SECTION 2

OPERATIONAL REQUIREMENTS

2.1.1 EMPLOYEES

A Stockbroker Firm shall ensure that any person it employs to deal with clients on its behalf;

(1) shall be at least 18 years of age;

(2) has been certified by the CSE;

(3) has never been declared bankrupt;

(4) has never been a Director of a company whose licence as a Stockbroker has been revoked by the appropriate authority.

2.2 TRADING BY EMPLOYEES

2.2.1 An Employee of a Stockbroker Firm shall trade only through the Stockbroker Firm, who has employed him/her.

For the purpose of these Rules “Employee” is defined as:
all employees of the Stockbroker Firm, including the Directors employed by such Stockbroker Firm, their spouses, nominees and dependents.

2.2.2 An order of an Employee shall not be entered unless the order is authorized in writing by the Chief Executive Officer or Compliance Officer of the Stockbroker Firm.

2.2.3 Employee trades shall be treated with lower priority level to client trades. The procedure to be followed in this regard shall be documented by the Stockbroker Firm and made available to the CSE on request. The Stockbroker Firm shall ensure that employee trades are executed strictly in accordance with the said procedure.

2.2.4 The Chief Executive Officer or Compliance Officer shall ensure that investment advice given to clients by the Employees of Stockbroker Firms will not result in a conflict of interest with employee Trades.

2.2.5 The Stockbroker Firm shall maintain a “Restricted Securities List” Employee of the Stockbroker Firm shall not trade in Securities which are in the “Restricted Securities List”.

A “Restricted Securities List” would comprise a list of Securities in respect which the Stockbroker Firm possesses material nonpublic information.

Securities may deleted from the “Restricted Securities List” by the management of the Stockbroker Firm whenever material nonpublic information is no longer possessed by the Stockbroker Firm in respect of those securities.
2.2.6 The Compliance Officer shall review employee trades regularly and shall report trade details in the Compliance Officer’s Report to the CSE on a monthly basis.

2.2.7 The Stockbroker Firm shall have in place procedures to monitor trading activities of its Employees.

2.2.8 In the event a Stockbroker Firm is prohibited from carrying out any purchase of Securities on the CSE due to a breach of the Rule/s, an ‘Employee’ of such Stockbroker Firm [as defined in Rule 2.2.1 of the Rules] may trade through another Stockbroker Firm during the period of such prohibition.

2.3 CLIENT INFORMATION

2.3.1 KNOW YOUR CLIENT: IN GENERAL

(1) A Stockbroker Firm shall take all possible steps to establish the true and full identity of each of its clients, and of each client’s financial situation, investment experience and investment objectives.

(2) Where an account opening procedure other than a face-to-face approach is used, it shall be the responsibility of the Stockbroker Firm to satisfactorily ensure the identity of the client.

2.3.2 INDIVIDUAL CLIENT ACCOUNT

Before opening an individual client account, a Stockbroker Firm shall;

(1) obtain particulars of the client (and any person authorized to trade for the client), including the full name, a copy of the identity card/passport, specimen signature, residential and correspondence addresses, telephone numbers, occupation and the name, address and telephone number of the client’s employer/business, and

(2) take suitable steps to verify the client’s identity, if the client does not open the account in person. (Refer Annexure 1)

2.3.3 CORPORATE CLIENT ACCOUNT

Before opening a corporate client account, a Stockbroker Firm shall;

(1) obtain particulars of the client, including the full name, registered and mailing addresses, names and signatures of persons authorized to trade.

(2) obtain a certified true copy of the Certificate of Incorporation and Articles of Association of the client and Certificate for Commencement of Business (if applicable).
(3) obtain a copy of the directors’ resolution approving the opening of an account in the CDS empowering specific directors and officers to:-

(a) trade in Securities for the client’s account; and

(b) execute all documentation for trading and settlement in the account;

2.3.4 **JOINT ACCOUNT**

(1) A joint account may be operated by not more than three (03) natural persons.

(2) A Stockbroker Firm shall maintain the following information:-

(a) particulars of each joint account holder;

(b) the names of persons authorized to give trading orders and settlement instructions;

(c) the names of persons to whom payments by the Stockbroker Firm are to be made.

2.3.5 **CLIENT AGREEMENT IN WRITING**

Stockbroker Firms shall enter into a written agreement (Client Agreement) with each client before services are provided to the client. Stockbroker Firms shall provide a copy of the Client Agreement to the client and draw the client’s specific attention to the risks that are described in the appropriate risk disclosure statements. The type of Client Agreement may vary depending on the services provided (Refer Annexure 2).

The Client Agreement shall include a written ‘risk acknowledgement statement’ to the effect that the client is aware of the risk associated with trading of Securities. (Refer Annexure 3).

