

INTRODUCTION

These rules govern the admission and ongoing business activities of broker members of the Cayman Islands Stock Exchange (“CSX”). These rules are collectively known as the Membership Rules.

The aim of the Exchange through the Membership Rules is to ensure that the following core objectives of securities regulation, are upheld:

- The protection of investors;
- Ensuring that markets are fair, efficient and transparent;
- The reduction of systemic risk.

The specific regulatory objectives of the Exchange are to:

- Protect investors and the public interest and prevent unfair discrimination between customers, issuers or broker members;
- Ensure that broker members deal honestly and fairly with investors, and have sound finances and management
- Ensure that business is conducted in an orderly manner and so as to afford proper protection to investors.
- Ensure the effective monitoring and enforcement of compliance of broker members with its rules.
- Promote and maintain high standards of integrity and fair dealing in the carrying of business by broker members

Day to day decisions on matters relating to the interpretation and application of the Membership Rules are made by the staff of the Exchange, subject to supervision by the Council of the Exchange and the Stock Exchange Authority.

These Membership Rules may be amended from time to time by the Exchange in consultation with the Stock Exchange Authority. The Exchange welcomes comments and suggestions for improvements to these Membership Rules from interested parties. Comments should be addressed to the Head of Markets Development at the address shown below.

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CHAPTER 1

DEFINITIONS

The following terms have the following meaning when used in these rules unless the context otherwise requires:

Term

MEANING

acceptable collateral

Any of the following items of collateral provided to a broker member by a client or counterparty:

- (a) Cash;
- (b) Gold and silver bullion and coinage;
- (c) Certificates of deposit issued by and lodged with the broker member;
- (d) Securities; and
- (e) Letters of credit and guarantees to the extent of their face value, issued by an approved bank.

To which the following conditions apply:

- (a) The broker member must have an unconditional right to apply or realize the acceptable collateral for the purpose of repaying the counterparty's or clients obligations to the broker member; and
- (b) Securities must be marked to market on a daily basis.

affiliated company

Any body corporate controlled by the broker member, any parent company of the broker member and any body corporate controlled by a parent company of the broker member.

agent

A broker member acting on behalf of a client.

applicant

A person who has applied to the Exchange to become a broker member or, where the context so permits, a person who has applied to become a registered person, in each case in accordance with these rules.

application sponsor

A corporate entity of reputable standing within the Cayman Islands financial services community.

approved bank

Either:

- (a) A company authorized to carry on banking business under the Banks and Trust Companies Law; or
- (b) A bank regulated by , and in good standing with the banking regulatory authority in Australia, Bermuda, Canada, European Union member states, Guernsey, Hong Kong, Isle of Man, Japan, Jersey, Malaysia, New Zealand, Singapore, Switzerland, the United States and other such jurisdictions as the Exchange may from time to time accept as recognised jurisdictions for the purpose of the membership rules.

approved depository

A body corporate whose business consists solely of acting as a depository of investments, securities or other property.

associate

In relation to an individual:

- (a) That individual's spouse and children under eighteen;
- (b) The trustees of any trust, acting in their capacity as such trustees, of which any such persons are beneficiaries or discretionary objects (or who would be rendered such consequent upon the exercise of any power); and
- (c) Any company of which the persons described in parts (a) and (b) above and the individual himself, whether alone or together, are the controller or substantial shareholder and any of its subsidiaries, its holding company, or any subsidiaries of that holding company.

In relation to a company:

- (a) That company's holding company, its subsidiary companies and any subsidiaries of its holding company; and
- (b) any other company which controls it, is controlled by it, or is under common control with it;
- (c) and in relation to a partnership, trust or other entity, any entities related to each in a manner comparable to the relationships set forth in part (b) above.

Authority

the Stock Exchange Authority, established under section 3 of the Cayman Islands Stock Exchange Company Law, 1996

best bid quotation
best offer quotation
bid price

The highest bid price of quotations on the trading system for a specified security.

The lowest offer price of quotations on the trading system for a specified security.

The price at which a broker member is prepared to buy shares.

broker member	A person who has been admitted to membership of the Exchange pursuant to the applicable rules and whose membership has not been suspended or terminated. The definition extends to include any controller, director or employee of a member firm as the context admits or requires. The definition also extends to include any remote broker member .
business day	Any day on which the Exchange is open for dealing.
Cayman Islands Regulatory Laws	Regulatory laws mean any one or more of the – (a) Banks and Trust Companies Law (2003 Revision) (b) Building Societies Law (2001 Revision) (c) Companies Management Law (2003 Revision) (d) Cooperative Societies Law (2001 Revision) (e) Insurance Law (2003 Revision) (f) Monetary Authority Law, (2003 Revision) (g) Money Services Law, (2003 Revision) (h) Mutual Funds Law (2003 Revision) (i) Securities Investment Business Law, (2003 Revision)
client	Any person, for whom the broker member is providing, has provided, intends to provide, or attempts to provide investment services.
client bank account	An account at an approved bank which: (a) is in the name of the broker member; (b) includes in its title an appropriate description to distinguish the money in the account from the broker member's money; and (c) is a current or a deposit account; or (d) a money market deposit of client money at an approved bank which is identified as being client money.
client free money	Money paid into a broker member by a professional client which is not to settle an obligation.
client money	Money of any currency that a broker member holds for, or receives from, a client in the course of carrying on normal broker member business as defined in the broker member's business plan.
client transaction account	An account maintained by an exchange, clearing house or intermediate broker, as the case may be, in respect of margin loans undertaken by the broker member or for its clients.
closing price information	The following information relating to derivative warrants: (a) closing price; (b) total number of shares traded; (c) date.

code on take-overs and mergers	The code of conduct governing take-overs and mergers issued by the Exchange.
collateral	An investment which has been paid for in full by a client or counterparty and which is held or controlled by the broker member, other than by way of safe custody, under the terms of a deposit, pledge, charge or other security arrangement.
commodity	A commodity is food, metal, or another physical substance that investors buy or sell through the market of a regulated exchange.
controller	In relation to a body corporate, a person, who alone or with any associate or associates, is entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of the body corporate or another body corporate of which it is a subsidiary.
Council	the Council of the Exchange as established under section 9 of the Cayman Islands Stock Exchange Company Law, 1996
counterparty	<p>For the purposes of chapter 13, the person(s) contracting as principal with the defaulter in respect of an unsettled Exchange market contract whether directly or through the agency of a broker member and / or a third party.</p> <p>For other purposes, a person other than a client, which is:</p> <ul style="list-style-type: none">(a) A broker member of the Exchange;(b) A broker member of a recognised stock exchange; or(c) Dealing with a broker member in the course of investment services of the same description as that of the broker member.
counterparty risk requirement	A measure of a broker member's potential bad debts.
cross transaction	A transaction by which a broker member matches the buy and sell orders of two non-broker members at the same price and on the same terms. Broker members and remote broker members are permitted to do crossing transactions but need specific permission to do so.
cross transaction report	A report, in a format prescribed by the Exchange from time to time, of cross transactions undertaken in equity securities which have a primary listing on a recognised stock exchange.
debt securities market	The market provided by the Exchange for transactions in debt securities.
debt security	A debt security as defined in the Exchange listing rules.
default official	The individual appointed by the Exchange who represents the Exchange in relation to, and to assist in the administration of the affairs of a broker member which has been declared in default.

defaulter	A broker member declared to be a defaulter.
deposit list	A report produced by selling broker members, in a format prescribed by the Exchange from time to time, containing the following information: <ul style="list-style-type: none">(a) Unique transaction number;(b) Security code;(c) Transaction quantity;(d) Transfer Quantity;(e) Total certificate quantity or indication that the previous balance is to be used;(f) Balance required,
depository receipts	Certificates issued by a depository bank, representing foreign shares held by the bank.
depository receipts securities market	The market provided by the Exchange for transactions in depository receipts.
derivative warrants	A derivative warrant as defined in the Exchange listing rules.
derivative warrants market	The market provided by the Exchange for transactions in derivative warrants.
direct offer advertisement	An advertisement where there is no other contact between the provider and the consumer, other than the advert itself.
director	A person who occupies the position or exercises the powers of a director of a company or a general partner of a partnership, or the trustee of a trust, by whatever name called, and includes persons in accordance with whose directions or instructions the directors are accustomed to act (though a body corporate is not to be treated as a director of any of its subsidiary companies by reason only that the directors of the subsidiary are accustomed to act in accordance with its directions or instructions).
document of title	Documents of title and documents evidencing title to investments.
electronic order routing system	A computer system, which facilitates the electronic submission of client orders to a broker member for execution by the broker member or automatic onward transmission to a third party.

eligible custodian	One of the following organisations: <ul style="list-style-type: none">(a) An approved bank;(g) An approved depository;(h) A member of a recognised stock exchange; or(i) An entity regulated by a recognised regulatory body.
eligible nominee	A nominee which is: <ul style="list-style-type: none">(a) An individual, nominated by the client and not associated with the broker member;(b) A nominee company; or(c) An approved bank.
employee	In relation to any broker member, an individual: <ul style="list-style-type: none">(a) Who is employed by the broker member under a contract under which the individual will provide services to the broker member; or(b) Who is a director or partner as the case may be of the broker member; or(c) Whose services are, under an arrangement between a broker member and a third party, placed at the disposal and under control of the broker member; or(d) For whose actions a broker member accepts responsibility as if the individual were employed by it under a contract under which the individual provides services to the broker member.
enforcement notice	A notice issued by the Exchange where the selling broker member fails to deliver promptly a security in settlement of a transaction.
equity securities market	The market provided by the Exchange for transactions in equity securities.
equity security	The security of an primary or secondary equity issuer as defined in the Exchange listing rules, which is not a debt security or a mutual fund.
Exchange	The Cayman Islands Stock Exchange and the securities market(s) operated by the Cayman Islands Stock Exchange.
Exchange of Futures for Physicals	The Exchange of a futures contract for a physical instrument upon expiry of that futures contract.

exchange market	Any one or all of the equity securities market, the derivative warrants market, the depositary receipts market and the mutual fund market.
exchange market contract	A contract issued under the rules of the Exchange.
financial future	A security which enables the agreement to buy or sell a set number of shares of a specific stock or stocks in a designated future month at a price agreed upon today by the buyer and seller.
financial option	A security which enables the buyer the right, but not the obligation, to buy or sell an asset at a set price on or before a given date.
fine	A monetary penalty other than a fixed penalty.
fixed penalty	A penalty promulgated by notice or other means of communication, of a stated amount of money for each instance of a breach of a specific rule relating to, dealing, reporting or settlement and clearance.
foreign exchange risk requirement	A measure of the foreign exchange risk of a broker member's principal currency positions.
forward transaction	A transaction which is effected for a settlement date beyond that which would normally apply in the market concerned and where that forward settlement date is not yet passed.
free delivery	A delivery to a counterparty or client of securities without receiving payment or, paying for physical delivery of securities without receiving the physical securities.
group	The broker member and its subsidiaries.
hammer price	The applicable middle market value of securities immediately before declaration of default.
holding company	A company which has one or more subsidiaries.
inside information	Information which: <ul style="list-style-type: none">(a) Relates to particular security or securities, or to a particular issuer of securities;(b) Is specific or precise;(c) Is not public information;(d) If it were made public it would be likely to have a significant effect on the price of any security.

- insider** 1 A person who has inside information if and only if:
- 1.1 it is and the person knows that it is, inside information; and
 - 1.2 he has it and knows he has it, from an inside source.
- 2 For the purpose of (1) above, a person has information from an inside source if and only if:
- 2.1 He has it through:
 - (a) Being a director, employee or shareholder of an issuer of securities; or
 - (b) Having access to the information by virtue of his employment, office or profession; or
 - 2.2 The direct or indirect source of his information is a person within paragraph (a).
- insider dealing** Dealing in securities by an insider while in possession of inside information.
- Intermarket surveillance group (ISG)** The Intermarket Surveillance Group (“ISG”) is a framework for the sharing of information and coordination of regulatory efforts among the various member entities. The ISG comprises of 30 member and affiliate member exchanges. All US and Canadian exchanges are full members of the ISG.

investment	Includes: <ul style="list-style-type: none">(a) Any shares, stocks, debentures, loan stocks, funds, units, interests in a limited partnership, unit trust or company, bonds or notes of or issued by any body whether incorporated or unincorporated, or of any government or local government or public authority;(b) Rights under a contract for the sale of a commodity or property of any other description including securities, financial instrument or any other derivative under which delivery is to be made at a future date and at a price to be calculated in accordance with a formula to be agreed upon;(c) Rights under a contract for differences or under any other contract the purpose or intended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price of a commodity or property of any description including any securities, financial instrument or any other derivative or in an index or other fact or designated for that purpose in that contract;(d) Rights, options, or interests (whether described as units or otherwise) in or in respect of any of the foregoing or in respect of any currency, commodity, precious metal, metal or hydrocarbon or any other substance whatsoever;(e) Certificates of interest or participation in, or temporary or interim certificates for, receipts for, or warrants to subscribe to or purchase, any of the foregoing;(f) Any swap or other derivative; and(g) Any other securities or other instruments determined by rules made by the Council.
investment services	The buying, selling or subscribing for or underwriting securities or offering or agreeing to do so, either as principal or agent.
large exposure risk requirement	A measure of a broker member's exposure to one counterparty.
limit order	An order with a specified price and / or size.
liquid capital	The amount obtained by subtracting the fair market value of current assets beneficially owned by a broker member from the fair market value of the current liabilities of the broker member.
listed	A security admitted to the official list of the Exchange or the official list of a recognised stock exchange.
listed company	A company, any class of whose securities is listed.
listing rules	The rules of the Exchange governing listed securities.

managed account	A securities account where the client has given specific written authorization to a partner, director or registered person to select securities and execute transactions for him.
mark to market	The process whereby the trading book value of a security is adjusted to reflect current market value.
market information	Information which consists of one or more of the following facts: <ul style="list-style-type: none">(a) That securities are to be acquired or disposed of, or that their acquisition or disposal is under consideration or the subject of negotiation;(b) That securities of a particular kind have not been or are not to be acquired or disposed of;(c) The number of securities acquired or disposed of or of whose acquisition or disposal is under consideration or the subject of negotiation;(d) The price or range of prices, at which securities have been or are to be acquired or disposed of or the price, or range of prices, at which securities whose acquisition or disposal is under consideration or the subject of negotiation may be acquired or disposed of;(e) The identity of the persons involved or likely to be involved in any capacity in an acquisition or disposal.
market manipulation	<ul style="list-style-type: none">(a) engaging in any act;(b) making any statement;(b) posting any quotation or other information on the Exchange's electronic trading system; or(c) making any trade on the Exchange which does not actually involve a transfer of the beneficial ownership of Securities, <p>Any of which are designed to affect the price or other market characteristics of any securities listed on the Exchange, with the intent of making a profit or avoiding a loss or enabling another person to do so, if there is no reasonable business justification for such an act, quotation or trade, or no reasonable belief in its truth in the case of a statement.</p>
Monetary Authority	The Cayman Islands Monetary Authority.
money	Any of the following items provided to a broker member by a client or counterparty: <ul style="list-style-type: none">(a) Cash; and(b) Cheques or other payable orders.

money laundering reporting officer	One or more employees responsible for the broker member's compliance with the Proceeds of Criminal Conduct Law.
mutual fund	A mutual fund, as that term is defined in the Mutual Funds Law, 1996, listed on the Exchange the security interests of which may not be redeemed or repurchased at the option of the holder (i.e. closed end).
mutual fund market	The market provided by the Exchange for transactions in mutual funds.
net worth	Total assets less total liabilities.
nominee company	A body corporate whose business consists solely of acting as a nominee holder of investments, securities or other property.
notice	A notice which is issued by the Exchange to broker members generally or to any class of broker members.
offer price	The price at which a broker member is prepared to sell shares.
order	An instruction to deal in a security, including a decision to act on behalf of a discretionary or managed account.
packaged product	A scheme where investors pool their money into a single fund and that fund is then managed on the investors behalf by a professional fund manager.
person	An individual, corporation, partnership, association, trust or other entity as the context admits or requires.
position risk requirement	A measure of the market risk inherent in a broker member's trading book positions.
potential future credit exposure	Contracted value multiplied by 5%.
price affected security	A security in which inside information would be likely to have a significant effect on the price of the security if made public information.
principal	A broker member or other person acting as principal, including, where the context admits or requires, the client of an agent broker member.
private client	A client, other than a professional client, which does not have sufficient expertise and understanding to provide an appreciation of the risks and rewards of investment business.

professional client	<p>A client which is either:</p> <ul style="list-style-type: none">(a) A government, local authority or public authority;(b) An approved bank;(c) A trust company;(d) A member of a recognised stock exchange;(e) Any other company which is specifically involved in the provision or undertaking of investment services; or(f) A company or partnership that has a called up share capital or net assets of US\$5,000,000 or more.
public information	<p>Information which is:</p> <ul style="list-style-type: none">(a) Published in accordance with the rules of the Exchange, or a recognized stock exchange;(b) Contained in records which are open to inspection by the public;(c) Can be readily acquired by those likely to deal in the securities to which the information relates;(d) Is derived from information which has been made public
quotation	<p>An offer to purchase or sell a security on the trading system.</p>
recognised regulatory body	<p>Any securities market regulator, which is a current ordinary member of the International Organisation of Securities Commissions.</p>
recognised settlement system	<p>CREST, DTC, Euroclear, CDS, CEDEL and other such systems as the Exchange may from time to time accept as a recognized settlement system.</p>
recognised stock exchanges	<p>All official exchanges in the European Union, Canada, Iceland, Japan, Norway, Switzerland, United States.</p> <p>The following specific investment exchanges, Australian Stock Exchange, Bermuda Stock Exchange, Johannesburg Stock Exchange, Kuala Lumpur Stock Exchange, New Zealand Stock Exchange, Singapore Stock Exchange, Stock Exchange of Hong Kong, Stock Exchange of Thailand, and other such bodies as the Exchange may from time to time accept as a recognized stock exchange. For Cross Transactions, the definition of recognised stock exchange is limited to members and affiliate members of the Intermarket Surveillance Group (ISG).</p>
registered person	<p>An individual employed by a broker member and authorized by the Exchange to act as a registered person.</p>

registrar	The keeper of a register of securities.
relevant agency contract	For the purpose of chapter 13, a contract which is an Exchange market contract to which a defaulter is party as agent
relevant contract	For the purpose of chapter 13, a contract which is an Exchange market contract to which a defaulter is party as principal.
remote broker member	a broker member who: <ul style="list-style-type: none">(a) does not have a physical presence in the Cayman Islands; and(b) is a member of a recognized stock exchange or is authorized to conduct investment business by a recognized regulatory body.
replacement cost	The difference between the market value of securities purchased and the contracted value, where positive, or the difference between the contracted value and the market value of securities sold, where positive.
safe custody account	An account at an eligible custodian which: <ul style="list-style-type: none">(a) is in the name of the broker member;(b) includes in its title an appropriate description to distinguish the safe custody investments.
safe custody investment	All investments which are not the property of the broker member, but for which the broker member, or any nominee company controlled by the broker member or an affiliated company, is accountable and which have been paid for in full by a client, except collateral, and safe custody investments cease to be such after valid instruction to effect disposal has been issued.
SAR's	The Rules Governing Substantial Acquisitions of Shares issued by the Exchange.

securities

Includes:

- (a) Any shares, stocks, debentures, loan stocks, funds, units, interests in a limited partnership, unit trust or company, bonds or notes of or issued by any body whether incorporated or unincorporated, or of any government or local government or public authority;
- (b) Rights under a contract for the sale of a commodity or property of any other description including securities, financial instrument or any other derivative under which delivery is to be made at a future date and at a price to be calculated in accordance with a formula to be agreed upon;
- (c) Rights under a contract for differences or under any other contract the purpose or intended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price of a commodity or property of any description including any securities, financial instrument or any other derivative or in an index or other fact or designated for that purpose in that contract;
- (d) Rights, options, or interests (whether described as units or otherwise) in or in respect of any of the foregoing or in respect of any currency, commodity, precious metal, metal or hydrocarbon or any other substance whatsoever;
- (e) Certificates of interest or participation in, or temporary or interim certificates for, receipts for, or warrants to subscribe to or purchase, any of the foregoing;
- (f) Any swap or other derivative; and
- (g) Any other securities or other instruments determined by rules made by the Council.

stock lending activity

Any transaction undertaken by a broker member which results in the temporary disposal of a client's investments subject to an obligation or right to reacquire the same or similar investments, which for the avoidance of doubt includes sale and repurchase agreements.

subsidiary

A company is a subsidiary of a holding company only if:

- 1 It is controlled by:
 - 1.1 That holding company;
 - 1.2 That holding company and one or more companies each of which is controlled by that holding company;
 - 1.3 Two or more companies each of which is controlled by that holding company; or
- 2 It is a subsidiary of a subsidiary of that holding company.

T+ 1	Trade date plus one business day.
T+ 2	Trade date plus two business days.
T+ 3	Trade date plus three business days.
T+ 4	Trade date plus four business days.
T+ 5	Trade date plus five business days.
trading book	In relation to a broker member's business its: <ul style="list-style-type: none">(a) Proprietary positions in investments and securities which are held for resale and / or are taken on by the broker member with the intention of benefiting in the short term from actual and / or expected differences between their buying and selling prices, or from other price or interest rate variations;(b) Positions in investments or securities arising from matched principal broking;(c) Positions taken in order to hedge other elements of the trading book;(d) Exposures due to unsettled securities transactions and free deliveries;(e) Fees, commissions, interest and dividends which are directly related to items (a) to (d) above.
trading day	In relation to an Exchange market, the daily period as notified by the Exchange from time to time.
trading system	The computer system operated by the Exchange that facilitates quotation entry and automatic execution of transactions by a broker member.
transaction	Means: <ul style="list-style-type: none">(a) The purchase or sale by a broker member of a security;(b) The subscription for a security; or(c) The underwriting of the issue of a security.
transaction summary report	A report produced by all broker members, in a format prescribed by the Exchange from time to time, of transactions undertaken in equity securities which have a primary listing on the Exchange.

- transfer list** A report produced by buying broker members, in a format prescribed by the Exchange from time to time, containing the:
- (a) unique transaction number;
 - (b) trade quantity; and
 - (c) individual bought transfer quantity.
- trust company** A company authorized to carry on trust business under the Banks and Trust Companies Law.
- Unlisted Trading Privileges** The unlisted trading privileges allow trading by any CSX member in any security, listed or authorised for trading on any recognised exchange that is a member of the Intermarket Surveillance Group.

Unless otherwise expressly indicated, terms defined in the Stock Exchange Company Law, 1996 and the Companies Law (1995 Revision) have the same meaning when used in these membership rules.

- 1.1. In these membership rules, references to a document being certified means being certified to be a true copy or extract therefrom, as the case may be, by an operator, the company secretary or other authorized employee of the issuer or by the issuer's auditors, registrar or legal advisers.
- 1.2. Words importing only the singular include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.
- 1.3. References to writing shall include typewriting, printing, photocopy and other modes of representing or reproducing words in a legible and non-transitory form, whether electronic or otherwise, and electronic mail received by the Exchange's electronic mail systems.
- 1.4. The headings are for convenience and ease of reference only and shall not affect the interpretation of these rules.
- 1.5. These membership rules shall be interpreted, administered and enforced by the Exchange. Any decision of the Exchange regarding the interpretation, administration or enforcement of these membership rules shall be final, conclusive and binding. The Exchange may issue policy notes or notes of interpretation, from time to time, to assist issuers or their advisers in interpreting and complying with these rules. The Exchange reserves the right to amend or add to these rules, from time to time, subject to the prior approval of the Authority.
- 1.6. References to statutes include references to such statutes as they may be amended or re-enacted from time to time.

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CHAPTER 2

ADMISSION REQUIREMENTS AND PROCEDURES

Contents

The main headings of this chapter are:

Admissions

- 2.1. Application Procedure
- 2.4 Suitability
- 2.8 Regulatory information
- 2.9 Determination of application
- 2.10 Notice of decision
- 2.11 Resignation of membership
- 2.14 Termination and suspension of membership
- 2.16 Appeals

2.17 **Publication**

Responsibilities

- 2.18 Membership rules and notices
- 2.21 Publications and misleading names
- 2.23 Payment of monies

ADMISSIONS

AUTHORISATION

An **applicant** for membership shall have obtained, in relation to its proposed business activities, all applicable licences and authorisations under the laws of the Cayman Islands or elsewhere.

