



***Intermediary Operations
and Procedures Manual***

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INTRODUCTION

This Manual is designed to be a reference and training tool for all associated personnel of member Firms of the Eastern Caribbean Securities Exchange (ECSE). Its purpose is to ensure that they understand the manner in which the Firm should conduct its operations in full compliance with the ECSE rules and ECSRC regulations governing the operations of the Firm. It is designed to be a starting point for a Firm to develop its own front and back office procedures and compliance manual and a training document for new practitioners in the field of securities intermediation.

The type of license granted to the Firm establishes its operational parameters. Such parameters should guide the Firm's operations.

The manual provides a general outline regarding: (a) the code of conduct to be adhered to by all member Firms and (b) the services that member Firms may offer to the investors, as well as to the issuers. It also identifies various interrelations between them (the Firms), the Exchange, Depository and Registry.

A significant aspect of the Firms operations will relate to front and back office compliance procedures. Front and Back Office procedures are similar from one Firm to the next, but are never identical. Depending on the size of the Firm, its trading volume, its level of automation, and its business mix, Firms may decide to employ varied procedures to conduct their business. Nonetheless these must be within the framework of the rules and regulations.

The intermediary should carefully review the ECSRC and the ECSE rules and regulations as they apply to the activities of its principals and registered representatives to ensure compliance.

1. LICENSING

1.1 Member Firm Licensing

Each member Firm must be a legal entity authorised by the Eastern Caribbean Securities Regulatory Commission (ECSRC) as a securities intermediary and admitted for membership in the ECSE.

Member Firms can be licensed either as broker dealers or limited service brokers. The limited service broker cannot provide investment advice nor hold customer assets. It is an order taker that accepts customer orders to buy or sell securities and submits them to the Exchange for execution and settlement.

1.2 Principal Licensing

Each Firm must have at least one principal. Principals must be licensed by the ECSRC and registered with the ECSE. All of the following positions within the Firm must be Principal Licensed: General Manager, Sales Manager, Trading Manager, Back Office Manager, and all Branch Managers.

The Firm must designate at least one person as Senior Principal with responsibility for supervising the activities of the Firm and voting on its behalf.

1.3 Registered Representative Licensing

All managers, staff, and associated personnel, who are engaged in any of the following activities at the Firm, must be licensed by the ECSRC as a registered representative and registered with the ECSE

- Solicitation (sales)
- Trading
- Underwriting
- Back-office non clerical operations (such as *performing due diligence, participating in the preparation or distribution of documents relating to the consummation of a transaction*)
- Research

ECSRC Regulations specify a list of conditions to get this license including:

- Success on the relevant securities exams
- Employment by a securities member Firm
- Bachelors Degree or equivalent professional experience
- Continuing education requirements in ECSRC accredited programs
- Restriction on equity positions in outside securities companies
- No involvement in a company undergoing bankruptcy
- No sanctions or criminal record
- Commitment to abide by all rules and regulations of the ECSRC

2. CODE OF CONDUCT

2.1 Duties and Responsibilities of Member Firms

Ethical Standards

All employees of the Firm are bound by the ECSE rule (Article 9 subsection 01) that a securities market participant shall observe "high standards of commercial honor and just and equitable principles of trade." (*This shall be interpreted to apply not only to the conduct of employees in completing their duties at this Firm, but also to other businesses and contracts in which the associated person may be engaged.*)

Segregation of Customer Accounts

A member Firm must properly identify and maintain all its customers' funds and securities in a segregated account distinct from any account containing its own funds and securities.

Outside Securities Accounts

All employees of the Firm must have prior written approval of the Senior Principal before opening any outside securities accounts other than investment fund accounts. This written approval shall be kept in the individual's personal file. Copies of periodic statements from any outside securities accounts shall be provided to the Senior Principal by the Firm providing that account. These statements shall also be placed on the employee's file. The Exchange shall periodically review these outside securities accounts for prohibited activities.

Outside Employment

All employees of the Firm must have prior written approval of the Senior Principal before being engaged in any other business activity and before receiving any compensation from any other person or legal entity (except for passive investments) which are outside the scope of that person's relationship with this Firm. A principal seeking outside employment must have prior written approval of the ECSE.

Compliance

Industry rules require adequate supervision of brokers and brokerage operations. Brokerage Firms must be able to demonstrate to regulators that they have a supervisory/compliance program, that the registered representatives are aware of the supervisory program, that the Firm's principals carry out the supervisory program, that the program has a reasonable chance of detecting errors and violations, and that the Firm responds to errors and violations when they are detected. This supervisory program must include oversight of registered representative and principal licensing and registered representative conduct.

ECSE Rules require that each Firm has written *Compliance Procedures* that are communicated to its employees and representatives.

All employees of the Firm are required to read and adhere to these compliance procedures when they join the Firm. Every employee shall sign a copy of the *Compliance Statement* after reading the Firm's compliance procedures to confirm that

they have read and understood the procedures and agree to comply with them. The original signed compliance statement shall be kept in the personal file of each employee. A sample copy of this statement is found in Appendix 7.1.

Compliance Meetings

The Firm shall hold quarterly meetings, which should be attended by all its personnel. The purpose of these meetings is to refresh the familiarity of all personnel with the supervisory procedures of the Firm. The principal shall prepare the agenda for these meetings. The principal shall keep the agenda, materials, and list of participants, signed by each, on file at the Firm.

Complaint Procedures

A complaint is any written or verbal statement alleging a grievance involving the activities of the Firm or its registered representatives with respect to any matter involving a customer's account. If a registered representative receives a verbal or written complaint from any person, he/she must immediately notify the supervising Principal of the Firm. The principal must in turn notify the ECSRC and the ECSE.

Records of all complaints shall be kept at the Firm in a complaint file.

2.2 Duties and Responsibilities of Principals

The Principal shall perform the following functions to assure conformity of branch and head office operations with the Firm's policies and securities laws, rules, and regulations:

Daily Review and/or Approval	<ul style="list-style-type: none"> New Customer Account Forms Order (Sale/Purchase) Forms Confirmation Statements Public Communications Complaints and the actions taken* Incoming Correspondence Daily Purchase and Sales Blotter ECCSD Reconciliation
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Copies of all files must be available for inspection by the ECSE and by the ECSRC

Weekly Review	<p>*Forwarded to the ECSRC via the ECSE</p> <p>Five random transactions per week to examine the following:</p> <ul style="list-style-type: none"> • Unsuitable recommendations • Excessive trading (related to discretionary accounts) • Unauthorised transactions • Improper commissions, markups, or markdowns • Other prohibited practices
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Monthly Reviews	Summary report of commissions charged by all registered representatives for indications of possible compliance problems
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Quarterly Reviews	Client account statements Personal accounts of registered representatives
Annual Reviews	Examination of entire Firm Examinations are an appropriate time to hold meetings for the purpose of reviewing compliance procedures
New Account Forms	The principal shall keep a file of all original New Account Forms
Compliance File	The Principal shall document and file all compliance supervision activities including periodic reviews and responses to problems
Complaint file	The principal shall document and file all complaints and the action taken in response

Principals shall file evidence of these reviews and the action taken to respond to potential problems in a specific "Compliance" file located at the Firm's office. Report compliance problems immediately to the ECSE and ECSRC.

2.3 Duties and Responsibilities of Registered Representatives

It is the obligation of all registered representatives to know the compliance procedures and to carry out the procedures that apply to their functions within the Firm. Each registered representative is responsible for conducting all activities in accordance with the Firm's established compliance and operational procedures, as well as all applicable securities laws, regulations, and rules. Any deviation from these compliance procedures could cause a disciplinary proceeding under one of the regulatory organisations overseeing the securities industry.

Every registered representative of the Firm is required to consult a principal of the Firm whenever he/she has a question about the proper conduct of the job or suspects that any activities of the Firm and its personnel have violated securities regulations or the Firm's policies. In the latter case, such notification should be in writing.

The registered representative must prepare and maintain records relating to customer instructions and market activity.

2.4 Record-keeping

The Firm must maintain the record keeping of the following files and records. These records must be kept for a period of 5 years and be readily accessible for at least the first two years.

Trade Blotter	Records all trades placed with the Firm. It is kept in chronological order.
Cash Blotter	Reflects all receipts and disbursements of cash at the Firm.

Client Files	Client files shall contain all documents related to the Client including copies of the following: New Account Form, Confirmation Statements, Account Statements, correspondence and complaints.
<i>Order Forms</i>	Kept in chronological order by trade date. <i>Order Forms</i> must reflect: account number; time and date of order entry; time and date of order execution; time and date of cancellation (if canceled); type of order (buy or sell); whether the trade was solicited or unsolicited; whether the Firm acted as broker or dealer; the execution price and the customer's signature.
Daily Purchase and Sales Blotter	Reflects all securities transactions. Must include account number, name and amount of securities, unit and aggregate price, trade date, and contra-party. Updates by the date following the transaction are recorded separately.
Daily Stock Record	Reflects all securities' movements between accounts and locations: between Registry and Depository, legal transfers between Clients, movements between free and segregated sub-accounts within the Depository and updates by the date following the movement. It is balanced daily against the Firm's account at the Depository.
Daily Cash Blotter	Reflects all receipts and disbursements of cash related to securities activity.
Firm Ledger	Reflecting all assets and liabilities, income, expenses and capital accounts. Updated at least monthly.
Evidence of Net Capital and Aggregate Indebtedness Computations and Filings	Contains copies of filings with proof of money balances of all ledger accounts in the form of trial balances, as well as records of computations of net capital and aggregate indebtedness.
Personal Files	Reflects one for each current and former employee. Should contain an employment application, licensing records, records of any denial, suspension or revocation of a securities license, criminal records. Should contain information about complaints, violations, and disciplinary actions as well as promotions, payments and compensations.

2.5 Public Communications

2.5.1 Approval

A licensed Principal of the Firm must review and approve all communications with the public in advance of their use (See 2.5.2). This includes letters, advertisements, seminars, articles, interviews, and scripts for radio and television broadcasts. This includes communications prepared by people associated with the Firm and by people outside the Firm preparing communications on behalf of the Firm.

The Principal shall maintain a signed sample as a record available for inspection.

2.5.2 Correspondence and Advertising File

All advertising correspondence shall be kept in a correspondence and advertising file at the Firm for a period of at least 24 months.

Each Client file shall contain a copy of all Client correspondence for 24 months.

2.5.3 Standards for Public Communications

All advertisements, sales literature, business cards, letterhead, and written communication must clearly identify the *full legal name of the Firm*.

- Communications shall be factual, containing current and accurate information.
- Communications shall not contain any statements that are exaggerated, unwarranted, or misleading.
- Communications shall acknowledge the risks inherent in investing in securities.
- Communications must not contain promises of specific results, guarantees, exaggerated or unwarranted claims, or projections or forecasts of results for which no reasonable basis currently exists.
- Communications may not make guarantees to investors about the future performance of an investment.
- Communications must cite the source of any endorsements, quotations, tables, charts, graphs, statistics, and other similar devices.
- Forecasts and projections shall be clearly identified as such.

If a communication makes a specific recommendation, the following applies:

- There must be a reasonable basis for making the recommendation.
- The communication must disclose the security's price or price range at the time the recommendation is made.
- The communication must disclose the existence of any of the following situations:

- the Firm makes a market in the securities;
- the Firm and/or its directors, officers, or principal shareholders have a current or contingent financial interest in the recommended security, unless the interest is nominal;
- the Firm participated in a public offering of the recommended security within the past two years;
- any other conflicts of interest between the Firm and the recommended security.

If a communication includes a list of past recommendations made by the Firm, the list must contain the following:

- The name of each security recommended;
- The date and type of recommendation made (buy or sell);
- The price or price range at the time the recommendation was made;
- The price or price range within which the recommendation was intended to be followed.

2.6 Prohibited Practices

No associated persons shall:

- Artificially affect the free report between the supply and demand of securities by recording fictitious transactions;
- Execute transactions on his own behalf or on behalf of the Firm's account before having executed all Client orders for securities belonging to the same issuer;
- Execute transactions that would be otherwise prohibited by ECSRC Regulations.
- Execute transactions that have not been specifically authorised by the customer unless the customer has signed a written request for a discretionary account and that the request has been granted by a principal.
- Solicit or execute transactions through unfair means, manipulation, or fraudulent practices.
- Attempt to create a false market in any security.
- Make excessive recommendations or execute excessive transactions for a Client. The standard for excessive will depend on the Client's investment objectives, risk aversion, and financial resources.
- Forge any documents used during their activity.
- Misuse customer funds. All customer monies received must be deposited in the account of the Firm designated to hold such monies as promptly as physically possible, not to exceed 24 hours. Disbursement of funds to customers shall be

made either directly between the Firm's account and the designated bank account of the customer or directly to the customer either at the head office or the branch location responsible for the account.

