

**RULE NUMBER V.D.3 : INTERNAL CONTROL AND BOOK KEEPING OF
SECURITIES COMPANIES.**

Attachment

Decision of The Chairman of Bapepam

Number : Kep-28/PM/1996

Date : January 17, 1996

INTERNAL CONTROL

1. Every Securities Company which does transactions on behalf of non Affiliated Persons must have at least 4 (four) divisions as follows:
 - a. a Custodian division;
 - b. an accounting division;
 - c. a trading and order division; and
 - d. a marketing division.
2. The Custodian division is responsible for receiving and delivering funds and Securities, and depositing them as follows:
 - a. funds, Securities, and or documents related to Securities must be deposited in a secure place such as a strong room, safe, vault, Custodian Bank, or a Central Securities Depository;
 - b. the funds, Securities, and documents referred to in letter a must be counted and reconciled with the ledger and the Securities account at least:
 - 1) monthly by authorized Custodian employees;
 - 2) annually by employees from an other division supervised by a director of the company; and
 - 3) annually by an Accountant registered with Bapepam;
 - c. the funds, Securities, and documents referred to in letter a owned by the Securities Company must be kept separately in a different place or Securities Custodian account than those of the company's clients;
 - d. the funds, Securities, and documents referred to in letter a must be protected from misuse, loss, and access by unauthorized Persons;
 - e. records and reports of the Custodian division on receiving and delivering funds, Securities, and documents related to Securities must be made and kept by the Custodian division. The records and reports shall contain the following information:
 - 1) certificate number (if any);
 - 2) Securities name and type;
 - 3) Securities code;

- 4) Securities amount;
 - 5) transaction date; and
 - 6) name and identification number of the Securities account;
 - f. the records referred in to letter e must also be recorded in a Securities account, a Securities ledger, a general ledger, and or a sub-ledger by the accounting division on the same day; and
 - g. the funds, Securities, and documents referred to in letter a may not be delivered outside of the Custodian division, except based on a valid authorization.
3. The accounting division must be responsible for maintaining the company's records and books which among other things consist of:
 - a. Securities accounts;
 - b. Securities ledgers;
 - c. general ledgers; and
 - d. transaction ledgers.
 4. The trading and order division must be responsible for processing orders for both its clients and itself and carrying out Securities transactions with the following provisions:
 - a. detailed records of every order and instruction from clients must be made and retained by employees of the trading and order division including the following information:
 - 1) the date and time of the order;
 - 2) the date and time of purchase, sale, change, or cancellation of the order; and
 - 3) the conditions of the order;
 - b. a supervisor's approval on each order before executing the transaction. Prior to that approval, the supervisor must take the following actions:
 - 1) verification that a Securities account has been opened and approved by the supervisor of the marketing division; and
 - 2) verification that funds or Securities in Securities accounts are sufficient for the settlement of transactions;
 - c. records of Securities transactions must be made and retained by the trading and order division as well as the accounting division in the form of a transaction ledger.
 5. The marketing division must be responsible for making contracts with clients concerning opening Securities accounts and accepting orders for buying or selling Securities with the following conditions:
 - a. the transactions in the interest of clients can not be executed prior to the opening of account on behalf of the clients, except:
 - 1) buying or selling shares or participation units of an open-end Investment Fund;
 - 2) ordering Securities in a Public Offering; and

- 3) buying or selling Securities for the interest of other Securities Companies, Affiliated Persons with the Securities Companies, Banks, Insurance Companies, Pension Funds, or other Financial Institutions.
- b. contracts referred to item 5 must provide that:
- 1) Securities and funds in the account can be used as collateral for settlement of clients' liabilities to the Securities Company;
 - 2) Securities Companies have a right to buy Securities for Securities accounts, in order to cover a short position;
 - 3) Securities Companies may request funds or Securities from the account holder prior to executing Securities transactions;
 - 4) funds and Securities of account holders at a Securities Company may be recorded in the account at a Custodian Bank or Central Securities Depository in the name of the Securities Company, as long as there is a record in the Securities account at the Custodian Bank or the Central Securities Depository that the funds and Securities are owned by the account holders of the Securities Company; and
 - 5) when a client account shows a negative balance of funds, the Securities Company may use Securities in the account as collateral for a loan from a bank or other financial institution;
- c. the contract must be retained in the marketing division and accompanied by the following documents:
- 1) the client's identity including name, address, phone and fax number, and Tax Registration Number;
 - 2) a power of attorney from authorized officers of a legal entity client to give instructions to a Securities Company with respect to the client's Securities account;
 - 3) documents needed for transferring Securities;
 - 4) a power of attorney from the client authorizing a third party to give instructions to the Securities Company with respect to the client's Securities account;
 - 5) the Investment Management contract which authorizes the Investment Manager to give instructions with respect to the Securities account of the Investment Fund; and
 - 6) forms for individual investors containing:
 - a) employment;
 - b) marital status;
 - c) the purposes of the investment; and
 - d) the financial condition of the investor;
- d. a Securities Company must have a separate file in the marketing division containing complaints from clients or other Persons, with the following provisions:
- 1) the complaint file must be organized alphabetically by clients' names;
 - 2) the records of complaints must be complete, with documents related to the problem;

