



Suruhanjaya Sekuriti
Securities Commission

MEMBER READINESS CHECKLIST FOR A UNIVERSAL BROKER

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Note:

- (a) ***Where reference is made to “Universal Broker” in this Checklist, such reference shall mean a stockbroking company that intends to become a Universal Broker.***
- (b) ***Words denoting the masculine gender only shall include the feminine and neuter gender and vice versa.***

MEMBER READINESS CHECKLIST

(Name of Universal Broker)

GENERAL INFORMATION		
1.	Date of Incorporation	
2.	Registered Address of Principal and Branch Offices	
3.	Business Address of Principal and Branch Offices	
4.	Telephone Number of Principal and Branch Offices	
5.	Facsimile Number of Principal and Branch Offices	
6.	Primary Contact Person at Principal and Branch Offices	
7.	E-mail and web-site address	
8.	Statutory Auditor	
9.	Company Secretary	
10.	Panel of Solicitors for Principal and Branch Offices	
11.	Principal Bankers for Principal and Branch Offices	
12.	Financial Year End	

MEMBER READINESS CHECKLIST

ORGANISATION INFORMATION	COMMENTS	REF
A. BACKGROUND		
1. Provide details of the capital, shareholders and group structures.		
2. Provide details of the holding, subsidiaries or related companies of the Universal Broker.		
3. Provide details of the Board of Directors of the Universal Broker and its related companies.		
4. Provide details of the Memorandum and Articles of Association of the Universal Broker.		
5. Provide details of the committees of the Universal Broker (members, terms of reference) as approved by the Board.		
6. Apart from stockbroking, what are the other types of activities that will be undertaken by the Universal Broker? a. Futures broking b. Corporate finance c. Fixed income d. Fund management e. Unit Trust f. Others (<i>Please specify</i>)		
7. Are the following trading activities currently undertaken? a. Proprietary b. Employee c. Client d. Margin e. Discretionary account f. Others (<i>Please specify</i>)		
B. ORGANISATIONAL STRUCTURE		
1. Provide the organisational chart of the Principal Office and the Branch Offices.		

MEMBER READINESS CHECKLIST

ORGANISATION INFORMATION	COMMENTS	REF
2. Based on the organisational structure, are the following adequate in relation to the functions and operations of the Universal Broker (inclusive of Branch Offices): a. Number of personnel for all levels b. Qualifications and levels of competency and experience of personnel in each area c. Personnel training and continuing education programmes (internal and external)		
3. Provide the reporting structure between the Principal Office and the Branch Offices.		
C. FACILITIES 1. Are the following infrastructures, facilities and premises in place: a. Office building and department layout b. Fixtures and fittings c. Related computer peripherals (hardware and software) for the activities stated <i>in paragraphs 6 & 7 of Part A</i> , above. d. Voice recording system e. Facsimile/telex		
D. CENTRAL PERMANENT FILE (CPF) 1. Has the Universal Broker updated the CPF? If "Yes", provide a copy.		

MEMBER READINESS CHECKLIST

QUANTITATIVE CRITERIA	COMMENTS	REF
A. CLIENTS' MONIES IN TRUST ACCOUNT 1. Are there policies and procedures for the Universal Broker to maintain clients' monies in a separate trust account with a licensed financial institution in accordance with the requirements of the securities laws?		
2. Are there policies and procedures to ensure that clients' monies are deposited into the trust account no later than one bank business day from the day the monies are received?		
B. TRADING RESTRICTIONS IMPOSED BY EXCHANGES 1. Have the Exchanges imposed trading restrictions on any of the merged stockbroking companies due to unsatisfactory financial condition? 2. If "Yes", has the stockbroking company(s) satisfactorily addressed all the relevant issues that gave rise to the trading restrictions?		
C. POLICY ON BUMIPUTERA PARTICIPATION 1. Is the Bumiputera participation in the Universal Broker in accordance with the Government's broad policy as well as the requirements of the relevant authorities?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
A. SHAREHOLDERS		
1. Are the shareholders able to contribute significantly to the development of the Universal Broker, financially or otherwise? ¹		
2. Are the shareholders involved in other cyclical businesses such as property development?		
3. Do the respective background and experiences of the shareholders complement the activities of the Universal Broker?		
4. Is there a Shareholders Agreement ² in place? What are the areas covered in the Shareholders Agreement?		
5. Are there policies and procedures on the declaration of interests and related transactions of shareholders?		
6. Is there a policy on the separation of functions between the holding company and the Universal Broker to prevent potential conflicts of interest?		
7. Have there been incidences of unusual market activity in the shares of the holding or related companies?		
8. Are there policies and procedures on shareholders' trades?		
B. BOARD OF DIRECTORS		
1. What is the composition of the Board and whom do the directors represent?		

¹ As a Universal Broker is capital-intensive and require immediate funding due to the nature of its business, a shareholder of a Universal Broker is expected to be able to contribute sufficient capital to the Universal Broker in a timely manner. As a measure, inquire if the holding company is a Public Listed Company and has been rated by an accredited rating agency, where applicable.

² As a Universal Broker is a result of mergers between four or more stockbroking companies, the shareholders may have a Shareholders Agreement that would prescribe certain policies or conditions.

