



Suruhanjaya Sekuriti
Securities Commission

GUIDELINES FOR A UNIVERSAL BROKER

(Amended as at 23 November 2004)

GUIDELINES FOR A UNIVERSAL BROKER

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1. INTRODUCTION

- 1.1 These Guidelines for a Universal Broker ("these Guidelines") are issued for the following purposes:
- (a) To provide guidance on the minimum qualifying criteria that a stockbroking company that intends to become a Universal Broker must satisfy.
 - (b) To outline the application procedures in attaining a Universal Broker status.
- 1.2 These Guidelines are issued in addition to the provisions already contained in the securities laws and the business rules of the exchanges, clearing houses and central depository pertaining to the qualifying criteria to be licensed as a dealer and futures broker, and to be admitted as a participant of the exchanges, clearing houses and central depository.

2. DEFINITIONS

- 2.1 In these Guidelines:
- (a) "branch office" means any premise other than the principal office where a stockbroking company conducts any business of or relating to dealing in securities.
 - (b) "Capital Adequacy Ratio" has the same meaning as assigned to that expression under the Rules of the Stock Exchange.
 - (c) "central depository" means a company approved by the Minister of Finance under section 5 of the Securities Industry (Central Depositories) Act 1991.
 - (d) "clearing house" has the same meaning as assigned to that expression under the Securities Industry Act 1983 or Futures Industry Act 1993, as the case may be.
 - (e) "Core Capital" has the same meaning as assigned to that expression under the Rules of the Stock Exchange.
 - (f) "dealing in securities" has the same meaning as assigned to that expression under the Securities Industry Act 1983.

- (g) "debenture" has the same meaning as assigned to that expression under the Securities Commission Act 1993.
- (h) "exchanges" collectively referred to the body corporate which has been approved by the Minister of Finance under section 8 of the Securities Industry Act 1983 or section 4 of the Futures Industry Act 1993.
- (i) "exchange company" means the body corporate which has been approved by the Minister of Finance under 4 of the Futures Industry Act 1993.
- (j) "futures broking business" has the same meaning as assigned to that expression under the Futures Industry Act 1993.
- (k) "futures fund management business" has the same meaning as assigned to that expression under the Futures Industry Act 1993.
- (l) "Participating Organisation" means a company which carries on the business of dealing in securities and for the time being recognized as a Participating Organisation of the Stock Exchange in accordance with the provisions of Rule 302 and "participant" and "participation" shall be construed accordingly.
- (m) "paid-up capital" means the issued capital of a stockbroking company that has been paid in by its shareholders.
- (n) "person connected with a substantial shareholder" has the same meaning as the definition given to "person connected with a director" as provided for under section 122A of the Companies Act 1965.
- (o) "principal office" means a stockbroking company's business of dealing in securities conducted at a premise hat has been approved by the Securities Commission as the principal office of the stockbroking company.
- (p) "Rules" means the rules of the Stock Exchange.
- (q) "securities laws" has the same meaning as assigned to that expression under the Securities Commission Act 1993.
- (r) "Stock Exchange" the body corporate which has been approved by the Minister of Finance under section 8 of the Securities Industry Act 1983.
- (s) "stockbroking company" means a holder of a dealer's license under the Securities Industry Act 1983.
- (t) "substantial shareholder" has the same has the same meaning as assigned to that expression in the Securities Industry (Reporting of Substantial Shareholding) Regulations1998.

- (u) "trust account" means an account established under section 44 of the Securities Industry Act 1983 in the capacity as a dealer, section 47C of the Securities Industry Act 1983 in the capacity as a fund manager and section 52A of the Futures Industry Act 1993 in the capacity as a futures broker and section 52D of the Futures Industry Act 1993 in the capacity as a futures fund manager.
 - (v) "Universal Broker" means a stockbroking company that has merged with or acquired at least three other stockbroking companies and has fulfilled the necessary qualifying criteria as set out in these Guidelines.
- 2.2 Unless the context otherwise requires, word denoting the singular number only shall include the plural and vice versa.
- 2.3 The headings are for convenience only and shall not affect the interpretation hereof.
- 2.4 References to clauses and appendices are to clauses and appendices to these Guidelines.
- 2.5 A reference to a statute or a statutory provision in these Guidelines shall be deemed to include regulations, rules, orders, notifications or other subsidiary legislation made pursuant thereto and all modifications, re-enactments or consolidation thereof.