APPLICATION PROCEDURE

- 2.1. An application for membership shall be made in writing using the form A-1 set forth in the Appendix to these rules, unless the application is for a **remote broker member**, in which case form A-2 shall be used.
- 2.2. Every document that is required to be furnished to the **Exchange**, whether as part of the application process or in the normal course of business, shall be in English.
- 2.3. An **applicant** shall ensure that it does not provide the **Exchange** with information which may be false or misleading.

SUITABILITY

- 2.4. In order to determine whether an **applicant** is suitable to be elected to membership, the **Exchange** shall assess whether the **applicant** has sufficient knowledge, experience, resources and competence to carry out its proposed business activities effectively. The Exchange shall also assess whether the **applicant's controllers, directors and employees** have sufficient knowledge, experience and competence to carry out its proposed business activities effectively. The assessment by the **Exchange** of the **applicant's** suitability shall, where relevant, include, but is not limited to, consideration of the following:
- (a) the scope of the **applicant's** proposed business activities and, where applicable, its relevant dealing capability;
 - (b) whether the **applicant** and its **controllers, directors and employees** are fit and proper to carry on the **investment services** of the kind and scale in respect of which it proposes. The assessment by the **Exchange** of whether an **applicant** is fit and proper includes, but is not limited to, consideration of the following:
 - (i) integrity;
 - (ii) competence and capability;
 - (iii) financial soundness.
 - (c) whether the **applicant** has available to it adequate transaction recording, reporting, financial management and settlement procedures and systems;
 - (d) the sufficiency of staff with adequate knowledge, experience and training to fulfil the **applicant's** proposed business activities;
 - (e) the existence of adequate internal procedures and controls;
 - (f) the existence of professional liability insurance.
 - (g) the suitability of the controller of the **applicant**.
- 2.5. The requirement that an **applicant** is suitable to be elected to membership of the **Exchange** is both an initial test undertaken during assessment of any application by an **applicant** and an ongoing requirement in relation to a **broker member** and its **controllers, directors and employees**. Accordingly, the **Exchange** reserves the right to review and assess the suitability of its **broker member** and any **controller, director or employee** of the **broker member** at any time. If, upon receipt of any notification, information or documentation howsoever received whether under the provisions of Chapter 14, Rules 5.1-5.8 or otherwise, the **Exchange** is not satisfied that the **broker member** continues to be suitable for membership of the **Exchange**, the **Exchange** may take such action as it considers appropriate.
- 2.6. Except in the case of an application for a **remote broker member**, an application for membership shall be accompanied by a letter of reference from two **application sponsors** supporting the **applicant's** admission.
- 2.7. The **Exchange** may, where necessary, impose additional requirements or make membership subject to special conditions whenever that is considered appropriate. **Applicants** must satisfy any additional requirements and supply any further documents and information that the

Exchange may require in any particular case. Conversely, the **Exchange** may modify the application of these rules (either unconditionally or subject to conditions) in such cases and circumstances, as it considers appropriate.

REGULATORY INFORMATION

- 2.8. Subject always to applicable Cayman Islands law and regulation, an **applicant** for membership authorises the **Exchange** to obtain information from and pass information to, any authority, agency or body having responsibility for the supervision of financial services, whether in the Cayman Islands or elsewhere. Supervision of financial services shall include the supervision, regulation and enforcement in general by exchanges or any other markets that are listing or making markets in securities, commodities (including foreign exchange), futures, debt securities, derivatives and similar securities.

DETERMINATION OF APPLICATION

- 2.9. The **Exchange** may:
- (a) grant an application;
 - (b) refuse an application; or
 - (c) grant an application subject to such conditions, as it considers appropriate.

NOTICE OF DECISION

- 2.10. If the **Exchange** refuses an application or grants it subject to conditions, it shall within 28 calendar days after that decision, give the **applicant** written notice of the decision and include in the notice:
- (a) the grounds for the decision;
 - (b) the principal facts and matters relied upon making it; and
 - (c) details of the **applicant's** right to appeal.

RESIGNATION OF MEMBERSHIP

- 2.11. Unless otherwise agreed by the **Exchange**, a **broker member** may resign by giving to the **Exchange** not less than three months' written notice. The **Exchange** may postpone the effective date of resignation and may impose other measures that it considers necessary for the protection of **clients**, of the **broker member** when the resignation takes effect. The **broker member** shall supply, when required by the **Exchange** such information concerning the circumstances of the resignation as shall, in the opinion of the **Exchange**, be necessary for it to determine whether to exercise its powers under this rule.
- 2.12. The **Exchange** may, in its absolute discretion, refuse to accept a notice of resignation given by a **broker member**, or reject such a notice after it has been given, but before it takes effect, if the **Exchange** considers that any matter affecting the **broker member** should be investigated under the disciplinary procedures or for any other reason.
- 2.13. A **broker member** shall remain subject to regulation and discipline for all acts or omissions as a **broker member** during the period it was a **broker member**.

TERMINATION AND SUSPENSION OF MEMBERSHIP

- 2.14. The **Exchange** may suspend, or terminate the membership of a **broker member** if, at any time and for any reason, one or more of the following apply:
- (a) Any licence or authorisation, referred to in the application process in rule 2.1, ceases to have effect;
 - (b) the **broker member** or its **controller** has been adjudicated bankrupt or adjudicated or declared insolvent by due process of law or has made any arrangement or composition with its creditors or it has otherwise acknowledged its inability to pay its debts;
 - (c) a receiver or administrator has been appointed in relation to the **broker member** or its **controller** or all or part of its undertaking or assets, or a resolution has been passed or an order made for its winding up.
 - (d) the **broker member** or its **controller** is subject to an investigation, under the Proceeds of Criminal Conduct Law or any other relevant law of the Cayman Islands.
 - (e) the **broker member** or its **controller** is subject to an investigation by a **recognised stock exchange**, a **recognised regulatory body** or any agency responsible for law enforcement within the Cayman Islands or elsewhere.
 - (f) the **broker member** or its **controller** has been found guilty of a criminal offence or has been disciplined (publicly or otherwise) by a **recognised stock exchange** or a **recognised regulatory body**, whether within the Cayman Islands or elsewhere,
 - (g) the **broker member** or its **controller** has brought the **Exchange** into disrepute.
 - (h) The **broker member or its controller** ceases to be suitable.
 - (i) The **broker member** ceases to:
 - (i) be fit and proper to carry on the business activities of the kind and scale in respect of which it was authorised;
 - (ii) maintain adequate transaction recording, reporting, financial management and settlement procedures and systems;
 - (iii) meet the capital adequacy requirements set out in these rules;
 - (iv) maintain sufficient staff with adequate knowledge, experience and training to fulfil the business activities of the kind and scale in respect of which it was authorised;
 - (v) maintain adequate internal procedures and controls, including an internal code of conduct;
 - (vi) carry on business on the **Exchange** (whether by ceasing to effect transactions on **Exchange** or ceasing to use **Exchange** services) for a period of six months or more;
 - (vii) pay monies in accordance with these rules.

- 2.15. If the **Exchange** terminates or suspends a **broker member's** membership, it shall immediately give the **broker member** written notice of the decision and include in the notice:
- (a) the grounds for the decision;
 - (b) the principal facts and matters relied upon making it; and
 - (c) details of the **broker member's** right to appeal.

APPEALS

- 2.16. An **applicant** or **broker member** may appeal against a decision of the **Exchange** pursuant to this chapter to refuse or attach conditions to the grant of membership, to terminate or suspend membership (except for non-payment of money due to the **Exchange**), to impose any requirement or restriction or to postpone the effective date of, or impose other measures in connection with, the firm's resignation. Any such appeal shall be heard by the **Disciplinary Committee** and shall be conducted in accordance with the procedures set out in Chapter 5.

PUBLICATION

- 2.17. The **Exchange** may for any reason, if it so wishes and by any means it sees fit, publish the name of the **broker member** and the terms and/or a summary decision of any decision of the **Exchange** taken under rule 2.14. For the purposes of this rule publish includes but is not limited to inclusion on the CSX website and by way of press release.

RESPONSIBILITIES

MEMBERSHIP RULES AND NOTICES

- 2.18. A **broker member** shall be bound by and observe the rules of the **Exchange** for the time being in force and any decision or direction of the **Exchange**, including provisions in any notice issued to **broker members** which shall be binding upon a **broker member** in the same manner and to the same extent as if those provisions were contained in these rules.
- 2.19. A **broker member** shall require its **employees** to abide by and conform with the rules of the **Exchange** and any decision or direction of the **Exchange**, in so far as they affect its **employees**.
- 2.20. A **broker member** shall immediately report to the **Exchange** any act or omission which is, or maybe, a breach of these rules.

PUBLICATIONS AND MISLEADING NAMES

- 2.21. A **broker member** shall state on its business letters, notices and other official publications (including advertisements) that it is a member of the Cayman Islands Stock Exchange.
- 2.22. A **broker member** shall not transact business on the **Exchange** under a name which the **Exchange** considers misleading.

PAYMENT OF MONIES

- 2.23. Unless otherwise specified by the **Exchange**, a **broker member** shall pay any subscription, charge, fine or other sum due to the **Exchange** in full within 60 calendar days of the date of the invoice.
- 2.24. Only **broker members** whose membership has not been suspended or terminated by the **Exchange** and who are considered to be in good standing are entitled to attend and participate in meetings convened by the **Exchange**.

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CHAPTER 3

INDIVIDUAL REGISTRATION

Contents

The main headings of this chapter are:

- 3.1 Application
- 3.2. Requirements
- 3.8 Application procedure
- 3.9 Suitability
- 3.10 Determination of application
- 3.11 Notice of decision
- 3.12 Resignation and cessation of registered persons
- 3.16 Termination and suspension of registered persons
- 3.18 Appeals

APPLICATION

- 3.1. The individual registration rules apply to all **broker members** except **remote broker members**.

REQUIREMENTS

- 3.2. A **broker member** shall require the following persons to obtain authorisation as a **registered person**:
- (a) The Chief Executive Officer or Managing Director;
 - (b) Compliance Officers;
 - (c) Dealers / Traders; and
 - (d) Any other **employee** directly involved in:
 - (i) providing investment advice, specifically, recommending the purchase or sale of **securities** and other relevant products to a **client**;
 - (ii) the discretionary purchase or sale of **securities** for the account of any **client**;
 - (iii) procuring or soliciting **orders** for **transactions** from clients for execution through the **broker member**;
 - (iv) controlling the **investments** of any **managed account** or packaged product.
 - (v) Dealing in **securities**;
 - (vi) The posting, removal or execution of **quotations** on the **Exchange's trading system**.
- 3.3. Any **person** who wishes to become a **registered person** in a **broker member** shall:

- (a) be an **employee** of the **broker member**;
 - (b) if so required, be authorised to work in the Cayman Islands; and
 - (c) undertake to commit no act or omission, which places the **broker member** in breach of any of the rules of the **Exchange**.
- 3.4. **Broker members** shall ensure that only those **persons** who have been authorised by the **Exchange**, as a **registered person** shall conduct those activities described in rule 3.2.
- 3.5. **Broker members** shall be satisfied that any **registered persons** are fit and proper to act for it in that capacity.
- 3.6. The **Exchange** may require **broker members** to ensure that professional indemnity insurance is undertaken for all **registered persons**.
- 3.7. No **broker member** shall employ as a **registered person** any **person** formerly employed as a **registered person** by any other **broker member** until the **Exchange** approves such proposed employment.

APPLICATION PROCEDURE

- 3.8. An **application** for authorisation as a **registered person** shall be made in writing using the form B-1 set forth in the Appendix to these rules.

SUITABILITY

- 3.9. In order to determine whether an **applicant** is suitable to be authorised as a **registered person**, the **Exchange** shall assess whether the **applicant** has sufficient knowledge, experience and competence to be considered a **registered person**. The assessment by the **Exchange** of the **applicant's** suitability shall, where relevant, include, but not be limited to, consideration of the following:
- (a) financial integrity and reliability;
 - (b) absence of convictions or civil liabilities;
 - (c) possession of suitable experience and qualifications;
 - (d) good reputation and character;
 - (e) efficiency, honesty and fairness;
 - (f) any other matter which the **Exchange** may consider appropriate.

DETERMINATION OF APPLICATION

- 3.10. The **Exchange** may:
- (a) grant an application;
 - (b) refuse an application; or
 - (c) grant an application subject to such conditions, as it considers appropriate.

NOTICE OF DECISION

- 3.11. If the **Exchange** refuses an application or grants it subject to conditions, it shall within 28 calendar days after that decision, give the **applicant** written notice of the decision and include in the notice:
- (a) the grounds for the decision;
 - (b) the principal facts and matters relied upon making it; and
 - (c) details of the **applicant's** right to appeal.

RESIGNATION AND CESSATION OF REGISTERED PERSONS

- 3.12. **Broker members** must ensure that the termination of employment of any **registered person** must be immediately notified to the **Exchange**.
- 3.13. A **registered person** who ceases to be an **employee** of a **broker member** shall thereby cease to be a **registered person** until such time as that **person** is employed by a **broker member**, at which time that **person** shall again be registered as a **registered person**, provided that:
- (a) the period during which the **person** has not been employed by a **broker member** has not exceeded three years; and
 - (b) the **broker member** employing the **person** accepts responsibility for that **person's** action.
- 3.14. Unless otherwise agreed by the **Exchange**, a **registered person** may resign his registration by giving to the **Exchange** not less than one month's written notice or, if longer, the length of time equal to the notice period set out in the registered person's contract of employment. The **Exchange** may postpone the effective date of resignation and may impose other measures that it considers necessary for the protection of investors who may be **clients** of the **broker member** by whom the **registered person** is employed when the resignation takes effect. The **broker member** of the **registered person** shall supply, as required by the **Exchange** such information concerning the circumstances of the resignation as shall, in the opinion of the **Exchange**, be necessary for it to determine whether to exercise its powers under these rules.
- 3.15. The **Exchange** may, in its absolute discretion, refuse to accept a notice of resignation given by a **registered person**, or reject such a notice after it has been given, but before it takes effect, if the **Exchange** considers that any matter affecting the **registered person** should be investigated under the disciplinary procedures or for any other reason.

TERMINATION AND SUSPENSION OF REGISTERED PERSONS

- 3.16. The **Exchange** may suspend, or terminate the authorisation of a **registered person**, at any time and for any reason if, one or more of the following apply:
- (a) the **registered person** ceases to meet the criteria set out in these rules;
 - (b) the **registered person** has broken one or more rules of the **Exchange**;
 - (c) the **registered person** has been adjudicated bankrupt or adjudicated or declared insolvent by due process of law or has made any arrangement or composition with his creditors or he has otherwise acknowledged his inability to pay his debts; or

- (d) the **registered person** is subject to an investigation under the Proceeds of Criminal Conduct Law, 1996 or any other law whether within the Cayman Islands or elsewhere;
 - (e) the **registered person** is subject to an investigation by a **recognised stock exchange**, a **recognised regulatory body** or any agency responsible for law enforcement within the Cayman Islands or elsewhere.
 - (f) the **registered person** has been found guilty of a criminal offence or has been disciplined (publicly or otherwise) by a **recognised stock exchange** or a **recognised regulatory body**, whether within the Cayman Islands or elsewhere,
 - (g) the **registered person** has brought the **Exchange** into disrepute.
- 3.17. If the **Exchange** terminates or suspends a **registered person's** authorisation, it shall immediately give the **person** and the **broker member** by which that **person** is employed, written notice of the decision and include in the notice:
- (a) the grounds for the decision;
 - (b) the principal facts and matters relied upon in making it; and
 - (c) details of the **registered person's** right to appeal.

APPEALS

- 3.18. A **broker member** may appeal against a decision of the **Exchange** pursuant to this chapter to refuse or attach conditions to the grant of **registered person** status, to terminate **registered person** status, to impose any requirement or restriction or to postpone the effective date of, or impose other measures in connection with, the **registered person's** resignation. Any such appeal shall be heard by an appeal committee appointed by the Exchange under the rules regarding the appeal procedure set out in chapter 5.

CHAPTER 4

COMPLIANCE AND RECORDS

Contents

The main headings of this chapter are:

General

4.1 Application

Compliance

- 4.2 Compliance officer
- 4.4 Supervision
- 4.6 Insider dealing and market manipulation
- 4.9 Money laundering
- 4.11 Personal dealings
- 4.13 Employee Recruitment
- 4.14 Remuneration

Records

- 4.15 Requirements
- 4.18 Records to be kept
- 4.20 Inspection of records
- 4.21 Destruction of records
- 4.22 Complaints

GENERAL

APPLICATION

- 4.1. The compliance and records rules apply to all **broker members** except **remote broker members**.

COMPLIANCE

COMPLIANCE OFFICER

- 4.2. A **broker member** shall at all times have one or more identified compliance officers of appropriate status and experience who:
 - (a) Are independent of trading and settlement activities; and
 - (b) Shall be competent to advise the **broker member** and its **employees** on the application of these rules and any relevant Law of the Cayman Islands.

- 4.3. Compliance officers of a **broker member** must be afforded access to all files and records and be provided with adequate resources to fulfil their tasks, including computer systems and training.

SUPERVISION

- 4.4. A **broker member** must organise and control its internal affairs in a responsible manner and should have adequate arrangements to ensure that its **employees** are suitable, adequately trained and properly supervised and that it has well defined procedures to facilitate compliance with these rules and in particular to ensure that **employees** or **registered persons**:
- (a) do not procure, endeavour to procure or advise a **person** to enter into a transaction if the **employee** or **registered person** is not competent to advise on that **transaction** or to assess its suitability for **clients**; and
 - (b) behave in a reasonable manner when calling upon **clients**.
- 4.5. A **broker member** shall ensure the continued fitness and propriety of **its registered persons**.

INSIDER DEALING AND MARKET MANIPULATION

- 4.6. A **broker member** must take reasonable steps, including the establishment and maintenance of procedures, to ensure that its **employees** do not act upon **inside information**, by:
- (a) dealing, or encouraging a **person** to deal (whether knowingly or not) **in price affected securities**, either on or off the **Exchange**, or through another broker or **broker member**; except where the:
 - (i) **employee** did not at the time expect the dealing to result in a profit attributable to the fact that the information was price sensitive;
 - (ii) **employee** believed, at the time, on reasonable grounds that the information had been disclosed widely enough to ensure that none of those taking part in the dealing would be prejudiced by the not having the information;
 - (iii) action taken would have been the same even without the possession of information;
 - (iv) information is **market information** and it was reasonable for the **person** to have acted in that way; or
 - (b) disclosing the information other than in the proper performance of the functions of the **employees** employment, except where:
 - (i) the **employee** did not at the time, because of disclosure, expect any **person** to deal in a **price affected security**;
 - (ii) the **employee** did not expect, although had such an expectation at the time, the dealing to result in a profit attributable to the fact that the information was price sensitive information in relation to the **securities**.
- 4.7. For the purposes of these rules, an **employee** has **inside information** if and only if:
- (i) the information is **inside information** and the **employee** knows it is **inside information**;

- (ii) the **employee** has it and knows that it was obtained from an inside source.
- 4.8. A broker member shall report to the Exchange any suspected occurrence or attempt at **insider dealing** or **market manipulation** by:
- (a) an **employee**;
 - (b) a **client**;
 - (c) an **affiliated company, controller** or subsidiary
 - (d) a **broker member, counterparty, approved bank, eligible nominee** or **eligible custodian**;
 - (e) an **associate, employee** or **client** of any of the above;
 - (f) any other person.

MONEY LAUNDERING

- 4.9. A **broker member** shall ensure that it complies with the 2000 revision of the Proceeds of Criminal Conduct Law, in particular with regard to the offence of money laundering. In demonstrating compliance with this rule, a **broker member** will be required to demonstrate that:
- (a) it has appointed a **money laundering reporting officer**;
 - (b) the provisions of the said Money Laundering requirements under the Proceeds of Criminal Conduct Law have been notified to all **employees** to whom the Law is relevant;
 - (c) relevant procedures have been implemented and the appropriate training, particularly with regard to the identification and reporting of possible offences, of **employees** has taken place;
 - (d) an internal periodic review of all customer accounts is undertaken;
 - (e) proper provisions for screening prospective employees prior to recruitment exists; and
 - (f) know your customer (KYC) procedures are in place as a continuing process and obligation
- 4.10. If the Exchange is of the opinion that a Broker Member is in breach of any of the provisions under 4.9 it shall immediately initiate disciplinary proceedings in accordance with all relevant provisions of Chapter 5.

PERSONAL DEALINGS

- 4.11. A **broker member** shall establish and maintain appropriate procedures which shall govern the conduct of **employees** in their personal dealings. Such procedures shall ensure that **employees**:
- (a) do not deal for their own account in **securities** of any kind in which the **broker member** carries on business to any material extent, or in any related **securities**, without the permission of the **broker member**;

- (b) do not deal in **securities** for their own account with any of the **broker members clients or in an investment with a client whose portfolio is under discretionary management of the firm**, except where the **employee** has the specific written consent of the **broker member** and the **client** is the **employees** spouse, cohabitant or child/stepchild.
 - (c) report promptly to the **broker member** in writing any **transaction** for their own account which they enter into otherwise than through the **broker member**, unless they have arranged for a copy of the contract note or similar notification to be issued to their **broker member**.
 - (d) do not deal for their own account in a **security** in circumstances where they know, or should know, that the **broker member** or an associate intends to publish a written recommendation, or a piece of research or analysis, in respect of that **security** or any related **security**, which could reasonably be expected to affect the price of that **security**;
 - (e) do not deal for their own account at a time or in a manner which they know or should know is likely to have a direct adverse affect on the particular interests of any **client** of the **broker member**; and
 - (f) do not accept any gifts or inducements from any **person**, which is likely to conflict with their duties to any **client** of the **broker member**.
- 4.12. A **broker member** must take reasonable steps, including the establishment and maintenance of procedures, to ensure that if any of its **employees** effects a **transaction** through another **broker member** relating to a **security** in which their **broker member** carries on **investment services**:
- (a) they inform the other **broker member** that they are an **employee** of the **broker member**; and
 - (b) they do not request or accept from the other **broker member** any credit or special dealing facilities in connection with the **transaction**, unless their **broker member** has given specific consent.

EMPLOYEE RECRUITMENT

- 4.13. **Broker members** must take reasonable care not to employ, or continue to employ, any **person** who has been the subject of any disciplinary action by the **Exchange** or any other appropriate regulatory body whether within the Cayman Islands or elsewhere which has resulted in the removal of an authorisation.

REMUNERATION

- 4.14. No **employee** shall accept, nor permit any associate of his to accept, directly or indirectly, any remuneration, gratuity, advantage, benefit or any other consideration of any kind in connection with any **securities** related activities from any **person** other than the **broker member** which employs him.

RECORDS

REQUIREMENTS

- 4.15. A **broker member** must take reasonable steps, including the establishment and maintenance of procedures, to ensure that sufficient information, about its business and compliance with these rules, is recorded for a period of at least seven years.
- 4.16. Records referred to in these rules may be kept in any language, provided that the **broker member** has the facilities to have them translated into English within a reasonable period of time.
- 4.17. A **broker member** engaged in transactional business shall keep a written or electronic confirmation record of all transactions with **clients**, **counterparties** and other **broker members**. The records should be kept in accordance with rule 4.15 above.

RECORDS TO BE KEPT

- 4.18. In the case where a **broker member** tape-records a telephone conversation it shall maintain such tape recording for a minimum period of retention of three months even if this extends beyond the cessation of the **broker member's** business.
- 4.19. **Broker members** shall maintain a copy of each agreement entered into with **clients** for at least seven years after the date of the last **transaction** entered into on behalf of that **client**, under the terms of that agreement.

INSPECTION OF RECORDS

- 4.20. A **broker member** must allow a **client** to inspect, either personally, or through an agent, any statement or confirmation record of matters relating exclusively to that **client** within seven days of receiving the **client's** written request.

DESTRUCTION OF RECORDS

- 4.21. A **broker member** shall not amend or destroy any records (regardless of the type of storage media employed) if they are relevant to any matter which is currently the subject of an **Exchange** investigation or any disciplinary or any current process relating to these rules.

COMPLAINTS

- 4.22. A **broker member** shall maintain a record of all written complaints received against it from its **clients**, including a record of its response and the action, if any, taken as a result of the complaint.
- 4.23. A **broker member** shall ensure that it has a adequate written procedures in place for the effective consideration and proper handling of complaints from its **clients**.
- 4.24. Where it appears to the **broker member** that the complainant is not satisfied with the outcome of the **broker member's** investigation into its complaint, the **broker member** shall ensure that the **client** is notified in writing of its right to refer the matter to the **Exchange**.
- 4.25. The **Exchange** may at any time, whether or not on the basis of a complaint or other communication in the nature of a complaint from a **client** or any other **person** investigate the conduct, business or affairs of any **broker member**.