- Make loans to or receive loans from customers.
- "Park" securities in an account or effect any transaction to conceal the true ownership of a security.
- Participate in a customer's profits and/or losses.
- Effect transactions in a security based on confidential or privileged information. Privileged and confidential information is defined as such information about an issuer or its securities which is not available to the public, and which could influence the price or other aspects of transactions in the issuer's securities or those of associated companies, or which is likely to affect the investment decision of a reasonable investor.
- Disclose confidential or privileged information to any person who benefits from such information by trading securities. Any associated person in possession of information that could be construed as confidential or privileged is required to inform the supervising principal about their possession of such information. Principals shall periodically review personal accounts of the registered representatives they supervise to discover activity that could indicate improper use of inside information.
- Undertake securities intermediary activities on their own name and/or account.

3 INVESTOR SERVICES

3.1 Opening New Accounts

Once the Client has chosen an intermediary Firm, he/she will need to set up an account. The registered representative must ensure that the Client completes a *New Customer Account Form* and provide proof of identity before opening a new account. A sample of the account form is provided in Appendix 7.2.

In general, investors have three primary investment objectives: (1) Safety of Principal; (2) Income and ; (3) Growth of Capital and two secondary objectives (1) liquidity/marketability and (2) tax minimisation.

The following summary, in very broad terms and disregarding inflation and its effects, shows the three major kinds of securities and evaluates them in terms of the three basic investment objectives;

	<i>SAFETY</i>	<i>INCOME</i>	<i>GROWTH</i>
BONDS			
Short-term	Best	Very Steady	Very Limited
Long-term	Next Best	Very Steady	Variable
PREFERRED STOCKS	Good	Steady	Variable
COMMON STOCKS	Often the Least	Variable	Often the most

In order to provide advice suitable to the Client's investment needs and preferences, the registered representative must obtain the following information about the customer:

- Investment history and objectives (*n.a.- not applicable to limited service brokers*)
- Ability to sustain financial risk (*n.a. to limited service brokers*)
- Experience investing in the securities (*n.a. to limited service brokers*)
- Financial status (*n.a. to limited service brokers*)

If a customer refuses to provide any of the information above, the registered representative can not make any recommendations to the customer. The registered representative can place unsolicited orders for the customer in this case, as long as the customer completes and signs the section "Attestation of Refusal to Provide Information" on the New Customer Accounts Form.

This information shall be recorded on the New Account Form, which the customer must sign. To complete a new account form the registered representative must also obtain the following:

- Investor classification (*resident national, resident alien, foreign national, foreign alien*)
- Registration type (individual, joint, corporation, bank, investment company)
- Employer
- Any other information requested on the New Account Application Form

Prior to the execution of any orders in a new account, a registered principal must review and approve the *New Account Form*. The Principal must indicate on the *New Account Form* whether the request to open a new account was approved or denied, note the date and initial/sign his comments. A Client intermediary agreement signed by the Client and the principal of the Firm outlines terms and conditions of the agreement and the contractual obligations between both parties (see Appendix 7.3).

For each new account, the Firm should assign an account number and update the *New Account Log* (see sample below).

SAMPLE NEW ACCOUNTS LOG

Date	Account Number	Name	New Account Form	I.D.	Other Documents

A file should be opened for each new account and the *New Account Form* and copies of all subsequent documentation relating to that account should be held in that file, such as:

- Client Name and Account Number;
- Confirmations of Trades;
- Account Statements;
- Other forms, as applicable, for the specific account (discretionary authorisation form);
- Anecdotal records about contact with Client;
- Correspondence;
- Complaints.

3.2 Disclosure to Clients and the ECSE about the Firm

The following information must be readily available for Client access:

- Activities that the Firm is authorised to perform.
- Amount of commissions and other fees for services performed.
- Latest annual or semi-annual balance sheet of the Firm.
- Location of all offices and a contact person at the Firm from whom the Client can get information about his account or the Firm.
- Any interests that the Firm has in the securities of a public company.

The Firm will provide the ECSRC with monthly reports, quarterly reports and yearly reports as required by Regulation. Reports relate to financial and non-financial activities (see section 6- Prudential Reporting and Requirements).

3.3 Trading Securities

3.3.1 ECSE, A Quote Driven Call Auction Market

Once the Client has established an account with a brokerage Firm, he/she is ready to purchase securities. Before placing an order the registered representative needs to

make the Client aware of the quotes and options available regarding the order to buy and sell on the ECSE.

A quote consists of two prices; a bid and an asked. The bid is the highest price that someone is willing to pay for a security whereas the asked is the price at which someone wishes to sell a security. The difference between these two prices is called the spread.

Based on the services requested by the investor, the registered representative can initiate one of the following transactions (see section 3.3.3):

- a) Executed Trades (solicited- a recommendation relating to the order was provided to the Client).
- b) Executed Trades (unsolicited- no recommendation relating to the order was provided to the Client). Limited service brokers can only execute unsolicited trades.

The first step in executing a trade involves placing an order on behalf of the Client.

3.3.2 Limit Orders –

A limit order places a restriction on the price the customer will pay or accept. The price is written on the order. The customer never pays more than the limit price when buying and won't receive less than the limit price when selling. The following are special instructions that may accompany a limit order:

Qualifiers Applicable to Orders on the ECSE:

- (a) **Good for the Day** - Unless otherwise stated, the Firm will assume that orders are valid until the next close of trading, meaning that the order would be "good for the day". This is also referred to as a Day Order.
- (b) **Good-Til-Canceled** - The customer will also have the option of allowing his/her order to be "Good Til Cancelled" (GTC), in which case the order will be valid until it is either filled in an auction or the customer cancels it, or a Firm policy requires cancellation such as at the end of the month or at the end of the quarter .
- (c) **All-or-None** - In an all-or-none (AON) order, the entire amount must be executed in one trade, but it doesn't have to be executed immediately.

For example, with this order the entire 10,000 shares must be sold at one time. Partial execution of the order is not acceptable regardless of the price.

Sell 10,000 XYZ 75 AON

- (d) **Do Not Reduce** - Unexecuted GTC buy limit orders usually have the price reduced by the amount of the dividend on the ex-dividend date, and the dividend paid to the seller of the shares. In order to avoid this price reduction the investor may give this particular instruction.

(e) **Client Authorised Modification Parameters** – A Client may allow his/her intermediary to modify the limit order specified on the order form. Such instructions must be written by the Client on the form and will allow for the intermediary to exceed, within specified limits, the limit order if such modifications are necessary to enhance the client's success in the auction.

3.3.3 Solicited and Unsolicited Orders

On the sample *Order Form*, there is a place to indicate whether a customer order is "unsolicited" or "solicited". An unsolicited order is one where a registered representative made no recommendation to the customer. A solicited order is one placed as a result of a recommendation by a registered representative. This information is important for compliance with the suitability requirement for recommendations. Every recommendation to a customer must be suitably based on the customer's stated investment objective on the *New Account Form*. In theory, if no recommendation was made and a customer places an order that is unsuitable, the Firm cannot be held responsible.

In the case of a broker-dealer Firm, the Firm may still choose to refuse unsuitable unsolicited orders because of the risk that the customer might file a complaint, if the customer loses his/her money whether or not a recommendation was made. Such unfounded complaints consume time and impact a Firm's reputation.

One possible response to an unsuitable unsolicited order placed by a customer is to notify the customer that the order does not match his/her stated investment objective as recorded on the *New Account Form*. Documentation that such notification occurred, must be registered on the customer's file.

3.3.4 Trade Order Forms

In order to place an order, the customer must complete and sign the Sale or Purchase Order Form. In the case of the broker dealer Firm, the registered representative must ensure that for solicited orders the Client's order is consistent with the investment objectives stated in the *New Account Form*. (*the limited service broker Firm is not permitted to provide investment advice and therefore does not capture information relating to the Client's investment objectives. This Firm is an order taker only*)

The following are examples of buy/sell order forms. Modifications to these forms, which materially change the content and data captured, must be approved by the Exchange.

Order Received a.m./p.m.
Time of Order Executiona.m./p.m.
Order Canceled by Customer (attach written instructions given- signed fax accepted)
Time of Order Cancellationa.m./p.m.



INVESTOR PURCHASE ORDER FORM

All customers must complete this form in duplicate when making a purchase order.

Name (Mr./Miss./Mrs./Ms.) FIRST		MIDDLE INITIAL	LAST	Investor ID #
				Customer Account #
Name of Security				Security Ticker Symbol
Limit Order Purchase Price		Order Qualifiers		
Quantity of Security		DAY ORDER GOOD TILL CANCEL ALL OR NONE DO NOT REDUCE		
Order Modification Parameters Set by Client (optional)				
.....				
.....				
.....				
Order Modified To Firm's Agent Responsible for Modification..... Time of Modification				
Order Modified To Firm's Agent Responsible for Modification..... Time of Modification				
Payment Method				
Escrow Account (specify)				
Cheque Cash ECCB Account (specify).....				
Actual Quantity of Security Purchased Based on Auction Results			Auction Purchase Price	
Trade Type:		AGENCY AGENCY CROSS	Markup	Commission
		DEALER		
Unsolicited	Solicited		Order Number	Registry Transfer Number
By signing below, you authorise us to execute the above mentioned purchase request on your behalf.				
..... DATE	 CUSTOMER'S SIGNATURE		
FOR DISCRETIONARY ACCOUNTS. (only in this case will the immediate section above remain incomplete)				
I hereby verify that the customer has given to the Firm written authorisation to exercise investment discretion over account #..... for which the transaction is being executed. I have reviewed this order and determined that there is a reasonable basis in determining that this investment is consistent with the investment objectives established by the Client for this account.				
..... PRINCIPAL'S SIGNATURE				
Registered Representative's Notes				
Registered Representative's Details				
..... AGENT ID	 AGENT SIGNATURE		

**NOTE: 1.The shaded boxes are for the Firm's use only
2.It is the responsibility of the registered representative to verify and confirm with the Client the written instructions**

Order Received a.m./p.m.
Time of Order Execution a.m./p.m.
Order Canceled by Customer (attach written instructions given- signed fax accepted)
Time of Order Cancellation a.m./p.m.



INVESTOR SELL ORDER FORM

All customers must complete this form in duplicate when making a sale order.

Name (Mr./Miss./Mrs./Ms.) FIRST		MIDDLE INITIAL	LAST	Investor ID #
				Customer Account #
Name of Security				Security Ticker Symbol
Limit Order Price		Order Qualifiers DAY ORDER GOOD TILL CANCEL ALL OR NONE DO NOT REDUCE		
Quantity of Security				
Order Modification Parameters Set by Client (optional) _____ _____ _____				
Order Modified To Firm's Agent Responsible for Modification..... Time of Modification				
Order Modified To Firm's Agent Responsible for Modification..... Time of Modification				
Securities Held at: _____			Registry Account #: _____	
Actual Quantity of Security Sold Based on Auction Results			Auction Sale Price	
Trade Type:	AGENCY DEALER	AGENCY CROSS	Markup	Commission
Unsolicited	Solicited	Order Number	Registry Transfer Number	
By signing below, you authorise us to execute the above mentioned sale request on your behalf.				
..... DATE CUSTOMER'S SIGNATURE			
FOR DISCRETIONARY ACCOUNTS. (only in this case will the immediate section above remain incomplete)				
I hereby verify that the customer has given to the Firm written authorisation to exercise investment discretion over account #..... for which the transaction is being executed. I have reviewed this order and determined that there is a reasonable basis in determining that this investment is consistent with the investment objectives established by the Client for this account.				
..... PRINCIPAL'S SIGNATURE				
Registered Representative's Notes				
Registered Representative's Details				
..... AGENT ID	 AGENT SIGNATURE		

NOTE: 1.The shaded boxes are for the Firm's use only
2.It is the responsibility of the registered representative to verify and confirm with the Client the written instructions

3.3.4 Required Disclosure before making a Recommendation

Before making any recommendation to current and future Clients, a registered representative must disclose the following:

- If the Firm acts as dealer for the recommended security;
- If the registered representative has sufficient information to make the recommendation (including financial information and other public documents regarding the company whose securities are object of the recommendation);
- That there is no guarantee on future performance of the respective security;
- Any control relationship between the Firm and the issuer of any security being recommended.

A list of securities in which the Firm acts as a dealer should be available from a principal. This list shall be posted in a public place at the Firm.

3.3.5 Registered Representative Requirements Before Placing Orders

Registered representatives must complete the following before placing an order for a customer in accordance with the rules of the Exchange:

- Verify ownership of security in the case of a sell order.
- Verify good funds (cash or escrow account) in the case of a purchase order. Note that cheques only become good funds once they have been cleared.
- Determine current market price (if any) and communicate that price to the customer.
- Ask if the customer:
 - a) wants to set a limit price or a specific range;
 - b) would not accept partial execution;
 - c) when to cancel the order if it goes unexecuted.
- Obtain a limit price and cancellation deadline, if there is no activity in the issue.
- Verify suitability of order with customer's investment objectives.
- Obtain customer signature.

3.3.6 Approval of Trades

The following transactions require prior approval of a supervising Principal:

- All trades placed by a registered representative during the first ninety days of his affiliation with the Firm.
- Orders for over xx,xxx,xxx EC Dollars
- All "large" transactions to be treated as special transactions as defined by the rules of the ECSE.
- All "bunched" trades as defined by the rules of the ECSE.
- All trades for which a reduction in scheduled commission, markup, or markdown is requested by the registered representative
- Any sale transactions executed without the shares necessary for settlement being on deposit in the Firm's Depository account (if allowable under the rules of the ECCSD).

