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 STATUTORY INSTRUMENTS
 

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**1983 No. 585****SECURITIES****The Licensed Dealers (Conduct of Business) Rules 1983**

<i>Made - - - -</i>	14th April 1983
<i>Laid before Parliament</i>	26th April 1983
<i>Coming into Operation</i>	
<i>  Except for rules 6 and 7</i>	1st June 1983
<i>  Rules 6 and 7</i>	1st September 1983

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Whereas the powers conferred by section 7 of the Prevention of Fraud (Investments) Act 1958 (a) are now vested in the Secretary of State (b);

And whereas the Secretary of State in pursuance of the requirements of subsection (3) of that section has caused to be published, in the manner which he considered best adapted for informing persons affected, notice of his intention to make rules under that section, specifying the place where a draft of the rules might be inspected and copies obtained and the price at which such copies were to be supplied;

And whereas the Secretary of State in pursuance of the said requirements has considered objections and representations made to him in respect of the draft rules and has modified the terms thereof;

Now, therefore, the Secretary of State in pursuance of the powers so conferred and vested in him and of all other powers enabling him in that behalf hereby makes the following rules—

## PART I

## INTRODUCTORY

*Citation, commencement, revocation and transitional provisions*

1.—(1) These rules may be cited as the Licensed Dealers (Conduct of Business) Rules 1983 and shall come into operation—

- (a) except for rules 6 and 7 on 1st June 1983; and
- (b) as respects rules 6 and 7 on 1st September 1983.

(2) The Licensed Dealers (Conduct of Business) Rules 1960 (c) are hereby revoked.

- (3) The transitional provisions in Schedule 2 hereto shall have effect.

*Interpretation*

2. In these rules, unless the context otherwise requires—

“14(5) person” means any of the persons mentioned in section 14(5) of the Act as persons whose business involves the acquisition and disposal, or the holding, of securities (whether as principal or as agent);

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(a) 1958 c.45.

(b) S.I. 1970/1537.

(c) S.I. 1960/1216.

“the Act” means the Prevention of Fraud (Investments) Act 1958;

“authorised institution” means one of the institutions referred to in Schedule 1;

“business” means the business of dealing in securities under the authority of a licence;

“client account” means a current or deposit account which—

(a) is with an authorised institution; and

(b) is in the name of a holder of a principal’s licence; and

(c) contains in its title the word “client”;

“client money” means money received or retained by a licensed dealer in the course of business for which he is liable to account to another person;

“client investment” means an investment which does not belong to the licensed dealer;

“close relative” in relation to a person, means that person’s spouse, child or step-child; and for the purposes of this definition a reference to the child or step-child of any person includes a reference to any illegitimate child of that person, but does not include a reference to any person who has achieved the age of 18 years;

“Chinese Wall” means an established arrangement whereby information known to persons involved in one part of a business is not available (directly or indirectly) to those involved in another part of the business and it is accepted that in each of the parts of the business so divided decisions will be taken without reference to any interest which any other such part or any person in any other such part of the business may have in the matter;

“connected person” in relation to any person, means—

(a) any person who would be a connected person of that person by virtue of section 64 of the Companies Act 1980 (a) if that person were a director of a company; and

(b) any employee of that person;

and for the purposes of these rules references to a connected person of a licensed dealer include a connected person of a director of a licensed dealer which is a corporation;

“document of title” in relation to a client investment, includes any instrument evidencing ownership of that investment;

“existing client” means a person with whom the licensed dealer has—

(a) done business by way of buying or selling investments at least three times in the previous three years; or

(b) entered into an investment management contract;

“investment” means a security and any other property which may be created or dealt in in the course of dealing in securities, including (without prejudice to the generality of the foregoing) an option, warrant or future in respect of a security;

“investment management contract” has the meaning given by rule 7(2);

“licensed dealer” means the holder of a principal’s or representative’s licence;

“listed securities” has the meaning given by section 73(5) of the Companies Act 1980;

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(a) 1980 c.22.

“managed account client” means a person with whom a licensed dealer has entered into an investment management contract;

“material interest” means any direct or indirect pecuniary interest, whether present or expected, (other than a scale commission or similar remuneration receivable in the ordinary course of business for effecting the transaction) which might reasonably be expected to influence a person knowingly having that interest to enter into or recommend any person to enter into or refrain from entering into a transaction relating to investments;

“microfilm” includes microfiche;

“offer” includes an invitation to make an offer;

“professional financial adviser” means a person who, in the course of his business, gives professional advice to persons as to their financial affairs;

“relevant document” means any advertisement, notice or other written material which might reasonably induce any person to use the services of a particular licensed dealer;

“relevant share capital” has the meaning given by section 63(10) of the Companies Act 1981 (a);

“stockbroker” means a stockbroker who is a member of a recognised stock exchange;

“take-over offer” has the meaning given to a take-over offer for a company by section 73(5) of the Companies Act 1980;

“wholly-owned subsidiary” has the meaning given to it by section 150(4) of the Companies Act 1948 (b); and

“written offer” includes an offer made in any manner by which the recipient receives any offer or information in legible form.

