

Chapter 2: Financial Obligations Of Exchange Brokers

OVERVIEW

This chapter sets out the key obligations of Exchange brokers in relation to financial matters.

FINANCIAL RECORDS AND ARRANGEMENTS

Corporations Act Requirements

- 2.1 An Exchange broker must maintain records as required by Part 7.8 of the Corporations Act and as otherwise required by the Exchange from time to time.

Trust Account

- 2.2 An Exchange Broker must maintain at least one trust account in accordance with the Corporations Act with an Australian ADI.
- 2.3 All deposits and withdrawals of funds from a trust account maintained by an Exchange Broker must be made in accordance with the Corporations Act.
- 2.4 All funds required to be deposited into a trust account maintained by an Exchange Broker and received by the Exchange broker after bank trading hours must be paid into the trust account on the first bank trading day following the day the funds are received.

Trial Balances

- 2.5 An Exchange Broker must ensure, not later than the 14th day of every month, that their books of account are in balance as at the end of the immediate preceding month. A record of the monthly trial balances must be retained by the Exchange broker until each succeeding audit under the Corporations Act has been completed.

Annual Accounts

- 2.6 An Exchange Broker must cause accounts relating to its business to be prepared for each financial year ending 30th June or such other date approved by the Exchange.
- 2.7 The assets and liabilities of an Exchange Broker's business must be brought into account in the balance sheet at such amounts and must be classified and described in the balance sheet in such manner that the balance sheet gives a true and fair view of the state of affairs of the Exchange broker's business as at the date to which it is made up.
- 2.8 An Exchange Broker must provide, or cause to be provided, to the Exchange Accountant the accounts referred in rule 2.6 not later than two months after the end of the Exchange broker's financial year in each year. If the Exchange is satisfied that in the circumstances an Exchange Broker should be granted an extension of time to provide the accounts it may grant an extension of one month for the lodgement of the accounts.

Audit Arrangements

- 2.9 An Exchange Broker must appoint an accountant or a firm of accountants as auditors to hold office, subject to the approval of the Exchange, until they are removed or retire. An Exchange Broker must appoint an auditor to fill any vacancy in the office of auditor within 14 days of the vacancy occurring or by such other time prescribed by law.
- 2.10 An Exchange Broker must notify the Exchange of:

- (a) the appointment of auditors; or
- (b) the removal or retirement of auditors,

within seven days of the appointment, removal or retirement of the Broker's auditors.

- 2.11 The records of an Exchange Broker's nominee companies must be included in the audit.
- 2.12 An Exchange Broker must have its internal control procedures and such other matters as designated by the Exchange audited by the Exchange broker's auditors once during the Exchange broker's financial year.
- 2.13 The form of an Exchange Broker's auditors' report will be prescribed by the Exchange.
- 2.14 An Exchange Broker must not place any limitations on the extent of an audit conducted by the Exchange broker's auditors. If any limitation is imposed, the Broker must cause its auditors to report the matter to the Exchange Accountant.
- 2.15 An Exchange Broker must give its auditors access to its premises and must supply to its auditors all records, documents, data and other information required by the auditors to conduct an effective audit.
- 2.16 An Exchange broker must provide, or cause to be provided, to the Exchange Accountant an auditors' report for each financial year not later than two months after the end of the Exchange broker's financial year. If the Exchange is satisfied that in the circumstances an extension should be granted to provide the auditor's report it may grant an extension of one month for the lodgement of the auditor's report. The copy of the auditors' report must be provided to the Exchange Accountant at the same time the Exchange broker provides its accounts pursuant to Rule 2.8 above.
- 2.17 If the Exchange believes it is necessary to do so, it may direct an Exchange broker to obtain a further audit of its internal control procedures and such other matters designated by the Exchange from its auditors. The Exchange Broker will provide, or cause to be provided, to the Exchange Accountant the further audit report by the date specified by the Exchange.

RETURNS TO THE EXCHANGE

Investments Schedule

- 2.18 An Exchange broker must prepare a schedule of its investments as at the end of their financial year and include the schedule with the accounts furnished to the Exchange Accountant under rule 2.8.
- 2.19 The schedule of investments must show the details prescribed by the Exchange.

Trust Account Schedule

- 2.20 On the first business day of each week an Exchange broker must reconcile the balance held in the Exchange broker's trust account on the last business day of the preceding week with the corresponding balance in the Exchange broker's accounting records.
- 2.21 If an Exchange broker fails to carry out a reconciliation during any week they must immediately notify the Exchange.
- 2.22 Within 5 business days of 31 March, 30 June, 30 September and 31 December in each year an Exchange broker must prepare, or cause to be prepared, a schedule showing the respective amounts held in the Exchange broker's trust account on behalf of clients together with the name of the particular client in relation to each amount as at the above dates.

Underwriting

- 2.23 An Exchange broker that participates in underwriting activities must maintain a register containing the following information in relation to each underwriting agreement entered into by the Exchange broker:
- (a) the number of securities covered by the underwriting agreement;
 - (b) the gross amount the Exchange broker is liable for under the underwriting agreement;
 - (c) the dates of commencement, termination and/or crystallisation of the Exchange broker's underwriting obligations under the underwriting agreement; and
 - (d) the number of securities disposed of or allocated to sub underwriters by the Exchange broker during the period of the underwriting agreement.
- 2.24 If the gross amount an Exchange broker is liable for under current underwriting agreements exceeds 25% of the Exchange broker's net tangible assets (as disclosed in the most recent balance sheet provided by the Exchange broker to the Exchange Accountant) the Broker must immediately notify the Exchange Accountant.
- 2.25 An Exchange broker will provide the Exchange Accountant with details of any current underwriting agreement they are a party to if required by the Exchange Accountant.

Financial Position Statutory Declaration

- 2.26 If required by the Exchange or the Exchange Accountant, an Exchange broker will provide to the Exchange Accountant a statutory declaration of their financial position (in such form and by the date required by the Exchange or the Exchange Accountant).

Information Contained in Returns to the Exchange

- 2.27 All returns, schedules and calculations submitted to the Exchange or the Exchange Accountant by an Exchange broker must be prepared in accordance with the rules.
- 2.28 All returns, schedules and calculations submitted to the Exchange or the Exchange Accountant must be certified as having been prepared in accordance with the rules by:
- (a) a director, in the case of a corporate Exchange broker; or
 - (b) the Exchange broker, in the case of a natural person Exchange broker.
- 2.29 The information contained in the returns, schedules and calculations referred to in rule 2.27 must be extracted from the books and records of the Exchange broker and accurately reflect the state of affairs of the Exchange broker.