3.3.7 *Types of Trades*

i. Agency Trade

These trades are executed on behalf of a customer by the Firm without taking securities through the Firm's inventory account. Firm earns a commission for agency trades. The commission is typically based on the transaction value. The regulator sets ceilings on commissions

Agency trades with the exception of those that are done as cross trades are executed via the electronic system of the Exchange.

For example, a customer places a buy order with broker dealer X. Broker dealer X places the order via the electronic system of the Exchange to buy securities on behalf of the customer. If contra parties (sellers) have placed sell orders of the said security with the Exchange, an auction will be run to establish the trading price and the successful bidders and sellers. If the customer represented by broker dealer X is successful in the auction, settlement will take place on the following day. Broker dealer X will immediately record the securities on behalf of the customer in accordance with the instructions specified on the customer's *Account Form* related to the transaction.

ii. Dealer Trade

The Firm buys securities from the customer into inventory and earns a markdown or sells securities from its inventory to the customer earning a markup. The price of the dealer trade is based on the current inside market (between the bid and asked price) at the time of execution. The markup or markdown is built into the price confirmed to the customer. **In a dealer trade the transaction is executed off the Exchange.**

On the ECSE, the trade is reported indicating the transaction price as well as the markup/markdown. Since a dealer trade with a customer may not involve the Depository, it could settle on the same day that the trade took place (T+0).

iii. Riskless Dealer Trade

The broker dealer acts as a dealer in a trade with a customer but only holds a position in its inventory for a few minutes. The concept is that the dealer first trades with another dealer as a principal, then fills the customer order. The first leg has no risk because the dealer holds an offsetting customer order. The customer pays a markup or markdown.

EXAMPLES: Riskless Dealer Trades

1. A customer places a buy order.
2. The Firm buys the stock into inventory at the bid.
3. The Firm sells the stock to the customer at the 'ask' plus a markup as a dealer.

iv. Agency Crossed Trades

The broker dealer matches buying and selling Clients inside the Firm. When done as an agency trade, the execution price will be the same for each customer. The Firm may match the orders at an execution price either at or within the spread of inside bid and asked. The Firm earns up to an “x”% commission from both customers. Since a crossed trade does not involve the Depository, it could settle on the same day that the trade took place (T+0).

3.3.8 Commissions and Markups/Markdowns

The ECSRC allows the broker dealer Firm to charge fees for services rendered to Clients and also establishes the ceilings on these fees. The ECSE and the ECSRC set guidelines for maximum markups or markdowns. Currently a broker dealer may charge up to “x”% commissions or x”% markups or markdowns of the value of a transaction for compensation to the broker dealer and any other transaction fees. Two types of trades are distinguished:

Agency Trades

- Firm earns a commission, not a markup/markdown.
- Execution price includes no commission.
- The member Firm calculates commission amount.
- Commission is disclosed on *Client Confirmation*

Dealer Trades

- The current inside market is noted on the *Order Form*.
- The markup/markdown is based on the inside market.
- The markup/markdown is included in the execution price.
- Markup or markdown is not disclosed on *Client Confirmation*.

EXAMPLE---Markups and Commissions

George Jones has an account: number BU-22109-1 at Caribbean Brokerage Services (CBS) with a cash balance of 4,000 EC. He places a limit order with his brokerage Firm to buy 500 shares of ABC. The registered representative (trader) checks the system of the Exchange to determine the current “inside market” (i.e. the best bid and ask price) for ABC . It is as follows; **11 Bid - 12 Ask**.

Questions

1. If the trader executes the trade acting as a dealer, what price would Mr. Jones pay for 500 ABC if the trader adds a 6% markup?
2. Does Mr. Jones find out the amount of the markup?
3. If Caribbean Brokerage Service executed an agency trade instead of a dealer trade, what's the most likely purchase price that would be reported on Mr. Jones' confirmation?

Answers

1. **Dealer Scenario-** Caribbean Brokerage Services has in its inventory adequate amount of the requested securities to fulfill Mr. Jones' order. The registered representative (trader) executing the transaction, checks with the system and sees that the inside asked price is \$12.00. In this case, because Mr. Jones is buying, the markup will be based on the inside ask. CBS sets its markup at 106 % of the asked price. Therefore the total price that Mr. Jones would pay for the security is \$6,583 EC (\$13 per share) calculated as follows:

$$(1+.06)(12) = 13$$

$$(500)(13) = 6,583 \text{ EC}$$

2. No, the markup/markdown is not disclosed to the Client. Caribbean Brokerage Services sends Mr. Jones a written confirmation of the trade. That confirmation discloses the total execution price inclusive of the markup. However, it must be identified on the order form when reported to the ECSE.
3. If executed as an agency trade, the most likely price that Mr. Jones would pay and see reported on his confirmation is the trading price established once the auction was run via the system of the exchange. The trading price would be the price that optimizes the trading volume of that particular security. Caribbean Brokerage Service could add a commission based on the trading price.

The confirmation sent to the customer would disclose the amount of the commission. For example, if the trading price established by the auction was \$13.50 and the commission charged was 1%, Mr. Jones' payments would be calculated as follows:

$$(500)(13.50) = 6,750 \text{ EC for the securities (500 shares of ABC)}$$

$$(6,750)(1)/100 = 67.50 \text{ as commissions due to CBS}$$

3.3.9 Market Making

A market maker is a broker-dealer who lists price quotations (bid and ask) for securities. The bid is the price at which the broker-dealer will buy the security from another party. The ask is the price at which the broker-dealer will sell the security to another party. The bid price is almost always lower than the ask price. The purpose of the quotations is the implied promise to buy or sell the security in question at the price listed. Broker-dealers who quote prices and buy and sell with the public at those prices are deemed to be making a market in those securities.

Revenues are earned on market making activity through the difference in the bid and ask price, referred to as the "spread".

The distinction between market making and dealer activities is that a market maker has an obligation to list a bid and ask price for the securities in which he is registered as making a market, a broker dealer does not have this obligation.

3.3.10 Front Office Procedures

(a) Filling Out the Order Form

The customer and the registered representative of the member Firm should complete each transaction (a purchase order or a sell order) in the relevant sections. It is the onus of the registered representative to verify and confirm with the customer all the instructions indicated by the customer on the form. This is particularly important to avoid any trading errors that may arise.

After executing a trade, the trader writes the execution price (including any markup or markdown if it is a "dealer" trade) on the *Order Form*.

(b) Organisation of Pending Orders

Pending orders (that is, orders awaiting execution) are organised in files so that the orders with first priority for execution are in front. Orders should be executed in chronological order of receipt with one exception:

- At a given price, customer orders always take priority over orders for the Firm's own account and orders for employees of the Firm.

Buy orders are separated from sell orders. Buy limits are ordered so that highest buy limits are in front and the lowest buy limits are to the back.

Sell limits are organised such that the orders with the lowest limit price are in front and the highest limit price is at the back.

(c) Time-Stamping Orders

Each *Order Form* is time-stamped up to three times during processing:

- When the order is initially received;
- When the order is modified (if relevant);

- When the trade is cancelled (if relevant).

Time stamping creates an information trail that demonstrates prompt execution of trades in the sequence they were received.

In the event that a time-stamping device is not available, and if ECSE rules permit the then the times of receipt, execution and cancellation may be entered manually.

3.3.11 Back Office Procedures

(a) Executing an Order the ECSE

The ECSE is an automated daily call market. It employs an electronic transactional environment that allows registered representatives to trade securities in an equitable, transparent and reliable manner from remote workstations. (*see appendix 7.4 for the complete procedures from order execution to settlement*)

To access the electronic system, the firm's agent requires the relevant authorisation and user password. Once the agent has accessed the system of the Exchange, he/she would have access to several options including the ability to:

- enter bids (buy orders) and any related instructions regarding the order
- enter offers (sell orders) and any related instructions regarding the order
- review the market depth (the total existing orders for a given security related to an auction) for a particular security
- modify and/or delete orders

Refer to the ECSE Users System Manual for details on ECSE functions available to the registered representatives (agents) and to the ECSE Rules of Fair Practice for trading rules governing the intermediaries' code of conduct and operations.

In addition to trading, the back office operations also include the following basic tasks:

- Calculating the net money due to or from the customer considering any commissions, taxes, or fees.
- Preparing the Daily Blotter, a summary of all trades completed each day.
- Making a final reconciliation that all the details on the *Order Form* correctly match the data that was entered in ECSE and received by the CSD.
- Preparing and sending *Confirmation Statements* to all customers involved in trades. Issuing report to the Accounting Department concerning fees and commissions.

- Engage in the requisite activities in support of the trade settlement

Back Office Processing Steps

1. Receives *Confirmed Trades Report* from the ECSE, executed *Order Forms* from the registered representatives, and any cancel and correct order forms.
2. For agency trades, calculates the commission and writes the amount on the *Order Form*. Verifies that the commissions are within the maximum limit.
3. For dealer trades, double-checks that markups and markdowns are within the maximum limit specified by the regulations of the Commission.
4. Completes the *Daily Purchase and Sales Blotter* based on the *Order Forms*.
5. Prepares *Confirmations* for all trades. Mails/faxes *Confirmations* to customers.
6. Reconciles the *Daily Purchase and Sales Blotter*, *ECSE Confirmed Trade Report* and the *CSD Trade Report*. Researches any errors and communicates them to the Depository.

(b) ECSE Trade Confirmation Report

The Exchange confirms all trades that are executed via its system and issues a Confirmed Trade Report to its member Firms. It is this report which member Firms will then use as the basis for issuing a Client confirmation statement in relation to Clients transactions.

In the case of Crossed Trades, (where the Firm has both the buying and selling customers), and Dealer Trades (Firm buys and sells securities to and from customers from its inventory), the price is determined off the Exchange, and the member Firm confirms the trade to the customer independent of the Exchange. However, the member Firm must report the transaction to the Exchange within two minutes after the buyer and the seller have agreed to the terms of the trade. Each member Firm is responsible for maintaining accurate books, records and other documents relating to its securities business, as required by the ECSE rules and ECSRC regulations.

(c) Receiving Transaction Details

After the trade is executed and confirmed by the ECSE, the back office writes the execution price (including any commissions if it is an “agency” trade) on the *Order Form* and contacts the Client to send a *Client Confirmation Statement* (see Appendix 7.5). A copy is given to the registered representative as well.

The Firm must reconcile the *Confirmed Trade Report* provided by the ECSE with the *Order Form*, making certain that all trades were executed correctly and have been confirmed. The Confirmed Trade Report should be reconciled with the Central Securities Depository (CSD) Trade Detail Report that shows the trades that will settle at the CSD on the following day (T+1).

(d) Correcting Erroneous Trades***Trades with Customers***

In handling customers' transactions errors may occur. A Firm may maintain a policy that whoever is responsible for the error must also bear any cost or loss incurred to make the corrections.

If there is an error on a dealer trade between the Firm and a customer, or an agency crossed trade (between two customers), the Firm must correct the trade internally by marking the original *Order Form* "cancelled" and writing a correcting *Order Form*. These trades do not involve another broker dealer, nevertheless, the trade that was reported on ECSE must be cancelled by the executing Firm.

Agency Trade for a Customer

If there were an error on an agency trade on ECSE (therefore, involving another broker dealer), the trade will settle unless the contra-party agrees to cancel the ECSE trade.

To change the terms of the trade internally, the Firm may write "cancelled" on the original *Order Form*, then write a correcting *Order Form* that shows the trade settling internally against an error account or inventory. This internal process does not change the trade between the two broker dealers. It only changes the way the Firm accounts for the trade internally.

Due to errors, the Firm may need to sell excess shares or buy needed shares on the ECSE. Any gain or loss may be charged to the Firm's error account, or Client's account depending on who is responsible for the error. A correcting *Order Form* should be completed referencing the original trade and indicating the corrections to be made.

EXAMPLE---Correcting a Systems Data Entry Error

Dan Smith goes to his broker dealer Firm, Eastern Caribbean Traders Limited (ECT Ltd.) and completes an order form to buy 100 shares of ABC at 11.00 (limit order) per share. The registered representative mistakenly enters the order into the SYSTEM as BAC Company, and fails to verify the order form against what he has input into the system. The auction is run and ECT LTD. on behalf of Dan Smith purchases the 100 shares of BAC Company. When the registered representative sends the Confirmed Trade Report to Dan Smith, they discover the error. What must be done to correct the error?

- A. The registered representative phones the Client to convince him to buy BAC instead of ABC.

- B. The registered representative that placed the transaction cancels the trade with the contra selling party.
- C. The registered representative pays the cost of the error.
- D. The registered representative buys 100 shares of ABC for the customer and sells the 100 shares of BAC bought in error, charging any loss to the Firm.

SOLUTION---Correcting a System Data Entry Error

The scenario is that ECT Ltd. has a customer's order that has not been executed and an executed order that does not have a supporting order form required for bona fide transactions.