## PART II

### MANNER AND CIRCUMSTANCES IN WHICH A LICENSED DEALER MAY DEAL IN SECURITIES; GENERAL BUSINESS RULES; PRESCRIBED FORMS OF CONTRACTS

#### *Client money*

3.—(1) The holder of a principal’s licence who neither is, nor acts on behalf of, an authorised institution, shall not deal in securities unless, to the extent that he accepts client money—

- (a) he does so on the basis that it will be applied solely for specific purposes agreed when or before the holder accepts it (whether or not such purposes include any element of discretion or the acquisition of property other than securities); and
- (b) pending such application it is paid without delay into and held in a client account maintained by the holder in accordance with these rules; and
- (c) a separate client account is maintained by the holder in accordance with these rules in relation to any client money for which he is liable to account to any of his connected persons.

(2) The holder of a principal’s licence who is, or acts on behalf of, an authorised institution, shall not deal in securities unless any client money is accepted and held—

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(a) 1981 c.62.

(b) 1948 c.38.

- (a) in accordance with paragraph (1) above; or
  - (b) by the authorised institution in the ordinary course of its deposit-taking business.
- (3) A client account is maintained in accordance with these rules if it is a client account—
- (a) into which money other than client money is paid only—
    - (i) if it is the minimum required for the purpose of opening or maintaining the account; or
    - (ii) to restore in whole or in part any money paid out of the account in contravention of these rules; or
    - (iii) if it is received in the form of a cheque or draft including client money and is without delay withdrawn from the account; and
  - (b) in respect of which written notice has been given to the institution concerned that any money therein (apart from money received in the circumstances mentioned in paragraph (3)(a) (i) or paragraph (3)(a) (iii) ) is held on trust for clients of the dealer.
- (4) The holder of a representative's licence shall neither accept nor hold client money unless he does so on behalf of a holder of a principal's licence and in the course of employment under a contract of service with that holder or with a corporation of which that holder is a wholly-owned subsidiary.
- (5) Money is not required by these rules to be paid into a client account—
- (a) if it is—
    - (i) received in the form of a crossed cheque or crossed draft expressed to be payable only into, or is paid by direct transfer to, an account in the sole name of the client concerned at an authorised institution, being an account from which withdrawals may be made only in the circumstances mentioned in paragraph (5)(a) (ii) and, in the case of a cheque or draft, is forthwith upon receipt paid into such an account; and
    - (ii) withdrawn from that account only by the client or with the written authority of the client for each withdrawal or, on presentation of a stockbroker's contract note, by a cheque or draft for the amount concerned payable to the stockbroker or to the licensed dealer as agent for the stockbroker or, on presentation of a provisional or renounceable allotment letter, or on an offer to the public of securities which is conditional on those securities becoming listed securities, by a cheque or draft for the amount concerned payable to the receiving banker; or
  - (b) if it is—
    - (i) received in the form of cash or in the form of a cheque or draft which is either not payable to the dealer or immediately indorsed by the dealer; and
    - (ii) without passing through any account under the control of the dealer, immediately paid to or to the order of the client or otherwise applied for specific purposes agreed when or before the dealer receives it.

*Client investments*

4.—(1) The holder of a principal's licence shall not retain any document of title in respect of any client investment except in accordance with this rule.

(2) A document of title in respect of a client investment is retained in accordance with this rule if—

- (a) the fact that it does not belong to the licensed dealer is readily apparent from the document or from the manner in which it is held; and
- (b) where the client investment is capable of registration in the name of any person—
  - (i) if a register is kept for those investments in the United Kingdom (other than a subsidiary register), the client investment is registered in the name of the person to whom it belongs or, with the written agreement of that person, in the name of a corporation whose sole business consists in acting as a nominee, or in the name of a trust corporation; or
  - (ii) if a register is not so kept, the client investment is either so registered or, without prejudice to sub-paragraph (c), any document of title is held by, or to the order of, an authorised institution; and
- (c) reasonable steps are taken to ensure that the document of title is at all times effectively safeguarded.

