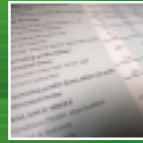


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For many of us, choosing which shares to buy or having to select the right investments that suit our needs can be difficult.

How do you go about it? Who is there to help you?

In the capital markets, the licensed brokers (or stockbrokers as they are sometimes called) and investment advisers can help you to buy and sell securities such as shares and bonds. They can also help you pick the right investments.



to select the right investment that will suit our needs

How to use a BROKER or INVESTMENT ADVISER

helping you buy and sell securities



Smart
CMDA

SPSE

South Pacific Stock Exchange

This leaflet provides important information on how you can use the services of the licensed brokers and investment advisers.

What is a Broker?

Brokers buy and sell securities (including shares and bonds) for clients and are paid a commission for doing this. If you want to buy and sell shares or bonds of companies listed on the South Pacific Stock Exchange (SPSE), you must give an order to a licensed broker. The broker will take your order to the next trading session of the SPSE and try to match it with the other orders, e.g. match your buy order with a sell order.

A broker must hold a valid licence from the CMDA. It can either be a company or an individual. Where the broker is a company, the individuals who provide brokerage services to clients for the company are called broker representatives and they too must hold a valid licence from the CMDA.

What is an Investment Adviser?

If you need investment advice then you can also use the services of a licensed investment adviser. Investment advisers offer a range of services from managing a portfolio of securities for you to giving investment advice on shares and other securities.

An investment adviser must also hold a valid licence from the CMDA.

What Does a CMDA Licence Mean?

The CMDA licenses brokers and investment advisers taking into account the honesty, integrity, expertise and qualifications of their key officers, its financial strength and the ability of the broker or investment adviser to provide satisfactory services to clients. To maintain their licences, brokers and investment advisers must obey the CMDA Act, Rules & Regulations, which clearly outline the books and records that they must keep, the standards of conduct that they must follow and the financial standards they must maintain.

Brokers and their representatives are also subject to the rules set by the stock exchange of which they are members.

These rules and regulations are designed to ensure that both your interests and those of the broker or investment adviser are protected.

When Should I Use A Broker?

To buy or sell shares and bonds on the SPSE you must place an order with a licensed broker. Some brokers can also provide research on the listed companies and give investment advice on which securities you should buy or sell. Some however, may only offer a

"transaction service" i.e. they will only buy and sell shares or bonds for you. It is important to remember that even if a broker gives you advice, it cannot make the investment decision for you. You must make the final decision to invest.

For companies not listed on the stock exchange, shares are generally bought and sold through direct negotiation between buyer and seller. However, some investors find that the professional expertise of a broker can be well worth using when buying or selling these shares.

Before consulting a broker, you should be clear about what your investment objectives are. Remember that the final decision is always yours. Your broker cannot make the decision for you.

Can I Get Advice?

A broker or an investment adviser may give you investment advice in relation to specific securities upon request. When giving advice, brokers and investment advisers must be diligent and careful at all times so they do not misinform you. They are not allowed to make recommendations that are not suited to your financial condition or your investment objectives. This requirement, sometimes referred to as the "know your client rule", basically means that when providing investment advice, the broker or investment adviser must always first take the time to understand your investment objectives before forming an opinion. Brokers and investment advisers must also thoroughly understand the investment products that they are recommending to you. This is commonly called the "know your product rule". You must make sure that they do this.

How Do I Place My Order?

If you are interested in buying or selling securities such as shares and bonds you should contact one of the licensed brokers. The broker must ask you to complete a client agreement clearly setting out your personal details and investment objectives. The client agreement will also set out the terms of your relationship with your broker and how you intend to place your orders e.g. by telephone, by fax or by personal visits. If you choose not to provide this information the broker or investment adviser will not be able to give you advice.

Give your broker an order by completing a buy or sell order form. An order must clearly show the name of the shares, the quantity to be bought or sold, the price and the length of time you want the order to last. Your signed buy or sell order is a legally binding contract, which makes the broker your agent and

authorises it to execute the trade and sign settlement and transfer forms on your behalf. Remember that once the order is executed on the stock exchange, you must pay your broker for the shares bought or deliver the share certificate for the shares sold. If you don't, your broker can sue you for breach of contract.

When placing your order, you can either accept the current market price for the shares or you can wait for the price you think is right. When you place your order to buy, inform the broker of the price or price range acceptable to you. You can place a "limit order" which will show the broker the highest price you are willing to pay. When giving a sell order, you can also indicate a limit on the lowest price you are willing to accept.

Your broker may require you to pay a full or partial deposit when placing your order. With a sell order you may be asked to deliver your share certificate to your broker when you give it the order.

Can My Broker Use My Money?

Brokers and investment advisers must keep clients money separate from their own money. These funds are deposited into a trust account with a local bank. Brokers and investment advisers are not permitted to use clients' funds at all unless they have the written permission of the client to do so.