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
2. Is there a mission statement to guide the overall objectives of the Universal Broker?		
3. Is there a policy for the non-executive directors and independent directors on conflicts of interest situations? Indicate if they are members of any committee of the Universal Broker.		
4. Are the following in accordance with the Universal Broker's Memorandum and Articles of Association and good corporate governance practices: a. Number of directors b. Engagement of directors to fill casual vacancies c. Ratio of executive and non-executive directors d. Directors' qualifications, industry experience, knowledge of the business and risks associated with the Universal Broker's business activities e. Frequency of Board meetings f. Matters to be tabled and discussed at Board meetings, e.g. audit & compliance issues, and annual planning & forecasts g. Formation of committees and their composition, authority, frequency, duties and responsibilities h. Quorum for deciding urgent and/or emergency matters i. Harmonisation of working relationship among the directors		
5. Are minutes of meetings of the Board and the committees maintained?		
6. Is there active participation in decision-making by members of the Board? Is there a dominant director?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
7. Does the Board rely heavily on one director who has experience in the stockbroking industry? If "Yes", is there a mechanism in place to prevent any person from abusing his authority?		
8. Is there a clear description to differentiate the roles and functions of a non-executive director from that of an executive director in order to prevent any abuse in authority and provide checks and balances?		
9. Are the non-executive directors and executive directors acting within their terms of reference?		
10. Is there effective segregation of duties of the executive director over the front, middle and back offices, including an effective compliance function? If "No", provide explanation.		
11. Are the decisions of the Board derived by way of circular resolutions or by attendance at meetings?		
12. Are there policies and procedures on the declaration of interests by directors and personnel of the Universal Broker?		
13. Is there a policy to ensure that no director acts as a "shadow director"?		
14. Are there policies and procedures on directors' trades as required by the relevant legislation and Memorandum and Articles of Association of the Universal Broker? Do directors' trades comply with the Share Moratorium Agreement and Licensing Conditions, where applicable?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
15. Is there a policy on Firewalls / information barriers between the Universal Broker, its shareholders (including holding company) and subsidiaries or related companies?		
16. Does the Firewall policy include a policy in relation to the holding company where non-executive directors have effective control?		
17. Is there a mechanism in place to prevent the Universal Broker from being used as a financing vehicle for its holding company?		
18. Is there a policy on the delegation and limit of discretionary authority for management personnel, as approved by the Board?		
19. To what extent does the Board delegate authority and discretion to the management? Is the delegation excessive?		
20. Is the overall policy of the Universal Broker focused on the expansion of the balance sheet at the expense of prudential standards?		
21. Are there pre-emptive measures in place for the Board to avert or minimise over-exposure of the Universal Broker's financial position, resulting from mismanagement of dealing activities?		
22. Is there a policy in place for the continuous review of policies and procedures in line with changes to the securities laws, rules and/or regulations and market conditions?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
23. Has the Board established committees, including: a. An Audit Committee b. A Risk Management Committee c. Any other committee (<i>Please specify</i>) Are the terms of reference and responsibilities of these committees duly established by the Board and are they documented?		
24. Do these committees report to the Board? If "No", specify to whom do they report.		
25. Is there a policy on the size and composition of these committees to ensure that there is a balance of knowledge, experience and independent members?		
26. Are there policies and procedures to address potential conflicts of interest in relation to committee members, e.g. with regard to their personal and professional positions?		
28. Are there checks and balances within the Board to ensure that decisions made by the management are appropriate and in the best interest of the Universal Broker?		
29. Is there a Code of Conduct for the Universal Broker? How would the Code of Conduct be implemented and enforced?		
C. MANAGEMENT		
1. Are there sufficient written policies and procedures for all major operations of the Universal Broker as approved by the Board?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
2. Are these policies and procedures translated into manuals and guidelines? How does the management implement the manuals and guidelines?		
3. What are the authority limits of the management personnel as approved by the Board?		
4. Are there regular management meetings at the divisional and departmental levels to discuss the policies and procedures and the feedback on them? Are minutes of the management meetings maintained?		
5. Is there a policy for reporting to the Board and what is the frequency of reporting? What are the types of reports given?		
6. Is there a written set of job descriptions and job specifications for all personnel?		
D. OPERATIONS AND SUPERVISION OF PRINCIPAL AND BRANCH OFFICES		
1. Are the policies and procedures for the Principal Office implemented and applied consistently at the Branch Offices?		
2. How does the Principal Office monitor the activities of the Branch Offices?		
3. What is the delegated authority of the Head of the Branch Office? Are there any limitations imposed on the authority of the Head of the Branch Office?		
4. What are the actions to be taken in the event that the actions of the Head at the Branch Office go beyond his scope of duties and responsibilities?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
5. Are there policies and procedures on the supervision by the Principal Office and the reporting by the Branch Offices?		
6. Are the following activities carried out at the Branch Offices? a. Futures broking b. Corporate finance c. Fixed income d. Fund management e. Unit Trust f. Others (<i>Please specify</i>)		
7. Are the trading and back-office systems of the Branch Offices integrated and on-line with the systems at the Principal Office? If "No", how does the Principal Office monitor the activities of the Branch Offices?		
8. Is there a clear separation of functions at the Branch Offices between the operations and Central Depository System (CDS) sections to prevent any conflict of duties? ³		
9. Are all records/reports (e.g. accounting records, CDS transaction request forms/reports) adequately kept within the immediate offices (e.g. Principal Office and Branch Offices)? Are historical documents kept in a separate location? Please provide details of storage area locations. ⁴		
10. Is a CDS co-ordinator (or an officer-in-charge) appointed to oversee the CDS related operations at the respective Branch Offices?		

³ As the Branch Office operates in a different location from the Principal Office, the Universal Broker must ensure that Branch Office has proper controls to avoid situations of mishandling of client and proprietary deposits.

⁴ This would be part of the Universal Broker's Business Continuity Plan and Disaster Recovery Plan.

