



ASX

AUSTRALIAN STOCK EXCHANGE

BUSINESS RULE GUIDANCE NOTE

NEW CLIENTS

No: 13/97

Date: 8 December 1997 (revised for ASX demutualisation October 1998).

This Guidance Note supersedes Guidance Note 4/95 titled "New Clients" dated 3 July 1995.

Purpose

The purpose of this guidance note is to provide assistance to market participants on the interpretation of procedures that should be adopted to govern the establishment of an account by a new client which is a natural person or proprietary limited company.

Background

ASX Business Rules do not require Participating Organisations to verify the identity of their new clients although there are specific provisions of the ASX and SCH Business Rules which apply before a Participating Organisation can establish a CHESS facility for a client or conduct a transaction in the ASX's Derivatives Markets.

This Guidance Note sets out a summary of the Business Rules and other requirements which are relevant to opening a new account and trading for the first time for a new client as well as a set of operational controls that can be adopted by Participating Organisations.

Summary - Business Rule and Other Requirements

Listed below are references to Business Rules and other requirements which are relevant to opening a new account and transacting business for the first time for a new client:

Stockbrokers Mutual

Reference Society: Enquiries should be made with the Society prior to transacting business for new clients - Rule 3.10(2).

Discretionary accounts and Managed Funds:

Written authorisation must be obtained prior to managing or operating a discretionary account or managed fund - Rule 3.4.1(1).

CHESS

A Sponsorship Agreement must be obtained prior to operating a CHESS Holding - SCH Rule 5.4.1A.

Derivatives

Although the requirements may vary for different derivative products, the Business Rules cover:

Client Agreement Forms - Participating Organisations are required to have their new clients sign a client agreement prior to undertaking derivatives transactions. Participating Organisations must be satisfied that a Professional Investor has executed and lodged a Professional Investor Client Agreement Form with the Options Clearing House. Participating Organisations must make an assessment of the suitability of recommendations made to clients.

Explanatory booklet - A client must be provided with a copy of the current relevant Explanatory booklets.

Risk Disclosure Statement - A Participating Organisation must ensure the person has signed a risk disclosure statement.

Deposit or enforceable guarantee - If appropriate, Participating Organisations may require a client to provide a deposit or security such as an enforceable guarantee.

These requirements are detailed in the following Business Rules:

Derivative	Rule
Options	7.3.1
LEPOs	7.3.1.7
Share Ratios	9.7
WARRANTS	8.14

ASIC “Good Advice” Initiative

- Corporations Act sections 849 and 851 - disclosure of interests and "the know your client" provisions;
- ASIC “Good Advice” handbook;
- ASX Guidance Note 6/96 Advisory Services Guide - Execution Related Telephone Advice (30/9/96);
- ASX Guidance Note 7/96 Execution related Telephone Advice (30/9/96);
- ASX Guidance Note 8/96 Disclosure of Interests and Securities Recommendations (30/9/96).

The Financial Transaction Reports Act 1988:

The Act places various obligations on Participating Organisations to report certain transactions and retain certain records.

Control Techniques

Each Participating Organisation should -

- Adopt and follow effective policies and procedures for accepting new clients and opening new accounts;¹
- Document these policies and procedures and have copies available for reference by client advisers, and other relevant staff;
- Thoroughly explain these policies and procedures to staff;
- Regularly review these policies and procedures to ensure they remain up-to-date and effective.

Suggested Procedures

The Exchange suggests the following policies and procedures for adoption by Participating Organisations -

Policies

- Where practicable separate the function of account opening and verification so as to ensure that the same person does not provide and verify client information;
- Ensure a written record is kept which shows for each new client and account that is opened, the verifications of the client's information that was conducted;
- Do not accept the first order from a new client unless all client information is obtained and verified. If this has not occurred, obtain payment or securities (as the case may be) before acting on the person's instructions. If those instructions (if followed) would have a significant effect on the market for that security, do not accept the order until the client information is obtained and verified.
- Retain for two years, the written record that is made;
- Additional enquiries be made where -
 - (a) The new client is reluctant to provide information about themselves or some or all of the verifications requested;
 - ~~(e)-(b)~~ The new client wishes to conduct business in cash or only by way of facsimile;
 - ~~(e)-(c)~~ The new client's only address is a post office box;
 - ~~(g)-(d)~~ The new client may be a minor, a bankrupt or other person on entity which does not have the capacity to transact business on its own account; and
- Include such enquiries in the written record of the verifications of the client's information.

¹ Where a person acts on behalf of another person, the written authorisation of that person to the other should be obtained in writing. In respect of a company, written confirmation on company letterhead should be obtained of the authority of a person to act on the company's behalf, if the person cannot demonstrate that they are an officer of the company.

Qualification

ASX has published this note to promote commercial certainty, reduce costs to business and assist market participants. Nothing in this note necessarily binds ASX in the application of the Rules in a particular case. In issuing this note ASX is not providing legal advice and market participants should obtain their own advice from a qualified professional person in respect of their obligations. ASX may replace this note at any time. Readers should contact ASX to ensure they have the latest version.

Enquiries

As this note is only a guide to ASX practice, participants are advised to contact ASX to discuss their particular circumstances. The Participant Services Manager or Co-ordinator assigned to serve each Participating Organisation is available to discuss any questions you have in relation to this guidance note. Alternatively you could contact the relevant ASX offices below.

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