

PRE-LICENSE EVALUATION CRITERIA

This manual is drawn to serve as a guide for the trading members and Inspections officers of the Exchange.

It is basically a list of criteria, which the council of ASCE has considered sufficient and appropriate to reveal areas of relevance for a thorough and critical review of commodity market Operations of its Trading Members.

It should be used in conjunction with the Rules and regulations of the ASCE.

A. FORMS AND OTHER DOCUMENTS

The Objective is to ascertain:

- Inter-relationship of ownership and Management
- Quality and mode of presentation of business forms and document
- The adequacy and reliability of back-up systems (Physical and electronics)
- Conformity to laid down regulations and laws governing the market

B. WAREHOUSE RECEIPT DEPOSIT SLIP

To contain the following details:

- Name and various symbols/logos of the trader and other detailed particulars like office address, phone numbers, Fax and other
- communications points, indication of **"MEMBER of the Abuja Securities and Commodity Exchange Plc"**
- Indications of the agency of the house
- Particulars of the depositor
- Particulars of the warehouse receipt, like title, volume, quality, packaging and the commodity
- Clear indication that **"WAREHOUSE RECEIPT LODGED IN THE DEPOSITORY WILL IRREVOCABLY AND UNCONDITIONALLY BE DEMATERIALISED"**
- Date of receipts of Warehouse receipts
- Client's depository codes
- Client's commodity brokerage code
- Details of depositor's instructions duly signed thereon
- **PROVISION FOR SIGNATURE AND OFFICIAL STAMP OF DEALER.**

C. OFFICIAL RECEIPTS

To contain the following details:

- Name and various symbols/logos of the trader and other detailed particulars like office address, phone numbers, Fax and other communications points, indication of "MEMBER of the Abuja Securities and Commodity exchange Plc"
- Details of the depositor/Payee
- Details of the Instruments for the deposit like Value, mode, Cheque number or slip number, value date and details of the Bank on which the instruments are drawn etc
- Purpose of the payment
- Client's depository codes
- Client's Commodity brokerage code
- **PROVISION FOR SIGNATURE AND OFFICIAL STAMP OF DEALER**

D. SALES AND PURCHASE CONTRACT NOTES:

Which should legibly contain the following information:

- Name and various symbols/logos of the trader and other detailed particulars like office address, phone numbers, Fax and other communications points, indication of "MEMBER of the Abuja Securities and Commodity Exchange Plc"
- Particulars of the beneficiary
- Exchange/Floor or location of trade
- Date of transaction
- Client's depository codes
- Client's commodity brokerage code
- Name of the commodity in question
- Volume of the transaction
- Price at which the trade was executed
- Gross consideration of the trade
- SEC fees
- VAT
- Brokerages/Commission
- ASCE /depository fees
- Stamp duties
- Other charges (if any)
- Net proceeds

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- A clear statement as 'Subject to the rules, Regulations and usages of the Abuja Securities and Commodity Exchange Plc'
- Provision for authorized signatories (at least two) To be in duplicates

E. CLIENT LEDGER AND ACCOUNTING SYSTEM

- The ease of updating
- Competence, professional qualifications etc or otherwise of personnel manning the accounts, ascertain the manner and influence of management on clients accounts
- The client's database system, its details like the clients particulars
- The details of each transaction
- The relative ease of producing required regulatory reports
- The portfolio/house box update/records
- Inter brokers trade records
- Documented procedure for ensuring separation of client's records from Company's operations.

F. TRADE ORDERS:

- The clarity of the sales and purchase orders (the jobbing book)
- Indications of time of receipt, volume and price plus ancillary information etc

G. OPERATIONAL MANUALS:

- Legibility of internal operations manual that clearly trace and explain the transaction flow from the order to execution stages and from the execution to the settlement stages and finally to the conclusion of the trade.
- Finance / Accounting manuals which details the various relationships between deposits, trades and payments with clients account up to the General Ledger stage.

H. INTERNAL CONTROL SYSTEMS:

Ascertain the accuracy and effectiveness of checks and control systems in the current or proposed operations of the firm. Determine the:

- Separation of duties and responsibilities, especially in the issues of receipt, deposit and disbursements of clients and firm funds
- The level and scope of authorizations and control over client's accounts, securities and money.
- Level of supervision by senior / management staff

I. BANK ACCOUNTS:

- Determine the adequacy and keeping of records
- Ascertain the commitment to maintain separate bank accounts for clients business and that of the house. Ideally, the customer's accounts should be clearly indicated as "CLIENTS TRUST ACCOUNT" in accordance with section 38 of the Investments and Securities Act of 1999.
- Ascertain that for previous businesses, the management acted in accordance with sections 38, 39, 40, 42 and 43 of the ISA.
- (Any contravention must be reported within 48 hours to the SEC)

J. OWNERSHIP AND MANAGEMENT:

- Determine the level and quality of management
- Experience
- Integrity etc. of management and ownership
- Separation of powers or interference
- Level of management empowerment and involvement
- Level of promoter's involvement etc

K. ADEQUACY OF INFRASTRUCTURE:

- Determine how conducive the official environment is.
- Availability of Communications systems (telephone, fax, e-mail etc)
- Computing systems (disaster recovery plan, external back-up facilities Maintenance agreements should be stated)
- Fire and burglary proof safe (s) for cash and security documents etc.
- Filing system

L. FINANCIAL STATEMENTS AND STATUTORY REPORTS:

- The latest annual accounts or statement of affairs etc duly audited.
- Apply financial ratios to determine the level of liquidity and gearing.
- Estimate the working capital and quality of assets.
- Access and qualify the firm's level of compliance with SEC and other Commodity Exchange (s) requirements.
- Obtain copies of latest quarterly returns made to the SEC (which must be duly acknowledged by SEC, for operational applicants only).

- Ascertain how up to date their returns are to the authorities, especially SEC fees.
- Determine their level of compliance with the payment of Stamp duties and VAT returns. (they basically must have a VAT registration number).
- Sight originals of tax payments for three consecutive years.

M. FINANCIAL EVALUATION:

- Calculate the following financial ratios using the Information provided above .
- Ratio of Operating cost to turnover
- Ratio of Net profit to turn over
- Ratio of finance charges on loans and overdraft to turnover
- Ratio of commission receivable to total debtors
- Ratio of short-term investment to current assets
- Ratio of cash and bank balances to current assets
- Ratio of provision for Bad and doubtful debts to turnover
- Ratio of provision for bad and doubtful debts to total operating expenses
- Current ratio*
- Acid-Test Ratio*
- Gearing Ratio*
- Return on Turnover
- Return on Assets
- Return on Share Capital
- Return on Equity/Shareholders
- Earnings Per share
- Dividend Per share

Current ratio = current Assets / Current Liabilities Star list.

Acid-Test ratio = (Current Assets - Least Marketable Securities in the portfolio) / Current Liabilities.

Gearing ratio = Long-term indebtedness/Net worth

Please forward along with the inspection report, 3-years audited accounts.