

# Rules on requirements for conducting broker-dealer company activities



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In the event there may be discrepancies which arise between the Serbian and English versions of the document, the Serbian version is the legally binding document.

Pursuant to the Article 220, and with reference to the Article 127, paragraphs 5 and 8, Article 129, paragraph 1, Article 134, paragraph 3, Article 138, paragraph 1, Article 163, paragraph 5, Article 164, paragraph 5, and Article 171 paragraph 2 of the Law on the Market of Securities and Other Financial Instruments (“RS Official Gazette”, 47/2006), the Securities Commission hereby issues

## I GENERAL PROVISIONS

### Article 1

A broker-dealer company shall be a legal entity organized as a joint-stock company conducting activities in the regulated market in compliance with the Law on the Market of Securities and Other Financial Instruments (hereinafter: the Law) and these Rules.

### Article 2

These Rules shall regulate:

- 1) The content of the request for issuing a license for conducting activities of a broker-dealer company;
  - Requirements for conducting activities of a broker-dealer company regarding staff and technical capacities and technical equipment, as well as other requirements for conducting activities of a broker-dealer company;
- 2) The content of the request for granting prior consent for acquisition of qualifying holdings;
- 3) The content of the request for granting prior consent regarding the decision on the nomination and/or appointment of a member of the management of a broker-dealer company;
- 4) The content of the request for granting prior consent regarding the amendment of general enactments;
- 5) The content of the request for issuing a license for conducting activities of a broker-dealer company in the part of the broker-dealer company;
- 6) The content of the request for issuing approval in the case of a status change;
- 7) The contents and manner of publication of the rules of operation of a broker-dealer company;
  - The content of the standardized statement form referred to in the Article 163, paragraphs 2 and 3 of the Law;
  - The content and manner of receiving the orders and keeping the broker-dealer company order book;
- 8) The content of reports on operation of a broker-dealer company;

### Article 3

Pursuant to the provisions of these Rules, prior consent shall mean that the decision rendered by the competent authority of a broker-dealer company cannot come into effect until the consent has been obtained from the Securities Commission (hereinafter: the Commission).

## II FOUNDATION OF A BROKER-DEALER COMPANY

## The Request for Issuing a License for Conducting Activities of a Broker-Dealer Company

### Article 4

The request for issuing a license for conducting activities of a broker-dealer company shall be submitted on the form (BDC – license, and/or expanding the activity), which is available on the Commission website:

Together with the request, the following shall be submitted:

- 1) The contract, and/or decision on the establishment of a broker-dealer company;
- 2) Articles of association of a broker-dealer company;
- 3) Rules of operation of a broker-dealer company;
- 4) Tariff rules of a broker-dealer company;
- 5) Rules on organization and classification of job posts;
- 6) Data on founders, number, type and nominal amount of shares, as well as data on all persons to whom the founder is related in the sense specified by the Law, provided on the form (BDC founders) which is available at the Commission website;
- 7) Excerpt from the register of business entities for legal entities – shareholders of a broker-dealer company, as well as certified translation of the excerpt from the register of business entities for foreign legal entities;
- 8) Proof that the competent regulatory authority of the country of origin has issued the approval to the foreign legal entity to participate in the foundation of a broker-dealer company in the Republic;
- 9) Founders' statement on the origin of assets the full amount of which will be paid in as the initial capital prior to the entry of a broker-dealer company into the register of business entities, and/or prior to the entry of the broker-dealer company's activity into the register of economic entities (submitted on the form BDC – origin of capital); which is available on the Commission website;
- 10) The names and information on qualifications, experience and business reputation of nominated members of the management of a broker-dealer company, on the form (BDC – management) which is available on the Commission website;
- 11) The proof on human resource capacities shall be submitted on the form (BDC – human resource capacity) which is available on the Commission website;
- 12) The proof on organizational capacities (organizational chart, proof of business premises with the layout of premises);
- 13) The proof on technical equipment of a broker-dealer company (equipment specifications);
- 14) Proof on the payment of fee to the Commission.

### INITIAL CAPITAL

#### Pecuniary Portion of the Initial capital

### Article 5

A broker-dealer company may obtain the license for conducting activity provided that it has ensured the pecuniary portion of the initial capital in the amount prescribed by the Article 126, paragraph 1.

The founders of a broker-dealer company shall give a statement confirming that the full amount of the initial capital shall be paid in suspense money account with a business bank prior to entering the broker-dealer company into the register of business entities.

#### Origin of the Initial capital

### Article 6

The founder of a broker-dealer company shall give a statement on the origin of pecuniary and non-pecuniary assets that are entered as the founding stake on the form BDC – origin of capital referred to in the Article 4 of these Rules.

Each founder shall give a statement referred to in paragraph 1 of this Article, including date and signature, and if the founder is a legal entity – the signature must be certified by the legal entity's seal, unless the legal entity comes from a country in which such manner of certification by the signature has not been stipulated as an obligation by the regulation.

Along with the statement on the origin of capital, the founders shall submit the appropriate evidence (money account statement, excerpt from the land register, resolution issued by the tax administration, excerpt from the Securities Registry, and/or register of business entities etc).

Maintaining of the Initial capital

#### Article 7

A broker-dealer company shall be obliged to permanently maintain the minimum level of the initial capital required for conducting the activity for which it was licensed.

If the initial capital of a broker-dealer company should decrease below the level specified in the previous paragraph of this Article, the broker-dealer company shall be obliged to provide it within six months from the date of such decrease.

Should the broker-dealer company fail to act in compliance with the paragraph 2 of this Article, the Commission shall revoke the license for conducting the activity for which the company does not meet the prescribed limit.

#### FOUNDERS

#### Article 8

A broker-dealer company may be established by a legal entity and by a physical person.

A domestic or foreign legal entity which is the founder of a broker-dealer company shall be obliged to submit to the Commission the form (business name BDC – founder legal entity) that is available on the Commission website, and:

- 1) The resolution on the entry into the register, and/or certified translation of the excerpt from the register for foreign legal entities, and for their owners;
- 2) Information specifying whether they have significant participation in some other legal entity in the sense of the law regulating business entities (absolute and percentage amount of its ownership and the date of acquisition),
- 3) Other documentation required by the Commission.

A domestic or foreign physical person who is the founder of a broker-dealer company shall be obliged to submit to the Commission the form (business name BDC – founder physical person) that is available on the Commission website and:

- 1) Copy of the personal ID card for a domestic physical person, and/or copy of the passport for a foreign physical person;
- 2) Professional resume that should include information on the work history and qualifications of such physical person;
- 3) Data on whether they have significant participation in some other legal entity in the sense of the law regulating business entities (absolute and percentage amount of their ownership and the date of acquisition);
- 4) Certificate issued by the competent authority confirming that such person has not been convicted of criminal offences and commercial offences, as well as that no criminal offence and/or commercial offence proceedings specified in the Law has been instituted against such person;
- 5) Other documentation required by the Commission.

Proof That the Competent Regulatory Authority of the Home Country has Granted Approval Regarding Participation in the Foundation of a Broker-Dealer Company

#### Article 9

The proof that the competent regulatory authority of the home country has granted approval to a

foreign legal entity regarding the participation in the foundation of a broker-dealer company in the Republic of Serbia shall be understood to mean the appropriate enactment issued by such regulatory authority on the approval granted to the mentioned entity confirming that they may be the founder of a broker-dealer company in the Republic of Serbia, and/or the statement of such entity that no such approval is necessary.

#### Organizational Capacity

##### Article 10

The organizational capacity of a broker-dealer company shall mean the adequate organizational chart of a broker-dealer company and providing of adequate business space.

The organizational chart must lay out the assignments in accordance with the requirements of the work process enabling the unhindered performing of activities specified in the operating license and adequate protection of confidential information and data pertaining to members of the market organizer and their clients from unauthorized usage and abuse.

The proof that the appropriate business premises have been provided shall mean the documentation based on which it is possible to determine the total space used and manner in which business premises have been provided (ownership or lease).

In the procedure of foundation of a broker-dealer company, the lease contract shall be signed by the founders and the lessor.