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
11. How do the Branch Offices control the appointment of authorised signatories for undertaking and executing the various CDS transaction requests?		
12. Is a comprehensive system of training established to ensure that all personnel are able to carry out their duties effectively?		
13. Are proper records maintained for all training programmes conducted, including particulars of the participants?		
E. INTER-COMPANY BORROWING AND LENDING		
1. Are there established policies on inter-company borrowing and lending?		
2. Are there procedures to monitor inter-company borrowing and lending exposures?		
3. Are the Universal Broker's inter-company borrowing and lending policies influenced or dictated by its holding company?		
4. Is the Universal Broker overly dependent on inter-company borrowings, resulting in the Universal Broker being highly geared? How does the Universal Broker monitor this exposure?		
F. COMPLIANCE WITH LAWS, RULES AND REGULATIONS		
1. What is the Board's general attitude towards overall compliance with the relevant laws, rules and regulations? Do they ensure that changes to laws, rules and regulations are effectively communicated throughout the Universal Broker?		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
2. Has the Universal Broker, its directors or personnel been convicted of any criminal offence?		
3. Have any of the merged stockbroking companies been sanctioned by the relevant authorities for breaches of securities laws, rules, and/or regulations?		
4. Have any of the merged stockbroking companies ever failed to fulfil its obligations specified in any corporate proposal or undertaking submitted to the SC?		
5. <i>Corporate misdeeds</i> Have any of the merged stockbroking companies failed to comply with the Listing Requirements or the Securities Commission's Code on Take-over and Mergers, including provisions relating to: a. Investor protection and disclosure policies, insider trading and the reporting of material facts b. The making of mandatory general offer after acquiring control of a company		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
<p>6. <i>Reputation and character</i> Have any of the merged stockbroking companies , directors or their personnel been subject to any of the following:</p> <ul style="list-style-type: none">a. Disqualification by a court or a relevant authority or subjected to adverse judgement in civil proceedings in respect of dealings in securitiesb. Involvement in the management of a company that has been subjected to criminal investigations, which may lead to prosecutionc. Censured, reprimanded, denied/disqualified from membership of a professional or trade bodyd. Refusal or revocation of licence, registration or similar approvale. Directors or management who are an undischarged bankrupt		
<p>7. Have there been frequent complaints on the business practices of the Principal or Branch Offices (previously as a stockbroking company), and/or its directors/shareholders.</p>		
<p>G. SOUND BUSINESS PLAN</p>		
<p>1. Does the Universal Broker have a sound business plan?</p>		
<p>2. Does the business plan include the following:</p> <ul style="list-style-type: none">a. Evidence of or potential for viable diversified revenueb. Evidence of a sustainable revenue streamc. A sound business strategy		
<p>3. Does the Universal Broker have the capacity to assist its clients to trade in other capital markets?</p>		

MEMBER READINESS CHECKLIST

QUALITATIVE CRITERIA	COMMENTS	REF
<p>4. In relation to good corporate governance practices and social obligations, does the Universal Broker have the following in place:</p> <ul style="list-style-type: none">a. Directors' Continuing Education/Training – steps by the Board to promote awareness of the directors' responsibilities and the laws/regulations governing the Universal Brokerb. Nomination Committee – The appointment of a committee with the responsibility for proposing new committees for the Board and assessment of directors periodicallyc. Remuneration Committee – The appointment of a committee to recommend to the directors on matters pertaining to the remuneration of executive directorsd. Social contribution – Contribution to society at large could include among others: donations and support of charitable projects, provision of scholarships/grants and other measures to promote community valuese. Research and development – Commitment towards research and development programmes for the securities industry, and also keeping abreast of technological advancement and changes such as allocations for Research and Development and conformity to ISO standardsf. Investor relations – Maintain effective communication policies that enable the Board and the management to communicate effectively with the public in general		

MEMBER READINESS CHECKLIST

FRONT-OFFICE ACTIVITIES	COMMENTS	REF
A. TRADING ACTIVITIES		
1. Has the Board approved written policies and procedures governing the following: a. Proprietary trading b. Client trading c. Employee trading d. Other (<i>Please specify</i>)		
2. What are the authority limits of the Executive Director Dealing, Head of Dealing, Head of Branch Office and other personnel of the Universal Broker, where applicable?		
3. Are the personnel involved in trading activities aware of the policies and procedures of the Trading Department?		
4. How are these policies and procedures implemented in the daily operations of the Trading Department?		
5. Are the various duties within the Trading Department segregated as follows: a. Proprietary trading b. Client trading c. Employee trading d. Others (<i>Please specify</i>) In addition, is there specialisation between the derivatives, equities, asset management and other activities?		
6. Are there Firewall policies and procedures for restricting the flow of sensitive information?		
7. Are there policies and procedures to eliminate, or minimise, possible conflicts of interest?		

MEMBER READINESS CHECKLIST

FRONT-OFFICE ACTIVITIES	COMMENTS	REF
8. Is there a policy for a "cooling off" (non-trading) period for counters sponsored by or advised upon by the Universal Broker's Corporate Finance and Research Departments?		
9. Are there policies for the maintenance of records to enable them to be conveniently and properly inspected?		
10. Are there policies for the tape recording of telephone conversations of Dealer's Representatives? If "Yes", are there policies for the maintenance of the tape recording.		
B. PROPRIETARY TRADING		
1. Have the following matters been considered in the policy and procedures on proprietary trading: a. The products and strategies for proprietary trading b. Imposition of trading restrictions e.g. limits to positions held, volume of trading and / or losses c. Regular review of trading activities by the senior management who is independent of proprietary trading activities d. Regular review of the records kept by senior management e. Review of weekly cash flow projection requirements by senior management		
2. How does the Universal Broker ensure that the risks to be taken commensurates with the risk profile determined by the Board or the appropriate Committee of the Board?		

