



# **BUSINESS CONDUCT MODULE**



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MODULE	BC:	Business Conduct
CHAPTER	BC-A:	Introduction

## BC-A.1 Purpose

### *Executive Summary*

- BC-A.1.1 This Module contains requirements that have to be met by investment firm licensees with regards to their dealings with clients.
- BC-A.1.2 The Rules contained in this Module aim to ensure that investment firm licensees deal with their clients in a fair and open manner, and address their clients' information needs.
- BC-A.1.3 The Rules build upon several of the Principles of Business (see Module PB (Principles of Business)). Principle 1 (Integrity) requires investment firm licensees to observe high standards of integrity and fair dealing, and to be honest and straightforward in their dealings with clients. Principle 3 (Due skill, care and diligence) requires investment firm licensees to act with due skill, care and diligence when acting on behalf of their clients. Principle 7 (Client Interests) requires investment firm licensees to pay due regard to the legitimate interests and information needs of their clients, and to communicate with them in a fair and transparent manner.
- BC-A.1.4 The Rules contained in this Module are largely principles-based and focus on desired outputs rather than on prescribing detailed processes. This gives investment firm licensees flexibility in how to implement the basic standards prescribed in this Module.

### *Legal Basis*

**BC-A.1.5** This Module contains the CBB's Directive on business conduct by investment firm licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The directive in this Module is applicable to all investment firm licensees.

- BC-A.1.6 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



<b>MODULE</b>	<b>BC:</b>	<b>Business Conduct</b>
<b>CHAPTER</b>	<b>BC-A:</b>	<b>Introduction</b>

## BC-A.2 Module History

### *Evolution of the Module*

BC-A.2.1 This Module was first issued in April 2006 by the BMA, as part of the first phase of Volume 4 (Investment Business) to be released. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

BC-A.2.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 4 was updated in July 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

BC-A.2.3 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes
BC-A.1	07/2007	New Rule BC-A.1.5 introduced, categorising this Module as a Directive.
BC-2.8.14 and 2.12.2 (k)	04/2008	Clarified the record retention period to be in line with Article 60 of the CBB Law.
BC-A.1.3	07/2008	Corrected reference to read investment firm licensee.
BC-2.2	07/2008	Added reference and definition of accredited investor and expert investor to client classification.
BC-2.2	10/2009	Updated client classification and definitions.
BC-2.7	10/2009	Corrected to read accredited investors.
BC-2.8.6	07/2010	Paragraph amended.
BC-2.9.1 and BC-2.9.2	07/2010	Updated to include requirements regarding complaints.
BC-2.11.1	07/2010	Updated to be in line with Article 117 of the CBB Law.

### *Superseded Requirements*

BC-A.2.4 This Module supersedes the following provisions contained in circulars or other regulatory requirements:

Document Ref.	Date of Issue	Module Ref.	Document Subject
OG/274/95	28 Aug 1995		Provision of investment and other financial services.
BC/15/98	6 Sept 1998		Code of Conduct for Investment advisory companies.
BC/83/96	19 May 1996		Minimum requirements for Terms and Conditions standard form.
BC/73/96	1 May 1996		Promotional Schemes.

BC-A.2.5 Further guidance on the implementation and transition to Volume 4 (Investment Business) is given in Module ES (Executive Summary).



<b>MODULE</b>	<b>BC: Business Conduct</b>
<b>CHAPTER</b>	<b>BC-B Scope of Application</b>

## BC-B.1 License Categories and Overseas Offices

### *License Categories*

**BC-B.1.1** This Module applies to all categories of investment firm licensees (i.e. categories 1, 2 and 3) with regards to regulated investment services undertaken by them.

### *Client Categories*

BC-B.1.2 This Module provides for three categories of clients, and applies different levels of protection to each, depending on their level of sophistication.

**BC-B.1.3** The scope of application of this Module with regards to client categories is as follows:

Section	Subject Matter	Client Category
BC-2.1	Overarching Principles	All categories.
BC-2.2	Client Classification	All categories.
BC-2.3	Marketing and Promotion	All categories; BC-2.3.18 applies to retail clients only.
BC-2.4	Accepting Clients	Retail clients only.
BC-2.5	Suitability	Retail clients only.
BC-2.6	Disclosure of Information	All categories; BC-2.6.5 to BC-2.6.12 apply to retail clients only.
BC-2.7	Dealing and Managing	All categories; various Rules apply to retail clients only.
BC-2.8	Reporting to Clients	All categories.
BC-2.9	Complaints	All categories.
BC-2.10	Conflicts of Interest	All categories.
BC-2.11	Confidentiality	All categories.
BC-2.12	Appendix	All categories; various Paragraphs apply to retail clients only.

### *Overseas Branches and Subsidiaries*

**BC-B.1.4** Investment firm licensees must ensure that their branches and subsidiaries operating in foreign jurisdictions comply, at a minimum, with local conduct of business standards and regulatory requirements (where applicable).

**BC-B.1.5** Where conduct of business standards applied by overseas branches and subsidiaries of an investment firm licensee fall below the standards set out in this Module, the investment firm licensee must notify the CBB of the fact.

BC-B.1.6 CBB encourages its investment firm licensees to apply – with respect to its overseas branches and subsidiaries - conduct of business standards at least equivalent to those set out in this Module. Where this is not the case, then CBB will consider any potential risk to the investment firm licensee that may arise through adverse reputational or other consequences.



MODULE	BC:	Business Conduct
CHAPTER	BC-1:	Base Requirements

## BC-1.1 General Rules

**BC-1.1.1** This Module applies to the regulated investment services of all investment firm licensees.

BC-1.1.2 This Module aims to encourage high standards of business conduct, which are broadly applicable to all investment firm licensees, all types of regulated investment services, and all types of clients. The CBB, nevertheless, recognises that clients' level of sophistication and understanding of risks underlying financial instruments vary. Accordingly, the level of safeguards provided for in the business conduct requirements for retail clients, for instance, are different from those for professional clients.

**BC-1.1.3** Investment firm licensees must comply with the Investment Business Code of Practice ('the Code') throughout the lifetime of their relationship with a client.

**BC-1.1.4** Investment firm licensees must take responsibility for compliance with the Code by all persons carrying out regulated investment services on their behalf. Investment firm licensees must put in place appropriate measures across all their business operations and distribution channels to ensure compliance with the Code.

BC-1.1.5 The Investment Business Code of Practice comprises a number of overarching principles of business conduct, with respect to the conduct of regulated investment services by investment firm licensees; these cover the various stages of the life of a client relationship.