##### Article 11

A broker-dealer company shall organize its business activities and perform the systematization of work posts in such a way as to ensure that all business activities of the company are performed in compliance with the Law and these Rules.

A broker-dealer company shall be obliged to regulate by general enactments the following:

- 1) Internal organization of the company and the scope of work of particular organizational units such company is comprised of, as well as their mutual relations, manner of communication and flow of documentation and data between such units;
- 2) Systematization of work posts, with particular work assignments, responsibilities and authorizations, prescribing specific requirements that an employee needs to meet for a particular work posts;
- 3) The manner of functional and physical separation between particular organizational units, and/or particular work posts, aimed at prevention of the conflict of interest of such company, the company's employees and company's clients;
- 4) The procedure and manner of informing the management of such company on all the facts that are relevant for establishing and monitoring the risks that the broker-dealer company is exposed to, in view of the type of its activity and scope of work;
- 5) Procedures and measures for establishment and operation of the system of internal control of the company's business activities in order to ensure that the company's management is informed on identified irregularities or non-compliance in company's operation and that adequate measures are undertaken in order to remove those irregularities, and/or a broker-dealer company has to have a separate organizational unit (or a person) which will be in charge of supervising the compliance with the regulations and which will directly report to the management and be independent from organizational units.

A broker-dealer company shall perform the activities specified in the Article 126, paragraph 1 of the Law within separate organizational units.

Dealer activities and market-maker's activities, and/or activities of the issuance agent and activities of the issuance underwriter may be performed within the same organizational unit.

A broker-dealer company shall be obliged to organize its business activities in such a way so that potential conflict of interest between a client, broker-dealer company and employees in such company should be reduced to the smallest possible extent.

In addition to the obligations specified in paragraphs 2 and 3 of this Article, the authorized bank

shall be obliged to regulate, by general enactments, the manner of functional separation between the organizational part of the bank performing broker-dealer activities and other organizational units of the bank, in order to protect the confidential data and prevent the conflict of interest.

#### Human Resource Capacity

##### Article 12

The proof of human resource capacity shall mean the submission of:

- 1) Rules on job classification (by staff, including qualification structure of staff and work experience for each job post),
- 2) Form BDC human resource capacity from Article 4 of these Rules.

In addition to the requirements regarding human resource capacity stipulated by the Article 128, paragraphs 2, 3 and 4 of the Law, a broker-dealer company shall be obliged to employ a certain number of staff with appropriate qualifications and experience in order to be able to meet the requirements for performing the activity it was licensed for, and particularly the requirements ensuring:

- 1) organization and functioning of the system of internal control of business activities of a broker-dealer company;
- 2) allocation of assignments and work tasks in such a manner as to prevent possible conflicts and conflicts of interest between the clients of a broker-dealer company and the employees and/or members of the management of such company;
- 3) adequate protection of confidential information and data pertaining to clients of a broker-dealer company from unauthorized usage and abuse.

A broker-dealer company must have an employee who keeps business books and prepares financial statements in compliance with the law governing accounting and audit.

#### Technical Equipment

##### Article 13

The proof on technical equipment shall mean:

- 1) Description of the information system, description of the program for the development of the information system in line with the growth in the volume of business, as well as the plan for innovation of the existing hardware and software, due to outdating;
- 2) Description of the systems providing the appropriate protection of information from loss and unauthorized change of inscription, including the ability to identify and correct the irregularities, inaccuracies and mistakes in information;
- 3) The proof of existence of appropriate procedures for recovery from disaster or access by unauthorized person and ensuring business continuity;
- 4) Documentation demonstrating the manner in which the equipment has been provided – whether the equipment is owned by the broker-dealer company based on the founding stake, or through other legal action, upon which proper documentation shall be delivered (e.g. contract, resolution etc.).

A broker-dealer company shall be obliged to keep and preserve all the documentation and information referred to in paragraph 1, including the ones in electronic form, so that the flow of particular transactions performed can be examined, as well as the manner of record keeping and updating of information.

A broker-dealer company shall be obliged to make at least two back ups of the whole electronic documentation in the end of each business day.

One of the back up copies referred to in paragraph 3 of this Article shall be kept in the official premises, while the other copy shall be kept at a different location which provides more reliable protection from damage due to extraordinary situations.

A broker-dealer company shall be obliged to keep business books, records and documentation

specified by the law and these Rules for at least 5 years upon the expiration of the business year to which the documentation pertains, and/or permanently if so stipulated by a special law.

## Information System

### Article 14

A broker-dealer company shall specify the main technical features of the information system it will use and which has to be adequate from the standpoint of scope and complexity of activities performed by such company.

Information system of a broker-dealer company must be organized in such a way as to ensure the accuracy and reliability in collection, entry, processing, transfer and usage of data available to the broker-dealer company, and/or in such a way as to ensure that:

- 1) In database shall be entered only the data approved in the manner established by the broker-dealer company's enactments;
- 2) In database shall be entered all data whose entering has been approved;
- 3) Regular verification of accuracy of entered data shall be performed;
- 4) Only authorized persons, on whom the broker-dealer company keeps separate records, shall have access to databases and a possibility to enter, alter and use data;
- 5) Each person with workstation access must have a user name and password, and access only to the functions necessary for carrying out that person's job, in addition to which one user name and password may be used by one person only.
- 6) Database excerpts shall have the date and time of preparation, as well as verification by the authorized person;

Depending on the type of activity and scope of work performed, a broker-dealer company must provide a server and a sufficient number of computer workstations corresponding to the number of professionals employed (brokers, portfolio managers and investment advisors) for performing activities in the organized securities market, balancing of liabilities arising from securities transactions, keeping of balance in securities accounts and other activities performed by such company.

Computer workstations shall be reliable and failure proof, have the capacity to maintain information about the maximum possible number of clients, and they shall be linked by a secure local network.

## Security and Reliability Requirements

### Article 15

A broker-dealer company shall provide the following:

- 1) Continuity of information system operation:
  - Simultaneous creation of double data (mirror hard disk) on servers and providing of back up server;
  - A back up source of electric power feed of the information system which enables a completion of work on all initiated activities;
- 2) Plans and procedures for functioning of the information system and telecommunications in case of extraordinary circumstances, hardware and software protection from unauthorized access to data, by detailed surveillance (procedures for registering, analysis and control of every activity within the system), and control of access by giving user permission and authorization;
- 3) Protection of information system against breakdowns through hardware solutions, reliable UPS systems, back-up devices, connections and power supply of the local network;
- 4) Reliability of the information system by making back-up copies of data, and/or by prescribing systems and procedures for making such back-up copies of data, and storing this information and data in another location;
- 5) Disaster recovery plan, in case of which the recovery of data shall not take more than 72 hours, prescribed procedures for such recovery and adequately trained staff for such recovery;

6) Control of access to premises and information system such as: Physical security, alarm or video surveillance;

7) Adequate training of employees about the use of such system and about prescribed system protection procedures.

License for Conducting Activities

Article 16

The Commission shall render the resolution on issuing a license for conducting activities of a broker-dealer company if it establishes that the requirements stipulated by the Law have been met. The resolution referred to in paragraph 1 of this Article shall simultaneously issue a license for conducting activities in the part of a broker-dealer company that was foreseen at the point of foundation (hereinafter: the branch), as well as consent for acquisition of qualifying holdings, general enactments and appointment of members of management, and/or the person responsible for the work of the branch.

The Commission shall render a resolution whereby it shall reject the request for issuing a license for conducting activities of a broker-dealer company if it establishes that one or several reasons for rejecting the request stipulated by the Law are in place:

The provisions of this Article shall accordingly also be applied to the license for expansion of activity.

### III QUALIFYING HOLDINGS

Article 17

Qualifying holdings shall be understood to mean participation in the capital of a broker-dealer company providing or exceeding 5%, 10%, 15%, 20%, 33% or 50% voting rights at the assembly of a broker-dealer company.