2.3.6 **APPROVAL OF CLIENT ACCOUNTS**

(1) At least one senior management staff, independent of trading of a Stockbroker Firm, entrusted with the account approval function, shall approve the opening of a client account.

(2) The approval shall be given before the opening of the CDS account for a client.
2.4 RECORDS

2.4.1 A Stockbroker Firm shall -

1. maintain complete and accurate records of confirmation notes on trades (bought notes/sold notes), books, accounts and other documents which are sufficient to explain readily at any time all transactions in date order relating to a particular client either in hard copy or electronic form in accordance with these Rules.

2. not make, or cause to be made, a false or misleading entry, in hardcopy, or electronic form, in any books, records, slips, documents, statements relating to the business, affairs, transactions, conditions, assets or accounts (“the Documents”) of a Stockbroker Firm;

3. not alter or destroy any of the Documents for a period of six (6) years.

2.4.2 A Stockbroker Firm shall ensure the integrity, security and confidentiality in the transmission and storage of all records.

2.4.3 CONFIRMATION OF TRADES (ALSO REFERRED TO AS BOUGHT/SOLD NOTES)

1. The Stockbroker Firm shall send to the client a note confirming the purchase or sale of Securities by the end of the trade day (T).

2. The bought/sold note shall state that the purchase/sale is subject to the Rules of the CSE and the CDS.

3. The bought/sold note shall include the following:

   a. Header – Bought Note / Sold Note
   b. Date
   c. Client CDS Account No.
   d. Name and address of Account holder
   e. Name and address of Stockbroker Firm
   f. Contract Number
   g. Security name
   h. Quantity
   i. Price
   j. Brokerage (Rs)
   k. CDS Fees (Rs)
   l. CSE Fees (Rs)
   m. SEC Cess (Rs)
   n. Net amount (Rs)
   o. Government Tax
   p. Settlement Date

4. Before issuing a bought/sold note in electronic form to a client the Stockbroker Firm shall obtain the client’s consent. The Stockbroker Firm shall retain evidence of such consent.

5. If requested by the CSE the Stockbroker Firm shall produce the bought/sold note in substantially the same form and containing the same trading information as given to the clients.
(6) Amendment of Bought/Sold Notes

(a) A Stockbroker Firm shall not amend a bought/sold note unless there is a valid reason for the amendment.

(b) The Chief Executive Officer or Compliance Officer entrusted with the function of amending such note shall approve the amendment.

2.5 CONFIDENTIALITY OF CLIENT’S INFORMATION

2.5.1 A Stockbroker Firm shall maintain complete confidentiality of client information. Disclosure of client information is permitted only under the following circumstances:

(1) With the prior written consent of the client.

(2) If the disclosure is required under any applicable law or under the Rules of the CSE/CDS.

2.5.2 When a Stockbroker Firm outsources any of its back office functions to a third party, the Stockbroker Firm shall obtain confidentiality declarations from such third party who shall be involved in the outsourcing functions.

2.6 STATEMENT OF ACCOUNTS TO CLIENTS

2.6.1 A Stockbroker Firm shall send a statement of account to all clients who are debtors over Trade Day + 3 (T+3), on a monthly basis by the 7th day of the following month. This should apply to all debtors over T+3 who have had transactions during the month and the “interest charged on delayed payment” should also be considered a transaction for this purpose. Such statement of accounts shall specify the transactions in the account including receipts and payments during the month under reference.

2.6.2 Before issuing statements of accounts in electronic form, a Stockbroker Firm shall obtain the client’s consent. The Stockbroker Firm shall retain evidence of the client’s consent.

2.6.3 If requested by the CSE, a Stockbroker Firm shall produce a copy of the statement of account as given to its clients.

2.7 PAYMENT TO CLIENTS

2.7.1 PAYMENT BY BUYER:

(1) The buyer shall ensure that ‘Cleared Funds’ are made available to the buying broker by 09.00 hours on the settlement date, which is T+3, for the purchase of Securities.

For the purpose of these rules ‘Cleared Funds’ is defined as; funds that are realized and available for drawing in the payee’s bank account.
(2) A Stockbroker Firm will be permitted to set off a client’s purchase proceeds against sale proceeds in the following circumstances:

(a) if a sale and purchase settlement falls on the same settlement date.

(b) if the client has given written instructions to hold sales proceeds to meet the settlement of future purchases. In this case the Stockbroker Firm shall:

(i) Adopt a first in first out basis of settlement of outstanding dues both from and to the client.

(ii) Reconcile the client’s account and send a statement of account at the end of each calendar month indicating the transactions for which settlement is outstanding.

