# Best Practice for Managing Client Monies

**Guidance Note 04**

Issued: October 2026

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| **PURPOSE OF THE GUIDANCE NOTE** | Managing client monies is a critical aspect of a Participating Organisation's responsibilities.<br><br>The practice of directly managing client funds through trust accounts significantly boosts client confidence in the financial markets. When clients see that their investments are handled with strict adherence to regulatory standards and ethical practices, it builds trust in the security and integrity of the financial system. This transparency assures clients that their investments are safe and are being used solely for their intended purposes, without the risk of mismanagement or fraud.<br><br>Moreover, this trust underpins the overall stability and efficiency of the market, as investors are more likely to engage in trading and investment when they feel secure. This, in turn, contributes to the health and liquidity of financial markets.<br><br>Set out below are the expected practices for Participating Organisations to manage client monies. |
| **THE MAIN POINTS** | 1. All client monies to be held in trust<br>2. Monies to be paid directly out of trust<br>3. Trust accounts to be reconciled |
| **RELATED MATERIAL** | • Nil |

## Guidance

The issue of this guidance note is to assist Participating Organisations with the procedure for managing client monies.

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.

Effectively managing client monies is a process that requires strict adherence to internal processes, accounting principles and regulations.

Participating Organisations must prioritize risk management, invest in robust monitoring systems, and cultivate a culture of transparency to navigate such challenges.

By implementing best practices, Participating Organisations can minimize the risk of client loses and fraud, protect client interests, and uphold the integrity of the stock exchange.

# SECTION 1 – Segregation

1. Segregating client funds from a Participating Organisation's own funds is crucial for several reasons.
2. Firstly, it ensures that client money is protected in case the stockbroker faces financial difficulties or bankruptcy. This separation prevents client funds from being used to settle the broker's debts.
3. Secondly, holding client money in trust accounts adds an extra layer of security and oversight.
4. This setup helps maintain trust and integrity in the financial system by ensuring that client funds are managed responsibly and transparently.

# SECTION 2 – What monies go into trust

5. All client monies relating to the purchase or sale of securities on PNGX must be placed directly into a trust account with a licenced bank operated by the Participating Organisation.
6. This does not apply to commissions payable to the Participating Organisation for the purchase or sale of securities on PNGX.
7. These accounts must be clearly designated as holding client monies and cannot be commingled with the Participating Organisation's funds.

# SECTION 3 – Payments out of trust

8. Payments to clients must only be made out of the trust account:
    a. To pay directly to the client after settlement of a transaction;
    b. To settle a transaction; or
    c. Otherwise at the written direction of the client.
9. Payments to clients for the purposes set out in a. – c. above must not be paid out the Participating Organisation's general or operating account.
10. Monies held in trust for the benefit of one client cannot be used to meet the obligations of ,or to, another client.

# SECTION 4 – Reconciliation

11. The total funds in a trust account must be reconciled daily.

12. Funds attributable to individual clients must be reconciled to each client account monthly.
13. Regular reconciliation ensures that all client funds are accurately accounted for and that there are no discrepancies between the account records and the actual account balances.
14. Daily reconciliation helps in identifying and addressing errors or discrepancies promptly, which is crucial in a dynamic environment where large sums can be moved. This practice also minimizes the risk of fraud and protects against unauthorized use of funds. Regular reconciliation supports transparency and accountability, essential for maintaining client trust and confidence in the financial integrity of the institution managing their assets.

## SECTION 5 – Payments directly from trust

15. Payments for the acquisition of shares by a client should be made directly from the trust account rather than via the Participating Organisation's general account to ensure that client funds are handled transparently and ethically.
16. This direct payment from the trust account helps in maintaining a clear audit trail, which is crucial for regulatory compliance and for protecting client interests. By doing so, it reduces the risk of misuse or misappropriation of client funds, as the money remains separate from the Participating Organisation's operational and business funds.
17. This separation also simplifies the management and tracking of client funds, making it easier to attribute payments to specific transactions and clients, ensuring accuracy in financial reporting and compliance with legal obligations.
18. It also protects the client in the event of the Participating Organisation being placed in administration. There is a risk that payments via the Participating Organisation's general account or operating account will result in the client becoming an unsecured creditor, denying them the protection of trust.

## SECTION 6 – No "topping up" or "buffering"

19. A Participating Organisation must not "top up" a trust account with its own funds in the event of a reconciliation shortfall.
20. Similarly, a Participating Organisation must not place "buffer" funds from its own funds in a trust account in to avoid a reconciliation shortfall.
21. The use of "top up" and "buffer" funds significantly increases the risk of hiding fraud or mismanagement, placing client funds at risk.

## SECTION 7 – Prompt Investigation And Correction

22. If a deficiency of funds or any other reconciliation issue is identified:
    a. the Participating Organisation must immediately investigate the cause of the error and rectify it. The rectification must be immediate
    b. PNGX and the Participating Organisation's auditor should be notified; and
    c. if the deficiency of funds or any other reconciliation issue is material, the Securities Commission should also be notified.

## SECTION 8 – Review and Improvement

23. After resolving any reconciliation issue, the Participating Organisation should:

a. conduct a comprehensive review of its processes and systems to prevent similar issues in the future; and
b. Implement necessary improvements such as enhanced risk controls, additional training for staff, or upgraded technology infrastructure.

## SECTION 9 – Anti Money Laundering Considerations

24. When accepting monies into trust accounts, Participating Organisations need to be compliant with Papua New Guinea's anti money laundering laws and obligations, especially in relation to validating sources of funds.