

# ROYAL MONETARY AUTHORITY OF BHUTAN

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## SECURITIES BROKERS REGULATIONS 2011

OCTOBER 2011

## 1. Short title and commencement

- i. These regulations are issued in pursuant to Section 202 of the Financial Services Act of Bhutan, 2011 and must be read in conjunction with the additional requirement under the Act.
- ii. These regulations may be cited as the Securities Brokers Regulations, 2011. iii.

These regulations shall come into operation on such date as may be specified by the Authority by notice in the Official Newspaper and the Authority's website.

- iv. The requirements which are preconditions for granting a license shall be met at all times during the on-going business operations.
- v. Upon the commencement of these regulations all existing securities broker shall be provided six months time upon their request to the Authority to comply with all the requirements of these regulations.
- vi. These regulations shall be applied in order to promote the following objectives:
  - a. the ethical character and professional knowledge and competence of persons licensed as brokers or registered as broker representatives are sufficient to provide reasonable assurance that they can honestly, lawfully and competently carry out their responsibilities;
  - b. the financial capacities of securities brokers are sufficient to provide reasonable assurance that they can fulfill their financial obligations to customers and that their insolvency would not endanger the stability of the financial system;
  - c. the broker's custody and control of customer assets are adequately regulated to provide reasonable protection against loss or misappropriation;
  - d. conflicts of interest between brokers and customers or among a broker's customers are adequately disclosed or otherwise managed to provide reasonable protection against violations of the broker's obligations to customers;
  - e. the broker's advice to, solicitation of and relations with customers are so regulated as to provide reasonable assurance that the broker meets the customer's reasonable expectations as to the quality of services rendered and the primacy of customer over broker's interest;
  - f. the avoidance of manipulation, insider trading and fraudulent or deceptive acts or practices generally;

- g. reporting or dissemination of price and other information conducive to the maintenance of a free, transparent, honest, competitive and secure market;
- h. competition among brokers or with others providing similar services is not unreasonably burdened by virtue of any agreement, understanding or arrangement among them;
- i. reasonably adequate control measures to effectuate the foregoing objectives are taken, including records to be kept, internal procedures to be observed, reports to be made or cooperative procedures to be followed.

## 2. Definitions

In these regulations, the following terms shall have the meaning indicated unless the content clearly indicates otherwise:

- i. **“Act”** means the Financial Services Act of Bhutan 2011;
- ii. **“Auditor”** shall mean an auditor empanelled with the Royal Audit Authority;
- iii. **“Authority”** means the Royal Monetary Authority of Bhutan;
- iv. **“Clearing house”** means a securities clearing house licensed by the Authority;
- v. **“Client”** means a securities broker’s customer;
- vi. **“Company”** means a company incorporated under Companies Act of Bhutan, 2000;
- vii. **“Companies Act”** means the Companies Act of the Kingdom of Bhutan, 2000, and amendments thereto;
- viii. **“Depository”** means a securities depository licensed by the Authority;
- ix. **“Director”** means any member of a board of directors or of a board with similar functions by whatever name called;
- x. **“Exchange”** means a securities exchange licenced by the Authority under the Financial Services Act of Bhutan, 2011;
- xi. **“Insider trading”** has the same meaning as in Section 39 of the Companies Act 2000;
- xii. **“Investment discretion”** means legal authorization to select, obtain and dispose of investments on the client’s behalf without separate authorization for each transaction;
- xiii. **“Securities”** has the same meaning as defined in the Financial Services Act of Bhutan, 2011;

xiv. "**Securities broker**" means a judicial person licensed by the Authority, who shall carry out the business of effecting transactions in securities for account of others or in the business of dealings in securities for his own account (but not simply as an investor) and such person shall not be considered as a financial institution;

xv. "**Securities broker representative**" has same meaning as defined under Section 296 of Financial Services Act of Bhutan, 2011;

xvi. "**Securities business**" has the same meaning as defined in Section 371 of the Financial Services Act of Bhutan, 2011;

"**Significant owner**" has the same meaning as defined in the Section 371 of the Financial Services Act of Bhutan 2011;

xvii. "**Quick assets**" are cash or cash equivalent and time deposits with commercial banks with a remaining maturity of less than one year.

### **3. Application for grant of license**

An application for a license to act as a securities broker shall be made in writing to the Authority and shall contain the following documents along with a non-refundable application fee of Nu.5, 000 only in cash/draft/cheque in favor of the Authority:

- i. Letter of Application (Annexure I)
- ii. Application Form (Annexure II)
- iii. Biographical Report (Annexure III)
- iv. Broker's representative form (Annexure IV)

### **4. Capital requirement**

A securities broker shall ensure that it maintains adequate financial resources to meet its securities broking business and other commitments and to withstand the risks to which its business is subject.

- i. Every securities broker shall have and maintain at all times a minimum paid up capital of Nu. 300,000.
- ii. The paid-up capital contribution shall be deposited with the Authority after the issuance of "In-Principle Approval" and must be verified by the Financial Regulation and Supervision Department. The contribution shall not be funded through borrowings and must be from legitimate sources.
- iii. Every securities broker shall maintain at all times 10% of net assets in the form of quick assets.