The correct answer is D. Here are the steps:

1. Notify the Client of the error and indicate that the Firm will hold itself responsible for the error and seek to fill the Client's original order at the prevailing market price at the time the order was placed. Attach a copy of this notification to the Client's order form
2. Prepare a corrected order form and submit to the Exchange to buy 100 ABC at the market in the Firm's error account, indicating that this order is to settle an outstanding order by a Client that was not executed due to an error.
3. Place an order to sell the customer 100 ABC shares from the Firm's error account at a price that reflects the market value **at the time the original order was placed by the Client** or at the current market value, if lower (optional, based on Firm's policy). Indicate on the *Order Form* that this trade corrects the previous error.

At this stage, the information for the corrected trade will be entered in the *Corrected Trades List* which should include the following: Trade Number, Trade Date, Settlement Date, Security Description, Price, Quantity, Account Number and a summary of the necessary actions to correct the error (See format of Corrected Trades List in Appendix 7.6).

(e) Recording and Reporting Trades

Most back offices use software to record all transactions, keep accounts, and produce necessary reports and statements. The back office is usually the point where trade and other transaction information (i.e., deposits, withdrawals, receipts, and deliveries) get entered into the Firm's computer system. The software should make calculations of net money due, prepare *Confirmation Statements* (see Appendix 7.5) for each transaction, and prepare the *Daily Purchase and Sales Blotter* automatically.

The *Daily Purchase and Sales Blotter* (see Appendix 7.7 for sample) summarises the information about all trades executed on a particular day. Because Firms are required

to report all trades on the ECSE the *Daily Purchase and Sales Blotter* should reconcile with the ECSE *Trade Confirmation Statement*. The Purchase and Sales Blotter should be prepared no later than the following business day.

The information on the Purchase and Sales Blotter should include:

- To whom or from whom securities are being sold
- Quantity
- Name of security
- CUSIP number
- Price
- Interest (if any)
- Commission (if any)
- Total Transaction Amount
- Trade Date
- Settlement Date
- Customer account involved in the purchase or sale
- Firm account involved in the transaction
- Internal transaction number ; and
- Time of purchase or sale

From the Daily Purchase and Sales Blotter the back office can tell which trades will settle at the Depository and which trades settle internally. (*Crossed trades and dealer trades with customers settle internally. All other ECSE trades would settle at the Depository.*) Reconcile the CSD Trade Report with the *Daily Purchase and Sales Blotter* to check that each accurately lists the trades that should settle at the Depository.

Confirmation Statements report the details of each trade to the customer. And must be sent to the customer promptly after the trade. The customer should receive the *Confirmation Statement* prior to the settlement date of the trade, so if an error has occurred he/she can alert the Firm before settlement occurs.

Firms should perform an additional comparison between the *Order Forms* from the registered representatives, the Purchase and Sales *Daily Blotter*, and *Client Confirmations* to ensure the accurate recording of trades on the books and records.

The back office researches any discrepancies and takes appropriate action to correct any errors.

The back office keeps a copy of each *Confirmation Statement*, generally a multi-part form, for its records. A copy may go to the related registered representative.

Based on either on the transaction data entered into the Firm's back office software, or based on copies of the Daily Purchase and Sales Blotter and Confirmation Statements, the Accountants post the *Accounting Journal* and *Customer Account Ledgers* (see Appendix 7.10) with all trade details, fees, markups/markdowns and commissions.

(f) Cash Receipts and Disbursements

Part of the Back Office operations include responsibility for the following:

- Receipt, deposit, and payment of funds;
- The transfer of funds at the settlement bank;
- The daily balancing of money transactions;
- Custody of funds on the premises;
- Maintaining records.

Registered representatives will promptly deliver all funds for prompt deposit in a segregated account of the Firm. All customer monies received must be deposited in the account of the Firm designated to hold such monies as promptly as physically possible. Under no circumstance will Client money ever be commingled in an account with the money of the Firm or its employees.

When customers make cash deposits, they should receive a receipt. Settlement reports from the CSD detail the daily money settlement requirement for the Firm. The *Cash Receipts And Disbursements Blotter* details all inflows and outflows of cash for the Firm every day. The information on this blotter includes:

- Amount of cash received or delivered;
- Which party received or delivered cash;
- Date cash was received or delivered;
- Account number which received or delivered cash;
- Check number, or wire number, or number of a similar instrument involved in the receipt or delivery of cash.

Dividends and interest are received for securities owned by the Firm for its own account or for the accounts of customers. See the sections below on Dividends and Proxies.

(g) Customer Account Maintenance

The Back Office includes responsibility for customer account records. These responsibilities include:

- Keep current customer account records, including securities positions and money balances in accordance with the ECSRC regulations and ECSE rules;
- Follow-up on the actual cash and securities movements for the Firm;
- Establish systems and reports that alert management to problems or violations of regulatory, rules or Firm policies;
- Oversee proper handling of inquiries and requests from customers, registered representatives and management;
- Authorize withdrawals of cash and securities from customer accounts and the Firm's accounts;

The *Customer Account Ledger* details all of the activity in a customer's account, including trade executions, trade settlements, receipts of cash, deliveries of cash, adjustments due to share splits and share dividends and securities receipts and delivery due to corporate actions.. This ledger is an essential personal record for each customer and contains the following information:

- Trade date and settlement date of any activity;
- Number of securities bought or sold, received or delivered;
- Settlement price of securities bought or sold;
- Name and description of securities bought or sold, received or delivered;
- Interest and dividends received and charged and other corporate actions;
- Net debits or credits for the account;
- Net long (debit) or short (credit) positions for the account;
- Long and short positions already in inventory.

Customer accounts are updated each day there is any activity in an account. Firms must produce Customer Account Statements (see Appendix 7.11) at least quarterly.

(h) Segregating Securities

At the Depository (CSD), the Firm will hold two main sub-accounts “segregated” and “free”.

(A third sub-account, “transfer-in”, receives shares transferred from one broker-dealer to another apart from the settlement process(See section 3.5). The segregated account contains securities that belong to the customers of the Firm. The free sub-account holds shares in the Firm’s inventory and shares belonging to customers that are pending settlement. The Depository will deliver or receive securities to or from the Firm’s free account on settlement date. To prepare for settlement, Firms must transfer securities pending settlement into the free account just prior to the settlement date.

(i) Stock Record

Broker dealer Firms maintain two types of Stock Records.

1. The Daily Stock Record, and
2. The Main Stock Record

Daily Stock Record

The *Daily Stock Record* details accounts that experienced movements or transactions on a particular day. Each *Daily Stock Record Activity* updates the *Main Stock Record* (See Appendix 7.11 for sample). The *Main Stock Record* (produced weekly) shows all accounts for which a position exists for a given security on a given day.

The sample reports:

- The type of movement;
- The opening position of the affected account;
- The debit or credit to the affected account;
- The closing position of the account;
- Columns to record the offsetting change to the free or segregated account;
- A memo field detailing additional useful

(See Appendix 7.10 for sample *Daily Stock Record*)

Main Stock Record

Securities held at the Depository for a broker dealer are tracked in the broker dealer’s *Main Stock Record*. The main stock record is the major control record used to track inventory. It provides a record and control of the quantities of each security for which the Firm is accountable, identifying owners as well as locations of securities. It reflects positions in all securities within the Firm's possession or control as of

settlement date. Information in the *Stock Record* is derived from other records of original entry, hence the *Stock Record* is a subsidiary ledger.

It is maintained by the double-entry principal, similar to accounting records, with entries booked as either 'long' (debit) or "short" (credit). A debit on the Stock Record means that securities have been placed under the control of the broker-dealer Firm for the benefit of the account that owns the securities, a credit on the Stock Record means that securities have been taken out of the control of the broker dealer and delivered to another party.

A location that is holding a securities position is designated as being "short". Every position on the Stock Record has a long side (owner) and a short side (location).

The total number of shares long must equal the total number of shares short for each security or the form will end up with a "stock record break". The two types of stock record breaks are:

- *Long stock record breaks*- situations where the Firm has more shares on the short location side of the stock record than on the long (ownership) side of the stock record
- *Short stock record breaks*- situations where the Firm has more shares on the long side of the stock record than on the short side.

(j) Stock Record Maintenance

The stock record tracks securities movements in and out of the Firm, by keeping track of the following:

- Securities transfer between Free and Segregated sub-accounts at the Depository;
- Receipt and delivery of securities on settlement;
- Free transfer of securities to and from other Firms when the Firm loses or receives a new customer account;
- Bank loans*;
- Stock loans*;
- Tracking corporate actions.

* not yet relevant in the Eastern Caribbean.

The "*Daily Stock Record*" and "*Main Stock Record*" are used to record movements of individual securities in and out of the Firm and between the segregated and free accounts.

The typical debits listed on the *Main Stock Record* include:

- The Firm's trading or investment accounts;
- Customers' accounts;
- Fail to deliver;
- Stock borrowed*;
- Contra broker accounts;
- Break Account (to balance while a break is being researched).

The typical credits listed on the Main *Stock Record* include:

- Registry;
- Depository;
- Bank;
- Securities in transit;
- Bank loan*;
- Stock loan*;
- Fail to receive;
- Stock dividend receivables;
- Short sales in Firm's inventory account*;
- Short sales in customer accounts*;
- Contra broker accounts
- Break Account (to balance while a break is being researched).

*currently not permitted in the Eastern Caribbean securities markets

The *Stock Record* is maintained in security order (alphabetically or by ISIN), and accounts appear within each security.

(k) ECSE Trade Settlement

i. Delivery versus Payment

Delivery versus Payment (DVP) is the process of delivering a security position with the simultaneous irrevocable delivery of funds to the delivering entity. The Depository provides DVP through book entry transfers of securities with a movement of cash for net balances due at the end of the day.

ii. Reports Used in Settling Trades

The Depository provides each Firm a summary of trades received from ECSE each day. This summary is known as a *Trade Details Report*. The Depository provides each Firm with a *Projected Settlement Report* on trade date (T+0), listing trades that are about to settle. The *Projected Settlement Report* reports the net share position of each security and the total net money balance due. From the *Projected Settlement Report*, Firms can prepare for settlement on T+1.

iii. Trade Settlement Procedures

By the morning of the settlement date, broker dealers that are net sellers of a particular security must move securities sold for customers from the segregated to the free account at the CSD. On settlement date, net securities due will be moved by the Depository from one participant Firm to another among their free accounts with net buyers receiving and net sellers delivering securities. Securities will be transferred unless a net seller does not have the securities in its CSD free account to fulfill its obligations. Under this circumstance, a “fail” occurs. A failed trade can result in the suspension of a broker dealer Firm’s privileges at the CSD.

Each day, the Firm will receive a Settlement Report from the Depository that lists the trades that have settled that day, the securities received or delivered, and the money a Firm must deliver or receive. Firms must acknowledge the amount is accurate within a given time limit. Then a Firm must instruct its bank to transfer the amount due to the Depository’s bank account. The Depository must receive this transfer of money before an established deadline each day.

Firms will have only one (1) net money settlement to transfer to, or receive from, the Depository’s bank each day. The CSD participants must have enough money to cover the daily net settlement value each day at their clearing bank. The Settlement Bank, which is the Eastern Caribbean Central Bank (ECCB) will receive money settlement values from the CSD, which should match the payment orders received from the clearing banks. Based on the payment orders received, the ECCB will move money between the clearing banks and the CSD. The clearing banks will be authorised by their broker-dealer customers to automatically move money from their clearing accounts to the ECCB for settlement. Participants will see settlement activity on the *Settled Trades Report* from the Depository.

SUMMARY OF SETTLEMENT REPORTS

The settlement section of the back office will receive a variety of reports needed to plan for and complete its duties:

- Each day, the back office operations involve preparing a *Purchase and Sales Daily Blotter* to be reconciled with the *ECSE Trade Confirmation Statement* and the *CSD Trade Detail Report* and printing the *CSD Projected Settlement Report* that lists the participating Firm’s settlement obligations for upcoming days.
- The Depository will issue a *Settled Trade Report* that will show the money and securities due from a participating Firm for that settlement date. The Firm will either collect or pay one figure to bring its settlement account into balance.
- The back office operations will also involve recording all securities movements in the Firm’s *Daily Stock Record* and balancing it against the Firm’s account positions at the CSD. These movements include receipts or deliveries for

settlement, transfers to and from other broker dealers, transfers to and from the Registry and movements between the segregated and free accounts.

vi. Settlement Failures

Fails may occur when either the selling Firm does not have the sold securities available for delivery or the buying Firm does not have the funds available to pay for the purchase. Where trades are settled delivery versus payment (DVP), the lack of securities or funds will cause a fail, or suspended settlement.

An error resulting in fail could be caused when the selling Firm fails to transfer the correct number of shares from the segregated to the free sub-account. In this case the fail can be resolved quickly by giving the CSD a written request to make the movement.

Another error that could lead to fail would be when a Firm executes a sell for a customer without verifying that the securities needed are in the Clients account. In such an instance, where the customer does not have the securities to sell, the Firm would be forced to buy the securities needed and extend the settlement date until the settlement date of the correcting trade. Of course, this type of error exposes the Firm to market risk.

