Employee Personal Account Dealing Requirements

Guidance Note 02

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PURPOSE OF THE GUIDANCE NOTE	The purpose of this Guidance Note is to clarify the obligations of PNGX Participating Organisations when managing employee trading. It explains how Participating Organisations are expected to have in place Employee Personal Account Dealing (**PAD**) frameworks. The Guidance Note also outlines PNGX's expectations that employee trading is not prohibited, but it must be controlled, transparent, and supervised. A documented Personal Account Dealing framework, supported by a clear requirement for internal execution, is central to protecting clients, maintaining market integrity, and safeguarding the reputation of both the firm and the market as a whole.
THE MAIN POINTS	1. PADs must be in place for employees in Participating Organisations. 2. PADs are important in maintaining market integrity and safeguarding the reputation of the Participating Organisation and the market.
RELATED MATERIAL	• *Capital Market Act* 2015 (**CMA**) • Business Rules for Participating Organisations

Guidance

The issue of this Guidance Note is to assist Participating Organisations with their obligations for the protection of the integrity of the market.

This Guidance Note may be replaced at any time. The Participating Organisation must ensure they have the latest version of the guidance note. This guidance note is only a guide.

The Guidance Note sets out standard market practice for dealing by employees of a Participating Organisation. It is intended to promote market integrity, manage conflicts of interest, and ensure that firms can meet their regulatory and supervisory obligations.

Employees are permitted to trade in financial instruments only within a **PAD** framework that is documented, implemented, and enforced by the Participating Organisation.

Requirement for a documented PAD framework

Each Participating Organisation must maintain an Employee Personal Account Dealing Policy (or **PAD Policy**) that sets out:

a) documented appropriate rules governing personal transactions;

b) the controls and procedures used to supervise employee trading; and

c) the consequences of non-compliance.

The PAD Policy must be designed to ensure that employees do not:

a) misuse inside or confidential information;

b) front-run or otherwise disadvantage clients; or

c) create unmanaged or undisclosed conflicts of interest.

Capital Market Act obligations

Section 71(3) of the CMA states that a person who is an employee of a Participating Organisation shall not, as principal, purchase or agree to purchase any securities or rights or interests in securities unless the Participating Organisation acts as the agent of the person in respect of the transaction. Noting however that, a holder of a capital market licence and an employee of such holder must not, as principal, jointly purchase or subscribe for, or agree to purchase and subscribe for, any securities (Section 71(1), CMA).

Business Rule obligations

Business Rule 2.2.9(14) explicitly states that a Designated Trading Representative (**DTR**) is not permitted to execute orders on the trading system for or on their own account or the immediate family, family company or family trust of the DTR, without the prior written approval of the Participating Organisation. This must be factored into the preparation and monitoring of a PAD Policy.

Quarterly holdings and transaction reporting

As a minimum supervisory control, each Participating Organisation should require employees to report their personal holdings on a quarterly basis, including:

a) their holdings at the start of the reporting period;

b) their holdings at the end of the reporting period; and

c) details of each change to their holdings during the period.

Quarterly reporting must capture all personal account dealing.

Participation in dividend reinvestment plans, pro rata capital raisings, and similar issuances made available to all shareholders in a company is permitted provided the provisions of Section 71 of the CMA are complied with. Such participation must, however, be disclosed and included in the quarterly reporting.

Scope of the PAD framework and avoidance prevention

The PAD framework must be designed broadly enough to prevent avoidance of employee trading controls.

In particular, consideration should be given to capturing and controlling trading conducted:

a) by associates (as defined in Section 3 of the CMA) of employees, including spouses, siblings, children, and parents; and

b) through companies, trusts, partnerships, or similar structures that are owned or controlled by employees or their associates.

Where such trading is within scope, the PAD Policy should require appropriate disclosure, reporting, and, where relevant, pre-approval, so that the Participating Organisation can effectively supervise and manage conflicts and market abuse risks.

Core issues an employee trading policy must address

A robust PAD Policy must explicitly address the following issues and risks.

1. Market integrity and market abuse prevention

Employees of a Participating Organisation may be exposed to sensitive information, including client order flow, research insights, corporate actions, or other non-public information. The PAD Policy must therefore include controls designed to prevent:

a) insider trading;

b) front-running of client orders;

c) manipulation or abusive trading practices; and

d) the perception that employees benefit unfairly from their position.

To support market integrity and market abuse prevention, the PAD Policy should require:

a) prior approval of personal trading by senior management or internal compliance;

b) restricted lists (eg stocks relating to a transaction the Participating Organisation may be giving corporate advice on);

c) black-out periods during which personal trading is prohibited (eg immediately prior to the release of research reports);

d) minimum holding periods / anti-short-term trading restrictions, designed to prevent rapid buying and selling (or selling and rebuying) of securities by employees, and to reduce the risk or perception of "front-run then flip" behaviour; and

e) other relevant controls tailored to the nature of the employee's role, access to information, and the firm's activities.

2. Conflicts of interest

Personal trading by employees can give rise to actual, potential, or perceived conflicts between:

a) the interests of clients;

b) the interests of the Participating Organisation; and

c) the personal interests of employees.

The PAD Policy must set out how such conflicts are identified, managed, restricted, or prohibited, including where necessary an outright ban on trading in certain securities, products, or circumstances.

3. Supervision and evidence

The Participating Organisation must be able to effectively supervise employee trading and demonstrate that supervision to regulators and auditors. This requires:

a) visibility of all relevant employee transactions;

b) the ability to review trades against restricted lists and blackout periods;

c) audit trails showing approvals, monitoring, and follow-up actions; and

d) reliable records that can be produced on request.

4. Reputational risk

Even where conduct may be technically lawful, employee trading can create reputational damage if it appears that employees profit at the expense of clients or misuse privileged access and information. The PAD Policy must therefore take into account not only legal compliance but also public, client, and regulatory expectations of fairness and integrity.

5. Giving of credit to employees

Section 71(2) of the CMA prohibits the Participating Organisation from providing credit to employees or persons who, to the knowledge of the Participating Organisation, is associated (as defined in Section 3 of the CMA) with such an employee if —

a) the credit is given for the purpose of enabling or assisting the person to whom the credit is given to purchase or subscribe for any securities; or
b) the person giving the credit knows or has reason to believe that the credit will be used for the purpose of purchasing or subscribing for securities

Default approach: “trade through us”

Consistent with Section 71 of the CMA, a Participating Organisation should adopt a “trade through us” policy as the default position for employee personal dealing.

Requiring employees to trade through the employing Participating Organisation provides the most effective and efficient means of control because it enables:

a) Real-time surveillance: Continuous monitoring of employee trades for front-running, misuse of client order flow, and other abusive patterns.

b) Restricted-list and blackout automation: Automatic blocking of securities subject to restrictions, watch lists, or blackout periods arising from corporate finance activity, research coverage, or other sensitive engagements.

c) Position aggregation: Consolidated visibility of house positions and employee personal positions, allowing the firm to assess aggregate exposure and conflicts.

d) Best evidence for regulators and auditors: Complete, accurate, and readily accessible records of employee trading activity, approvals, and controls, supporting regulatory inquiries and audits.