(3) A client investment may be charged, pledged or otherwise encumbered to a third party only with the written consent of the person to whom it belongs specifying that investment and the terms of the charge, pledge or other encumbrance to which the consent relates.

(4) The holder of a representative's licence shall not retain any document of title in respect of any client investment unless he does so on behalf of a holder of a principal's licence and in the course of employment under a contract of service with that holder or with a corporation of which that holder is a wholly-owned subsidiary.

(5) For the purposes of this rule, a licensed dealer retains a document of title if he has, or is entitled (without further authority from the person to whom it belongs) to obtain, possession of it.

*Advertisements, etc.*

5. A licensed dealer shall not, either in a relevant document or in any other manner whatsoever, hold himself out as carrying on the business of dealing in securities under the authority of the Department of Trade or any Government Department; and he shall in all relevant documents and in contracts describe himself by the term 'licensed dealer in securities'.

*Notices after first instructions*

6.—(1) Where a licensed dealer takes instructions from a client for the first time, he shall send the client written notice of any of the information referred to in paragraph (2) of which he has not previously been sent written notice.

- (2) The information mentioned in paragraph (1) is—
- (a) whether, if applicable, money is to be held in a client account maintained in accordance with these rules or is to be dealt with under rule 3(5); and

- (b) what is proposed for the custody or forwarding of any document of title in respect of any client investment; and
- (c) whether or not there are any arrangements in force with a view to ensuring that, if he fails to account for any money or investments to the client, his liability or a part thereof will be made good by another, together with an indication as to whether the arrangements cover misappropriation or negligence or both and of any significant limitations on any such arrangements; and
- (d) a statement of the client's rights under rule 25.

(3) A licensed dealer shall, on the request of any person or of the agent of any person on whose behalf he holds any client money or retains any document of title in respect of any client investment, inform that person or agent of the current position on the matters referred to in paragraph (2)(c).

*Investment management contracts*

7.—(1) It is hereby directed that where, under the authority of a licence, a licensed dealer agrees to undertake investment management (or to vary the terms of an investment management contract) otherwise than in the appropriate form prescribed by paragraph (3) or (4), he shall, for the purposes of the provisions of section 5 of the Act relating to the refusal and revocation of licences, be deemed to have committed a breach of these rules.

(2) In this rule "investment management" means the management of the whole or part of a portfolio, whether or not on a discretionary basis and "investment management contract" shall be construed accordingly.

(3) The form prescribed for making under the authority of a licence any investment management contract is any form of written contract which sets out—

- (a) if the contract includes provision for discretionary dealing—
  - (i) the extent of the discretion vested by the client in the holder, any limitation on any such discretion and any policy to be followed by the holder in the exercise of such discretion; and
  - (ii) if the client is not a 14(5) person, a statement that the contract is terminable by the client at any time without penalty or, in any other case, a statement as to the manner and circumstances in which the authority of the holder to deal with or for the client may be terminated; and
- (b) if the holder is to have the custody of any money or investments belonging to the client—
  - (i) any circumstances in which the holder is to be entitled to retain any interest on any client money forming the whole or part of the portfolio; and
  - (ii) the name in which any document of title in respect of any client investment is to be registered and the arrangements for custody thereof; and
  - (iii) the arrangements for the payment of any interest or dividend to the client; and
- (c) in any case—
  - (i) the amount or method of calculation of any payment or other benefit in money or money's worth which the holder or any of his connected persons will be entitled to receive under, or in consequence of anything done under, the contract, whether from

the client or from any other person, and the circumstances in which that payment or benefit will be receivable and any circumstances in which the holder is to be entitled not to account for any such payment or other benefit; and

- (ii) the manner in which any instructions by or on behalf of the client in relation to any transaction are to be given to the holder; and
- (iii) if the client is not a 14(5) person, a provision which requires that, not less than once a year, a report is sent to the client on his portfolio, together with a valuation of the contents of the portfolio and a statement indicating how those contents were valued or, in any other case, a statement as to any arrangements for valuation and report;

and in this paragraph, references to 'the holder' include the holder of the licence under the authority of which the contract is made and the holder of any representative's licence who acts on his behalf.

(4) The form prescribed for making under the authority of a licence any contract varying the terms of an investment management contract is any written contract which, together with any earlier written contract, sets out all the matters required by paragraph (3) to be contained in an investment management contract made under the authority of a licence.

(5) Before entering into a contract in the form prescribed in paragraph (3) a licensed dealer shall send the person with whom he proposes to enter into the agreement the written notice referred to in rule 6(1).

