/Disputes*~~

~~Ensure that the requirement for reporting, investigating and documenting client complaints are in place and are adhered to.~~

~~Review and follow up on the Client's Complaints Log/Register and ensure that all complaints made are duly noted and documented by a senior staff of the Participating Organisation and addressed promptly.~~

~~Monitoring and handling of disputes with clients—arbitration procedures and awards.~~

III. Monitoring

~~Regularly review and monitor all aspects of the Participating Organisation's business so as to keep check and to be aware of any threats of non-compliance.~~

~~Monitoring on a regular basis and following up on the findings of such monitoring.~~

~~Monitoring must include amongst others these areas:~~

~~*a) Dealer's representatives*~~

~~Ensuring dealer's representatives are properly registered with the relevant Exchange.~~

~~Ensuring that dealer's representatives conduct trading based on the "Know Your Customer"/"Know Your Client - Product" rules and do not make recommendations which are unsuitable to clients. Such recommendations must be based on the relevant information produced by or obtained on a client, including the client's investment objectives and experience and his ability to evaluate the risks involved in the said recommendation.~~

~~Ensure that there is no conflict of interest when trading is being conducted and where such a conflict of interest does arise, to always give preference to the client's interest.~~

~~Review to ensure that client's instructions are always adhered to.~~

~~Review to ensure that all transactions are properly recorded and processed.~~

~~*b) Proprietary accounts*~~

~~Review proprietary accounts to ensure that there is no conflict of interests with execution of client trades and that the "best execution" rule has been adhered to, i.e. that client orders/ transactions are always given priority to proprietary trades.~~

~~Review the order flow of proprietary trading.~~

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~~e) Discretionary accounts~~

~~Review the acceptance of discretionary accounts and to ensure that prior written authorisation from the client and written approval from the authorised person in charge has been duly obtained.~~

~~Review on a daily basis all trades done in a discretionary account.~~

~~Review to ensure that in executing discretionary accounts, the client's interest must always be observed. In this regard, there must be a mechanism in place to prevent the churning of such accounts purely to generate commission.~~

~~Review to ensure that all discretionary trades are executed within the proper discretionary authority granted to the Participating Organisation and that such trades are properly recorded.~~

~~Review to ensure that the maintenance of full and complete documentation of every transaction undertaken under any discretionary account.~~

~~d) Credit Control~~

~~Review to ensure that the credit control reports in respect of issues pertaining to compliance and enforcement.~~

~~Review to ensure that any credit limit imposed on any given client has been duly approved by the authorised person in charge and that such limit commensurates with the relevant information produced by or obtained on such client, i.e. such limit must be appropriate in light of factors such as income and financial status, investment experience, credit record, etc.~~

~~Review to ensure that any increase in credit limit granted to clients has been approved by the Credit Committee or the relevant authorised personnel and that the relevant information necessary to approve such increase has been considered.~~

~~Review to ensure that the credit control policy pertaining to debt recovery is not abused, i.e. there must be prompt recovery of outstanding amounts from clients and that no preference should be given to any client to roll over a position without undergoing the proper process and without valid reason.~~

~~Review to ensure that the provisions pertaining to exposure to a single client and a single security is strictly adhered to, and that there is proper mechanism to monitor these matters.~~

~~e) Margin accounts~~

~~Review to ensure that the margin policies of the Participating Organisation comply with the Exchange's rules on margin trading and to establish procedures for the purpose of ensuring that the same are complied with.~~

~~Review to ensure that all margin trading is in accordance with the relevant Securities Laws, business rules and the margin agreement signed with the client. For example, in regards to the topping up of the margin equity ratio, the making of margin calls, the rollover of margin positions, the limits on a Participating Organisation's exposure to margin financing. No margin client should be given undue flexibility in relation to all these matters.~~

~~f) Advertisements, Sales Literature and other related communication directed to clients or public~~

~~Review to ensure that the establishment and maintenance of adequate procedures to monitor the production and dissemination of any form of communication to the client and/or the public.~~

~~Review advertisements, sales literature and any other type of information pertaining to recommendations/business, disseminated to the client and/or the public, in terms of accuracy and compliance with the relevant rules and regulations and Securities Laws and to ensure that there is no misrepresentation and that such information is not false or misleading.~~

~~g) Assessments~~

~~Ensure that the monthly self-assessments (if any) are carried out in **accordance** with procedures as laid down in the rules of Exchange.~~

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h) Segregation of Assets

Review to ensure that the complete segregation of:

- client's assets from the Participating Organisation's and dealer's representatives' assets;
- Participating Organisation's accounts and client's accounts; and
- Participating Organisation's fund from client's fund.

To ensure that there are adequate policies and procedures in place to monitor the strict adherence to provisions on segregation of assets as contained in the Securities Laws, rules and regulations.

i) Proper record-keeping

Review to ensure that all transactions and any activities as aforementioned are properly recorded and documented in order to establish an audit trail.

IV. Education and Training

A Participating Organisation must ensure that all personnel are adequately trained in terms of all the provisions of the Securities Laws, rules and regulations, as well as the relevant business conduct and best sales practice requirements. All members of staff must be equipped with the necessary capabilities to effectively carry out responsibilities assigned to them.

A compliance officer will assist a Participating Organisation in achieving the aforementioned as follows: To ensure employees are given comprehensive training in key areas of business. The compliance officer is encouraged to assist in the formulation of training programmes and to advise on areas where training is most required.

To ensure adequate staff training in relation to compliance issues.

Ensure that adequate training programmes are in place for employees directly involved in the handling of the client's accounts.

Educate senior personnel in relation to compliance and how it may be disseminated within the Participating Organisation.

V. Segregation of Duties

A Participating Organisation must ensure that adequate internal policies/procedures on the following are formulated and enforced:

Code of Conduct for Employees

These procedures must be designed to ensure that all employees of the Participating Organisation exercise proper business conduct and do not undertake any unfair or unethical practices. These procedures must outline the necessary standards of personal and professional integrity expected for employees.