**BC-1.1.6** Investment firm licensees must maintain adequate records to demonstrate compliance with the Code.

BC-1.1.7 The Code focuses on desired outcomes, rather than prescribing detailed measures to achieve those outcomes.

BC-1.1.8 The CBB will monitor compliance with the Code and business conduct standards. If required, the CBB may develop more detailed rules and guidance to supplement the existing Code.



MODULE	BC: Business Conduct
CHAPTER	BC-2: The Investment Business Code of Practice

## BC-2.1 Overarching Principles

### BC-2.1.1

In the course of regulated investment services, licensees must:

- (a) Act with due skill, care and diligence in all dealings with clients;
- (b) Act fairly and reasonably in all dealings with clients;
- (c) Identify clients' specific requirements in relation to the products and services about which they are enquiring;
- (d) Ensure that any advice to clients is aimed at the clients' interests and based on adequate standards of research and analysis;
- (e) Provide sufficient information to enable clients to make informed decisions when purchasing investment products and services offered to them;
- (f) Provide sufficient and timely documentation to clients to confirm that their investment arrangements are in place and provide all necessary information about their products, rights and responsibilities;
- (g) Maintain fair treatment of clients through the lifetime of the client relationships, and ensure that clients are kept informed of important events;
- (h) Ensure complaints from clients are dealt with fairly and promptly;
- (i) Ensure that all information provided to clients is clear, fair and not misleading, and appropriate to clients' information needs; and
- (j) Take appropriate measures to safeguard any money and property handled on behalf of clients and maintain confidentiality of client information.



MODULE	BC:	Business Conduct
CHAPTER	BC-2:	The Investment Business Code of Practice

## BC-2.2 Client Classification

### BC-2.2.1

An investment firm licensee must classify the persons with or for whom it intends to carry on regulated investment services, in accordance with the requirements in this Section, and communicate its classification to the person concerned.

### BC-2.2.2

The purpose of the classification is to ensure that an investment firm licensee's clients are appropriately categorised so that regulatory protections are focused on those classes of client that need them most.

### BC-2.2.3

Before conducting regulated investment services with or for any client, an investment firm licensee must take reasonable steps to obtain appropriate information to establish whether that client is a retail client, expert investor or accredited investor.

### BC-2.2.4

The treatment of an investment firm licensee's clients must be in accordance with the classification it has established for the purpose of Rule BC-2.2.3.

### BC-2.2.5

Where specific rules do not exist for a particular class of clients, the CBB requires appropriate treatment in accordance with the overarching principles set forth in the Code.

### BC-2.2.6

Entities classified as expert investors or accredited investors under Rules BC-2.2.9 and BC-2.2.10 may request alternative treatment, in which case investment firm licensees must agree to treat them as retail clients.

### BC-2.2.7

A retail client, as defined in Rule BC-2.2.8, may voluntarily elect to be treated as an expert investor, in which case the investment firm licensee must obtain a signed declaration to that effect prior to any provision of regulated investment services and must satisfy itself that the client qualifies as an expert investor.





MODULE	BC:	Business Conduct
CHAPTER	BC-2:	The Investment Business Code of Practice

## BC-2.2 Client Classification (Continued)

### *Retail Client*

BC-2.2.8

For the purposes of Rule BC-2.2.3 a retail client means a client who is not classified as an expert investor or an accredited investor under Rules BC-2.2.9 and BC-2.2.10.

### *Expert Investor*

BC-2.2.9

Expert investors are:

- (a) Individuals who have a minimum net worth (or joint net worth with their spouse) of USD 100,000, excluding that person's principal place of residence;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 100,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, local authorities and state organisations.

### *Accredited Investor*

BC-2.2.10

Accredited investors are:

- (a) Individuals who have a minimum net worth (or joint net worth with their spouse) of USD 1,000,000, excluding that person's principal place of residence;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1,000,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).

### *Records*

BC-2.2.11

An investment firm licensee must make a record of the classification established for each client, including sufficient information to support such classification.



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## BC-2.3 Marketing and Promotion

**BC-2.3.1** Investment firm licensees must ensure that all advertising and promotional material that is sent to any class of client is fair, clear and not misleading.

BC-2.3.2 With respect to retail clients, in ensuring that the description of the product or the service in the promotional material is fair, clear and not misleading, the investment firm licensee should, among other precautionary measures, ensure that:

- a) The purpose, and to the extent practicable, the content, of the information or communication are likely to be understood by the average member of the group to whom the communication is addressed;
- b) Key items contained in the information are given due prominence;
- c) The method of presentation in the information does not disguise, diminish, or obscure important risks, warnings or information; and
- d) The communication does not omit information that is material to ensure it is fair, clear and not misleading.

BC-2.3.3 In ensuring that the description of the product or the service in the promotional material is fair, the investment firm licensee should avoid exaggerating the potential benefits of the investment service or financial instrument in any communication with a retail client or potential retail client.

BC-2.3.4 In ensuring that the description of the product or the service in relation to promotional material directed at retail clients is adequate, the investment firm licensee should ensure that the promotional material contains a balanced description of the main characteristics of the financial instrument and/or service to which it relates, including the nature of the financial commitment and risks involved; whether or not the financial instruments involved are illiquid, and traded in a recognised exchange or market; the existence or absence of any right of withdrawal or cancellation and, where such a right exists, its duration and the conditions for exercising it, including information on any amount that the retail client may be required to pay to exercise that right; and if the communication relates to a financial instrument or service of a person other than the investment firm licensee, the name of the person.

**BC-2.3.5** Investment firm licensees must ensure that the accuracy of all material statements of fact in promotional materials is supported by adequate evidence.

**BC-2.3.6** Investment firm licensees must not, in any form of communication with an individual client or any class of client, attempt to limit or avoid any duty or liability it may have to that individual client or class of client in relation to regulated investment services.



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CHAPTER	BC-2:	The Investment Code of Practice

## BC-2.3 Marketing and Promotion (Continued)

**BC-2.3.7** Investment firm licensees that underwrite or market public offerings must ensure that their promotional material complies with the relevant capital markets disclosure standards of the CBB.

BD-2.3.8 Capital markets disclosure standards are currently contained in the Disclosure Standards Regulation of 3 December 2003.

### *Content of Promotions*

**BC-2.3.9** Before an investment firm licensee communicates any promotional material to a client or a potential client it must ensure the promotional material at the very least contains the information laid out in Paragraph BC-2.12.1.

**BC-2.3.10** Investment firm licensees must not make use of the name of the CBB in any promotion in such a way that would indicate endorsement or approval of its products or services.

