

CHAPTER 5 ORGANISATION AND STRUCTURE OF CLEARING PARTICIPANTS

PART A GENERAL

5.01 Other business

- (1) A Clearing Participant must notify the Clearing House in writing prior to carrying out any other business apart from Clearing.
- (2) The Clearing House may require the Clearing Participant to take such steps as the Clearing House thinks fit to manage the potential risks or conflict of interests arising from carrying out the Clearing Participant's business of Clearing and the Clearing Participant's other businesses.

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PART B BACK OFFICE SYSTEM

5.02 Back office system

A Clearing Participant must immediately notify the Clearing House of:

- (a) the location(s) of its back office system; and
- (b) any change in the location(s) of its back office system.

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PART C COMPLIANCE FUNCTION

5.03 Compliance function and Accountability

- (1) A Clearing Participant must carry out the compliance function to monitor compliance with the Securities Laws and these Rules and to provide advice on all the relevant requirements that a Clearing Participant must comply with, in carrying out the Clearing Participant's business.

[Refer to Directive 5-001]

- (2) If there is a breach of the Securities Laws or these Rules, the Clearing Participant is liable for such breach whether or not such breach was by or caused by the Clearing Participant's Registered Persons, employees or agents.

5.04 Reporting

- (1) A Clearing Participant must immediately report the following in writing to the Clearing House upon becoming aware or where the Clearing Participant has reason to believe such occurrence is taking or has taken place:

- (a) any matter in Rule 3.50(a) that has not been reported to the Clearing House;
- (b) the Clearing Participant is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
- (c) the Clearing Participant's ability to perform any of the Clearing Participant's obligations under these Rules may be adversely affected.

- (2) A Registered Person must immediately report the following in writing to the Clearing House upon becoming aware or where the Clearing Participant has reason to believe such occurrence is taking or has taken place:

- (a) any matter in Rule 3.50(a) that has not been reported to the Clearing House;
- (b) the Clearing Participant employing the Registered Person or a Registered Person employed or engaged by the Clearing Participant other than the Registered Person making the report, has breached any of these Rules;
- (c) the Registered Person has breached any of these Rules;
- (d) the Registered Person is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
- (e) the Registered Person's ability to perform any of the Registered Person's obligations under these Rules may be adversely affected.

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PART D RISK MANAGEMENT OF CLEARING PARTICIPANT

5.05 Risk management function

- (1) A Clearing Participant must ensure the proper discharge of the risk management functions for the purpose stated under Rule 4.02(1)(b) and take actions to mitigate such risks.

[Refer to Directive 5-001]

- (2) The Clearing Participant must ensure the risk management functions commensurate with:
- (a) the scope, size and complexity of the Clearing Participant's activities; and
 - (b) the level of risks that the Clearing Participant is prepared to assume.

5.06 Committee to oversee risk management

- (1) A General Clearing Participant must appoint a committee to manage and monitor the discharge of the risk management functions of the General Clearing Participant.
- (2) A General Clearing Participant must ensure that its risk management functions are reported to the committee in Rule 5.06(1).
- (3) A General Clearing Participant must ensure that the committee in Rule 5.06(1) comprises persons who are competent, free from conflict of interest and collectively have the relevant skills and experience to carry out the functions of the committee.

5.07 Outsourcing of risk management functions

If the risk management function is outsourced under Part D of Chapter 4 or where the committee in Rule 5.06(1) is maintained at Group level in accordance with Part F of Chapter 5, the Clearing Participant must ensure that the outsourced function or committee in Rule 5.06(1) maintained at Group level complies with all provisions in these Rules relating to the risk management functions and committee in Rule 5.06(1).

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PART E INTERNAL AUDIT OF CLEARING PARTICIPANT

5.08 Internal Audit function

- (1) A Clearing Participant must establish and maintain an internal audit function which is independent from all other functions of the Clearing Participant to examine, evaluate and report on the adequacy and efficiency of the Clearing Participant's management, operations, internal controls and the compliance with the relevant policies and procedures established by the Clearing Participant.
- (2) A Clearing Participant must ensure internal audit(s) are conducted on itself at such times as it deems necessary, subject always to a minimum of 1 internal audit in each calendar year.

5.09 Audit Committee

- (1) A General Clearing Participant must establish and maintain an audit committee, whether on its own or Group level in accordance with Part F of Chapter 5 ("Audit Committee") which is responsible for amongst others, monitoring and overseeing all matters relating to the discharge of the internal audit functions of the General Clearing Participant.
- (2) A General Clearing Participant must ensure that its internal audit function reports to the Audit Committee.
- (3) A General Clearing Participant must ensure that its Audit Committee comprises members who are competent, free from conflict of interest and collectively have the relevant skills and experience in carrying out the functions of the Audit Committee.

5.10 Outsourcing of Internal Audit function

If the internal audit function is outsourced under Part D of Chapter 4 or where the Audit Committee is established or maintained at Group level in accordance with Part F of Chapter 5, the Clearing Participant must ensure that the outsourced function or Audit Committee established or maintained at Group level complies with all provisions in these Rules relating to internal audit functions and Audit Committee.

5.11 Scope of Internal Audit

- (1) A Clearing Participant must undertake a risk assessment of the various areas in the business of the Clearing Participant and based on the results of such risk assessment, decide on the scope of the internal audit to be conducted for the year.
- (2) The Clearing House may at any time require the Clearing Participant to conduct an internal audit if upon assessing the risks to the market, the Clearing House deems that it is necessary or expedient.

5.12 Reporting

- (1) The Audit Committee must present to the board of directors of the Clearing Participant, amongst others, the audit report, its course of action or any corrective measures taken, to address any non-compliance or irregularities stated in the audit report and all other matters deliberated by the Audit Committee.

- (2) A Clearing Participant must submit a copy of the minutes of each meeting of the Audit Committee and a copy of the audit report, together with its course of action or any corrective measures taken to address any non-compliance or irregularities stated in the audit report, to the Clearing House within 30 days from the date the minutes were adopted by and the audit report was presented to the board of directors of the Clearing Participant.

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**PART F PERFORMANCE OF COMMITTEE TO OVERSEE RISK MANAGEMENT AND
AUDIT COMMITTEE FUNCTIONS AT GROUP LEVEL**

5.13 Committee to oversee risk management and Audit Committee

A General Clearing Participant may have its committee in Rule 5.06(1) or its Audit Committee established or maintained at Group level under Part D of Chapter 4 if the General Clearing Participant is able to comply with Rule 2.01(2)(k) in so far as providing or procuring the provision to the Clearing House of reports, information, Documents, Books or Records pertaining to the committees and the committees' decisions and deliberations upon the Clearing House's request.

5.14 Investment Bank

Rule 5.13 is not applicable to an Investment Bank.

[End of Chapter]