#### *Disclosure of material interests*

8.—(1) Where a licensed dealer has or is deemed to have a material interest in a proposed transaction relating to investments then, subject to paragraph (2), the licensed dealer shall—

- (a) before he effects the transaction with or for a client, notify the client of the nature and extent of that material interest; and
- (b) forthwith thereafter, give the client written confirmation of that notification.

(2) Paragraph (1) shall not apply where—

- (a) the part of the business dealing with the client concerned is divided by a Chinese Wall from the part of the business in which the interest arises and it is reasonable to assume that no individual who is involved in the transaction on behalf of the licensed dealer, whether directly or indirectly, is aware of the interest in question; or
- (b) the interest arises from the ownership of any rights in the subject-matter of the transaction or from having underwritten the sale or subscription thereof, provided that—
  - (i) the circumstances are such that it might reasonably be expected to be immaterial to the client that the person concerned has the interest; and
  - (ii) that person does not have a significant position in the investments in question.

(3) For the purposes of this rule, a licensed dealer shall be deemed to have a material interest in a proposed transaction if he knows or might reasonably be expected to know that one of his connected persons has such an interest in it.



*Contents of written offers*

9.—(1) A licensed dealer shall not, subject to paragraph (2), make a written offer to any person (other than a 14(5) person) to acquire or dispose of any investment, unless—

- (a) subject to sub-paragraph (b), the offer document discloses sufficient information about the investment to provide a person such as the person or persons to whom the offer is addressed with an adequate and reasonable basis for deciding whether or not, or on what terms, to accept the offer (having regard to all the circumstances including the nature of the offer and the other information likely to be available to such a person or to a professional financial adviser whom such a person might reasonably be expected to consult); and
- (b) where any of that information is not available for disclosure, but is information which a professional financial adviser might be expected to regard as essential in determining whether or not, or on what terms, to advise that the offer be accepted, the offer document discloses that fact and gives an indication of the nature of the information concerned; and
- (c) the offer document contains prominently the words “If you are in any doubt about this offer you should consult a stockbroker, licensed dealer, bank manager, solicitor or other professional adviser” or other words to a like effect.

Provided that a licensed dealer shall not be taken to have committed a breach of this rule if he can establish that he took all reasonable care to ensure that the offer document satisfied its requirements.

(2) Paragraph (1) shall not apply to a newspaper announcement or the circulation of a copy of a newspaper announcement relating solely to a tender offer to acquire shares which are subject to a marketing arrangement on a recognised stock exchange, provided that that announcement states—

- (a) the name of the buyer;
- (b) the name of any dealer, broker or other agent acting for the buyer;
- (c) the name of the corporation in which shares are sought;
- (d) the maximum number of shares or proportion of relevant share capital offered for;
- (e) that, if tenders are received totalling less than 1 per cent. (or such higher percentage as may be specified) of the relevant share capital of the corporation, the tender offer shall be void;
- (f) that, subject to (e), a shareholder’s tender will be irrevocable;
- (g) the fixed or maximum price offered;
- (h) the holding of shares and of any rights to shares, as at the date of the offer, of the buyer and any person with whom the buyer has entered into any agreement or arrangement to which section 67 of the Companies Act 1981 (a) applies, distinguishing between shares and rights over shares and specifying the nature of any rights concerned and giving the relevant number of shares in each case; and
- (i) the closing day and time for tender and arrangements for delivery and settlement.

(3) For the purposes of this rule—

- (a) information shall be taken to be available for disclosure unless—
  - (i) it is not known to or reasonably ascertainable by the licensed dealer; or

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(a) 1981c.62.

- (ii) the licensed dealer makes the offer on behalf of one of his clients and the information is subject to an obligation of confidence owed to some other person; and
- (b) shares are subject to a marketing arrangement on a recognised stock exchange if either—
  - (i) they are listed on that stock exchange; or
  - (ii) the corporation has been accorded facilities for dealings in those shares to take place on that stock exchange without prior permission for individual transactions from the authority governing that stock exchange and without limit as to the time during which those facilities are to be available.

*Dealer's recommendations*

**10.**—(1) A licensed dealer shall not make a recommendation to any person who might reasonably be expected to rely thereon to acquire, dispose of or retain any investment unless he has an adequate and reasonable basis for that recommendation.

(2) For the purposes of paragraph (1), a licensed dealer does not have an adequate and reasonable basis for a recommendation unless—

- (a) he has given the matter such consideration and conducted such investigation of the investment as is reasonable in the circumstances, having regard to its suitability for the person or persons to whom the recommendation is addressed, and his recommendation rests on the result of such consideration and investigation; and
- (b) he has notified that person or those persons of any material interest which he would have been required to disclose under rule 8 before effecting a transaction with a client.