The Request for Issuing Prior Consent for Acquisition of Qualifying holdings

Article 18

The request for issuing prior consent for acquisition of qualifying holdings shall be submitted on the form BDC (qualifying holdings) which is available on the Commission website:

Together with the request from paragraph 1 of this Article, the founders – legal entities which intend to acquire qualifying holdings, shall submit:

- 1) The filled in Questionnaire on the form (BDC questionnaire, qualifying holdings) which is available on the Commission website;
- 2) Documentation referred to in the Article 8, paragraph 2 of these Rules;
- 3) Excerpt from the central records of shareholders, and/or the proof from other appropriate public registry comprising the list of 10 founders (shareholders, and/or members) with the largest participation in the capital;
- 4) Financial statements, with the opinion of a certified auditor for the last three years;
- 5) The proof of the competent authority on tax settlement, which has been obtained over the last six months;
- 6) Brief overview of business activities of such entity in the last three years;
- 7) Statement on the overall indebtedness of such person, including specifications and amounts of debts;
- 8) Consent of the National Bank of Serbia, if the qualifying holdings is acquired by a bank or insurance company;
- 9) Proof on the payment of fee to the Commission.

Together with the request from paragraph 1 of this Article, the founders – physical persons who intend to acquire qualifying holdings, shall submit:

- 1) The filled in Questionnaire on the form (BDC questionnaire, qualifying holdings) which is available on the Commission website;
- 2) Documentation referred to in the Article 8, paragraph 3 of these Rules;
- 3) Statement on property relations and origin of assets (real-estate, significant participation in the

capital of other legal entities in the sense of the law regulating business entities, cash deposits in banks, by stating the business name and head office of the bank etc.), with appropriate proof on such ownership;

- 4) The proof of the competent authority on tax settlement, which has been obtained over the last six month;
- 5) Statement on overall indebtedness of such person, including specifications and amounts of debts;
- 6) Proof confirming that the person has not been convicted for acts referred to in Article 137, paragraph 1, item 1, and/or that no proceedings are in progress against him/her for actions referred to in Article 137, paragraph 1, item 2;
- 7) Proof on the payment of fee to the Commission.

#### Fitness and Properness of Founders – Legal Entities Acquiring Qualifying holdings

##### Article 19

In deciding on Fitness and Properness of founders – legal entities acquiring qualifying holdings, the Commission shall appraise the submitted documentation, as well as other relevant information, particularly:

- 1) Overview of business activities in the last three years;
- 2) Financial statements, with the opinion of a certified auditor for the last three years;
- 3) Statement on overall indebtedness, and/or statement of the Credit Committee for legal entities.

#### Fitness and Properness of Founders – Physical Persons Acquiring Qualifying holdings

##### Article 20

In deciding on Fitness and Properness of founders – physical persons acquiring qualifying holdings, the Commission shall appraise the data from the filled-in Questionnaire referred to in the Article 18 of these Rules, as well as other relevant information, in particular:

- 1) Statement on overall indebtedness, and/or statement of the Credit Committee for physical persons;
- 2) Whether the physical person was or currently is subject to an examination due to the breach of customs or standards of other domestic or foreign regulatory authority, organization performing the central registry function, market organizer, professional association or public administration body or agency;
- 3) Whether the person used to be the manager or member of the management of a business entity or some other organization:
  - at which the bankruptcy has been initiated,
  - whose registration has been rejected or which has been stricken from the registry,
  - whose request for issuing an operating license was rejected or whose license has been revoked.

##### Article 21

The Commission shall issue a resolution on issuing prior consent for acquisition of qualifying holdings within a time period no longer than 3 months upon receiving the request if it can be concluded, based on the submitted documentation, that the persons who intend to acquire qualifying holdings have good business reputation and that their financial condition is such that one may assume that it will not have any negative influence on the broker-dealer company operation.

The Commission shall issue a resolution on rejecting the request for issuing prior consent for acquisition of qualifying holdings, if it can be concluded, based on the submitted documentation, that the persons who intend to acquire qualifying holdings do not have good business reputation and that their financial condition is such that one may assume that it will have negative influence on broker-dealer company operation.

If the resolution on issuing prior consent for acquisition of qualifying holdings was issued based on the false data or there was a change of circumstances regarding business reputation or financial condition of the person who was approved to acquire qualifying holdings, the changes being of such



nature that they would have resulted in rejection if they had existed at the time of submission of the request, the Commission shall issue a resolution whereby it shall:

- 1) Revoke the resolution on issuing prior consent to the person holding qualifying holdings;
- 2) Order the person holding qualifying holdings to dispose of a necessary number of shares, so that his/her participation should decrease below 5% of the overall number of votes at the assembly of the market organizer within 90 days from the day of receipt of the resolution,
- 3) Establish that such person does not have a voting right for shares which reach or exceed 5% of the overall number of votes at the market organizer's assembly.

The provisions of this Article shall also accordingly apply when the request for issuing prior consent for acquisition of qualifying holdings is submitted in the procedure of issuing a license for conducting activities of a broker-dealer company.

#### Acquisition of Qualifying holdings without the Consent of the Commission

##### Article 22

A broker-dealer company, and/or Central Registry shall promptly, and at the latest next business day from occurring of the change, inform the Commission on the change of percentages which the Law stipulates for acquisition of qualifying holdings.

Based on the notification from the paragraph 1 the Commission shall establish whether a certain person has acquired qualifying holdings, and/or exceeded the thresholds referred to in the Article 17 of these Rules without the prior consent of the Commission.

Should it establish that there was a change of percentages from the paragraph 1 of this Article contrary to the Law, the Commission shall issue a resolution whereby it shall:

- 1) Order a person holding qualifying holdings to dispose of a necessary number of the company's shares, so that his/her participation should be equaled with the percentage of votes at the assembly of the broker-dealer company for which it has the consent of the Commission within 90 days from the day of receipt of the resolution, and it shall determine that such person does not have a voting right on the basis of additional shares acquired from the moment of issuance of the resolution on acting upon the Commission order, or
- 2) Order a person who has acquired qualifying holdings without the consent of the Commission to dispose of a necessary number of shares, so that his/her participation should decrease below 5% of the overall number of votes at the assembly of a broker-dealer company within 90 days from the day of receipt of the resolution, and it shall establish that such person does not have voting right on the basis of shares which reach or exceed 5% of the overall number of votes at the assembly of the market organizer from the moment of issuance of the resolution until the acting upon the Commission's order.

#### IV MANAGEMENT

##### Request for Granting Consent Regarding the Decision on the Appointment of a Member of the Management

##### Article 23

The request for granting consent regarding the decision on the appointment of members of the management board and/or manager of a broker-dealer company shall be submitted on the form BDC – management referred to in the Article 4 of these Rules.

Together with the request from paragraph 1 of this Article, the documentation referred to in the Article 138 of the Law shall be submitted, as well as:

- 1) Decision of the competent body on the appointment of members of the management, along with the argumentation and opinion on their business reputation;
- 2) Questionnaire (BDC – member of management) which is available on the Commission website;
- 3) Proof confirming that the person has not been convicted for acts referred to in Article 137, paragraph 1, item 1, and/or the proof that no proceedings are in progress against him/her for actions referred to in the Article 137, paragraph 1, item 2;

- 4) Statement of the appointed person confirming that he/she is not a member of the management of other broker-dealer company, authorized bank; investment fund or voluntary pension fund management company; and persons related to them;
- 5) Proof on business reputation – recommendation of a legal entity at which the person has been employed in the last three years or is still employed (recommendations should contain the opinion on professional and ethical qualities of such persons) or other appropriate proof;
- 6) Proof on work experience on jobs related to securities referred to in the Article 137, paragraph 3 of the Law – certificate of a legal entity on the type of activities and period of conducting those activities and photocopy of the employment card;
- 7) Proof on the payment of fee to the Commission.

When the request referred to in paragraph 1 of this Article is submitted along with the request for issuing the license for conducting activities for purposes of foundation of a broker-dealer company, one copy of the request shall be submitted containing the data from item 2 and documentation from item 3, paragraph 1 of this Article.

The bank conducting activities of a broker-dealer company in compliance with the Article 176 of the Law shall submit the request for issuing consent to the decision on the appointment of a person responsible for operation of the organizational part of the bank conducting broker-dealer activities, containing the data from paragraph 1 of this Article.

#### Consent

#### Article 24

The provisions of these Rules on issuing and rejecting consent for acquisition of qualifying holdings shall accordingly apply to the procedure for appraising the business reputation of nominated members of management and managers.