2.7.2 BUYER IN DEFAULT:

Where the buyer fails to make payment by 09.00 hours on the settlement date, which is T+3;

(1) The buyer shall be liable for all losses and damages sustained or incurred by the buying Stockbroker Firm;

(2) The buying Stockbroker Firm may, at its absolute discretion, recover interest commencing from the day after the settlement date up to the date of final settlement. If interest is charged it shall not exceed 0.1% per day.

(3) The buying Stockbroker Firm may set off any amount due from the buyer, against sales proceeds due to the buyer.

(4) The buying Stockbroker Firm may pledge subject to the applicable CDS Rules, the securities in which the payment is in default to a commercial bank, licensed under the Banking Act No. 30 of 1988 (as amended), as collateral, for the purpose of obtaining an immediate credit facility from the bank in order to meet the settlement obligations of the buying Stockbroker Firm on the settlement date,

(5) Any surplus arising on the sale of Securities in respect of which the payment is in default shall accrue to the buying Stockbroker Firm, unless such surplus arises from the sale of other Securities deposited by the buyer as collateral with the buying Stockbroker Firm, in which event the surplus shall be remitted to the buyer after settlement date of the relevant sale(s).
2.7.3. **Payment to Seller:**

1. The selling Stockbroker Firm shall ensure that ‘Cleared Funds’ are made available to the seller on the settlement date, which is T+3 unless expressly permitted by the seller in writing to do otherwise. If for any reason payment has not been made by the Stockbroker Firm to the seller on the settlement date without a written request of the client in terms of this rule, the seller shall be entitled to interest from the day after the settlement date on the outstanding amount at 0.1% per day.

2. Settlement to the seller could be made either by cheques or electronic fund transfers to the seller’s bank account. If payment is made to sellers by way of cheques, such cheques shall be duly crossed as ‘Account Payee’. If the client requests that the crossing to be cancelled, the request shall be made in writing by the client and authorized, in writing, by the Chief Executive Officer of the Stockbroker Firm.

3. No cash cheques shall be issued to clients.

2.7.4 **Trading and Settlement of Rights Shares:**

1. Payment by buyers on transactions involving Rights shares shall be on the trade day (T). Payment to sellers shall be on the settlement date.

2. Trading in Rights shares shall commence after four (4) Market Days from the date of dispatch of the allotment letters and shall cease after the date of renunciation.

3. In the case of Rights shares purchased in the market, the buyer shall not be entitled to apply for any additional shares.

2.8 **Settlement Failure of a Stockbroker Firms as Set Out in the CDS Rules**

2.8.1 In the event of a settlement failure by a Stockbroker Firm on the inter participant settlement date, as set out in the CDS Rules, such matter shall be referred to the CSE by the CDS for necessary action, in terms of these Rules.

2.8.2 The Chief Executive Officer of the CSE or any person acting on his/her behalf shall forthwith prohibit the Stockbroker Firm concerned from carrying out any purchase of Securities on the CSE and such matter shall be referred to the Board of Directors for a decision in terms of the Articles of Association of the CSE.
2.9 **BROKERAGE**

2.9.1 A Stockbroker Firm shall charge such amounts determined by the CSE from time to time as brokerage.

2.9.2 A Stockbroker Firm shall not share or rebate brokerage with a client.

2.9.3 In instances where fixed brokerage applies, a Stockbroker Firm may receive not less than 50% of the applicable brokerage from a foreign client, only if a foreign broker is involved in a transaction.

For the purpose of this Rule, a ‘foreign broker’ is defined as; an individual/entity licensed by a recognized regulatory authority to carry out securities transactions in a licensed stock exchange in any other jurisdiction.

2.9.4 A Stockbroker Firm may share brokerage with an Agent appointed in terms of Section 6 of these Rules.

2.10 **OTHER CHARGES**

A Stockbroker Firm shall charge other charges from clients such as CSE/CDS fees (in such rates as shall be determined by the CSE/CDS from time to time), SEC cess and applicable Government taxes.

2.11 **BRANCH OFFICE**

2.11.1 In the event a branch office is opened by a Stockbroker Firm, such Stockbroker Firm shall notify the CSE within three (3) Market Days from the opening of such branch office.

2.11.2 The branch offices shall have adequate communication facilities, facilities to display real-time market information and the facility of automated trading.

2.12 **CLIENT COMPLAINTS**

2.12.1 If a client has a complaint against a Stockbroker Firm relating to a particular transaction/s, such complaint shall be first referred by the client to the Compliance Officer of the Stockbroker Firm, in writing, within a period of three (3) months from the date of the transaction/s.

The application of this rule may be waived by the CSE under exceptional circumstances.