3. MINIMUM QUALIFYING CRITERIA TO BECOME A UNIVERSAL BROKER

- 3.1 The qualifying criteria have been formulated to provide guidance as to the minimum standards that a stockbroking company must satisfy to become a Universal Broker.
- 3.2 A stockbroking company that intends to become a Universal Broker must comply with the following qualifying criteria:
- (a) To merge or acquire at least three other stockbroking companies.
 - (b) The merged stockbroking company must:
 - (i) have a minimum paid-up capital of RM100 million;
 - (ii) have minimum shareholders' funds unimpaired by losses of RM100 million;
 - (iii) have a Capital Adequacy Ratio of at least 1.20 times; and

- (iv) satisfy the quantitative and qualitative criteria as detailed in the Participant Readiness Checklist for a Universal Broker.
 - (c) The merged stockbroking company, its Board of Directors, chief executive, managers, dealer's representatives and its shareholding structure must satisfy the necessary fit and proper criteria as set out in the Schedule to the Securities Industry Act 1983.
 - (d) Substantial shareholders of the merged stockbroking company must satisfy a fit and proper test as determined by the Securities Commission (hereinafter referred to as "the SC"). Where a particular substantial shareholder fails the fit and proper test or raise corporate governance concerns ("the said shareholder"), the said shareholder and persons connected to the said shareholder shall not be permitted to have a shareholding of more than 20 per cent in the merged stockbroking company.
 - (e) A substantial shareholder of a merged stockbroking company shall provide a declaration under oath that he is not an agent for or acting on behalf of the said shareholder in clause 3.2(d) of these Guidelines, or any person connected with the said shareholder.
 - (f) Where a substantial shareholder of a merged stockbroking company intends to dispose of his shares in the merged stockbroking company, the purchaser of the said shares shall provide a declaration under oath that he is not an agent for or acting on behalf of the said shareholder in clause 3.2(d) of these Guidelines, or any person connected with the said shareholder.
 - (g) The merged entity must develop a comprehensive code of conduct that governs the behaviour and activities of its employees in discharging their duties and responsibilities. The code of conduct must be in accordance with the minimum requirements to be prescribed by the Stock Exchange.
- 3.3 The proposed principal office and the branch offices of a stockbroking company that intends to become a Universal Broker will be subject to participant and branch readiness audits to be conducted by the Stock Exchange. These participant and branch readiness audits will include an assessment on the adequacy of the policies and procedures for supervising and monitoring the operations of the branch offices based on the Participant Readiness Checklist for a Universal Broker and the Stock Exchange's Branch Readiness Checklist.

4. RANGE OF CAPITAL MARKET SERVICES

In addition to the current activities that a stockbroking company is allowed to conduct, a Universal Broker would, subject to having the requisite resources, be allowed to undertake a full range of capital market services as follows:

4.1 Corporate Finance Activities and Dealing in Derivatives

- (a) Immediately upon attaining the Universal Broker status Universal Brokers would be allowed to carry out corporate finance activities, which include, activities undertaken by advisers under the SC's Policies and Guidelines on Issue / Offer of Securities and submissions of proposals to the SC.
- (b) In addition, Universal Brokers would be allowed to carry on futures broking business and futures fund management business. Pending further amendments to the Securities Industry Act 1983 and the Futures Industry Act 1993, Universal Brokers must apply to be licensed under the Futures Industry Act 1993, and to be admitted as a participant of the derivatives exchange company and clearing house.

4.2 Debt Securities

- (a) Universal Brokers are allowed to deal in debt securities, such as, government and corporate debentures subject to compliance with the requirements of all relevant guidelines and conditions that have been or may be issued and/or stipulated by the SC from time to time.

5. APPLICATION PROCEDURES FOR A UNIVERSAL BROKER

- 5.1 A stockbroking company that intends to become a Universal Broker is encouraged to approach the SC with its merger proposal.
- 5.2 To proceed with its application to become a Universal Broker, the stockbroking company must submit to the SC and the Stock Exchange its comprehensive merger proposal. The minimum information to be submitted to the SC, and the Stock Exchange are set out in Appendix 1 – Information Required for Submission.
- 5.3 A stockbroking company will be subject to a participating organisation's readiness audit by the Stock Exchange based on the completed Participant Readiness Checklist for a Universal Broker and a copy of its comprehensive merger proposal. Based on its review, the Stock Exchange will forward its recommendations to the SC as to whether the stockbroking company is ready to become a Universal Broker.
- 5.4 Thereafter, the SC will review the detailed merger proposal together with the Stock Exchange's recommendations based on the readiness audit.