### *Records*

**BC-2.3.11** Investment firm licensees must maintain a record of all promotional materials issued by them or on their behalf.

### *Real Time Promotions*

**BC-2.3.12** Investment firm licensees must not make a real time promotion unless the client has been notified of the fact in advance and agreed to receive real time promotion.

BC-2.3.13 For the purposes of Paragraph BC-2.3.12, a real time promotion is a promotion made in the course of a personal visit, telephone conversation or other interactive dialogue.

BC-2.3.14 Consent to receive real time promotions could be, for instance, at the time of the initial client profiling, by means of signing a form clearly indicating such consent.



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### BC-2.3 Marketing and Promotion (Continued)

#### BC-2.3.15

A representative of the investment business licensee must, on making contact for the first time with a client, and again at any time when asked to do so by the client:

- (a) Identify himself as being a representative of the investment firm licensee;
- (b) State the name of the investment firm licensee; and
- (c) Present the client with a business card on meeting that client, unless he has given him such a card at a previous meeting. The business card must include a statement of the investment firm licensee's legal status.

#### BC-2.3.16

For the purposes of Rule BC-2.3.15(c), the statement on the business card should make clear the authorised status of the investment firm licensee; however it should not lead the client to believe that the product being offered has been approved by the CBB.

#### BC-2.3.17

In oral communications with a retail client, whether in person or by telephone, the representative of the investment firm licensee must:

- (i) State the genuine purpose of the call at the commencement of the conversation;
- (ii) Ascertain whether or not the client wishes him to proceed with the conversation if the time of the conversation was not previously agreed by the client;
- (iii) Explain clearly the financial instruments or other services which he is authorised to arrange;
- (iv) Recognise and respect the right of the client to terminate the call at any time; and
- (v) If he requests another appointment and the client refuses, shall accept that refusal courteously and in such a manner as to cause no embarrassment to the client.

#### *Records*

#### BC-2.3.18

Investment firm licensees must keep sufficient records of real time promotions made by them, or on their behalf by other persons, for CBB's supervision purposes.

#### BC-2.3.19

These records should include evidence that clients have been notified in advance and agreed to receive real time promotions, as required under Rule BC-2.3.12.



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## BC-2.4 Accepting Clients

### *Applicability*

BC-2.4.1 This Section applies to retail clients only.

### *Terms of Business*

BC-2.4.2 Investment firm licensees must provide their retail clients with their terms of business, setting out the basis on which the regulated investment services are to be conducted.

BC-2.4.3 The terms of business in relation to providing regulated investment services to a retail client must take the form of a client agreement.

BC-2.4.4 The terms of business must include the rights and obligations of parties to the agreement, as well as other terms relevant to the regulated investment services. The terms of business must include, but are not limited to, the items included in Paragraph BC-2.12.2.

BC-2.4.5 An application form in relation to regulated investment services will be deemed to be a client agreement, provided the form includes the principal terms and conditions of the service, such that the client is provided sufficient information to allow him to understand the basis on which the service is to be conducted.

BC-2.4.6 The client agreement must be provided in good time prior to providing the regulated investment service, and it must set out or refer to, among other matters, the rights and obligations of the parties to the agreement, and the terms on which the service is to be conducted.

BC-2.4.7 For the purposes of Rule BC-2.4.6, “good time” should be taken to mean sufficient time to enable the client to consider properly the service or financial instrument on offer before he is bound.

### *Client Understanding and Acknowledgement*

BC-2.4.8 Investment firm licensees must not enter into a client agreement unless they have taken reasonable care to ensure that their retail client has had a proper opportunity to consider the terms.

BC-2.4.9 Investment firm licensees must obtain their retail client’s consent to the terms of the client agreement as evidenced by a signature or an equivalent mechanism.



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## BC-2.4 Accepting Clients (Continued)

BC-2.4.10 The equivalent mechanism refers to instances where a client may have signed a mandate letter or other document accompanying the terms of the client agreement.

BC-2.4.11 The client agreement must contain the signature of both parties to the agreement. If the agreement is signed by only the client, copies of the signed agreement must be provided by the investment firm licensee to the client.

### *Records*

BC-2.4.12 Investment firm licensees must keep sufficient records of client agreements and any documents referred to in the client agreement as soon as the agreement comes into force, for CBB's supervision purposes.

BC-2.4.13 Detailed record-keeping requirements are contained in Module GR (General Requirements) and Module FC (Financial Crime).



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## BC-2.5 Suitability

### *Applicability*

**BC-2.5.1** This Section applies to retail clients only.

### *Information and communication*

**BC-2.5.2** Investment firm licensees must seek information from their retail clients (and potential retail clients about their needs, circumstances and investment objectives (including their risk appetite), relevant to the services to be provided.

BC-2.5.3 For the purposes of Rule BC-2.5.2, the investment firm licensee, when providing the regulated investment services, should ask the client or potential client to provide information regarding his knowledge and experience in the investment field relevant to the specific type of financial instrument or service offered or demanded so as to enable the licensee to assess whether the financial instrument or service is appropriate to the client. The evaluation of the client's needs, circumstances and investment objectives (including risk appetite) can be done through a structured questionnaire.

**BC-2.5.4** For the purposes of satisfying the requirement under Rule BC-2.5.2, investment firm licensees must ensure that the information and facts they hold about their clients are accurate, complete and up to date.

**BC-2.5.5** Where an investment firm licensee is managing financial instruments for a client, it must assess whether the client's portfolio or account remains suitable over the lifetime of the client relationship and advise the client if it is no longer suitable.

**BC-2.5.6** Where an investment firm licensee has pooled a client's assets with those of others, with a view to taking common discretionary management decisions, the investment firm licensee must take reasonable steps to ensure that the transaction is suitable for the related clients having regard to their stated investment objectives.

### *Records*

**BC-2.5.7** Investment firm licensees must keep a record of each recommendation made to retail clients, and be able to demonstrate to the CBB compliance with this Section.



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## BC-2.6 Disclosure of Information

### *Applicability*

**BC-2.6.1** This Section applies to investment firm licensees in relation to their dealings with all categories of clients, except when stated otherwise.

### *Initial Disclosure Requirement*

**BC-2.6.2** Investment firm licensees must provide (with respect to regulated investment services), comprehensible information to clients or potential clients on:

- a) Itself and the types of services that it can provide;
- b) Whether it is acting as agent or principal;
- c) Fees, costs and associated charges such as:
  - i. The basis or amount of its charges, remuneration and commission for conducting regulated investment services and
  - ii. The nature or amount of any other income receivable by it or, to its knowledge, by its associate and attributable to that regulated investment service;
- d) Financial instruments and proposed strategies and appropriate guidance on and warnings of the risks associated with those financial instruments and strategies; and
- e) Information about methods of redress.