If the resolution on issuing prior consent for appointment of a member of the management was issued based on false data or there was a change of circumstances regarding business reputation or financial condition of such person, the changes being of such nature that they would have resulted in rejection, if they had existed at the time of submission of the request, the Commission shall issue a resolution whereby it shall:

- 1) Revoke the resolution on issuing prior consent for the appointment of the person;
- 2) Order a broker-dealer company to propose, within a reasonable time period, another person who will conduct these activities.

#### V GENERAL ENACTMENTS OF A BROKER-DEALER COMPANY

#### Article 25

General enactments of a broker-dealer company shall be the founding act, articles of association, rules of operation, tariff rules and other general enactments.

#### Founding Act

#### Article 26

A broker-dealer company shall be founded by issuing a decision, and/or concluding a memorandum of association which represent the founding act pursuant to the law governing business entities.

If the founding act does not specify the type of a joint-stock company, it shall be understood that the broker-dealer company is founded as an open joint-stock company.

#### Articles of Association

#### Article 27

The articles of association of a broker-dealer company shall contain the provisions harmonized with the founding act and provisions prescribed by the Law pertaining to:

- 1) Requirements for appointment of members of the management,
- 2) Maintaining of the initial capital,

3) Measures and authorizations performed for the purpose of protection from the risks associated with conducting the activities of a broker-dealer company (reserves for general risks and special reserves, capital adequacy, risk exposure, liquidity),

4) reporting.

#### Rules of Operation

##### Article 28

Rules of operation of a broker-dealer company contain the provisions prescribed by the Law and particularly the provisions on:

- 1) Types of activities specified in the license and manner of conducting such activities;
- 2) Types of client's orders, manner, conditions and schedule of their execution;
- 3) Mutual rights and obligations of a broker-dealer company and its clients;

#### Tariff Rules

##### Article 29

A broker-dealer company shall be obliged to charge its services up the maximum amount of tariff which it submitted to the Commission prior to application, and which was specified by the tariff rules of the broker-dealer company.

##### Content of the Request

##### Article 30

A broker-dealer company shall be obliged to obtain from the Commission prior consent regarding the changes to the founding act, articles of association and rules of operation.

The request for issuing prior consent regarding the change of enactments shall be submitted on the form (BDC enactments) which is available on the Commission website:

Together with the request from paragraph 1 of this Article, the decision of the competent authority on the adoption of amendments to the general enactment shall be submitted, along with the argumentation and the text of the enactment which is being amended.

#### Consent

##### Article 31

The Commission shall render a resolution on issuing consent regarding the amendments to general enactments of a broker-dealer company if it establishes that the proposed amendments are in compliance with the law and other prevalent regulations.

Should the Commission establish that some amendments do not comply with the law and other prevalent regulations, it shall render a conclusion whereby it shall order to the applicant to make the necessary adjustments within a specified time period.

Upon acting pursuant to the conclusion referred to in paragraph 2 of this Article, the Commission shall render a resolution on issuing consent regarding the amendments to the enactment, and if the applicant has failed to act pursuant to the conclusion, the Commission shall render a resolution on rejection of the request.

#### Clients and General Enactments

##### Article 32

A broker-dealer company shall be obliged to inform the clients on any change of the rules of operation and tariff rules prior to the beginning of application, by publishing these changes on its web page and publishing a notification on changes in one daily newspaper with circulation of at least 50,000 copies distributed at the whole territory of the Republic.

If a broker-dealer company has clients – foreign legal entities or physical persons, the notification on the change of rules of operation shall be performed in the manner foreseen by the contract

concluded with the client, and if the number of clients from one country exceeds 50, notification may be published in one daily newspaper on the territory of the client's country.

## VI LICENSE FOR CONDUCTING ACTIVITIES OF A BROKER-DEALER COMPANY

### Article 33

A broker-dealer company wishing to perform the activity for which it was licensed in a special organizational part outside of the head office (hereinafter: branch) shall be required to submit the request for obtaining the license.

The request shall be submitted on the form (BDC branch) which is available on the Commission website.

Together with the request from paragraph 1 of this Article, the following shall be submitted:

- 1) Decision of the competent authority on establishing a branch;
- 2) Decision of the competent authority on appointing a person responsible for branch operation;
- 3) Data and documentation on the person who is responsible for branch operation (as well as on members of the management);
- 4) The proof on human resource and organizational capacities and technical equipment;
- 5) Proof on the payment of fee.

The provisions of the Article 16 of these Rules shall accordingly be applied to the issuing of a license for conducting such activities in a part of the broker-dealer company.

## VII LICENSE IN CASE OF STATUS CHANGES

### Article 34

The provisions of the law governing business entities shall accordingly be applied to the merging procedure and other status changes of a broker-dealer company.

One copy of the request for issuing a license in the case of a status change referred to in the paragraph 1 of this Article shall be submitted by the counterparties in the status change on the form (BDC status change) which is available on the Commission website.

Together with the request referred to in paragraph 2 of this Article, the following shall be submitted:

- 1) Draft contract on the status change,
- 2) Amendments to the founding act and draft articles of association of the acquiring company, and/or new company.

Draft contract referred to in paragraph 3 of this Article shall not be published nor submitted to the competent authority for registration of business entities until the Commission has issued the approval to the broker-dealer company for the status change in question.

A broker-dealer company shall be obliged, upon obtaining the license referred to in the paragraph 4 of this Article, to notify its clients in the manner these Rules stipulate for notifying clients on amendments to general enactments.

The provisions of these Rules on issuing a license for conducting activity shall accordingly apply to issuing of a license in the case of status changes of a broker-dealer company.

## VIII RULES OF OPERATION

### Article 35

Rules of operation shall stipulate the main obligations of a broker-dealer company in view of the type of activity conducted by such company.

Rules of operation shall stipulate the obligation of a broker-dealer company to inform the client, prior to concluding the contract on conducting certain activities, on the following:

- 1) Types of services it provides based on the license for conducting activity;
- 2) All the circumstances that are relevant for rendering decision regarding the services provided by such company, as well as the risks associated with those activities.

A broker-dealer company shall be obliged to post in a visible and accessible place, and/or enable the insight into, at the premises where it conducts business with clients, the rules of operation and tariff applied in working with clients and to publish those on its website.

#### Contract with the Client

##### Article 36

A broker-dealer company shall be obliged to conclude a written contract with the client, regulating their mutual rights and obligations in conducting activities of a broker-dealer company.

The contract referred to in paragraph 1 of this Article shall specify maximum commission, and/or fee that the client pays for services subject to the contract, as well as in which manner the prevalent tariff may be applied in the case that the tariff has changed compared to the tariff which was applicable at the time of conclusion of the contract.

The contract referred to in paragraph 1 of this Article shall contain the provision that the client's statement shall be an integral part of the contract.

- 1) confirming that prior to the conclusion of the contract the rules of operation were made available to the client and that he/she had been acquainted with their content;
- 2) that the client is acquainted with the tariff rules of the broker-dealer company;
- 3) on the client's background and experience in conducting activities related to securities and other financial instruments in the financial market.

The client's statement referred to in paragraph 2 of these Rules shall be provided on the form (BDC client's statement) which is available on the Commission website.

Based on the client's statement on his/her background and experience, the broker-dealer company shall draft the warning statement.

- 1) on possible risks that may arise from the trade in certain securities,
- 2) should the realization of an accepted bid order give rise to the obligation to publicize the offer for assuming or losing the voting right according to the provisions of the Law on the Takeover of Joint-Stock Companies.

The statement of a broker-dealer company referred to in the paragraph 4 of these Rules shall be provided on the form (BDC warning statement) which is available on the Commission website.

#### Company's Obligations Toward Clients

##### Article 37

A broker-dealer company shall be obliged to observe in its operation the principle of equality of clients and to be governed exclusively by clients' interests.

The employees and members of management of a broker-dealer company shall be obliged to keep, as a business secret, data on balance and transactions in securities accounts of the company's clients, as well as other data which they learned while performing activities of that company and shall not disclose such data to third parties, use them or enable third parties to use them.