Procedures to effect Proper Corporate Governance

There must be proper and actual segregation of functions between back room and front office personnel, and there must be no concentration of authority within the supervisory ambit of one person, e.g. the Head of Operations in charge of the back office must not also be supervising the dealing/trading operations. Similarly, there must also be an effective segregation of functions between persons undertaking/in charge of client trading and those undertaking/in charge of trading on behalf of the Participating Organisation. This is to ensure that no conflict of interest arises and that clients' interest are duly maintained.

Policy on "Chinese Walls"

Where a Participating Organisation assumes more than one role in the market place, there would inevitably be potential conflicts of interests. Hence, barriers to communication must be erected between

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~~the relevant departments of a Participating Organisation to prevent the transfer and misuse of non-public information.~~

~~In this regard, adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same must be in place to avoid any possibility that the Participating Organisation's interest will be set above that of the client's. Such procedures must adequately minimise the risk of and provide ample disincentive for the abuse of confidential information, making it highly inconvenient and costly for any person to utilise such information in furtherance of his own interest.~~

~~An example of such procedure is the taping of conversations of employees of the Participating Organisation to ensure that price-sensitive or other non-public information is not relayed to unauthorised persons. In addition, the compliance officer must ensure that any information transferred between the "Chinese Walls" be passed through him, who must then, as far as possible, control the flow of such information.~~

~~These policies/procedures are to be adhered to by each member of the Participating Organisation, including its Supervisory personnel and its Board of Directors.~~

~~Such policies must be in place to facilitate the monitoring by the compliance officer, which will include the following:~~

~~Ensure that there is a separation of duties between persons handling customer orders and company employees or principals trading for the company's proprietary accounts or their own accounts. This is to prevent the preference of the Participating Organisation's or its employee's transactions at the expense of the client's.~~

~~To ensure the separation of functions between the back-room functions (administration and record-keeping) and the front-office trading functions and also between the front office trading function and the risk management function. There must be proper division between incompatible functions. This is to provide a necessary system of check and balances and to produce efficacy in a Participating Organisation's system of internal controls.~~

~~To ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance). This would prevent the abuse of position/authority and would ensure that no one person is responsible for the supervision of a large number of department/employees without any corresponding check or control.~~

~~Where the Participating Organisation assumes more than one role in the market place, the compliance officer must ensure that there is proper segregation of function and that there is at all times, no conflict of interest. There must be adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same, to prevent misuse of non-public information or the occurrence of other trading abuses.~~

~~**VI. The Compliance Officer's Duties in respect of the Exchange**~~

~~The compliance officer must submit a compliance report to the Exchange on a monthly basis of any non-compliance and the appropriate actions or remedy taken by the Participating Organisation.~~

~~The compliance officer must inform the Exchange immediately of any circumstances affecting the Participating Organisation's solvency or any condition that would materially impair its ability to meet any of its obligations.~~

~~The compliance officer must inform the Exchanges of any constitutional changes in relation to the Participating Organisation's operation and any changes affecting the Participating Organisation's dealer's licence or licences issued to its dealer's representatives.~~

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~~The compliance officer must ensure that the Exchange and the Clearing House are supplied with documents and information as and when requested. The compliance officer is answerable to any query that the Exchange or the Clearing House may have in relation to his duties and responsibilities.~~

6. COMPLIANCE MANUAL

~~A Participating Organisation must establish and maintain a comprehensive "Compliance Manual" tailored to its respective needs. Such manual will be subject to review for adequacy by the compliance officer, who will then ensure that the requirements in the manual are adhered to.~~

~~The Compliance Manual must elaborate on the practical applications of a compliance officer's detailed functions. The manual must specify among others his monitoring, supervisory and review procedures in relation to all his functions.~~

~~The manual must among others include:~~

~~— the outline for the compliance policies, procedures and controls of the Participating Organisation, to safeguard the Participating Organisation and its customers from serious risks of loss and defalcation;~~

~~— a Code of Conduct outlining standards of personal integrity expected from the staff;~~

~~The Participating Organisation is also required to develop a Business Conduct Manual, which among other things, would assist dealer's representatives in the compliance with the provisions of the Securities laws, rules and regulations, when undertaking their trading activities. In this regard, the compliance officer must then attend to inquiries from personnel, including the dealer's representatives, as to matters pertaining to clarification on any authoritative enactments.~~

~~— account opening requirements for new clients;~~

~~— distinct requirements on matters such as the complete segregation of:~~

~~duties between the front and back offices and trading rooms;~~

~~clients assets from the Participating Organisation's and dealer representatives' assets; and~~

~~Participating Organisation's fund from clients fund;~~

~~— personnel account dealing procedures;~~

~~— transaction reporting requirements, information on the laws against insider trading, and steps to be taken to preserve the confidentiality of client information;~~

~~— staff dealing rules and code of conduct in relation to compliance;~~

~~— considerations on Chinese walls and/or Insider Dealing; and~~

~~— customer complaints handling.~~

~~The compliance officer must ensure that the procedures established in the manual are adequate. Adequate procedures are those designated to meet industry standards, regulatory requirements, and the circumstances of the Participating Organisation.~~

~~The compliance officer must ensure that the compliance procedures are designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Participating Organisation.~~

~~The compliance officer must ensure that each compliance programme must be appropriate for the size and nature of the organisation.~~

~~Once the compliance procedures are established, the compliance officer must ensure that the compliance procedures are monitored and enforced.~~

~~The compliance officer must ensure that the compliance procedures established are effectively communicated within the Participating Organisation.~~

ANNEXURE 1

AMENDMENTS TO THE BMS DIRECTIVES

In relation to review of the (1) Guidelines for Compliance Function and (2) Compliance Reporting for Participating Organisation, Trading Participants and Clearing Participants

~~The compliance officer must ensure that the manual be subjected to regular periodic review or whenever there are major changes to the relevant Securities laws, rules, and regulations.~~

~~The Compliance Manual must be approved by the Board of Directors.~~

~~7. **CONCLUSION**~~

~~It is important that the employees in a Participating Organisation give full co-operation to the compliance officer. The management must create and promote a compliance culture in their respective departments or units. An ethos of professionalism and best practice that is essential for an effective compliance function can only be achieved if everyone plays his part.~~