- 3) the records of complaints must also contain actions taken by the Securities Company; and
 - 4) the complaint file must be checked and signed by a supervisor at least once a month.
6. An employee of a division is not allowed to work in another division, and is prohibited from having access to records, books and accounts in other divisions of the Securities Company.
 7. Persons who are not employees of the Securities Company are prohibited from entering the Custodian division, the accounting division, or the trading and order division of the company unless they are supervised by authorized employees of the Securities Company.
 8. Only authorized employees are allowed access to the computer hardware and software.

BOOKKEEPING

9. A Securities Company must record all daily transactions in compliance with financial accounting standards and Bapepam rules.
10. Recording referred to in item 9 may be conducted manually, electronically, or in any other manner as long as it is not against the law and regulations.
11. The recording system used must have sufficient protection to prevent false entries.
12. The recording system used must be able to provide quickly, accurate information that can be understood easily by interested Persons.
13. All records and documents required by this rule must be retained for at least 5 (five) years.
14. In addition to the records and documents referred to in item 5, Securities Companies must also maintain supporting records and documents as follows:
 - a. evidence of check payments;
 - b. a bank account;
 - c. cancelled checks (if any);
 - d. a bank account reconciliation;
 - e. confirmations of Securities transactions;
 - f. debit and credit memos of Securities accounts;
 - g. Securities transaction contracts with other Securities Companies;
 - h. the balance of all accounts in the general ledger presented in a balance sheet at least every month;
 - i. a journal (daily record) as evidence of all cash debits and credits for the day;
 - j. evidence for all transactions recorded on Securities ledgers; and
 - k. a daily reconciliation between the general ledger and the Securities ledger.
15. Securities ledgers must be made in a double entry format, which contains the following information:
 - a. the total of stocks, warrants, options contracts, or preemptive rights;
 - b. the par value of bonds or other debt Securities;

- c. the name of Securities owners should be recorded in debit side;
- d. the credit side should state where the Securities are kept; and
- e. debits and credits must balance.

16. Securities accounts must contain the following items:

- a. when Securities or clients' funds are purchased, sold, received, or delivered, it is necessary to record:
 - 1) the date of the transaction;
 - 2) details of the transaction;
 - 3) the amount of funds (if any);
 - 4) the amount of Securities (if any); and
 - 5) the rate of exchange of the transaction (if any);
- b. all Securities accounts should record:
 - 1) the client's name and address;
 - 2) the authorized Securities Company's Representative;
 - 3) the Tax Registration Number; and
 - 4) the name, address, phone number, and fax number of the Securities Company;
- c. reports of Securities accounts must contain a balance of the Securities portfolio on the date of the report and should be sent to each client every month; and
- d. transactions recorded in the Securities account report include:
 - 1) transactions that have been executed;
 - 2) amount of dividends, bonus shares, interest, preemptive rights, and other rights; and
 - 3) withdrawals and deposits of Securities and or funds.

17. Transaction ledgers must be made based on confirmations sent to clients and Securities Companies and contain the following items:

- a. the transaction date;
- b. the type of transaction (purchase, sale);
- c. the price;
- d. the commission and expenses;
- e. the date of settlement;
- f. the name and address of the purchaser;
- g. the name and address of the seller;
- h. the transaction number;
- i. the number of Securities;
- j. the settlement method; and

- k. information on the settlement of the transaction based on the settlement method.
18. Securities Companies must maintain a detailed general ledger showing assets, liabilities, revenues and expenses, as well as authorized capital of the company.