A broker-dealer company shall be obliged to establish by Rules of Operation the manner in which it shall be ensured that the employees and members of management in such company act in compliance with the Law on the Principles of Safe and Sound Business Operation, and particularly:

- 1) The manner in which they are required to act when buying and selling securities for their own account;
- 2) Which data are considered business secret and the manner of protection of such data.

A broker-dealer company may also have separate Rules on business secret and manner of protection of such data.

The employees of a broker-dealer company must be acquainted with the contents of the general enactment referred to in the paragraph 1 of this Article before they start conducting activities for such company.

#### Conflict of Interests

#### Article 38

A broker-dealer company shall not put its own interests before the interests of its clients.

A broker-dealer company shall be obliged to acquaint the client with possible conflicts of his/her interest with the interests of the company, and/or interests of other clients of the broker-dealer company.

A broker-dealer company shall be obliged to organize its business activities in such a way so that potential conflicts of interest between the client, broker-dealer company and employees in such company should be reduced to the smallest possible extent.

#### OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING BROKER'S ACTIVITIES

#### Article 39

A broker-dealer company shall conclude a contract with a client on conducting broker's activities prior to receipt of the first client's order.

By signing contract on conducting broker's activities, a broker-dealer company shall be an intermediary in purchase or sale of securities for the client, and/or that it shall conduct purchase and sale of securities for the client, on the basis of that client's request, and client shall be obliged to pay a fee for such service.

#### Article 40

Prior to the receipt of order, a broker-dealer company shall inform the client on all circumstances that are of significance to decision-making process regarding purchase and sale of securities, such as current price of securities and other financial instruments, liquidity of such instruments in the market and earlier fluctuation of the prices, as well as on risks inherent while making investments in such instruments.

Broker-dealer company shall accept and execute all client's orders in compliance with the Law, these Rules, general enactments and contract on conducting broker's activities.

#### Client's Obligation

#### Article 41

Prior to issuing an order, the client of a broker-dealer company shall:

- 1) Have owner's account of securities opened with the member of the Central Securities Depository and Clearing House;
- 2) Have owner's money account in a bank, which is member of the Central Securities Depository and Clearing House;
- 3) Authorize broker-dealer's company, in accordance with the issued order, to execute the transfer and subscribe rights on securities in owner's account of the client, and/or to execute incoming and outgoing payments to and from the money account of the client.

Authorization referred to in paragraph 1, item 3 of this Article may be:

- 1) Contained in the contract on conducting broker dealer's activities, in case when such contract contains significant elements of contract on keeping securities account,
- 2) Laid out in the special contract on keeping securities account;
- 3) Laid out on the basis of other legal activity.

#### Order

#### Article 42

Order shall contain the following:

- 1) Data on order receipt (No of order, place, date, time (hour and minute) and manner in which the order is received, No of contract);
- 2) Data on client;
  - Name and surname/business name of the client;

- Address/head office, ID code;
  - Number of the client's account of securities, with sign indicating member of the Central Securities Depository and Clearing House where the account is maintained, or number of an aggregate custody securities account (with sign indicating custody bank);
  - Number of the client's money account, (with sign indicating business bank – member of the Central Securities Depository and Clearing House where the account is maintained);
- 3) Data on transaction intended for execution;
- Type of order (purchase or sale);
  - Type of order given the manner in which the price has been set (market or limit with price being stated)
  - Type of order per duration of order validity (daily, up to the day and until the revocation, stating the validity period)
  - CFI Codes and ISIN Codes of securities, nominal value
  - Amount (number) of securities and price carried in currency;
- 4) Data on the market;
- Market organizer (name and ID Code)
  - Trade method
- 5) Amount of fee (of a broker-dealer company, market organizer, Central Securities Depository and Clearing House)
- 6) Indication that the ordering party is familiar with and that he/she clearly understands all elements of the order, and especially manner of calculation of fees and expenses that he/she has to pay for execution of order;
- 7) Signature of the client and authorized person of a broker-dealer company.

Cancellation of an order shall contain the following:

- 1) Data on order receipt, which cancels the issued order (No of order, place, date, time (hour and minute) and manner in which the order has been received;
- 2) Data on client;
  - Name and surname/business name of the client;
  - Address/head office, ID Code;
- 3) Data on order which is being cancelled, No of order, place, date, time (hour and minute) and manner pf order receipt, client's signature and signature of an authorized person of a broker-dealer company.
- 4) Signature of the client and authorized person of a broker-dealer company.

Every change of the issued order in terms of price or volume of securities shall be done by issuing a new order.

#### Order Receipt

#### Article 43

Broker-dealer company shall receive the client's orders in the business premises in its head office, place where its organizational part (branch) performs its operations and in business premises of other legal entity, which cannot be issuer of securities for which the orders are received on the basis of concluded contract;

By way of exception to paragraph 1 of this Article, a broker-dealer company may authorize other legal entity to receive the client's orders of a broker dealer company in its business premises in the name and for the broker dealer company, whereby such legal entity cannot be the issuer of securities for which the orders are accepted;

Prior to order receipt, a broker dealer company may, in the business premises of other legal entity referred to in paragraph 1 of this Article, conclude contract on mediation in securities trading, and/or contract on opening and keeping securities account.

Contract between a broker dealer company and other legal entity referred to in paragraph 1 of this Article shall contain in particular the following:

- 1) Description, and/or designation of premises in which a broker-dealer company shall execute activities referred to in this paragraph (address, square footage, determining that the premises are detached from other premises of legal entity, as well as that it meets other conditions for conducting activities with clients),
- 2) Sole purpose for which the premises are used and the time of the usage,
- 3) Right of the broker dealer company to post a mark indicating its company at the entrance of the premises and its working hours,
- 4) Right of clients of a broker dealer company to unhindered access to designated premises etc.

A broker-dealer company shall meet the following standards and procedures when receiving orders outside its head office:

- 1) That before launching operations referred to in paragraphs 1 and 3 of this Article, it shall post a notification in business premises of other legal entity referred to in paragraphs 1 and 2 of this Article, in at least one daily paper distributed across the entire territory of the Republic, indicating the type of business, place, and/or address of its business premises, period and time during which the stated operations shall be conducted, (which includes conducting those operations in the shorter time only for specific case, stated in the publicly announced notification),
- 2) It shall submit to the Commission notification on conclusion of contract with other legal entity and copy of public announcement on performing activities outside its head office prior to commencement of conducting such activities.
- 3) It shall clearly post the name of its company and working hours for doing business with clients in the business premises of other legal entity,
- 4) It shall follow the principle of equality of clients and other clients' rights prescribed by the Law and these Rules,
- 5) It shall execute the order receipt in the same manner and shall follow the same procedure determined for order receipt in its head office (direct order receipt in the order format in writing or by entering into an information system and printing order in writing), whereby the time of order receipt shall be calculated as of the time the order was received in other legal entity,
- 6) Person, authorized by responsible person of the broke dealer company for order receipt, shall execute direct order entry into the information system of a broker dealer company in the head office, which includes electronic connection (laptop/notebook and internet connection). By way of exception, in order to overcome obstacles of technical nature, responsible person of a broker dealer company may determine the sequence of order receipt through telephone communication with the head office.

Provisions of this Article shall also be referred to authorized banks, if the following conditions have been met on a cumulative basis:

- 1) General Manager of the bank shall determine in writing bank's branches in which client's orders of an authorized bank can be received,
- 2) Person that manages authorized bank shall authorize a specific person in such branches which can conduct activities from this Article.

#### Manner of Order Receipt

#### Article 44

The order may be issued in writing, directly, via mail, fax, e-mail or via other electronic path (via secured internet service, through which the content of the received document may not be changed). By way of exception to paragraph 1 of this Article, order may be issued via telephone, if the device and its technical characteristics for recording audio provide accuracy and reliability, which means that the following conditions have been met on a cumulative basis:

- 1) Determination of exact time of order receipt (date, hour and minute);
- 2) Identification of telephone number from which the order was issued;
- 3) Exact identification of the client who issued the order.

The Company shall keep the recording of the order issued via telephone in an electronic form in an



appropriate medium, which provides clear and precise reproduction of the above mentioned recording, for at least two years since the date that such order was recorded in the Information System of a Market Organizer.