If a "Fail" Occurs...

If a participant (intermediary Firm) fails to settle their CSD settlement obligation, the CSD may take the following action:

1. Inject liquidity from the Participant Fund to cover the settlement.
2. Use collateral from the failed participant's CSD Account, which represents an "incomplete" transaction to borrow money from a commercial bank to fund the settlement.
3. Reverse the largest value transactions from the failed participant's account until the failed account has a zero settlement figure or a collect figure.
4. Exit these transactions from the CSD and require the Participants to resolve the settlement outside the CSD.
5. If the participant settles promptly the next morning, the CSD will return collateral removed from the Participant's account the prior day and use the settlement payment to pay back, with interest, all the sources that were used to provide liquidity on the day of failure.

3.5 Facilitating Transfers

Back office operations also involve the maintenance of the Securities in a *Transfer Ledger*. These are the five main scenarios giving rise to securities transfers:

1. A Client wishes to have securities registered in his own name at the Registry rather than held by the broker dealer;
2. A Client wishes to have securities held in the broker dealer's account at the Registry on his behalf rather than held in his own name at the Registry;
3. A Client wishes to have securities held in the broker dealer's account at the Depository on his behalf rather than held in his own name at the Registry;
4. A change of ownership due to a death, divorce, gift, or a court ordered event;
5. Securities transfer at the Depository from one broker dealer to another because the customer changes Firms.

The first three will be done at the point of opening the account by way of registration instructions, so further written transfer instructions from the customer are not necessary. The fourth type is called a legal transfer and requires substantial additional paperwork (*Corporate Resolution, Corporate By-laws or Charter; death certificate, divorce decree, and other forms as required in the Eastern Caribbean to transfer securities*). The fifth requires a written request by the customer on a form such as *Customer Account Securities Transfer Form* (see *Appendix 7.12*).

The customer will fill out and sign a transfer instructions form at the new Firm detailing all positions in that account. The new Firm that will receive the account must immediately submit the instructions to the Firm that currently carries the account. When the carrying Firm receives the transfer form it must "freeze" the account to be transferred. All open orders must be cancelled and no new orders may be accepted.

Upon receipt of the transfer form, the old Firm that currently carries the account has two (2) business days to verify the positions and validate them or take exception to the listing. If discrepancies are found they must be resolved promptly. Upon validation of the transfer instructions, the carrying member Firm must return the transfer form to the new Firm, with an attachment indicating all securities and money positions of that customer.

Within three (3) business days of validation, the transfer must be completed to the new Firm.

STEPS FOR TRANSFERRING ACCOUNTS BETWEEN BROKER- DEALER FIRMS

The registered representative gives the new Client the following instructions for transferring his/her account from the old brokerage Firm to the new one:

“Mrs. Jones, please fill out the *Customer Securities Account Transfer Form*, in which you request that Caribbean Brokerage Services (CBS) transfer your account to Eastern Caribbean Traders Ltd. (ECT Ltd.)”

“Attach a copy of your most recent *Account Statement* from CBS to the transfer form. This will help facilitate the transfer.”

“We at Eastern Caribbean Traders Ltd. will send the transfer form and your statement to CBS with a letter that explains that we will receive your account.”

“CBS will then verify what is in your account and transfer your assets to your new account with us and send by wire any cash balance. Because CBS will be sorry to lose you as a Client, they might attempt to convince you not to go through with the transfer. However, note that once you decide on the transfer, CBS is obliged by the regulations of the ECSRC to adhere to your instructions.”

“When your securities and cash arrive at Eastern Caribbean Traders Ltd., I will notify you. When you opened your new account with us yesterday, we discussed your portfolio and your financial objectives. We will review these and your investment strategies once the transfer is completed.

On the Depository system, the sending broker transfers the customers’ securities from their “segregated” account to the new broker’s “transfer-in” sub-account.

Broker dealers must keep track of positions being transferred. The information on the *Securities in Transfer Ledger* should include:

- Number of shares, or principal amount in the case of bonds;

- Name of the security;
- ISIN;
- Name in which it was registered;
- New name;
- Account numbers;
- Date sent out for transfer;
- Date received back from transfer;

3.6 Closing an Account

Apart from closing an account with a particular brokerage Firm, to effect a transfer of those assets to another brokerage Firm, a Client will only close an account if he/she is desirous of liquidating all assets related to that account. If the Client wants to transfer the assets of that account to another account then this process is referred to as a transfer. See section 3.5 for account transfer procedures.

4. CORPORATE ACTION

(Not applicable to a limited service broker)

4.1 Proxy Distribution

To conduct their annual meetings, companies will need to advise their shareholders. As discussed in the section, “Dividends: 4.2”, street name accounts disguise the identity of shareholders to everyone except to the broker dealer or bank holding the account at the Depository. However, the ECSRC Rules requires broker dealers and banks, holding shares in their Depository account for customers, to submit the names and holdings of these customers to the Registry upon request.

The right to vote is managed through the distribution of proxies, which are essentially voting ballots. The Registry obtains a list of broker dealers and other custodians holding shares at the Depository. The Registry then requests the names and holdings of customers at these Firms. Firms provide this information through the Depository. Ultimately, the Registry sends the list of all shareholders, both those holding shares at the Depository and those holding their shares at the Registry, to the issuing company. The company issues proxies to shareholders. Shareholders vote by mailing their proxy to the company or its agent.

Eastern Caribbean Securities Regulations specify the following:

- Proxies must be mailed to all shareholders.
- The proxy is used by a shareholder to give another shareholder the right to represent them at the shareholders meeting.

In the Eastern Caribbean Securities Market, the following outlines the procedure for proxy distribution:

1. Company announces the annual meeting.
2. Company advises the Registry to obtain a list of shareholders as of a particular date.
3. Registry advises Depository which in turn advises participants of the annual meeting.
4. Depository gives the Registry the names of the participant's customers and the quantities held.
5. Registry provides the company the names of shareholders holding shares at the Registry and the amount of shares held in nominee by the Depository.
6. Registry mails proxies to customers.
7. Based on their possession of a proxy, investors will be admitted to the shareholders' meeting. Shareholders may offer to represent other investors who are shareholders at the annual meeting.

4.2 Facilitating Dividend, Interest and Redemption Payments

4.2.1 Dividends

Because some customers of broker dealers may choose to hold their shares in the broker dealer's street name account, the Registry does not know the names of all the shareholders of a company. On the books of the Registry, the Depository may be the largest shareholder in all companies. The Depository knows the names of the broker dealers that hold the shares for their customers. The broker dealers know the names of their customers who ultimately own the shares. When it's time for a company to communicate with its shareholders, it must go through the Depository and the broker dealers to reach all of them.

When companies are ready to pay dividends, the Registry will need to request from the Depository a list of the broker dealers and custodians holding shares in a particular company. *Please note that SRC regulations/rules require that Firms holding securities for customers in the Depository must disclose the names of Clients holding shares to the independent Registry. This is required upon request of the Registry or at least quarterly.*

The Registry will need to identify the paying agent of the company. The Registry will give the paying agent a list of the individual shareholders holding shares at the Registry and a list of the broker dealers and custodians holding shares at the Depository on behalf of customers. The paying agent will then be responsible for paying these parties the dividend amount that they are due. As close to the payable date of the dividend as possible, the broker dealers and custodians in turn will distribute the dividends to their customers for whom they hold securities. The Registry may act as the paying agent.

4.2.2 Responsibility of Broker Dealer Firms in the Distribution of Cash Dividends

- Notify customers of announcement information which includes the security name, record date, payment rate, amount due from the Issuer, payable date, method of payment and location(s) where to pick up payment distributions. This announcement will include the customer's name, address and social security number.
- The participant will be responsible for reconciling their record date position at the Depository against their internal back office records. Any discrepancies must be documented and transmitted to the Depository.
- Provide the Registry with the beneficial shareholder account information, which includes name, address and social security number within three business days after notification has been received from the Depository. If this information is not received within this time frame, the Depository will advise the SRC of the Firm's violation.

4.3 Facilitating Stock Splits and Stock Dividends

Because some customers of broker dealers may choose to hold their shares in the broker dealer's street name account, the Registry does not know the names of all the shareholders of a company.

When a company decides to effect a stock split or stock dividend this will influence the current holdings of each shareholder. The registry will have to be notified by the broker dealer Firm of the beneficial owners of all affected accounts and the amount of the holdings i.e. total number of securities held by each shareholder of the related company undertaking the corporate action. At the Registry the shareholder's holdings will be amended to reflect the result of the corporate action.

E.g a 3:1 split is $3/1 = 3 = 300\%$ split. The shareholder with 100 shares will get 300 shares. At the Exchange, the market price will be reduced by a factor of 3.

5. ISSUER SERVICES

(Not applicable to a limited service broker)

Broker -dealer Firms will have the possibility of providing various services to the issuers and potential issuers of securities. The principal objective of providing these services is to ensure that these issuers or potential issuers have an effective vehicle via which they can offer their securities to the primary market. In addition, broker dealer Firms are critical in stimulating and generating the interest of investors on the secondary market for the current and future securities of listed companies.

The following are some of the services that broker -dealers will be able to provide to issuers:

5.1 Pre-Launching Assistance Of The Issue

- Assist the issuer in evaluating the company, its financial position and business plan
- Assist the issuer in its decision on the method of issue *fixed price, offer by tender, placement or introduction*
- Assist the issuer in preparing and reviewing documents and materials related to the offering (*prospectus, marketing materials etc*)

5.2 Facilitating The Issue On The Primary Market

- Assist the issuer in the direct marketing of the securities (*road shows*)
- Act in the capacity of an agent for the issuer in bringing the securities to the primary market by way of a fixed price or an offer by tender.
- Negotiate an underwriting arrangement with the issuer to underwrite the issue and ensure its successful distribution within the market. This can take the form of (a) a Firm commitment (b) best effort basis.

5.2.1 Agent -Fixed Price Issue and Offer By Tender

In these two instances the broker dealer Firm acts as an agent for the securities being offered. The broker dealer Firm would invite subscriptions from potential investors, in the case of a fixed price issue, and tenders, in the case of an offer by tender. Once the issue on the primary market is closed and the allotment of shares is completed, secondary trading can begin. The broker-dealer will earn a fee for bringing the issue to the market.

5.2.2 Underwriting Arrangement - Firm Commitment and Best Effort

The method of primary market issuance of securities can also be realised by way of an underwriting arrangement with a licensed broker-dealer.

Under a Firm commitment, the broker- dealer Firm would agree a price and commission with the issuer at which it would underwrite the securities and would then endeavor to sell them at a higher price on a *fixed price or tender* basis. Any unsold shares will be paid for and taken up by the underwriting Firm for its own account. The broker-dealer would earn a fee for bringing the issue to the market as well as a selling concession.

In a "best effort" arrangement, the broker dealer Firm would sell on a commission basis as many of the securities being offered as possible, with no obligation to take up unsold shares.

5.2.3 Introduction

Existing public companies that already participate in the issuance of securities will need to be listed before they can have their current shares outstanding traded on the Exchange. Such Firms can be listed in the Exchange by virtue of an introduction once they have met the prescribed listing requirements. Broker-dealer Firms can approach their customers to stimulate interest in the listed current outstanding shares.

5.2.4 Post Public Offering Services

These will include sustaining the financial market community's interest in the issuers listing shares through continuous timely dissemination of information about the company and its industry. **Note:** All information provided to the public must be in accordance with the Exchange rules regarding public communication.

5.2.5 Investment Banking and Advisory Services

Broker-dealers who have met the minimum requirements stipulated in the Rules of the ECSE and are licensed by the Securities Commission can provide investment banking and or investment advisory services to issuers.

As an investment banker or investment advisor, a broker-dealer Firm will advise issuers on new issues, mergers and takeover activities. Advisory fees are computed as a percentage of the total dollar value of the transaction within the limits stipulated by the Securities Commission. The broker-dealer may also choose to help to finance the issuers activities through bridge loans or equity investment.

5.2.6 Offering Process and Broker Dealer Obligations:

An offering typically goes through the following stages at a brokerage Firm.

1. Execution of the Letter of Intent (all offerings);
2. Filing of a Registration Statement (for public offerings);
3. Circulation of a Preliminary Prospectus (for public offerings);
4. Effectiveness of a Registration Statement (for public offerings);
5. Commencement of the offering (for private placements); and
6. Closing of the offering (all offerings).

Brokerage Firms must typically address each of the following issues in every offering it engages in:

- A. Brokerage Firm's investigation of the Issuer, its business, management, potential, etc.;
- B. Firm Compensation;
- C. Compliance with the ECSRC rules on offerings;
- D. Consultation with the broker-dealer's financial principal regarding the net capital implications to the Firm;
- E. Identification of potential Syndicate Members;
- F. The broker-dealer's role in the offering, whether as underwriter, co-underwriter, or syndicate member;.