BC-2.6.3 The purpose of BC-2.6.2 is to ensure that clients are reasonably able to understand the nature and risks of the investment service and type of financial instrument that is being offered and, consequently, to take investment decisions on an informed basis. This information may be provided in standard format.

### *Risks*

**BC-2.6.4** Investment firm licensees must disclose adequate information to all classes of clients about risks underlying the financial instrument that are not readily apparent and which relate to the regulated investment service being provided.





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## BC-2.6 Disclosure of Information (Continued)

### BC-2.6.5

Without prejudice to the scope of the requirement under Rule BC-2.6.2(c), investment firm licensees must provide retail clients with appropriate guidance on, and warnings of, relevant risks when providing regulated investment services, in relation to:

- a) Transactions in illiquid financial instruments;
- b) Leveraged transactions, including asset portfolios or collective investment schemes that have embedded leverage;
- c) Financial instruments subject to high volatility in normal market conditions;
- d) Securities repurchase agreements or securities lending agreements;
- e) Transactions which involve credit, margin payments, or deposit of collateral;
- f) Transactions involving material foreign exchange risk
- g) Interests in real estate; and/or
- h) Islamic financial instruments.

### BC-2.6.6

In relation to transactions involving warrants or derivatives, investment firm licensees must provide retail clients with a written statement that includes explanations of their characteristics, in particular their leverage effect, liquidity and price volatility.

BC-2.6.7 To satisfy Rule BC-2.6.6, with respect to warrants, investment firm licensees should provide retail clients with a statement that includes, at a minimum, the information contained in Paragraph BC-2.12.3.

BC-2.6.8 To satisfy Rule BC-2.6.6, with respect to futures contracts, investment firm licensees should provide retail clients with a statement that includes, at a minimum, the information contained in Paragraph BC-2.12.4.

BC-2.6.9 To satisfy Rule BC-2.6.6, with respect to option transactions, investment firm licensees should provide retail clients with a statement that includes, at a minimum, the information contained in Paragraphs BC-2.12.5 and BC-2.12.6.

### BC-2.6.10

In relation to a transaction in a financial instrument that is not readily realisable, investment firm licensees must:

- (a) Warn the retail client that there is a restricted market for such financial instruments, and that it may therefore be difficult to deal in the financial instrument or to obtain reliable information about its value; and
- (b) Disclose any position knowingly held by the investment firm licensee or any of its associates in the financial instrument or in a related financial instrument.



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## BC-2.6 Disclosure of Information (Continued)

**BC-2.6.11** The risk warning given to a retail client or potential retail client must be given due prominence in all related materials and must not be concealed or masked in any way by the wording, design or format of the information provided.

**BC-2.6.12** Risk warnings provided to a retail client or potential retail client about warrants or derivatives must make clear that the instrument can be subject to sudden and sharp falls in value. Where the retail client may not only lose his entire investment but may also be required to pay more later, he must also be warned about this fact and the possible obligation to provide extra funding.

### *Cancellation and Withdrawals*

**BC-2.6.13** Investment firm licensees must disclose in their terms of business the existence or absence of a right to cancel as per the provisions of Paragraph BC-2.4.2.

**BC-2.6.14** Investment firm licensees must pay due regard to the interests of their clients and treat them fairly.

### *Records*

**BC-2.6.15** Investment firm licensees must keep a record of statements issued in compliance with Rule BC-2.6.6, and of other information or recommendations provided to their clients, and be able to demonstrate to the CBB compliance with this Section.



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## BC-2.7 Dealing and Managing

### BC-2.7.1

Investment firm licensees must apply the requirements contained in this Section to all client categories.

#### *Best and Timely Execution*

### BC-2.7.2

Investment firm licensees must take all reasonable steps to obtain, when executing orders, the best possible result for clients taking into account price, costs, speed, likelihood of execution and settlement, and any other consideration relevant to the execution of the order.

### BC-2.7.3

Investment firm licensees must establish and implement effective arrangements for complying with Rule BC-2.7.2:

- a) Execution policies for each class of financial instrument;
- b) Maintenance and disclosure to clients of information regarding execution venues and arrangements for disclosure to clients if orders are to be executed outside regulated markets;
- c) Monitoring of effectiveness of the order execution arrangements and execution policies in order to identify and, where appropriate, correct any deficiencies; and
- d) Maintenance of audit trails to demonstrate to their clients that orders were executed in accordance with the relevant execution policy.

### BC-2.7.4

Investment firm licensees are not required to provide best execution where they have agreed with the client in writing that they will not provide best execution.

### BC-2.7.5

In determining whether an investment firm licensee has taken reasonable care to provide the best overall price for a client in accordance with Rules BC-2.7.2 to BC-2.7.4, the CBB will take into account whether an investment firm licensee has:

- (a) Executed orders promptly and sequentially;
- (b) Discounted any fees and charges previously disclosed to the client;
- (c) Disclosed the price at which an order is executed; and
- (d) Taken into account the available range of price sources for the execution of its clients' transactions. In the case where the investment firm licensee has access to prices of different regulated financial markets or alternative trading systems, it must execute the transaction at the best overall price available having considered other relevant factors.



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## BC-2.7 Dealing and Managing (Continued)

### BC-2.7.6

Investment firm licensees may only postpone the execution of a transaction if it is in the best interests of the client, and the prior consent of the client has been given, or when circumstances are beyond its control. The investment firm licensee must maintain a record of all postponements together with the reasons for the postponement.

- BC-2.7.7 Factors relevant to whether the postponement of an existing client order may be in the best interests of the client include where:
- The client order is received outside of normal trading hours;
  - A foreseeable improvement in the level of liquidity in the financial instrument is likely to enhance the terms on which the investment firm licensee can execute the order; or
  - Executing the order as a series of partial executions over a period of time is likely to improve the terms on which the order as a whole is executed.

### *Non-market Price Transactions*

### BC-2.7.8

Investment firm licensees must not enter into a non-market price transaction in any capacity, with or for a client, if it has reasonable grounds to suspect that the client is entering into the transaction for an illegal or improper purpose.

- BC-2.7.9 For the purposes of Paragraph BC-2.7.8, a non-market price transaction is one where the price paid by the investment firm licensee, or its client, differs from the prevailing market price. With respect to transactions in financial instruments traded on the Bahrain Stock Exchange, licensees are reminded that in Bahrain the law prohibits off-market transactions.

