

Code of  
Conduct  
for  
Approved  
Persons of  
Dealing  
Member  
Firms

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## **A. Introduction**

This Code includes ethical principles and addresses industry specific issues. In seeking to enforce it, the provisions should be interpreted broadly.

The objective of the Code is to prescribe acceptable standards of behavior and improve ethical conduct by Approved Persons operating within the capital market.

This Code of Conduct demands that Approved Persons shall at all times: observe high standards of professionalism, integrity and fairness in dealing with clients, prospective clients, employers, employees, professional colleagues, etc. so as to enhance the public's confidence in the financial services sector.

Approved Persons must carry out all their professional activities with due and reasonable skill, care, prudence and diligence and in accordance with the current best industry practice and high ethical, professional and technical standards expected of them as Approved Persons.

## **B. Who is an Approved Person?**

An Approved Person is an individual who has been authorized to perform on behalf of a Dealing Member one or more Controlled Functions as laid down by regulations issued by a regulatory authority. Examples of Approved Persons are Compliance Officers, Risk Officers, Control Officers, Brokers, and Internal Auditors.

Who is a Principal Approved Person?

A Principal Approved Person is a senior officer in a Dealing Member who performs management and executive functions in addition to other Controlled Functions as laid down by regulations issued by a regulatory authority. Examples are Chief Financial Officers, Executive Directors and Chief Executive Officers.

There are a number of factors to consider when setting minimum standards to be satisfied by Approved Persons and Principal Approved Persons. The most important considerations are the person's:

1. Uncompromising Integrity and Reputation.

2. Educational/ Professional Qualification.
3. Competence and Capability.
4. Financial Soundness.

### **C. Minimum Standards**

#### **1. Uncompromising Integrity and Reputation**

In determining a person's integrity and reputation, the following should be taken into consideration:

- a. Whether the person's reputation might have an adverse impact upon the firm for which the controlled function is to be performed;
- b. Whether the person has been convicted of any criminal offence. Particular consideration should be given to offences of dishonesty, fraud, financial crime, consumer protection, money laundering, market manipulation and insider dealing, whether or not such offence was committed in Nigeria;
- c. Whether the person has been the subject of any adverse findings by any administrative tribunal or liability for any settlement arising from civil proceedings, in connection with investment or other financial business, misconduct, fraud or the formation or management of a body corporate;
- d. Whether the person has been the subject of, or investigated or indicted in the course of any existing or previous investigation or disciplinary proceedings by the Securities and Exchange Commission (SEC), or the Nigerian Stock Exchange (The Exchange), or any other regulatory authorities, exchanges, professional bodies, or government bodies or agencies;
- e. Whether the person has contravened any of the rules, regulations, requirements or standards of the SEC, or The Exchange, or any other securities exchange, regulatory authority, professional bodies, or government bodies or agencies;
- f. Whether the person has been or any other body or entity which he has been associated with has been refused registration, authorization, membership or a license, or has had that registration, authorization, membership or license revoked, withdrawn or terminated, or has been expelled by the SEC or The Exchange or any other securities exchange, regulatory, professional or government body;
- g. Whether the person has been a director, partner, or concerned in the management of a business that has gone into insolvency, liquidation or administration whilst the person was connected with that organization or within one year after the termination of the person's connection with that organization ;

- h. Whether the person has been dismissed, or asked to resign and resigned, from any employment or from a position of trust, fiduciary appointment or a similar role;
- i. Whether the person has been involved in, supported, or encouraged terrorist or money laundering activities in any country.

## **2. Educational/Professional Qualification**

Approved Persons must have requisite educational and professional qualification to serve in that capacity.

## **3. Competence and Capability**

In determining an Approved Person's competence and capability, the following should be taken into consideration:

- a. Whether he satisfies the relevant training and competence requirements in relation to the controlled function he performs or is to perform.
- b. Whether he has demonstrated by experience and training that he is suitable, or will be suitable if approved, to perform the controlled function;
- c. Whether the person has adequate time to perform the controlled function and can satisfactorily carry out the responsibilities associated with that function.
- d. Where he has been convicted of, or dismissed or suspended from employment for drug or alcohol abuses; such person's competence or capability will be considered only in relation to his continuing ability to perform the particular controlled function for which he is or is to be employed.