## **5. Restriction on grant of broker's licence**

- i. A broker's licence shall only be granted to a company incorporated under the Companies Act.
- ii. A broker's licence shall only be granted upon fulfilling all the requirement of these regulations.
- iii. All existing brokers shall functionally and operationally independent from their parent company.

## **6. Ownership and Governance**

- i. Companies fully owned and managed by Bhutanese nationals shall be licensed as a securities broker.
- ii. A securities broker shall be a private limited company registered under the Companies Act of Bhutan.
- iii. A securities broker shall operate only under the name that has been approved by the Authority.
- iv. Non-fulfilment of any criteria set out in Annexure III by any applicant, significant owner, director, broker's representative shall invalidate the application.
- v. A securities broker shall comply with these regulations, and any other laws and regulations of the Authority.
- vi. All key post holders including directors and every significant owner of a securities broker must undergo training program conducted by financial training institute/Stock exchange.
- vii. In terms of composition of board, at least one member of the board should have an experience of 3 years in securities related business.

## **7. Grant of Licence**

- i. Only licensed securities broker shall be permitted to carry out securities broking business in Bhutan otherwise stated in the regulation.
- ii. The Authority shall grant a license to an applicant, only if the Authority, amongst others is satisfied that:
  - a) The managerial capacity of the applicant is adequate to conduct the proposed operations;
  - b) The applicant will conduct its business in an honest and transparent manner and with the professional skills appropriate to the nature and scale of its proposed activities;

- c) The applicant will conduct its business in a sound and prudent manner so as not to jeopardize performance of financial obligations;
- d) The applicant will maintain adequate accounting and other records of its business with adequate systems of control; and
- e) A proposed company will become economically sustainable in a reasonable period of time.

## **8. Other Requirements**

- i. After consideration of the documents and other information, the Authority if satisfied may issue an “In-Principle Approval”. This approval shall be valid for the period of 3 months. During which, the applicant shall take all necessary measures specified therein. The issue of “In-Principle Approval” does not bind the Authority to issue a license to conduct business.
- ii. A company in respect of which an “In-Principle Approval” has been given should not commence business before the issue of a license. Every advertisement, notice, etc. issued prior to the issue of the license should specify that it has not been issued a license to carry on securities broking business.
- iii. An applicant upon complying with the conditions specified in the “In-Principle Approval” may request the Authority to issue a license. The Authority being satisfied their after may issue a license to an applicant to carry on securities broking business.
- iv. A securities broker shall commence business within three months of issuance of a license.
- v. A securities broker shall be a member participant to any the securities exchange licensed by the Authority.
- vi. A license issued by the Authority to the applicant is non-transferrable and shall be valid for a period of one year only.
- vii. A securities broker from its fourth year of operation shall pay an annual non-refundable renewal fee as maybe determined by the Authority.
- viii. The securities broker shall display its license at all places at which it carries on its business.

## **9. Application to conform to the requirements**

An application, not complete in all respects and not conforming to the instructions specified in Annexure II and III as well as other requirements of these regulations, shall be rejected. However, the applicant shall be given 30 days to complete the application in all respects and rectify the errors, if any.

## **10. Furnishing of information, clarification and personal representation**

The Authority may require an applicant to furnish any further information or clarification during the assessment of the application, and, thereafter, in regard to any other matter as may be deemed necessary by the Authority. The applicant or its broker's representative shall, if so required, appear before the Authority for a personal representation in connection with the application.

## **11. Consideration of application**

The Authority while considering an application for grant of a license shall take into account, all matters relevant to the carrying out of the functions by the securities broker.

## **12. Display of charges**

The securities broker shall display at all times, its charges wherever appropriate.

## **13. Broker representative registration**

- i. An applicant for registration as a securities broker representative shall submit an application in writing, which shall contain the following information:
  - a. name, age, address, telephone number, identification number and principal employment;
  - b. whether the person has been (i) convicted of a crime; (ii) declared bankrupt or served as a director or officer of a bankrupt company within the year preceding the commencement of bankruptcy proceedings;
  - c. educational qualifications; and
  - d. employment history for the past five years;
- ii. The Authority may require additional information in the course of considering the application.
- iii. A broker representative shall be allowed to provide broker services only under the employment of licensed broker.
- iv. For the purpose of carrying out securities broking business, the broker representative shall have at least 3 years of experience in securities business

and shall undergo training on capital market conducted by Securities Exchange or Financial Training Institute.

- v. The Authority may grant a full broker representative registration or an executions-only registration. The latter shall not entitle the holder to:
  - a. supervise a person with a full broker representative registration; or
  - b. provide investment advice to customers concerning the value or desirability of investment in particular securities or investments, the market as a whole or any segment of the market; he may, however, respond to inquiries as to past prices and volumes, pending orders and other market data.
- vi. Where a registered broker representative ceases to be a representative of the broker in relation to which the registration was issued, both the securities broker and the representative shall inform the Authority.
- vii. Where the registered representative moves immediately to the employment of another securities broker both the representative and the new employer shall inform the Authority.
- viii. Where the registered representative does not move immediately to the employment of another securities broker, he shall not hold himself out or perform any functions related to being a representative before becoming employed by another securities broker.
- ix. Where the representative assumes employment with another securities broker within six months of leaving his previous employment the registration shall continue.
- x. Where he does not assume employment with another securities broker within six months of leaving his previous employment, the registration will lapse.