*'Cold calling'*

**11.**—(1) A licensed dealer shall not, other than in pursuance of a takeover offer, deal in securities during or as a consequence of a call upon any person, other than a 14(5) person or an existing client, unless—

- (a) he calls upon that person at that person's express request; and
- (b) before entering into a contract with that person he furnishes that person with a written statement containing all the information which he would have been required to give to that person in a written offer.

(2) A licensed dealer shall not, in pursuance of a takeover offer, deal in securities during or as a consequence of a call upon any person, except as permitted by paragraph (1), unless that person has previously been furnished with a written statement containing all the information which the dealer would have been required to give to that person in a written offer made at the time the statement was furnished.

- (3) For the purposes of this rule—
  - (a) "call" includes a communication by telephone; and
  - (b) a person shall not be taken to have made an express request by virtue of the fact that he has returned a communication unless he has personally indicated thereon his specific wish to receive a call.

*Directors' recommendations*

12.—(1) A licensed dealer shall not distribute or cause to be distributed a recommendation by or on behalf of the directors of a corporation concerning an offer to acquire investments of that corporation unless the document containing the recommendation gives full details of any material interest which any such director has or is deemed to have in the offer of which the dealer is aware or would have been aware had he made such enquiries as he ought reasonably to have made.

(2) For the purposes of this rule, a director shall be deemed to have a material interest in an offer if he knows or might reasonably be expected to know that one of his close relatives has such an interest in it.

*Termination of investment management contracts*

13.—(1) A licensed dealer who enters into an investment management contract with a client who is not a 14(5) person shall not deal in securities with or for the client unless there are arrangements for the contract to be terminated at any time by the client without penalty.

(2) For the purposes of this rule, a contract may be terminated without penalty if, on termination, the client need pay only, on the same basis as if the contract had not been terminated—

- (a) for transactions effected prior to termination; and
- (b) a part of any unpaid periodic fee proportionate to the period prior to termination.

*Restrictions on transactions with managed account client*

14.—(1) A licensed dealer shall not, subject to paragraph (2), effect with a managed account client any transaction relating to investments in which the licensed dealer acts either as principal or as agent for one of his connected persons.

(2) Paragraph (1) shall not apply—

- (a) where the client has given his express written agreement to the dealer effecting that particular transaction in that particular capacity; or
- (b) where the client is entitled to avoid the transaction at any time before, with full knowledge of the circumstances, he has acquiesced therein; or
- (c) to a transaction by which the licensed dealer resells to a managed account client any debentures or any right to subscribe for, call for or make delivery of, any debentures which he acquired from an issue manager in the course of an international bond issue; or
- (d) to a licensed dealer who is a member of a recognised association of dealers in securities carrying on the business of trading on a futures market and who effects the transaction in his capacity as such.

(3) A licensed dealer who effects a transaction otherwise than in the name of or expressly for the account of a particular client shall not treat the transaction as having been effected on behalf of a client unless, on the day on which the transaction is effected, entries are made in his records showing that the transaction was effected on behalf of a named client and, so far as the information is then available to him, otherwise complying with rule 20.

(4) Nothing in this rule shall be taken as affecting any rule of law prohibiting a person in a fiduciary position from profiting therefrom or enabling any contract made by him to be avoided as it applies to the relation between a licensed dealer and a managed account client.

(5) For the purposes of this rule, the expressions “international bond issue” and “issue manager” have the meanings given to them by section 71(2) of the Companies Act 1980 (a) .

#### *Conditional offers*

**15.** Where a licensed dealer has made an offer to acquire or dispose of any investment and any of the offerees have accepted that offer, and, owing to there being insufficient acceptances or for any similar reason the transaction is not to be completed, the licensed dealer shall procure that any money or document sent to him or to any agent of the offeror in contemplation of such completion is returned to the person who sent it within fourteen days of the latest date on which the offer was open for acceptance.

#### *‘Restricted’ transactions*

**16.—(1)** A licensed dealer shall not effect a margin, option or futures transaction in respect of securities with or for a client who is not a 14(5) person unless he has given written notice to that client of the risks involved and is satisfied that the client is a suitable person to enter into transactions of that kind.

(2) A licensed dealer shall not hold himself out as prepared to enter into any contango, backwardation or similar transaction.

#### *Credit transactions*

**17.—(1)** A licensed dealer shall not, subject to paragraph (2), grant credit in relation to any transaction by which, whether as principal or agent, he disposes of investments to a client.