- BC-2.7.10 For the purposes of Paragraph BC-2.7.8, examples of improper purposes for transactions include:
- The perpetration of a fraud;
  - The disguising or concealment of the nature of a transaction or of profits, losses or cash flows;
  - Transactions which amount to market abuse;
  - High-risk transactions under the Anti Money Laundering Regulations; and
  - "Window dressing", in particular around the year end, to disguise the true financial position of the person concerned.

### BC-2.7.11

Rule BC-2.7.8 does not apply to a non-market-price transaction if it is subject to the rules of a recognised investment exchange.



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## BC-2.7 Dealing and Managing (Continued)

### *Aggregation and Allocation*

**BC-2.7.12** Investment firm licensees may only aggregate an order for a client with an order for other clients, or with an order for its own account, where:

- (a) It is unlikely that the aggregation will disadvantage the clients whose orders have been aggregated; and
- (b) It has disclosed to each client concerned in writing that it may aggregate orders, where these work to the client's advantage.

**BC-2.7.13** If an investment firm licensee has aggregated orders of clients, it must make a record of the intended basis of allocation and the identity of each client before the order is effected.

**BC-2.7.14** Where an allocation takes place, prices must not be marked up.

**BC-2.7.15** Investment firm licensees must have written policies on aggregation and allocation which are consistently applied; these must include the policy that will be adopted when only part of the aggregated order has been filled.

**BC-2.7.16** Where an investment firm licensee has aggregated a client order with an order for other clients or with an order for its own account, and part or all of the aggregated order has been filled, it must:

- (a) Promptly allocate the financial instruments concerned;
- (b) Allocate the financial instruments in accordance with its stated policy;
- (c) Ensure the allocation is done fairly and uniformly by not giving undue preference to itself or to any of those for whom it dealt;
- (d) Give priority to satisfying client orders where the aggregation order combines a client order and an own account order, if the aggregate total of all orders cannot be satisfied, unless it can demonstrate on reasonable grounds that without its own participation it would not have been able to execute those orders on such favourable terms, or at all; and
- (e) Make and maintain a record of:
  - (i) The date and time of the allocation;
  - (ii) The relevant financial instruments;
  - (iii) The identity of each client concerned; and
  - (iv) The amount allocated to each client and to the investment firm licensee.



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## BC-2.7 Dealing and Managing (Continued)

### *Excessive Dealing*

BC-2.7.17

Investment firm licensees must not advise any client to transact with a frequency or in amounts that might result in those transactions being deemed excessive in light of historical volumes, market capitalisation, client portfolio size and related factors. This Rule does not apply to clients classified as accredited investors.

### *Right to Realise a Retail Client's Assets*

BC-2.7.18

Investment firm licensees must not realise a retail client's assets, unless it is legally entitled to do so, and has either:

- (a) Set out in the terms of business:
  - (i) The action it may take to realise any assets of the retail client;
  - (ii) The circumstances in which it may do so;
  - (iii) The asset (if relevant) or type or class of asset over which it may exercise the right; or
- (b) Given the retail client written or oral notice of its intention to exercise its rights before it does so.

### *Lending to Retail Clients*

BC-2.7.19

Investment firm licensees providing credit pursuant to Paragraph AU-1.4.14, must not lend money or grant credit to a retail client (or arrange for any other person to do so) unless:

- (a) They have made and recorded an assessment of the retail client's financial standing, based on information disclosed by the retail client;
- (b) They have taken reasonable steps to ensure that the arrangements for the loan or credit and the amount concerned are suitable, based on the information disclosed by the retail client, for the type of investment agreement proposed or which the retail client is likely to enter into; and
- (c) The retail client has given his prior written consent to both the maximum amount of the loan or credit and the amount or basis of any interest or fees to be levied in connection with the loan or credit.



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## BC-2.7 Dealing and Managing (Continued)

### *Margin Requirements*

#### BC-2.7.20

Before conducting a transaction with or for a retail client, investment firm licensees must notify the client of:

- (a) The circumstances in which the client may be required to provide any margin;
- (b) The form in which the margin may be provided;
- (c) The steps the investment firm licensee may be required or entitled to take if the client fails to provide the required margin, including:
  - (i) The fact that the client's failure to provide margin may lead to the investment firm licensee closing out his position after a time limit specified by the firm;
  - (ii) The circumstances in which the investment firm licensee will have the right or duty to close out the client's position; and
- (d) The circumstances, other than failure to provide the required margin, that may lead to the investment firm licensee closing out the client's position without prior reference to him.

#### BC-2.7.21

Investment firm licensees must close out a retail client's open position if that client has failed to meet a margin call within five business days following the date on which the obligation to meet the call accrues, unless:

- (i) The investment firm licensee has received confirmation from a relevant third party (such as a clearing firm) that the retail client has given instructions to pay in full; or
- (ii) The investment firm licensee has taken reasonable care to establish that the delay is owing to circumstances beyond the retail client's control.

#### BC-2.7.22

For the purposes of Rule BC-2.7.21, investment firm licensees may require the closing of a retail client's open position in less than five business days, for their own risk management purposes.



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## BC-2.7 Dealing and Managing (Continued)

### *Programme Trading*

BC-2.7.23

Before an investment firm licensee executes a programme trade, it must disclose to its client whether it will be acting as a principal or agent. An investment firm licensee must not subsequently act in a different capacity from that which is disclosed without the prior consent of the client.

BC-2.7.24

The term “programme trade” describes a single transaction or series of transactions executed for the purpose of acquiring or disposing, for a client, of all or part of a portfolio or a large basket of financial instruments.

BC-2.7.25

Investment firm licensees must ensure that neither they, nor an associate, execute an own account transaction in any financial instrument included in a programme trade, unless they have notified the client in advance that they may do this, or can otherwise demonstrate that they have provided fair treatment to the client concerned.

### *Records*

BC-2.7.26

Investment firm licensees must keep a record of each step they undertake in relation to each transaction to demonstrate to the CBB compliance with Section BC-2.7.





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## BC-2.8 Reporting to Clients

BC-2.8.1 Section BC-2.8 applies to all client categories.

### *Confirmation of Transactions*

BC-2.8.2 When an investment firm licensee executes a transaction in a financial instrument for a client, it must promptly despatch to the client, or a designated agent of the client, a written confirmation note recording the essential details of the transaction and essential information regarding the carrying out of his order.

BC-2.8.3 For the purposes of Rule BC-2.8.2, the essential details of the transaction and essential information regarding the carrying out of the order include :

- (a) Execution price;
- (b) Charges; and
- (c) Time of execution.