Further, during the offering process, the Firm must:

1. Coordinate the commencement of sales, to assure that there are no offerings made until the appropriate time and the offering is made only in those jurisdictions where registration has been effected for all concerned (Issuer, Firm and RR's) or the appropriate exemptions are available.
2. If a brokerage Firm makes a market in the issuer's security, the Firm must insure that the Firm ceases trading, as appropriate, to assure that there is no violation of ECSRC regulations.
3. Coordinate the offering to assure that the brokerage Firm's net capital is sufficient and not negatively impacted.
4. Coordinate the delivery of prospectus (or other offering documents) (and for public offerings), compliance with the post-offering prospectus delivery requirements.

6. FINANCIAL REPORTING REQUIREMENTS

Each member Firm must prepare specified financial reports in accordance with the ECSCR regulations and ECSE rules. Such statements shall include:

6.1. Balance Sheet

A balance sheet (un-audited quarterly and audited annually by an independent public accountant) showing in accordance with the provisions of ECSRC Regulations and ECSE rules; the assets and liabilities of the member Firm and the director's financial interests therein. The assets and liabilities shall be brought to account in the said statement at amounts and shall be classified and described therein in such manner that the statement gives a true and fair view of the affairs of the member company at the balance sheet date.

6.2. Profit and Loss

A profit and loss account (un-audited quarterly and audited annually) in accordance with the provisions of the ECSE rules and the ECSRC regulations and so framed so as to give a true and fair view of the profit and loss of the member company for the period.

6.3. Liquidity Return Showing Net Capital Computation

Broker- dealer Firms are required to maintain a minimum net capital every day the Firm is in business. The minimum net capital must not be less than 6% of the aggregate indebtedness (*total value of business transactions executed*) of the Firm. The net capital rule involves a computation done in the form prescribed by the ECSRC regulations and ECSE rules.

Essentially the net capital computation is a reduction in a broker-dealer's net worth (International Accounting Standards) by a series of deductions and adjustments based on the broker dealer's liquidity of assets, the nature of the liabilities and the level of risk of its security positions.

The purpose of this rule is to ensure that member Firms have sufficient capital and liquid assets to ensure the protection of its customers, investors, creditors, and the industry in the event of insolvency or bankruptcy. (*This minimum net capital must be calculated daily and*

reported monthly under normal circumstances or prior for any day(s) during which the Firm discovers that it is below the minimum net capital requirement.)

6.4. Notes to the Accounts

Notes to the accounts above with the disclosure of details in accordance with the provisions of the ECSE rule and the ECSRC regulations.

7. APPENDICES

7.1 Sample Compliance Statement

[BROKER-DEALER'S LETTERHEAD]

COMPLIANCE STATEMENT

I, _____, an associated person of _____, a broker/dealer, hereby confirms that I have read the Firm's Supervisory Compliance Procedures Manual and understand the Company's policies and rules and my liabilities hereunder.

I am reasonably aware of the company's compliance procedures, as well as all rules, regulations, laws, penalties, and sanctions regarding my responsibilities in the securities business.

I acknowledge that if I violate securities industry regulations or Firm policies, that such violations are grounds for suspension, termination, and garnishing of wages and commissions as well as formal complaint and disciplinary proceedings under securities industry regulatory organisations.

Registered representative or Associated Person ***Principal***

Signature

Signature

Print Name and Position

Print Name and Position

Date

Date

7.2 New Customer Account Form

ECSC Authorization Number:
Firm Assigned Customer ID
Firm Assigned Customer Account #



NEW CUSTOMER ACCOUNT FORM

A. INFORMATION ABOUT THE ACCOUNT YOU ARE OPENING	
ACCOUNT TYPE:	
Cash _____ Margin* _____ <i>(Approval from the SRC required to open this account)</i>	
ACCOUNT REGISTRATION:	
Individual _____ Joint _____ Corporate _____ Bank _____ Investment Co _____ Other _____	
B. INFORMATION ABOUT THE HOLDER(S) OF THE ACCOUNT	
YOURSELF	JOINT ACCOUNT HOLDER (if applicable)
Name:	Name:
Address	Address
Country of Birth <i>(attach copy of supporting documents)</i>	Country of Birth <i>(attach copy of supporting documents)</i>
Country of Citizenship	Country of Citizenship
Telephone No. (Personal)	Telephone No. (Personal)
Telephone No. (Business)	Telephone No. (Business)
C. ACCOUNT HOLDER DISCLOSURE	

I. Are you or the joint owner an employee of this Firm? No Yes

II. Are you or the joint owner related to an employee of this Firm? No Yes If Yes, name of employee and relationship to you. _____

III. Are you or the joint owner or any of your immediate family a Senior Officer, Director or large shareholder of a public company? No Yes If Yes, name of company. _____

IV. Are you or the joint owner or any of your immediate family affiliated with or employed by a member of the ECSRC, the ECSE or its affiliated companies, or the ECCB? No Yes (employer authorisation required) If Yes, what is the affiliation?

_____ immediate family includes a person's spouse, parents, children, siblings, mother/father in law, sons and daughters in law, brothers and sisters in law and anyone (other than employees) who share's a person's home

D. PROCESSING TRANSACTION INSTRUCTIONS

(1) Hold Proceeds of Sales in the Account or __ make periodic distributions of \$ _____ to me () monthly () quarterly () semi-annually () annually

(2) () Hold Dividend and Interest in the Account or () Remit int/divs to holder of the Account
 () Remit int/divs to third party: _____
 Third Party Address: _____

(3) () Hold securities purchased :
 () at the Registry in Account –holder's name, account # _____
 () in the broker-dealer's nominee account at the CSD
 () in the broker-dealer's nominee account at the Registry

(4) Discretionary Authority Granted _____ **(Investment discretion is in accordance with the definition outlined in the ECSE Rules)**
*****Customer must complete the Discretionary Authority Addendum to this Form*****

E. (1) YOUR PERSONAL INFORMATION

Birth Date _____ Marital Status _____ Dependents _____

Occupation _____ Years Employed _____ Business _____

Annual Income _____ Total Liquid Net Worth (excluding home) _____

Employer's Name _____ Employer's Address _____

Employer's Telephone No. _____

E. (2) JOINT ACCOUNT HOLDER PERSONAL INFORMATION (if applicable)

Birth Date _____ Marital Status _____ Dependents _____
 Occupation _____ Years Employed _____ Business _____
 Annual Income _____ Total Liquid Net Worth (excluding home) _____
 Employer's Name _____ Employer's Address _____
 Employer's Telephone No. _____

F. CORPORATE ACCOUNT INFORMATION

Nature of Business _____ ECSE License # (if applicable) _____
 Authorized Representative(s) _____ Phone _____

G. ACCOUNT FINANCIAL INFORMATION

Name of Bank _____ Account # _____
 Bank Address _____ Bank Phone No. _____
 Bank Contact Person _____

H. INVESTMENT RISK INFORMATION

Years of Investment Experience : _____
 Risk Exposure: Low _____ Medium _____ High (Speculation) _____
 Investment Objectives Income Long-term growth Short-term trading

(please write out in your own hand a brief summary that encapsulates in more detail the specified investment objective):

I. ATTESTATION OF REFUSAL TO PROVIDE INFORMATION

IF THE CUSTOMER REFUSES TO SUPPLY ANY OF THE INFORMATION REQUESTED IN THIS FORM, THEN THE CUSTOMER MUST, IN HIS/HER OWN HAND, WRITE THE FOLLOWING STATEMENT AND WILL BE PROHIBITED FROM RECEIVING INVESTMENT ADVICE AND REQUESTING A DISCRETIONARY ACCOUNT.

I _____ refuse to supply the following information requested of me by the brokerage Firm:

 (Date) _____ (Signature of Owner) _____

 (joint Owner's Signature, if applicable)

J. CERTIFICATION

- I HAVE READ AND UNDERSTOOD THIS FORM AND HAVE PROVIDED MY INVESTMENT OBJECTIVES AND TOLERANCE FOR RISK.
- THE BROKER HAS EXPLAINED TO ME THE RISKS OF INVESTING IN THE SECURITIES MARKET, INCLUDING, BUT NOT LIMITED TO, THE POSSIBILITY OF LOSING ALL OF MY INVESTMENT AND THAT PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE.
- I HAVE READ AND AGREED TO THE TERMS AND CONDITIONS OUTLINED IN THE ATTACHED AGREEMENT
- I HEREBY AUTHORISE THIS FIRM TO TRANSFER MY SECURITIES FROM THE ACCOUNT MAINTAINED AT THE EASTERN CARIBBEAN CENTRAL SECURITIES REGISTRY IN MY NAME INTO THIS FIRM'S ACCOUNT AT THE DEPOSITORY, FOR THE SOLE PURPOSE OF COMPLETING THE SECURITIES TRANSACTIONS.

(Date)

(Signature of Owner)

(joint Owner's Signature, if applicable)

K. REGISTERED REPRESENTATIVE

Registered Representative _____ ECSE License # _____

L. ACCEPTANCE OF THE ACCOUNT BY THE FIRM

THIS ACCOUNT FORM HAS BEEN REVIEWED AND ACCEPTED BY THIS FIRM

Firm's Seal

Signature of Principal _____

Date _____

ADDENDUM TO THE CUSTOMER ACCOUNT FORM

*** ATTENTION CUSTOMERS ***
YOU ARE NOT REQUIRED TO GRANT DISCRETIONARY AUTHORITY

DISCRETIONARY ACCOUNT AUTHORISATION

ACCOUNT NAME _____ ACCOUNT # _____

I HEREBY AUTHORISE AND EMPOWER THE FIRM _____ AND ITS ASSIGNEE (S) REGISTERED REPRESENTATIVE (S) _____ TO BUY AND SELL SECURITIES IN MY ACCOUNT WITHOUT MY SPECIFIC PRIOR AUTHORISATION FOR THE PARTICULAR TRANSACTIONS.

ACCORDING TO THE ECSE RULES, "A PERSON EXERCISES INVESTMENT DISCRETION WITH RESPECT TO THIS ACCOUNT IF, DIRECTLY OR INDIRECTLY, SUCH PERSON:

- a. IS AUTHORISED TO DETERMINE WHAT SECURITIES OR OTHER PROPERTY SHALL BE PURCHASED OR SOLD BY OR FOR THE ACCOUNT,
- b. MAKES DECISIONS AS TO WHAT SECURITIES OR OTHER PROPERTY SHALL BE PURCHASED OR SOLD BY OR FOR THE ACCOUNT EVEN THOUGH SOME OTHER PERSON MAY HAVE RESPONSIBILITY FOR SUCH INVESTMENT DECISIONS, OR
- c. OTHERWISE EXERCISES SUCH INFLUENCE WITH RESPECT TO THE PURCHASE AND SALE OF SECURITIES OR OTHER PROPERTY BY OR FOR THE ACCOUNT AS THE COMMISSION, BY RULE, DETERMINES, IN THE PUBLIC INTEREST OR FOR THE PROTECTION OF INVESTORS, SHOULD BE SUBJECT TO THE OPERATION OF THE PROVISIONS OF THIS TITLE AND THE RULES AND REGULATIONS THEREUNDER.

THE GRANTING OF "INVESTMENT DISCRETION" POWERS TO WITH RESPECT TO ACCOUNT AUTHORIZES THE NAMED INDIVIDUAL(S) TO DETERMINE WHAT SECURITIES OR OTHER PROPERTY SHALL BE PURCHASED OR SOLD BY OR FOR THE ACCOUNT AND TO PERFORM EACH AND EVERY ACT AND THING REQUISITE OR NECESSARY TO EFFECT THE PURCHASE AND OR SALE THEREOF.

I HAVE FULLY ANSWERED ALL THE QUESTIONS ON THIS FORM, INCLUDING MY PERSONAL FINANCIAL STATUS AND MY RISK TOLERANCE AND INVESTMENT OBJECTIVES.

I MAY CANCEL THIS AUTHORISATION AT ANY TIME BY SENDING WRITTEN NOTICE TO THE FIRM.

I HAVE BEEN INFORMED OF THE RISKS RELATIVE TO DISCRETIONARY ACCOUNTS AND AM AWARE OF THE RISKS ASSOCIATED WITH THE GRANTING OF THIS DISCRETIONARY AUTHORITY.

(Date)

(Signature of Owner)

(Spouse's Signature, if applicable)

DISCRETIONARY AUTHORISATION ACCEPTED BY THE FIRM:

Signature of Registered Representative _____

Firm's Seal

Signature of Principal _____

Date _____

7.3 Intermediary Client Agreement

SAMPLE INTERMEDIARY CLIENT AGREEMENT

01 General Provisions

This Agreement made the day of (year) between XYZ limited a company duly authorised as a broker dealer (limited service broker) under theAct with its principal place of business situated at(herein called the Firm) of the One Part and of(herein called "the Client") of the Other Part Whereby it is agreed as follows:

1. In consideration of the fees to be paid by the Client to the Firm hereinafter set out, the Firm shall provide to the Client the following services namely:
 - a. purchase and sale of securities on or for the interests of the CLIENT based on instructions;
 - b. preparation of Client trade confirmations and statements;
 - c. related activities in support of the settlement of security transactions;
 - d. the performance of designated cashiering functions and;
 - e. the preparation of all related books and records.
2. All transactions to be executed by the Firm under this Agreement shall be subject to any regulations made by the Eastern Caribbean Securities regulatory Commission, and any rules made by the Eastern Caribbean Securities Exchange Ltd. and Central Securities Depository Ltd.