(2) Paragraph (1) shall not apply to a transaction effected by or on behalf of an authorised institution in the ordinary course of its banking business.

(3) For the purposes of this rule, a licensed dealer grants credit in relation to a transaction if he agrees that payment is to be deferred beyond the normal settlement date or any other date or dates on which payment would normally be due for the transaction.

#### *Gaming transactions*

**18.—(1)** A licensed dealer shall not enter into any transaction by way of dealing in securities if, in respect of that transaction, he would be entitled to avoid payment by pleading the Gaming Act, unless—

- (a) he does not otherwise deal in securities; and
- (b) he has given written notice to the client that both he and the client would be entitled to avoid payment by pleading the Gaming Act.

(2) A licensed dealer shall not plead the Gaming Act in relation to any transaction by way of dealing in securities.

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(a) 1980 c.22.

*Contract notes*

19.—(1) The holder of a principal's licence shall, subject to paragraph (2), issue a contract note in respect of every transaction of sale or purchase of investments to the client with or for whom he contracts, whether as principal or agent, forthwith upon that transaction being effected.

(2) Paragraph (1) shall not require the holder of a principal's licence to issue a contract note—

- (a) to a 14(5) person; or
  - (b) in respect of any transaction arising from a takeover offer, if he is not otherwise required to issue a contract note in respect of that transaction.
- (3) Every contract note shall include the following particulars—
- (a) the name in which that holder is authorised to carry on business and the address at which he is carrying on business;
  - (b) where that holder is a person to whom section 28 of the Companies Act 1981 (a) applies, the matters specified in section 29(1)(a) of that Act (as qualified by section 29(3) thereof);
  - (c) where that holder is a corporation incorporated in any country other than Great Britain, the name of the place in which it is incorporated and whether or not it is incorporated with limited liability;
  - (d) a statement that that holder is acting in the capacity of principal when he is so acting;
  - (e) the name of the client;
  - (f) the date of the contract;
  - (g) the amount and description of the investments which are the subject-matter of the contract;
  - (h) the unit price of the investments;
  - (i) the amount of the consideration and, where any conversion from a foreign currency is involved, the rate of exchange;
  - (j) if any commission is charged the rate and amount thereof;
  - (k) the amounts of all fees, taxes and duties (if any); and
  - (l) the date of settlement.

(4) All contract notes issued by a holder of a principal's licence shall be signed by him or, where he is a corporation, by a duly authorised officer or agent, and duly stamped.

(5) The requirements of this rule shall be taken to be satisfied, where a holder of a principal's licence has effected a transaction as an agent, if the client is sent the original, or a copy, of a contract note for the transaction concerned issued by any person who is or acts on behalf of a stockbroker, a member of a recognised association of dealers in securities, an exempted dealer, a manager of an authorised unit trust or another licensed dealer, so long as that contract note was duly stamped and the original or copy issued to the client, together with any document attached thereto, contains the particulars required by paragraph (3).

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(a) 1981 c.62.

## PART III

## BOOKS, ACCOUNTS AND DOCUMENTS TO BE KEPT BY THE HOLDER OF A PRINCIPAL'S LICENCE IN RELATION TO ANY DEALING IN SECURITIES

*'Transactions' books*

**20.**—(1) The holder of a principal's licence shall keep such books, accounts and other documents as are sufficient to shew and explain readily at any time—

- (a) all transactions in date order; and
- (b) all transactions relating to a particular client.

(2) Without prejudice to the generality of paragraph (1) above, the books, accounts and documents referred to therein shall—

- (a) as regards transactions effected by the holder as principal, include—
  - (i) particulars of all investments bought or sold;
  - (ii) the dates on which they were bought or sold;
  - (iii) the names of the persons from whom they were bought or to whom they were sold;
  - (iv) the buying or selling price; and
  - (v) the actual amount paid or received;
- (b) as regards transactions effected by the holder as agent, include—
  - (i) the name of the person with whom the licensed dealer has entered into the contract;
  - (ii) the name of the principal, the name of the individual from whom the instructions were received and particulars of the manner in which such instructions were given;
  - (iii) the date of the transaction;
  - (iv) the amount and description of the investments which are the subject-matter of the contract;
  - (v) the unit price of the investments;
  - (vi) the amount of the consideration money and, where any conversion from a foreign currency is involved, the rate of exchange;
  - (vii) if any commission is charged the rate and amount thereof;
  - (viii) the amounts of all fees, taxes and duties (if any); and
  - (ix) the date of settlement; and
- (c) in either case, include—
  - (i) particulars of, or a reference to a document containing particulars of, any material interest required to be disclosed under rule 8 in relation thereto and the date, if any, on which such disclosure or each such disclosure was made; and
  - (ii) a reference to any recommendation such as is mentioned in rule 10 which relates to the transaction and was made or confirmed in writing, together with a note of, or a reference to a document containing a note of, the basis therefor; and
  - (iii) the date of receipt and/or despatch of any document of title in respect of any client investment which was the subject-matter of the transaction, and the name and address of the person from whom received and/or to whom despatched.