BC-2.8.4 For the purposes of Rule BC-2.8.2, investment firm licensees must include at the very least in their confirmation notes, the information included in Paragraph BC-2.12.7.

### *Periodic Statements*

BC-2.8.5 Investment firm licensees must promptly and at suitable intervals provide their clients with a written statement when they:

- (a) Undertake the activity of managing financial instruments; or
- (b) Operate a client's account containing financial instruments.

BC-2.8.6 Investment firm licensees must provide a periodic statement:

- (a) Monthly, if the client is a retail client and the retail client's portfolio includes derivative transactions in highly volatile classes of financial instruments or leveraged transactions; or
- (b) At least **semi-annually** in other cases.

BC-2.8.7 Periodic statements, issued in accordance with Rule BC-2.8.5, must contain, at the very least, the information contained in Paragraph BC-2.12.8, as at the end of the period covered.

BC-2.8.8 Where an investment firm licensee undertakes the activity of managing financial instruments on a discretionary basis, the periodic statements, issued in accordance with Rule BC-2.8.5, must also include at the very least the information included in Paragraph BC-2.12.9.



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## BC-2.8 Reporting to Clients (Continued)

**BC-2.8.9** In addition to Rules BC-2.8.7 and BC-2.8.8, where the retail client may not only lose his entire investment but may also be required to pay more later, investment firm licensees must also include the additional information included in Paragraph BC-2.12.10.

### *Records*

**BC-2.8.10** Investment firm licensees must immediately record the essential elements of all orders that are received.

BC-2.8.11 For the purposes of Rule BC-2.8.10, essential elements of orders received include the particulars of the client and order, time, price of execution, and number of instruments.

**BC-2.8.12** Investment firm licensees must record the essential elements of all:

- (a) Orders executed;
- (b) Transactions executed for their own account;
- (c) non-market price transactions entered into by the investment firm licensee; and
- (d) Orders that have been aggregated with their basis of allocation.

BC-2.8.13 For purposes of Rule BC-2.8.12, investment firm licensees should include, at the very least, the information provided in Paragraph BC-2.12.9.

**BC-2.8.14** Investment firm licensees must make a copy of any confirmation of a transaction or periodic statement provided to a client, and retain it for at least ten years from the date on which it was provided.



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## BC-2.9 Complaints

### BC-2.9.1

Investment firm licensees must disclose, maintain and operate effective procedures for handling complaints **within five business days**:

- (a) Informing clients in writing of any out of court complaint and redress mechanism and methods for having access to it;
- (b) Paying compensation or other forms of redress to retail clients where the investment firm licensee decides this is appropriate; and
- (c) Regularly verifying if complaints are effectively processed.

### BC-2.9.2

On receiving complaints from clients **(in writing)**, investment firm licensees must:

- (a) Acknowledge complaints promptly, and provide clients with an explanation about how the complaint will be handled and any actions required of the client;
- (b) Consider and handle complaints fairly and promptly, keeping clients informed of progress; and
- (c) Provide final responses to clients' complaints **within 20 business days**.

### BC-2.9.3

In their final responses to clients' complaints, investment firm licensees must:

- (a) Accept (or partially accept) the complaint and where appropriate offer compensation or other forms of redress; or
- (b) Reject (or partially reject) the complaint, informing clients with a full explanation of the licensee's position.

### *Records*

### BC-2.9.4

Investment firm licensees must maintain adequate records of all complaints received, and how they were dealt with, to a level of detail sufficient to demonstrate compliance with this Section.

### BC-2.9.5

In recording complaints activity, licensees should consider the types of data and reports that will enable them to demonstrate compliance with the above Rules for handling complaints, together with the overarching principles requiring fair dealings with clients. More specific Rules and standards for complaints records will be developed over time by the CBB.



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## BC-2.10 Conflicts of Interest

### BC-2.10.1

Investment firm licensees must undertake all reasonable steps to identify conflicts of interest between themselves (or any person directly or indirectly linked to them by control) and their clients, which may arise in the course of providing a regulated investment service.

### BC-2.10.2

Where conflicts arise, investment firm licensees must:

- (a) Disclose any material interest or conflict of interest to the client in writing (which may include a disclosure in the investment firm licensee's terms of business) either generally or in relation to a specific transaction, and take reasonable steps to ensure that the client does not object;
- (b) Establish information barriers between activities such as proprietary trading, portfolio management and corporate finance business; and
- (c) Produce a written policy of independence, which requires an employee to disregard any conflict of interest or material interest when advising a client or exercising discretion.

### BC-2.10.3

If an investment firm licensee determines that it is unable to manage a conflict of interest or material interest using one of the methods described in Rule BC-2.10.2 it must decline to act for the client.



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## BC-2.10 Conflicts of Interest (Continued)

### *Personal Account Transactions*

#### BC-2.10.4

Investment firm licensees must establish and maintain adequate policies and procedures, to ensure that:

- (a) An employee does not undertake a personal account transaction unless:
  - (i) The investment firm licensee has, in a written notice, drawn to the attention of the employee the conditions upon which the employee may undertake personal account transactions and that the contents of such a notice are made a term of his contract of employment or services;
  - (ii) The investment firm licensee has given its written permission to that employee for that transaction or to transactions generally in financial instruments of that kind; and
  - (iii) The transaction will not conflict with the investment firm licensee's duties to its clients;
- (b) It receives prompt notification or is otherwise aware of each employee's personal account transactions; and
- (c) If an employee's personal account transactions are conducted with the investment firm licensee, each employee's account must be clearly identified and distinguishable from other clients' accounts.

#### BC-2.10.5

The written notice in sub-Paragraph BC-2.10.4 (a)(i) must make it explicit that, if an employee is prohibited from undertaking a personal account transaction, he must not, except in the proper course of his employment:

- (a) Procure another person to enter into such a transaction; or
- (b) Communicate any information or opinion to another person if he knows, or ought to know, that the person will as a result, enter into such a transaction or procure some other person to do so.

#### BC-2.10.6

Where an investment firm licensee has taken reasonable steps to determine that an employee will not be involved to any material extent in, or have access to information about, the investment firm licensee's investment business, then the conditions or restrictions on personal account transactions, in Rule BC-2.10.4, need not be applied to that employee.



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## BC-2.10 Conflicts of Interest (Continued)

### BC-2.10.7

Investment firm licensees must establish and maintain procedures and controls so as to ensure that an investment analyst does not undertake a personal account transaction in a financial instrument if the investment analyst is preparing investment research:

- (a) On that investment or its issuer; or
  - (b) On a related investment, or its issuer;
- until the investment research is published or made available to the investment firm licensee's clients.