02 Relationship with the FIRM

(Broker- Dealer Firms)

1. The Client acknowledges that the Firm is licenses under theAct as a broker dealer and carries on business as broker dealer as permitted by that Act
2. The Client understands that the Firm will be acting as agent, except where the Firm discloses to the Client in writing at or before the completion of any particular transaction, that the Firm is acting as dealer for its own account, or for the account of another.
3. The Firm shall be permitted to do any or all of the following under this Agreement:
 - (1) act as an agent and/or principal in security transactions,
 - (2) solicit orders,
 - (3) make discretionary investments on behalf of the Client, so long as discretionary account authorisation has been granted;
 - (4) provide to the Client research data or advise regarding securities.

(Limited Service Broker Firms)

1. The Client acknowledges that the Firm is licensed under theAct as a limited service broker and carries on business as limited service broker as permitted by that Act
2. The Client acknowledges that:
 - (a) the Firm is an order taker that accepts customer orders to buy or sell securities and delivers those orders through the Firm, to the ECSE.
 - (b) the Firm, shall not recommend, endorse or promote what is commonly referred to as a " trading" strategy.
 - (c) the Client's account(s) with the FIRM is self-directed. The Client is solely responsible for any and all orders placed in the Client's account(s). The Firm does not provide investment advice, therefore, any investment decision and/or strategy that the Client makes or utilises is done so at the Client's sole discretion and at the Client's own risk.
3. In all transactions the Firm is acting as agent, It does not:
 - (1) make solicited orders;
 - (2) make discretionary investments on behalf of its customers (*it may make modifications to Client trade orders within Client specified limits*); or
 - (3) provide its customers with research or advice regarding securities.

03 Transaction Requirements

1. The Client understands that the Firm will require cash or available funds in an account prior to the acceptance or settlement by the Firm of an order. The Client agrees to satisfy such requirements. If Client provides cheques to the Firm, Client understands that cheques must be cleared prior to the Firm entering an order on behalf of the Client.
2. All orders for the purchase or sale of securities and other property authorised by the Client will be executed and/or processed with the understanding that an actual purchase or sale is intended and that it is the Client's intention and obligation in every case to make the securities available for delivery to cover all sales or to pay for purchases on or before settlement date.

04 Representation

1. The Client represents that he/she has the required legal capacity and is authorised to enter into this Agreement, and that no one except the Client (s) has an interest in the account or accounts. The Client warrants and represents that the citizenship and residency status indicated on the New Account Application Form is true and correct. The Client agrees to notify the Firm in writing of any change in citizenship and residency status within 30 days of such change and such notice will include all relevant new information regarding the Client's citizenship and residency.

05 Interest in Account

1. No one except the Client has an interest in any of its accounts with unless such interest is revealed in the title of such account and in any case the Client has the interest indicated in such title.

06 Material Changes

1. The Client will notify the Firm promptly in writing if there is any material change in the facts set forth in the Client's New Account Application, the Client will inform the Firm in writing if the Client becomes a director, 5 % shareholder or policy making officer of a public-traded company or if the Client becomes affiliated with or employed by any securities Firm, or the Exchange.

07 Limitation of Liability

1. The Firm and its associates are responsible for the propriety and lawfulness of transactions and dealings in accounts established by the Client. The Firm will be solely responsible for any errors resulting directly from its gross negligence or willful act or omission to the issuer or any of its agents.

08 Indemnity

1. The Client releases and agrees to indemnify and hold harmless the Firm from any loss or expense, including attorney's fees if the Client has not provided accurate information regarding citizenship and residency status, investment objectives or if The Client fails, refuses or neglects to provide the information required on the Customer Account Form. The Firm, its employees and associates are reasonably justified in relying upon all information the Client has provided.
2. The Client releases and agrees to indemnify and hold harmless the Firm, for any loss, cost, judgment, penalty, claim, action, damage, expense or attorneys' fees which may result from any loss to the account holder as a result of any act, error or omission of the Client or which causes or may cause any loss, damage or harm to the Client.

09 Force Majeure

1. The Firm shall not be liable for loss caused directly by war, natural disasters, government restrictions, exchange or market ruling or other conditions beyond their control

10 Matters Relating to Information

1. The Client understands that the Firm may provide shareholder accounting, trade confirmations, account statements, government reporting, annual reports, proxy material and general assistance relating to the Client's assets. The Client may revoke this authorization at any time provided that the assets held with the Firm are free and clear

and that there are no liens against the Client or any account maintained by the Client whether owned individually, jointly or severally.

11 Communications

1. Communications may be sent to the Client at the address of the account given or at such other address as the Client may hereafter direct, and all communications so sent, whether by mail, fax, messenger or otherwise shall be deemed given to me personally, whether actually received or not.

12 Provisions In The Event Of Failure To Pay Or Deliver:

1. Whenever the Client does not, on or before the settlement date, pay in full for any security purchased for the account of the undersigned, or deliver any security sold for such account, the Firm is authorized (subject to the provisions of any applicable statute, rule or regulation).
 - (a) until payment or delivery is made in full, to pledge, repledge, hypothecate or rehypothecate, without notice, any or all securities which the Firm may hold for the Client (either individually or jointly with others); separately or in common with other securities or commodities or any other property, for the sum then due or for a greater or lesser sum and without retaining in the Firm's possession and control for delivery a like amount of similar securities, and/or;
 - (b) to sell any or all securities which the Firm may hold for the Client (either individually or jointly with others), or to buy in any or all securities required to make delivery for the account of the Client, or to cancel any or all outstanding orders or commitments for the account of the Client.

13 Cancellation Provisions

1. The Firm is authorised, in its discretion, should the Client die or should the Firm for any reason whatever deem it necessary for the Client's protection, without notice, to cancel any outstanding orders in order to close out the accounts of the Client, in whole or in part, or to close out any commitment made on behalf of the Client

14 Successors

1. This agreement and its provisions shall be continuous, and shall inure to the benefit of the Firm's present organization, and any successor organisation or assigns, and shall be binding upon the Client and/or the estate, executors, administrators and assigns of the undersigned.

2. Orders and Statements

1. Reports of the execution of orders and statements of the account of the undersigned shall be conclusive if not objected to in writing, the former within two days and the latter within ten days, after forwarding by the Firm to the Client by mail or otherwise.

2. Fees and Charges

1. The Client agrees to the fees and charges on the fee schedule received by the Client. The Firm may change the fee schedule from time to time.

2. Joint Accounts

1. If this is a joint account, unless the Client notifies the Firm otherwise and provides such documentation as the Firm requires, the account(s) shall be held by the Clients jointly with rights of survivorship (payable to either of us, or our survivor/s). Each joint tenant irrevocably appoints the other as attorney in fact to take all action on his or her behalf and to represent him or her in all respects in connection with this Agreement. The Firm shall be fully protected in acting but shall not be required to act upon the instructions of either of the Clients. Each of the Clients shall be liable, jointly and individually, for any amounts due to the Firm pursuant to this Agreement, whether incurred by either or both of us.
2. If more than one individual has signed this Agreement, our obligations under this Agreement shall be joint and several. If there is more than one account holder, each of us has the authority, acting alone, to take action with respect to the account, and the Firm may deliver securities and other property in connection with account transactions to any account holder without notice to the other.
3. Each of us has full power and authority to make purchases and sales, withdraw monies and property or do anything else with reference to said account. The Firm is authorized and directed to act upon instructions of any one of us, provided however that _____(Firm) will make check payable to both tenants jointly. The authority of each of us to act in connection with this account shall continue until you receive written notice from either one of us terminating that authority. Any notice of any kind sent to any one of us shall be notice to each of us. Should any additional documents be required each of us will execute the requested forms.
4. This agreement shall survive the disability or incompetence of either of us. Upon the death of either of the undersigned, the survivor shall immediately give the Firm written notice. Any joint account holder agrees that upon the death or disability of either party, the remaining Client shall immediately provide written notice of such event to the Firm. The Client understand that all transactions thereafter affecting the account(s) must be at the joint direction and upon the joint signatures of the legal representative of the affected party and the remaining undersigned. The Firm shall not be liable for transfers, payments or other transactions that occur in our account(s) prior to receipt of such written notice. The Firm shall be held harmless and free from any liability by reason of its compliance with any notice or direction mentioned in this paragraph.

5. Amendments to This Agreement

1. The Firm may from time to time, amend change or modify the terms and conditions set forth in this Agreement. The Firm will notify me in writing such amendments, changes or modify the terms and conditions set forth in this Agreement. The Client's continued account activity, constitutes the Client's agreement to be bound by such amendments, changes or modification to these terms and conditions.

ADDENDUM TO INTERMEDIARY CLIENT AGREEMENT

FIRM NAME**CORPORATE RESOLUTION**

FULL ACCOUNT TITLE

ACCOUNT NUMBER

I _____ hereby certify that I am the Secretary of _____ (“Corporation”) a corporation organized and existing under the laws of _____, and that the following resolutions were duly adopted at a meeting of the Board of Directors of the Corporation held on _____ at which meeting a quorum was presented and voting:

RESOLVED

1. To open with _____ (the Firm) a brokerage account for the purchase and sale of securities and other property. “Securities” means, but is not limited to, money, stocks, and bonds.
2. That the Corporate Officers named in the spaces below are authorised to act on behalf of the Corporation with respect to opening an account, to executing on behalf of the Corporation any and all relevant documents, and to dealing with Firm with all aspects of said account singly, with no limits as to the amount.

(AT LEAST TWO TO BE DESIGNATED)

	Name and title of the officer	Signature of the Officer
1.		
2.		
3.		
4.		

7.4 Procedures for Buying and Selling of Securities

Procedures for a Purchase (Buy) Trade

Purpose: Description of the steps performed to process a purchase (buy) trade on behalf of an investor.

Description of a Purchase Transaction on Trade Date

Investor/Intermediary Interface:

- 1) The investor will arrive at the office of the intermediary, either a broker dealer or limited service broker with whom the investor would have already established an account.
- 2) After the investor has indicated his/her purchase interests, the registered representative at the intermediary Firm will provide information on the securities eligible for trading on the Exchange and the procedures involved in a purchase transaction. Following this, the registered representative will allow the investor to view the current market activity on the Exchange via the Trading System.
- 3) The registered representative may advise the investor on the transactions which are ideally suited to the investment objectives stated on the customer account . Note: LIMITED SERVICE BROKERAGE FIRMS are not allowed to advise Clients on their investment transactions. A Limited Service Broker is an order taker.
- 4) The investor will select a security and quantity to be purchased and will fill out the Customer Purchase Order Form. Note registration instructions for the securities to be purchased were provided prior, by the investor, when the account was opened.
 - a) at the Central Securities Registry in the account holder's name;
 - b) At the Central Securities Registry in the broker-dealer Firm's nominee account; or
 - c) At the CSD in the broker-dealer Firm's nominee account
- 5) The investor will provide the intermediary with proof of “good funds”, which can be in the form of a cash, escrow account, or account at the Central Bank. Note: Cheques must be cleared before they are considered good funds.
- 6) When the intermediary is satisfied that sufficient funds are available, the intermediary will access the Exchange and place the purchase order for the securities requested by the investor.

The ECSE:

- 5) Later in the day, the Exchange will run the auction and determine which offers match based on the best bids and offers entered.
- 6) The Exchange will notify each intermediary via electronic reports of all trades executed.

Intermediary:

- 7) The intermediary will extract this trade information and will mail a trade confirmation to the investor.
- 8) If the investor paid by means other than cash, the intermediary will request the investor to move money to the intermediary's bank account at a designated Clearing Bank.
- 9) The intermediary will confirm that the funds are available by contacting his Clearing Bank.

Exchange/CSD Interface:

- 10) At the end of the trading day, the Exchange will send the executed trades to the CSD for settlement processing.
- 11) If the CSD rejects any trades, it will produce a Trade Exception Report listing the items not accepted and why.
- 12) The CSD will correct any internal situations, such as issue not eligible for CSD or account not eligible at CSD, and reprocess the trade.
- 13) If the trade cannot be corrected internally by the CSD, its details will be sent to the intermediary by facsimile and the Exchange will also be notified of the trade exception. As we are using a single price auction, no external error conditions can be identified. Nevertheless, notification will be made immediately to all parties involved of the situation through an appropriate operational procedure.

Intermediary:

- 14) Once the trade has been accepted by the CSD, the intermediary will be able to retrieve the Detailed Trade Report and the Member Settlement Projection Report. Both these reports will be available within minutes of the trade's being accepted by the CSD.

Clearing Banks & Central Bank:

- 15) The Clearing Banks will also receive the Banks Settlement Projection Report via electronic media, which may take the form of SWIFT "test" messages.
- 16) The Central Bank will also receive the Summary Banks Settlement Projection Report electronically from the CSD.