*'Client money' books*

**21.—**(1) The holder of a principal's licence who accepts or retains client money shall keep such books, accounts and other documents as are sufficient to shew and explain readily at any time—

- (a) any dealings with client money in date order; and
- (b) any dealings with client money relating to a particular client.

(2) Without prejudice to the generality of paragraph (1) above, the books, accounts and documents referred to therein shall shew—

- (a) each amount accepted, the name of the person from whom it was received, the date of receipt, the name of the client on whose behalf it was accepted and the purposes for which it was accepted;
- (b) the whereabouts of any amount within sub-paragraph (a) above which has not been applied or paid out by the licensed dealer;
- (c) each amount applied or paid out, the name of the person to whom it was paid, the date of payment, and the name of the client for whom and the purposes for which it was applied or paid out; and
- (d) a reconciliation account, made up not less than once in each month, shewing, at the date to which it is made up, the amount of client money held for each client, the total amount held for clients and a reconciliation of that total with statements issued by each authorised institution where client money is held.

*'Client investments' books*

**22.—**(1) The holder of a principal's licence shall keep such books, accounts and other documents as are sufficient to shew and explain readily at any time the whereabouts of any document of title which he retains in respect of any client investment by reference to—

- (a) the name of the investment; and
- (b) the name of the client; and
- (c) the place where any such document of title is held.

(2) Without prejudice to the generality of paragraph (1) above, the books, accounts and documents referred to therein shall shew—

- (a) the name of the person to whom the investment belongs and, if different, any name in which it is registered;
- (b) the nature of the document and the description and amount of the investments it concerns;
- (c) the whereabouts of every such document of title, including the name of any person by whom it is held; and
- (d) a reconciliation account, made up not less than once in each year, shewing a reconciliation of the information recorded in the books, accounts and other documents maintained under this rule as to the documents of title which, as at the date to which it is made up, the holder of the licence retains, with a statement or statements issued by each person who has any such document of title in his possession; provided that, where a holder of a principal's licence operates a system under which every such document of title is held by an authorised institution with notice of the client to whom it belongs and of the fact that the holder proposes to rely on this proviso, those books, accounts and documents may contain separate reconciliation accounts so made up for each client for whom such a document of title is held.

*Representative's books maintained by principal*

**23.** The holder of a principal's licence shall keep such books, accounts and other documents as are sufficient in relation to—

- (a) any transaction effected;
- (b) any client money dealt with; and
- (c) any document of title in respect of a client investment retained;

on his behalf by the holder of a representative's licence to shew and explain it as readily at any time as if he had himself been directly responsible therefor; and the holder of a representative's licence shall make available to him all information necessary to enable him so to do.

*Retention of books, accounts and other documents*

**24.**—(1) The holder of a principal's licence shall retain for a period of not less than seven years originals or copies of all books, accounts and other documents required to be kept in pursuance of rules 20 to 23 as well as of—

- (a) every contract note issued or received by him;
- (b) every investment management contract entered into by him; and
- (c) every written notice or confirmation given by him under rules 6, 8 or 16.

(2) The holder of a principal's licence shall retain for a period of not less than two years originals or copies of any recommendation such as is mentioned in rule 10 which was made or confirmed in writing.

*Rights to inspection and copies*

**25.** The holder of a principal's licence shall supply on demand to any person with whom or on whose behalf he or any representative on his behalf has carried out a transaction copies of all entries in his books relating to that transaction, and he shall be entitled to charge therefor a sum not exceeding 10p per sheet. Such person shall also be entitled at any time free of charge either personally or by his agent to inspect any contract notes and vouchers relating to the said transaction.

*Computer, etc. records; confidentiality of records*

**26.**—(1) Any requirement in rules 20 to 24 for a holder of a principal's licence to keep books, accounts and other documents for a particular purpose and containing particular items of information shall be taken to be satisfied by recording the matters in question otherwise than in a legible form so long as the recording is capable of being reproduced without delay in a legible form sufficient for that purpose and containing that information.

