

**CHAPTER 6 ORGANISATION AND STRUCTURE OF
PARTICIPATING ORGANISATIONS**

PART A PERMITTED BUSINESS OF PARTICIPATING ORGANISATIONS

6.01 Permitted Business

- (1) A Participating Organisation intending to carry out any other business apart from trading in securities on the stock market of the Exchange must comply with the relevant requirements imposed by the Commission or the Central Bank, as the case may be (“Permitted Business”).
- (2) A Participating Organisation must notify the Exchange prior to the commencement of the Permitted Businesses
- (3) The Exchange may require the Participating Organisation to take such steps as the Exchange thinks fit to manage the potential risks or conflicts of interests arising from carrying out both the Permitted Businesses and the Participating Organisation’s business of trading in securities on the stock market of the Exchange.

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PART B BRANCH OFFICE

6.02 Application

A Participating Organisation's Branch Office form part of the Participating Organisation's business and as such, all the provisions in these Rules apply to the Branch Office.

6.03 Establishment of Branch Office

A Participating Organisation may establish and operate a Branch Office if it ensures:

- (a) the proper segregation of duties at the Branch Office;
- (b) the Branch Office carries signage indicating the name of the Participating Organisation;
and
- (c) it maintains an up-to-date record of the address of all Branch Offices.

6.04 Permitted activities at the Branch Office and Electronic Access Facility

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6.05 Conversion

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PART C BACK OFFICE FUNCTIONS

6.06 Back office system and operations

- (1) A Participating Organisation must operate its own back office system and operations whether at the Principal Office or any of the Branch Office unless the back office systems and operations have been outsourced in accordance with Part D of Chapter 5.
- (2) A Participating Organisation must have a back office system and operations that are capable of:
 - (a) timely reporting and transmission of data from a Branch Office to the Principal Office;
 - (b) daily reconciliation of all records of the Principal Office and the Branch Office; and
 - (c) reconciliation of all transactions undertaken by the Branch Office.
- (3) *[Deleted]*

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PART D COMPLIANCE FUNCTION

6.07 Compliance function

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.

[Refer to Directive No. 6.07(1)-001]

6.08 Accountability

- (1) 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.
- (2) If there is a breach of these Rules, the Directives or Securities Laws, the Participating Organisation and the Participating Organisation's Board of Directors are liable for such breach whether or not such breach was by or caused by Participating Organisation's Registered Persons, employees or agents.

[Refer to Directive No. 6.08-001]

6.09 Reporting

- (1) A Participating Organisation must immediately report the following in writing to the Exchange, upon becoming aware or where the Participating Organisation has reason to believe such occurrence is taking or has taken place:
 - (a) any matter in Rule 3.38(1) that has not been reported to the Exchange; or any breach of any of these Rules or the Directives by a Registered Persons employed or engaged by the Participating Organisation;
 - (b) the Participating Organisation has breached any of these Rules or Directives;
 - (c) the Participating Organisation is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
 - (d) the Participating Organisation's ability to perform any of the Participating Organisation's obligations under these Rules or Directives may be adversely affected.
- (2) A Registered Person must immediately report the following in writing to the Exchange, upon becoming aware or where the Registered Person has reason to believe such occurrence is taking or has taken place:
 - (a) any matter in Rule 3.38(1) that has not been reported to the Exchange or any breach of any of these Rules or the Directives by the Participating Organisation by whom he is employed or engaged or by other Registered Person employed or engaged by the Participating Organisation;
 - (b) the Registered Person has breached any of these Rules or Directives;
 - (c) the Registered Person is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or

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- (d) the Registered Person's ability to perform any of the Registered Person's obligations under these Rules or Directives may be adversely affected.

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PART E RISK MANAGEMENT OF PARTICIPATING ORGANISATIONS

6.10 Risk management functions

- (1) A Participating Organisation must ensure the proper discharge of the risk management functions for the purpose stipulated under Rule 5.03(1)(b) and take actions to mitigate such risks.
- (2) A Participating Organisation must establish a risk management committee whose function is to manage and monitor the discharge of the risk management functions of the Participating Organisation (“Risk Management Committee”).

[Refer to Directive No. 6.10(2)-001]

- (3) A Participating Organisation must ensure that the risk management functions are reported to the Risk Management Committee.
- (4) If the risk management functions are outsourced under Part D of Chapter 5 or where the Risk Management Committee is established or maintained at Group level in accordance with Part G of Chapter 6, the Participating Organisation must ensure that the outsourced function or Risk Management Committee established or maintained at Group level complies with all provisions in these Rules and the Directives relating to risk management functions and Risk Management Committee.

6.11 Composition of the Risk Management Committee

- (1) The Participating Organisation must ensure that the Risk Management Committee comprises persons who are competent, have no conflict of interest in the discharge of their functions as members of the Risk Management Committee and collectively have the relevant skills and experience to carry out the functions of the Risk Management Committee.
- (2) The Participating Organisation must ensure that the majority of the members of the Risk Management Committee are not persons who hold a Dealer’s Representative’s licence.