#### **14. Restriction on grant of broker's representative licence**

A broker's representative licence shall only be granted to an individual who meets the requirements as determined by the Authority.

#### **15. Revocation and suspension of licence by Authority**

- i. The Authority may revoke a licence, in the case of a licensed broker, if:-
  - a. the licensed broker is being or will be wound up;
  - b. the licensed broker ceases to carry on securities business;
  - c. the Authority has reason to believe that the licensed broker, or any of its directors or employees, has not performed its duties efficiently, honestly or fairly; or

- d. the licensed broker contravenes or fails to comply with any condition or restriction applicable in respect of the licence or any other provision of these regulations.
- ii. The Authority may revoke a licence, in the case of a broker's representative, if:-
  - a. he ceases to carry on business for which he is licensed;
  - b. he has been adjudged a bankrupt in Bhutan or elsewhere;
  - c. the licence of the broker, in relation to whom his licence was granted, is revoked;
  - d. the Authority has reason to believe that he has not performed his duties efficiently, honestly or fairly;
  - e. he is convicted of an offence involving fraud or dishonesty;
  - f. he contravenes or fails to comply with any condition or restriction applicable in respect of his licence or any other provision of these regulations.
- iii. In case Section 15 (i) or 15 (ii) applies the Authority, if it considers it desirable to do so, may instead of revoking a licence, suspend a licence for a specific period and may at any time remove its suspension.

#### **16. Notification of change of particulars**

Any change in the information pertaining to the security broker or broker representative shall be intimated to Authority.

#### **17. Conduct of business- Principles of Best Practice**

In its conduct of securities broking business, a securities broker shall at all time act according to the principles of best practice and, in particular, shall:

- i. Observe high standards of integrity and fair dealing;
- ii. Act with due skill, care and diligence;
- iii. Observe high standards of market conduct;

- iv. Seek from clients information about their circumstances and investment objectives which might reasonably be expected to be relevant in enabling it to fulfill its securities broker responsibilities to its clients;
- v. Take reasonable steps to give every client it advises, in a comprehensible and timely way, any information needed to enable the client to make a balanced and informed investment decision;
- vi. Provide the client with information about the ownership and management of the business, management of the firm, the representative(s) who will be dealing with the client's business and the broker's responsibilities to the client;
- vii. Never place its interests above those of its clients when acting on the client's behalf;
- viii. Avoid any conflict of interest with its clients and, where such a conflict unavoidably arises, ensure fair treatment to its clients by complete disclosure (provided this is acknowledged and accepted by the client) or by declining to act;
- ix. Protect properly, by way of segregation and identification, those client assets for which a securities broker is properly responsible;
- x. Maintain adequate financial resources to meet its securities broking business commitments and withstand the risks to which its securities broking business is subject;
- xi. Organise and control its internal affairs in a responsible manner, keep proper records, and have adequate arrangements to ensure that all staff employed are suitable, adequately trained and properly supervised, together with well-defined compliance procedures; and
- xii. Deal with the Authority in an open and co-operative manner and keep the Authority informed of anything concerning the business that might reasonably be expected to be disclosed to it, having due regard to the duties imposed by the Act.

## **18. Client's Agreement**

- i. Before accepting any buy/sell order from a client, a securities broker shall enter into an agreement with a client.
- ii. The agreement shall be in writing in Dzongkha or in English as required by the client.

- iii. The client shall sign a declaration that the contents of the agreement have been fully explained to him and that he accepts the agreement.
- iv. Each client agreement shall include as an attachment the provisions of Section 18 (i), identifying them as a portion of this regulation and expressly incorporating them into the terms of the agreement.

## **19. Conduct of Business Rules**

- i. In its conduct of securities broking business, a securities broker shall:
  - a. take reasonable steps to ensure that neither it nor any of its employees offers or gives, or solicits or accepts, any inducement which materially conflict with the duties owed to its clients;
  - b. where it 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 in relation to such a transaction, neither advise nor exercise authorized investment discretion on the client's behalf, in relation to that transaction unless it takes reasonable steps to ensure fair treatment for, and to inform, the client; and a broker shall resolve conflicts of interest among clients in a reasonable way with appropriate disclosure to the client;
  - c. not recommend a transaction to a client unless it has taken reasonable steps to enable the client to understand the nature of the risks involved;
  - d. when buying from or selling to the client on the securities broker's own account, inform its client of this fact;
  - e. deal with client and own account orders fairly and in due turn and ensure, unless expressly explained otherwise with regard to transactions under point (d) above, that a client should always have priority over its own orders and over the orders of any account in which the securities broker or its director, significant owner or securities broker representative has a material interest direct or indirect ("client order priority");
  - f. when it has agreed to effect or arrange a client order, effect or arrange the execution of the order as soon as reasonably practicable in the circumstances ("timely execution");
  - g. provide best execution for its clients ("best execution"); "best execution" does not preclude a broker from dealing for its own account at its published quotations where no better net price is available on a securities exchange or from other securities brokers.
  - h. ensure that every transaction it executes is promptly allocated to the appropriate buyer or seller ("timely allocation");