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CHAPTER 5

INVESTIGATION AND DISCIPLINARY PROCEEDINGS

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INVESTIGATION

INFORMATION

- 5.1. Subject always to applicable Cayman Islands law and regulation, the **Exchange** may, for the purpose of obtaining information about any matter which it considers may relate to the rules of the **Exchange**, the suitability of a **broker member**, the integrity of the **Exchange's** markets or the protection of clients:
 - (a) Require a **broker member** to promptly provide accurate information about any and all of its business, **clients** and **transactions**, including off-market **transactions** and **transactions** effected on another exchange;
 - (b) Require a **broker member** to provide information relating to any **person** who is to be, is or has been an **employee** or agent of the **broker member** or engaged in its business;

- (c) Require a **broker member** to promptly produce documents books, records, papers, telephone recordings or other material (in whatever media or form) and other material in the firm's possession, custody, power or control and, if any such documents or material cannot be produced, require the **broker member** to state to the best of its knowledge and belief where and in whose possession, custody, power or control they are and require the **broker member** to use its best endeavours to secure the documents and materials;
 - (d) Interview any **employee** or agent of a **broker member** and require the **employee** or the agent of the **broker member** to answer questions and provide explanations and record such answers and explanations electronically or otherwise; and/or
 - (e) With reasonable notice, require the attendance of any **employee** and/or agent of a **broker member** at a specified date, time and place, to answer questions, provide explanations and/or give evidence and require the **broker member** to procure such attendance.
- 5.2. A **broker member** shall ensure that it does not provide false or misleading information to the **Exchange** and shall comply or procure compliance with a request by the **Exchange** for explanation or verification of information provided to the **Exchange**.

INSPECTION

- 5.3. Any authorised representative of the **Exchange**, including an auditor appointed by the **Exchange**, shall be permitted by a **broker member** to visit the **broker member's** offices at any time for the purposes of inspections and to ensure compliance with the rules of the **Exchange**.

USE OF INFORMATION

- 5.4. A **broker member** and/or any other **person** under the jurisdiction of the **Exchange** must permit copies to be taken and retained of any documents, books, records, papers, telephone recordings or other information (in whatever media or form) that are produced to the **Exchange** or its authorised representative or which the **Exchange** or its authorised representative determines are relevant to the rules of the **Exchange**, an inspection of the **broker member**, the suitability of a **broker member**, the integrity of the **Exchange's** markets or the protection of clients.
- 5.5. Subject always to applicable Cayman Islands law and regulation, **broker members** authorise the **Exchange** to disclose any information obtained by it:
- (a) For the purpose of enabling it to institute, carry on or defend any proceedings;
 - (b) For any purpose referred to in any law of the Cayman Islands;
 - (c) For the purpose of enabling the **Exchange** to discharge its functions having regard in particular to the protection of investors and the maintenance of high standards of integrity and fair dealing; and/or
 - (d) For any other purpose deemed necessary by the **Exchange**.
- 5.6. Subject always to applicable Cayman Islands law and regulation, a **broker member** authorises the **Exchange** to obtain information from and pass information to any authority, agency or body having responsibility for the supervision of financial services, whether in the Cayman Islands or elsewhere. Supervision of financial services shall include the supervision, regulation and enforcement in general by exchanges or any other markets that are listing or making markets in

securities, commodities (including foreign exchange), futures, debt securities, derivatives and similar securities.

DISCIPLINARY ACTION

SUMMARY PROCEDURE

SUMMARY ACTION FOR RULE BREACH

- 5.7. If the **Exchange** is of the opinion that a **broker member** is in breach of any of these Broker Membership rules it may:
- (a) Issue a formal written warning;
 - (b) If the breach is one for which the **Exchange** has promulgated, either in these rules or by a notice in force at the time of the breach, a **fixed penalty**, impose that penalty;
 - (c) If there is no applicable **fixed penalty** impose a **fine** of up to US\$25,000 for each breach and, in addition, order the **broker member** to make restitution to any **person** at whose expense the **broker member** has profited by a breach of the rules;
 - (d) Impose one or more requirements with regard to the **broker member's** level of staffing, training, internal procedures and controls or any other matter relevant to the continuing suitability of the **broker member** to be a member of the **Exchange**; and/or
 - (e) Place restrictions on the volume of business or on any class or type of business that the **broker member** may undertake.

REFERENCE OF SUMMARY ACTION TO SUMMARY PROCEDURE APPEAL COMMITTEE

- 5.8. If a **broker member** objects to action taken against it under the preceding rule it may, by written notice to the **Exchange** given within five days after it is notified of the action, require the matter to be referred by way of appeal to a Summary Procedure Appeal Committee.
- 5.9. The Summary Procedure Appeal Committee shall consist of no less than three members of the **Exchange's** senior staff and/or **Council** members and/or other persons appointed by the **Exchange** save that no member of the **Exchange's** staff who has been involved in any investigation which resulted in the decision under appeal or the making of the decision itself shall be appointed to the Summary Procedure Appeals Committee considering the appeal from that decision.

ACTION ON REFERENCE TO THE SUMMARY PROCEDURE APPEAL COMMITTEE

- 5.10. The Summary Procedure Appeal Committee shall accept the reference of an objection to a **fixed penalty**. It may in its discretion accept or refuse and refer to the Disciplinary Committee the reference of an objection to a warning, **fine** or other action. Where a reference is referred to the Disciplinary Committee the hearing of that reference shall be conducted in accordance with the rules of the Disciplinary Committee set out in this chapter with such modifications (if any) as the Disciplinary Committee may consider appropriate to the circumstances. The Disciplinary Committee shall have the powers set out in rule 5.24 below.

The **broker member** shall be notified accordingly. Where a reference is accepted, the Summary Procedure Appeals Committee shall proceed in accordance with the provisions of rules 5.12-5.21 in this chapter.

PARTICULARS OF BREACH AND EVIDENCE

- 5.11. Unless the nature of the breach alleged and the evidence relied upon by the **Exchange** are apparent from communications already made by the **Exchange** to the **broker member**, the **Exchange** shall, within 10 days of the decision of the Summary Procedure Appeal Committee under rule 5.10 above, serve on the **broker member** and the Summary Procedure Appeal Committee written notice of the breach and a summary of the evidence relied on by the Exchange.

WHERE BREACH ADMITTED

- 5.12. The **broker member** may in writing to the **Exchange** and the Summary Procedure Appeal Committee admit the breach. If it does so it may make written and/or oral submissions to the Summary Procedure Appeal Committee in mitigation, any such written submissions also to be provided to the **Exchange**.

WRITTEN PROCEDURE

- 5.13. If the **broker member** and the **Exchange** agree in writing, the Summary Procedure Appeal Committee may determine whether the breach is proved and any penalty on the basis of written evidence and submissions alone, such evidence and submissions to be exchanged between the **broker member** and the **Exchange** and submitted by each party to the Summary Procedure Appeal Committee without disclosure of the **broker member's** identity.

HEARING

- 5.14. Unless either all alleged breaches are admitted and the **broker member** does not wish to make any oral submission in mitigation or the **broker member** and the **Exchange** have agreed to the written procedure described above, the Summary Procedure Appeal Committee shall convene a hearing. Not less than 10 days' written notice of the time and place of hearing shall be given to the parties unless the time for giving notice is reduced by agreement in writing between the **broker member** and the **Exchange**.
- 5.15. The **broker member** shall attend the hearing by a director or partner. The **broker member** and the **Exchange** may also be legally represented. The **broker member** shall provide the **Exchange** with two days' prior notice of the names of the representatives who are attending the hearing. If the **broker member** fails to attend, the Summary Procedure Appeal Committee may proceed in its absence.
- 5.16. The procedure at the hearing shall be informal and at the discretion of the Summary Procedure Appeal Committee. The **broker member** shall be given a fair opportunity to answer the case against it. The rules of evidence applicable to courts of law shall not apply. The Summary Procedure Appeal Committee shall sit in private.
- 5.17. If the members of the Summary Procedure Appeal Committee are not unanimous as to any finding or penalty, the decision shall be that of the majority. If they are equally divided, the decision shall be that which most favours the **broker member**. The Summary Procedure Appeal Committee has no obligation to disclose that its decision was by a majority.

BURDEN OF PROOF

- 5.18. The burden of proof shall be on the **Exchange**. The Summary Procedure Appeal Committee shall not find a breach proved unless it is satisfied on the balance of probabilities.

PENALTIES

- 5.19. In respect of determining the penalty for any breach admitted or proved, the Summary Procedure Appeal Committee may take into account any previous disciplinary record and any mitigation. It may take no further action or:
- (a) Issue a formal written warning;
 - (b) Confirm a **fixed penalty** if one has been imposed;
 - (c) Impose a **fine** of up to US\$25,000 for each breach, whether or not it is one for which a **fixed penalty** has, or could have been imposed;
 - (d) Impose one or more requirements with regard to the **broker member's** level of staffing, training, internal procedures and controls or any other matter relevant to the continuing suitability of the **broker member** to be a member of the **Exchange**; and/or
- 5.20. Place restrictions on the volume of business or of any class or type of business that the **broker member** may undertake.

NOTIFICATION OF DECISION

- 5.21. The Summary Procedure Appeal Committee's decision will be notified or confirmed in writing to the **broker member**.

APPEAL TO DISCIPLINARY COMMITTEE

- 5.22. A **broker member** may appeal to the Disciplinary Committee against a finding made by and/or a penalty imposed by the Summary Procedure Appeal Committee by serving on the **Exchange** and the secretary to the Disciplinary Committee, within 10 days of the written notice or confirmation referred to in rule 5.21 above, a notice in writing setting out the decisions of the Summary Procedure Appeal Committee appealed against and the grounds for each such appeal.
- 5.23. Any such appeal shall be by way of re-hearing and shall be conducted in accordance with the rules of the Disciplinary Committee set out in this chapter with such modifications (if any) as the Disciplinary Committee may consider appropriate to the circumstances save that where the appeal is only against penalty, the Disciplinary Committee shall permit evidence to be given orally only in exceptional circumstances. Where oral evidence is allowed on behalf of one party, the other party or parties shall be afforded the opportunity to cross examine that evidence.
- 5.24. The Disciplinary Committee may quash or confirm any finding and rescind, confirm, vary, reduce or increase (subject, in the case of a **fine**, to a maximum of US\$25,000 for any breach) any penalty appealed against. In addition it may award costs in accordance with the provisions of paragraphs 5.67 and 5.68 below.
- 5.25. The decision of the Disciplinary Committee will be notified or confirmed in writing to the **broker member** and the **Exchange**.

DISCIPLINARY PROCEEDINGS

ACTS OF MISCONDUCT

- 5.26. The **Exchange** may institute disciplinary proceedings against a **broker member** in respect of an act of misconduct. An act of misconduct (which may arise by omission, default or neglect) includes:
- (a) A breach of the rules or **notice** of the **Exchange**;
 - (b) A failure to comply with a decision or direction of the **Exchange** having binding effect;
 - (c) Conduct detrimental to the interests of the **Exchange**;
 - (d) Provision to the **Exchange** of information (including information for the purpose of obtaining membership) which is false, misleading or inaccurate in a material particular;
 - (e) Being the subject of an adverse finding, disciplinary proceeding, sanction, final judgement or ruling or other similar measure of any organisation, tribunal or court of competent jurisdiction whether outside of the Cayman Islands or not;
 - (f) Being knowingly concerned in, or improper conduct which causes or contributes to, an act of misconduct, falling within sub-paragraphs (a) to (e) of this rule by another **person**;
 - (g) Failure to pay a **fine** or order for costs imposed by the **Exchange**, the Summary Procedure Appeal Committee or the Disciplinary Committee within the time required.

THE DISCIPLINARY COMMITTEE

FUNCTION

- 5.27. Disciplinary proceedings against a **broker member** in respect of an act of misconduct shall be heard by the Disciplinary Committee sitting as a tribunal of first instance.
- 5.28. The Disciplinary Committee shall also;
- (h) as an appellate tribunal, hear and determine appeals against findings made by or penalties imposed by the Summary Procedure Appeal Committee pursuant to rule 5.20 above;
 - (i) as an appellate tribunal, hear and determine appeals in respect of references to the Summary Procedure Appeal Committee referred to it pursuant to rule 5.10 above;
 - (j) as an appellate tribunal, hear and determine appeals against decisions of the **Exchange** pursuant to rules 2.16 and 3.18 above.

COMPOSITION

- 5.29. The **Council**, in its absolute discretion, will from time to time appoint members to the Disciplinary Committee.
- 5.30. No **person** who is a member of the Disciplinary Committee in respect of particular proceedings shall for the same proceedings be a member of or be co-opted on to the Disciplinary Appeals Committee.
- 5.31. The quorum for a Disciplinary Committee hearing shall be three, except that:
- (k) Directions may be given and a pre-hearing review may take place before one member;
 - (l) With the consent of the **broker member** a hearing may take place or be continued before not less than two members;
 - (m) The Disciplinary Committee if consisting of less than three members may in its discretion co-opt any **person** for the purposes only of the proceedings then before the Disciplinary Committee and that **person** shall count as part of the quorum for the purpose of this rule. No member of the **Exchange's** staff may be so co-opted.

SECRETARY

- 5.32. The Disciplinary Committee shall have a secretary appointed by the **Exchange** to carry out any administrative functions. A secretary may sit with the Disciplinary Committee but shall not take part in its deliberations. All notices, notifications and other documents required to be provided to the Disciplinary Committee must be served on the secretary. Further all communications with the Disciplinary Committee relating to the proceedings shall be made through the secretary.

LEGAL ADVISER

- 5.33. A legal adviser, who shall be an attorney-at-law and shall be independent of any party, may be appointed by the Disciplinary Committee and will sit with the appointing committee (including at a pre-hearing review) to give it legal advice. No **person** appointed as a legal adviser by the Disciplinary Committee shall be appointed as a legal adviser by the Disciplinary Appeals Committee on the same matter.

COMMENCEMENT OF DISCIPLINARY PROCEEDINGS

- 5.34. Disciplinary proceedings shall be begun by the **Exchange** serving on the **broker member** a statement of case, which shall comprise the charge or charges and a summary of the principal facts to be relied on.

APPEAL AGAINST A DECISION OF THE EXCHANGE PURSUANT TO RULE 2.16 AND/OR RULE 3.18

- 5.35. An appeal against a decision of the **Exchange** pursuant to rule 2.16 and/or rule 3.18 shall be begun by the **broker member** serving on the **Exchange** and the secretary to the Disciplinary Committee a notice in writing setting out the decision or decisions of the **Exchange** appealed against and the grounds for each such appeal, such notice to be served within 10 days of notice being given by the **Exchange** to the **broker member** of the relevant decision or decisions. Any such appeal shall be conducted in accordance with the rules of the Disciplinary Committee set out in this chapter with such modifications (if any) as the Disciplinary Committee may consider appropriate to the circumstances. In particular, the Disciplinary Committee may quash, confirm

or vary any finding or decision of the **Exchange** and any penalty imposed or action taken by it and shall have all the powers and rights which were available to the **Exchange**.

PROCEDURE

- 5.36. After service of a statement of case or a written notice or reference pursuant to rules 5.10, 5.22, 5.34 or 5.35 above (and save where all charges have been admitted in writing by the **broker member** to the secretary of the Disciplinary Committee within 7 days of receipt of the statement of case):
- (a) The **Exchange** shall serve on the **broker member** copies of the documents on which it intends to rely and a list of the witnesses it proposes to call and an outline of their proposed evidence;
 - (b) The **broker member** may (and if so directed by the Disciplinary Committee, shall) serve on the **Exchange** a statement of defence and shall in any event serve a written notice stating its intended pleas to the charges or decisions of the **Exchange**, what evidence of the witnesses served by the **Exchange** is agreed, which documents are agreed and what admissions of facts the broker member makes;
 - (c) The **Exchange** and the **broker member** shall then serve on each other notice of the directions to be sought at a pre-hearing review or their assessment that there is no need for a pre-hearing review.
- 5.37. The Disciplinary Committee may specify by notice in writing to the parties the time limits within which the matters specified by rule 5.36 shall be carried out.

DIRECTIONS BY DISCIPLINARY COMMITTEE

- 5.38. The Disciplinary Committee may give all such directions and take such other steps as it considers appropriate for the clarification of the facts and issues and generally for their just, efficient and expeditious presentation and may hold one or more pre-hearing reviews for that purpose. Without restriction on its general power to give directions the Disciplinary Committee may in particular:
- (d) Fix a time and place or make arrangements for the hearing;
 - (e) By consent of the **Exchange** and the **broker member**, direct the hearing or any part of the hearing to proceed by written representations;
 - (f) Record any admission made by either party and any request to any party to make admissions;
 - (g) Direct any party to prepare and serve any schedule or notice to admit facts or documents and the other party to respond thereto;
 - (h) Direct any party to disclose and serve copies of any documents;
 - (i) Direct the **broker member** to serve a written statement of defence setting out in general terms the nature of its defence to any charge or decision and the principal matters with which it takes issue on the statement of case;
 - (j) Direct the **broker member** to provide the **Exchange** with the names of all witnesses to be called at the hearing and their statements or an outline of proposed evidence;

- (k) Make time limits for any purpose of the proceedings;
- (l) Extend or abridge time limits;
- (m) Adjourn the pre-hearing review, with such order as it thinks fit;
- (n) Vary any previous directions;
- (o) Direct the amendment or deletion of any charge; and/or
- (p) Make any order for the payment of costs of or in connection with pre-hearing preparation or any pre-hearing review.

PRE-HEARING REVIEW

- 5.39. Notwithstanding the general power to give directions set out in rule 5.38 above, a pre-hearing review will be convened as soon as is practicable after completion of the matters set out in rule 5.36 in all cases save those in which all charges have been admitted in writing by the **broker member** and those where both the **Exchange** and the **broker member** have agreed in writing that there is no need for a pre-hearing review.
- 5.40. The **broker member** shall attend the pre-hearing review by a director or partner. The **broker member** and the **Exchange** may also be legally represented. If the **broker member** fails to attend a pre-hearing review the Disciplinary Committee may proceed in its absence

FAILURE TO COMPLY WITH PRE-HEARING RULES AND DIRECTIONS

- 5.41. Failure by the **broker member** to comply with any directions shall not render the **broker member** liable to disciplinary proceedings, but may be commented on by the **Exchange** before the Disciplinary Committee for such inferences to be drawn as are proper in all the circumstances, and may render the **broker member** liable for costs irrespective of the outcome of the proceedings or appeal.

DEPARTURE BY BROKER MEMBER FROM STATEMENT OF DEFENCE OR ADMISSIONS

- 5.42. If a statement of defence is served, the **broker member** shall not be prevented by it, or by any admissions from putting forward any contrary or further case or from withdrawing such admissions. However, in any such case the **Exchange** may invite the Disciplinary Committee to draw, and the Disciplinary Committee may draw, any inferences proper in all the circumstances.

CONSENT ORDERS

- 5.43. The Professional Standards Panel shall consist in each disciplinary proceeding of those members of the Disciplinary Committee but not forming part of the quorum for the Disciplinary Committee hearing those particular disciplinary proceedings.
- 5.44. At any time after the commencement of a disciplinary proceeding, the **Exchange** and the **broker member** may without prejudice negotiate a proposed consent order and jointly submit it in writing to a member of the Professional Standards Panel nominated by the secretary to the Disciplinary Committee for approval. A disciplinary proceeding may at the discretion of the Exchange be stayed by the commencement of the negotiation of a consent order.

- 5.45. If the relevant member of the Professional Standards Panel approves the consent order, or any variation agreed by the **Exchange** and the **broker member**, it shall immediately make the order for which purpose and for the ancillary purpose of amending any charge or charges it shall have the powers of the Disciplinary Committee.
- 5.46. A consent order made by the relevant member of the Professional Standards Panel shall not be subject to any appeal and shall have immediate effect.
- 5.47. If the relevant member of the Professional Standards Panel does not approve the proposed consent order, there shall be no reference before the Disciplinary Committee to the negotiations, the proposed consent order or the submission to the Professional Standards Panel, which shall be confidential.

DISCIPLINARY COMMITTEE HEARINGS

- 5.48. The Disciplinary Committee shall sit in private.
- 5.49. The **broker member** shall be given not less than 15 days' written notice of the time and place of the hearing by the secretary to the Disciplinary Committee, unless otherwise directed at a pre-hearing review.

ATTENDANCE

- 5.50. Save in accordance with any previous direction by the Disciplinary Committee, the **broker member** shall attend the hearing by director or partner. In addition the **broker member** and the **Exchange** may be legally represented.

FAILURE TO ATTEND

- 5.51. If the **broker member** fails to attend the Disciplinary Committee may proceed in its absence.

NORMAL ORDER OF PROCEEDINGS

- 5.52. Unless otherwise ordered by the Disciplinary Committee and subject to the other rules in this Chapter, the order of proceedings at the hearing shall be as follows:
 - (q) Any charges in disciplinary proceedings pursuant to rule 5.26 will be read and the **broker member** asked whether it admits each charge;
 - (r) The **Exchange** will open the case;
 - (s) In relation to any charge which is not admitted or where the Disciplinary Committee is sitting as an appellate tribunal:
- 5.53. The **Exchange** will present its evidence and/or call witnesses whom the **broker member** may then cross examine, the **Exchange** re-examine and who may be asked questions by the Disciplinary Committee;
- 5.54. The **broker member** may present its evidence and call any witnesses who may be cross examined, re-examined and questioned by the Disciplinary Committee;

- 5.55. The **Exchange's** representative may address the Committee, provided that the **broker member** has presented or called evidence;
- 5.56. The **broker member's** representative may address the Disciplinary Committee;
- (a) In relation to any charge which is admitted the **broker member** may produce or call evidence and/or make representations in mitigation;
- (b) Where it is satisfied that any charge is proved and/or any decision of the Exchange or Summary Appeal Procedure Committee should be upheld it shall take into account any representations which the **broker member** and the **Exchange** may make as to whether any and if so what penalty or penalties should be imposed before determining what penalty, if any, is to be imposed. The **Exchange** may give information as to any previous convictions or findings of misconduct which may include the findings of other regulatory bodies.

RECORD OF THE HEARING

- 5.57. A record shall be made of the hearing, electronically or otherwise. The **broker member** will be entitled to a transcription or copy of the record on payment of the cost of such a transcription or copy.

BURDEN AND STANDARD OF PROOF

- 5.58. The burden of proof shall be on the **Exchange**. The Disciplinary Committee shall not find a charge proved or uphold a decision of the **Exchange** or Summary Procedure Appeals Committee unless it is satisfied on the balance of probabilities.

EVIDENCE AND DIRECTIONS

- 5.59. Proceedings at the Disciplinary Committee hearing shall be governed by this chapter and by the rules of natural justice, subject to which the Disciplinary Committee may:
- (t) Admit any evidence whether oral or written, whether direct or hearsay, without any requirement that it be on oath and whether or not the same would be admissible in a court of law;
- (u) Make any directions which may be given at a pre-hearing review and vary the directions which have been made;
- (v) Make all such directions with regard to the conduct of and procedure at the hearing as the Disciplinary Committee considers appropriate for securing a proper opportunity for the **broker member** to answer the case against it and otherwise as may be just.
- 5.60. The Disciplinary Committee may receive in evidence and make findings against the broker member in reliance on any interviews of and admissions by **person** or **persons** for whose conduct the **broker member** had responsibility.

CONVICTIONS AND FINDINGS BY OTHER AUTHORITIES

- 5.61. The findings of fact of the following bodies which have not been set aside on appeal or otherwise, shall be prima facie evidence of the facts so found:
- (w) Any court of competent jurisdiction outside of the Cayman Islands;

- (x) Any committee or tribunal of the **Monetary Authority**;
 - (y) The Panel on Take Overs and Mergers;
 - (z) Any other body exercising a regulatory or disciplinary jurisdiction over any **persons** engaged in financial services business whether within the Cayman Islands or elsewhere.
- 5.62. The findings of fact of any court in the Cayman Islands which have not been set aside on appeal or otherwise, shall be conclusive evidence of the facts found.
- 5.63. A criminal conviction by any court in the Cayman Islands which has not been set aside on appeal or otherwise, shall be conclusive evidence of the commission of the offence in question.
- 5.64. Findings of fact referred to in this rule may be proved by production of the appropriate certified copy of the judgement or findings and any conviction may be proved by production of a certificate of conviction.