~~It is important that the management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clearly stipulated in writing. There must be a proper segregation of tasks and delineation of responsibilities between the different departments and employees, so as to avoid an over-concentration of powers, or responsibilities on a particular person within the company. Segregation of duties is fundamental to any effective control system. It is the first line of protection against the risk of fraudulent or unauthorised activities.~~

~~It is the view of the Exchange that the role and functions of the compliance officer can be best performed and executed with the support of a Compliance Department. In this regard, the size of the Compliance Department of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations of the Participating Organisation. It is therefore felt that a Participating Organisation would be in the best position to make determinations in relation to the size of its Compliance Department.~~

ANNEXURE 1
AMENDMENTS TO THE BMS DIRECTIVES

In relation to review of the (1) Guidelines for Compliance Function and (2) Compliance Reporting for Participating Organisation, Trading Participants and Clearing Participants

DIRECTIVES ~~ON~~ ~~FOR~~ ~~HEAD-OF~~ ~~COMPLIANCE~~ ~~FUNCTION~~

No. 3.36-001

1. INTRODUCTION

- (1) Past financial crises have shown that vast sums of money have been wiped out by bad behaviour such as unethical trading, excessive risk-taking, market manipulations, money laundering-related penalties and weaknesses in internal controls. Due to this, regulation has taken on renewed importance and international regulatory standards are being reviewed and tightened.
- (2) The three lines of defence model consisting of the business line managers as the first line of defence, risk control and compliance as the second line of defence while the third line of defence being the internal audit as risk assurance, are vital controls within a Participating Organisation.
- (3) A corporate culture with high ethical standard is a reflection of a strong compliance culture that is instilled by the Board of Directors and senior management, and practised by all levels of employees within a Participating Organisation.
- (4) It is imperative that sound compliance is practised to embrace the letter and spirit of the applicable laws, these Rules and Directives to ensure high standard of business conduct and ethics within a Participating Organisation that will safeguard investors' interests and integrity of the market place.
- (5) In light of the above, it is pertinent that the conduct of a Participating Organisation's business activities be subjected to the Compliance Guidelines.

2. OBJECTIVES OF COMPLIANCE GUIDELINES

The objectives of the Compliance Guidelines are to:-

- (a) provide a general guide on compliance which will serve as a basis for the formulation of the compliance manual and the measurement for the performance of the compliance function;
- (b) emphasise the role, duty and responsibility of the compliance function to the Head of Compliance, Board of Directors and Participating Organisation;
- (c) enhance the quality and effectiveness of the compliance function;
- (d) set the minimum supervisory and monitoring standard for all Participating Organisations; and
- (e) provide an in-depth understanding of the duties and responsibilities of the compliance function in relation to other employees of a Participating Organisation.

3. PRINCIPLES AND CONCEPT OF COMPLIANCE FUNCTION

3.1 Control function

Also termed as the middle-office function, a compliance officer (which includes the Head of Compliance and is referred to as "CO"), must be independent of both back and front office and ensure that the activities of both the front and back office function are carried out without any conflict of interest. A CO must have no sales and/or operational function and must not be

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involved in trading (e.g. he must not be allowed to solicit or execute any orders on behalf of Client), settlement, funding, processing or reconciliation activities of a Participating Organisation. In this respect, the CO must only engage in full time compliance work.

3.2 Second Line of Defence

- (1) The compliance function acts as the second line of defence in overseeing the various policies and control procedures that are adhered by the first line of defence, i.e. the business lines, through its day-to-day activities.
- (2) Together with the internal audit, the third line of defence, the compliance function provides assurance to the Board of Directors and senior management on the effectiveness of the Participating Organisation's overall internal controls, risk management and governance systems and processes in complying with regulatory requirements and internal policies and procedures. The internal audit department and the compliance function should strive to complement each other and work towards achieving a high standard of compliance.

3.3 Advocate Compliance Culture

A CO is responsible for creating, promoting and cultivating compliance culture and making a high standard of compliance part of the day-to-day management of the Participating Organisation. A CO and heads of departments must maintain compliance by ensuring that all systems and procedures as identified by or agreed with the heads of departments that would enable heads of departments to perform their responsibilities effectively are in place.

3.4 Advisory and Supervisory Role

A CO must advise the management and Board of Directors in relation to conformity to all the Securities Laws and these Rules and the Directives ("**Regulatory Framework**"), as well as internal policies and procedures. The CO also has a supervisory and monitoring function over all employees to ensure they carry out their duties and obligations in compliance with the Regulatory Framework and internal policies and procedures. The CO's supervisory and monitoring function does not relieve the heads of departments of their responsibilities.

3.5 Independence of Function

- (1) The compliance function must be a function without any potential conflict of interest in its responsibilities and is not hindered from highlighting non-compliances of any business lines to the Board of Directors or senior management as to achieve unflawed check and balance within a Participating Organisation.
- (2) In instances where the CO also assumes the duties of other control or administrative functions, the CO must ensure that the independence and ability to provide sufficient resources and commitment to the responsibilities in respect of the compliance function is not compromised and is carried out without conflict of interest, perceived or otherwise.

3.6 Overseeing Compliance and Maintenance of High Standards of Business Conduct

The CO is responsible for overseeing compliance within the organisation on a day-to-day basis and ensuring compliance with the Regulatory Framework, as well as internal policies and procedures.

3.7 Promote Proper Conduct and Segregation Of Duties

The CO must oversee the Participating Organisation's policies and procedures to ensure that all back-office and front-office employees of the Participating Organisation exercise proper business conduct, do not undertake any unethical practice and that their functions do not cause conflicts of interest. These policies and procedures must outline the necessary standards of personal and professional integrity expected of employees and that the Regulatory Framework is strictly adhered to by all employees of the Participating Organisation.

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3.8 Access to documents

A CO must have unlimited and unfettered access to all information and records in relation to the Participating Organisation's business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharge of duties.