MEMBER READINESS CHECKLIST

FRONT-OFFICE ACTIVITIES	COMMENTS	REF
3. Does the designated Dealer's Representative appointed for proprietary trading adhere to the policies and procedures for proprietary trading, e.g. the prohibition against trading for clients?		
4. Is there is a policy on proprietary trading at Branch Offices? If "Yes", how does the Principal Office monitor this activity to ensure compliance with the Universal Broker's policy as stated in paragraph 1 above?		
C. CLIENT TRADING		
1. How does the Universal Broker ensure that its Dealer's Representatives understand the policies and procedures for client trading?		
2. Are there sufficient policies on trading limits for clients at the Branch Offices?		
3. How does the Universal Broker ensure that the "Know your client" rules are duly understood and implemented by its Principal Office and Branch Offices?		
D. EMPLOYEE TRADING		
1. Is the approval of an executive director required for employee trading? What is the approval process for directors' trading?		
2. Is there a policy on the reporting of employee trades to the management? Is a register for employee transactions maintained? If "Yes", who reviews the register and how often is the review undertaken?		
3. Are there procedures to ensure that the policy and procedures on employee trading are complied with?		

MEMBER READINESS CHECKLIST

FRONT-OFFICE ACTIVITIES	COMMENTS	REF
4. Are there policies and procedures on actions to be taken against non-compliance with the policies and procedures on employee trading?		
5. Is there a designated/dedicated Dealer's Representative appointed for employee trading?		

MEMBER READINESS CHECKLIST

MIDDLE-OFFICE ACTIVITIES	COMMENTS	REF
A. INTERNAL AUDIT		
1. Is an Internal Audit Department established at the Universal Broker?		
2. Is an Audit Committee established at the Universal Broker? If "Yes", provide details of the Audit Committee members.		
3. Is the Internal Audit Department required to report directly to the Audit Committee? If "No", please explain.		
4. Is there an audit manual to provide guidance on work to be performed?		
5. Is the audit manual approved by the Audit Committee and tabled to the Board?		
6. Is there an annual audit plan? Is the audit plan and scope of coverage approved by the Audit Committee?		
7. Does the scope of the Internal Audit Department cover all activities and frequency of audits of the Principal Office and Branch Offices?		
8. Does the scope of the Internal Audit Department include systems/IT audits of the Principal Office and Branch Offices?		
9. Is there a policy to ensure that the internal audit reports are discussed with the relevant heads of departments prior to issuance?		
10. Are there procedures to address issues raised by the Internal Audit Department?		

MEMBER READINESS CHECKLIST

MIDDLE-OFFICE ACTIVITIES	COMMENTS	REF
11. Are the duties and responsibilities of the Internal Audit Department segregated from those of the other departments within the Universal Broker?		
B. COMPLIANCE FUNCTION		
1. Has the Board approved written policies and procedures governing the Compliance Department that are in accordance with the rules and guidelines of the Exchanges?		
2. Has the Universal Broker identified/appointed an Executive Director – Compliance to head the Compliance Department in accordance with the rules of the Exchanges?		
3. Has the Universal Broker identified/appointed the Executive Director – Compliance as a member of the Audit Committee and the Risk Management Committee?		
4. What would be the reporting structure of the Compliance Department?		
5. Has the Universal Broker identified/appointed dedicated Compliance Officers for the Branch Offices?		
6. Are there policies and procedures for the dedicated Compliance Officers of the Branch Offices to report to the Executive Director – Compliance?		

MEMBER READINESS CHECKLIST

MIDDLE-OFFICE ACTIVITIES	COMMENTS	REF
7. Is there a policy to ensure that the Compliance Department has unlimited access to all information and business activities of the Universal Broker?		
8. Are there Firewall policies and procedures to restrict the flow of sensitive information ⁵ ? Does the Compliance Department, as part of its Firewall policy, issue a "Restricted and/or Gray/Watch list" ⁶ ?		
9. Are there policies and procedures to eliminate, or minimise possible conflicts of interest situations?		
10. Is there a compliance programme to enable the Compliance Officers to discharge their duties effectively?		
11. Are the Compliance Checklists adequate and comprehensive enough to cover all the activities of the Universal Broker, e.g. equities and derivatives?		
12. Are the personnel of the Compliance Department aware of the policies and procedures of the Department? Is there adequate training for the personnel of the Compliance Department?		
13. Are proprietary, discretionary and employee trading reviewed by the Compliance Officer on a daily basis?		

⁵ Emphasis is placed on information or work-related material from the Corporate Finance, Research and Trading Departments.

⁶ Universal Brokers which conduct Corporate Finance, Research or Market Making activities should maintain some form of Restricted and/or Gray/Watch Lists and conduct reviews of employee accounts, employee-related accounts and proprietary trading for securities appearing on those lists. Generally, a Restricted List is a current list of securities in which proprietary and employee-related account transactions are restricted or prohibited. A Gray/Watch List is a current list of securities that generally does not carry trading restrictions, but whose trading is subject to close scrutiny by the Compliance Department.

MEMBER READINESS CHECKLIST

MIDDLE-OFFICE ACTIVITIES	COMMENTS	REF
14. Are there adequate policies and procedures for the maintenance of records to enable them to be conveniently and properly audited?		
15. Does the Compliance Department provide advice to other departments on laws, rules and regulations? To what extent does the Compliance Department effectively discharge its duties and disseminate a compliance culture throughout the whole organisation?		
16. Are there procedures for action to be taken in the event of non-compliance with the following: a. securities laws, rules and/or regulations b. the Universal Broker's own internal policies and procedures		
C. RISK MANAGEMENT		
1. Is a Risk Management Department established at the Universal Broker?		
2. Has the Board approved written policies and procedures governing the Risk Management Department?		
3. To whom does the Risk Management Department report to on the risk exposure of the Universal Broker?		
4. Apart from the Risk Management System of KLSE, does the Universal Broker intend to have its own internal Risk Management Model ⁷ ? If "Yes", is there a manual to provide guidance on the standard of work to be performed when using the Risk Management Model?		