PENALTIES

- 5.65. On each charge admitted or proved, the Disciplinary Committee may take no action or impose one or more of the penalties set out below:
- (aa) An unlimited **fine**;
 - (bb) An order that the **broker member** make restitution to any **person** (when a **broker member** has profited from a breach of the **Exchange's** rules at that **person's** expense);
 - (cc) Censure: the **Exchange** may publish the fact that the **broker member** has been censured;
 - (dd) Suspension of the right to use any system of the **Exchange**;
 - (ee) Suspension from dealing in securities, or any class of securities, dealt in on the **Exchange**; and/or
 - (ff) Expulsion from membership.
- 5.66. In determining the appropriate penalty in each case, the Disciplinary Committee shall take into account all the circumstances of the case and may take into account any previous disciplinary record. The Disciplinary Committee may also take into account any other act of misconduct which the **broker member** asks to have taken into consideration.

DELIBERATION

- 5.67. The Disciplinary Committee may deliberate in the absence of the parties at any time and with or without its legal adviser.

ADJOURNMENT

- 5.68. The Disciplinary Committee may adjourn any hearing at any time and may do so on such terms as to costs or otherwise as it thinks fit.

DECISION

- 5.69. Following the conclusion of the disciplinary proceedings or appeal, the Disciplinary Committee shall deliver to the **broker member** and the **Exchange** a written decision comprising a summary of:
- (gg) The charges admitted;
 - (hh) Its findings as to whether any charges not admitted are proved or any appeals made are allowed;
 - (ii) The reasons for its findings;
 - (jj) Its findings or views on any facts or matters to which it wishes to draw attention; and
 - (kk) Any penalties and order for costs imposed.
- 5.70. If at any time the members of the Disciplinary Committee are not unanimous as to any finding, penalty or other matter, the decision shall be that of the majority. If they are equally divided, the decision shall be that which most favours the **broker member**. The Disciplinary Committee has no obligation to disclose that its decision was by a majority.

COSTS

- 5.71. Subject to rule 5.68 below, the Disciplinary Committee may order any party to pay costs as it thinks fit, including any costs which in the Disciplinary Committee's view, regardless of the outcome of the case, have been unnecessarily caused. Such costs may include the remuneration and expenses of the members of the Disciplinary Committee, administration costs and costs incurred in the investigation, preparation and presentation of the case. Such order will only be made only after the party against whom the costs order has been made has been given the opportunity to make submissions on costs to the Disciplinary Committee.
- 5.72. Costs may be awarded against the **Exchange** only if, in the opinion of the Disciplinary Committee, the **Exchange** has behaved unreasonably in the commencement or conduct of the proceedings.
- 5.73. The Disciplinary Committee may determine or delegate the determination to such person as it thinks fit of the amount of costs.
- 5.74. Costs shall be payable within 10 days of written notice of the determination of the amount or the conclusion of any appeal against that determination.

THE DISCIPLINARY COMMITTEE

- 5.75. The Disciplinary Appeals Committee shall hear appeals;
- (ll) From the Disciplinary Committee sitting as a tribunal of first instance; and
 - (mm) From the Disciplinary Committee sitting as an appellate committee in respect of decisions of the **Exchange** pursuant to rules 2.16 and 3.18.
- 5.76. The **Council**, in its absolute discretion, will from time to time appoint members to the Disciplinary Appeals Committee.

- 5.77. The rules regarding quorum and co-option, secretary, hearings in private, majority decision, directions and pre-hearing review, attendance, failure to attend, record of the hearing, deliberation in private, adjournment, decision and costs, shall apply to the proceedings of the Disciplinary Appeals Committee as they apply to the Disciplinary Committee.

TIME FOR APPEAL

- 5.78. Within 10 days of service on it of the Disciplinary Committee's decision the **broker member** may appeal to the Disciplinary Appeals Committee by serving a notice of appeal on the secretary to the Disciplinary Committee and the **Exchange**.
- 5.79. The Disciplinary Committee or the Disciplinary Appeals Committee may extend time for appeal.

NOTICE OF APPEAL

- 5.80. A notice of appeal (other than in respect of costs only) shall set out each decision of the Disciplinary Committee under appeal, the ground or grounds of appeal in relation to each such decision and a brief statement of the matters relied upon in relation to each ground.

RIGHT OF APPEAL AGAINST A FINDING THAT A CHARGE IS PROVED

- 5.81. A decision of the Disciplinary Committee may be appealed on the following grounds:
- (a) That the Disciplinary Committee misdirected or misconducted itself contrary to this chapter or the rules of natural justice;
 - (b) That the Disciplinary Committee's or **Exchange's** decision was against the weight of the evidence;
 - (c) That the Disciplinary Committee's decision was based on an error of law or misinterpretation of the rules of the **Exchange**.

RIGHT OF APPEAL ON PENALTY OR COSTS

- 5.82. A **broker member** may appeal against penalty on any charge or any award of costs on the ground that the penalty imposed or the amount awarded was excessive.

POWERS OF THE DISCIPLINARY APPEALS COMMITTEE TO VARY PENALTIES

- 5.83. On dismissing an appeal against the finding that a charge is proved (whether or not there is an appeal against penalty), or an appeal against any penalty or order as to costs, the Disciplinary Appeals Committee may vary, increase or decrease the penalty or costs imposed by the Disciplinary Committee and make any order which the Disciplinary Committee or the **Exchange** could have made.

PROCEEDING ONLY BY WRITTEN SUBMISSIONS

- 5.84. If both parties consent in writing to the secretary to the Disciplinary Appeals Committee, the appeal may be made by written submissions only.

NOTICE OF THE APPEAL HEARING IN OTHER CASES

- 5.85. The secretary to the Disciplinary Appeals Committee shall give to the **broker member** and the **Exchange** not less than 10 days' notice in writing of the date, time and place of the appeal hearing.

WITHDRAWAL OF APPEAL

- 5.86. The **broker member** may, by writing to the secretary to the Disciplinary Appeals Committee, withdraw any appeal wholly or in part at any time before the opening of the hearing. On withdrawal, any relevant penalty will come immediately into effect.

NORMAL ORDER OF PROCEEDING BEFORE THE DISCIPLINARY APPEALS COMMITTEE

- 5.87. Unless otherwise ordered by the Disciplinary Appeals Committee, the order of proceedings at the hearing shall be as follows:
- (nn) The **broker member** will open the appeal and may with leave of the Disciplinary Appeals Committee (which it shall have discretion whether to grant or refuse) present further evidence;
 - (oo) Any witnesses called may be cross examined, re-examined and questioned by the Disciplinary Appeals Committee;
 - (pp) The **Exchange** may make submission in answer and may with the leave of the Disciplinary Appeals Committee (which it shall have discretion whether to grant or refuse) present further evidence including, in particular, in response to any further evidence adduced by the **broker member** under (a) above;
 - (qq) The **broker member** may reply.

APPEAL COSTS

- 5.88. Where there is an appeal to the Disciplinary Committee, it may award costs, for which purpose the provisions of these rules relating to awards of costs by the Disciplinary Committee shall apply.

GENERAL PROVISIONS

EFFECTIVE DATE

- 5.89. Save in relation to appeals against decisions of the **Exchange** appealed pursuant to rules 2.16 and 3.18, any penalty or costs order imposed or action taken by the **Exchange** (whether under the procedure for summary action or otherwise), the Summary Procedure Appeal Committee or the Disciplinary Committee shall come into effect on the expiry of the time for appealing such penalty, costs order or action or any extension thereof. If a notice of appeal is served in accordance with this chapter, the penalty, costs order or action appealed against shall not come into effect pending the determination or withdrawal of the appeal or order of the Summary Procedure Appeals Committee, Disciplinary Committee or Disciplinary Appeals Committee (as appropriate) in the meantime. In respect of decisions of the **Exchange** appealed pursuant to rules 2.14 and/or 3.18, such decisions shall come into effect in accordance with their terms and the commencement of an appeal under rules 2.14 and/or 3.18 shall not, unless otherwise ordered by the Disciplinary Committee or the Disciplinary Appeals Committee, stay or otherwise affect the decision.

PUBLICITY

- 5.90. The **Exchange** may, at the conclusion of any disciplinary action, make public by such means as it thinks fit (including but not limited to the use of the CSX's website or by way of press release) the name of the broker member and the terms of and/or a summary of the decision of the Summary Procedure Appeal Committee and/or the Disciplinary Committee and/or the Disciplinary Appeals Committee as appropriate. However, this rule shall not apply to any proceedings in which no charge or decision is proven or upheld against the **broker member** or in which the penalty imposed by the Summary Procedure Appeal Committee, the Disciplinary Committee or the Disciplinary Appeals Committee, is a fine or fines not exceeding US \$25,000 in aggregate. For the avoidance of doubt, this rule is without prejudice to the rights of the Exchange under rule 2.17.
- 5.91. For the purposes of rule 5.86 the conclusion of disciplinary proceedings shall be the earlier of (i) the entry into a consent order between the **Exchange** and the **broker member** in respect of the disciplinary proceedings (ii) the expiry of time for an appeal without the service of a notice of appeal or an application for an extension of time within which to serve such a notice (iii) the refusal of any application for an extension of time to serve a notice of appeal, (iv) the withdrawal of any appeal or (v) the delivery of a final decision of the Disciplinary Committee or Disciplinary Appeals Committee as appropriate.

PROCEEDINGS AGAINST A FORMER BROKER MEMBER

- 5.92. The **Exchange** may bring disciplinary action under this chapter against a former **broker member** up to one year after its resignation from membership was accepted or its membership lapsed or was terminated.

PROCEEDINGS INVOLVING MORE THAN ONE BROKER MEMBER

- 5.93. Charges or allegations of breach of rules or appeals may be heard against more than one **broker member** at the same time, if it appears just and convenient to the Summary Procedure Appeal Committee, the Disciplinary Committee, or the Disciplinary Appeals Committee, as the case may be.

TRANSITIONAL PROVISIONS

- 5.94. Unless it would result in injustice to the **broker member** or is ordered otherwise, disciplinary action against a **broker member** and/or any appeal by a **broker member** under this Chapter shall be conducted in accordance with the rules in place at the date of commencement of such disciplinary action or appeal.

CHAPTER 6

BUSINESS AND MARKET CONDUCT

Contents

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BUSINESS CONDUCT - GENERAL OBLIGATIONS

- 6.1. The business conduct rules apply to all **broker members**.
- 6.2. A **broker member** shall ensure in all **transactions** that it:
 - (a) acts fairly, honestly and with care, skill and diligence, in conducting its business activities in the best interests of its **clients** and the integrity of the market;
 - (b) has and employs effectively the resources and procedures that are necessary for the proper performance of its business activities;
 - (c) seeks from its **clients** information regarding their financial situations, investment objectives and experience as regards the services requested;
 - (d) makes adequate disclosure of relevant material information in its dealings with its **clients**;
 - (e) makes all reasonable efforts to avoid conflicts of interest and, when they cannot be avoided, ensures that its **clients** are fairly treated;
 - (f) maintains adequate financial resources to meet its investment business objectives and to withstand the risks to which its business is subject; and
 - (g) discloses to its **clients** in advance of the provision of any service the basis upon which charges or commission earned by it as a result of the transaction will be charged.

RESPONSIBILITIES TO CLIENTS

- 6.3. **Broker members** and its **employees** shall ensure that they adhere to the letter and spirit of the rules of this chapter in all **transactions** which they undertake for their **clients**.
- 6.4. The rules in this chapter apply to all **transactions** in **securities** both on and off **Exchange**, which a **broker member** undertakes for its **clients**.
- 6.5. A **broker member** shall learn the essential facts relative to every **client** and to every account opened or **order** accepted.

CLIENT CLASSIFICATION

- 6.6. Before a **broker member** enters into a relationship with a **client**, the **broker member** shall

- (a) assess whether the **client** is a **private client** or **professional client** and maintain a record of the results of each assessment; and
 - (b) perform an appropriate level of due diligence in relation to the **client's** background.
- 6.7. A **broker member** may treat a **private client** as a **professional client** if:
- (a) it can show that it believes on reasonable grounds that the **client** has sufficient expertise and understanding to waive the protections provided in these rules for a **private client**. Such an assessment should include, but not be limited to the following criteria:
 - (i) the length of time the **client** been active in the market;
 - (ii) the frequency of the **client's** dealing during that period;
 - (iii) the type of **security** that the **client** has dealt in;
 - (iv) whether the **client** usually deals on an execution only basis or relies on advice;
 - (v) whether the **client** has sufficient experience to enable him to recognise the risks associated with, and the suitability of, the **securities** in which he wishes to deal;
 - (vi) whether the **client** has any other relevant experience.
 - (b) it has given a clear written warning to the **client** of the protections under these rules which the **client** will lose; and
 - (c) the **client** has given written consent after a proper opportunity to consider the warning.
- 6.8. In the case of a **private client**, the **broker member** shall take reasonable steps to obtain from the **client** such details of the **clients** investment objectives, investment experience and any other facts about the **clients** financial position which the **broker member** reasonably believes it needs to know and ought reasonable to be expected to find out.
- 6.9. Where, owing to a **private client's** unwillingness or inability to provide the relevant facts, the **broker member** fails to obtain the **clients** investment objectives or those facts about the **clients** financial position which it believes it needs to know, the **broker member** may enter into a relationship with a **private client** after:
- (a) writing to the **private client** requesting the information, requesting a response by a reasonable specified date which allows reasonable time for response and stating that failure to reply may be taken as unwillingness to provide the relevant facts; or
 - (b) maintain a record of the facts sought, the efforts made to obtain the relevant information and the inability or refusal to provide the relevant facts and the record shall be signed and dated by the **employee** making the note and by a **director**.
- 6.10. A **broker member** is entitled to rely, without further enquiry, on any information, which it receives for the purposes of these rules, unless it knows, or believes or reasonably ought to know the information to be false.

SUITABILITY

- 6.11. A **broker member** must take all reasonable steps to ensure that it does not give advice to, or effect **transactions** with or for a **client**, unless that advice or **transaction** is suitable for the **client** having regard to the facts disclosed by that **client** or other relevant facts about the **client** of which the **broker member** is, or ought to be aware.
- 6.12. A **broker member** which is managing or **transacting** any **investment** for a **client** on a discretionary basis must ensure that the **investment** remains suitable, having regard to the facts disclosed by that **client** or other relevant facts about the **client** of which the **broker member** is or ought to reasonably be aware.
- 6.13. A **broker member** must not:
- (a) recommend **transactions** to a **private client** or effect discretionary **transactions** with or for that **client**, unless it has taken all reasonable steps to ensure the **client** understands the risks and the **client** has previously signed a statement acknowledging the risks resulting from such **transactions**; or
 - (b) recklessly, negligently or deliberately mislead a **client** as to any perceived advantages or disadvantages of a contemplated **transaction**.

INDUCEMENTS

- 6.14. A **broker member** must take reasonable steps to ensure that neither it nor any of its **employees** or agents:
- (a) offers or gives; or
 - (b) solicits or accepts,
- either in the course of business or otherwise, any inducement which is likely to conflict with any duties of the recipient, or the recipients employer owed to **clients** in connection with the business.

NON MONETARY COMMISSION

- 6.15. A **broker member** which deals for a **client** on an advisory basis or in the exercise of discretion may not so deal through another broker or **broker member** pursuant to a non monetary commission agreement unless:
- (a) the only benefits to be provided under the agreement are goods or services which can reasonably be expected to assist in the provision of investment services to the **broker member's clients** and which are in fact so used;
 - (b) the other broker or **broker member** has agreed to provide best execution to the **client**;
 - (c) the **broker member** is satisfied on reasonable grounds that the terms of business and methods by which the relevant broking services will be supplied do not involve any potential for comparative price disadvantage to the **client**;
 - (d) in **transactions** in which the other broker or **broker member** acts as principal, he is not remunerated by spread alone; and

- (e) adequate prior and proper disclosure is made.
- 6.16. A **broker member** which receives goods or services under a soft commission agreement must provide annually, to **clients** (except beneficiaries of packaged products under the **broker member's** management) to whom it is relevant, the following information in relation to the period since the last report was made, or, if no previous report has been made, since the first **transaction** was effected under the agreement:
- (a) the percentage of the total commission paid by the **broker member** under soft commission agreements;
 - (b) the value (on a cost price basis) of goods or service received by the **broker member** under soft commission agreements expressed as a percentage of the total commissions paid by the **broker member**, including those not paid under soft agreements;
 - (c) a summary of the goods or services received by the firm under soft commission agreements;
 - (d) a list of brokers or **broker members** who are parties to their **broker member's** soft commission agreements;
 - (e) a statement setting out the **broker member's** policy in relation to soft commission agreements or a statement that its policy has not changed since the last policy statement was given.

CLIENT COMMUNICATION

GENERAL

- 6.17. A **broker member** may make an oral or written communication with another **person** which is designed to promote the provision of **investment services** only if it can show that it believes on reasonable grounds that the communication is fair and not misleading.
- 6.18. A **broker member** must take reasonable steps to ensure that any written agreement, communication, notification or information which it gives or sends to a **private client** to whom it provides **investment services** is presented fairly and clearly.
- 6.19. A **broker member** must take reasonable steps to ensure that a **private client** to whom it provides **investment services** is given adequate information about its identity and business address, the identity and status within the **broker member** of **employees** and other relevant agents with whom the **client** has contact and the identity of the **broker member's** regulators, including, but not limited to the **Exchange**.
- 6.20. A **broker member** or an **employee** of a **broker member** shall not exert undue pressure or undue influence on a **client** in order to induce that **client** to:
- (a) purchase, sell or retain an **investment**, or
 - (b) exercise, or refrain from exercising any right conferred by an **investment**.

UNSOLICITED CALLS

- 6.21. A **broker member** must require any **employee** or agent making an unsolicited call on a **private client** to terminate the telephone call immediately, or leave the premises immediately, if the **client** makes it clear that it does not wish the call to continue.
- 6.22. Unsolicited calls must not be made on **private clients** before 09.00 or after 17.00, unless the **client** has specifically agreed that calls may be made at other times.
- 6.23. A **broker member** must take reasonable steps to ensure that the **private client** understands the purpose of the call and the kind of **investments** or **investment services** which an **employee** or agent wishes to discuss during the call.
- 6.24. A **broker member** must not attempt to disguise the purpose of the call or the nature of the agreement, which the **private client** may enter into.
- 6.25. A **broker member** must not make an unsolicited call on a **private client** with the object of discussing a subject, which the **client** has recently made clear to the **broker member** that it does not wish to discuss.
- 6.26. The provision by a **person** of a telephone number or an address to a **broker member** does not by itself constitute an express invitation to call that **person**.
- 6.27. Any agreement entered into between a **broker member** and a **private client** during an unsolicited call, or in the case of a discretionary agreement, must allow for a seven-calendar day cool off period. A **client** may not waive the cool off period provisions under any circumstances.

UNSOLICITED E-MAIL

- 6.28. A **broker member** must require any **employee** or agent sending unsolicited e-mail to a **private client** to desist sending e-mail if the **client** makes it clear that it does not wish receive such e-mail.
- 6.29. A **broker member** must take reasonable steps to ensure that the **private client** understands the purpose of the e-mail and the kind of **investments** or **investment services** which an **employee** or agent wishes to provide.
- 6.30. A **broker member** must not attempt to disguise the purpose of the e-mail or the nature of the **investment agreement**, which the **private client** may enter into.
- 6.31. The provision by a **person** of an e-mail address to a **broker member** does not by itself constitute an express invitation to e-mail that **person**.
- 6.32. Any agreement entered into between a **broker member** and a **private client** during an exchange of e-mail must allow for a seven-calendar day cool off period. A **client** may not waive the cool off period provisions under any circumstances.

CLIENT DOCUMENTATION

TERMS OF BUSINESS

- 6.33. A **broker member** shall provide to all of its **clients** a document setting out clearly its terms of business including, but not limited to, the following:
- (a) an outline of the **investment services** and other services to be provided;
 - (b) an outline of the **broker members** understanding of the **clients** investment objectives and **investment** restrictions;
 - (c) detail of the **broker member's** fees and soft commission arrangements;
 - (d) details of the **broker member's** policies in relation to conflicts of interest;
 - (e) details of the remedies available to the **broker member** in the event of the **client** default; and
 - (f) details of the **broker member's** custody and settlement arrangements.
- 6.34. **Where a broker member** provides to a **client investment services** involving contingent liability transactions or the discretionary management of **clients** assets, it shall where relevant include the following information in its terms of business document and shall ensure the terms are signed by the **client**:
- (a) the extent of the discretion to be exercised by the **broker member**;
 - (b) a statement that the **broker member** may enter into **transactions** for the **client**, either generally or subject to specified limitations, under which the **client** will incur obligations as an underwriter or sub underwriter;
 - (c) a statement as to whether the **broker member** will undertake **transactions** with or for the **client** in **investments** which are not on **Exchange** or which are not readily realisable investments;
 - (d) a statement that the **broker member** may enter into **transactions** which may result in the **client** having a short position;
 - (e) a statement on the basis by which the **client** will incur any contingent liability, including margin requirements;
 - (f) a statement of the basis by which the **broker member** may receive remuneration from another **person** in connection with **transactions** entered into, for or on behalf of the **client** and that the amounts of any such remuneration will be disclosed upon request;
 - (g) where any part of the portfolio or account is to be available for **investment** in contingent liability transactions, the maximum amount or percentage so available;
 - (h) a statement that the **broker member** has authority to borrow or raise money on the **client's** behalf, or enter into **transactions** which will involve the **client** having to borrow or raise money and the maximum borrowing limit must be stated;

- (i) a statement as to the treatment of the **client's** assets by the **broker member**;
 - (j) a statement describing the custody arrangements relating to the **client** assets including a description of any sub-custodial arrangements;
 - (k) particulars of any rights which the **broker member** may exercise to realise assets held on behalf of the **client** in satisfaction of a default by the **client** or otherwise and of any rights which the **broker member** may have to close out contracts or positions in respect of any of the **client's investments**; and
 - (l) a statement of the dates on which valuations will be prepared.
- 6.35. Where relevant a **broker member** shall ensure that each **client** is provided with a copy of its terms of business not later than the time of the first contract note issued to the **client**.
- 6.36. A **broker member** shall inform any **client** affected of a change to its terms of business.
- 6.37. Each **client** of the **broker member** must enter into a written agreement with the **broker member** that the **broker member** may disclose to the **Exchange** any and all information about the **client** or his account in connection with any investigation, compliance audit or other request for information made by the **Exchange**. The **broker member** immediately upon request of the **Exchange** shall make this information available to the **Exchange**. Subject always to applicable Cayman Islands law and regulation the **Exchange** may in turn pass the information to any authority, agency or body having responsibility for the supervision of financial services, whether in the Cayman Islands or elsewhere.

STATEMENTS AND VALUATIONS

- 6.38. A statement must be prepared and delivered (hold mail services are prohibited) to the **client** at the expiration of each three month period, in addition to receiving documentation for every entry in the account at the time recorded, which summarises all of his transactions for that period. If there is no activity in the account during a period, a statement is not required. However, if there is a **safe custody investment**, **collateral** and other assets legally or beneficially owned by the **client** for which the **broker member** is accountable, a statement must be sent to the **client** and:
- (a) Identify any **investment** registered in the **client's** own name, separately from those registered in any other name;
 - (b) Identify those **investments** and assets which are being used as **collateral**, or have been pledged to third parties, separately from any other **investment** and asset;
 - (c) Show the market value of any **collateral** held, as at the date of the statement; and
 - (d) For a **private client**, be based on either trade date or settlement date information for cash balances and safe custody and the basis is notified to the **client**.

CONTRACT NOTES

- 6.39. A **broker member** shall promptly issue and deliver a contract note in respect of every **transaction** effected on or off **Exchange** for or with a **client**. The contract note shall clearly set out:

- (a) the name of the **broker member**;
- (b) the text “a broker member of the Cayman Islands Stock Exchange”;
- (c) where the **transaction** is on **Exchange**, the text “this transaction is subject to the rules of the Cayman Islands Stock Exchange” or similar text setting out the exchange on which the **transaction** was effected or whether the **transaction** was conducted off exchange;
- (d) the date and time of the **transaction**;
- (e) the quantity and description of the **security**;
- (f) the price and total consideration;
- (g) whether the **transaction** was a purchase or a sale;
- (h) the settlement date;
- (i) a statement, if this is the case, that any benefits or rights which have been declared, but which have not become effective, will not pass to the purchaser under the **transaction**;
- (j) whether or not the **person** or company registered for trading is acting as principal or agent;
- (k) if acting as agent in a **transaction**, the name of the **person** or company from or to or through whom the **security** was bought or sold;
- (l) the commission, if any, charged in respect of the **transaction**;
- (m) the amount or basis of any charges shared by the **broker member** with another **person** (except **employees**) or the fact that this information will be made available upon request;
- (n) the amount or basis of any remuneration which the **broker member** has received or will receive from another **person** in connection with the **transaction**;
- (o) the details of any interest accrual;
- (p) the amount of any costs, including taxes, which will not be paid by the **broker member**;
- (q) the currency exchange rate (where applicable);
- (r) the name of the registered person, if any, in the transaction.