Description of a Purchase Transaction on Settlement Date**Intermediary:**

- 17) On settlement date, the intermediary will access the CSD to confirm that settlement has been made to the intermediary's account at the CSD.
- 18) The intermediary will retrieve the Member's Actual Settlement Report which details the settled trades at the CSD and provides the net settlement obligation by the intermediary with the CSD.
- 19) The intermediary will confirm with his Clearing Bank that sufficient funds are in the intermediary's bank account to meet the CSD settlement obligation.

Clearing Banks & Central Bank

- 20) The CSD will send the settlement information to the Clearing Banks using the ECCB's existing SWIFT Network. For Clearing Banks who are not on the Swift Network, the ECCB will communicate this settlement information to them via facsimile.
- 21) Each respective Clearing Bank will debit and credit their customer's (intermediaries) accounts with an offsetting entry against the CSD's internal account.
- 22) The net of the debits and credits will be either wired to the Clearing Bank's Central Bank Account or will be received into their Central Bank Account.
- 23) The contra-party to this net wire will be the CSD's Clearinghouse Account at the Central Bank.
- 24) The Central Bank will confirm in writing to the CSD that settlement is final and irrevocable.

Intermediary:

- 25) The intermediary will instruct the CSD if the securities should be moved to the Central Securities Registry on behalf of the investor.
- 26) If this step is needed (based on the investor's instruction), the intermediary will provide account information to the CSD who will in turn transmit the security movement and the account information to the Central Securities Registry.

Registry/CSD Interface:

- 27) Once the transfer has been completed, the Central Securities Registry will return a message to the CSD that the transfer is complete.

Procedures for a Sale (Sell) Trade

Purpose: Description of the steps performed) to process a sale (sell) trade on behalf of an investor.

Description of a Sale Transaction on Trade Date (see Appendix IV)

Investor/Intermediary Interface:

- 7) The investor will arrive at the office of the intermediary, either a broker dealer or limited service broker with whom the investor would have already established an account.
- 2) After the investor has indicated his/her sell interests, the registered representative at the intermediary Firm will provide information on the sell options available and the procedures for selling securities. Following this, the registered representative will allow the investor to view the current market activity on the Exchange via the Trading System.
- 3) If the investor is desirous of selling after receiving information on the options, procedures and processes, he/she will decide the security and quantity to be sold and complete the Customer Sale Order Form.
- 4) The investor will provide the intermediary with proof of ownership by providing the account number where the securities are held. *(This will be captured on the Sell Order form illustrated on next page)*
- 5) The intermediary will use the account number where the securities are specified to be held in conjunction with the security symbol and quantity to be sold and will enter this data into the Central Securities Registry via its CSD link.
- 3) Proof of ownership will be demonstrated by the successful completion of the registry transfer from the selling investor's account to the intermediary's CSD account.
- 4) The intermediary can now access the Exchange and place the sell order for the securities requested at the price specified by the investor. Note transaction processing instructions for the securities to be sold were provided by the investor, when the account was opened.
 - a) *Hold proceeds of sales in the Account; or*
 - b) *Make periodic distribution of \$..... To me () monthly () quarterly () semi annually () annually; or*

The ECSE:

- 5) Later in the day, the Exchange will run the auction and determine which offers match based on the best bids and offers entered.
- 6) The Exchange will notify each intermediary via electronic reports of all trades executed.

Intermediary:

- 7) The intermediary will extract this trade information and will mail a trade confirmation to the investor.

ECSE/CSD Interface:

- 8) At the end of the trading day, the Exchange will send the executed trades to the CSD for settlement processing.
- 9) If the CSD rejects any trades, it will produce a Trade Exception Report listing the items not accepted and why.
- 10) The CSD will correct any internal situations, such as issue not eligible for CSD or account not eligible at CSD, and will reprocess the trade.
- 11) If the trade cannot be corrected internally by the CSD, its details will be sent to the intermediary by facsimile, and the Exchange will also be notified of the trade exception. As we are using a single price auction, no external error conditions can be identified. Nevertheless, notification will be made immediately to all parties involved of the situation through an appropriate operational procedure.

Intermediary:

- 15) Once the trade has been accepted by the CSD, the intermediary will be able to retrieve his Detailed Trade Report and the Member Settlement Projection Report. Both these reports will be available within minutes of the trades being accepted by the CSD.

Clearing Banks & Central Bank:

- 16) The Clearing Banks will also receive the Banks Settlement Projection Report via electronic media.
- 17) The Central Bank will also receive the Summary Banks Settlement Projection Report electronically from the CSD.

Description of a Sale Transaction on Settlement Date**Intermediary:**

- 18) On settlement date, the intermediary will access the CSD and will submit an instruction to move the securities from the Segregated sub-account to the Free sub-account.

CSD:

- 19) The CSD will transfer securities for settlement purposes only from the Free sub-account.

- 20) The CSD will run a preliminary settlement in an attempt to satisfy all sell obligations using each intermediary's respective Free sub-account positions.
- 21) The CSD will produce a Member Failed Settlement Report identifying trades that would settle due to insufficient securities in the Free sub-account.
- 22) In this case, the CSD will contact the intermediary and direct them to move sufficient securities into the Free sub-account to clear the trade.
- 23) Once this is done, the CSD will run a final settlement that should show no failed obligations on the Member Failed Settlement Report. This tells the CSD that all eligible trades that could settle did in fact settle.

Intermediary:

- 24) The intermediary will retrieve the Member's Actual Settlement Report, detailing the settled trades at the CSD and providing net settlement obligations with the CSD by intermediary.
- 25) The intermediary will confirm with his Clearing Bank that settlement funds are expected from the CSD.

CSD/Clearing Banks & Central Bank Interface:

- 26) The CSD will send the settlement information to the Clearing Banks using the ECCB's existing SWIFT Network. For Clearing Banks who are not on the Swift Network, the ECCB will communicate this settlement information to them via facsimile.

Clearing Banks:

- 27) Each respective Clearing Bank will debit and credit their customer's (intermediaries) accounts with an offsetting entry against the CSD's internal account.

Clearing Bank & Central Bank Interface:

- 28) The net of the debits and credits will be either wired to the Clearing Bank's Central Bank Account or will be received into their Central Bank Account.
- 29) The contra party to this net wire will be the CSD's Clearinghouse Account at the Central Bank.

Central Bank:

- 30) The Central Bank will confirm in writing to the CSD that settlement is final and irrevocable. The intermediary will credit their customer's account with the proceeds of the sale.

7.5 Sample Client Confirmation Statement**CLIENT CONFIRMATION STATEMENT**

In your account, acting as PRINCIPAL/ REGISTERED REPRESENTATIVE, we confirm the following transaction:

Firm	Account Number:
Firm Address	Buy/Sell (B or S):
Telephone Number	Symbol:
	Security Description:
	Quantity:
	Price:
	Transaction Date/Time:
	Settlement Date:
	TRANSACTION AMOUNT:

If there are sufficient funds or securities in your account, then your account will be debited automatically. Otherwise, please transmit cash or securities to us on or before the settlement date.

Client Name:	Transaction Amount:
Address:	Commission:
	Other Transaction Fees:
	Accrued Interest:(margin accounts)
	GROSS AMOUNT DUE:

7.8 Customer Account Ledger

SAMPLE CUSTOMER ACCOUNT LEDGER

Client Name: Jonas Browne
Account Number: 345-28765

Date	Buy/Sell Receive/ Deliver	Quantity	Security Description	Price	Commission	Debit/ Long	Credit/ Short	Balance
14/3/00	Buy	200	TLC	10	100	2,100.00		
14/3/00	Receive		Cash				2,100.00	
<i>Portfolio Summary</i>								
		200	TLC Common	10				
		500	HDS Common	7				
Net Market Value						5,500		
Net Debit/ Credit						0		
Account Equity						5,500		

Explanation Notes:

Customer Jonas Browne buys 200 TLC common stock at \$10.00 per share on 14th March and pays for the purchase on that same day with cash. The Firm executed the trade as an agency trade and charged a commission of \$100.00. Jonas Browne already has 500 shares of HDS common stock in his portfolio.

The information in the customer account ledgers is included on the customer monthly statement.

7.9 Sample Client Account Statement

CLIENT ACCOUNT STATEMENT

(Should contain the following information)

____ Name of Firm

____ Branch Address/Telephone

____ Broker Name

____ Period Covered

____ ID Number

____ Portfolio market value as of end of period

____ **Portfolio Holdings Detail:**

____ Stocks

____ Mutual Funds

____ Bonds

____ Cash

____ **Account Transactions Summary:**

____ Opening Cash Balance

____ Interest/Dividend Income

____ Purchases/Sales

____ Deposits/Withdrawals

____ Fees (if applicable)

____ **Account Transactions Detail:**

____ Individual Trades (Date, volume, price, net amount)

____ Individual Dividends Paid

____ Individual Interest Payments

____ Corporate Capital Change:

Description: _____

7.10 Daily Stock Record**SAMPLE DAILY STOCK RECORD**

Name of Broker Dealer Firm: Financial Services Inc.
 Security Description: Caribbean Beverages Inc.
 CUSIP #: 987654325
 Date

DATE	ACCOUNT	PRICE	ACTION	OPENING POSITION	DEBIT	CREDIT	CLOSING POSITION	FREE A/C BALANCE	SEG A/C BALANCE	MEMO
									10,200	
1/03/00	B11-65432	22.50	REC	200	100	-	300	0	10,200	
1/03/00	FREE		Free TR	0		100	100	100	10,200	
	FREE		Free TR	100	100		0	0	10,200	
	SEG		Free TR	10,200		100		0	10,300	
1/03/00	43980	22.00	Fail	10,000	10,000	-	20,000	0	10,300	
1/03/00	Fails Account		Fail to Receive	0		10,000	10,000	0	10,300	
					<u>10,200</u>	<u>10,200</u>				

- Scenario 1- Customer A owns 200 shares of a particular security and purchases an additional 100 shares
- Scenario 2- Customer B owns 10,000 shares of a particular security and purchases an additional 10,000 shares which becomes a fail transaction

7.11 Main Stock Record Position Run

SAMPLE MAIN STOCK RECORD

Name of Broker Dealer Firm: Financial Services Inc.
 Security Description: Caribbean Beverages Inc.
 CUSIP #: #9876543250

ACCOUNT	PRICE	ACTION	OPENING POSITION	DEBIT	CREDIT	CLOSING POSITION	MEMO
<u>LONG</u>							
B11-65432	22.50	REC	200	100	-	300 Long	Seg. A/C
43980	22.50		10,000	10,000	-	20,000 Long	
<u>SHORT</u>							
20001 (CSD)					10,300	10,300 short	
20002 (F/R)					10,000	10,000 short	
Total Long				20,300			
Total Short					20,300		

7.12 Account Transfer Form

ACCOUNT TRANSFER FORM

*Please allow three (3) DAYS for your transfer to be completed.
Time requested to complete your transfer is influenced by industry rules and regulations*

A. INFORMATION ABOUT THE ACCOUNT YOU ARE TRANSFERRING		
Name as it appears on your account (Mr./Miss./Mrs./Ms.) FIRST MIDDLE INITIAL LAST		
Your Account Number	Phone Number of Account Holder () _____	
Name of Delivering Firm holding the Account		
Name of Successor Custodian Firm		
Phone Number of Delivering Firm () _____	Phone Number of Successor Custodian Firm () _____	
B. ACCOUNT TO BE TRANSFERRED		
The Account is: (check only one)	Types of Assets held in the account (check all that apply)	
INDIVIDUAL JOINT CORPORATION PARTNERSHIP	CASH COMMON STOCKS CORPORATE BONDS GOVERNMENT SECURITIES	
C. TRANSFER INSTRUCTIONS (Complete only ONE Section I or II)		
I. Total Transfer From Brokerage Account This is a total transfer (includes all assets held in your account with the delivering brokerage Firm)		
II. Partial Transfer From Brokerage Account This is a partial transfer (only transfer those assets listed below)		
Asset Description	Quantity of Securities	
_____	_____	
_____	_____	
_____	_____	
_____	_____	
D. PLEASE READ AND SIGN THIS SECTION (Required)		
Unless otherwise indicated in the instruction above, I authorize transfer of all assets in my account specified above to be deposited in the account(account number held at successor custodian Firm) held at(Name of Successor Custodian Brokerage Firm). I instruct the delivering Firm to transfer my assets in good deliverable form.		
I understand that the delivering Firm will advise me regarding those assets that are transferable and those that are not. I understand that to the extent any assets or instruments in my account are not readily transferable, with or without penalties, such assets may not be transferred within the time frame indicated by..... regulations. I instruct the delivering Firm to cancel any open orders for this account on the books.		
I accept that the delivering Firm in executing the transfer may or may not charge a fee for this process.		
You must include a copy of the most recent statement of the account you are transferring		

SIGN HERE	Your Signature _____ Date _____
	Joint Account Holder's Signature _____ Date _____
E. FOR SUCCESSOR CUSTODIAN BROKERAGE FIRM	
The undersigned organisation agrees to serve as successor custodian brokerage Firm for the account of the above named individual, and in this capacity , we agree to accept the account being transferred.	
_____ Successor Custodian Authorised Signature	_____ Date