- i. where all orders received by it cannot be satisfied, it must give priority to satisfying orders in accordance with the applicable procedures of its securities exchange (“fair allocation”);
  - j. not, in order to generate commissions or other transaction-based compensation, recommend transactions, or, in the exercise of authorized investment discretion on the client’s behalf, arrange or effect them, if such transactions would reasonably be regarded as too frequent in the circumstances (“churning”);
  - k. take reasonable steps to ensure it does not make any recommendation to a given client, or, in the exercise of authorized investment discretion on the client’s behalf, effect or arrange a transaction, unless the securities broker in fact believes and has a reasonable basis to believe that the recommendation or transaction is suitable for the client, having regard to the facts about that client of which it is, or reasonably should be, aware (“suitability”);
  - l. not participate in any insider trading in relation to dealing in securities nor knowingly assist any other person to participate in any such insider trading, nor execute transactions for a client’s account without appropriate authorization;
  - m. when representing the orders of more than one side of a transaction arranged outside a securities exchange, if the securities broker has had any role in arranging or recommending the transaction, to clearly disclose to the clients in writing specifically on whose behalf the securities broker has arranged or promoted the transaction, to charge commission or other transaction-based compensation to that side only, and if the securities broker has had no such role, to clearly disclose to the clients in writing that it is unable to advise any side it represents upon the transaction because it is representing more than one; and
  - n. fully and understandably disclose to the client all commissions, fees and other charges for which he may become liable to the securities broker.
- ii. A securities broker that has no securities broker representative registered to do so shall not recommend or otherwise advise upon securities transactions or investments and shall not accept authorization to exercise investment discretion. It shall in any advertising, client communications or public use of its name note that it is a non-advisory executions-only securities broker.
  - iii. In any case where matching orders are brought to a securities broker at a price more than 15% below or above the last reported sale price, the broker shall inquire as to the basis of the price and record the clients’ response. In such cases and in all cases the broker shall promptly report to the securities exchange and to the Authority any reason to suspect fraud, money-laundering or financing of terrorism.

- iv. In any case where the securities broker executes trades exempted from the requirement to be traded on a securities exchange, the securities broker shall report the security, price, quantity and time of execution (conclusion of an agreement to trade at the given price) involved to the depository holding the securities or in such other manner as the Authority may direct.

## **20. Issue of contract notes**

- i. A securities broker shall, in respect of every contract for the purchase, pledge, sale or exchange of securities entered into by him (whether as principal or as agent), not later than the end of the next business day after the contract was entered into, make out a contract note which complies with Section 20 (ii) and:
  - a. where the contract was entered into as agent, or as principal to its client, deliver the contract note to the person for or with whom he entered into the contract; or
  - b. where the contract was entered into as principal, retain the contract note for itself.
- ii. A contract note made out by a securities broker under Section 20 (i) shall include:
  - a. the name or style under which the securities broker carries on its securities broking business and the address of the principal place of business at which it carries on business;
  - b. where the securities broker is acting as principal, a statement that it is so acting;
  - c. the name and address of the person on whose account the contract was entered into, and the person to whom the securities broker delivers the contract note;
  - d. the date of the contract, and the date on which the contract note is made out;
  - e. the quantity and description of the securities that are the subject of the contract;
  - f. the price per unit of the securities or other consideration, described with reasonable specificity, for which the securities are exchanged;
  - g. the amount of money or other consideration payable under the contract;
  - h. the rate and amount of commission (if any) and any other matters charged;
  - i. whether the transaction was recommended or otherwise solicited by the securities broker or whether unsolicited; and

- j. the date of settlement.

## **21. Issue of Statements**

- i. A securities brokers shall provide clients without request a written statement of account at the end of any month in which transactions have taken place in the account, showing account balances and activity once a year, otherwise, unless the balances are negligible and accounts are inactive or unless alternative arrangements are specified in the client agreement.
- ii. A securities broker shall promptly honor a client's specific request for a statement of account at any time but need not honor a standing request for repeatedly doing so, unless the client agreement so requires.