3.9 Liaison between the Exchange / Regulators and the Participating Organisation

The CO must act as the point of reference between the Exchange, Clearing House, Commission or other regulators, where relevant, and the business lines on all compliance related matters. The CO is also to ensure that the Exchange, ~~and the~~ Clearing House, Commission or other regulators, where relevant, are supplied with documents and information as and when requested.

4. COMPLIANCE AND GOVERNANCE

4.1 Tone from the top

- (1) A Participating Organisation, as a whole, must be committed to the creation and maintenance of a compliance culture within its organisation. Key decisions and actions taken in regard to daily operations must be based on such a commitment, ensuring compliance with the Regulatory Framework at all times.
- (2) The setting of a compliance culture within the Participating Organisation is the responsibility of the Participating Organisation through its Board of Directors and senior management. They must provide necessary support to the compliance function and their actions must be indicative of this. They must ensure that employees comprehend and understand their responsibilities in respect of compliance risk and promote an environment where employees feel safe and comfortable in reporting incidents and promoting transparency throughout the organisation through self-reporting.

4.2 Board Oversight

- (1) The compliance function of a Participating Organisation is ultimately the responsibility of the Participating Organisation and its Board of Directors. A strong and pro-active Board of Directors will foster an environment of strong internal controls and compliant procedures and practices. It will also help to inculcate compliance culture within the Participating Organisation.
- (2) The Board of Directors is responsible for the compliance function of a Participating Organisation in a holistic manner, including taking actions to:
- (a) approve the organisation's compliance framework and policy and to oversee its effective implementation;
 - (b) approve significant policies and procedures throughout the organisation and ensure that a sound system of internal controls is maintained to safeguard shareholders' interest, company's assets and clients' interests. This covers not only financial control but also operational and compliance controls, as well as risk management;
 - (c) perform on-going evaluation on the effectiveness of the organisation's overall compliance risk management;
 - (d) appoint or ensure the appointment of a qualified person to perform the duties of the Head of Compliance;

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- (e) appraise and deliberate on the performance of the Head of Compliance; and
- (f) approve the termination or acknowledge the resignation of a Head of Compliance, or when the approval or acknowledgment is delegated, to ensure that the termination or resignation is for a proper reason. The Board of Directors must be informed of the outcome of the exit interviews held with a Head of Compliance and ensure that actions are taken to address deficiencies, if any, that resulted in the resignation or termination of the Head of Compliance.

4.3 Management Oversight

- (1) The Participating Organisation through its senior management in all business lines within the Participating Organisation must effectively manage the compliance risk, as well as other inherent risks by developing and owning clear, comprehensive and up-to-date policies and procedures.
- (2) It is essential that the Participating Organisation, through its senior management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clear, adequate and up-to-date in writing. There should be a clear segregation of duties within each department as to avoid any potential conflict of interest situation.

4.4. Qualification and Competence

Based on the above, the Board of Directors must appoint a Head of Compliance with good character, business repute, qualification, experience and sufficiently broad knowledge and high level of expertise. In addition to the qualifications laid down in these Rules, the Board of Directors must ensure that the Head of Compliance is equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. Therefore, the Head of Compliance must be a person holding a **senior position** in the organisation of the Participating Organisation, who can act independently and is able to fully affect decisions.

4.5 Resources

The Participating Organisation must support the compliance function by employing sufficient personnel with the necessary qualifications and authority. The role and function of CO can be best performed and executed with proper tools and mechanism as well as the support of a compliance unit to ensure the efficacy of the compliance function and programmes. The size of the compliance unit of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations.

4.6 Reporting to the Board of Directors or the Board Committee

The Head of Compliance must report directly to the Board of Directors or such committee appointed by the Board of Directors, as the case may be. In the course of his duties, the Head of Compliance may bring to the attention of the executive directors or other senior management of the Participating Organisation matters pertaining to compliance of the Participating Organisation so as to enable appropriate action to be taken.

4.7 Ultimate Responsibility of Ensuring Compliance Within the Participating Organisation

- (1) The ultimate responsibility to ensure compliance with the regulatory requirements and internal control framework lies with the Participating Organisation and its Board of Directors. The CO facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The Participating Organisation and its Board of Directors must undertake effective oversight of the formulation, coordination and implementation of any supervisory or compliance programme.
- (2) Therefore, when the Board of Directors fails to effectively supervise the overall business

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undertaking of the Participating Organisation or the activities of its employees, including commissioned dealers, or fails to act upon a notification from the Head of Compliance, the Exchange deems it a failure to act, on the part of the Board of Directors. In such an event, the Head of Compliance must submit a copy of the reports and recommendation pertaining to the breach of compliance and failure to act on the recommendation directly to the Exchange.

- (3) Nevertheless, compliance is the responsibility of all staff within an organisation. All levels of business functions must carry out their responsibilities to ensure compliance with the Regulatory Framework as well as all internal control policies and procedures set up by the Participating Organisation.

5. DUTIES AND RESPONSIBILITIES OF A CO

5.1 The Role of the CO in relation to the Board of Directors

The CO reports directly to the Board of Directors or such committee appointed by the Board of Directors, as the case may be, and has access (when necessary) to report, update, inform and make recommendations to the Board of Directors or such committee appointed by the Board of Directors, as the case may be on all matters pertaining to compliance and breach (or likely breach). With the Board of Director's commitment and support in adopting the compliance principles and governance framework, a CO would be able to implement and maintain an effective compliance function that can act as a deterrent against any wrongdoing by market participants and provide the necessary foundation for the protection of investors' interests in the market.

5.2 The Role of the CO in relation to other Departments or Functions within the Participating Organisation

The CO plays a supervisory role over every management level who is a supervisory head within the Participating Organisation to ensure that the Participating Organisation complies with all the relevant Regulatory Framework. In this respect, the CO keeps in constant communication and works closely with all supervisory heads within the Participating Organisation, with a view to supplementing reviews of the supervisory heads and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments of the supervisory heads. In practice, this can involve the direct participation of the CO in providing legal and regulatory input to business processes or decisions. For the purposes of the Compliance Guidelines, a supervisory head means a senior officer holding a managerial position and designated to direct or supervise a particular function in a Participating Organisation, who is generally a head of department but may include a manager reporting to the head of department.