CONFIDENTIALITY OF CLIENT INFORMATION

- 6.40. Subject to the provisions of the rules, information regarding **client orders** must be kept confidential and may not be used in any way to effect **transactions** in personal accounts or in the accounts of other **clients**.

CLIENT DEALING

CLIENT ORDERS

- 6.41. A **broker member** must deal with **client** and own account **orders** fairly and in due turn. Trading ahead of **client orders** must be avoided at all times.
- 6.42. A **broker member** which accepts **client orders** via an **electronic order routing system** shall, in relation to its **electronic order routing system**, ensure the existence of:
- (a) Adequate access and security arrangements; and
 - (b) For each **client**, controls over:
 - (i) minimum and maximum **order** sizes;
 - (ii) number of **transactions**;
 - (iii) frequency of transactions;
 - (iv) the impact on the market which the transaction may incur;
 - (v) adequate funding;
 - (vi) total exposure.
- 6.43. A broker member accepting and executing an **order**, including a **limit order** shall prioritise the **order** by reference to price. **Orders** at the same price shall be prioritised by order of receipt for execution. An **order** may be executed in part if the terms of the **order** so permit.
- 6.44. A broker member may aggregate an **order** for a **client** with **orders** for other **clients**, or with own account **orders**, where:
- (a) it is unlikely that the aggregation will operate to the disadvantage of any of the **clients** whose **orders** have been aggregated; or
 - (b) the **broker member** has disclosed to the **client** that its **orders** may be aggregated and that the effect of the aggregation may operate on some occasions to his disadvantage.
- 6.45. Where a **broker member** has aggregated an **order** for a **client transaction** with an **order** for an own account **transaction**, or with another **order** for a **client transaction**, then in the subsequent allocation:
- (a) it must not give unfair preference to itself or to those for whom it dealt; and
 - (b) if all **orders** cannot be satisfied, it must give priority to satisfying **orders** for **client transactions** unless it believes on reasonable grounds that, without its own participation, it would not have been able to effect those **orders** either on such favourable terms or at all.

- 6.46. Once a **broker member** has agreed or decided in its discretion to effect or arrange a current **client order**, it must effect or arrange the execution of the **order** as soon as is reasonably practical in the circumstances or, where the **broker member** believes on reasonable grounds that it is in the best interests of the **client**, postpone the execution.
- 6.47. Where a **broker member** buys as **principal** at a price lower than the limit price for which it has a buy **limit order** or sells as **principal** at a higher price than the limit price for which it has a sell **limit order**, it shall fulfil such **orders** to the extent that the purchase or sale permits.
- 6.48. An **order**, including a **limit order** left by a **client** with a **broker member** during the **trading day** shall be treated as being firm for the remainder of the **trading day**, unless otherwise specifically agreed at or before the time the **order** was placed. Any unexecuted portion of the **order** may be cancelled by agreement of the **client** and the **broker member**. If the issuer of the **security** involved makes an announcement before the full **order** has been completed and confirmed to the **client**, the unexecuted portion of the **order** may be renegotiated.
- 6.49. Where a **broker member** accepts an **order** subject to any condition it shall maintain a written note of the condition to which the **order** is subject.

BEST ADVANTAGE

- 6.50. When effecting a **transaction**, a **broker member** must ensure that the **transaction** is to the **client's** best advantage. In deciding whether or not a **broker member** has taken reasonable care, the **Exchange** will have regard to all of the relevant circumstances of the **transaction** including, but not limited to:
- (a) the size of the **order**;
 - (b) the total exposure of the broker member to the **client**;
 - (c) the price and availability of that **investment**, as well as the general condition of the market at that time;
 - (d) the terms of the **order** given by the **client**, including the time at which the **order** was recorded;
 - (e) the services which the **broker member** holds itself out as providing; and
 - (f) all charges which will be levied on the **investment** concerned.
- 6.51. Where a **broker member** deals to best advantage but does not obtain the best price reasonably available to the **client**, it shall disclose in writing such price to the **client** and explain why a **transaction** at that price did not represent best advantage.

BEST EXECUTION

- 6.52. Where a **broker member** deals for or with a **client**, either directly or through another **person**, it must provide best execution.
- 6.53. A **broker member** may rely on another **person** who executes the **transaction** to provide **best execution**, but only if it believes on reasonable grounds that that **person** will do so.
- 6.54. For the purposes of these rules, a **broker member** provides best execution if:

- (a) it takes reasonable care, to ascertain the price which is the best available for the **client** in the relevant market at the time for **transactions** of the kind and size concerned; and
- (b) unless the circumstances require it to do otherwise in the interests of the **client**, it deals at a price which is not less disadvantageous to the **client**

and in applying best execution, a **broker member** shall exclude any charges disclosed to the **client**, which it or its agent would make.

TIMELY ALLOCATION

- 6.55. A **broker member** shall ensure that a **transaction** it executes is promptly allocated:
- (a) to the account of the **client** on whose instructions the **transaction** was executed;
 - (b) in respect of a discretionary **transaction**, to the account of the **client** or **clients** with or for whom the **broker member** had made and recorded a decision in principle to execute that **transaction** prior to the **transaction**; or
 - (c) in all other cases, to the account of the **broker member**.

REMUNERATION

- 6.56. The amount of a **broker member's** charges to a **private client** for the provision of **investment services** to it must not be unreasonable in the circumstances.

PROHIBITED REPRESENTATIONS

- 6.57. The following is a list of representations which are prohibited from being used to effect a **transaction** regardless of whether they are false or true:
- (a) representations respecting the future value or performance of a **security**; and
 - (b) representations that any **security** will be listed on a **recognised stock exchange** or that an application to list the **security** has or will be made.

CHURNING

- 6.58. Unless instructed by the **client** to do so, in which case a record shall be kept of such instructions, a **broker member** must not:
- (a) make a personal recommendation to a **private client** to deal; or
 - (b) deal or arrange a deal in the exercise of discretion for any **client**,
- if the dealing would reasonably be regarded as too frequent in the circumstances. The onus of proof shall lie with the **broker member** to satisfy the **Exchange** that such deals were fair and reasonable at the time they were entered into.

DEALING AHEAD OF PUBLICATIONS

- 6.59. Where a **broker member** or its **associate** intends to publish to **clients** a written recommendation, or a piece of research or analysis, it must not knowingly effect an own account **transaction** in the **investment** concerned or any related **investment** until the **clients** for whom

the publication was principally intended have had, or are likely to have had, a reasonable opportunity to react to it. Exceptions to this rule are where:

- (a) the publication could not reasonably be expected materially to affect the price of the **investment** or any related **investment**;
- (b) the **broker member** deals in order to fulfil an unsolicited **client's order**;
- (c) the **broker member** believes on reasonable grounds that it needs to deal to fulfil **client's orders** which are likely to result from the publication and that its doing so will not cause the price of the **investment** which is the subject of the written recommendation, or piece of research or analysis to move against **clients'** interests by a material amount; or
- (d) the **broker member** discloses in the publication that it has effected or may effect an own account **transaction** in the **investment** concerned or any related **investment**.

CONFLICTS OF INTEREST

- 6.60. Where a **broker member** has a material interest in a **transaction** to be entered into with or for a **client**, or a relationship which gives rise to a conflict of interest, the **broker member** must not knowingly either advise, or deal in the exercise of discretion, in relation to that **transaction**, unless it takes reasonable steps to ensure fair treatment for the **client**.
- 6.61. A **broker member** shall ensure that there are effective Chinese walls in place between the different business areas of the **broker member** and between the **broker member** and its connected parties where there is potential for the spread of any unpublished information which might reasonably be expected to materially affect the price of an **investment** throughout the **broker member**. And, that all procedures relating to the maintenance of Chinese walls are in writing and are notified to all **employees** of the **broker member**.

PACKAGED PRODUCTS

- 6.62. A **broker member** who advises a **private client** on **packaged products** must ensure that the **private client** is afforded adequate information, so that he can make an informed investment decision. This information shall include the relationship between the **broker member** and the producer of the **packaged product**.

CLIENT ACCOUNTS

MANAGED OR DISCRETIONARY ACCOUNTS

- 6.63. A **broker member** is prohibited from exercising any discretionary power (determining the volume, security, price or timing of an **order**) with respect to a **client's** account unless the **client** has given written authorisation and the account has been approved by a **director** of the **broker member**. The **Broker Member** is required to keep the client's investment objectives current. Evidence of this should be noted on each client's file, at least on an annual basis.
- 6.64. **Broker members** shall ensure that each **managed account** is administered separately from all other **managed accounts**.

ADVERTISING AND MARKETING

GENERAL

- 6.65. Where a **broker member** issues or approves an **investment** advertisement, it must:
- (a) apply appropriate expertise; and
 - (b) be able to show that it believes on reasonable grounds that the advertisement is fair and not misleading.
- 6.66. Where a **broker member** issues or approves a specific **investment** advertisement, it must ensure that the advertisement identifies it as issuer or approver and also identifies it as regulated by the **Exchange** or a **recognised stock exchange** if appropriate.
- 6.67. A **broker member** must take reasonable steps to ensure that it does not issue or approve a **direct offer advertisement** for the sale of **investments** or the provision of **investment services** to a **private client** unless the advertisement:
- (a) gives information about the **investment** or **investment services**, the terms of the offer and the risks involved which is adequate and fair, having regard to the regulatory protections which apply and the market to which the advertisement is directed; and
 - (b) offers derivatives or warrants only where the **broker member** itself issues the advertisement and does so to a **client** for whom it believes, on reasonable grounds, the **investment** or **investment services** to be suitable.
- 6.68. Where a **broker member** knows, or ought reasonably to know, that another **person** intends to issue an **investment** advertisement which advertises directly or indirectly the services of the **broker member**, it must take reasonable steps to ensure that the advertisement, or part of the advertisement referring to that **broker member**:
- (a) is fair and not misleading; and
 - (b) where applicable, includes the prescribed disclosure.
- 6.69. Where a **broker member** issues or approves a specific **investment** advertisement, it must take reasonable steps to ensure that the advertisement contains, where applicable, the information set out in the advertisement contents requirements rules, unless the advertisement:
- (a) is issued by the **broker member**, or approved by the **broker member** for issue, to persons who are not **private clients**;
 - (b) clearly states that the **investment** which is the subject of the advertisement is not available to **private clients**;
 - (c) is a short form advertisement, which invites the recipient to request further information, in which case the further information will be a fuller package containing the necessary detail and appropriate risk warnings.

GENERAL ADVERTISEMENT CONTENTS REQUIREMENTS

- 6.70. In any general **investment** advertisement issued or approved by a **broker member** in accordance with the rules in this chapter, the **broker member** must take reasonable steps to ensure that the following provisions are complied with:
- (a) the purpose of any promotional material included in the advertisement must not be disguised in any way;
 - (b) the nature or type of the **investment** or the **investment service** to which the advertisement relates must be clear;
 - (c) any statement, promise or forecast must be fair and not misleading in the form and context in which it appears and where any promise or forecast is based on assumptions, these must be stated within the advertisement;
 - (d) the advertisement must not provide false indications, in particular as to:
 - (i) the issuer's or approver's independence;
 - (ii) the issuer's or approver's scale of activities;
 - (iii) the extent of the resources of the issuer;
 - (iv) the services the issuer intends to provide; or
 - (v) the scarcity of the **investment** or **investment services** concerned.
 - (e) any statements made or risk warnings given in the advertisement in accordance with these rules must not be obscured or disguised in any way by the content, design or format of the advertisement and, in particular shall be:
 - (i) printed in typeface of reasonable size; and
 - (ii) written in plain English.

SPECIFIC ADVERTISEMENT CONTENTS REQUIREMENTS

- 6.71. In any specific **investment** advertisement issued or approved by a **broker member** in accordance with the rules in this chapter, the **broker member** must take reasonable steps to ensure that the following provisions are complied with:
- (a) the advertisement must not describe an **investment** as guaranteed unless there is a legally enforceable arrangement with a third party which undertakes to meet in full a **clients** claim under the guarantee and gives details about both the guarantor and the guarantee sufficient for a **client** to make a fair assessment about the value of the guarantee;
 - (b) any commendations quoted must be:
 - (i) complete or a fair representation;

- (ii) accurate and not misleading at the time of issue; and
- (iii) relevant to the investment or investment service advertised.
- (c) comparisons or contrasts must:
 - (i) be based either on facts verified by the issuer or approver, or on assumptions stated within the advertisement;
 - (ii) not mislead;
 - (iii) be presented in a fair and balanced way; and
 - (iv) not omit anything material to the comparison.
- (d) a **broker member** must include a statement in the advertisement, where the **broker member** knows that it, or its **associate**;
 - (i) has or may have a position or holding in the **investment** concerned or in a related **investment**; or
 - (ii) is providing or has provided within the previous 12 months significant advice or **investment services** in relation to the **investment** concerned or a related **investment**.
- (e) any information about past performance of **investments** or of a **broker member** must;
 - (i) be relevant to the performance of the **investment** or **broker member** advertised;
 - (ii) be a complete record of, or a fair and not misleading representation of, the past performance of the **investment** or **broker member**;
 - (iii) not be selected so as to exaggerate the success or disguise the lack of success of the **investment** or **broker member**;
 - (iv) state the source of the information;
 - (v) be based on the actual past performance of the **investment** or **broker member** and not based on simulated figures.
- (f) any statements made or risk warnings given in the advertisement in accordance with these rules must not be obscured or disguised in any way by the content, design or format of the advertisement and, in particular shall be:
 - (i) printed in typeface of reasonable size; and
 - (ii) written in plain English.

RISK WARNINGS

- 6.72. A **broker member** which issues or approves a specific investment advertisement must take reasonable steps to ensure that the advertisement adequately explains any unusual risks involved and, where appropriate contains the warnings about the **investment** or **investment service** concerned including but not limited to the following:
- (a) where the **investment** can fluctuate in price or value, a statement must be made that prices or values may fall or rise against the **client's** interest;
 - (b) where the advertisement relates to a higher volatility **investment**, it must state, if it is the case, that the advertisement may be subject to sudden and large falls in value and that there could be a large loss on realisation which could equal the amount invested;
 - (c) where an **investment** is described as being likely to yield income, or as being suitable for a **client** particularly seeking income from their **investment**, the **client** must be warned, if it is the case that:
 - (i) income from the **investment** may fluctuate; and
 - (ii) part of the capital invested may be used to pay that income.
 - (d) where an **investment** is denominated in a currency other than that of Cayman Islands Dollars or United States Dollars, the **client** must be warned that changes in rates of exchange may have an adverse effect on the value, price or income of the **investment**;
 - (e) where an advertisement contains information concerning past performance, it must also contain a warning that the past is not necessarily a guide to future performance.
 - (f) an advertisement for an **investment** which is not a readily realisable **investment** must state that it may be difficult:
 - (i) for the client to sell or realise the **investment**; and
 - (ii) to obtain reliable information about its value or the extent of the risks to which it is exposed.
 - (g) where an advertisement relates to an **investment** in which the **client** may not only lose all of the amount originally invested or deposited, but may also have to pay more later, the advertisement must warn of this fact;
 - (h) an advertisement for an **investment** subject to front end loading must state that deductions for charges and expenses are not made uniformly throughout the life of the **investment**, but are loaded disproportionately onto the early years and the client must be warned that, if he withdraws from the **investment** in the early years, he may not get back the amount he has invested.
 - (i) where cancellation rights apply:
 - (i) the advertisement must state that upon cancellation the **client** may not obtain a full refund of the amount invested; and

- (ii) if the advertisement relates to a higher volatility **investment**, the advertisement must state, if it is the case, that the shortfall in the amount recovered by the **client** on cancellation may be large.
- (j) any statements made or risk warnings given in the advertisement in accordance with these rules must not be obscured or disguised in any way by the content, design or format of the advertisement and, in particular shall be:
 - (i) printed in typeface of reasonable size; and
 - (ii) written in plain English.

MARKET CONDUCT

6.73. The market conduct rules apply to all **broker members**.

ON EXCHANGE TRANSACTIONS

6.74. A **transaction** is effected on the **Exchange** (“on **Exchange**”) if one or both of the parties to the **transaction** is a **broker member** and the **transaction** is effected in one or more **equity securities, derivative warrants, depository receipts or mutual funds**.

EXCEPTIONS TO ON EXCHANGE TRANSACTIONS

- 6.75. **Transactions** in the **securities** set out in rule 7.1 are not on **Exchange**:
- (a) where the **broker member** and its **counterparty** agree, at or prior to the time of effecting the **transaction**, that it shall be subject to the rules of a **recognised stock exchange** and the **broker member** reports the **transaction** to that **recognised stock exchange** in accordance with its rules and procedures;
 - (b) where a contract to place, offer or underwrite securities that are the subject of an application for admission under the Listing Rules, where the contract is made before the application is accepted.

PUBLICATION

- 6.76. The **Exchange** shall publish in accordance with such criteria as it may from time to time specify details of **transactions**, which have been effected on **Exchange**.
- 6.77. The **Exchange** shall publish in the Official List a record of **transactions** in **listed securities** effected on **Exchange** and reported by **broker members**.
- 6.78. A **broker member** shall not publish or sell a list or record of **transactions** or **quotations** submitted by it to the **Exchange** without the prior written consent of the **Exchange**.

MISLEADING ACTS, CONDUCT AND PROHIBITED PRACTICES

- 6.79. A **broker member** must not:
- (a) perform any act or engage in any course of conduct, whether on or off **Exchange**, which creates or is likely to create a false or misleading impression as to the market in,

or the price or value of any **security**; or

- (b) effect a **transaction** at any price, which differs to an unreasonable extent from any available **order** displayed by a **broker member**.

6.80. A **broker member** must not make a bid or offer for, or deal in, **securities**:

- (a) as Principal:

- (i) with the intention; or
- (ii) if that Bid, Offer or dealing has the effect, or is likely to have the effect,

of creating a false or misleading appearance of active trading in any securities or with respect to the market for, or the price of, and securities

- (b) on account of any other person where:

- (i) the **broker member** intends to create;
- (ii) the **broker member** is aware that the person intends to create; or
- (iii) taking into account the circumstances of the **order**, a **broker member** ought reasonably to suspect that the **person** has placed the order with the intention of creating;

a false or misleading appearance of active trading in any securities or with respect to the market for, or the price of, any securities.

6.81. In considering the circumstances of an **order**, a **broker member** must have regard to the following matters:

- (a) whether the **order**, or execution of the **order**, would be inconsistent with the history of recent trading in that **security**;
- (b) whether the **order**, or execution of the **order**, would materially alter the market for, or the price of, the **securities**;
- (c) the time the **order** is entered or any instructions concerning the time of entry of the **order**;
- (d) whether the **person** on whose behalf the **order** is placed, or another **person** who the **broker member** knows to be a related party of that **person**, may have an interest in creating a false or misleading appearance of active trading in any **securities** or with respect to the market for, or the price of, any **securities**;
- (e) whether the **order** is accompanied by settlement, delivery or security arrangements which are unusual;
- (f) where the **order** appears to be a part of a series of **orders**, whether when put together with the other **orders** which appear to make up the series, the **order** or the series is unusual having regard to the matters referred to in this rule; and
- (g) whether there appears to be a legitimate commercial reason for that **person** placing the **order**, unrelated to an intention to create a false or misleading appearance of active trading in or with respect to the market for, or price of, any **securities**.

- 6.82. A **broker member** must not:
- (a) enter into a **transaction** on behalf of a **client** or as principal which; or
 - (b) make a bid or offer for **securities** the execution of which,

would involve no change of beneficial ownership of the **securities**, unless the **broker member** can demonstrate that;
 - (c) the **broker member** had no reason to suspect that the **transaction** would involve no change in the beneficial ownership of the **securities**; or
 - (d) the purpose or purposes for which the **transaction**, or bid or offer was made was not, or did not include, creating a false or misleading appearance of active trading in any **securities** or with respect to the market for, or the price of any **securities**.
- 6.83. For the avoidance of doubt, the obligations imposed on **broker members** also apply in respect of **orders** processed through an **electronic order routing system**.
- 6.84. Unless otherwise agreed by the **Exchange**, a **broker member** shall not trade with another **broker member** which is subject to suspension by the **Exchange**.

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CHAPTER 7

EQUITY SECURITIES MARKET

Contents

The main headings of this chapter are:

Trading

- 7.1 Business hours
- 7.2 Transactions effected on the Exchange

Miscellaneous

- 7.11 Conditional transactions
- 7.12 Suspended securities and trading halts

- 7.17 Take-over bids

Cross transaction Market

- 7.18 Applicable Rules
- 7.22 Transaction Reporting
- 7.23 Reportable Items
- 7.24 Transaction Report Corrections
- 7.25 Publication

TRADING

BUSINESS HOURS

- 7.1. **Broker members** must be open for business and be ready to post **quotations** and execute purchase or sale **transactions in equity securities** on the **Exchange** during all trading hours set by the **Exchange**.

TRANSACTIONS EFFECTED ON THE EXCHANGE

- 7.2. The **Exchange** reserves the right to restrict a **broker member's** access to and use of the **trading system**.
- 7.3. When using the **trading system**, a **broker member** shall comply with the procedural, operational and technical requirements as specified by the **Exchange**. All quotations, orders and transactions, including **cross transactions** as provided in sections 7.18 through 7.24, shall be submitted to the **Exchange** through such electronic connections as have been approved by the **Exchange**.
- 7.4. Unless otherwise mutually agreed in advance of a **transaction**, all prices of orders, **quotations** and **transactions** will be in such currency as the Exchange shall specify. -.

- 7.5. A **broker member** may submit **quotations**, as agent or principal, to and delete **quotations** from the **trading system** only during the **trading day**.
- 7.6. A **broker member** is responsible for all obligations and liabilities arising from the entry, deletion and execution of all **quotations** submitted to the **trading system** by it.
- 7.7. All **quotations** submitted to the **trading system** must be firm.
- 7.8. A **quotation** submitted to the **trading system** shall contain the following information:
- (a) the identity of the **broker member** submitting the quotation;
 - (b) the name, ISIN code or ticker symbol of the **security**;
 - (c) the price;
 - (d) the date and time the **quotation** is submitted;
 - (e) whether the **quotation** is a purchase or a sale;
 - (f) the number of shares or amount of stock;
 - (g) the expiration time of the **quotation**;
 - (h) a unique identifier which identifies the **client** account number or numbers for which the **transaction** is intended;
 - (i) an identifying number for the **quotation**.
- 7.9. Where a **transaction** is executed in error and provided both parties to the **transaction** are in agreement, the **Exchange** may grant permission for the **transaction** to be reversed if market conditions permit.
- 7.10.
- (a) All **Exchange transactions**, including **cross transaction transactions** as provided in sections 7.18 through 7.24, shall be reported to the **Exchange** as soon as is practicable and shall, subject to subsection (b):
 - (i) be at a price equal to or better than the **best bid** and **best offer quotations** displayed in the **security** on the **trading system** at that time;
 - (ii) only take place once the relevant bid and offer **quotations** displayed in the **security** on the **trading system** at that time have been satisfied; or
 - (iii) where there are no **quotations** in the security on the **trading system** at the time the **transaction** is effected, the **transaction** shall be, unless the **broker member** can provide reasonable justification to the **client**, at a price no worse than the last **best bid** and **best offer quotations** displayed in the **security** on the **trading system**.

- (b) A **cross transaction** may also be executed based on prior reference price. In that case, the execution may be effected outside the current bid or offer, so long as the **cross transaction** occurs at a price reasonably related to such prior reference price.

MISCELLANEOUS

CONDITIONAL TRANSACTIONS

- 7.11. A **broker member** shall not effect a **transaction** on the **Exchange** subject to a condition precedent or condition subsequent without the prior consent of the **Exchange**.