What Happens To My Order?

Your broker will take your order and those of other clients to the trading floor of the SPSE where buying and selling transactions take place at regular "call market" sessions. These sessions are described as "call sessions" because the shares of companies listed on the stock exchange are called out in alphabetical order by the market caller and brokers call out their buying and selling orders.

Your broker must call out the orders it has in the order of time that they were received. Therefore you should always note down the date and the time that you placed your order with your broker.

Your broker places your order on the market in the hope of finding a match. Orders are matched at the call sessions if there are willing buyers and sellers of the securities at

The shares traded at each call session are reported daily in the newspapers. SPSE trading sessions are open to the public.

Can My Broker Change My Order?

Your broker must follow your instructions strictly. If it does not, you don't have to pay for the shares or deliver the shares as the case may be. If you have placed a "discretionary" order with your broker which gives the broker the right to change the quantity of shares or prices at which you want to buy or sell, then your broker can change your order within the limits that you set. However, the broker must still try to get you the best deal.

When Do I Have to Pay For the Shares?

After the trade is done, your broker must send you a contract note confirming the details of the trade including the name and quantity of shares purchased, the price and the commissions payable. Payment for the shares and the delivery of share certificate by the seller's broker is done on the 5th day after the trade. This is typically called the settlement date. If you have not paid a deposit or already delivered the share certificate, you will be required to do so on the settlement day. Settlement of transactions takes place at the stock exchange between 3.00 p.m. and 3.30 p.m. This involves the buying and selling brokers exchanging the payment and share certificates and signing transfer forms that formalise the transfer of ownership of the shares and the payment.

When Will I Receive My Share Certificate?

Your broker should deliver the share certificate to you five days after you have settled the transaction and paid for the shares. If you do not receive a share certificate from your broker by this time, enquire immediately.

How Much Will A Broker or Investment Adviser Charge?

Your broker will charge you a fee for its services. This will include:

- A broker's commission of between 1.0% - 1.5% of the value of the shares traded

All fees are charged on a sliding scale. Note that where investment advice is given, a further charge may be levied.

When using an investment adviser, ask for a quote on its fees before using its services.

Do I have a Legal Contract with My Broker or Investment Adviser?

The basic relationship between broker and investment adviser and client is one of "principal" and "agent". As agent of the client, the broker is given authority to buy or sell shares and other securities on the client's behalf. When the broker does this, it relies on the client (the principal) to fulfil the obligations of the contract when it is executed. For example, when a client buys shares, his/her broker (the buying broker) enters into a transaction with a selling broker acting for a client selling the shares. The transacting brokers are legally obligated to settle the transaction between them. However, the brokers in turn look to their clients to deliver the shares and make payment.

In the eyes of the law, the agent/principal relationship is built on trust, sometimes called a "fiduciary" relationship. The agent is entrusted by the principal to act on its behalf and therefore has a legal obligation not to betray this trust. This principle permeates the various laws, regulations and rules that cover brokers' and investment advisers' conduct. Basically, brokers have a legal obligation to faithfully follow clients' instructions and generally to act in the best interests of their clients at all times.

Under CMDA regulations, brokers and their representatives must, by contract, be the agents of the customer. If you become a client, as your agent, your broker (and through its representative) has a duty to act in good faith and in your best interests. As such, they:

- Must be honest & fair
- Must exercise due skill, care & diligence
- Must have and effectively employ the resources and procedures that are needed to adequately provide broker services.
- Must follow your instructions & provide best completion of your orders.
- Must execute transactions only when you have given, and the broker has accepted, a legally valid authority over your account.

- May recommend only suitable investments to you taking into account your investment experience, objectives, risk tolerance, financial situation and needs.
- Must not share in your profits or losses.
- Must not make guarantees.
- Must not compete with customer's orders.
- Must give customer's orders priority and fill them in the sequence received.
- Must comply with all regulatory requirements.

What Can I Do If I'm Not Happy with My Broker or Investment Adviser?

You can lodge complaints regarding the professional conduct or activities of your broker with the CMDA or the SPSE. Within two business days of receiving a complaint, the CMDA or the SPSE will acknowledge in writing that it has received your complaint and will institute an investigation into its validity.

The CMDA or the SPSE will then write to you as the complainant within one month of having received the complaint to advise you of the current status of the complaint or the outcome of the investigation.

Disclaimer

The contents of this leaflet are believed to be correct at the date of issue. They are intended for general purposes only and are not to be considered as providing securities recommendations or advice. The CMDA and SPSE do not give any warranty or accept any liability (whether arising from negligence or otherwise) for any error or omission, or for any loss arising from acting on the information in this publication, except where under law liability cannot be excluded.

Investments are subject to investment risk, including possible delays in repayments and loss of income and principal invested. The CMDA and SPSE do not guarantee investment performance or return of capital invested.



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