⁷ The Risk Management Model shall take into take consideration the various risk elements that a Universal broker would be exposed to in relation to the capital market activities the Universal Broker would undertake.

MEMBER READINESS CHECKLIST

MIDDLE-OFFICE ACTIVITIES	COMMENTS	REF
5. Does the Universal Broker have back-office capability to ensure accurate information is downloaded into the Risk Management System of KLSE?		
6. Are there procedures to ensure that the Capital Adequacy Ratio Requirements (Risk Management System of KLSE) are reviewed regularly and that the computation of the Capital Adequacy Ratio Requirements is accurate?		
7. Is there an early warning system in place to monitor the financial condition of the Universal Broker and to ensure that the Universal Broker will not breach the relevant minimum financial requirements of the Exchanges and Clearing Houses?		
8. Are the procedures for risk management of the Branch Offices consistent with those of the Principal Office?		
9. Are there procedures allowing information flow between the Risk Management Department, and the Internal Audit and Compliance Departments?		

MEMBER READINESS CHECKLIST

D. CREDIT CONTROL		
1. Has the Board approved the following policies and procedures governing the clients of the Universal Broker: a. Evaluation of initial and ongoing credit worthiness based on past track records b. Monitoring and review to ensure availability of funds to meet settlement obligations c. Policy on acceptable collateral d. Ageing and analysis of debt e. Debt recovery and settlement proposals f. Liquidation of clients' accounts in the event of default g. Provisions for doubtful and bad debts h. Assessing clients suitability and credit risks i. Monitoring clients' exposure and trading limits j. Monitoring and collecting clients' debts k. Monitoring clients' margin requirements l. Monitoring exposure to a single client and/or security m. Discretion given to the Universal Broker's management to decide on clients' credit limits		
2. Would the Board carry out periodic assessments on authorisation given to the management in granting clients' credit limits?		
3. Are there policies and procedures on actions to be taken in the event that there are breaches of limits and excessive exposures?		
4. Are the personnel of the Credit Control Department aware of the policies and procedures of the Department?		

MEMBER READINESS CHECKLIST

BACK-OFFICE ACTIVITIES	COMMENTS	REF
1. Has the Board approved written policies and procedures governing the back-office?		
2. Are the personnel of the back-office aware of the policies and procedures governing the back-office activities?		
3. Is a Branch Office - Operations Department established at the Principal Office for the purpose of monitoring the daily operations of the respective Branch Offices and ensuring compliance with the Universal Broker's policies and procedures?		
A. OVERALL ACCOUNTING SYSTEM		
1. Is there a computerised general accounting system and an on-line system with the Branch Offices?		
2. Is there a general accounting system that provides for a "control account" for clients' balances?		
3. Are there policies and procedures that provide for an independent review to check the accuracy of the valuation/pricing of fixed-income securities quoted by the Dealers' Representatives? If "Yes", how frequent is the independent review performed?		
4. Are bank reconciliations performed regularly and are reconciled items cleared in a timely manner? How does the Universal Broker manage unreconciled items?		

MEMBER READINESS CHECKLIST

BACK-OFFICE ACTIVITIES	COMMENTS	REF
5. Are there policies and procedures to govern the following: a. Generating source documents, e.g. payment vouchers, official receipts, debit and credit notes b. Pre-numbering of documents c. Posting of the data from source documents into the general accounting system d. Checking the accuracy of the data input e. Performing reconciliation f. Authorising and approving of source documents g. Filing of source and supporting documents		
B. BACK-OFFICE / CLIENTS ACCOUNTING SYSTEM		
1. Is the back-office system able to maintain individual client ledger balances?		
2. Does the client ledger balance in the back-office system have the following minimum parameters / fields: a. Cash balances (brought forward from previous day) b. Cash deposits / withdrawals c. Type of contract / product traded and the price when contract / product is traded d. Commission e. Equity f. Security collected and collateral pledged g. Margin requirements h. Profit/Loss		
3. Is there a system for monitoring the margin calls of the clients?		

MEMBER READINESS CHECKLIST

BACK-OFFICE ACTIVITIES	COMMENTS	REF
4. Is there a system for the daily reporting of large trades and reviewing of position limits?		
5. Are there policies and procedures for the maintenance of client ledger balances in the back-office system as well as a client control account in the general accounting system?		
C. CLIENTS' COMPLAINTS		
1. Has the Board approved written policies and procedures governing handling of clients' complaints?		
2. Is there a dedicated officer of at least an assistant manager's level to deal with complaints, in accordance with the rules of the Exchanges?		
3. Is a complaints log maintained? Does it contain information as required by the rules of the Exchanges?		
D. OPENING OF CLIENTS' ACCOUNTS		
1. Has the Board approved written policies and procedures governing the opening of clients' accounts?		
2. Are clients furnished with documents explaining the following: a. The nature of the contracts / products b. The nature of any obligations assumed by a client c. The specifications of each type of contract / product in which the Universal Broker trades on behalf of the clients d. The nature of trading e. The rules governing the trading of such contracts / products		