## Book of Orders

### Article 45

Broker-dealer company shall keep the book of orders according to the time when orders have been received:

In the book of orders all received orders, changes, cancellation of order and data on order implementation are entered.

Book of orders shall be kept in the manner which:

- 1) Prevents subsequent change of data entered.
- 2) Provides clarity and chronological order of entered data
- 3) Provides an abstract (for a specific client, per type of contract, per type of security, for a specific time period etc.).

Book of order shall contain the following:

- 1) Data on all received orders:
  - Client (indicating the type of contract)
  - Member of the management and person employed in such a company, and related persons
  - The company and related persons.
- 2) Data on implementation of received orders (rejected, fully executed, partially executed, not executed)

In the book of orders all data shall be entered, namely the following:

- 1) Name of the broker who entered received order;
- 2) Date and number of the contract concluded with the clients, along with indication of the type of business;
- 3) Type of securities account
  - Owners securities account of the client,
  - Owners securities account of a broker-dealer company and related persons,
  - Owners securities account of a member of the management or person employed in a broker-dealer company and related persons,
  - Client's management account;
- 4) Location where order was received:
  - In the premises of broker-dealer company,
  - In the branch
  - Out of the head office in the premises of other legal entity,
  - Through legal entity authorized for receiving, but not for execution of order;
- 5) Manner of order receipt:
  - In writing (directly, via mail, fax or electronically),
  - Via telephone,
- 6) Type of order according to the following:
  - Type of transaction:
    - Order to buy,
    - Order to sell,
  - According to price
    - Market order,
    - Limit order (order with a limited price),
  - According to validity period of order
    - Day order,
    - Order up to day (with indication that the date is added until which the order is valid),
    - Good-till-cancelled order (order without validity limitation),

- 7) CFI code and ISIN number of the security,
- 8) Number (volume) of securities,
- 9) Date and manner of submitting confirmation of receipt (changes or cancellation) of order;
- 10) Rejection of order, cancellation or change of order (marked with stated indications);
  - Rejection of receipt (state the reason for rejection and date when the client was informed on rejection),
  - Cancellation (state the day and hour when the order was cancelled);
  - Change (state the day and hour when the order was changed, and/or No of new order);
- 11) Execution of order, date and time (day and hour) when the order was entered into the information system of a market organizer and the name of the broker;
- 12) Order implementation: Date and time (date and hour and minute) when the order was executed;
- 13) Manner of order implementation (transaction conclusion):
  - In a regulated exchange market (market organizer and trade method),
  - In a regulated off-the-counter market (market organizer and trade method),
  - Outside of a regulated market,
- 14) Number (volume) of securities for which the order has been executed, with indication whether it has been executed fully or in part,
- 15) Price at which the order has been executed.

#### Confirmation for Order Receipt

##### Article 46

A broker-dealer company shall submit to the client a confirmation of order receipt, and/or confirmation on receiving the changes of order or order cancellation, not later than on the next business day following the day when the order was received, in the manner stipulated by the contract, and/or manner in which the order was issued to the client.

Confirmation of order receipt shall contain all the elements prescribed for the order.

#### Order Coverage

##### Article 47

When the client set the price by order, the stated price represents the maximum price that the issuer of orders is ready to pay, and/or with orders for sale it represents the minimal price the issuer of orders is ready to accept for a certain security.

Prior to posting an order into the market organizer information system, the company shall check whether there are enough securities in the securities account that are subject to sale, and/or whether there are enough funds on client's money account for settling its obligations that would arise from execution of orders for purchase of securities.

#### Rejection of Order

##### Article 48

The broker-dealer company shall reject the execution of the following orders:

- 1) Order for purchase when it determines that there are not enough funds on client's money account for settling its obligations that would arise from execution of order for purchase of securities;
- 2) Order for sale, when it determines that there are not enough securities on client's securities account which are subject of the order;
- 3) Order for purchase, and/or sale of securities, when it determines that execution of such order would violate terms and conditions of this law regarding prevention of manipulation and spreading false information, and/or would represent some other felony, industrial violation or offence punishable by law;

Broker-dealer company shall refuse the receipt of order for purchase, and/or sale of securities when the deadline for submission of such an order for execution has expired.

Order receipt in case referred to in paragraphs 1 and 2 of this Article shall contain reasons for the refusal.

## Order Execution

### Article 49

Execution of order shall mean entering elements of issued orders of the client into the information system data base of a market organizer stated in the order;

A broker-dealer company shall execute orders for purchase and sale of securities in a regulated market by entering orders according to the sequence of their receipt, unless the regulated market defined different sequence of order execution in its special rules for trading certain security.

When the client has issued the order as a daily order, a broker-dealer company shall post that order into the information system of market organizer immediately after order coverage has been checked (the same day according to the sequence of order receipt), and/or if the order was issued after the completion of trading, in the beginning of trading on the next following working day.

When the client does not set a price by order, the order shall be the market order and shall cease to be valid upon expiry of the day when it has been posted into the information system of the market organizer, in the manner prescribed by paragraph 3 of this Article.

### Article 50

A broker-dealer company shall not execute order for purchase and sale of security for itself or for the person employed in such company, if for that reason, the company could not execute previously posted client's order for purchase or sale of the same security or it could execute the order under conditions less favorable for the client.

Until the order has been implemented, a broker-dealer company may change order posted in the central data base of information system of a market organizer, in compliance with rules of operations of such organizer.

## Order Implementation

### Article 51

Order implementation shall mean concluding a transaction in a regulated market or outside regulated market.

Order can be implemented fully or partially.

A broker-dealer company shall submit notification on order implementation to the client, not later than on the next business day following the day when the order was implemented, in the manner stipulated by the contract, and/or manner in which the order was issued, which shall contain the following:

- 1) No of order;
- 2) Data on client;
  - Name and surname/business name of the client;
  - Address/head office, personal ID number;
  - Number of the owner's securities account of client, with sign indicating member of the Central Securities Depository and Clearing House where the account is maintained, or number of an aggregate custody securities account (with sign indicating custody bank);
  - Number of the client's money account (with sign indicating business bank – member of the Central Securities Depository and Clearing House where the account is maintained);
- 3) Place, date and time (hour and minute) when transaction was concluded; with data on the transaction;
  - Indication of security (issuer, type, class, and/or series, CFI code ad ISIN number or other internationally recognized indication);
  - Type of transaction (purchase or sale);
  - Number (volume) of securities,

- Price of securities,
  - Manner of order execution (order is executed by the same or other company, stating the business name and head office of the other company and responsibility of the broker-dealer company for execution of order of other company);
- 4) Amount of fee (of a broker-dealer company, market organizer, Central Securities Depository and Clearing House)
  - 5) Signature of the authorized person of the broker-dealer company.

#### Reporting to Client

##### Article 52

A broker-dealer company shall post the statements showing balance and changes on clients' securities' accounts as statements of the central information base of the Central Securities Depository and Clearing House.

A broker-dealer company shall, per client's request, submit statement showing changes on securities' account for the requested period the next day following the day the request is received, along with the new balance as of the day the statement is submitted.

#### Responsibility towards Client

##### Article 53

A broker-dealer company shall be responsible to the client for the damage caused by failure to execute, and/or irregular or untimely execution of purchase order, and/or order for transfer, in compliance with regulations governing obligation relations.

#### OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING DEALER'S ACTIVITIES

##### Article 54

A broker-dealer company shall conduct dealer's affairs through purchase and sale of securities on its own behalf and for itself, for the purpose of gaining price difference.

A broker-dealer company shall conduct dealer's affairs in a regulated market (stock exchange market, and/or over-the-counter market) or outside regulated market, pursuant to the Law.

When conducting dealer's affairs, a broker-dealer company:

- 1) Shall not place its interest and interests of the related persons above the interests of the clients when executing orders of its clients and orders of other contractual obligations towards clients.
  - 2) Shall not post order for purchase or sale of the same security subject to client's order, prior to execution of client's order.
  - 3) Shall manage its securities portfolio in the manner ensuring that capital adequacy, risk exposure and liquidity management would not compromise execution of company's obligation towards clients.
- If a broker-dealer company causes damage to its clients by acting in violation of paragraph 3 of this Article or in any other manner, it shall compensate for such damage pursuant to provisions of the law governing obligation relations.

#### OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING MARKET MAKER ACTIVITIES

##### Article 55

A company shall conduct market-maker affairs through mandatory purchase and sale of securities in a regulated market on its own behalf and for itself, for the price announced earlier.

A broker-dealer company shall conduct market-maker affairs in a regulated market in compliance with rules of operations of the market organizer.

Provisions stated in Article 54 of the Rules shall be applied to the responsibility of a broker-dealer company towards clients when conducting market-maker affairs.

## OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING PORTFOLIO MANAGER ACTIVITIES

### Article 56

Rules of operations of a broker-dealer company when conducting portfolio manager affairs shall contain in particular the provisions on:

- 1) Core investment strategies and investment policy principles (criteria for establishing client's securities portfolio).
- 2) Risk management principles (manner in which diversification of clients' securities portfolio is done)
- 3) Manner of notification of client on market value of securities in clients' portfolio, special investment risks, balance on the management account and on other relevant issues;
- 4) Manner and conditions under which members of the management and employees in a broker-dealer company may invest into securities portfolios that are managed by such company.
- 5) Prohibition of investing client's funds into purchase of securities;
  - Which contain obligation to purchase certain property or rights in future, without prior client's consent in writing;
  - That are not subject to public offer in a regulated market;
  - Whose issuer is such broker-dealer company or persons related to it;

Data according to which Portfolio Manager reaches a decision on investing into specific securities must be available to the client prior to conclusion of contract on management of securities.

### Contract

#### Article 57

By signing contract on management of securities, a broker-dealer's company shall be obliged to invest money assets of the client into securities for the client, and/or that it shall receive securities from the client for the purpose of management, and the client shall pay the fee for such service.

Contract on management of securities must contain important elements referred to in Article 169 of the Law, as well as other elements in accordance with the rules of operations of broker-dealer company that conduct portfolio manager's affairs.

Integral part of the contract on management of securities shall be the list of all securities entrusted to management (with statement from the owner's securities account of the client as of the day the contract is concluded), as well as the amount of money assets that the client entrusts to the company for the purpose of purchasing new securities (with transcript of entry from the client's money account).

### Responsibility towards Client

#### Article 58

A broker-dealer company shall submit to the client, at least once a month, the report showing balance on the management account of such client as of the last day of the period that the report refers to.

A broker-dealer company shall inform clients of the tax obligations regarding the turnover and holding of securities in portfolio and shall inform them of other expenses.

A broker-dealer company may authorize the transfer of securities portfolio of its clients only to broker-dealer companies, and/or authorized banks that have license for conducting portfolio manager's affairs, with prior client's consent in writing.

A broker-dealer company shall keep the documentation and data on facts that influenced determining and changing the value of securities portfolios managed by such company, as well as data on influence of assessment to the portfolio value.

## Portfolio Assessment

### Article 59

Portfolio value assessment shall be done according to the market value of securities that compose such portfolio and shall be done at least once a month, and Portfolio Manager shall inform the clients on that issue.

When assessing the portfolio value, all proceeds must be taken into consideration that the securities comprising such portfolio yield (interest, dividends and other proceeds).

Report referred to in paragraph 1 of this Article shall contain the following:

- 1) The period it relates to;
- 2) Balance at the client's management account (CFI code and ISIN number, number and value of securities in the portfolio),
- 3) Amount of assets in cash (amount of interest, dividends and other outstanding receivables, as well as outstanding obligations of the client, as well as the amount of receivables that the broker-dealer company collected for the account of client);
- 4) Fee for services provided by broker-dealer company, market organizer and Central Securities Depository and Clearing House, providing grounds for the manner in which the calculation of the fee was done;
- 5) Total value of securities and other assets in the portfolio, decreased by fee referred to in indent 4 of this paragraph.

A broker-dealer company shall submit to the client, after occurrence of any significant change in the value of portfolio, notification on such changes not later than three working days following the day any significant change in portfolio value occurred.

Significant change in securities portfolio value shall mean any change in portfolio value, the amount of which varies up or down 10%, or smaller amount defined in the contract on management.

## OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING AGENT'S AFFAIRS, AND/OR UNDERWRITER OF ISSUANCE ACTIVITIES

### Issuance Agent

#### Article 60

Rules of operations of a broker-dealer company that conducts issuance agent's affairs shall contain in particular the provisions on the manner of:

- 1) Organizing affairs regarding issuing securities that are issued through public offer;
- 2) Organizing affairs regarding inclusion of securities issued without public offer into a regulated market and manner of execution of preparation for inclusion of such securities into a regulated market.

A broker-dealer company shall apply the strategy regarding organization of securities distribution that is the most favorable for the client, paying special attention to whether the securities distribution is conducted through public offer or without public offer.

Contract on organizing securities distribution without obligation to buy them shall stipulate that a broker-dealer company is obliged to organize the distribution via public offer or without public offer, by striving that third parties subscribe and pay for the securities, and the client shall pay a fee for such service.

### Underwriter of Issuance

#### Article 61

Rules of operations of a broker-dealer company when conducting underwriter of issuance affairs shall contain in particular the provisions on the manner of:

- 1) Organizing securities distribution that are issued via public offer, and/or without public offer, in order to provide successful subscription and payment;
- 2) Determining risks that the broker-dealer company undertakes when organizing distribution;

#### Underwriting Contract

##### Article 62

Contract on organizing securities issuance with obligation to purchase them puts an obligation to a broker-dealer company to purchase all securities from the issuer and then organize their further sale, or to purchase only those securities that are not subscribed and not paid for after expiry of deadline for subscription and payment, and then to organize their further distribution, and the issuer shall pay the fee for such services.

Contract referred to in paragraph 2 of this Article:

- 1) Shall define the obligation of underwriter to purchase entire issue or only portion of unsold securities until the expiry of deadline for subscription and payment for securities.
- 2) Shall define the obligation of contractual parties regarding preparation of prospectus for issuing securities and shall determine issuing price, and/or interest rate.
- 3) May define obligation of the issuer not to execute issuance or sale of securities of the same type, in a specific time period after launching primary sale, which cannot exceed six months.
- 4) Shall contain provisions on fee that the underwriter collects for conducting such affairs.

When several broker-dealer companies participate as underwriters of issuance in organizing issuance of securities with obligation to purchase them, such companies shall conclude special contract governing mutual rights and obligations, and shall determine one broker-dealer company as the main organizer of distribution that shall sign contract with the issuer.

#### OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING INVESTMENT ADVISORY ACTIVITIES

##### Article 63

A broker-dealer company shall conclude a contract on conducting investment advisory affairs with a client to whom it provides advisory services.

Advisory services shall mean the following:

- 1) Informing the client on condition in the securities market and giving advices regarding purchase, and/or sale of specific securities,
- 2) Giving legal or financial advices in the area of corporate governance,
- 3) Conducting technical, fundamental and other analyses,
- 4) Participation in the development of legal and other enactments and documents,
- 5) Conducting other similar affairs for the client.

General information aiming at informing interested parties on rules of operations of persons conducting broker-dealer activities, working principles of regulatory bodies and technique of functioning of securities market shall not have the feature of advisory services in compliance with this Article.

#### OBLIGATIONS OF A BROKER-DEALER COMPANY WHEN CONDUCTING AFFAIRS REFERRED TO IN ARTICLE 124, PARAGRAPH 2 OF THE LAW

#### Opening and Keeping Owner's Securities Account

##### Article 64

A broker-dealer company shall inform the client of his obligation regarding opening of money and owner's securities account prior to issuing order for purchase, and/or sale of securities.

Contract on opening and keeping owner's securities account shall prescribe an obligation of a broker-dealer company to:

- 1) Have owner's account of securities opened in the Central Securities Depository and Clearing House for and in the account of the client;
- 2) Keep the record in owner's securities account (to keep updated record of all changes in that account arising from purchase and sale of securities and transfer of rights to securities that are kept in the client's account),
- 3) Submit to the client balance, and/or changes in such account, as a transcript of entry from the central information base of the Central Securities Depository and Clearing House.