## **4. Financial Soundness**

In determining an Approved Person's financial soundness, the following should be taken into consideration:

- a. Whether any judgment or garnishee order *absolute* has been entered against him or whether any judgment or garnishee order *absolute* is outstanding against him in any court of law in Nigeria or elsewhere for damages or other relief or for fraud or for any other reason whatsoever.
- b. Whether he has ever applied for surety bond or fidelity bond and has been refused.
- c. Whether he has been the subject of any judgment debt or award, in Nigeria or elsewhere that remains outstanding or was not satisfied within 12 months.

- d. Whether in Nigeria or elsewhere, he has made any arrangements with his creditors, filed for bankruptcy, had a bankruptcy petition served on him, been adjudged bankrupt, been the subject of a bankruptcy restrictions order (including an interim bankruptcy restrictions order), offered a bankruptcy restrictions undertaking, had assets sequestrated, or been involved in proceedings relating to any of these.

The fact that a person may be of limited financial means will not, in itself, affect his suitability to perform a controlled function.

#### **D. Business Practice Standards**

All Approved Persons must:

1. Obey the law. This extends to compliance with legislation, statutory rules or orders, and regulatory and self-regulatory requirements governing the capital market.
2. Comply with the *Securities & Exchange Commission's Code of Conduct for Capital Market Operators and their Employees* and any applicable code and regulations governing standards of conduct. (<http://www.sec.gov.ng/files/20100817293418CODE%20OF%20CONDUCT%20FOR%20CAPITAL%20MARKET%20OPERATORS%20AND%20THEIR%20EMPLOYEES.pdf>)
3. Be honest and should avoid conduct that will bring his/her profession into disrepute.
4. Be unbiased in the services they provide and in their conduct with clients, employers, peers and employees.
5. Comply with the standards of their profession notwithstanding pressure from clients, employers, peers, employees or others to compromise those standards.
6. Be personally responsible and accountable for their conduct, allow and exercise individual autonomy such as freedom of expression within legally permissible bounds, and must not discriminate against any person on the basis of gender, race or religion.
7. Disclose to their employers their obligations under this Code where the employers require conduct that is inconsistent with this Code of Conduct.
8. Obey only the lawful directions of their employer.
9. Be competent, conscientious, efficient and effective in their work. They must maintain their competency through continuing professional development and should only undertake work in which they are competent. They must not represent that they are competent where they are not.
10. Principal Approved Persons (Managing Directors, CEOs) must take all reasonable actions to ensure that their members of staff are competent for their roles and that their employees conduct themselves in manners consistent with this Code. Principal Approved

Persons must provide staff with information, training and supervision that enables them to competently do their work and comply with the law in the performance of their professional duties.

11. Cooperate with all relevant authorities to identify and address wrongdoing and incompetence in their respective professions.
12. Not act, or cause others to act on material non-public information that could affect the value of a publicly traded investment.
13. Give priority to investments made on behalf of the client over those that benefit their own interests.
14. In executing transactions, maximize client portfolio value by seeking best execution for all client transactions.
15. Establish policies to ensure fair and equitable trade allocation among client accounts.

**D.i. Compliance and Support**

Principal Approved Persons should:

1. Develop and maintain policies and procedures to ensure that business activities comply with the provisions of this Code and all applicable legal and regulatory requirements.
2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the firm or its personnel.
3. Ensure portfolio information provided to clients by the firm is accurate and complete and cooperate with relevant requests for independent third-party confirmation or review of such information.
4. Maintain records for an appropriate period of time as specified by the regulators in an easily accessible format.
5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement and monitor investment decisions and actions.
6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of their operations.

