

**GUIDELINES ON THE ESTABLISHMENT AND LOCATION OF A BRANCH  
OFFICE BY ELIGIBLE STOCKBROKING COMPANIES**  
**Practice Note 1**

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**FLEXIBILITIES GRANTED TO STOCKBROKING COMPANIES IN RELATION  
TO BRANCH OFFICES AND BRANCHING POLICY**

**1. INTRODUCTION**

- 1.1 This Practice Note aims to explain and clarify the flexibilities granted to stockbroking companies in relation to branch offices and the branching policy.
- 1.2 While this Practice Note is an explanatory note to complement the Guidelines on the Establishment and Location of a Branch Office by Eligible Stockbroking Companies (the Guidelines), nothing contained herein should be construed as prejudicing the powers of the Securities Commission (SC) under the Guidelines.

**2. FLEXIBILITIES GRANTED TO STOCKBROKING COMPANIES IN  
RELATION TO BRANCH OFFICES**

- 2.1 Currently, the relevant rule(s) as contained in the Rules of the Stock Exchange state that unless otherwise prescribed by the Stock Exchange in consultation with the SC, the reporting structure of a stockbroking company's branch office is as follows:

If the Head of Branch is licensed

- (a) The Branch Head of Dealing reports directly to the Head of Branch, who in turn reports directly to the Executive Director Dealing. Where the Head of Branch and the Branch Head of Dealing are the same person, he shall report directly to the Executive Director Dealing.
- (b) The Branch Head of Operations reports directly to the Executive Director Operations and administratively to the Head of Branch.
- (c) The Branch Compliance Officer reports directly to the Executive Director Compliance and administratively to the Head of Branch.

If the Head of Branch is not licensed

- (a) The Branch Head of Operations reports directly to the Head of Branch,

who in turn reports directly to the Executive Director Operations. Where the Head of Branch and the Branch Head of Operations are the same person, he shall report directly to the Executive Director Operations.

- (b) The Branch Head of Dealing reports directly to the Executive Director Dealing and administratively to the Head of Branch.
- (c) The Branch Compliance Officer reports directly to the Executive Director Compliance and administratively to the Head of Branch.

2.2 However, upon application by the stockbroking companies, the Stock Exchange in consultation with the SC may grant exemptions based on paragraphs 3 to 5 hereof.

### **3. RELAXATION OF THE HEAD OF BRANCH OPERATIONS REQUIREMENT**

- 3.1 The requirement of Head of Branch Operations can be relaxed provided that:
- (a) The branch offices specialise in front-office activities only and there are no back-office activities at the branch offices.
  - (b) The branch offices' back-office system is integrated with the principal stockbroking company's back-office system.
  - (c) The stockbroking company is able to satisfy the record keeping obligations for the whole entity as prescribed under section 43 of the Securities Industry Act 1983.
  - (d) If there are activities of account opening and credit control at the branch offices, there must be a person responsible for it and that person must report directly to the principal office.
- 3.2 The requirement can be relaxed further if the branch office specialises in corporate finance activities and there are no front-office activities at the branch office. However, firewalls must be maintained and internal control procedures must be transparent. The Compliance Officer must be able to monitor the corporate finance activities to protect the confidentiality of client information.

### **4. RELAXATION OF THE HEAD OF BRANCH DEALING REQUIREMENT**

- 4.1 The requirement of Head of Branch Dealing can be relaxed provided that:

- (a) The back-office specialises in back-office activities.
  - (b) There are no front-office activities at the branch office.
- 4.2 The requirement can be relaxed further if the branch office specialises in corporate finance activities and there are no front-office activities at the branch office. However, firewalls must be maintained and internal control procedures must be transparent. The Compliance Officer must be able to monitor the corporate finance activities to protect the confidentiality of client information.

## **5. RELAXATION OF THE BRANCH COMPLIANCE OFFICER REQUIREMENT**

- 5.1 Currently, of the relevant rule(s) as contained in the Rules of the Stock Exchange states that unless otherwise prescribed by the Stock Exchange in consultation with the SC, a stockbroking company must appoint a Compliance Officer to undertake compliance responsibilities at each of its branch office.
- 5.2 The requirement of the Branch Compliance Officer can be relaxed provided that:
  - (a) The branch offices' compliance function could be performed effectively at the principal office.
  - (b) The Compliance Officer at the principal office is able to satisfy his obligations under the Stock Exchange/Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) Joint Guidelines for Compliance Officers in relation to the branch offices. For example, a mechanism must be in place to allow the principal office's Compliance Officer to conduct day-to-day compliance and intervene if there are any breaches.
  - (c) Branch offices that do not have Compliance Officers must be subject to regular internal audits and the internal audit reports must be submitted to the Stock Exchange and the SC.
  - (d) The SC will not prescribe a minimum number of Compliance Officers. However, the stockbroking company would need to ensure that its compliance function could be performed effectively.
  - (e) Preferably, the branch office is within close proximity to the principal office.
  - (f) However, such arrangement must not, in any way, compromise the compliance function at the principal office and the work undertaken by

the principal office's Compliance Officer must be undertaken as though there is a full-time Compliance Officer stationed at the branch office.

- (g) Notwithstanding the above, in the course of audit by the SC or the Stock Exchange, if it is found that such an arrangement is not effective, the stockbroking company may be required to employ a full-time Compliance Officer at each of its branch offices.

## **6 ESTABLISHING NEW BRANCHES**

- 6.1 For eligible stockbroking companies intending to set up branches, the choice of location shall be left to the eligible stockbroking company's decision provided always that the prospective location of the additional branch office is not already sufficiently served by the physical presence of another stockbroking company.
- 6.2 However, to maintain orderly branching, eligible stockbroking companies shall submit the following to the SC:
  - (A) Specific information pertaining to the exact location of the branch office.
  - (B) The nature of the operations of the branch office and the activities to be undertaken.
  - (C) Details on the resources to be allocated to the branch office, including a profile of the management team.
  - (D) The date the branch office is intended to commence operations.