MEMBER READINESS CHECKLIST

BACK-OFFICE ACTIVITIES	COMMENTS	REF
3. Are there procedures to ensure that the Client's Agreement and Risk Disclosure Statement are furnished to the clients prior to the opening of clients' accounts?		
4. Are there procedures to ensure that clients have signed the Client's Agreement and Risk Disclosure Statement, and their contents properly explained to them?		
5. Is there a policy for periodic review of the Client's Agreement and Risk Disclosure Statement to ensure that they contain the minimum information as required by the rules of the Exchanges?		
6. Are there procedures on the evaluation of a client's financial standing (with supporting documents) and the confirmation of the client's identity?		
7. Are there procedures to ensure that the management's approval is obtained prior to the commencement of trading of clients' accounts?		
E. TRUST ACCOUNT 1. Has the Board approved written policies and procedures governing the maintenance of trust accounts for trading activities in accordance with the following: a. Equity trading – Section 44 of the Securities Industry Act 1983 b. Derivatives trading – Section 52A of the Futures Industry Act 1993 c. Fund Management – Section 47C of the Securities Industry Act 1983 and Section 52D of the Futures Industry Act 1993		

MEMBER READINESS CHECKLIST

BACK-OFFICE ACTIVITIES	COMMENTS	REF
2. Are there procedures to ensure that payments and receipts of clients' monies are made from and to a trust account and are the procedures in line with the provisions of the securities laws, rules and/or regulations?		
3. Are there procedures on the reconciliation of balances for trust accounts of Branch Offices?		
F. "KNOW YOUR CLIENT" 1. Has the Board approved written guidelines on "Know Your Client" provisions covering the following essential facts about the client's background: a. Client's investment objective b. Client's knowledge and experience in dealing in products / contracts offered by the Universal Broker c. Client's financial background d. Any other information as may be required by the Exchanges from time to time		

MEMBER READINESS CHECKLIST

CORPORATE FINANCE	COMMENTS	REF
1. Has the Board approved written policies and procedures governing the Corporate Finance Department?		
2. Do the policies and procedures include the following: a. Procedures to ensure that all material information in respect of a listing activity is made available on a timely basis and is independently verified b. Procedures to ensure that the submitted information constitutes a full and true disclosure of all material facts c. A checklist to review the relevant prospectus d. Procedures to ensure that the Universal Broker fulfils its obligation in advising its clients (corporate advisory) as stipulated by the relevant securities laws, rules and/or regulations e. Approval procedure prior to making submissions or supplementary submissions to the relevant authorities f. Procedures to obtain approval from relevant authorities g. Policies on fees to be charged on corporate advisory services, including the issuance of Contact report ⁸ and Concept report ⁹		
3. Are the personnel of the Corporate Finance Department aware of the policies and procedures of the Department?		
4. Are the various duties within the Corporate Finance Department segregated?		

⁸ This report documents the initial discussions held with a client to assess the client's needs.

⁹ This report is a proposal to a client outlining the corporate exercises suitable to the client, given the client's financing needs and highlighting the risks involved.

MEMBER READINESS CHECKLIST

CORPORATE FINANCE	COMMENTS	REF
A. DUE DILIGENCE		
1. Are there procedures to ensure that all submissions are carried out with due care, skill and in a diligent manner?		
2. Are the following matters included in the policies and procedures of the Corporate Finance Department: a. Procedures to conduct group meetings to review progress of the due diligence exercise b. Procedures to prepare regular working papers, source records and reports c. Procedures to prepare a final comprehensive report of the due diligence exercise d. Checklists to identify and filter unqualified applicants e. Procedures to monitor risk exposure		
B. SUPERVISION, COMPLIANCE AND FIREWALLS		
1. Is there a physical separation and / or restriction of access between the Corporate Finance Department and the other departments of the Universal Broker?		
2. Are there Firewall policies and procedures to ensure that the personnel, functions and information relating to corporate finance activities are adequately segregated and controlled, including restricting the flow of sensitive information?		

MEMBER READINESS CHECKLIST

CORPORATE FINANCE	COMMENTS	REF
3. Is there a policy for a “cooling-off” period (a specific period of non-trading days) for counters sponsored by or advised upon by the Corporate Finance Department?		
4. Are there procedures on the pre-clearance of information by the Compliance Department? ¹⁰		
5. Are there policies and procedures to eliminate or minimise possible conflicts of interest situations? Are the following matters considered: a. Any dealings or arrangements between a Universal Broker (in discharging its role as an Advisor) and clients b. Shares owned by clients held by Universal Broker ¹¹ c. Financial or any other relationship with the clients that may interfere with the independence and objectivity of the Universal Broker in discharging its role as an Advisor d. Procedures to make full disclosure		
6. Are there policies and reporting structures on the activities of the Branch Offices if the Branch Offices perform Corporate Finance functions? If “Yes”, are the policies and reporting structures at the Branch Offices consistent with those at the Principal Office?		

¹⁰ There may be cases where the sharing of information between the Corporate Finance Department and the other departments and/or Branch Offices are necessary prior to public dissemination. In such cases, there must be a sufficient mechanism in place for the Compliance Department to review the information in order to ensure that the Corporate Finance Department does not disclose material confidential information.

¹¹ For example, a client may be a shareholder of a Public Listed Company and the shares are placed with the Universal Broker. Subsequently, the client has dealings with the Corporate Finance Department of the Universal Broker. There must be safeguards and Firewalls in place to ensure any possible conflicts of interest situations do not arise.

MEMBER READINESS CHECKLIST

RESEARCH	COMMENTS	REF
1. Has the Board approved written policies and procedures governing the Research Department?		
2. Are the personnel of the Research Department aware of such policies and procedures?		
3. Is the research activity outsourced? If "Yes", provide the panel of research houses.		
4. Is a research library maintained? If "Yes", describe the type of information and/or facilities maintained in the library.		
5. If the Universal Broker conducts its own investment research, identify the respective personnel.		
6. Is there a procedure on research analysis to be communicated to the other departments? If "Yes", are there procedures on the pre-clearance of information by the Compliance Department? ¹²		
7. Are there procedures in place to ensure that continuous research and analysis is carried out to assist the Dealer's Representative in making sound investment decisions for proprietary and clients' accounts?		