SUSPENDED SECURITIES AND TRADING HALTS

- 7.12. The **Exchange** may prohibit any **transaction** or class of **transactions** from being effected on **Exchange** for any reason.
- 7.13. A **broker member** shall not effect a **transaction** in **securities**:
- (a) in respect of which **transactions** are prohibited;
 - (b) which are the subject of a notice or order suspending the listing or trading on the **Exchange** in accordance with the Listing Rules and irrespective of the duration of the suspension; or
 - (c) in which a trading halt has been declared.
- 7.14. In instances where rule 7.13 has been breached and trading has taken place, the **Exchange** may require the **broker member** to reverse the transaction and make good any monies to the **client**.
- 7.15. A **broker member** may apply to the **Exchange** for permission to effect **transactions** in a **security** in which trading is suspended by the **Exchange**.

EX-DIVIDEND TRANSACTIONS

- 7.16. All **transactions** in securities except “cash transactions” shall be “ex-dividend”, “ex-rights” or “ex-warrants” on the day specified as such by the **Exchange** or by the recognised stock exchange that is the primary market for the security traded.

TAKE-OVERS

- 7.17. Where appropriate, **broker members** shall comply with the **Exchange’s Code on Takeovers and Mergers** and the **SAR’s**.

CROSS TRANSACTION MARKET

Only **broker members** and **remote broker members** with specific approval by the **Exchange** to cross transactions may do so.

APPLICABLE RULES

- 7.18. **Transactions** may be crossed in any security listed on the Cayman Islands Stock Exchange. **Unlisted Trading Privileges** are also permitted in **securities** that are not listed on the **Exchange** where the **broker members** is crossing any security listed or authorised for trading on an **ISG** member or affiliate member market. **Cross transactions** are permitted at any time, regardless of the trading hours of the primary market.
- 7.19. Any such transaction needs to be affected through the **trading system** and reported to the **Exchange** in accordance with rule 7.19 to 7.24.
- 7.20. Rules 7.1, 7.5 and 7.6 are extended to the Cross Transaction Market. It is permitted but not required that bids and offers be posted electronically. Any **broker member** or **remote broker member** is permitted to enter one sided quotes or make a two sided market in any security to which **unlisted trading privileges** are granted but is not obliged to post a current bid or offer at the time of a **cross transaction** or **Exchange of Futures for Physicals**, regardless of what time during the trading day these are effected.
- 7.21. Permitted price parameters for **cross transactions** (at any time of the day) are as set forth in section 7.10.

TRANSACTION REPORTING

- 7.22. Where a **broker member** or a **remote broker member** effects a **cross transaction** on **Exchange**, it shall submit a **cross transaction report** to the **Exchange** as soon as practically possible, but no later than the start of trading on the **Exchange** the next day.

REPORTABLE ITEMS

- 7.23. A **cross transaction report** shall contain the following information:
- (a) trade date;
 - (b) the identity of the crossing broker member or remote broker member;
 - (c) the name, ISIN code or ticker symbol of the security ;
 - (d) quantity;
 - (e) settlement due date (if other than ordinary settlement in the primary market)
 - (f) price in the currency of the primary market (s) where the security trades;
 - (g) transaction identifier code ;
 - (h) total consideration
 - (i) indication of whether the **cross transaction** is part of a basket or program trade.
 - (j) time of trade reports; and
 - (k) any such other information that the **Exchange** may from time to time require.

TRANSACTION REPORTING CORRECTIONS

- 7.24. If a **broker member** or **remote broker member** becomes aware of an error contained in any a **cross transaction report**, it shall immediately submit corrected details to the **Exchange**.

PUBLICATION

- 7.25. The **Exchange** shall publish, in such manner and at such times as it may from time to time specify, any details of **cross transactions s** which have been reported to it.

CHAPTER 8

DERIVATIVE WARRANTS MARKET

Contents

The main headings of this chapter are:

Trading

- 8.1 General
- 8.4 Reporting
- 8.6 Suspended securities and trading halts
- 8.10 Take-overs

TRADING

GENERAL

- 8.1. The **Exchange** reserves the right to restrict a **broker member's** access to and use of the **trading system**.
- 8.2. When using the **trading system**, a **broker member** shall comply with the procedural, operational and technical requirements as specified by the **Exchange**.
- 8.3. Unless otherwise mutually agreed in advance of a **transaction**, all prices of orders, **quotations** and **transactions** will be in the currency of quotation on the **trading system**.

REPORTING

- 8.4. A **broker member** is responsible for all obligations and liabilities arising from the entry, deletion and execution of all **closing price information** submitted to the **trading system** by it.
- 8.5. **Closing price information** shall be submitted via the **trading system** as soon as is practicable, but no later than one hour before the start of the next trading day.

SUSPENDED SECURITIES AND TRADING HALTS

- 8.6. The **Exchange** may prohibit any **transaction** or class of **transactions** from being effected on **Exchange** for any reason.
- 8.7. A **broker member** shall not effect a **transaction** in **securities**:
 - (a) in respect of which **transactions** are prohibited;
 - (b) which are the subject of a notice or order suspending the listing or trading on the **Exchange** in accordance with the Listing Rules and irrespective of the duration of the suspension; or
 - (c) in which a trading halt has been declared.

- 8.8. In instances where rule 8.7 has been breached and trading has taken place, the **Exchange** may require the **broker member** to reverse the transaction and make good any monies to the **client**.
- 8.9. A **broker member** may apply to the **Exchange** for permission to effect **transactions** in a **security** in which trading is suspended by the **Exchange**.

TAKE-OVERS

- 8.10. Where appropriate, **broker members** shall comply with the **Exchange's Code on Takeovers and Mergers** and the **SAR's**.

CHAPTER 9

DEPOSITARY RECEIPTS MARKET

Contents

The main headings of this chapter are:

Trading

- 9.1 Business hours
- 9.2 Transactions effected via the trading system
- 9.10 Transactions effected outside of the trading system

Miscellaneous

- 9.11 Etiquette
- 9.13 Conditional transactions
- 9.14 Suspended securities and trading halts
- 9.18 Take-overs

TRADING

BUSINESS HOURS

- 9.1. **Broker members** must be open for business and be ready to post **quotations** and execute purchase or sale **transactions** in **depository receipts** on the **Exchange** during all trading hours set by the **Exchange**.

TRANSACTIONS EFFECTED VIA THE TRADING SYSTEM

- 9.2. The **Exchange** reserves the right to restrict a **broker member's** access to and use of the **trading system**.
- 9.3. When using the **trading system**, a **broker member** shall comply with the procedural, operational and technical requirements as specified by the **Exchange**.
- 9.4. Unless otherwise mutually agreed in advance of a **transaction**, all prices of orders, **quotations** and **transactions** will be in the currency of quotation on the **trading system**.
- 9.5. A **broker member** may submit **quotations**, as agent or principal, to and delete **quotations** from the **trading system** only during the **trading day**.
- 9.6. A **broker member** is responsible for all obligations and liabilities arising from the entry, deletion and execution of all **quotations** submitted to the **trading system** by it.
- 9.7. All **quotations** submitted to the **trading system** must be firm.
- 9.8. A **quotation** submitted to the **trading system** shall contain the following information:

- (a) the identity of the **broker member** submitting the quotation;
 - (b) the name, ISIN code or ticker symbol of the **security**;
 - (c) the price;
 - (d) the date and time the **quotation** is submitted;
 - (e) whether the **quotation** is a purchase or a sale;
 - (f) the number of shares or amount of stock;
 - (g) the expiration time of the **quotation**;
 - (h) a unique identifier which identifies the **client** account number or numbers for which the **transaction** is intended;
 - (i) an identifying number for the **quotation**.
- 9.9. Where a **quotation** is executed in error and provided both parties to the **transaction** are in agreement, the **Exchange** may grant permission for the **transaction** to be reversed if market conditions permit.

TRANSACTIONS EFFECTED OUTSIDE OF THE TRADING SYSTEM

- 9.10. All on-**Exchange transactions** effected outside of the **trading system** shall be confirmed via the **trading system** as soon as is practicable and shall:
- (a) be at a price better than the **best bid** and **best offer quotations** displayed in the **security** on the **trading system** at that time;
 - (b) only take place once the relevant bid and offer **quotations** displayed in the **security** on the **trading system** at that time have been satisfied; or
 - (c) where there are no **quotations** in the security on the **trading system** at the time the **transaction** is effected, the **transaction** shall be, unless the **broker member** can provide reasonable justification to the **client**, at a price no worse than the last **best bid** and **best offer quotations** displayed in the **security** on the **trading system**.

MISCELLANEOUS

ETIQUETTE

- 9.11. A **broker member** proposing to effect a **transaction** away from the **trading system** with another **broker member** shall inform that **broker member**, prior to asking for a price, if the business to be conducted is uncompleted or is ongoing during the current **trading day**.
- 9.12. A **broker member** which does not complete business disclosed to it by an enquiring **broker member** or **client**, shall not act in such a way as to prejudice the completion of that business elsewhere.

CONDITIONAL TRANSACTIONS

- 9.13. A **broker member** shall not effect a **transaction** on **Exchange** subject to a condition precedent or condition subsequent without the prior consent of the **Exchange**.

SUSPENDED SECURITIES AND TRADING HALTS

- 9.14. The **Exchange** may prohibit any **transaction** or class of **transactions** from being effected on **Exchange** for any reason.
- 9.15. A **broker member** shall not effect a **transaction** in **securities**:
- (a) in respect of which **transactions** are prohibited;
 - (b) which are the subject of a notice or order suspending the listing or trading on the **Exchange** in accordance with the Listing Rules and irrespective of the duration of the suspension; or
 - (c) in which a trading halt has been declared.
- 9.16. In instances where rule 9.15 has been breached and trading has taken place, the **Exchange** may require the **broker member** to reverse the transaction and make good any monies to the **client**.
- 9.17. A **broker member** may apply to the **Exchange** for permission to effect **transactions** in a **security** in which trading is suspended by the **Exchange**.

TAKE-OVERS

- 9.18. Where appropriate, **broker members** shall comply with the **Exchange's Code on Takeovers and Mergers** and the **SAR's**.

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CHAPTER 10

MUTUAL FUNDS MARKET

Contents

The main headings of this chapter are:

Trading

- 10.1 Business hours
- 10.2 Transactions effected via the trading system
- 10.10 Transactions effected outside of the trading system

Miscellaneous

- 10.11 Etiquette
- 10.13 Conditional transactions
- 10.14 Suspended securities and trading halts
- 10.18 Take-overs

TRADING

BUSINESS HOURS

- 10.1. **Broker members** must be open for business and be ready to post **quotations** and execute purchase or sale **transactions** in **mutual funds** on the **Exchange** during all trading hours set by the **Exchange**.

TRANSACTIONS EFFECTED VIA THE TRADING SYSTEM

- 10.2. The **Exchange** reserves the right to restrict a **broker member's** access to and use of the **trading system**.
- 10.3. When using the **trading system**, a **broker member** shall comply with the procedural, operational and technical requirements as specified by the **Exchange**.
- 10.4. Unless otherwise mutually agreed in advance of a **transaction**, all prices of orders, **quotations** and **transactions** will be in the currency of quotation on the **trading system**.
- 10.5. A **broker member** may submit **quotations**, as agent or principal, to and delete **quotations** from the **trading system** only during the **trading day**.
- 10.6. A **broker member** is responsible for all obligations and liabilities arising from the entry, deletion and execution of all **quotations** submitted to the **trading system** by it.
- 10.7. All **quotations** submitted to the **trading system** must be firm.
- 10.8. A **quotation** submitted to the **trading system** shall contain the following information:

- (a) the identity of the **broker member** submitting the quotation;
 - (b) the name, ISIN code or ticker symbol of the **security**;
 - (c) the price;
 - (d) the date and time the **quotation** is submitted;
 - (e) whether the **quotation** is a purchase or a sale;
 - (f) the number of shares or amount of stock;
 - (g) the expiration time of the **quotation**;
 - (h) a unique identifier which identifies the **client** account number or numbers for which the **transaction** is intended;
 - (i) an identifying number for the **quotation**.
- 10.9. Where a **quotation** is executed in error and provided both parties to the **transaction** are in agreement, the **Exchange** may grant permission for the **transaction** to be reversed if market conditions permit.

TRANSACTIONS EFFECTED OUTSIDE OF THE TRADING SYSTEM

- 10.10. All on-**Exchange transactions** effected outside of the **trading system** shall be confirmed via the **trading system** as soon as is practicable and shall:
- (a) be at a price better than the **best bid** and **best offer quotations** displayed in the **security** on the **trading system** at that time;
 - (b) only take place once the relevant bid and offer **quotations** displayed in the **security** on the **trading system** at that time have been satisfied; or
 - (c) where there are no **quotations** in the security on the **trading system** at the time the **transaction** is effected, the **transaction** shall be, unless the **broker member** can provide reasonable justification to the **client**, at a price no worse than the last **best bid** and **best offer quotations** displayed in the **security** on the **trading system**.

MISCELLANEOUS

ETIQUETTE

- 10.11. A **broker member** proposing to effect a **transaction** away from the **trading system** with another **broker member** shall inform that **broker member**, prior to asking for a price, if the business to be conducted is uncompleted or is ongoing during the current **trading day**.
- 10.12. A **broker member** which does not complete business disclosed to it by an enquiring **broker member** or **client**, shall not act in such a way as to prejudice the completion of that business elsewhere.

CONDITIONAL TRANSACTIONS

- 10.13. A **broker member** shall not effect a **transaction** on **Exchange** subject to a condition precedent or condition subsequent without the prior consent of the **Exchange**.

SUSPENDED SECURITIES AND TRADING HALTS

- 10.14. The **Exchange** may prohibit any **transaction** or class of **transactions** from being effected on **Exchange** for any reason.
- 10.15. A **broker member** shall not effect a **transaction** in **securities**:
- (a) in respect of which **transactions** are prohibited;
 - (b) which are the subject of a notice or order suspending the listing or trading on the **Exchange** in accordance with the Listing Rules and irrespective of the duration of the suspension; or
 - (c) in which a trading halt has been declared.
- 10.16. In instances where rule 10.15 has been breached and trading has taken place, the **Exchange** may require the **broker member** to reverse the transaction and make good any monies to the **client**.
- 10.17. A **broker member** may apply to the **Exchange** for permission to effect **transactions** in a **security** in which trading is suspended by the **Exchange**.

TAKE-OVERS

- 10.18. Where appropriate, **broker members** shall comply with the **Exchange's Code on Takeovers and Mergers** and the **SAR's**.

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CHAPTER 11

FINANCIAL AND CUSTODIAL CONDUCT

Contents

The main headings of this chapter are:

Client Money

- 11.1 Application
- 11.2 Money received by a broker member
- 11.3 Money to be held with an approved bank
- 11.6 Notification to an approved bank
- 11.10 Segregation
- 11.14 Client bank accounts – general
- 11.15 Payment of client money into a broker member's account
- 11.21 Use of an intermediate broker, settlement agent or OTC counterparty outside of the Cayman Islands – notification to clients
- 11.23 Interest
- 11.24 Appropriate amounts
- 11.25 Reconciliation's

Safe Custody

- 11.26 Application
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- 11.50 Liability insurance
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Capital Adequacy

- 11.59 Application
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- 11.63 Valuation of positions for reporting purposes
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- 11.70 Foreign exchange risk requirement
- 11.73 Counterparty risk requirement - general

- 11.74 Counterparty risk requirement – free deliveries
- 11.76 Counterparty risk requirement – forward transactions
- 11.78 Large exposure risk requirement

CLIENT MONEY

APPLICATION

- 11.1. The **client money** rules apply to the business of a **broker member**, unless the **broker member** is a **remote broker member**, an **approved bank** or is regulated by, or is a branch office of an organisation regulated by, a **recognized regulatory body**.

MONEY RECEIVED BY A BROKER MEMBER

- 11.2. A **broker member** must treat all **money** received from or on behalf of a **client** in the course of carrying on business with or for that **client** as **client money**, unless
- (a) the **client** is a **professional client**, and the **client** has agreed in writing that his **money** will not be subject to these rules and that it will not be segregated;
 - (b) the **money** is **client free money**;
 - (c) the **money** is due and payable to the **broker member** (e.g. fees and commission);
 - (d) the **money** is from a member of the same group as the **broker member**;
 - (e) the **money** has been received for settlement of a **transaction** within 24 hours (unless settlement is delayed by 3 business days).

MONEY TO BE HELD WITH AN APPROVED BANK

- 11.3. Where a **broker member** holds **client money** on behalf of a **client**, it must ensure that the **money** is held in a **client bank account** with one or more **approved banks** in relation to which it undertakes an appropriate and continuing risk assessment including, but not limited to:
- (a) The capital of the **approved bank**;
 - (b) The **client money** deposit as a proportion of the **approved bank's** capital and deposits; and
 - (c) The credit rating of the **approved bank**.
- 11.4. Where a **broker member** holds, or intends to hold **client money** with an **approved bank** which is in the same **group** as the **broker member**, it must:
- (a) Undertake a continuing risk assessment in relation to that **approved bank** which is at least as rigorous as the risk assessment of any other **approved bank** which is not in the same **group**, ensuring that the **group** bank is not treated any more favourably than any other **approved bank**;
 - (b) Disclose in writing to its **clients** not less than twenty business days before it commences to hold **client money** of that **client** with that **approved bank**;
 - (c) Identify the **approved bank** concerned to the **client**.

- 11.5. Where a **client** has notified a **broker member** in writing that he does not wish his **money** to be held with an **approved bank** in the same **group** as the **broker member**, the **broker member** must either:
- (a) Deposit the **client's money** with another **approved bank**; or
 - (b) Return the **money** to, or to the order of, the **client**.

NOTIFICATION TO AN APPROVED BANK

- 11.6. When a **broker member** opens a **client bank account**, the **broker member** must give or have given written notice to the **approved bank** requiring the bank to acknowledge to it in writing:
- (a) That all **money** standing to the credit of the account is held by the **broker member** as trustee and that the **approved bank** is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account of the **broker member**; and
 - (b) That the title of the account sufficiently distinguishes the account from any account containing **money** that belongs to the **broker member** and is in the form requested by the **broker member**.
- 11.7. If the **approved bank** does not provide the acknowledgement referred to in rule 11.6 within 20 business days of the dispatch of the notice by the **broker member**, the **broker member** must withdraw all **money** standing to the credit of the account and deposit it with another **approved bank**.
- 11.8. If the **approved bank** is outside of the Cayman Islands, the **broker member** must write to the **client** informing him:
- (a) That his **money** may be deposited in a **client bank account** outside the Cayman Islands;
 - (b) That in such circumstances, the legal and regulatory regime applying to the **approved bank** with which the **money** is held will be different to that of the Cayman Islands and in the event of a default of the **approved bank**, his **money** may be treated differently from the position which would apply if the **money** was held by an **approved bank** in the Cayman Islands; and
 - (c) If the **approved bank** does not provide the acknowledgement referred to in rule 11.6 within 20 business days of the dispatch of the notice by the **broker member**, the **broker member** must withdraw all **money** standing to the credit of the account and deposit it with another **approved bank**.
- 11.9. Where a **client** has notified a **broker member** in writing that he does not wish his **money** to be held with an **approved bank** outside the Cayman Islands, the **broker member** must either:
- (a) Deposit the **client's money** with another **approved bank**; or
 - (b) Return the **money** to, or to the order of, the **client**.

SEGREGATION

- 11.10. A **broker member** must, except to the extent permitted by these rules, hold **client money** separate from the **broker member's own money**.
- 11.11. Where a **broker member** deems it prudent to do so, to ensure that its **clients** are protected, it may deposit its own **money** into a **client bank account** and such **money** will be **client money** for the purposes of these rules.
- 11.12. Where a **broker member** pays its own **money** into a **client bank account** on the instructions of the **Exchange**, such money will be **client money** for the purposes of these rules.
- 11.13. A **broker member** must not hold money other than **client money** in a client bank account unless it is:
- (a) In accordance with rule 11.11;
 - (b) A minimum sum required to open the account or keep it in being;
 - (c) **Money** temporarily in the account in accordance with rule 11.17; or
 - (d) Interest credited to the account which:
 - (i) Exceeds the amount due to a **client** as interest; and
 - (ii) Has not yet been withdrawn by the **broker member**.

CLIENT BANK ACCOUNTS - GENERAL

- 11.14. **Client money** must be held in one or more **client bank accounts**.

PAYMENT OF CLIENT MONEY INTO A BROKER MEMBER'S ACCOUNT

- 11.15. Unless otherwise agreed by the **Exchange**, where a **broker member** receives **client money**, it must either:
- (a) Pay it as soon as possible (and in any event, no later than the next business day after receipt) into a **client bank account**; or
 - (b) Pay it out in accordance with rule 11.19.
- 11.16. Where **client money** is received by the **broker member** in the form of an automated transfer, the **broker member** must ensure that:
- (a) Where possible, the **money** is received directly to a **client bank account**; and
 - (b) In the event that the **money** is received directly to the **broker member's own account**, in accordance with rule 11.15.
- 11.17. Where a **broker member** receives a mixed remittance that is part **client money** and part other **money**, it must pay the full sum into a **client bank account** in accordance with rule 11.15, but must pay the **money** that is not **client money** out of the account within one business day of the day on which the **broker member** would normally expect the remittance to be cleared, except where the **money** is due to the **broker member** in respect of fees and commissions.

11.18. Where a **broker member** is liable to pay **money** to a **client** it must as soon as possible and no later than one business day after the **money** is due and payable:

- (a) Pay it into a **client bank account** in accordance with rule 11.15; or
- (b) Pay it out in accordance with rule 11.19.

11.19. Money ceases to be **client money** if it is paid:

- (a) To the **client**;
- (b) To a third party on the instructions of the **client**;
- (c) Into a bank account in the name of the **client** (not being an account which is also in the name of the **broker member**); or
- (d) To the **broker member** itself, where it is due and payable to the **broker member**.

11.20. Where a **broker member** draws a cheque or other payable order, the **money** does not cease to be **client money** until the cheque or order is presented and paid by the **approved bank**.

USE OF AN INTERMEDIATE BROKER, SETTLEMENT AGENT OR OTC COUNTERPARTY OUTSIDE THE CAYMAN ISLANDS – NOTIFICATION TO CLIENTS

11.21. A **broker member** must not undertake any **transaction** for a **client** that involves **client money** being passed to an intermediate broker, settlement agent or OTC counterparty located outside of the Cayman Islands, unless the **broker member** has previously disclosed in writing to its **client**:

- (a) That his **money** may be passed to such a **person** outside the Cayman Islands; and
- (b) That in such circumstances, the legal and regulatory regime applying to the intermediate broker, settlement agent or OTC counterparty will be different to that of the Cayman Islands and in the event of a default of the intermediate broker, settlement agent or OTC counterparty, his **money** may be treated differently from the position which would apply if the **money** was held by an intermediate broker, settlement agent or OTC counterparty in the Cayman Islands.

11.22. Where a **client** has notified a **broker member** in writing prior to entering into a **transaction** that he does not wish his **money** to be passed to an intermediate broker, settlement agent or OTC counterparty located outside the Cayman Islands, or in a particular jurisdiction, the **broker member** must either:

- (a) Segregate the **money** in a **client bank account** and pay its own **money** to the **broker member's** own account with the intermediate broker, settlement agent or OTC counterparty; or
- (b) Return the **money** to, or the order of, the **client**.

INTEREST

11.23. A **broker member** must clarify in writing with a **private client** whether or not interest is payable to the **private client** in respect of **client money** and, if so, on what terms.

APPROPRIATE AMOUNTS

- 11.24. Each business day, a **broker member** must ensure that there is a sufficient aggregate balance on its **client bank accounts**. If there is not a sufficient aggregate balance on its **client bank accounts** a **broker member** may be required to pay **money** into one or more **client bank accounts** and such **money** will be **client money**.

RECONCILIATION'S

- 11.25. A **broker member** must, as often as is necessary to ensure the accuracy of its records and at least once each month, reconcile
- (a) the balance on each **client bank account** as recorded by the **broker member** with the balance on that account as set out on the statement or other form of confirmation issued by the **approved bank**;
 - (b) the balance, currency by currency, on each **client transaction account** with exchanges, clearing houses, intermediate brokers, settlement agents and OTC counterparts as recorded by the **broker member** with the balance on that account as set out on the statement or other form of confirmation issued by the **person** with whom the account is held; and
 - (c) its record of **collateral** received from **clients** with the statement or other form of confirmation issued by the **person** with whom that collateral is located.