5.3 Managing Compliance Risk

A CO must identify all compliance risks and implement controls into the Participating Organisation's day-to-day operations to manage these risks effectively.

5.4 Managing Conflict of Interest

Conflicts of interest management is one element of a CO's day-to-day role as part of maintaining proper conduct of the Participating Organisation including by reviewing policies and procedures to effect proper corporate governance and policy on "Chinese Walls".

5.5 Identify Impact of Change in Regulation and Policies

The CO must analyse the impact of any regulatory and policy changes in its business operations and communicate and disseminate such impact (if any), effectively and in a timely manner throughout the Participating Organisation.

5.6 Assist in Situations of Non-Compliance or Potential Non-Compliance

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Upon being notified of or identifying:

(a) an event of non-compliance; or

(a) a potential non-compliance event, including a risk of breach of rules and regulations

the CO must inform the relevant supervisor and to work with the appropriate person to rectify the matter in an efficient and practical manner, recommend remedial action to the Participating Organisation and see to its successful implementation. A CO must review the course of action in the event of non-compliance, examine the extent of non-compliance and report to the Board of Directors or such committee appointed by the Board of Directors, as the case may be, and the Exchange with proposed remedies. The CO must also address audit findings raised by internal, external and regulatory auditors.

6. SUPERVISION OF THE PARTICIPATING ORGANISATION

(1) The duty of the CO is to do everything within its powers to ensure that the Participating Organisation achieves compliance with the Regulatory Framework by ensuring that there is adequate system or a set of written policies and procedures that provides for the system of monitoring in the front and back office functions. Areas of compliance in the business of a Participating Organisation generally relate to Clients, operational and financial compliance. Where the Participating Organisation is also an adviser or a sponsor as defined in the Listing Requirements, the CO is required to monitor and supervise compliance with the relevant provisions of the Securities Laws and Listing Requirements.

(2) The CO undertakes an overall supervisory responsibility over the trading and operational functions of a Participating Organisation. A CO monitors ongoing business activity on a proactive basis and oversees that compliance is met by ensuring that all systems and procedures are in place and maintained by all supervisory personnel.

(3) A CO must ensure the establishment, maintenance and enforcement of an adequate supervisory and compliance system to generally supervise the overall proper running of its business activities and particularly, to supervise the activities of each Dealer's Representative, agent and other personnel. Such a system must be reasonably designed to achieve compliance with the applicable Regulatory Framework.

6.1 Supervisory Programme

(1) A prudent supervisory programme refers to a competent system of internal controls within a Participating Organisation. Proper management controls and diligent management enhances the credibility and reputation of a Participating Organisation and provides the necessary investor protection. Indeed, the supervisory and control responsibilities of a Participating Organisation are crucial to the maintenance of the integrity of the marketplace.

(2) A CO must ensure the elements of a competent supervisory programme must at least consist of:

(a) Written Policies and Procedures

(i) A comprehensive documentation and written policies and procedures on the business operations are maintained and regularly updated to take into account any changes that may occur in the current Regulatory Framework. These procedures must be effectively disseminated and enforced throughout the Participating Organisation. The CO must ensure that the written policies and procedures established are adequate, meet industry standards, the regulatory requirements, and the internal requirements of the Participating Organisation by conducting reviews to ensure such policies and

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procedures meet regulatory and internal requirements and business lines have reviewed for adequacy against industry standards.

- (ii) Maintenance of an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective.
- (iii) Establishment of written policies and procedures of all transactions and correspondence of its Dealer's Representatives pertaining to the solicitation or execution of any transaction. Examples of written policies and procedures include policies and procedures on maintaining records of trading activities and trade orders from clients.

(b) Internal Review

The CO must ensure that, pursuant to the above, the relevant supervisory heads/heads of departments perform their supervisory responsibilities effectively. Regular and periodic reviews of the Participating Organisation's business activities and the departments' functions must be carried out to assist in detecting and preventing violations of the Regulatory Framework. A complete written record of the details of such reviews conducted is to be maintained.

(c) Automation of Monitoring

As the complexity of a Participating Organisation's business operations grow, it is recommended that automation of monitoring is employed whenever possible and practical, particularly in areas of reporting and generating exception reports.

7. SUPERVISION OF COMPLIANCE FUNCTION

- (1) To be effective, the compliance function requires the formulation and implementation of tools such as compliance manual, compliance programme and checklist (collectively referred to as the "**Compliance Programme**"). These tools are to be tailored in accordance with the business operations of each Participating Organisation.
- (2) The overall objectives of a Compliance Programme are to ensure:
 - (a) the business activities are regularly monitored;
 - (b) the level of compliance of a business unit within the Participating Organisation are evaluated;
 - (c) compliance risk and any other inherent risks are mitigated; and
 - (d) areas of non-compliance are rectified.

7.1 Compliance Manual

- (1) A comprehensive compliance manual must be established and tailored to a Participating Organisation's respective needs and reviewed for adequacy by the CO. It must elaborate on the practical applications and detailed operations of the compliance function. The manual must specify among others, the monitoring, supervisory and review procedures in relation to the compliance function.
- (2) The manual must amongst others:
 - (a) include the outline for the compliance policies, procedures and controls of the Participating Organisation, to safeguard the Participating Organisation and its Clients from serious risks of loss and defalcation;

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- (b) contain adequate procedures designated to enable the Participating Organisation's business activities and the departments' functions to meet industry standards, regulatory requirements and the circumstances of the Participating Organisation;
- (c) contain compliance policies and procedures designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Participating Organisation;
- (d) contain compliance policies and procedures that are monitored, enforced and effectively communicated within the Participating Organisation;
- (e) be subject to regular periodic review or whenever there are major changes to the Regulatory Framework; and
- (f) be approved by the Board of Directors, or such committee appointed by the Board of Directors, as the case may be.