## **22. Internal Operations**

- i. A securities broker shall organize and control its internal affairs in a responsible manner, keeping proper records, and should have adequate arrangements to ensure that all employees are suitable, adequately trained and properly supervised together with defined compliance procedures.
- ii. A securities broker must take reasonable steps, including the establishment and maintenance of procedures, to ensure that its officers and employees act in conformity with:
  - a) the security broker's responsibilities under the Financial Services Act of Bhutan, 2011 and these regulations ;
  - b) the requirements of the statutory restrictions on insider trading and the confidential nature of business information it may possess; and
  - c) appropriate arrangements on propriety of personal dealings.
- iii. Without limitation of Section 22 (ii) above, in particular a securities broker shall:
  - a) satisfy itself on reasonable grounds and on a continuing basis that any representative that it appoints is fit and proper to act for it in that capacity;
  - b) have adequate resources to monitor and enforce compliance by its representatives with high standards of business conduct;
  - c) have procedures to ensure:
    - 1. the proper handling of complaints from clients relevant to its compliance with the securities regulatory system;
    - 2. that any appropriate remedial action on those complaints is promptly taken; and
    - 3. where the complaint is not promptly remedied, that the client is advised of any further avenue for complaint available to him,

including his ability to bring the matter to the attention of the securities exchange of which the broker is a participant or the Authority in accordance with the Act.

### **23. False Markets and Trading**

- i. A securities broker shall not transact securities broking business through any securities market operating in violation of licensing requirements.
- ii. A securities broker shall not create or cause to be created, or do anything with the intention of creating, or knowingly assist any other person in the creation of:
  - a. a false or misleading appearance of active trading in any securities; or
  - b. a false market in respect of any securities.
- iii. For the purposes of Section 23 (ii) a false market is a market in which a price is the result of activity which is:
  - a. intended to create a misleading appearance of the demand for or supply or value of the security or of price trends in the security but does not include withholding or gradually introducing orders, bids or offers in order to avoid adverse price impacts;
  - b. intended to effect a gift or partial gift or to conceal the origin of funds;
  - c. intended to establish an apparent market or last sale price for purposes of securities valuation or for some other ulterior purpose; or
  - d. part of a transaction for which there is compensation not reflected in the price and not fully disclosed to the market.
- iv. A securities broker shall not circulate or disseminate or authorize or assist in the circulation or dissemination of any statement or information to the effect that the price of any security will or is likely to rise or fall when, to his knowledge, the rises or falls or likely rises or falls are attributable to any action which, if done by a securities broker, would be in contravention of Section 23(ii).

### **24. Employment of fraudulent or deceptive devices etc.**

A securities broker shall not, directly or indirectly, in connection with any transaction with any person, involving the purchase, sale or exchange of securities or securities-related services employ any device, scheme or artifice to defraud that person, or engage in any act, practice, or course of business which operates as a fraud or deception.

## **25. False or misleading statements about securities**

A securities broker shall not, directly or indirectly, for the purposes of inducing the purchase or sale of the securities of any issuer, make any other person to make, with respect to the operations or the past or future performance of the issuer:

- i. any statement which is false or misleading at the time it is made with respect to any material facts; or
- ii. any statement which is, by reason of the omission of a material fact.

## **26. Insider trading**

A securities broker shall not participate in any insider trading or knowingly assist any person to participate in insider trading.

## **27. Advertising and soliciting business**

- i. Any advertising material issued by a securities broker shall:
  - a. be honest and factual; and
  - b. not be misleading or deceptive.
- ii. The Authority may prohibit the issue or require the immediate withdrawal of any advertisements issued by a securities broker, which it deems apt to confuse or mislead the public.
- iii. A securities broker shall retain copies or transcripts of all their public advertising, including those used in unsolicited sales calls, until they are inspected by the Authority.

## **28. Client Assets**

Where a securities broker has control of or is otherwise responsible for assets belonging to a client, it should arrange proper protection for them by way of segregation and identification of those assets or otherwise.

## **29. Segregation of client money**

- i. A securities broker shall pay all client money coming into its hands for or from a client into a specially created client bank account, held at a licensed bank approved by the Authority, which is segregated from any account holding money belonging to the securities broker.
- ii. A securities broker shall account properly and promptly for client money and in particulars shall ensure that:
  - a. client money and other money are kept separately;
  - b. at all times be sure how much client money stand to the credit of each client;

- c. money belonging to one client is not used for another client.

### **30. Restriction on withdrawal of Client money**

- i. A securities broker shall not withdraw client's money, except for the following purpose:
  - a. If it is not the client 's money;
  - b. to make payment to or on behalf of a client;
  - c. to make payment of a debt resulting from a trade, including commissions and fees due to broker from a client; or
  - d. to transfer money to client's account in a different bank in the client's own name.
- ii. A securities broker may withdraw money from a client's bank account for or towards payment of its own fees or commission only if:
  - a. the securities broker has given the client 7 (seven) days notice of its intention and adequate detail of the breakdown of the proposed payment, and subject to client's consent;
  - b. the fees or commission accord with the arrangements agreed with the client; or
  - c. the amount is agreed in writing by the client.

### **31. Client securities**

- i. A securities broker shall deposit all client securities into the depository into the client account which is segregated from any account holding securities belonging to another client or to the security broker.
- ii. A securities broker shall account properly and promptly for client securities and in particular shall ensure that:
  - a. securities belonging to one client do not become mixed with securities belonging to another client or with securities owned by the securities broker;
  - b. a summarized statement of the securities owned by each client is maintained;
  - c. securities belonging to one client are not used for another client, unless authorized by the client in writing.