¹² There may be cases where the sharing of information between the Research Department and the other departments and/or Branch Offices are necessary prior to public dissemination. In such cases, the Compliance Department must review the information in order to ensure that confidentiality of price-sensitive information is maintained at all times.

MEMBER READINESS CHECKLIST

ASSET MANAGEMENT	COMMENTS	REF
A. INVESTMENT COMMITTEE		
1. Is there an Investment Committee for fund management activities? If "Yes", who are the members of the Investment Committee? If "No", what are the alternative measures to ensure adequate checks and balances in making investment decisions?		
2. Are the terms of reference and responsibilities of the Investment Committee established and documented? Does the Investment Committee report to the Board? If "No", to whom does the Investment Committee report?		
3. Are there independent members in the Investment Committee?		
4. Does the Investment Committee meet regularly and are the minutes of meeting maintained?		
5. Are there policies and procedures governing proper disclosure of the interests of the Investment Committee members?		
B. CLIENT'S AGREEMENT		
1. Are there procedures for a written agreement (client's mandate) to be entered into with a client before any services are provided to the client?		

MEMBER READINESS CHECKLIST

2. Are there procedures for clients to be provided with the following information prior to signing the clients' agreement: a. The nature of the clients' interest, rights and obligations b. A description of all risks associated with the investment and potential factors that may cause losses to clients		
C. ALLOCATION PROCESS		
1. Are there policies and procedures for asset allocation?		
2. Are there controls to ensure the following: a. Assets are allocated fairly to clients b. There are no conflicts of interest between dealing for clients and proprietary accounts		
D. REPORTING TO CLIENTS		
1. Are there policies and procedures for reporting to clients?		
2. Are periodic reports on clients' investments sent to clients? If "Yes", specify the period.		

MEMBER READINESS CHECKLIST

MARGIN FINANCING	COMMENTS	REF
1. Has the Board approved written policies and procedures governing the Margin Financing Department?		
2. Are the personnel aware of the approved policies and procedures on Margin Financing?		
3. Are these policies and procedures duly implemented in the daily operations of the Margin Financing Department?		
4. Are there Firewall policies and procedures for restricting the flow of price-sensitive information?		
5. Are there policies and procedures to eliminate, or minimise, possible conflicts of interest situations?		
6. Are there policies and procedures for the maintenance of records to enable them to be conveniently and properly audited?		
A. MONITORING SYSTEM		
1. Are all the risks properly evaluated and monitored?		
2. Are there measures to promptly detect and rectify irregularities in margin transactions?		
3. Are reports and other relevant information on the monitoring of margin accounts complete, accurate and valid?		
4. Is there a clear segregation of duties and lines of responsibility between the dealing personnel, back-office personnel and margin financing personnel?		

MEMBER READINESS CHECKLIST

MARGIN FINANCING	COMMENTS	REF
5. Are there procedures on liquidity management and are there risk management capabilities in place?		
6. Are the back-office systems capable of monitoring the liquidity and margin ratios on a daily basis?		
7. Are statements of accounts on the movement of the clients' assets issued to all clients on a monthly basis?		
B. MARGIN ACCOUNT AGREEMENT		
1. Is there a margin account agreement between the Universal Broker and the client, which includes the requirements of all relevant rules of the Exchanges?		
C. EFFECTIVE BACK-OFFICE SYSTEM		
1. Are there policies and procedures for the following: a. On-line information of total margin financing outstanding b. Management of collateral including on-pledged collateral c. Ageing of margin accounts d. Reconciliation of margin accounts		

MEMBER READINESS CHECKLIST

FIXED-INCOME / DEBT INSTRUMENTS	COMMENTS	REF
1. Has the Board approved written policies and procedures governing the Fixed Income Department?		
2. Are the personnel aware of such policies and procedures?		
3. Are these policies and procedures implemented in the daily operations of the Fixed Income Department?		
4. Is there a mechanism to produce daily valuations of fixed income instruments traded that reflects the risk positions of proprietary and clients' trades?		
5. Are there written authority limits governing the trading of Fixed Income instruments?		
6. Are there Firewall policies and procedures for restricting the flow of price-sensitive information?		
7. Are there policies and procedures to eliminate, or minimise possible conflicts of interest situations?		
8. Are there policies and procedures for the maintenance of records to enable them to be conveniently and properly audited?		

MEMBER READINESS CHECKLIST

INFORMATION TECHNOLOGY	COMMENTS	REF
A. ORGANISATION STRUCTURE 1. Has the Board approved written policies and procedures governing the IT Department on the following: a. Information Technology Security Policy and Standards (ITSS) b. Computer environment security c. Computer operations d. Activities of internet, intranet or network based (e.g. ECOS, web-page / web-site maintenance) operations e. Business Continuity Plan (BCP) and Computer Disaster Recovery Plan (CDRP) f. Systems developments, enhancements and modifications g. Service Level Agreements (on BCP facilities, hardware, software, telecommunication networks and maintenance) h. Help Desk		
2. Are the policies and procedures stated in paragraph 1 above, in accordance with the relevant rules and guidelines issued by the relevant authorities and the Exchanges?		
3. Are the personnel aware of such policies and procedures?		
4. Are these policies and procedures implemented in the daily operations of the IT Department?		
5. Are there systems, applications and user manuals for personnel reference?		
6. Are these manuals periodically reviewed, updated and easily accessible?		