(2) The requirement in rule 24 for a holder of a principal's licence to retain originals or copies of certain books, accounts and other documents for a specified period of time shall be taken to be satisfied by the retention of microfilm copies of those books, accounts or documents, so long as adequate arrangements are available for the inspection and supply, without delay, of full-size reproductions of those microfilm copies.

(3) The requirement in rule 25 for a holder of a principal's licence to supply on demand copies of entries in his books relating to a transaction shall be taken to be satisfied—



- (a) where the matters in question are recorded otherwise than in a legible form, by the supply of a reproduction of the recording or of the relevant part of it in a legible form; and
- (b) where microfilm copies of those books are retained, by the supply of a full-size reproduction of the microfilm copy or of the relevant part of it.
- (4) The entitlement in rule 25 of certain persons to inspect contract notes and vouchers relating to certain transactions shall be taken to be satisfied, where microfilm copies of those contract notes or vouchers are maintained, by the inspection of full-size reproductions of those microfilm copies or of the relevant parts of them.
- (5) Where a holder of a principal's licence wishes to ensure that, on any inspection of his books by one person, information in those books concerning other persons remains confidential, that holder may, notwithstanding any other requirement of these rules, but subject to the requirements of any other enactment, maintain his books in such a manner that persons are identified in one part of them only by a number or symbol, so long as he maintains in another part of those books in the same building a separate record of the person to whom each such number or symbol relates and on request supplies a copy of every entry therein relating to a number or symbol used in recording a transaction in his books to any person entitled to copies of entries in his books relating to that transaction.

## PART IV

## GOOD MARKET PRACTICE

*Good market practice*

27. To the extent that there exist generally accepted standards as to what constitutes good market practice in respect of any matter not expressly covered by these rules, a licensed dealer shall comply with such standards; and for the purposes of this rule, "market" includes the whole or any part of the activity regulated by or under the Act.

*Gerard Vaughan,*  
Minister of State,  
Department of Trade.

14th April 1983.

## SCHEDULE 1

## AUTHORISED INSTITUTIONS

1. The Bank of England.
2. A recognised bank within the meaning of the Banking Act 1979 (a) .
3. A licensed institution within the meaning of the Banking Act 1979.
4. The Post Office, in the exercise of its powers to provide banking services.
5. A trustee savings bank within the meaning of the Trustee Savings Banks Act 1969 (b) .
6. A building society which has been designated for the purpose of section 1 of the House Purchase and Housing Act 1959 (c) .
7. The National Savings Bank.

## SCHEDULE 2

## TRANSITIONAL PROVISIONS

1. The holder of a principal's licence who has accepted client money at any time before 16th September 1982 and is precluded by the terms of the agreement under which he accepted that money from holding it in a client account maintained under these rules may continue to hold it in accordance with that agreement so long as the agreement so precludes him.
2. The holder of a principal's licence who, on the date when rule 3 of these rules comes into operation, holds client money other than in the circumstances mentioned in paragraph 1, shall forthwith ensure that that client money is held either—
  - (a) on the same basis as to the purposes for which it will be applied and in the same manner as would have been required if it had been accepted after these rules came into operation; or
  - (b) in a separate account maintained for that client money at an authorised institution.
3. Rules 24, 25 and 26 of these rules shall apply to any books, accounts and other documents required to be kept in pursuance of the Licensed Dealers (Conduct of Business) Rules 1960 (d) as if those books, accounts and other documents had been kept in pursuance of these rules.

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(a) 1979 c.37.  
(d) S.I. 1960/1216.

(b) 1969 c.50.

(c) 1959 c.33.

## EXPLANATORY NOTE

*(This Note is not part of the Rules.)*

The Rules (which replace the Licensed Dealers (Conduct of Business) Rules 1960) regulate the conduct of business of dealing in securities by persons licensed under the Prevention of Fraud (Investments) Act 1958. In particular the Rules:—

1. determine the manner and circumstances in which a licensed dealer may deal in securities and include provisions relating to client money and investments and other aspects of his dealings with clients and others (Rules 3–6, 8–19);
2. prescribe a form of investment management contract which may be used in making such a contract under the authority of a licence and direct that failure to use the prescribed form shall constitute, for the purposes of revocation and refusal of a licence, a breach of the rules (Rule 7);
3. prescribe the books, accounts and other documents which must be kept by the holder of a principal's licence (Rules 20–24, 26);
4. require the holder of a principal's licence to produce for a person's inspection contract notes and vouchers and to furnish copies of entries in his books (Rule 25); and
5. require the holder of a licence to comply with generally accepted standards of good market practice in respect of any matter not expressly covered (Rule 27).

The existing Licensed Dealers (Conduct of Business) Rules 1960 are revoked.

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