2.12.2 Stockbroker Firms shall ensure that complaints received from clients relating to its business are handled in a timely and appropriate manner. The Compliance Officer of the Stockbroker Firm shall promptly respond to such client complaints.

2.12.3 Stockbroker Firms shall ensure that records pertaining to all complaints and actions taken are preserved for a minimum period of six (6) years.
2.13 DISSEMINATION OF STOCK MARKET INFORMATION

Stockbroker Firms shall disseminate the information provided by the CSE only for the benefit of their clients. Re-distribution of real time information electronically, other than to its clients, is prohibited. Stockbroker Firms shall not act as data vendors.

2.14 AUTOMATED TRADING SYSTEM SECURITIES

2.14.1 The trading network shall be isolated from the Stockbroker Firm's Office Network with a computer security system (firewall).

For the purposes of this Rule, 'Office Network' is defined as: any computer system used by the Stockbroker Firm, including the back office system and internet trading system (if any).

2.14.2 Devices such as dongles and additional network cards, which enable access to other networks, shall not be connected to the trader workstations.

2.14.3 All trader workstations shall have suitable anti-virus software installed with virus definition updates occurring automatically. The Stockbroker Firm shall ensure that, the anti-virus software is kept up-to-date.

2.14.4 A Stockbroker Firm shall not extend the ATS network beyond the primary location to which connectivity has been provided by the CSE. If extensions are required, written approval should be obtained from the CSE prior to implementation. The Stockbroker Firm shall ensure that all such extensions are connected through a computer security system (firewall).

2.14.5 The Stockbroker Firm shall take adequate precautions when connecting their network to external networks such as internet and third party networks by installing a computer security system (firewall).

2.15 INFORMATION FOR CLIENTS

A Stockbroker Firm shall provide clients with adequate and appropriate information about its business, including contact details, services available to clients, the identity and names of employees and others acting on its behalf with whom the client may have contact.

2.16 FINANCIAL STATEMENTS

2.16.1 MONTHLY FINANCIAL STATEMENTS

A Stockbroker Firm shall forward to the CSE, Monthly Financial Statements prepared in accordance with the format set out in Annexure 4, within twenty (20) days from the end of the particular month.
2.16.2 Audited Financial Statements

Audited Financial Statements shall be forwarded to the CSE within four (4) months from the end of the particular financial year.

A Stockbroker Firm shall, upon request, disclose the latest audited financial statements of the Stockbroker Firm filed with the CSE to a client by providing a copy of same.

2.17 Advertising

A Stockbroker Firm shall ensure that any advertising:

(1) is accurate;
(2) is not misleading;
(3) does not contain claims that are not externally verifiable; and
(4) does not tend to bring the CSE, other Stockbroker Firms and the industry in general into disrepute.

For the purpose of this Rule “Advertising” is defined as; communication of information regarding the services provided by a Stockbroker Firm to the public.

2.18 Persons Dealing with Clients

Stockbroker Firms shall not, directly or indirectly obtain the services of any person, whether as an independent contractor or otherwise, to deal with clients of the Stockbroker Firms, if such person has been;

(1) charged in a court of law with the commission of offences of insider dealing, market manipulation and/or involving fraud or deception, which are offences specifically identified under the SEC Act (as amended) or Rules or Regulations made thereunder, until such person is discharged from liability by a court of competent jurisdiction on the charges brought against him;

or

(2) convicted by a court of law with the commission of any offence relating to (1) above or any other offence involving fraud and/or dishonesty under any other written law

or

(3) against whom an offence is compounded in terms of the SEC Act (as amended), for a period of three years from the date of compounding, unless the CSE, in consultation with or upon a directive from the SEC, varies the duration of such period.
2.19 DIRECTORS / MANAGEMENT

2.19.1 Stockbroker Firms shall not appoint any person as a director or to a managerial position of the Stockbroker Firms, if such person has been;

(1) charged in a court of law with the commission of offences of insider dealing, market manipulation and/or involving fraud or deception, which are offences specifically identified under the SEC Act (as amended) or Rules or Regulations made thereunder, until such person is discharged from liability by a court of competent jurisdiction on the charges brought against him;

or

(2) convicted by a court of law with the commission of any offence relating to (1) above or any other offence involving fraud and/or dishonesty under any other written law

or

(3) against whom an offence is compounded in terms of the SEC Act (as amended), for a period of three years from the date of compounding, unless the CSE, in consultation with or upon a directive from the SEC, varies the duration of such period.

2.19.2 The Stockbroker Firms shall immediately inform the CSE of any changes in Directors or Management of the Stockbroker Firm.

2.20 CHANGES IN SHAREHOLDING

Any change in the shareholding of a Stockbroker Firm shall be made only after prior written approval of the CSE and SEC is obtained.