7.2 Compliance Programme

A Compliance Programme documents how compliance monitoring will be performed, and will contain detailed areas of checking and state the frequency of checks that should be conducted. This is to ensure that a business process is checked to identify, assess and respond to errors and other variances that would otherwise thwart compliance with an activity's procedures. Compliance Programmes must commensurate with the size and nature of the Participating Organisation and include monitoring programme over its branch offices. Compliance checks should produce accurate and timely data to measure the compliance level of a Participating Organisation.

8. MONITORING BY COMPLIANCE FUNCTION

A CO must review that all areas of the Participating Organisation's business and operations comply with the Regulatory Framework. The compliance monitoring programme must at least consist of the areas stated below (dependent upon the business and operational activity of the Participating Organisation):

8.1 Management of Conflict of Interest

Effective management of conflict of interest involves, among others, a segregation of function, as follows:

- (a) Effective handling of the Clients' trading accounts and the organisation's proprietary accounts to ensure the Participating Organisation acts in the best interest of its Clients. Where such a conflict of interest does arise, to always give preference to the Client's interest. The Clients' and proprietary accounts are to be reviewed regularly within the prescribed parameters. All employees of the Participating Organisation should exercise proper business conduct and do not undertake any unfair or unethical practices.
- (b) There is proper segregation between functions where there are conflict of interest, including between the back-office (administration and record-keeping), the front-office trading, and the risk management functions. This is to provide a necessary system of check and balances and to produce efficacy in a Participating Organisation's system of internal controls.
- (c) There is no concentration of authority within the supervisory ambit of one person, (e.g. the Head of Operations in charge of the back office must not also be supervising the dealing/trading operations) and that there is proper segregation of functions (proper corporate governance). This would prevent the abuse of position/authority and would ensure that no one person is responsible for the supervision of a large number of department/employees without any corresponding check or control.

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(d) Where the Participating Organisation assumes more than one role in the market place, there would inevitably be potential conflicts of interests. Hence, barriers to communication must be erected between the relevant departments of a Participating Organisation to prevent the transfer and misuse of non-public information. The CO must ensure there must be adequate internal procedures pertaining to information barriers (Chinese Walls) and the strict adherence to the same, to prevent misuse of non-public information or the occurrence of other trading abuses.

8.2 Client Account Opening

That the trading accounts are approved within the provisions of the Regulatory Framework and the relevant business conduct requirements and are supported with relevant written agreement and risk disclosure statement before trading is allowed to commence. For non-face-to-face verification, ensure adequate controls are in place before accounts are accepted for approval. Adequate controls include the following:

- (a) The information essential to the opening of a Client's account has been obtained, including the essential facts about the Client's financial background, investment objectives and investment experience. Any approval for the opening of the Client's account will then be based on such information as obtained.
- (b) The Client's written agreement and the written approval necessary for the opening of the account has been obtained.
- (c) The Participating Organisation maintains at all times proper records of its Clients' accounts and to review the Participating Organisation's written procedures pertaining to the opening of Client accounts.
- (d) All requirements have been met prior to the approval of new Client amounts and all necessary documentation are in place, including checking that the Client's background and financial information verification is carried out.

8.3 Client Account Review

The following areas must be complied with:

- (a) The procedures for account opening as well as the suitability rules have been strictly adhered to. In addition, such reviews will enable the detection of unusual patterns in trading or signs of apparent increase in the risk exposure in an account.
- (b) The Client and proprietary accounts are reviewed regularly by the relevant supervisor/authorised person and to supervise such reviews.
- (c) Maintain regular and periodic review of high exposure accounts or accounts of high-risk Clients.
- (d) Any issues arising from any Client's account must be addressed promptly and resolved as soon as possible and where necessary, to be reported to the Exchange.

8.4 Segregation of Assets

There is a complete segregation between Clients', Dealer Representatives' and Participating Organisation's funds and assets.

8.5 Discretionary Accounts

Review Discretionary Accounts to ensure the following:

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- (a) compliance with these Rules and Directives;
- (b) that prior written authorisation from the Client has been obtained;
- (c) that the Participating Organisation has entered into a written agreement with the Client which sets out the terms and conditions for the operation of the Client's Discretionary Account, including adequate and accurate disclosure of the risks involved;
- (d) each discretionary order must be identified as a discretionary order at the time of the entry;
- (e) the trades done in a Discretionary Account are reviewed regularly;
- (f) that in operating a Discretionary Account, the Participating Organisation must at all times act in the best interest of the Client. In this regard, the review must include the assurance that there is a mechanism in place to prevent the churning of such accounts purely to generate commission;
- (g) that all discretionary trades are executed within the proper discretionary authority granted to the Participating Organisation and that such trades are properly recorded;
- (h) that the maintenance of complete and accurate documentation of every transaction undertaken under any Discretionary Account; and
- (i) in relation to Discretionary Account transactions, that there is no conflict of interest in the execution of Client trades and proprietary trades.

8.6 Client Complaints

The CO must:

- (a) Ensure that Clients' complaints are recorded and maintained in accordance with these Rules and Directive and internal policies and procedures. The CO must ensure that the handling of disputes are carried out in the best interest of the Clients and that a proper register is maintained to document all Clients' complaints. The register must record the following information:
 - (i) the identity of the complainant;
 - (ii) the date the complaint was received;
 - (iii) the Dealer's Representative servicing the account (where applicable);
 - (iv) a general description of the complaint; and
 - (v) the action(s) taken in respect of the complaint.
- (b) Ensure that the requirements for reporting, investigating and documenting Client complaints are in place and are adhered to.
- (c) Review and follow-up on the Client's Complaints Log/Register and ensure that all complaints made are duly noted and documented by a senior staff of the Participating Organisation and addressed promptly.
- (d) Monitor the handling of disputes with Clients' arbitrations and awards.
- (e) Give immediate attention where a high number of Client complaints are received and implement mitigating strategies.

