

Guidance Note: Financial Obligations

References: Chapter 2, CMAEC Business Rules

Introduction

This guidance note has been issued to assist Exchange brokers comply with their financial obligations under the CMAEC Business Rules.

Regulatory Objectives

The key objective of the financial obligations for Exchange brokers is to build on the key operative provisions contained in the Corporations Act to create an appropriate financial operating environment for Exchange brokers and their clients.

Therefore, many of the financial obligations of Exchange brokers in the CMAEC Business Rules supplement their obligations under the Corporations Act.

Primary Obligations of Exchange Brokers

Chapter 2 of the CMAEC Business Rules sets out the key financial obligations of Exchange brokers. These provisions should be read closely with the capital liquidity requirements in Chapter 3 of the CMAEC Business Rules.

The primary obligations of Exchange brokers under Chapter 2 are to:

- maintain a trust account under clearly defined principles;
- maintain their books of account generally;
- comply with a specified audit regime; and
- maintain, and in some cases provide to the Exchange, a set of reports.

Trust Account

The majority of provisions dealing with the administration of trust accounts by holders of a securities dealer's license are contained in Part 7.8 of the Corporations Act.

These provisions are supplemented by CMAEC Business Rule 2.4 that requires after-hours deposits to be made the following business day.

CMAEC Business Rule 2.20 requires a reconciled balance between an Exchange broker's trust account records and those of its banker to be performed on a weekly basis.

In addition, CMAEC Business Rule 2.22 requires a detailed reconciliation to client by client records each quarter.

In practice, the Exchange expects Exchange brokers to operate sufficiently advanced systems to maintain a running ledger of client balances capable of being reconciled to the banking records of the Exchange broker.

Trial Balances and Annual Accounts

The Exchange envisages Exchange brokers adopting modern accounting regimes in their offices and, as a minimum, expects Exchange brokers to be able to perform a trial balance on a monthly basis and to provide to the Exchange within two months following year end a set of audited accounts that give a true and fair view of the state of affairs of the Exchange broker's business.

Audit Arrangements

The Exchange expects Exchange brokers to submit to an audit regime coupled with a notification requirement so that the Exchange will at all times know the auditor an Exchange broker has appointed.

Returns to the Exchange

Exchange brokers are required to include in their annual accounts a schedule of investments as at the end of the year. The information required is set out in Annexure 2A which must be completed and returned to the Exchange. This schedule details each asset type, the quantity held, its valuation amount and basis, its acquisition date and any other information that the Exchange broker believes would lead to a fair assessment of its value (e.g. any encumbrances).

Exchange brokers that engage in underwriting must maintain a register in relation to each underwriting agreement. CMAEC Business Rule 2.23 details the material to be included in the register.

CMAEC Business Rules 2.24 and 2.25 require Exchange brokers to notify the Exchange when certain events occur in relation to an underwriting. To the extent that CMAEC

Business Rule 2.25 allows the Exchange discretion in notification of any underwriting agreement, the Exchange requires notification of any agreement that relates to a security either currently listed or proposed to be listed on the Exchange.

Scope of Guidance Note

This guidance note is intended to assist Exchange brokers to comply with their obligations under the CMAEC Business Rules. It is not exhaustive, does not in any way act as a substitute for any CMAEC Business Rule and is not binding on the Exchange in its application of the Rules in any particular case.

This guidance note does not constitute legal advice by the Exchange. Where appropriate, Exchange brokers should obtain their own professional advice about compliance with their obligations under the CMAEC Business Rules.