

**CHAPTER 5 ORGANISATION AND STRUCTURE OF TRADING PARTICIPANTS**

**PART A OTHER BUSINESS OF TRADING PARTICIPANTS**

**5.01 Other Business of Trading Participants**

- (1) A Trading Participant must notify the Exchange prior to carrying out any other business apart from dealing in derivatives.
- (2) The Exchange may require a Trading Participant to take such steps as the Exchange thinks fit to manage the potential risks or conflicts of interests arising from carrying out both the Trading Participant's business of dealing in derivatives and the Trading Participant's other businesses.

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**PART B      BRANCH OFFICE**

**5.02    Application**

For the avoidance of doubt, all the provisions in these Rules except for Part H of Chapter 5 apply to Trading Participants' Branch Offices.

**5.03    Establishment of Branch Office**

- (1) A Trading Participant may establish and operate a Branch Office if it ensures:
  - (a) the proper segregation of duties at the Branch Office; and
  - (b) the Branch Office carries signage indicating the name of the Trading Participant.
- (2) A Trading Participant that has established Branch Offices must maintain an up-to-date record of the addresses of all its Branch Offices.

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**PART C      BACK OFFICE FUNCTIONS**

**5.04    Back Office System and Operations**

Where a Trading Participant operates and maintains back office system and operations at any of the Branch Office, the Trading Participant must ensure that the back office system and operations are capable of:

- (a)    timely reporting and transmission of data from the Branch Office to the Principal Office;
- (b)    daily reconciliation of all records of the Principal Office and the Branch Office; and
- (c)    reconciliation of all transactions undertaken by the Branch Office.

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**PART D            COMPLIANCE FUNCTION**

**5.05    Compliance Function and Accountability**

- (1)    A Trading Participant must establish and maintain a compliance function which is responsible to monitor compliance with these Rules, Directives and the Securities Laws and to provide advice on all the relevant requirements that a Trading Participant must comply with, in carrying out the Trading Participant's business.

*[Refer to Directive No. 5.05-001]*

- (2)    If there is a breach of these Rules, the Directives or Securities Laws, the Trading Participant is liable for such breach whether or not such breach was by or caused by the Trading Participant's Registered Persons, employees or agents.
- (3)    Rule 5.05(2) applies to an Associate Participant in the same manner as it applies to a Trading Participant.

**5.06    Reporting**

- (1)    A Trading Participant must immediately report the following in writing to the Exchange, upon becoming aware or where the Trading Participant has reason to believe such occurrence is taking or has taken place:
- (a)    any matter in Rule 3.36(c) that has not been reported to the Exchange;
  - (b)    the Trading Participant is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
  - (c)    the Trading Participant's ability to perform any of the Trading Participant's obligations under these Rules or Directives may be adversely affected.
- (2)    A Registered Person must immediately report the following in writing to the Exchange, upon becoming aware or where the Registered Person has reason to believe such occurrence is taking or has taken place:
- (a)    any matter in Rule 3.36(c) that has not been reported to the Exchange;
  - (b)    the Registered Person is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority;
  - (c)    the Registered Person's ability to perform any of the Registered Person's obligations under these Rules or Directives may be adversely affected;
  - (d)    any breach of any of these Rules or the Directives by the Trading Participant by whom he is employed or engaged or by other Registered Person employed or engaged by the Trading Participant; or
  - (e)    the Registered Person has breached any of these Rules or Directives.

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**PART E            RISK MANAGEMENT OF TRADING PARTICIPANTS**

**5.07 Risk Management Function**

- (1) A Trading Participant must ensure the proper discharge of the risk management functions for the purpose stated under Rule 4.03(1)(b) and take actions to mitigate such risks.
- (2) The Trading Participant must ensure the risk management functions commensurate with:
  - (a) the scope, size and complexity of the Trading Participant's activities; and
  - (b) the level of risks that the Trading Participant is prepared to assume.

**5.08 Committee to oversee risk management**

- (1) A Trading Participant must appoint a committee to manage and monitor the discharge of the risk management functions of the Trading Participant.
- (2) A Trading Participant must ensure that its risk management function reports to the committee in Rule 5.08(1).
- (3) The Trading Participant must ensure that the committee in Rule 5.08(1) comprises persons who are competent, free from conflict of interest and collectively have the relevant skills and experience to carry out the functions of the committee.
- (4) The Trading Participant must ensure that the majority members of the committee in Rule 5.08(1) do not hold a Registered Representative's licence.