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8.7 Transactions by Directors, Employees, Dealers' Representatives, Trading Representatives

The CO must ensure that an employee, Registered Representative, Trading Representative or Director of the Participating Organisation who trades in securities for his own account is subject to compliance with the provisions on conflicts of interests as set out in the Regulatory Framework and must notify the Participating Organisation of such trades. The compliance function must actively monitor to ensure that proper records of all employee accounts and any transactions undertaken are maintained and that controls are in place to prevent insider trading.

8.8 Dealer's Representatives

The CO must ensure:

- (a) Dealer's Representatives are properly registered with the relevant Exchange.
- (b) Dealer's Representatives conduct trading based on the "Know Your Customer"/Know Your Client Product" rules and do not make recommendations that are unsuitable to Clients. Such recommendations must be based on the relevant information produced by or obtained on a Client, including the Client's investment objectives and experience and his ability to evaluate the risks involved in the said recommendation.
- (c) There is no conflict of interest when trading is being conducted and where such a conflict of interest does arise, to always give preference to the Client's interest.
- (d) Client's instructions are always adhered to unless prohibited by the Regulatory Framework.
- (e) All transactions are properly recorded and processed.
- (f) Dealer's Representatives do not give unpermitted incentives to Clients or prospective Clients.
- (g) The record of mobility of Dealer's Representatives is maintained.

8.9 Marketing Representative ("MR")

- (a) All MRs are properly registered with the Participating Organisation.
- (b) MR can only perform permitted activities as outlined in the Guidelines for Marketing Representatives.
- (c) MR do not provide recommendation or advise on securities and derivatives or any other capital market products to Clients.
- (d) The MR fulfils the minimum qualification and requirements as set out in the relevant guidelines.

8.10 Trading Representative ("TR")

- (a) All TRs are properly registered with the Commission.
- (b) TR only performed permitted activities as outlined in the relevant guidelines.
- (c) TR do not provide advice, persuade, induce or make specific recommendations on capital market products.

8.11 Record-Keeping and the Supervision of Accounts

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All transactions and any activities must be properly recorded and documented in order to establish an audit trail. Comprehensive records of all Client accounts and transactions done must be maintained. Such records must be made readily available to persons performing supervisory functions and must facilitate the review of, among other things, the size and frequency of purchase transactions, the amount of commission generated, the profit and loss status, any undue concentration in any type of transaction, compliance with rules on margin (where applicable).

8.12 Maintenance of Paid-up Capital and Clients' Trust Account

- (1) The requirements on the maintenance of the minimum paid-up capital and minimum shareholders' funds unimpaired by losses of the Participating Organisation as well as the submission of regulatory reporting in an accurate and timely manner as prescribed in the Regulatory Framework. Also, there are adequate procedures in ensuring reconciliation for all balances on the accounts and the operations of trust account by the Account/Finance Department and controls in place to ensure no co-mingling of Clients' and Participating Organisation's monies. There must be proper classification and disclosure of Clients' trust account in accordance with the Regulatory Framework.
- (2) For any deficiencies in the trust account, action must be taken to address the deficiencies and reporting must be conducted in a timely manner. Controls must be in place to ensure monies deposited with or received by the Participating Organisation as well as withdrawal from Clients' trust account is in accordance with the Regulatory Framework.

8.13 Capital Adequacy Ratio ("CAR")

The requirements on the maintenance of minimum CAR of the Participating Organisation at all times and the capital adequacy reports are reviewed prior to transmitting the CAR report in accordance with the provisions prescribed in these Rules and Directives.

8.14 Margin Accounts

- (1) The margin policies of the Participating Organisation comply with these Rules and Directives on margin trading and to establish procedures for the purpose of ensuring that the same are complied with.
- (2) All margin trading is in accordance with these Rules and Directives and the margin agreement signed with the Client. For example, in regards to the topping up of the margin equity ratio, the making of margin calls, the rollover of margin positions, the limits on a Participating Organisation's exposure to margin financing. No margin Client should be given undue flexibility in relation to all these matters.

8.15 Credit Control

- (1) Any credit limit imposed on any given Client has been duly approved by the authorised person in charge and that such limit commensurate with the relevant information produced by or obtained on such Client, i.e. such limit must be appropriate in light of factors such as income and financial status, investment experience, credit record, etc.
- (2) Any increase in credit limit granted to Clients has been approved by the Credit Committee or the relevant authorised personnel and that the relevant information necessary to approve such increase has been considered.
- (3) The credit control policy pertaining to debt recovery is not abused, i.e. there must be prompt recovery of outstanding amounts from Clients and that no preference should be given to any Client to roll over a position without undergoing the proper process and without valid reason.
- (4) The provisions pertaining to exposure to a single Client and a single security is strictly adhered to, and that there is proper mechanism to monitor these matters.

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All transactions in the clearing and error accounts, are properly recorded and processed and error trades are transferred and closed in the error account, in accordance with these Rules and Directives. High frequency of error trades should warrant a review of the Participating Organisation's policy.

8.17 Clients Trading on LEAP Market

There are adequate procedures to ensure that the Clients remain qualified as Sophisticated Investors for purpose of trading on the LEAP Market. All transactions in the LEAP Market are properly tagged and comply with the provision of these Rules and Directives in respect of Clients trading on the LEAP Market.

8.18 Regulated Short Selling ("RSS")/Securities Borrowing and Lending ("SBL")

- (1) All RSS trading are in accordance with the Regulatory Framework and the SBL Agreement or the Islamic Securities Selling and Buying – Negotiated Transaction ("ISSBNT") Agreement is signed with the Client.
- (2) The established RSS/SBL policies and procedures comply with the Exchange's requirements.

8.19 Market Maker

There are adequate system of internal controls and risk management and that the market making activities (including PSS), are done through the Securities Accounts designated specifically for market making based on the terms prescribed by the Exchange and the Depository respectively.

8.20 Accounting / Financial Review

The CO must ensure there are adequate policies and procedures to ensure accounting information are complete, accurate and processed on a timely basis where accounting related reconciliation must be performed by an independent officer and on a periodic basis. Reconciliation differences must be investigated and promptly resolved.