SAFE CUSTODY

APPLICATION

- 11.26. The safe custody rules apply to the business of a **broker member**, unless the **broker member** is a **remote broker member**, an **approved bank** or is regulated by, or is a branch office of an organisation regulated by, a **recognized regulatory body**.
- 11.27. An **investment** need not be treated as a **safe custody investment** in respect of a delivery versus payment **transaction** where it is intended that either:
- (a) In respect of a **client** purchase, the **investment** is due to the **client** within one **business day** following the **client's** fulfilment of a payment obligation; or
 - (b) In respect of a **client** sale, the **investment** from a **client** will be due to the **broker member** within one **business day** upon the fulfilment of a payment obligation,

Unless the delivery or payment by the **broker member** does not occur by the close of business on the third **business day** following the date of payment or delivery of the **investments** by the **client**.

CLIENT INVESTMENTS

- 11.28. A **broker member** must not use a **safe custody investment** for its own account without the **client's** prior written consent, except where the **client** is a **counterparty**, in which case notification will be sufficient.

- 11.29. A **broker member** must not use, for the account of one **client**, the **safe custody investment** of any other **client**, unless that **client**:
- (a) Has been notified by the **broker member**, in the case of a **professional client**; or
 - (b) Has given prior written consent to the **broker member**, in the case of a **private client**.

HOLDING

- 11.30. A **broker member** must hold any **document of title** to a **safe custody investment**:
- (a) In the physical possession of the **broker member**;
 - (b) With an **eligible custodian** in a **safe custody account** designated for **client's safe custody investments**; or
 - (c) In accordance with the specific written instruction of a **professional client**.
- 11.31. A **broker member** must hold any **document of title** to bearer investments which are in the physical possession of the **broker member**, separately from any **document of title** to a **client's** bearer **safe custody investment**.
- 11.32. A **broker member** must ensure that where it holds any **document of title** which is in the physical possession of the **broker member**, the physical arrangements are appropriate to the value and risk of loss of the **investment** to be safeguarded and include adequate controls designed to safeguard documents of title from damage, misappropriation or other loss.

REGISTRATION AND RECORDING

- 11.33. Where a **broker member** registers and records legal title to a **safe custody investment**, it must ensure that it is registered or recorded in the record of legal entitlement, in the name of:
- (a) The **client**;
 - (b) A **nominee company** controlled by:
 - (i) the **broker member**;
 - (ii) An **affiliated company**;
 - (iii) A **recognised stock exchange**; or
 - (iv) an **eligible custodian**.
 - (c) An **eligible custodian**, but only where, due to the nature of the law or market practice of the overseas jurisdiction, it is in the **client's** best interests or it is not feasible to do otherwise and the **broker member** has previously notified the **client** in writing that his **investments** will be so registered or recorded;
 - (d) The **broker member** itself, but only where, due to the nature of the law or market practice of the overseas jurisdiction, it is in the **client's** best interests or it is not feasible to do otherwise and the **broker member** has previously notified the **client** (and if the **client** is a **private client**, obtained his prior written consent in writing) that:

- (i) His **investments** will be registered or recorded in the **broker member's** name;
 - (ii) As a consequence, his **investments** may not be segregated from **investments** of the **broker member**; and
 - (iii) In the event of default of the **broker member**, he may not be as well protected. or
- (e) Any other **person**, in accordance with the **client's** specific written instruction.

SEGREGATION

- 11.34. A **broker member** must ensure that where a **safe custody investment** is recorded in an account with itself, the title of the account makes it clear that the **investment** belongs to a **client** and is segregated from the **broker member's investments**.
- 11.35. A **broker member** must require that where a **safe custody investment** is recorded in an account with an **eligible custodian**, that **eligible custodian** makes it clear in the title of the account that the **investment** belongs to one or more **clients** of the **broker member**.
- 11.36. Where a **broker member** registers or records legal title to its own **investment** in the record of legal entitlement in the same name as that in which legal title to a **safe custody investment** is so registered or recorded, the **broker member** must register or record legal title to the **safe custody investment** in a designation different from the designation in which legal title to the **broker member's investment** is registered or recorded, except where a **broker member** registers or records a **safe custody investment** in rule 11.32 (d).
- 11.37. Where a **broker member** holds **investments** on behalf of an **affiliated company** to which the safe custody rules do not apply, it must not hold those **investments** in an account that is designated for a **client's safe custody investment**.

LENDING OF CLIENT INVESTMENTS

- 11.38. A **broker member** must not undertake or otherwise engage in **stock lending activity** with or for a **client** unless:
- (a) The **client** has consented to it;
 - (b) Where an **investment** belonging to a **private client** is used for **stock lending activity**, the **broker member** ensures that:
 - (i) **Acceptable collateral** is provided by the borrower in favour of that **client**;
 - (ii) The current realisable value of the **investment** and of the **acceptable collateral** is monitored daily; and
 - (iii) Where the current realisable value of the **acceptable collateral** falls below that of the **investment**, the **broker member** provides **acceptable collateral** to make up the difference.

ASSESSMENT OF CUSTODIAN

- 11.39. Before a **broker member** holds, or intends to hold a **safe custody investment** with an **eligible custodian** it must undertake an appropriate risk assessment and thereafter must undertake a continuing risk assessment of that **eligible custodian**.
- 11.40. Where a **broker member** holds, or intends to hold a **safe custody investment** with an **eligible custodian** which is in the same group as the **broker member**, it must:
- (a) Undertake a continuing risk assessment in relation to that **eligible custodian** which is at least as rigorous as the risk assessment of any other **eligible custodian** which is not in the same group, ensuring that the group **eligible custodian** is not treated any more favourably than any other **eligible custodian**;
 - (b) Disclose in writing to its **clients** prior to holding his **safe custody investments** of that **client** with that **eligible custodian**.

CLIENT AGREEMENTS

- 11.41. Before a **broker member** provides **safe custody services** to a **client**, it must notify the **client** in writing of the obligations which the **broker member** will have to the **client** in relation to:
- (a) Registration of **safe custody investments** if these will not be registered in the **client's** name;
 - (b) Claiming and receiving dividends, interest payments and other entitlements accruing to the **client**;
 - (c) Exercising conversion and subscription rights;
 - (d) Dealing with take-overs, other offers or capital re-organisations;
 - (e) Exercising voting rights; and
 - (f) The extent of the **broker members** liability in the event of a default by an **eligible custodian**, except that a **broker member** must accept the same level of responsibility to its **client** for any **nominee company** controlled by the **broker member** or by its **affiliated company** as for itself and may not disclaim responsibility for losses arising directly from the fraud, wilful default or negligence of the **broker member**.
- 11.42. A **broker member** must notify a **client** where the **broker member** intends to pool his **safe custody investment** with that of one or more other **clients** and in the case of a **private client**, explain the meaning of pooling.
- 11.43. A **broker member** must obtain from a **client** his written agreement to the arrangements for the giving and receiving of instructions by or on behalf of the **client** or other **person** authorised by the **client** and any limitations to that authority, in respect of the safe custody service which it provides unless the **client** is a **counterparty**, where notification will be sufficient.
- 11.44. Except where clearance or settlement takes place in a recognised settlement system, a **broker member** must obtain written agreement from a **client** to any lien or security interest over his **safe custody investment** taken by the **broker member** or an **eligible custodian** except in respect of any charges relating to the administration or custody of the **safe custody investments**, unless the **client** is a **counterparty**, where notification will be sufficient.

RISK DISCLOSURES

- 11.45. Where a **broker member** arranges for a **safe custody investment** to be held overseas, it must notify a **client** in writing that there may be different settlement, legal and regulatory requirements in overseas jurisdictions from those applying in the Cayman Islands, or as is appropriate in the circumstances, together with different practices for the separate identification of his **investment**.

CUSTODIAN AGREEMENTS

- 11.46. Before a **broker member** lodges a **safe custody investment** in an account with an **eligible custodian**, it must agree in writing with the **eligible custodian**:
- (a) That the title of the account indicates that any **investment** credited to it does not belong to the **broker member** or to an **affiliated company**;
 - (b) That the **eligible custodian** is not to permit withdrawal of **safe custody investments** from the account other than to the **broker member** or on the **broker member's** instructions;
 - (c) That the **eligible custodian** will hold or record a **safe custody investment** belonging to the **broker member's client** separate from any **investment** of the **eligible custodian**;
 - (d) That the **eligible custodian** will deliver to the **broker member** a statement as at a date or dates specified by the **broker member** (which must be delivered to the **broker member** within 20 **business days** of the date of the statement) which details the description and amounts of all the **investments** credited to the account;
 - (e) That the **eligible custodian** will not claim any right or lien, right of retention or sale, over the **investments** standing to the credit of any account designated in accordance with (a) above, except:
 - (i) Where the beneficial owner (or the legal owner, where he has the capacity to do so) has consented; or
 - (ii) In respect of any charges relating to the administration or custody of the **safe custody investment**;
 - (f) The extent of the **eligible custodian's** liability in the event of the loss of a **safe custody investment** caused by the fraud, wilful default or negligence of the **eligible custodian**, or an agent appointed by him;
 - (g) The arrangements for registration or recording of **safe custody investments** if these will not be registered in the **client's** name; and
 - (h) The procedures and authorities for the giving and receiving of instructions.

RECONCILIATION'S

- 11.47. A **broker member** must, as often as is necessary to ensure the accuracy of its records and at least once each month, reconcile its record of **safe custody investments** which it does not physically hold, with statements obtained from **eligible custodians** and, in the case of

- dematerialised **investments** not held through an **eligible custodian**, statements obtained from the **person** who maintains the record of legal entitlement.
- 11.48. A **broker member** must, as often as is necessary to ensure the accuracy of its records, including those of any **nominee company** controlled by the **broker member** or by an **affiliated company**, and at least once every six months, carry out:
- (a) A count of all **safe custody investments** physically held by it and reconcile the results of that count to its record of the **safe custody investments** in its physical possession; and
 - (b) A reconciliation between the **broker member's** record of **client** holdings and the **broker member's** record of the location of **safe custody investments**.
- 11.49. A **broker member** must promptly correct any discrepancies which are revealed and must make good, or provide the equivalent for, any irreconcilable shortfall where responsibility for that shortfall is with the **broker member**.

MISCELLANEOUS

LIABILITY INSURANCE

- 11.50. All **broker members** shall have and at all times maintain adequate liability insurance and a level of financial strength acceptable to the **Exchange**.

FINANCIAL STATEMENTS

- 11.51. A **broker member** shall prepare its financial statements in accordance with International Accounting Standards or other such standards as may be acceptable to the **Exchange**, which must be audited by an auditor in accordance therewith.

MARGIN LOANS

- 11.52. The margin loan rules apply to the business of a **broker member**, unless the **broker member** is a **remote broker member**, an **approved bank** or is regulated by, or is a branch office of an organisation regulated by, a **recognized regulatory body**.
- 11.53. **Broker members** may make secured or margin loans to a **client** with the **securities** in the **client's account** with the **broker member** serving as collateral security for the loan.
- 11.54. In advance of making any loan, a **broker member** shall inform a **client** of the terms and conditions of the loan in writing and obtain written consent from the **client**.
- 11.55. The **Exchange** may from time to time limit the types of **securities** and the percentage of their current market value held in a **client's** account which may be loaned to the **client** for the purchase of additional securities by any **broker member**. In the absence of any different designation the type of eligible securities and applicable percentage shall be:
- (a) 70% of the current market value of any common or preferred stock or corporate debt instruments which are listed on the **Exchange** or on any other **recognised stock exchange**;

- (b) 70% of the current redemption price or net asset value of an open ended mutual fund if the net asset value is computed monthly or more frequently;
 - (c) 90% of the current market value of sovereign or public debt securities, including money market funds approved by the **Exchange**, which are listed on the **Exchange** or on any other **recognised stock exchange**.
- 11.56. In the case of a short sale, the requirement for the minimum credit balance in the **client's** account is 130% of the current market value.
- 11.57. If there is any margin loan balance outstanding, the current market value of the types of **securities** described in these rules and held in account must be recomputed on a daily basis.
- 11.58. If the loan balance falls below the permitted level, the **client** must be notified immediately and must pay down the loan or deposit additional **securities** as collateral to bring the loan to an acceptable level within 2 **business days** after such notification is sent. If the **client** fails to do so, the **broker member** must immediately dispose of sufficient **securities** to return the loan to an acceptable level.

CAPITAL ADEQUACY

APPLICATION

- 11.59. The capital adequacy rules apply to a **broker member**, unless the **broker member** is a **remote broker member**, an **approved bank** or is regulated by, or is a branch office of an organisation regulated by, a **recognised regulatory body**.

CAPITAL REQUIREMENT

- 11.60. A **broker member** must maintain a **liquid capital** which is equal to or more than the amount produced under the higher of:
- (a) CIS\$123,000 (US\$150,000); or
 - (b) The total of the capital requirements calculated in respect of the **position risk requirement**, **counterparty risk requirement (free deliveries and forward transactions)**, **foreign exchange risk requirement** and **large exposure risk requirement**; and
- 11.61. A **broker member** must maintain a **net worth** equal to at least 50% of the required level of **Liquid Capital** set forth above.
- 11.62. The **Exchange** reserves the right to require **broker members** to provide such additional capital as it may specify to cover high levels of operational or other risks to which the **broker member** is exposed.

VALUATION OF POSITIONS FOR REPORTING PURPOSES

- 11.63. **Broker members** must **mark to market** their **trading books** on at least a daily basis.

- 11.64. In the absence of readily available market prices, **broker members** may use alternative methods of valuation provided that those methods are sufficiently prudent and have been approved in advance by the **Exchange**.

NETTING

- 11.65. The excess of a **broker member's** long (short) positions over its short (long) positions in the same **security** will be its net position in each different **security**.
- 11.66. All net positions must be converted on a daily basis into either United States Dollars or Cayman Islands Dollars at the prevailing spot rate before their aggregation.

POSITION RISK REQUIREMENT

- 11.67. The rules regarding calculation of a **position risk requirement** apply to a **broker member's trading book** business.
- 11.68. A **broker member** must, each day, sum all of its net long positions and all its net short positions in accordance with the netting rules above. The sum of the two figures will be the **position risk requirement**.
- 11.69. Each position shall be allocated to the country in which each **security** is **listed** and the calculation described above shall apply to each country separately.

FOREIGN EXCHANGE RISK REQUIREMENT

- 11.70. The rules regarding calculation of a **foreign exchange risk requirement** apply to a **broker member's** principal currency positions.
- 11.71. A **broker member** must, each day, calculate its overall net **foreign exchange risk requirement** in accordance with the procedure set out below. It shall multiply the result by 5% in order to calculate the capital requirement against foreign exchange risk.
- 11.72. The net open position in each currency shall consist of the sum of the following elements (positive or negative):
- (a) The net spot position (i.e. all asset items less all liability items, including accrued interest, in the currency in question);
 - (b) The net forward position (i.e. all amounts to be received less all amounts to be paid under forward exchange transactions);

COUNTERPARTY RISK REQUIREMENT - GENERAL

- 11.73. A broker member must, each day, calculate its **counterparty risk requirement** by summing the capital requirement for **free deliveries** with the capital requirement for **forward transactions**.

COUNTERPARTY RISK REQUIREMENT - FREE DELIVERIES

- 11.74. A broker member must hold capital against counterparty risk on **free deliveries**:
- (a) From the time a **free delivery** has been made if it has paid for **securities** before receiving them or it has delivered **securities** before receiving payment for them; and

- (b) In the case of cross border **transactions**, one day or more has elapsed since it made that payment or delivery.
- 11.75. The capital requirement for **free deliveries** shall be 5% of the value of the **securities** or cash owed to the **broker member**.

COUNTERPARTY RISK REQUIREMENT – FORWARD TRANSACTIONS

- 11.76. Forward purchases and sales of **securities** (i.e. those for which **counterparties** have agreed a settlement date beyond the market norm for the **security** or are unsettled for more than 5 days past their intended settlement date) are deemed to give rise to counterparty exposure.
- 11.77. The capital requirement for **forward transactions** shall be 5% of the **replacement cost plus potential future credit exposure**.

LARGE EXPOSURE RISK REQUIREMENT

- 11.78. The rules regarding calculation of a **large exposure risk requirement** apply to a **broker member's trading book** business.
- 11.79. A **broker member** must, each day, calculate the excess, where positive, of its long positions over its short positions in all **securities** for each **client** (with the net position in each of the different **securities** being calculated in accordance with the method set out in the **position risk requirement** rules above). The **large exposure risk requirement** is the sum of all such exposures.
- 11.80. A **broker member** may not incur an exposure to a **client** the value of which exceeds 25% of its **liquid capital**.
- 11.81. A **broker member** may not incur large exposures, which in total exceed 800% of its **liquid capital**.

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CHAPTER 12

SETTLEMENT

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GENERAL OBLIGATIONS

APPLICATION

- 12.1. With the exception of rule 12.3 and 12.30, these rules apply only to on-**Exchange transactions** between two **broker members** in **equity securities**, which have a primary listing on the **Exchange**.
- 12.2. Failure to deliver **securities** or pay on the due date for settlement shall not in itself be grounds for treating the contract as repudiated.

GENERAL PRINCIPLES

- 12.3. A **broker member** shall ensure that every **transaction** effected by it is duly settled.
- 12.4. All on-**Exchange transactions** in **equity securities** shall settle on the third business day after the **transaction** was effected.
- 12.5. A **broker member** shall maintain a bank account solely for the purposes of settlement under these rules with an **approved bank**.
- 12.6. Every selling **broker member** must deliver full and good documentation on T+ 1.
- 12.7. Every buying **broker member** must make irrevocable payment against delivery of good documentation on T+ 3. This means that **broker members** must ensure that they either receive **money** from a buying **client** before they effect a **transaction** or have sufficient **money** available to cover settlement.

CLEARING PROCEDURES

TRADE DATE

- 12.8. At the end of the **trading day broker members** must produce a **transaction summary report** and the buying **broker member** must confirm with the **selling broker member** that all relevant details pertaining to their transactions are correct.

TRADE DATE + 1

- 12.9. Selling **broker members** must deposit the following items at the **Exchange** by 12.00 hours on T+ 1:
- (a) certificates;
 - (b) signed sold transfer forms;
 - (c) **transaction summary report**; and
 - (d) **deposit list**.
- 12.10. Selling **broker members** are responsible for ensuring good delivery including responsibility for:

- (a) Passing good title to the **securities** to the transferee;
 - (b) Ensuring that **securities** are freely transferable and, if in registered form, capable of being registered or re-registered;
 - (c) Ensuring that the quantity on the transfer form is equal to the **transaction** quantity or quantities;
 - (d) Ensuring that the certificate represents at least the stated amount of **securities**;
 - (e) Ensuring that the transfer form is duly executed by the registered holder and stamped by the **broker member**;
 - (f) Ensuring that the name on the certificate and the name and signature of the transferor are the same; and
 - (g) Ensuring delivery of all other necessary documents to pass good title to the **securities**.
- 12.11. In the event of a defective transfer whereby a transferee, due to no fault of his or its own, is:
- (a) Unable to effect registration or re-registration of a transfer of the **securities** purported to have been transferred for any reason, including a defect in the documentation delivered by the selling **broker member**; or
 - (b) Following registration or re-registration of a transfer of the securities found not to have good title to such securities,

Then the selling broker member shall take all steps necessary to correct the defective transfer within seven days of receipt of notice of the defect. The selling broker member shall further be responsible for any and all costs and expenses associated therewith including any losses suffered by the transferee as a result of the selling broker members failure to comply with its responsibilities under rule 12.10 above.

- 12.12. Buying **broker members** must deposit the following items at the **Exchange** by 12.00 hours on T+ 1:
- (a) signed bought transfers; and
 - (b) **transfer list**.

TRADE DATE + 2

- 12.13. By 12.00 on T+ 2, all **broker members** must lodge any documentation which has been returned to them by the **Exchange** for amendment or correction. Selling **broker members** who have failed to deliver on T+ 1 may deposit late certificates and transfers with the **Exchange**.
- 12.14. Buying **broker members** will be required to pay selling **broker member** on T+ 3 for equity securities where the selling **broker member** has fully lodged accepted documentation. Where the seller has made a partial delivery or has made no delivery at all the buying **broker member** will be required to provide the **Exchange** with a statement from their **approved bank** confirming that funds will be available to meet the delivery when it is made.

TRADE DATE + 3

- 12.15. Settlement of net funds must take place on T+ 3 by electronic wire transfer between **broker members approved banks**.
- 12.16. If a selling **broker member** has not made good delivery and the **transaction** does not settle on T+ 3 then the selling **broker member** shall pay a fixed penalty of US\$100 (CI\$80) per failed trade.
- 12.17. Payments due from each **approved bank** will be calculated as follows:
- (a) The net amount due to or from each **broker member** will be netted to form a single pay or receive figure;
 - (b) The net figures due to or from each **broker member** within a single **approved bank** will be netted to give a single pay or receive figure for each **approved bank**;
 - (c) The net pay and receive figures for the **approved banks** will be linked so that each organisation either makes or receives a single electronic wire transfer payment.
- 12.18. Buying **broker members** must ensure that by 11.45 hours on T+ 3 their settlement organisation makes an electronic wire transfer payment of the net amount to the designated receiving **approved bank**.
- 12.19. Buying **broker members** who fail to make good payment on T+ 3 will be immediately suspended unless there are extenuating circumstances acceptable to the **Exchange**. In such cases the buying **broker member** shall pay a fixed penalty of US\$100 (CI\$80) per failed day and cover the selling **broker member's** cost of funding the consideration until full payment has been made.
- 12.20. Selling **broker members** must ensure that by 16.00 hours their receiving **approved bank** has received payment of the net amount and has not been cancelled.
- 12.21. Once payment has been confirmed to the satisfaction of the **Exchange**, the **Exchange** will match certificates and sold transfers with bought transfers and send them to the appropriate registrar with a registration list or otherwise to the order of the buying **broker member**.
- 12.22. Selling **broker members** who have failed to deliver must deposit certificates and sold transfers with the **Exchange** by 14.00 hours in order to secure payment on T + 4.

TRADE DATE + 4

- 12.23. Selling **broker members** who have failed to deliver may deposit certificates and sold transfers with the **Exchange**.
- 12.24. If, by this time, signed bought transfers have not been received, the buying **broker member** must submit bought transfers into the name of the buying **broker member**. This will enable all deposited certificates and sold transfers to be sent to the appropriate registrar.
- 12.25. If a selling **broker member** has not made good delivery by T+ 3 and the **transaction** does not settle on T+ 4 then the selling **broker member** shall pay a penalty to the **Exchange** of US\$100 per failed **transaction**.

TRADE DATE + 5

- 12.26. If a selling **broker member** has not made good delivery by T+ 4 and the **transaction** does not settle on T+ 5 then the Exchange may issue an **enforcement notice**.
- 12.27. A selling **broker member** which has been sent an **enforcement notice** and is unable to make good delivery **securities** before expiry of the **enforcement notice** must either:
- (a) Agree with the buying **broker member** to close the **transaction** between themselves and settle the monetary difference;
 - (b) Purchase the **securities** to be immediately delivered to itself and then ensure immediate delivery to the buying **broker member**; or
 - (c) Satisfy the **Exchange** that the **enforcement notice** should not yet take effect, as **securities** cannot be purchased in the market for immediate delivery.
- 12.28. A selling **broker member** shall pay a **fixed penalty** to the **Exchange** of US\$500 (CIS400) upon issuance of an **enforcement notice** and a further US\$500 (CIS400) at the close of each **trading** day on which the **transaction** remains unsettled.
- 12.29. The **Exchange** may suspend the issue of **enforcement notices** or defer their effect in respect of particular **securities** or a particular **broker member**.

RESPONSIBILITIES OF THE BROKER MEMBER FOR CROSS TRANSACTIONS

- 12.30. In the case of **cross transactions in securities** not listed on the **Exchange** (subject to **unlisted trading privileges**), it is the responsibility of the **broker member** or **remote broker member** executing the **cross transaction** to make arrangements to ensure that the **cross transaction** will be duly settled prior to its execution. Unless otherwise agreed by the parties to the **transaction**, all such crosses shall settle on the regular settlement date, and pursuant to the procedures specified by the exchange that is the primary market for the subject security.

BENEFITS

- 12.31. A **transaction** in a **security** effected on a day that the **Exchange** makes a security ex an entitlement or at any time thereafter shall be settled ex that entitlement, unless otherwise agreed at the time of dealing.

DIVIDENDS

PAYMENT OF DIVIDENDS

- 12.32. The selling **broker member** is responsible for any dividend due to the buying **broker member** unless:
- (a) An unreasonable time has been taken by the transferee in the execution and lodgement of the documents for registration; or
 - (b) There has been an unreasonable delay in claiming the dividend.

SETTLEMENT OF DIVIDEND CLAIMS

- 12.33. A dividend claim made by one **broker member** to another and not disputed shall be settled not later than 28 calendar days after receipt of the claim or 14 calendar days after the payment date, whichever is the later.