**5.09 Outsourcing of Risk Management functions**

If the risk management functions are outsourced under Part D of Chapter 4 or where the committee in Rule 5.08(1) is maintained at Group level in accordance with Part G of Chapter 5, the Trading Participant must ensure that the outsourced function or committee in Rule 5.08(1) maintained at Group level complies with all provisions in these Rules and the Directives relating to risk management functions and committee in Rule 5.08(1).

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**PART F            INTERNAL AUDIT OF TRADING PARTICIPANTS**

**5.10 Internal Audit function**

- (1) A Trading Participant must establish and maintain an internal audit function which is independent from all other functions of the Trading Participant to examine, evaluate and report on the adequacy and efficiency of the Trading Participant's management, operations, internal controls and the compliance with the relevant policies and procedures established by the Trading Participant.
- (2) A Trading Participant must ensure internal audit(s) are conducted on itself at such times as it deems necessary, subject always to a minimum of 1 internal audit in each calendar year.

**5.11 Audit Committee**

- (1) A Trading Participant must establish and maintain an audit committee, whether on its own or at the Group level in accordance with Part G of Chapter 5 ("**Audit Committee**") which is responsible for amongst others, monitoring and overseeing all matters relating to the discharge of the internal audit functions of the Trading Participant.
- (2) A Trading Participant must ensure that its internal audit function reports to the Audit Committee.
- (3) The Trading Participant must ensure that its Audit Committee comprises members who are competent, free from conflict of interest and collectively have the relevant skills and experience in carrying out the functions of the Audit Committee.

**5.12 Outsourcing of Internal Audit function**

If the internal audit function is outsourced under Part D of Chapter 4 or where the Audit Committee is established or maintained at Group level in accordance with Part G of Chapter 5, the Trading Participant must ensure that the outsourced internal audit function or Audit Committee established or maintained at Group level complies with all provisions in these Rules and Directives relating to internal audit functions and Audit Committee.

**5.13 Scope of Internal Audit**

- (1) A Trading Participant must undertake a risk assessment of the various areas in the business of the Trading Participant and based on the results of such risk assessment, decide on the scope of the internal audit to be conducted for the year.
- (2) The Exchange may at any time require the Trading Participant to conduct an internal audit if upon assessing the risks to the Market, the Exchange deems that it is necessary or expedient.

**5.14 Reporting**

- (1) The Audit Committee must present to the board of directors of the Trading Participant, amongst others, the audit report, its course of action or any corrective measures taken, to address any non-compliance or irregularities stated in the audit report and key matters deliberated by the Audit Committee.
- (2) A Trading Participant must submit a copy of the minutes of each meeting of the Audit Committee and a copy of the audit report, together with its course of action or any corrective measures taken to address any non-compliance or irregularities stated in the audit report, to the Exchange within 30 days from the date the minutes were adopted by and the audit report was presented to the board of directors of the Trading Participant.

**PART G          PERFORMANCE OF COMMITTEE TO OVERSEE RISK MANAGEMENT AND  
AUDIT COMMITTEE FUNCTIONS AT GROUP LEVEL**

**5.15      Committee to oversee risk management and Audit Committee**

A Trading Participant may have its committee in Rule 5.08(1) or its Audit Committee established or maintained at Group level if the Trading Participant is able to comply with Rule 2.01(2)(i) in so far as providing or procuring the provision to the Exchange of reports, information, Documents, Books and Records pertaining to the committees and the committees' decisions and deliberations upon the Exchange's request.

**5.16      Investment Bank**

Rule 5.15 is not applicable to an Investment Bank.

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**PART H            DEALING IN DERIVATIVES BY UNIVERSAL BROKERS, 1+1 BROKERS,  
SPECIAL SCHEME BROKERS AND INVESTMENT BANKS**

**5.17    Dealing in Derivatives by Universal Brokers, 1+1 Brokers, Special Scheme Brokers and Investment Banks**

A Universal Broker, 1+1 Broker, Special Scheme Broker or Investment Bank may carry out the business of dealing in derivatives through its subsidiary or a subsidiary of its holding company which is a Trading Participant.

*[Refer to Directive 5.05-001]*

[End of Chapter 5]