#### *Investment Research*

### BC-2.10.8

Where an investment firm licensee issues investment research, its conflicts policy must specify the types of investment research issued by it. An investment firm licensee that prepares and publishes investment research must have adequate procedures and controls to ensure:

- (a) The effective supervision of investment analysts by following at the very least the items listed in Paragraph BC-2.12.11;
- (b) That any actual or potential conflicts of interest are managed in accordance with Rule BC-2.10.1; and
- (c) That the investment research issued to clients is not biased.

### BC-2.10.9

Investment firm licensees that publish investment research must take reasonable steps to ensure that the investment research:

- (a) Identifies the types of clients for which it is principally intended;
- (b) Distinguishes fact from opinion or estimates, and includes references to sources of data used;
- (c) Specifies the date when it was first published;
- (d) Specifies the period the ratings or recommendations are intended to cover;
- (e) Contains a clear and unambiguous explanation of the rating or recommendation system used;
- (f) Includes a price chart or line graph depicting the performance of the financial instrument for the period that the investment firm licensee has assigned a rating or recommendation for that financial instrument, which must also show the dates on which the ratings were revised; and



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## BC-2.10 Conflicts of Interest (Continued)

- (g) Includes a distribution of the different ratings or recommendations, in percentage terms:
- (i) For all financial instruments in respect of which the investment business licensee publishes investment research; and
  - (ii) For financial instruments, if any, where the investment firm licensee has undertaken corporate finance business with or for the issuer over the past 12 months.

### BC-2.10.10

Investment firm licensees must take reasonable steps to ensure that when it publishes investment research, disclosure is made of the following matters:

- (a) Any financial interest or material interest that the investment analyst or a close relative has, which relates to the financial instrument;
- (b) Any shareholding by the investment firm licensee or its associate of 1% or more of the total issued share capital of the issuer;
- (c) Whether the investment firm licensee or its associate acts as corporate broker for the issuer;
- (d) Any material shareholding by the issuer in the investment firm licensee;
- (e) Any corporate finance business undertaken by the investment firm licensee with or for the issuer over the past 12 months, and any future relevant corporate finance business initiatives; and
- (f) Whether the investment firm licensee is a market maker in the financial instrument.

### BC-2.10.11

If an investment firm licensee acts as a manager or co-manager of an initial public offering or a secondary offering it must take reasonable steps to ensure that it does not publish investment research relating to the financial instrument during the period beginning on the day of publication of the listing particulars or a prospectus relating to the offering of that financial instrument and ending on the 30<sup>th</sup> calendar day after the day on which the financial instrument is admitted to trading.



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## BC-2.10 Conflicts of Interest (Continued)

BC-2.10.12

Investment firm licensees and their associates must not knowingly execute an own account transaction in a financial instrument, which is the subject of investment research, prepared either by the investment firm licensee or its associate, until the clients for whom the investment research was principally intended have had a reasonable opportunity to act upon it.

BC-2.10.13

The restriction in Rule BC-2.10.11 does not apply if:

- (a) The investment firm licensee or its associate is a market maker in the relevant financial instrument;
- (b) The investment firm licensee or its associate executes an unsolicited transaction for a client; or
- (c) It is not expected to materially affect the price of the financial instrument.

### *Inducements*

BC-2.10.14

Investment firm licensees must have systems and controls, policies and procedures to ensure that neither they, nor any of their employees, offer, give, solicit or accept any inducement which is likely to conflict significantly with any duty that they owe to their clients.

BC-2.10.15

Investment firm licensees may only accept goods and services under a soft dollar agreement if:

- (a) The goods and services do not constitute an inducement;
- (b) The goods and services are reasonably expected to assist in the provision of regulated investment activities to the investment firm licensee's clients;
- (c) The agreement is a written agreement for the supply of goods or services described in Rule BC-2.10.14, and these goods and services do not take the form of, or include, cash or any other direct financial benefit; and
- (d) The investment firm licensee makes adequate disclosures regarding the use of soft dollar agreements.

BC-2.10.16

For the purpose of Sub-Paragraph BC-2.10.15(d), Paragraph BC-2.12.12 sets out the minimum disclosure requirements.

BC-2.10.17

A soft dollar agreement is an agreement in any form under which an investment firm licensee receives goods or services in return for investment business put through or in the way of another person.





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## BC-2.10 Conflicts of Interest (Continued)

### *Inducements (continued)*

#### BC-2.10.18

Before an investment firm licensee enters into a transaction for a client, either directly or indirectly, with or through the agency of another person, under a soft dollar agreement which the investment firm licensee has, or knows that another member of its group has, with that other person, it must disclose to its client:

- (a) The existence of the soft dollar agreement; and
- (b) The investment firm licensee's or its group's policy relating to soft dollar agreements.

#### BC-2.10.19

If an investment firm licensee has a soft dollar agreement under which the investment firm licensee deals for a client, the investment firm licensee must provide that client with information as set out in Paragraph BC-2.12.12.



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## BC-2.11 Confidentiality

### BC-2.11.1

Investment firm licensees must ensure that any information obtained from their clients is not used or disclosed unless:

- (a) They have the client's consent;
- (b) Disclosure is made in accordance with the licensee's regulatory obligations; or
- (c) The licensee is legally obliged to disclose the information in accordance with Article 117 of the CBB Law.

### BC-2.11.2

Investment firm licensees must take appropriate steps to ensure the security of any information handled or held on behalf of their clients.



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## BC-2.12 Appendix

- BC-2.12.1 The minimum information that should be contained in promotional material includes:
- (a) The name of the investment firm licensee communicating the promotional material;
  - (b) The investment firm licensee's Category of license;
  - (c) The investment firm licensee's address;
  - (d) A description of the main characteristics of the financial instrument involved or service offered;
  - (e) Suitable warning regarding the risks of the financial instrument involved and/or service offered; and
  - (f) A clear statement indicating that, if a retail client (as defined in Section BC-2.2) is in any doubt about the suitability of the agreement which is the subject of the promotion, he should consult his own financial adviser, or else the investment firm licensee.
- BC-2.12.2 The minimum information that should be contained in terms of business includes:
- (a) The regulatory status of the investment firm licensee;
  - (b) A statement that the licensee is bound by the CBB's regulation and licensing conditions;
  - (c) The licensee's name, address, e-mail and telephone number;
  - (d) A statement of the products and services provided by the licensee, as permitted by the CBB;
  - (e) The total price to be paid by the client to the investment firm licensee for its services, or, where an exact price cannot be indicated, the basis for the calculation of the price enabling the client to verify it;
  - (f) Information on any rights the parties may have to terminate the contract early or unilaterally under its terms, including any penalties imposed by the contract in such cases;
  - (g) Where appropriate, the client's investment objectives;
  - (h) Where appropriate, the extent to which the investment firm licensee will consider the clients' personal circumstances when considering suitability (as required under Section BC-2.5) and the details of such matters that will be taken into account;
  - (i) Any conflict of interest disclosure as required by Section BC-2.10;
  - (j) Any disclosure of soft dollar agreements under Section BC-2.10;
  - (k) A statement that clearly indicates the following:
    - (i) The client's right to obtain copies of records relating to his business with the licensee;
    - (ii) The client's record will be kept for 10 years or as otherwise required by Bahrain Law; and
  - (l) The name and job title, address and telephone number of the person in the investment firm licensee to whom any complaint should be addressed (in writing) by the client.