**D.ii. Communication with Regulators and Clients**

Principal Approved Persons should:

1. Ensure that all reports and returns required by the regulators are produced accurately, honestly and as at when required.

2. Minimize the potential adverse impact of conflicts of interest on clients by having adequate arrangements for controlling conflicts of interest in relation to the activities of their firm for identifying, managing, avoiding and disclosing conflicts of interest.
3. Avoid and disclose conflicts of interest as soon as it occurs or when it is reasonably practicable to do so, before or when the service is provided. When making a disclosure, they should reasonably ensure that their clients are adequately informed about the conflicts of interest.
4. Communicate with clients on an ongoing and timely basis.
5. Ensure that disclosures are truthful, accurate, complete and understandable.
6. Include any relevant material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.

#### **7. Disclosure to Clients:**

Approved Persons should make disclosures to clients on:

- a. Conflicts of interests generated by any relationships with other financial institutions, other client accounts, fee structures, or other matters.
- b. The investment process, including information regarding strategies, risk factors, and leverage.
- c. Fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.
- d. The performance of clients' investments on a regular and timely basis.
- e. Valuation methods used to make investment decisions and value client holdings.
- f. Trade allocation policies.
- g. With regard to research reports, information on shareholdings held by directors or the firm in recommended stocks picks.
- h. In the case of capital raising, where the firm, its subsidiaries or its associated companies have acted in a significant capacity (advisory, issuer, underwriter, etc.) in a company stock being recommended.
- i. Where research analyst and sales personnel are remunerated based on research recommendations.

#### **8. Disclosure to Regulators:**

Approved Persons should:

- a. Ensure that disclosures are made to regulators on regulatory or disciplinary action taken against the firm or its personnel related to professional conduct.



- b. Deal with the regulators in an open and co-operative way and disclose appropriately any information of which the regulators would reasonably require and expect.
- c. Provide regulators with appropriate documents or information when requested or required and within the specified time frame where applicable;
- d. Disclose regulatory or disciplinary actions taken against the firm or its personnel related to professional conduct to regulators.
- e. Disclose significant personnel or organizational changes that have occurred at the firm to regulators.

#### **9. Disclosure to the Firm:**

Approved Persons should ensure that they:

- a. Disclose any personal dealing in securities so to prevent possible conflict of interest, insider dealings and impropriety.
- b. Declare all outside business interests where a real or perceived conflict of interest could exist.

#### **D.iii. Loyalty to Clients/ Respect for the Rights of Clients**

Approved Persons must:

1. Provide adequate information to clients that will enable the client give informed consent in relation to the transaction to be undertaken and the fees and payments to be charged.
2. Respect clients' right to privacy and confidentiality and comply with the law in relation to those rights (such as privacy laws).
3. Place client interests before their own for example by monitoring Best Execution in Dealing Member firms. There should be a Best Execution Policy which can be made available to clients upon request.
4. Preserve the confidentiality of information communicated by clients.
5. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity or loyalty to clients.

#### **E. Compliance and Conflict Resolution Standards**

- (i) The responsibility for the compliance function rests ultimately with the Principal Approved Persons and the Directors. This responsibility can be delegated or assigned to

another individual i.e. the Compliance Officer, who oversees the day to day implementation of the compliance function.

- (ii) Approved Persons must the whistle blowing where appropriate to report any form of unethical behaviour, or breach of laws, rules and regulations.
- (iii) The Compliance Officers shall be responsible for developing and updating a firm's compliance program, compliance monitoring, rule mapping and reporting directly to the Board and indirectly to the Principal Approved Persons.
- (iv) The Compliance Officers shall be held responsible where they fail to act on compliance breaches which have been reported to them or which they observed personally.