6. OTHER MATTERS

6.1 In addition to the above requirements, a stockbroking company that intends to become a Universal Broker is encouraged to develop sound business practices, which would include:

- (a) Viable diversified revenue
- (b) Sustainable revenue system
- (c) Appropriate business strategies

The stockbroking company is also encouraged to form strategic alliances with its counterparts to enable investors to trade in the capital markets.

6.2 Upon approval by the SC, a stockbroking company will be licensed and thereupon can commence operations as a Universal Broker.

6.3 The Universal Broker will be subject to a follow-up audit to be conducted by the Stock Exchange to assess compliance with the conditions, if any, as may be prescribed in the SC's approval granted to the Universal Broker.

6.4 All submissions to the SC in respect of these Guidelines should be addressed to:

General Manager
Institutions & Intermediaries Supervision Department
Market Supervision Division
Securities Commission
3, Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur.

7. REVIEW OF THESE GUIDELINES

These Guidelines will be subject to review and amendments by the SC from time to time.

INFORMATION REQUIRED FOR SUBMISSION

The applicant shall be responsible for the accuracy of the information submitted. All applications for the approval of the Securities Commission (SC) shall be submitted in 3 copies and shall be addressed to the General Manager, Institutions & Intermediaries Supervision Department of the SC. If the acquisition/merger also requires approval of the SC pursuant to the Policies and Guidelines on Issue/Offer of Securities, a separate submission shall be made to the Issues and Investment Division of the SC.

Details Required	Yes	No	Remarks
<p>1. A written proposal for the status of Universal Broker. This proposal must include the following information:</p> <ul style="list-style-type: none"> • The stockbroking licence which will be surrendered and converted into a branch office • The changes in shareholding structure, including Bumiputera and non-Bumiputera shareholding before and after the acquisition/merger • Proposed operations of the principal office and branch offices • Policies and procedures of the principal office and branch offices • The choice of location for the additional branch offices 			
<p>2. Details of the financial position of the applicant, including the following:</p> <ul style="list-style-type: none"> • Detailed pro-forma projections of its paid-up capital, Core Capital and Capital Adequacy Ratio before and after the merger/acquisition • Financial/Business plan including <ul style="list-style-type: none"> - Funding assistance required - Business Plan for the branch office • Profit and cashflow projections for three years in support of the financial/business plan 			

<ul style="list-style-type: none"> • The latest audited financial statements of the holding company of the enlarged stockbroking company • Exposure to off-balance sheet obligations 			
<p>3. Information on the applicant:</p> <p><u>Company Level</u></p> <ul style="list-style-type: none"> • Corporate profile, including principal and auxiliary activities • Organisational structure depicting related, subsidiary, associate and holding companies • Percentage of shareholding in each category • Declaration of ownership if more than 2% shareholding held in public listed companies • The ultimate shareholders and directors are to be declared at respective intermediaries and holding levels if the said shareholders are not natural persons • Organisational structure for the stockbroking company and its proposed branch office <p>Directors and Shareholders (Existing and Upon Merger)</p> <ul style="list-style-type: none"> • Profile of each member of the Board of Directors including comprehensive curriculum vitae, copy of IC (for Malaysian citizen) or passport (for foreign national) and directorship held presently and for the past 10 years and capacity of appointment e.g. Executive Director, Non-Executive Director, alternate director or others, and equity participation in other companies • Profile of each shareholder including comprehensive curriculum vitae, copy of IC (for Malaysian citizen) or passport (for foreign national) and directorship held presently and for the past 10 years and 			

<p>capacity of appointment e.g. Executive Director, Non-Executive Director, alternate director or others, and equity participation in other companies</p> <p>Key Management Team (Existing and Proposed Branch Management Team)</p> <ul style="list-style-type: none"> • Profile of each member of the proposed key management team, including comprehensive curriculum vitae and copy of IC (for Malaysian citizen) or passport (for foreign national), and directorship for the past 10 years and capacity of appointment, and equity participation in other companies 			
<p>4. Details of the applicant's adherence to the policy on Bumiputera participation, including the Government's board policy as well as the requirements of the SC and the Stock Exchange</p>			
<p>5. Details of the following quantitative information:</p> <ul style="list-style-type: none"> • Paid-up capital (latest figure) • Core Capital (latest figure) • Capital Adequacy Ratio (latest figure) • Compliance with requirement on client's trust account over the past 12 months 			
<p>6. Duly Completed Participant Readiness Checklist for Universal broker (signed by the Executive Director Operations and verified by the Compliance Officer of the applicant)</p>			