### **32. Restriction on withdrawal of securities**

Securities broker shall not withdraw client's securities, except for the following purpose:

- i. if it is not the client's securities;
- ii. for settlement (or other permissible transfer authorized by the client) on behalf of the client.

### **33. Maintenance of books of account, records, etc**

Every securities broker shall prepare the following accounts for every accounting year:

- i. a balance sheet or a statement of affairs as at the end of each accounting period;
- ii. a profit and loss account for that period;
- iii. a statement of cash/fund flow;
- iv. additional statements on securities broking business as may be required by the Authority;
- v. every securities broker shall submit to the Authority, a copy of the audited financial statements along with the auditor's report thereon within ninety days from the close of the accounting year along with the remarks or observations of the auditors, if any, on the conduct of the business, state of accounts, etc., and a suitable explanation on such observations shall be appended to such accounts filed with the Authority;
- vi. a securities broker whose balance sheet indicates deterioration of his financial position shall immediately report to the Authority, stock exchange, clearing house and depository in which it is a participant;
- vii. a securities broker, must prepare, as at the end of each quarter in which they have executed secondary market orders exceeding Nu.1.5 million only in value:
  - a. a trial balance; and
  - b. a calculation of their quick assets.
- viii. a securities broker shall provide to the Authority, securities exchange, clearing house or depository where they are participants, a copy of the above statement within 5 days of the end of the quarter;
- ix. a securities broker shall submit to the Authority the financial statement and other materials certified by a licensed domestic accounting firm.
- x. in case of non-compliance to the requirements provided under Section 4(iii), the securities broker shall be subjected to the following:

- a. Notify the Authority
  - b. Cease dealing in securities, unless it rectifies the non-compliance within 15 days of such notification by the Authority
- xi. a securities broker shall keep sufficient accounting records which shall contain the following:
- a. separate accounts for each client in respect of client's money and securities;
  - b. entries of all the money received and expended by the securities broker;
  - c. record of all income and expenses of the securities broker;
  - d. entries of all purchases, sales, pledges or other transfers of securities by the securities broker distinguishing those which are made by the securities broker on its own account and those which are made by the securities broker on behalf of others;
  - e. daily entries of :
    - 1) transaction in a client's bank account maintained for the purpose of the Section 30;
    - 2) receipts and payment of client money not routed through a client bank account identifying the person (to/from) as such for the purpose; and
  - f. record of the balance on each client bank account; and
  - g. details of all securities which are not the property of the securities broker but for which the securities broker is accountable, showing by and for whom they are held, distinguishing those which are held for safe custody and for any other purpose.

#### **34. Audit Trail**

- i. Information required by these regulations shall be recorded in such a way as to enable a particular transaction to be identified at any time and traced through the accounting system of the securities broker.
- ii. All the books and documents, statements, contract notes etc., referred to in these regulations and maintained by the securities broker shall be retained for a period of at least ten years from the end of the year to which they relate.

### **35. Submission**

The completed application form and any correspondence should be addressed to the following:

Hon'ble Governor  
Royal Monetary Authority of Bhutan  
P.O. Box 154  
Chhophel Lam,  
Kawajangsa  
Thimphu, Bhutan  
Telephone: +975-2-23111/21700

## ANNEXURE I

**Date:**

Hon'ble Governor  
Royal Monetary Authority of Bhutan  
Thimphu, Bhutan

**Sub: Application for Securities Broker license**

Hon'ble Dasho,

I/We would like to request for a license to conduct Securities Broking business under Section 285 of Financial Services Act of Bhutan, 2011. I/We confirm and declare that all applications made by me/us are in full compliance with the Regulations for Securities Broker 2011 and other applicable laws, rules and regulation in Bhutan issued by the Authority. I/We further confirm and declare that I/we am/are satisfied to the best of our knowledge, information and belief that there is no information or statement nor is there any omission which would make our application false or misleading. I/We undertake to provide to Authority such information and documents as the Authority may reasonably require in relation to the applications. This application is made by the undersigned authorized person of (\_\_\_\_\_) pursuant to the Authority granted to by written resolution of promoters passed on (\_\_\_\_\_) for and on behalf of proposed company

Yours faithfully,

Name:

CID No.:

Address:

Tel No:

Fax No.

Email:

Encl: Documents pertaining to the application including the resolution signed by all the promoters.

## ANNEXURE II

### LICENSING APPLICATION FORM

**(Please ensure that this form is filled properly. In case of any clarifications, please feel free to call 321205 or visit Financial Regulation and Supervision Department of the Authority).**

#### Instructions for filling up the form

- i. It is important that before this application form is filled in, the regulations made by the Authority are studied carefully and understood in full.
- ii. Applicants must submit a duly completed application form together with all appropriate, supporting documents to the Authority.
  - i. Application for license will be considered only if it is complete in all respects.
  - ii. Applicants should sign the application form.
  - iii. Information which needs to be supplied in more details may be given on separate sheets which should be attached to the application form.