#### Article 65

Transfer of rights on securities among accounts of the same holder and transfer to the account of the new holder, as well as subscription and deleting of rights of third parties on securities, shall implemented by the broker-dealer company for and in the account of its clients by posting order for transfer of securities, and/or order for subscription and deleting of third parties' rights in the Central Securities Depository and Clearing House.

#### Opening and Keeping Issuing Accounts

##### Article 66

A broker-dealer company shall conclude a contract on conducting issuing account with the issuer of securities, in compliance with the law, rules of operations of the Central Securities Depository and Clearing House and other regulations.

Contract on keeping issuing account sets obligation to the broker-dealer company to open issuing account of securities in the Central Securities Depository and Clearing House for and in the account of the client, in order to:

- 1) Be assigned ISIN number and CFI code for securities that did not receive these marks earlier,
- 2) Transfer rights on securities from the issuing account to owner's securities accounts in the process of issuing securities,
- 3) Keeping records on issued securities.

Affairs referred to in Article 2, paragraph 2 of this Article for new issuances may be conducted solely by broker-dealer companies that are licensed for issuance agent's affairs.

#### Opening and Keeping Securities Depository Account

##### Article 67

Contract on keeping securities depository account shall set obligation to a broker-dealer company to open securities depository account in the Central Securities Depository and Clearing House for and in the account of the client in compliance with the law, rules of operations of the Central Securities Depository and Clearing House and other regulations, and shall set obligation to client to pay a fee in compliance with the tariff rules of the broker dealer company.

Client referred to in paragraph 1 of this Article may be:

- 1) Bidder – in compliance with the law governing taking-over of joint-stock companies.
- 2) Issuer – in the process of acquisition of shares in compliance with the law governing business companies.
- 3) Share Fund – in order to add shares of certain shareholders to the package of shares of certain issuer in the Share Fund Portfolio, for the purpose of simultaneous sale via public offer, and/or in a regulated market.

#### Representation of Shareholders

##### Article 68

Contract on representation in the assemblies of shareholder companies stipulates that broker-dealer company shall be obliged to represent the client which owns ordinary shares of a certain shareholder company in the assembly of such company, on the basis of authorization issued for every assembly respectively, in the manner and under the terms defined by the law, founding act and articles of association of such company, and the client shall pay a fee in compliance with the tariff rules of the broker-dealer company.



A broker-dealer company shall represent shareholders in the company's assembly to the best of their interest.

A broker-dealer company shall inform the shareholders, from whom it received authorization for representation, on all limitations for such representation arising from laws and other regulations.

#### Other Activities

##### Article 69

Contract on conducting corporate affairs stipulates that a broker-dealer company shall submit to the issuer transcript of the entry from the records of the Central Securities Depository and Clearing House for each shareholder company session respectively, and/or stock register with number of shares belonging to each shareholder.

Contract on conducting certain affairs may stipulate that a broker-dealer company conducts other affairs, such as affairs regarding execution of tax obligations of lawful possessors of securities of company's clients, securities lending and other affairs regarding implementation and execution of basic contract.

#### IX REPORTS ON ACTIVITIES PERFORMED BY BROKER-DEALER COMPANY

##### Article 70

The broker-dealer company shall submit to the Securities Commission the following:

- 1) Annual financial statements with auditor's report by 15th July current year for the previous year;
- 2) Annual report on operating activities by 15th July current year for the previous year;
- 3) Monthly operating report by the 15th day of the current month for the previous month;
- 4) Monthly reports on data showing capital adequacy, risk exposure and liquidity by the 15th day current month for the previous month;
- 5) Notification on change of the prescribed conditions for conducting activity for which the license has been acquired – within 8 days following the day the change occurred.

Annual financial statements and auditor's statements shall be compiled in compliance with the law governing audit and accounting.

If a broker-dealer company is an open shareholders company, the reports referred to in paragraph 1, indent 1 of this Article shall be published by the broker-dealer company in the manner stipulated by the Law and the enactments of the Commission on public company reporting requirements.

Paragraph 4 of this Article shall also be applied accordingly to broker-dealer companies that are organized as closed shareholders companies, if they issued debt securities by means of public offer. Contents of monthly reports on capital adequacy, risk exposure and liquidity shall be defined by special rulebook.

#### Monthly Report on Operating Activities

##### Article 71

Monthly report on operating activities of a broker-dealer company shall contain, in particular, data on securities turnover (per issuers, types of securities, participation of organizing members in such turnover).

Report referred to in paragraph 1 of this Article shall be submitted in a form (BDD monthly report) available on the Commission's website.

#### Annual Report on Operating Activities

##### Article 72

Annual report on operating activities of a broker-dealer company shall contain data stipulated for the monthly report, as well as data on persons having qualifying holdings (showing percentage for each person) in voting rights of the broker-dealer company and changes of the initial capital.

Report referred to in paragraph 1 of this Article shall be submitted in the form (BDD annual report) available on the Commission's website.

If a broker dealer company is an open joint stock company, report referred to in paragraph 1 of this Article shall also contain the following:

- 1) Analysis of achieved results, with reference to liquidity, solvency and profitability of the company
- 2) Information on the condition of own shares (number and percentage of acquired, disposed and cancelled)
- 3) Significant business events as of the balance day until the day report is submitted

#### Article 73

A broker-dealer company shall notify the Commission on changes of condition for conducting activities, on the basis of which such company, and/or organizational part of such company, acquired license for conducting the activities, as well as on other conditions that such company must meet, and particularly on conditions related to the following:

- 1) Legally prescribed minimal amount of pecuniary portion of initial capital for conducting the activity;
- 2) Legally prescribed minimal number of persons licensed to conduct affairs of a broker, portfolio manager or investment advisor;
- 3) Occurrence of circumstances on the basis of which the Commission withdraws the consent to selection of the member of the management of a broker-dealer company; and/or acquiring qualifying holdings;
- 4) Failure to fulfill due monetary liabilities;

A broker-dealer company shall inform the Commission on the change it implements prior to submitting application for subscription in the Register of Economic Entities regarding change of legal form, business name, head office and address.

In case of change to legal form or business name of the company, the broker-dealer company shall file a request to the Commission for issuing consent to changes made to enactments.

Along with notification on change of head office or address, a broker-dealer company shall file a proof on fulfillment of conditions on organizational qualifications and technical equipment.

Notification referred to in paragraphs 1 and 2 of this Article shall contain the description of the event on which notification is issued, along with the date of its occurrence.

#### Business Books

#### Article 74

A broker-dealer company shall keep the business books in an orderly manner, business and other documentation in the manner that enables checking of the process of an individual activity executed.

A broker-dealer company shall keep business books, record and documentation that are defined in provisions of these Rules, for the period of 5 years at the latest following the end of the business year which the documentation refers to.

#### X TRANSITIONAL AND FINAL PROVISIONS

#### Article 75

The issue of intermediary referred to in Article 127, paragraph 6 of the Law shall be defined in a separate rulebook.

#### Article 76

Broker-dealer companies, and/or authorized banks licensed by the Commission for conducting activities, shall, in the procedure of bringing into accord with the Law, file a request for obtaining consent to changes of general enactments, pursuant to the provisions of these Rules.

Article 77

Provisions in these Rules shall accordingly be applied to authorized banks, with the exception of provisions that relate to founders, acquiring of qualifying holdings and statutory changes.

Article 78

On the effective date of these Rules, the Rules on Requirements for Conducting Broker-Dealer Company Activities shall no longer be effective, No 3/0-01-59/34-03 from 29th September 2003, and No 2/0-01-54/3-06 from 19th January 2006 („RS Official Gazette“, No 102/03 and 10/06).

Article 79

These Rules shall come into force on the next day following its publication in the “Official Gazette of the Republic of Serbia” and shall be applied when the new Law on the Market of Securities and Other Financial Instruments comes into force (“RS Official Gazette”, No 47/06).

No: 2/0-02-501/8-06

Belgrade, 10th November 2006

No: 2/0-02-501/20-06

Belgrade, 7th December 2006

No: 2/0-02-501/33-06

Belgrade, 21st December 2006

PRESIDENT OF THE COMMISSION

Milko Štimac, signed

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