

**THE SC's GUIDELINES ON
FIREWALLS - MEASURES TO
CONTAIN RISKS AND TO MANAGE
ISSUES OF CONFLICTS OF INTEREST
BETWEEN A STOCKBROKING
COMPANY AND ITS AFFECTED
RELATED COMPANIES**

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Securities Commission

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Purpose

- To ensure better risk management of an SBC in relation to any exposure it may inherit from the businesses of its affected related companies
- To ensure that an SBC is insulated from the inherent risks of the activities of its affected related companies
- To provide minimum guidance for the establishment of firewalls and measures to contain risks and to manage conflict of interest concerns between an SBC and its affected related companies



Key Definitions

- “affected related companies” means related companies that are involved in any of the following:
 - property or construction
 - credit or leasing
 - banking

General Firewalls

- Appropriate firewalls shall be erected between an SBC and its affected related companies to insulate the SBC from the inherent risks of the activities of its affected related companies.
- General measures include:
 - i. Proper segregation of functions;
 - independent governance structures;
 - prevent / minimise conflicts of interest situations.



General Firewalls (con't)

- ii. An SBC shall have independent and separate Board and management from its affected related companies
- iii. An SBC shall have sufficient number of independent directors on its Board
- iii. An SBC shall have specific policies relating to authority limits for the granting of credit facilities to clients
- iv. An SBC shall immediately report to the SC and KLSE any increase in its risk position brought about by its affected related companies.



Specific Firewalls

In addition to the general firewalls, specific firewalls shall also be erected between an SBC with the following related companies:

- a. Banking Institution(s)
- b. Property or Construction Companies
- c. Credit or Leasing Companies



Specific Firewalls Between SBC and Its Related Banking Institution(s)

An SBC shall, to the best of its endeavour, report to the SC its total aggregate exposure to a single client and a single security of both the SBC and its related banking institution(s).

Specific Firewalls Between SBC and Its Related Property or Construction Companies

- i. If properties of the Group are encumbered, the SBC shall put in place appropriate policies to prevent default risks by its related property or construction companies from affecting its financial position.
- ii. An SBC is prohibited from providing guarantees and advances to its related property or construction companies.
- iii. An SBC shall immediately report to KLSE and SC if there is any indication that its financial position would be weakened by activities of its related property or construction companies.

Specific Firewalls Between SBC and Its Related Credit or Leasing Companies

- i. An SBC is prohibited from providing guarantees to its related credit or leasing companies.
- ii. All inter-company loans and advances to related credit or leasing companies shall obtain the prior approval of KLSE.
- iii. An SBC is prohibited from receiving margin financing facilities (for clients) from its related credit or leasing companies.
- iv. The assignment/transfer/novation of margin clients of an SBC to its related credit or leasing companies or vice versa shall be prohibited.



Time Frame For Compliance

- Affected SBCs shall take immediate steps to comply with these requirements including the establishment of relevant policies, the adherence to the reporting requirements and provisions pertaining to the compositions of the Board and management
- Affected SBCs are given 12 months from the date of issuance of these Guideline to unwind their inter-company loans, advances, guarantees or other similar arrangements.



Time Frame For Compliance

- These SBCs are required to submit a monthly report on the position of their inter-company loans, advances, guarantees or other similar arrangements to the SC no later than 5 working days after the end of each month.



Review of these Guidelines

- These Guidelines will be subject to review and amendment by the SC from time to time



Submissions

- All reports shall be addressed to:
The Director
Market Supervision Division
Securities Commission
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