#### 1. Particulars of the Applicant:

1.1 Name of the Applicant :

\_\_\_\_\_

1.2 (A) Address - Principal Place of business / Registered Office.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Post Box Number: \_\_\_\_\_ Telephone No: \_\_\_\_\_

E-mail: \_\_\_\_\_ Fax No: \_\_\_\_\_

1.3 Type of Business: \_\_\_\_\_

1.4 Address for Correspondence:

\_\_\_\_\_

\_\_\_\_\_

Post Box Number: \_\_\_\_\_

Telephone No: \_\_\_\_\_

E-mail: \_\_\_\_\_

Fax No: \_\_\_\_\_

**2. Capital Structure of the proposed Securities Broker:**

2.1 Amount of Authorized Capital : \_\_\_\_\_

2.2 Amount of Issued Capital : \_\_\_\_\_

2.3 Amount of Paid-up Capital : \_\_\_\_\_

2.4 Reserves (if any): \_\_\_\_\_

**3. Shareholding pattern**

List of significant owner (holding 10% and above of applicant directly or along with associates – applicable only to limited companies)

Share holding as on: \_\_\_\_\_

Name of shareholder	No. of Shares held	% of total paid up capital of the company

4. Three years audited accounts of the company, if applicable.

**5. Organization Structure**

5.1 Status of the Applicant ( e.g. limited company-Private):

\_\_\_\_\_

5.2 Date and Place of Incorporation:

Day	Month	Year	Place
_____	_____	_____	_____

5.3 Copy of draft Article of Incorporations (final Article of Incorporation to be submitted upon incorporation of the Company with the Registrar of the Companies).

5.4 Name and Address of the principal banker of the applicant.

**6. Business Information**

6.1 A business plan/feasibility report for a period of 3 years to be submitted. The business plan should include projected volume of business & brokerage income for each class of business and income & expenditure statement in detail. Organization Chart separately showing functional responsibilities to be enclosed.

6.2 Particulars relating to the shareholders, directors, broker representative & senior managers of the company to be completed in the prescribed format Annexure III.

7. Any other information considered relevant to the nature of services rendered by the applicant.

8. Details of infrastructure like office space, equipment and manpower available with the applicant.

9. Declaration should be provided by the person nominated as the applicant, broker representative and all directors of the applicant company declaring that they were not associated with a company as a director or principal officer, whose registration as a securities broker was suspended or cancelled or refused by the Authority.

These declarations should be submitted separately by the broker representative & each Director of the company.

## DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted on behalf of the proposed Securities Broker are true, complete and correct to the best of my knowledge and belief.

Should the Authority come across any inconsistencies on the information provided, I hereby agree to fully abide by the penalties as specified under Section 138 of the Financial Services Act of Bhutan 2011.

Further, I would like to pledge that if granted a license to conduct the business, the proposed company will not violate any laws and regulation of the Authority.

Name:

Position:

Citizenship ID No:  
(Please attest copy)

Date:

Signature (Affix Legal Stamp):

Witness

Name:

Citizen ID No:

(Please attest copy)

Occupation:

Signature

**BIOGRAPHICAL REPORT**

**To be filled by all the significant owners (earning  $\geq$  10 percent), Director /Chief Executive officer/ Broker Representative**

**1. Personal Details**

a. Name	
b. Date of Birth	
c. Nationality	
d. Citizenship ID No.	

**2. Contact Information**

a. Telephone No	
b. Mobile No.	
c. Fax No.	
d. E-mail	

**3. Present Position**

a. Name and Address of the Firm	
b. Nature of Business	
c. Telephone No	

**4. Family History/Dependent**

Relationship	Name	CID No.	Date of Birth	Occupation	Email Address	Mobile No.
Father						
Mother						
Spouse						
Dependent						

**5. Education**

Name & Address of University	Years of Attendance	Major Area of Study	Degree/Certificate Granted	Date Awarded

**6. Employment Record (Pertaining to previous 5 years). Use additional sheets, if necessary, and account for all gaps in employment.**

Position held/ Department	Main responsibilities	Organization	Country	Duration

**7. Do you have a license to practice any profession?  Yes  No**  
If yes, please give details.

a. Nature of License	
b. Date of Issue	
c. License/Registration No.	
d. Licensing Agency and Address	

**8. (a) If self-employed, describe each enterprise, including the name, address, license number, your percentage of ownership and the type of business which you own or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the corporation or other entity). (b) List names, addresses and percentage of control and/or ownership of other incorporators, partners, directors, or officers of the entity or corporation referred to above.**

<b>9. Are you employed in any professional capacity, or do you perform any services for or have any business connections with any institution which is subject to the supervision of the Royal Monetary Authority of Bhutan, or any other Authority of the Royal Government of Bhutan? If "Yes", indicate the name of the institution, address and nature of your work.</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No
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<b>10.</b> Have you had, or do you now have, any financial interest, direct or indirect, in any financial institution in Bhutan. If “Yes”, give the name of the institution, address and nature of the financial interest.	<input type="checkbox"/> Yes <input type="checkbox"/> No
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**11.** Please tick whichever is relevant for the following questions below