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PART F INTERNAL AUDIT OF PARTICIPATING ORGANISATIONS

6.12 Internal audit functions

- (1) A Participating Organisation must establish and maintain an internal audit function which is independent from all other functions of the Participating Organisation to:
- (a) examine, evaluate and advise the Participating Organisation of:
 - (i) the effectiveness and efficiency of the operations of the Participating Organisation, including its internal system and controls;
 - (ii) the reliability and integrity of the Participating Organisation's financial and operating information, including the reporting of such information;
 - (iii) the compliance with the rules and laws relating to the business of the Participating Organisation;
 - (iv) the compliance with the relevant policies and procedures established by the Participating Organisation; and
 - (v) the adequacy and effectiveness of all other areas in the business of the Participating Organisation that is relevant to the achievement, objectives and obligations of the Participating Organisation;
 - (b) report to the Board of Directors or a committee selected by the Board of Directors on the findings of its examinations and evaluations of the areas mentioned in Rule 6.12(1)(a);
 - (c) make appropriate recommendations on the corrective actions to be taken or improvements (if any) based on the findings above; and
 - (d) verify whether the recommendations made above have been implemented by the Participating Organisation.
- (2) A Participating Organisation must establish and maintain an audit committee, whether on its own or at the Group level in accordance with Part G of Chapter 6 ("Audit Committee"), and whose functions must include such functions as may be specified by the Exchange. The Audit Committee is responsible for monitoring and overseeing all matters relating to the discharge of the internal audit functions of the Participating Organisation.

[Refer to Directive No. 6.12(2)-001]

- (3) A Participating Organisation must ensure that all matters in relation to the internal audit are reported to the Audit Committee.
- (4) If the internal audit function is outsourced under Part D of Chapter 5 or where the Audit Committee is established or maintained at Group level in accordance with Part G of Chapter 6, the Participating Organisation must ensure that the outsourced function or Audit Committee established or maintained at Group level complies with all provisions in these Rules and Directives relating to internal audit functions and Audit Committee.

6.13 Composition of Audit Committee

The Participating Organisation must ensure that the Audit Committee comprises of persons who are competent, have no conflict of interest in the discharge of their functions as members of the Audit Committee and collectively have the relevant skills and experience in carrying out the functions of the Audit Committee.

6.14 Scope of internal audit

- (1) A Participating Organisation must clearly identify the areas in the business of the Participating Organisation that must be assessed for the purpose of discharging its internal audit functions under these Rules. These areas must correspond to the functions stated in Rule 6.12(1)(a) and must include:
 - (a) the performance of the management of the Participating Organisation;
 - (b) the efficiency and effectiveness of communication between personnel and supervisors;
 - (c) the clarity, efficiency and effectiveness of written policies and procedures on allocation of responsibilities and duties and lines of reporting;
 - (d) the adequacy of employee training policies and procedures;
 - (e) the efficiency and effectiveness of policies and procedures in relation to credit control and risk management;
 - (f) the financial and operational information generated and the means used to identify, measure, classify and report such information;
 - (g) the internal controls and procedures that are specifically designed to detect or prevent violations;
 - (h) the information system and other information technology-related matters;
 - (i) all operational aspects of the Participating Organisation's business;
 - (j) the financial and accounting records and reports of the Participating Organisation containing accurate, reliable, timely, complete and relevant information and prepared in compliance with approved accounting standards; and
 - (k) the conduct of the Participating Organisation in relation to its dealing activities.
- (2) A Participating Organisation may determine the scope of its internal audit based on a risk assessment undertaken by the Participating Organisation in the areas covered under Rule 6.14(1).
- (3) A Participating Organisation must, in relation to the risk assessment undertaken by it:
 - (a) formulate a clear written risk assessment methodology to be adopted when assessing the risks in the areas covered under Rule 6.14(1); and
 - (b) clearly identify and document the risk assessment results of the above areas.
- (4) A Participating Organisation 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 based on the assessment in Rules 6.14(2) and 6.14(3).
- (5) Upon completion of the internal audit, a Participating Organisation must ensure a written report on the findings of the internal audit is prepared and tabled to the Audit Committee. The written report must contain recommendations or corrective actions to be taken, if any.
- (6) A Participating Organisation must ensure any major finding or fraud uncovered in the course of the internal audit that may affect the Participating Organisation's financial position or its operations, is reported to the Board of Directors and management immediately.

6.15 Reporting

- (1) *[Deleted]*
- (2) The Audit Committee must present to the Board of Directors of the Participating Organisation, 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.
- (3) A Participating Organisation must submit a copy of the minutes of each meeting of the Audit Committee and a copy of the audit report, including its course of action or any corrective measures taken to address any non-compliance or irregularities stated in the audit report, to the Exchange within 30 days from the date the minutes were adopted by and the audit report was presented to the Board of Directors of the Participating Organisation.
- (4) The Audit Committee must report to the Board of Directors of the Participating Organisation on any matters set out under Rule 6.14(1) relating to the Participating Organisation on all matters in relation to the functions of the Audit Committee including such functions as may be specified by the Exchange.

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**PART G PERFORMANCE OF RISK MANAGEMENT COMMITTEE AND AUDIT
COMMITTEE FUNCTIONS AT GROUP LEVEL**

6.16 Risk Management Committee and Audit Committee

A Participating Organisation may have its Risk Management Committee or its Audit Committee established or maintained at Group level if the Participating Organisation is able to comply with Rule 2.01(2)(k) in so far as providing or procuring the provision to the Exchange of reports, information, Documents, Books and Records pertaining to the committees and the committees' decisions and deliberations upon the Exchange's request.

6.17 Investment Bank

Rule 6.16 is not applicable to an Investment Bank.

[End of Chapter]