A proper accounting system must be implemented to ensure existence of an audit trail and provide accountability to the accounting data captured in the system. Accurate and prompt recording of cash receipt/disbursement must be put in place to monitor cash balances maintained at adequate levels.

Proper classification and disclosure must be implemented in accordance with the reporting guide of the Regulatory Framework and submission of regulatory reporting must be made in an accurate and timely manner as prescribed in the Regulatory Framework.

8.21 Market Surveillance Monitoring

There must be adequate policies and procedures in place to monitor the strict adherence to provisions on market surveillance monitoring as contained in the Regulatory Framework, including the parameters used that would enable detection of possible market manipulation. The CO must ensure adequate records are being retained for the monitoring, escalation and reporting of alerts.

8.22 New Product/Activity

For any new activity/product undertaken by the Participating Organisation, adequate assessments have been undertaken by the Participating Organisation prior to the commencement of the new product/activity to be in compliance with the Regulatory Framework.

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8.23 Advertisements, Sales Literature and Other Forms of Communications to Client / Public

Promotional materials or other forms of communication issued by a Participating Organisation must be in line with the Regulatory Framework, including the Commission's Guidelines on Advertising for Capital Market Products and Related Services. It must be factual, accurate, avoid misrepresentation, not misleading, make no promise in respect of profits and must always indicate the possibility of loss if profit is mentioned. Special care must be taken where forecasts or projections are included. Such information must be clearly identified as such and all underlying assumptions, risks and cost must be clearly stated.

8.24 Cybersecurity

Adequate measures must be put in place to protect the Participating Organisation from possible cyber-attacks.

9. EFFECTIVE COMMUNICATION

Effective communication channel must exist between the CO, Board of Directors and employees. This is vital in ensuring information in relation to the Regulatory Framework and internal policies and procedures are relayed and implemented efficiently and effectively.

9.1 Dissemination of information

Information or notification pertaining to the Regulatory Framework and internal policies and procedures to the Board of Directors, senior management and employees, must be relayed via effective means of communication. The CO is to ensure that all notifications from the Exchange and the Commission are properly disseminated to the relevant employees within the Participating Organisation.

9.2 Access to CO

The CO is to keep constant communication with all business lines' stakeholders within the organisation with the aim of both the CO and employees having direct access to each other. It would also complement proper supervision of the existing policies and procedures and to tackle any identified gaps.

9.3 Communication on Outcome of Monitoring

Clear policies and procedure on communication between the CO and the employees and vice versa on matters of non-compliance must be established. All employees should be made aware that non-compliances are to be communicated and acted upon immediately.

10. ESCALATION, REPORTING & CONSEQUENCE MANAGEMENT

10.1 Documented Process

In ensuring compliance with the obligation to notify the Exchange of non-compliance matters, the Head of Compliance must ensure that there is a clear, well-understood and documented process for:

- (a) identifying indicators of reportable matters;
- (b) ensuring that employees escalate potentially reportable matters to the CO, who are made aware of the indicators identified;

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- (c) determining whether indicators of reportable matters give rise to an obligation to report; and
- (d) notifying the Exchange in writing of reportable matters.

10.2 Escalation

- (1) Escalation is the process of alerting or notifying the higher level of management of a non-compliance issue or a potential non-compliance issue by an employee when he or she becomes aware of the same. A formalised escalation procedure sets a clear reporting flow in the case of a non-compliance issue or a potential non-compliance issue and would facilitate in managing and resolving non-compliance such issues in an efficient and practical manner.
- (2) It is important that the relevant employees of a Participating Organisation are made aware of compliance matters that are required to be escalated. A clear escalation procedure would enable employees of a Participating Organisation to direct non-compliance to the correct personnel for an expedited resolution.



10.3 Reporting on Compliance Matters

A CO must bring matters pertaining to compliance to the attention of any of the Board of Directors, heads or other senior management of the Participating Organisation for appropriate and timely action to be taken.

10.4 Consequence Management on Breaches

- (1) Consequence management refers to action taken to address non-compliance by a Participating Organisation to comply with the obligations under the Regulatory Framework.
- (2) Participating Organisations must have well-formulated consequence management procedures with a clear, well-understood and documented process for identifying and dealing with breaches such as:
 - (a) measures on how to identify a breach;
 - (b) ensuring that the breach is escalated to the relevant supervisor;
 - (c) determining the degree of the breach, e.g., minor or significant;
 - (d) taking immediate rectification measures to the breach;

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- (e) reporting of the breach to the Exchange, together with rectification measures / plan;
 - (f) ensuring that arrangements are in place to prevent the recurrence of the breach;
 - (g) dealing with the consequences of breaches, particularly to Clients, comprehensively (e.g. by communication and / or compensation); and
 - (h) communicating breaches to the relevant employees of the Participating Organisation to deter recurrence (“Lesson Sharing”).
- (3) Consequence management will allow employees to further identify the possible non-compliance issues and take proactive measures in ensuring compliance.

11. CONTINUOUS TRAINING AND UPDATES ON REGULATORY DEVELOPMENTS**11.1 Training for Compliance Function**

Apart from programmes and training, the compliance function must keep up with the developments in the regulatory requirements by undertaking constant review of relevant updates of the Regulatory Framework.

11.2 Training and Education Programmes for Employees of Participating Organisation

- (1) The CO must ensure that adequate and timely training is provided to employees of a Participating Organisation on relevant regulatory requirements governing its activities and to be able to provide guidance on the implementation of internal controls to manage compliance risk.
- (2) Training and other support should focus particularly, but not exclusively on:
- (a) These Regulatory Framework and any other supervisory and regulatory requirements that may be relevant; and
 - (b) The internal policies and procedures of the Participating Organisation and its organisational reporting structure in the area of the regulated activity.

12. CONCLUSION

A constructive and cooperative working relationship between the compliance function and business lines can improve the overall identification and management of compliance risk. The adoption of the approaches set out above will result in a high level of confidence amongst all stakeholders that regulatory objectives are being met. These positive regulatory outcomes would lead to a stable and sustainable business operations for a Participating Organisation.

[End of Appendix]