Do you have more than 3 years experience in securities/risk management/finance/ accounting, information technology	<input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> N/A
Were you or company you worked/owned declared insolvent and adjudicated bankrupt	<input type="checkbox"/> Yes <input type="checkbox"/> No
Were you or company you worked/owned convicted by a court in any criminal offense or has been involved in any fraud/forgery, financial crime or other illegal activities	<input type="checkbox"/> Yes <input type="checkbox"/> No
Are any of your loan accounts with financial institutions classified as non-performing at any point of time (loan default by 90 days	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A

**12.** Answer “Yes” or “No” to any of the questions below if they apply to you as an individual, or a partner, director or officer of a corporation except for minor traffic violations.

a. Are any arrests, indictments, criminal information or other criminal proceedings now pending against you?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b. Were you ever convicted for any violations of the law?	<input type="checkbox"/> Yes <input type="checkbox"/> No
c. Have you or has any partnership of which you were a CEO or a major owner (more than or equal to 10% of the capital of the company) ever been liquidated or judged bankrupt?	<input type="checkbox"/> Yes <input type="checkbox"/> No
d. Has any business of which you were a director, officer, partner or major shareholder (10% or more of the voting shares) defaulted on his/her loan repayment?	<input type="checkbox"/> Yes <input type="checkbox"/> No
e. Has any enterprise in which you were a partner, director or officer been the subject of criminal indictment or other criminal proceedings?	<input type="checkbox"/> Yes <input type="checkbox"/> No

**13.** Income tax clearance: Fiscal Year ..... (Attach tax clearance certificate)

## DECLARATION

I hereby declare that I am aware that it is an offence under Section 138 of the Financial Services Act of Bhutan 2011 to provide the Authority any information which is false or misleading in a material particular.

I hereby declare that the information given in the form above and accompanying documents is complete and accurate to the best of my knowledge, information and belief and that there are no other facts relevant to this application of which the Authority should be aware.

I also undertake that as long as I continue to be a Applicant/ Brokers Representative /Director, I will notify the Director of the Financial Regulation and Supervision Department of the Authority of any material changes to, or affecting the completeness or accuracy of, the information given above as soon as possible, but in any event no later than 10 days from the day the changes come to my attention.

Further, I would like to pledge that as long as I continue to be an Applicant/ Broker Representative/Director of the company, I will not violate any laws and regulations of the Authority.

Name:  
Citizenship ID No:  
Signature:  
(Affix Legal Stamp)

Position:  
Date:

Witness:  
Name:  
Citizen ID No:  
(Please attest copy)  
Occupation:

Signature:

**APPLICATION FOR LICENSE/RENEWAL OF A BROKER  
REPRESENTATIVE**

Hon'ble Governor  
Royal Monetary Authority of Bhutan  
Thimphu

I,.....of.....  
hereby apply for a licence/renewal as ..... under the Section  
296 of Financial Services Act of Bhutan 2011 and agree to undertake, in the  
event of my application being accepted, to abide by the rules and procedures  
as per the Financial Services Act of Bhutan 2011 and other by-laws.

1. The following documents are enclosed:-

i. Name and Address of Applicant:

.....

ii. Telephone No. :

.....

iii. Nationality:

.....

iv. Identity Card No. :

.....

v. Name of the broker:

.....

vi. Licence No:

.....

vii. Address of the broker

.....

2. Please tick for “Yes” and cross for “No”

- |      |   |     |     |
|------|---|-----|-----|
|      |   | Yes | No  |
| i.   | Have you ever been declared insolvent or bankrupt.  | ( ) | ( ) |
|      |   | Yes | No  |
| ii.  | Are you of sound financial standing?  | ( ) | ( ) |
|      |   | Yes | No  |
| iii. | Have you ever been expelled or debarred from the membership of any stock exchange licensed under Financial Services Act of Bhutan 2011. | ( ) | ( ) |

3. Are you a Director on the Board of any listed company? If so, please give details.

.....

4. Are you a shareholder in any company listed with the Stock Exchange in Bhutan. If so, please give details.

.....

....

5. Academic Qualification

Name & Address of University	Years of Attendance	Major Area of Study	Degree/Certificate Granted	Date Awarded

## 6. Professional Qualification

Position/ Department	Main responsibilities	Organization	Country	Duration

7. One copy of the certificate of your broker in a Stock Exchange where the application relates to a renewal of a licence.

8. One copy of a certificate of completion of training on “**Operational aspects of the Capital Market**” issued by Stock Exchange of Bhutan or Financial Training Institute.

9. One copy of authentication letter from your employer (in case of renewal of license).

## DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted are true, complete and correct to the best of my knowledge and belief.

Should the Authority come across any inconsistencies on the information provided, I hereby agree to fully abide by the penalties as specified under Section 138 of the Financial Services Act of Bhutan 2011.

Name:

Position:

Citizenship ID No:  
(Please attest copy)

Date:

Signature (Affix Legal Stamp):

Witness

Name:

Citizen ID No:  
(Please attest copy)

Occupation:

Signature