DIVIDENDS WITH ALTERNATIVES

- 12.34. Where an issuer declares a dividend with one or more alternatives, a buyer wishing to opt for an alternative shall give the selling **broker member** notice in writing of the form in which it requires the dividend not later than five days before the last date given by the issuer for accepting an alternative.

DEDUCTION OF DIVIDENDS

- 12.35. Where the selling **broker member** delivers **securities** direct to the buying **broker member**, the buying **broker member** may deduct a dividend to which it is entitled from payment if delivery is made after the last day on which transfers are accepted for registration cum dividend.

CANCELLATION OF DIVIDENDS

- 12.36. On receipt of information cancelling or deferring the recommendation or declaration of a dividend, the **Exchange** may issue a notice cancelling the ex action and, as a result:
- (a) Any notice published making the security ex dividend is automatically cancelled and devoid of effect;
 - (b) Any document issued by the **Exchange** in respect of a cancelled dividend is automatically withdrawn and devoid of effect;
 - (c) A **transaction** effected ex dividend, other than a **transaction** effected special ex dividend, shall not be adjusted;
 - (d) A transaction effected special cum or special ex dividend shall be adjusted;
 - (e) The cash equivalent in respect of the cancelled dividend shall be refunded.

RIGHTS ISSUES

DELIVERY IN SETTLEMENT OF TRANSACTIONS IN SECURITIES DEALT CUM RIGHTS

- 12.37. In order to settle a **transaction** in **securities** dealt cum rights where rights have already been issued, the seller shall deliver the rights by the specified time on the due date for settlement. If the rights have not yet been issued the seller shall deliver them immediately when they become available.

LAST TIME FOR ISSUE OF RIGHTS CLAIMS

- 12.38. A buying **broker member** that issues a claim to a seller to deliver rights or registered **securities** shall do so in writing not later than the last time for claims in order to become entitled to those rights or the new **securities** as the case may be.

LAST TIME FOR DELIVERY OF RIGHTS

- 12.39. A selling **broker member** to whom a rights claim is issued shall deliver the rights at or before the latest time of delivery and a buyer is not obliged to accept delivery of rights after that time.

OBLIGATIONS OF SELLER WHERE RIGHTS NOT DELIVERED

- 12.40. Where nil paid or partly paid rights are not delivered by the latest time for delivery, the selling **broker member** shall, unless a lapsing instruction has been given, make any payment due on the call payment day on behalf of the buying **broker member**.
- 12.41. The buying **broker member** shall then refund to the selling **broker member** the call payment against delivery of the paid up shares, or partly paid rights, as the case may be.
- 12.42. Where fully paid rights are not delivered by the latest time for delivery:
- (a) The selling **broker member** shall deliver the registered **securities** to the buying **broker member**; and
 - (b) The selling **broker member** is liable for any additional duties or fees payable in order to comply.

LATE CLAIMS IN RESPECT OF NIL PAID RIGHTS

- 12.43. Where a buyer issues a rights claim after the last time for claims but before the last time for acceptance for an offer, the selling **broker member** shall, unless it has been able to prevent the rights lapsing, pay to the buying **broker member** an amount representing the lapsed rights premium, if any.
- 12.44. Where a buying **broker member** issues a rights claim more than six months after the last time for acceptance of an offer, its claim shall be treated as invalid, and the selling **broker member** shall not be required to make any payment to the buying **broker member** in respect of the lapsed rights premium.

LATE CLAIMS IN RESPECT OF FULLY PAID RIGHTS

- 12.45. Where a buying **broker member** issues a rights claim in respect of fully paid rights after the last time for claims, the selling **broker member** shall deliver the registered **securities** and the buying **broker member** is liable for any additional duties or fees payable in order to comply with legislation.

LAPSING INSTRUCTIONS

- 12.46. Where a buying **broker member** does not receive full delivery of nil paid rights by the latest time for delivery it may at any time not later than 12.00 on the day before call payment day give the selling **broker member** a lapsing instruction.
- 12.47. Where a lapsing instruction is given orally, the buying **broker member** shall confirm it in writing by 12.00 on the day after the day on which the instruction was given.
- 12.48. Where a lapsing instruction has been given and, if necessary, confirmed, delivery of the rights may be dispensed with by agreement.
- 12.49. Notwithstanding that delivery is wholly or partly dispensed with, the buyer shall make payment in settlement of the **transaction**.

PAYMENT OF DISTRIBUTION TO BUYER

- 12.50. Where a lapsing instruction has been given, the seller shall pay the buyer the amount representing the lapsed rights premium if any.

REFERENCE CODES

- 12.51. Where a lapsing instruction is given, the **broker members** concerned shall exchange the reference codes allocated by them to the **transaction** and any subsequent confirmation relating to that lapsing instruction shall incorporate both reference codes.

CAPITALISATION ISSUES

CAPITALISATION CLAIMS

- 12.52. Where a buyer of **securities** cum capitalisation, makes a claim for the benefit of the capitalisation issue, the **broker member** against which the claim is made shall meet that claim by delivering new **securities** to the claimant provided that:
- (a) If the claim is against a **broker member** acting as principal:
 - (i) Any part of the claim which is dependant upon a corresponding claim made by that firm against a **broker member** acting as agent, shall be delivered in settlement of the claim when and to the extent that the **broker member** acting as principal receives the shares or the proceeds of their sale in satisfaction of the corresponding claim; and
 - (ii) The claim shall be made within six years after delivery.
 - (b) Where a claim against a **broker member** acting as agent is made later than one year after delivery, the **broker member** may reject the claim if the client fails to deliver shares or proceeds of their sale.

VALUATION NOTICES

- 12.53. Where new **securities** have not been delivered in settlement of a claim for the benefit of a capitalisation issue but the **transaction** has been settled at the cum capitalisation **transaction** consideration, the buying **broker member** may, after the fourth day after the old **securities** are made ex capitalisation give the selling **broker member** notice in writing in the prescribed form of the value of the new **securities**.
- 12.54. In order to settle a claim for the benefit of a capitalisation issue the selling **broker member** shall deliver the new **securities** or pay the value thereof by the close of business on the third business day after receipt of the valuation notice.
- 12.55. Where a selling **broker member**, having paid the value of the new **securities**, delivers all or some of them, the buying **broker member** shall repay the selling **broker member** the value of the new **securities** in proportion to the **securities** delivered against a claim from the selling **broker member**.
- 12.56. The value of the new **securities** shall be calculated:

- (a) By reference to the middle of the quotation shown in the Daily Official List on the day the valuation notice is issued; or
- (b) Where there is no quotation shown in the Daily Official List, on the opening price of the **security** obtained from the principal market on which it is dealt on the day the valuation notice is issued.

TAKEOVERS

TRANSACTIONS IN ASSENTED SHARES

- 12.57. Where a **transaction** is dealt in assented shares, the delivery of unassented shares accompanied by a form of assent is not good delivery.

DELIVERY OF UNASSENTED SHARES OR THE RESULT OF AN OFFER

- 12.58. A buying **broker member** may give a written instruction, specifying the offer to which it relates, to the selling **broker member** requiring delivery of:
- (a) The unassented shares at a date which is not later than two days before the final closing date; or
 - (b) The result of an offer or a specified election under the terms of the offer if the offer should become unconditional in all respects.
- 12.59. The selling **broker member** shall deliver the unassented shares or the result as instructed if the instruction was received at least three days before the final closing date, but the result shall only be required to be delivered if the final announcement date for the offer is on or after the due date for settlement.
- 12.60. If the buying **broker member** has paid the selling **broker member** in advance of delivery and the selling **broker member** fails to deliver the result of the offer or specified election by the tenth day following the day on which the buying **broker member** would have received the results of the offer, the seller is obliged to reimburse the buying **broker member** on that day an amount of money equal to the sale proceeds.
- 12.61. Any **transaction** which is assented to the terms of a take-over offer shall (subject to the offer becoming unconditional in all respects) be dealt cum all benefits due in respect of the target **security** unless otherwise agreed at the time of dealing.

CHAPTER 13

DEFAULT

Contents

The main headings of this chapter are:

Default

- 13.1 Unsettled Contracts
- 13.2 Default Official
- 13.5 Declaration of Defaulters
- 13.9 Establishing the net amount due
- 13.10 Certification
- 13.11 Fixing Hammer Prices
- 13.16 Unsettled Relevant Contracts at the Time of Declaration
- 13.22 Unsettled relevant Agency Contracts

DEFAULT

UNSETTLED CONTRACTS

- 13.1. Any **relevant contract** or **relevant agency contract** shall be unsettled for the purpose of these default rules if at the time of declaration of default the contract has not been fully performed.

DEFAULT OFFICIAL

- 13.2. The **Exchange** shall appoint and may from time to time remove and replace a **default official** who shall have power to represent the **Exchange** in relation to, and to assist in the administration of the affairs of, a **broker member** which has been declared a **defaulter** in accordance with the rules of the **Exchange** and to perform such functions in relation thereto as the **Exchange** may from time to time determine subject to the laws of the Cayman Islands and any other relevant jurisdiction.

- 13.3. The powers of the **default official** shall include the right to:

- (a) Obtain from a **defaulter** copies of or information as to its original books of account, records and all other necessary documents;
- (b) Attend meetings of creditors;
- (c) Summon that **broker member** or any **employee** thereof before such meetings;
- (d) Enter into a strict examination of every account;
- (e) Investigate and report to the **Exchange** upon any contracts found to have been effected at unfair prices;
- (f) Require that **broker member** or any **employee** thereof to assist with any inquiries raised; and
- (g) Issue such certificates as may be required pursuant to these rules.

- 13.4. One or more deputy **default officials** may also be appointed by the **Exchange** and reference in these rules to the **default official** shall include a deputy **default official** unless the context otherwise requires.

DECLARATION OF DEFAULTERS

- 13.5. A **broker member** which:

- (a) Is unable to fulfil its obligations in respect of one or more **Exchange market contracts**;
or
- (b) Appears to be or likely to become so unable;

May be declared a defaulter by direction of the Chairman or Deputy Chairman or by direction of two members of the Board. Thereafter, the default rules shall apply to any Exchange market contract to which the defaulter is at the time of default a party.

- 13.6. Upon a declaration of default the **default official** shall, as soon as is reasonably practicable:
- (a) Notify the **defaulter** of the declaration;
 - (b) In relation to any unsettled **relevant contracts** notify the parties to such contracts of the default and of any decision taken under the default rules in relation to those contracts; and
 - (c) In relation to any unsettled **relevant agency contracts** notify the parties to such contracts of the default and the identity of the other party to the contract.
- 13.7. Declaration of default shall be made in such manner as the **Exchange** shall decide.
- 13.8. Any **broker member** declared a **defaulter** shall thereupon cease to be a **broker member**, but shall nevertheless be bound to take or refrain from taking all such action, and suffer all such things to be done, as this chapter requires in the case of a **defaulter** and shall continue to be bound by this chapter in relation to all matters, **transactions** and circumstances arising while it was a **broker member**.

ESTABLISHING THE NET AMOUNT DUE

- 13.9. The **Exchange** shall establish the net amount to be paid to or claimed from the **defaulter** by or to each **counterparty** as the result of the application of these default rules to any **Exchange market contracts** to which the **defaulter** is **principal** after:
- (a) Aggregating all sums due by each **principal** to the other in relation to such contracts; and / or
 - (b) Offsetting the aggregate sums due by each **principal** to the other in relation to such contracts.

CERTIFICATION

- 13.10. The **Exchange** shall certify the net amount to be paid to or claimed from the **defaulter** as the result of the application of these default rules to any **Exchange market contract** to which the **defaulter** is party as **principal**, or, if such be the case, that none is to be paid and shall notify the parties to such contracts.

FIXING HAMMER PRICES

- 13.11. In every case of declaration of default, the **default official** shall in respect of any security then listed and not suspended which is (in each case) the subject of an unsettled **relevant contract**:
- (a) Fix the **hammer price**; and
 - (b) Notify the **defaulter** and its counterparty of the **hammer price**.
- 13.12. The determination of **hammer prices** by the **default official** shall, in the absence of manifest error, be final and binding on all concerned.

- 13.13. Any objection as to the **hammer price** shall be lodged with the **default official** in writing within five days of the date of notification. Any dispute to the **hammer price** shall be determined by two persons appointed by the Chief Executive of the Exchange, whose determination shall be final and binding on all concerned.
- 13.14. Rules 13.16 to 13.21 shall not apply in respect of **securities** the subject of a **relevant contract**, which have been delivered and paid for prior to declaration of default and those **securities** shall not be returned.
- 13.15. In respect of a **relevant contract**, the amount of any consideration which is unpaid or overpaid shall, with reference to the terms of the contract, be calculated by the **default official** who shall ensure that the calculated amount is included in establishing the net amount for certification.

UNSETTLED RELEVANT CONTRACTS AT TIME OF DECLARATION OF DEFAULT

- 13.16. It shall be a term of every **relevant contract** that from and after the making of a declaration of default in respect of a **broker member** which is party thereto as a **principal**, the obligations of the **defaulter** and the **counterparty** under the contract to deliver and pay against delivery (if the contract is unsettled at the time of the declaration) shall be discharged and be replaced by an obligation on one of them to pay to the other the amount calculated in accordance with these rules and the liability of each other **person** who is party thereto as **agent** shall thereupon cease.
- 13.17. If the **hammer price** exceeds the contract price, the **defaulter** shall:
- (a) If the **relevant contract** was for purchase by the **defaulter**, be entitled to receive from the **counterparty** the amount of such excess;
 - (b) If the **relevant contract** was for sale by the **defaulter**, be obliged to pay to the **counterparty** the amount of such excess.
- 13.18. If the **hammer price** falls short of the contract price, the **defaulter** shall:
- (a) If the **relevant contract** was for purchase by the **defaulter**, be obliged to pay to receive from the **counterparty** the amount of such shortfall;
 - (b) If the **relevant contract** was for sale by the **defaulter**, be entitled to receive from the **counterparty** the amount of such shortfall.
- 13.19. If the **hammer price** is the same as the contract price, neither the **defaulter** nor the **counterparty** shall be obliged to make any payment to the other.
- 13.20. For the purpose of discharging the amounts calculated in respect of all unsettled **relevant contracts** as between the **defaulter** and the **counterparty**:
- (a) There shall be aggregated all the relevant amounts which are in the same currency, treating amounts due by the **defaulter** as positive and amounts due by the **counterparty** as negative ("currency aggregate");
 - (b) If a currency aggregate is not denominated in Cayman Islands Dollars, it shall be converted into Cayman Islands Dollars at the spot rate of exchange as set by the **Monetary Authority** for the purchase Cayman Islands Dollars with the relevant

currency on the day of default (“currency aggregate Cayman Islands Dollars equivalent”);

- (c) All the currency aggregate Cayman Islands Dollars equivalents and in the case of any currency aggregate denominated in Cayman Islands Dollars, the amount of that currency aggregate shall then be aggregated (“final Cayman Islands Dollars amount”);
- (d) If the final Cayman Islands Dollars amount is a negative figure, the **counterparty** shall be obliged to pay to the **defaulter** in Cayman Islands Dollars an amount equal to the final Cayman Islands Dollars amount; and
- (e) If the final Cayman Islands Dollars amount is a positive figure, the **defaulter** shall be obliged to pay to the **counterparty** in sterling an amount equal to the final sterling amount.

13.21. A **broker member** acting as agent for a **counterparty** in relation to a **relevant contract** in respect of which these rules take effect shall not be liable for any amount due to or from that **counterparty** by virtue thereof.

UNSETTLED RELEVANT AGENCY CONTRACTS

13.22. Notwithstanding the declaration of default, those **persons** who are parties as **principal** to an unsettled **relevant agency contract** shall remain obliged to complete that contract on the terms on which it was originally dealt and:

- (a) The **default official** shall provide details of the defaulting **broker member’s client** in respect of any such contract to the non-defaulting **broker member**; and
- (b) The non-defaulting **broker member** shall write to that **client** forthwith in a form prescribed by the **Exchange** requiring him to settle the contract.

13.23. If:

- (a) The **broker member** which originally dealt the unsettled **relevant agency contract** with the **defaulter**; or
- (b) The **default official**, in relation to an unsettled **relevant agency contract** in the form of a **cross transaction** to which the **defaulter** is a party;

Is unable to settle the contract with the **defaulter’s client**, within one month of writing to that **client** pursuant to rule 13.22 (b), having made all reasonable efforts to do so, then such **broker member** or the **default official** shall be permitted to close the unsettled **relevant agency contract** by purchasing or selling **securities** in the market and either accounting for any profit arising to that **client** or claiming any loss arising against that **client**.

13.24. Any unsettled **relevant contract** or **relevant agency contract** that is dealt for settlement by means of any settlement process will be subject to this chapter unless:

- (a) The settlement process will proceed despite the declaration of default because:
 - (i) The contract entered into by the **defaulter** is to be settled through that settlement process through the service of an agent; or

- (ii) The process replaces or alters the rights and obligations of the contracting parties such that the declaration cannot disrupt or interrupt the process; or
- (b) In respect of unsettled **relevant contracts**, the settlement process has default rules that, in the opinion of the **Exchange**, adequately provide for their binding resolution.

CHAPTER 14

CONTINUING OBLIGATIONS

Contents

The main headings of this chapter are:

Advance Notification

- 14.1 Change of name and address
- 14.2 Change in activity
- 14.3 Change of settlement arrangements
- 14.4 Change of controllers
- 14.5 Change of subsidiary
- 14.6 Change of management and key employees

Immediate Notification

- 14.7 General obligation
- 14.9 Financial action
- 14.10

Contravention of rules

Periodic Returns

- 14.12 Financial returns and large exposures
- 14.16 Financial Statements
- 14.17 Compliance returns

ADVANCE NOTIFICATION

CHANGE OF NAME AND ADDRESS

- 14.1. A **broker member** shall notify the **Exchange** in writing not less than 28 calendar days in advance of the proposed effective date, of a proposed change in:
- (a) The name of the **broker member**;
 - (b) Any business name under which the **broker member** carries on business as a **broker member** of the **Exchange**;
 - (c) The address of the head office of the **broker member**;
 - (d) The address of the registered office of the **broker member**; and
 - (e) The address for service on the **broker member** of notices or documents.

CHANGE IN ACTIVITY

- 14.2. A **broker member** that proposes to carry on a type of activity not previously agreed with the **Exchange** shall notify the **Exchange** in writing not less than 28 calendar days before the date on which it begins to carry on that activity.

CHANGE OF SETTLEMENT ARRANGEMENTS

- 14.3. A **broker member** that proposes to make any change in its clearing and settlement arrangements shall notify the **Exchange** in writing not less than 28 calendar days before the change is implemented.

CHANGE OF CONTROLLERS

- 14.4. A **broker member** shall, so far as it is able, notify the **Exchange** in writing that a **person** is to become, or cease to be, a **controller** of the **broker member** not less than 28 calendar days in advance, or if that is not possible, immediately on becoming aware of the change.

CHANGE OF SUBSIDIARY

- 14.5. A **broker member** shall, so far as it is able, notify the **Exchange** in writing that it is to become, or cease to be, a **subsidiary** of another company not less than 28 calendar days in advance, or if that is not possible, immediately on becoming aware of the change.

CHANGE OF MANAGEMENT AND KEY EMPLOYEES

- 14.6. A **broker member** shall notify the **Exchange** in writing of any **person** becoming or ceasing to be a partner, **director**, compliance officer or **registered person** of the **broker member** at the earliest opportunity practicable.

IMMEDIATE NOTIFICATION

GENERAL OBLIGATION

- 14.7. A **broker member** shall co-operate in an open and honest manner with the **Exchange** and keep it properly informed of any matter concerning the **broker member** which might reasonably be expected to be disclosed to the **Exchange**.
- 14.8. A **broker member** shall, in writing, notify the **Exchange** immediately of the occurrence of any of the following:
- (a) A material change in the ultimate beneficial ownership of the **broker member**;
 - (b) Discovery of engagement of the **broker member**, or any of its **employees**, in activities involving fraud or dishonesty;
 - (c) The involvement of the **broker member** in any legal proceedings;
 - (d) A change to information already supplied to the **Exchange**;
 - (e) Cessation of business;
 - (f) The breakdown of any administrative or control procedures;

- (g) Conviction of the **broker member**; and
- (h) Any emergency, whether inside or outside the **broker member**, which influences its business.

FINANCIAL ACTION

14.9. A **broker member** shall, in writing, notify the **Exchange** immediately of the occurrence of any of the following:

- (a) The presentation of a petition for the winding up of the **broker member** or of a company which is a **subsidiary** or a **holding company** of the **broker member**;
- (b) The appointment of a receiver, administrator or trustee of the **broker member**;
- (c) The making of a composition or arrangement with creditors of the **broker member**;
- (d) Where the **broker member** is a partnership, an application or the giving of notice to dissolve the partnership;
- (e) The imposition of disciplinary measures or sanctions on the **broker member** by any statutory, professional or other body exercising a regulatory or disciplinary jurisdiction whether within the Cayman Islands or elsewhere;
- (f) The default of any **approved bank**, intermediate broker, settlement agent or OTC counterparty with which it has deposited or to which it has passed **client** money;
- (g) The **broker member** is unable to perform any of the calculations set out in the chapter 11 regarding **client money rules**;
- (h) The **broker member** is unable to perform any of the reconciliation's required in the chapter 11 regarding **client money rules**;
- (i) The **broker member** is unable to perform any of the calculation's required in the chapter 11 regarding its **position risk requirement, counterparty risk requirement, foreign exchange risk requirement** and **large exposure risk requirement**.

CONTRAVENTION OF RULES

14.10. A **broker member** shall notify the **Exchange**, immediately it becomes aware, in writing of any contravention by the **broker member** of the rules of the **Exchange** or any other matter that is material to the **broker member's** suitability for membership of the **Exchange**.

14.11. With the exception of a **remote broker member**, a **broker member** shall notify the **Exchange**, immediately it becomes aware, in writing that it has failed to continue to meet the capital adequacy requirements set out in chapter 11.

PERIODIC RETURNS

FINANCIAL RETURNS AND LARGE EXPOSURES

- 14.12. The financial returns and large exposures rules apply to the business of a **broker member**, unless the **broker member** is a **remote broker member**, an **approved bank** or is regulated by, or is a branch office of an organisation regulated by, a **recognized regulatory body**.
- 14.13. A **broker member** shall report its net worth, liquid capital and total liabilities to the **Exchange** in a format approved by the **Exchange** no later than 30 calendar days after the end of each calendar month, except where the **liquid capital** of a **broker member** falls to below 150% of the levels required in these rules, in which case the report must be made within 14 calendar days until its **liquid capital** has risen to, and remained at, at least 150% for three months.
- 14.14. A **broker member** whose **liquid capital** has decreased by 25% or more from the level reported in its previous monthly report shall immediately notify the **Exchange** when it learns of this event and shall provide a written explanation of the decrease.
- 14.15. A **broker member** shall report to the **Exchange**, on a quarterly basis, any exposure to a **client**, which is equal to or exceeds 10% of its **liquid capital**.

FINANCIAL STATEMENTS

- 14.16. A **broker member** shall audit and submit **its financial statements to the Exchange within three months of the end of the broker member's financial year**.

COMPLIANCE RETURNS

- 14.17. With the exception of a **remote broker member**, a **broker member** shall, within three months of the **broker member's** year end, conduct an annual review of its business to determine the effectiveness of its compliance and monitoring procedures and shall report the main conclusions of this review to the **Exchange**, identifying any areas of concern in relation to compliance with these rules. In particular, the report should have regard as to whether:
- (a) There is a clear structure to the compliance work and this structure is defined in writing along with an organisation chart setting out reporting lines for those with compliance responsibility;
 - (b) Those responsible for compliance have direct access to the senior executive officer;
 - (c) Those with compliance responsibility have appropriate status and independence;
 - (d) There are adequate operating procedures and internal compliance rules and relevant employees have been appropriately trained in their application;
 - (e) Those with compliance responsibility have regularly monitored the level of compliance within the broker member;
 - (f) Client complaints have been dealt with promptly and effectively;
 - (g) Compliance resources are adequate;
 - (h) Those with compliance responsibility have access to all information.

- 14.18. Included in the report required by rule 14.17 should be a statement signed by at least two **directors** of the **broker member**, confirming that each **director** has reviewed the information provided to the **Exchange** in the report and confirm that no matters detailed within that report have changed, or that the only details within the report which have changed are those notified to the **Exchange** on the appropriate date.

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