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## **BC-2.12 Appendix (Continued)**

- BC-2.12.3 The minimum information that should be contained in a notice in relation to a warrant includes:  
“A warrant is a time-limited right to subscribe for shares or debentures and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile. It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time, with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.”
- BC-2.12.4 The minimum information that should be contained in a notice in relation to a futures transaction includes:  
“Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements.”
- BC-2.12.5 The minimum information that should be contained in a notice in relation to a purchased option includes:  
“Buying options: buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks associated with 'futures' and 'contingent liability investment transactions'.”
- BC-2.12.6 The minimum information that should be contained in a notice in relation to a written option includes:  
“Writing options: if you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.”



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## BC-2.12 Appendix (Continued)

- BC-2.12.7 The minimum information that should be included in a transaction confirmation includes:
- The investment firm licensee's name and address;
  - Whether the investment firm licensee executed the transaction as principal or agent;
  - The client's name, account number or other identifier;
  - Where relevant, a description of the collective investment undertaking or fund, including the amount invested or number of units involved;
  - Whether the transaction was a sale or purchase;
  - The price or unit price at which the transaction was executed;
  - If applicable, a statement that the transaction was executed on an execution only basis;
  - The date and time of the transaction or a statement that the time of execution will be provided on request;
  - Due date and procedure for settlement of transaction and the bank account;
  - The amount the investment firm licensee charges in connection with the transaction, including commission charges and the amount of any mark-up or mark-down, fees, taxes or duties;
  - The amount or basis of any charges shared with another person or statement that this will be made available on request;
  - For collective investment undertakings, a statement that the price at which the transaction has been executed is on a historic price or forward price basis, as the case may be;
  - The regulated market on which the transaction was carried out or the fact that the transaction was undertaken outside a regulated market; and
  - Whether the retail client's counterparty was the investment firm licensee itself or any other person in the investment firm group.
- BC-2.12.8 The minimum information that should be included in a periodic statement includes:
- The number, description and value of each financial instrument;
  - The amount of cash held;
  - The total value of the portfolio; and
  - A statement as to the basis on which the value of each financial instrument was calculated.
- BC-2.12.9 The minimum information that should be included in a periodic statement, where the relationship includes portfolio management, includes:
- A statement of which financial instruments, if any, were at the closing date loaned to any third party and which financial instruments, if any, were at that date charged to secure borrowings made on behalf of the portfolio;
  - The aggregate of any interest payments made and income received during the account period in respect of loans or borrowings made during that period;
  - A management report on the strategy implemented (provided at least yearly);
  - Total amount of fees and charges incurred during the period and an indication of their nature;



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## BC-2.12 Appendix (Continued)

- (e) Information on any remuneration received from a third party and details of calculation basis;
- (f) Total amount of dividends, interest and other payments received during the period in relation to the clients' portfolio;
- (g) Details of each transaction which have been entered into for the portfolio during the period;
- (h) The aggregate of money and details of all financial instruments transferred into and out of the portfolio during the period;
- (i) The aggregate of any interest payments, including the dates of their application and dividends or other benefits received by the investment firm licensee from the portfolio for its own account during that period;
- (j) A statement of the aggregate charges of the investment firm licensee and its associates; and
- (k) A statement of the amount of any remuneration received by the investment firm licensee or its associates or both from a third party.

BC-2.12.10 The minimum information that should be included in periodic statements, where the relationship includes contingent liability investment transactions, includes:

- (a) The aggregate of money transferred into and out of the portfolio during the valuation period;
- (b) In relation to each open position in the account at the end of the account period, the unrealised profit or loss to the client (before deducting or adding any commission which would be payable on closing out);
- (c) In relation to each transaction executed during the account period to close out a client's position, the resulting profit or loss to the client after deducting or adding any commission;
- (d) The aggregate of each of the following in, or relating to, the client's portfolio at the close of business on the valuation date:
  - (i) Cash;
  - (ii) Collateral value;
  - (iii) Management fees; and
  - (iv) Commissions;
- (e) Option account valuations in respect of each open option contained in the account on the valuation date stating:
  - (i) The share, or future or other financial instrument involved;
  - (ii) The trade price and date for the opening transaction, unless the valuation statement follows the statement for the period in which the option was opened;
  - (iii) The market price of the contract; and
  - (iv) The exercise price of the contract.



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BC-2.12.11 The minimum requirements that should be met where the investment firm licensee prepares and publishes investment research include:

- (a) Analysts must not trade in securities or related derivatives ahead of publishing research on the issuer of these securities;
- (b) Analysts must not trade in securities or related derivatives of any issuer that they review in a manner contrary to their existing recommendations except in special circumstances subject to pre-approval by compliance or legal personnel;
- (c) Analysts must not accept inducements by issuers or others with a material interest in the subject matter of investment research; and
- (d) Investment firms must not promise issuers favorable research coverage, specific ratings or specific target prices in return for a future or continued business relationship, service or investment.

BC-2.12.12 The minimum requirements that should be met where the investment firm licensee has a soft dollar agreement under which it deals with clients include:

- (a) The percentage paid under soft dollar agreements of the total commission paid by or at the direction of:
  - (i) the investment firm licensee; and
  - (ii) any other member of the investment firm licensee's group which is a party to those agreements;
- (b) The value, on a cost price basis, of the goods and services received by the investment firm licensee under soft dollar agreements, expressed as a percentage of the total commission paid by or at the direction of:
  - (i) the investment firm licensee; or
  - (ii) other members of the investment firm licensee's group;
- (c) A summary of the nature of the goods and services received by the investment firm licensee under the soft dollar agreements; and
- (d) The total commission paid from the portfolio of that client.