## **1. Role of Compliance**

### Definition of the Compliance Role

Compliance is either a state of being in accordance with established guidelines, specifications, or legislation or the process of becoming so. A Compliance Officer is a corporate official in charge of overseeing and managing compliance issues within an organization, ensuring, for example, that a company is complying with regulatory requirements and that the company and its employees are complying with internal policies and procedures. The role of compliance involves but is not limited to the following;

- a. Policy and Procedure Management - defining, communicating, training and attesting to corporate policies and procedures.
- b. Compliance Monitoring - evaluating and measuring the state of compliance across the organization.
- c. Investigations - managing investigations into wrong doing and anything that violates regulatory/legal requirements.

In strengthening these roles, the Compliance Officer is expected to;

- a. Be responsible for designing and updating the compliance programs.
- b. Map the relevant rules and ensure that the firm takes adequate steps at complying with the rules.
- c. Liaise regularly and conscientiously with Regulators.
- d. Promote, educate and communicate the compliance culture, relevant rules and updates to the firm as well as interpret the rules for the benefit of the organization.

- e. Manage Complaints and all reputational risks.

In all, the compliance officer must be ethical, display a great level of professionalism, and be equitable and fair in all its dealings.

## 2. **Conflict Resolution Standards**

### Conflict Resolution

This is also referred to as reconciliation or dispute resolution (in the case of litigation). Conflict resolution refers to the process, procedures and methods by which conflicts are brought to a conclusive or peaceful end. This role lies with the Compliance department for adequate client complaint/ conflict resolution.

#### **Standards for Conflict Resolution**

1. Every Dealing Member shall have a conflicts resolution committee made up of at least 3 persons which shall include an executive director, the chief compliance officer, and or the internal controller/auditor.
2. The committee shall be responsible for investigating reported incidences such as client complaints, fraud or infractions and reporting the matter to management for further action.
3. All conflicts arising between a Dealing Member and a client, shall be reported to the Exchange within 24hours of its occurrence.
4. Committee members shall be required to disclose their conflict of interest in any matter presented to it. Where members of the committee are conflicted with regard to any matter, The Exchange shall be notified immediately and the committee member may be required to vacate his position. This vacancy must immediately be filled with a managerial officer of the Dealing Member entity. Where the Dealing Member is unable to fill this position within seven (7) days, the matter be referred to The Exchange for further action.
5. The conflicts resolution committee will ensure that all matters are resolved or concluded within fourteen (14) business days and the client/ complainant must be notified of the conclusion. Where the client is dissatisfied with the resolution or the Dealing Member is unable to resolve the conflict within fourteen (14) business days, the matter should be referred to the complaints management unit of The Exchange.
6. The conflicts resolution committee must be seen to be neutral, professional and uphold this code of conduct at all times.

7. Records of deliberations at committee meetings must be kept and made available to The Exchange where required.
  8. Where the client is satisfied with the resolution, he will sign an attestation of his satisfaction with the outcome.
- a. Neutrality
- i. When mediating a conflict situation, it is important that the Compliance Officer or any other mediator is neutral to all parties throughout the course of the resolution. He cannot take sides or be in favor of any party.
  - ii. This implies that the Compliance Officer must at all times be aware of any conflict of interest issues. Where there exists any conflict of interest, the compliance officer must immediately stop the remediation procedures, recuse himself from the process and disclose the conflict to all concerned parties.
  - iii. He may only continue mediating in the conflict if and only if he discloses the nature of his conflict of interest to all parties involved and all parties consent in writing to his continued intervention in the conflict.
  - iv. It is important that the location for discussing and resolving the conflict is neutral or agreed by both parties. Where a venue cannot be agreed upon, the mediator shall obtain the permission of the SEC or The Exchange to utilize the offices of the SEC or The Exchange for this purpose.
- b. Professionalism
- i. It is important that the Compliance Officer or other mediator maintains decorum and professional conduct when handling a dispute.
  - ii. He must not be threatening either in appearance or in language. He must keep the language of communication simple and use the preferred business language of English to communicate.
  - iii. Where any party does not understand English or is illiterate, then the mediator must ensure that a competent interpreter is provided for that party.
  - iv. He must be calm and permit each party to state clearly what the grievance is, and aim to understand the issues in dispute.
  - v. He must keep the details of the discussion confidential and not disclose facts that are not publicly available without the consent of the parties involved.
- c. Timeliness

- i. The resolution of conflicts cannot be allowed to go on endlessly. As such, a timeframe for resolving disputes must be established as part of the objectives of any conflict resolution.
- ii. The mediator/Compliance Officer should be punctual at all conflict resolution meetings.

d. Documentation & Record Keeping

- i. The mediator shall collect evidence and keep records of meetings held.
- ii. The minutes of each meeting and action items should be communicated to the respective parties.
- iii. The objectives of the conflict resolution should be clearly defined to all parties.
- iv. Alternatives for objectives of resolution should be agreed and communicated to all parties.
- v. Upon reaching a consensus, an agreement should be drawn up and signed by the consenting parties.

**F. Personal Trading/Insider Trading**

Insider trading occurs when a person or group of persons who being in possession of some confidential and price sensitive information not generally available to the public, utilizes such information to buy or sell securities for the benefit of himself, itself or any person. Approved Persons are strictly prohibited from participating in, or causing another person to participate in Insider Dealing.

**F.i. Examples of Insiders**

An insider can be any individual who is or has been (in a period no longer than six months):

- a. A Director, officer or an employee of a company such that he holds or has access to material, price sensitive and non-public information of the company; or
- b. Has been involved with a company in a professional or business relationship (e.g. auditors, accountants, printing contractors, lawyers, regulatory personnel, etc.) and holds or has access to material, price sensitive and non-public information of the company; or
- c. Is a shareholder with shareholding of a least 5% and holds or has access to material, price sensitive non-public information of the company; or
- d. Any agent, representative, nominee or associate (including close friends, relatives and business associates) of the examples mentioned in items (1) – (3) above that have obtained material, price sensitive and non-public information from such individuals mentioned above.

Insiders should keep the information which they hold about the company confidential and not use the information for their benefit or the benefit of others during the relevant closed period.

Non action may be considered insider trading, if that non action is as a result of the knowledge of information, (hitherto not known), obtained by/from an insider and has led to a decision to change a prior course of action (i.e. not selling or buying securities of a company).

#### **F.ii. Roles and Responsibilities of Approved Persons on Insider Dealing**

1. Principal Approved Persons (Directors/CEO)
  - a. Approve the policy on insider trading.
  - b. Enforce the policy and initiate any disciplinary action required for any breach of this policy.
2. Senior Management
  - a. Develop and maintain procedures to support the principles of the policy.
  - b. Ensure that job roles and responsibilities are clearly defined within the relevant jurisdictions.
  - c. Monitor adherence to the policy.
3. Compliance
  - a. Monitor adherence to the policy.
  - b. Report issues of non-compliance and suspicious trading to senior management which should in turn lodge a formal report with the SEC or The Exchange for necessary action.
  - c. Identify and maintain a restricted list of securities on which there may be access to non-public confidential information and circulate the list to all employees from time to time.
  - d. Monitor the regulatory environment, train staff and communicate changes in the laws and regulations on a timely basis.
4. Employee
  - a. Be aware of and adhere to the policy.
  - b. Report any violations (or suspicions thereof) of the policy.

#### **F.iii. Trading**

- a. All directors, officers, and employees shall maintain personal trading accounts with the Dealing Member firm under which they are employed. No account should be held with another Dealing Member firm without the prior approval of the management.
- b. All directors, officers, and employees of the company have a duty to fully disclose any dealing in securities to the compliance unit or management.

- c. No directors, officers, and employees shall trade in securities either for themselves or on behalf of others based on non-public price-sensitive information. Such information shall under no circumstance be disclosed to a third party for the purpose of trading.
- d. No directors, officers, and employees shall trade in restricted list of securities during the closed period.
- e. To prevent the misuse of confidential information, the company shall adopt a “Chinese Wall” policy which separates those areas of the company in respect of which there is routine or regular access to confidential information, considered “inside areas” from those areas which deal with sale / marketing / investment advice or other departments providing support services, considered “public areas”.
- f. In order to monitor Chinese wall procedures and trading in client securities based on inside information, the company shall where necessary, restrict trading in certain securities and designate such list as restricted list.
- g. Particular attention must be paid to substantial orders from clients in companies in which such clients are directors or employees of the firm, or have business relationship with the firm, e.g. auditors, reporting accountants and lawyers. Furthermore, all orders which are out of tune with established trading pattern should be investigated.
- h. All directors, officers, and employees shall deal fairly and objectively with all clients and prospective clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities. Those who possess material non-public information that could affect the value of an investment must not act, or cause others to act, on the information.

#### **F.iv. Confidentiality**

All directors, officers, and employees shall maintain the confidentiality of material non-public information and shall not pass on such information to any person directly or indirectly by way of making a recommendation for the purchase or sale of securities.

#### **F.v. Market Manipulation**

- a. All directors, officers, and employees should not engage in activities aimed at manipulating the market. Unverified information which might impact on the market must not be circulated or form the basis of advice to clients.
- b. They should not engage in practices that distort security prices or artificially inflate trading volume with the intent to mislead market participants.

- c. They should not manipulate the demand for or supply of securities in the market in order to influence prices of securities. In this regard, a capital market operator must not falsify orders thereby creating artificial supply or demand in the market;
- d. They should not act in concert with others without reasonable justification to influence price movements of securities in the market;
- e. They should not take advantage of a client's order by first buying into or selling from their personal or institution's trading account or advise others to do same. This could amount to market manipulation;
- f. They should not transact business from their trading account(s) or advise others to do same based on an order by a client perceived to have insider knowledge about the security.

**F.vi. Record Maintenance**

- a. Appropriate records should be retained on a storage medium that makes the information accessible for future reference.
- b. Records should not be subject to manipulation in any way. Audit trails should be incorporated to identify corrections or other amendments to records.
- c. Access to confidential records should be restricted and should only be permitted on a "need to know basis".

**G. Risk Based Monitoring Minimum Controls**

Risk Officers are required to:

1. Identify the key risks pertinent in their firm and describe the manner in which those risks can be managed, or, at least, mitigated.
2. Use a risk based approach for monitoring business operations/ transactions risks. This is achieved by understanding and identifying the key risks presented by the firm's particular business model, operating environment and client base. This can be achieved via tracking Key Risk Indicators.
3. Identify appropriate areas of concern i.e. "red flags" related to the firm's business model and customer base, or otherwise provide measures to manage the risk of illicit activity in the business.
4. "Risk rank" the areas of its operations and its customers. This means identifying operations, such as products, services, customers, entities and geographic locations that are more vulnerable to abuse by money launderers and criminals and monitoring



accordingly. Key emphasis should be placed on Anti Money Laundering/ Combatting Financing of Terrorism (AML/CFT).

5. Implement a system that will adequately:
  - a. Ensure the collection of sufficient client information as relating to Know Your Customer requirements (KYC) before the commencement of any business relationship with each client;
  - b. Monitor unusual business activity. A good suspicious activity reporting program will also include methods for identifying red flags that cannot be automated, such as employee referrals, or suspicious customer behavior and suspicious account opening documentation or letters of authorization.
  - c. Report suspicious activity to the Nigerian Financial Intelligence Unit (NFIU).

**G.i. Methods of Enhancing Transaction Monitoring:**

- a. Review due diligence and related risk ranking of accounts on a regular basis using a risk-based approach. Any identified changes in risk should correlate to necessary changes in the transaction monitoring system or its application.
- b. Review systems risk assessment capability to ensure that the program continues to address the risk of new customers, products, services or lines of business.
- c. Check to see that all appropriate data that needs to be monitored by the automated system is captured.
- d. Review alerts relative to Suspicious Activity Reports (SAR) filed to determine whether the firm is reviewing transactions that actually result in the need to file suspicious activity reports.
- e. Ensure that reports generated by other automated systems that might reveal potentially suspicious transactions, such as consumer fraud or suspicious trading, are considered for SAR filing if such reports are reviewed by another department.
- f. Document any changes to transaction monitoring thresholds or alerts.
- g. Regularly review the process of reviewing alerts or manual monitoring to determine if there are any backlogs that suggest the need to hire additional staff, and that decisions to file or not to file SAR are appropriate.

## **H. Corporate Governance**

Principal Approved Persons are expected to lay solid foundations for effective management and oversight of business activities. This can be achieved via:

1. Formalizing and disclosing the functions reserved to the Board and those delegated to management and other key stakeholders.
2. Having a Board whose members' composition size and commitment is sufficient for effectively discharging its responsibilities and duties.
3. Having a majority of the Board particularly the Chairperson as independent directors.
4. The roles of the Chairperson and Chief Executive Officer (or equivalent) should not be exercised by the same individual.
5. Establish a Code of Conduct to guide the directors, the chief executive officer (or an equivalent), the chief financial officer (or an equivalent) and any other key executives as to:
  - a. the practices necessary to maintain confidence in the Company's integrity.
  - b. the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
6. Formulate and disclose the policy concerning trading in Company securities by directors, officers and employees.
7. Require the chief executive officer (or an equivalent) and the chief financial officer (or an equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.
8. The Board should establish an Audit Committee guided by a formal Charter.
9. Structure the Audit Committee in line with relevant laws or rules but at a minimum, so that it consists of:
  - a. only non-executive directors.
  - b. a majority of independent directors.
  - c. an independent chairperson, who is not the chairperson of the Board.
  - d. at least three members.
10. Promote timely and balanced disclosure of all material matters concerning the Company.
11. Establish a sound system of risk oversight and management and internal control.
12. The Board or appropriate Board committee should establish policies on risk oversight and management.
13. The chief executive officer (or an equivalent) and the chief financial officer (or an equivalent) should state to the Board in writing that:
  - a. The integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
  - b. The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

14. If a publicly quoted company, respect the rights of shareholders and facilitate the effective exercise of those rights. Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
15. Design and disclose a communications strategy to promote effective communication with stakeholders/ shareholders and encourage effective participation at general meetings.
16. Fairly review and actively encourage enhanced Board and management effectiveness.
17. Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives.
18. Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.
19. Provide disclosure in relation to the Company's remuneration policies to enable investors to understand;
  - (i) the costs and benefits of those policies; and
  - (ii) the link between remuneration paid to directors and key executives and corporate performance.
20. Clearly distinguish the structure of non-executive directors' remuneration from that of executives.
21. Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.
22. Recognize legal and other obligations to all legitimate stakeholders.

## **I. Client Money Management**

### **1. Prohibition Against Commingling**

- 1.1 Commingling of Funds is the mixing of client-owned funds with firm-owned/ proprietary funds.
- 1.2 One of the most important principles is the prohibition against commingling the Firm's own funds with the client's funds. This means that the Firm's personal and business funds must be kept separate and apart from the funds of clients or third parties.
- 1.3 Firms should not deposit any of their own funds into the client's segregated bank accounts, except to pay bank service charges. For example, a Dealing Member cannot use a client's segregated bank account as a repository for payroll funds or funds saved for taxes. Nor can the funds in a client's segregated bank account be used to pay a Dealing Member's personal expenses. At the same time, firms may not borrow client funds from the client's segregated bank account.
- 1.4 The rule against commingling also requires that timely disbursements are made from the Client segregated bank account. A Dealing Member should withdraw fees earned

by the firm from the client's segregated bank account at the earliest reasonable time once the fees become fixed, such that none of the funds of the firm is kept in the client's segregated bank account. Also, the firm should promptly pay to the client any settlement proceeds that the client is entitled to receive. Finally, funds associated with costs and expenses paid for the client's benefit should be withdrawn from the client's segregated bank account in a timely manner.

## **2. Misuse of Client's Segregated Bank Account**

- 2.1 Common misuses of client's segregated bank account funds are set out above. For example, a Firm cannot use the client's segregated bank account funds to pay the firm's own personal or business expenses of any nature, including taxes and payroll. Instead, funds such as earned fees should be paid from the client's segregated bank account to the firm, and a separate account should be used to pay the firm's personal or business operating expenses.
- 2.2 In addition, a firm should not advance funds to a client in connection with the payment for a settlement before the settlement check clears. Any such advancement could only be paid with funds from another client that might happen to be in the client's segregated bank account.
- 2.3 Funds deposited into a firm's client's segregated bank account may be legally protected against levies by a client's creditors. However, the deposit of either the client's funds or the firm's funds into a client's segregated bank account in order to defraud third parties by barring access to those funds constitutes a misuse of a client's segregated bank account and a violation of the law governing fraudulent transfers. Thus, a firm should not use a client's segregated bank account to bar access to funds by a client's creditors, including business creditors of the client, the Internal Revenue Service, or the client's spouse.

## **J. Record Keeping**

The objective of record keeping requirements is to ensure that accurate information is maintained for the benefit of the client and others, including third parties and Regulators. At a general level, record keeping should track all deposits and disbursements through the account, and all transactions associated with a particular client. Typically, the Firm should keep a written ledger detailing every monetary transaction for each particular client. In addition, the Firm should maintain an account journal for each account, tracking each transaction through the account. The Firm should perform a monthly reconciliation for the account.

Firms should also keep copies of all deposit slips, bank statements, cheque book stubs, cancelled cheques, and client cheques to create an audit trail relating to all transactions.

Cheques drawn on a client's segregated bank account should be payable to clients only. Dealing Member Firms shall retain such records for a period not less than six years.

#### **K. Compliance with the Code of Conduct**

All Approved Persons are expected to comply with this Code of Conduct.

#### **L. Definitions**

“Closed Period” means the period from 15 days prior to the date of any meeting of the Board of Directors proposed to be held to consider any of the matters referred to below, or the date of circulation of agenda papers pertaining to any of the matters referred to below:

- a. Declaration of Financial results (quarterly, half-yearly and annual);
- b. Declaration of dividends (interim and final);
- c. Issue of securities by way of public offer or rights or bonus, etc;
- d. Any major expansion plans or winning of bid or execution of new projects;
- e. Amalgamation, mergers, takeovers and buy-back;
- f. Disposal of the whole or a substantial part of the undertaking;
- g. Any changes in policies, plans or operations of the Company that are likely to materially affect the prices of the securities of the Company.
- h. Disruption of operations due to natural calamities;
- i. Litigation/dispute with a material impact;
- j. Any information which, if disclosed, in the opinion of the person disclosing the same is likely to materially affect the prices of the securities of the Company;

“Controlled Functions” are the functions carried out by Approved Persons of Dealing Member Firms such as Directors, Authorized Clerks or other persons including Principal Officers such as the Chief Executive Officer, Chief Finance Officer, Chief Compliance Officer and Chief Risk Officer.

“Professional misconduct” includes unsatisfactory professional conduct that involves a substantial or consistent failure to reach or maintain a reasonable standard of competence, diligence, and conduct justifying a finding that the member is not a fit and proper person to perform the required functions.

“Unsatisfactory professional conduct” includes conduct of an Approved Person in the performance of his duties in a manner that is not of the standard and does not reflect levels

of diligence that a reasonable member of the public is entitled to expect of an Approved Person.

“Unsatisfactory professional conduct” and “professional misconduct” may include for example but is not limited to contravention of laws, and regulatory and self-regulatory requirements governing the conduct of an Approved Person’s profession, charging unfair fees and costs, gross negligence, conduct in connection with a criminal offence, tax offences, dishonesty, insolvency, disqualification as a director or officer of a company and contravention of professional indemnity and continuing professional development requirements.

Words signifying 'he' shall include 'she' or 'it' and vice-versa.