MEMBER READINESS CHECKLIST

7. Are the various duties within the IT Department segregated?		
8. Are there proper policies and procedures for the maintenance of records to enable them to be conveniently and properly audited?		
B. COMPUTER OPERATIONS		
1. Is the Computer Operations Manual in accordance with the ITSS?		
2. Are there adequate procedures for the following: a. Job definition and segregation of duties for the computer operation personnel b. Operations and monitoring of daily job control schedules, end-of-day processing and backup operations c. Monitoring of movement of backup storage media d. Monitoring of systems console messages e. System's maintenance (Housekeeping)		
3. Is the backup information stored in a separate and secure location?		
4. Is there an adequate escalation procedure in place to resolve operational failure in a timely manner?		
C. COMPUTER SECURITY		
1. Are there written policies and procedures on access control? Do they include: a. The access control to the operating system, database system and application level b. The access control matrix for each of the application systems c. The access and usage control on sensitive data, powerful ID and utilities		

MEMBER READINESS CHECKLIST

2. Are there written policies and procedures on user ID maintenance? Do they include: a. The security administration and maintenance of user ID b. The review of personnel current access to the computer system to ensure that it commensurates with their job responsibilities		
3. Are there written policies and procedures on system audit trails? Do they include: a. The generation and safekeeping of system audit logs at the network, operating system, database and application levels b. The review of each system audit log c. A written Firewall security policy		
4. Are there written policies and procedures on physical security? Do they include: a. Access to the computer centre and IT facilities b. The distribution of reports generated from the computer centre		

MEMBER READINESS CHECKLIST

5. Are there procedures on the monitoring and maintenance of: a. Temperature, humidity and equipment in the computer centre b. Fire detection and suppression systems c. Generator and Uninterrupted Power Supply (UPS) facilities		
6. Are the above policies and procedures in accordance with the ITSS?		
D. SYSTEM DEVELOPMENT AND LIFE CYCLE (SDLC) / CHANGE MANAGEMENT		
1. Are there written policies and procedures on in-house development and implementation of new application systems?		
2. Are there written policies and procedures on development and implementation of new application systems by vendors?		
3. Are there written policies and procedures on changes to application systems? If "Yes", do they include: a. Authorisation and verification b. Approval of change requests to application systems c. Testing of changes made to the application system d. Transfer of changed programme codes into the production environment e. Emergency change control		
4. Are user and technical manuals / documentation maintained for current systems and each new application system that is developed?		

MEMBER READINESS CHECKLIST

5. Are the production and development environment and functions segregated?		
E. BUSINESS CONTINUITY PLAN (BCP)		
1. Is the BCP in accordance with the ITSS?		
2. Do the policies and procedures adhere to the Exchanges codes and guidelines such as the ITSS, KLSE's Member Company Business Premises and Member Company Disaster Recovery Plan?		
3. Are there policies and procedures for the following: a. Definition / categorisation of an emergency disaster b. Definition, functions and powers of a designated entity on the declaration of a disaster c. Definition and description of alert levels and escalation timing d. Notification, declaration and escalation procedures e. Modification and changes to the BCP's policies and procedures		

MEMBER READINESS CHECKLIST

4. Are these procedures updated and reviewed regularly?		
5. Are the roles and responsibilities in the BCP adequately defined?		
6. Is there periodic monitoring and maintenance of hardware and software for the computer environment?		
7. Is a business impact analysis performed to identify critical business dependent systems and to formulate a recovery plan?		
8. Are test drills and mock runs conducted periodically to assess the BCP's effectiveness? If "Yes", are the results reported to the management? a. Provide test schedules b. Provide test and mock-run results		
F. WEB-SITE MAINTENANCE		
1. Is a web-server and web-site maintained? Where is the domain name server (DNS) registered?		
2. Are the network and systems configurations in accordance with the relevant Exchanges' guidelines (e.g. KLSE's Electronic Client Ordering System)?		
3. Is there a personnel designated for the maintenance of a web-server and web-site?		

MEMBER READINESS CHECKLIST

4. Is there a segregation of duties for the following: a. Maintenance of the contents of the web-site b. Changes to the contents of the web-site c. Posting of changes or modifications to a web-site maintained off-site d. Client information database		
5. Are there policies and procedures on the maintenance of the web-server and web-site in accordance with the ITSS? Do they include: a. Changes to and review of the contents of the web-site b. Access control to ensure that only clients are able to access the designated site c. Safeguards and monitoring of comments that are posted on the Universal Broker's chat rooms / forums by clients d. Safeguards over on-line payment processes e. Safeguards to minimise disruptions to the site		
6. What measures are taken to safeguard clients' information?		

MEMBER READINESS CHECKLIST

G. SERVICE LEVEL AGREEMENT		
1. Are there procedures for maintaining an inventory listing of the systems software and hardware? If "Yes", are inventory listings reviewed periodically?		
2. Are there procedures to maintain up-to-date Service Level Agreements with the vendors in areas such as hardware, systems software, application systems, infrastructures and BCP / CDRP?		
3. Are there procedures to undertake periodic maintenance and service for IT facilities and equipment?		

MEMBER READINESS CHECKLIST

H. NETWORK AND TELECOMMUNICATIONS 1. Are there policies and procedures in accordance with the ITSS? Does it include: a. the stability and fast recovery of the network in the event of a systems failure b. Confidentiality and authentication of messages and data? If "Yes", do they include the encryption of sensitive information and data? c. Changes made to the network configuration		
I. HELP DESK AND PROBLEM MANAGEMENT 1. Are there problem management policies and procedures in accordance with the ITSS and are they periodically reviewed? Do the policies and procedures consider the following: a. Help desk and call centres operations b. Problems logging, escalation and rectification c. Review of problems reported and status d. Follow-up actions		

MEMBER READINESS CHECKLIST

Comments & Conclusion:

Comments:

Conclusion:

Completed and Reviewed:

Completed by:	Date:	Reviewed by:	Date: