

Commission  
deemed to be a  
Scheduled  
Institution  
within the  
meaning of the  
Bribery Act

**23.** The Commission shall be deemed to be a Scheduled Institution within the meaning of the Bribery Act (Chapter 26), and the provisions of that Act shall be construed accordingly.

## **PART II**

### **Markets and Market Institutions**

Object and  
purpose of this  
Part

**24.** The object and purpose of this Part shall be –

- (a) to promote a fair, orderly, transparent and efficient securities market in Sri Lanka through the establishment of market institutions;
- (b) to enhance effective and efficient functioning of a securities market; and
- (c) to mitigate systemic risk associated with securities markets.

## **CHAPTER 1**

### **EXCHANGES**

Prohibition  
against  
establishing an  
unlicensed  
exchange

**25.** (1) A person shall not establish, operate or maintain an exchange except by authority of a licence granted by the Commission.

(2) A person who contravenes subsection (1) commits an offence and shall, on conviction, after summary trial before a Magistrate be liable to a fine not exceeding twenty-five million rupees or to imprisonment for a term not exceeding five years or to both such fine and imprisonment.

Application to  
operate an  
exchange

**26.** (1) An application for a licence to operate as an exchange shall be made to the Commission in such manner and form together with such documents as may be specified by rules made by the Commission accompanied by such fees as may be prescribed.

(2) For the purpose of subsection (1), an application shall be made by a body corporate only.

(3) The Commission may grant a licence to the applicant to operate as an exchange, subject to such terms and conditions as it thinks fit, where it is satisfied that –

- (a) the applicant has the capacity to operate an orderly and fair market in relation to securities that are traded through its facilities;
- (b) the applicant has the necessary infrastructure to manage any risks associated with its business and operations prudently;
- (c) the applicant, in discharging its obligations under paragraph (a), shall have the necessary governance structures to ensure that the exchange shall not act contrary to public interest;
- (d) the applicant has sufficient financial, human, automated systems and other resources to ensure the provision of –
  - (i) an orderly and fair market in relation to securities that are traded through its facilities;
  - (ii) adequate and properly equipped premises for the conduct of its business;
  - (iii) competent personnel for the conduct of its business; and
  - (iv) automated systems with adequate capacity, security arrangements and facilities to manage risks and to meet emergencies;
- (e) that the applicant, by rules provide-

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- (i) for an orderly and fair market in relation to the securities that are traded through its facilities;
- (ii) for the admission of trading participants;
- (iii) for the proper regulation and supervision of the business conduct of its trading participants when dealing with clients;
- (iv) for the exclusion of persons who are not of good character and high business integrity from being recognized as trading participants;
- (v) for the expulsion, suspension or disciplining including the imposition of fines on a trading participant and any person acting on behalf of such trading participant, for conduct that is inconsistent with just and equitable principles in the transaction of business or for a contravention of or failure to comply with the rules of the exchange or any provisions of this Act, regulations, rules or directives made thereunder;
- (vi) for the conditions under which securities may be listed or delisted;
- (vii) for the conditions governing trading of such listed securities and rules to be followed by companies or other entities that have listed their securities on the exchange;
- (viii) for the class or classes of securities that may be dealt in or traded on its facilities;
- (ix) for the prohibition of market misconduct and the manner in which investigations are conducted;

- (x) for the conduct of inquiries or investigations into the business conduct of its trading participants;
- (xi) for the suspension of trading of any given security for the protection of investors or for the conduct of orderly and fair trading;
- (xii) for the appointment of a disciplinary committee of which the majority of its members are independent of the trading participants or the exchange, to hear and determine disputes-
  - (A) between trading participants and their clients;
  - (B) between trading participants;
  - (C) between trading participants and an exchange, a central depository or a licensed clearing house;
  - (D) between entities listed on the exchange and the exchange;
- (xiii) generally for the carrying on of the business of the exchange with due regard to the need for the protection of investors; and
- (f) the interests of the public or the proper regulation of the market shall be served by the granting of the licence.

(4) An applicant under subsection (1) shall provide such additional information as the Commission may require in relation to the application.

(5) Notwithstanding the provisions of subsection (3), the Commission may amend, revoke or impose additional terms or conditions, if the Commission is satisfied that it is appropriate to do so for the protection of investors or for the proper regulation of the securities market.

Duties of an  
exchange

**27.** (1) It shall be the duty of an exchange to ensure, an orderly and fair market in securities that are traded through its facilities.

(2) In performing its duty under subsection (1), the exchange shall-

- (a) act in the public interest having particular regard to the need for the protection of investors;
- (b) ensure that where any interest that is required to be served under any law relating to companies conflict with the interest referred to in paragraph (a), the interest referred to in paragraph (a) shall prevail; and
- (c) manage any risks associated with its business and operations prudently.

(3) Notwithstanding the provisions of any other law, a director of an exchange has a duty to act at all times in the public interest having particular regard to the need to protect investors and where there is a conflict between the duty under this Act and a director's duty under any other law, the duty under this Act shall prevail.

(4) It shall be the duty of the exchange to take appropriate action as may be provided for under its rules for the purpose of monitoring or securing compliance with its rules.

(5) An exchange shall immediately notify the Commission if it becomes aware of -

- (a) any matter which adversely affects, or is likely to adversely affect the ability of any trading participant to meet its obligations in respect of its licensed business, including the ability of any trading participant to comply with the minimum financial requirements as may be specified under this Act or regulations, rules or directives made thereunder; or
- (b) any irregularity, breach of any provision of this Act, regulations, rules, directives or any other matter which, in the opinion of the exchange, indicates or may indicate that the financial standing or financial integrity of any trading participant or of the chief executive officer or directors or the key management personnel of the trading participant in question may reasonably be affected.

(6) Where an exchange issues a warning, imposes a penalty, suspends, expels or imposes any other disciplinary measure against any of its trading participants, on the occurrence of activities referred to in subsection (5), it shall, within seven days, give to the Commission in writing the following particulars :-

- (a) the name and address of the business of the trading participant;
- (b) the reason for and the nature of the action taken;
- (c) the period of suspension and the quantum of the penalty, if any; and
- (d) any other disciplinary measure taken.

**28.** (1) The Commission may, -

- (a) by notice in writing cancel the licence granted under section 26 with effect from the date specified in such notice; or

Cancellation of  
licence of an  
exchange

- (b) by notice in writing direct the exchange to cease to provide or operate such facilities, or to cease to provide such services, with effect from the date specified in the notice.

(2) The Commission shall not cancel the licence or issue a directive under subsection (1) unless the Commission is satisfied that it is appropriate to do so for the protection of investors, in the public interest or for the proper regulation of the securities market, where any of the following circumstances occur :—

- (a) the exchange ceases to operate its securities market;
- (b) the exchange is being wound up or otherwise dissolved, whether within or outside Sri Lanka;
- (c) the exchange has contravened any term or condition of its licence or is charged with any offence under this Act;
- (d) the exchange has failed to comply with a term or condition of its license or directive issued under this Act or otherwise fails to comply with any provision or requirement under this Act;
- (e) any information provided for the purposes of section 26, was false or misleading in a material particular or from which there is a material omission;
- (f) a judgment debt against the exchange has not been satisfied in whole or in part;
- (g) a receiver, a receiver and manager, liquidator or equivalent person has been appointed, whether within or outside Sri Lanka in relation to or in respect of any property of the exchange;

- (h) the exchange has, whether within or outside Sri Lanka, entered into a compromise or scheme of arrangement with its creditors which has not been satisfied; or
- (i) the exchange on its own accord applies to the Commission to cancel its licence as an exchange, and the Commission thinks it fit to do so.

(3) For the purposes of paragraph (a) of subsection (2) where an exchange has ceased to operate its securities market for a period exceeding two weeks, it shall be deemed to have ceased to operate its securities market without obtaining the prior written approval of the Commission.

(4) Notwithstanding the cancellation of a licence or the issuance of a directive under subsection (1), the Commission may permit the exchange to continue, on or after the date on which the cancellation or directive is to take effect, to carry on such activities affected by the cancellation or directive as the Commission may specify in the notice-

- (a) for the purpose of closing down the operations of the exchange or ceasing to provide the services specified in the notice;
- (b) for the purpose of protecting the interest of investors; or
- (c) in the interest of the public.

(5) Where the Commission has granted permission to an exchange to continue under subsection (4), the exchange shall not, by reason of its carrying on the activities in accordance with such permission, be regarded as having contravened subsection (1).

(6) Where the Commission acts under paragraph (a) of subsection (1), the Commission may, take any steps deemed necessary to ensure the protection of investors or to uphold the interests of the public with notice to the Minister.



(7) The Commission shall not take any action under subsection (1) without giving the exchange an opportunity of being heard.

(8) An exchange which is aggrieved by the decision of the Commission made under subsection (1) may, within fourteen days of receipt of such notice, appeal to the Minister.

(9) Notwithstanding the making of an appeal under subsection (8), any action taken by the Commission under this section shall continue to have effect pending the decision of the Minister.

(10) The Minister may, on an appeal made under subsection (8) after hearing the Commission and the exchange within a period of three months after the receipt of such appeal -

- (a) allow the appeal and direct the Commission to revoke the cancellation of the licence or the directive; or
- (b) disallow the appeal.

(11) The Commission shall give effect to the decision of the Minister.

(12) Subject to subsection (11), the Commission shall give public notice of any cancellation of licence or any directive issued under this section.

Effect of  
cancellation of  
the licence of an  
exchange

**29.** Any cancellation of a licence or the issuance of a directive under subsection (1) of section 28 shall not operate so as to -

- (a) avoid or affect any agreement, transaction or arrangement entered into on the securities market operated by the exchange, whether the agreement, transaction or arrangement was entered into before

or, where subsection (4) of section 28 applies, after the cancellation of the licence or the issuance of the directive under section 28; or

- (b) affect any right, obligation or liability arising under such agreement, transaction or arrangement.

**30.** (1) The Commission may, after consultation with the exchange, direct the exchange to close its securities market for a period not exceeding five business days if the Commission is of the opinion that an orderly and fair market for trading in securities on the securities market is being or is likely to be prevented because –

Closure of the  
exchange in an  
emergency

- (a) an emergency or natural disaster has occurred within Sri Lanka; or
- (b) there exists an economic or financial crisis or any other similar circumstance within or outside Sri Lanka.

(2) The Commission may extend the closure of the securities market under subsection (1) for any further periods, each not exceeding five business days at a time.

(3) The Commission shall specify the grounds for the closure in the directive given under subsection (1) and the grounds for any extension of closure under subsection (2).

(4) The Commission shall, as soon as may be practicable, give a copy of the directive under subsection (1) or extension under subsection (2) to the exchange and direct the exchange to do all that it is reasonably capable of doing to give effect to the directive under subsection (1) or extension under subsection (2) while the directive or extension remains in force.

(5) Where the Commission exercises its power under this section it shall notify the Minister setting out the reasons for the exercise of the power under this section.

(6) In this section –

“business day” means any day on which there is official trading on the exchange but for the closure;

“fair market” includes a market that reflects the forces of supply and demand.

Listing  
requirements of  
a licensed  
exchange

**31.** (1) Where an exchange decides to list its own securities on such exchange, it shall obtain the prior approval of the Commission and the Ministry of Finance.

(2) The Commission shall grant approval to the exchange to list its securities on such exchange on being satisfied that the exchange has complied with all the necessary listing requirements of the exchange.

(3) On such approval being granted, such exchange shall enter into an arrangement as the Commission may require-

- (a) for dealing with possible conflicts of interest that may arise from the listing on such exchange;
- (b) for the purpose of ensuring the integrity of trading of securities of such exchange; and
- (c) for compliance with obligations as a listed company if such exchange was to become a listed company,

and such exchange shall comply with such requirements.

(4) The listing requirements of such exchange shall be deemed to allow the Commission, instead of such exchange to make decisions and to take action, relating to-

- (a) the admission to or removal of the exchange from the official list of such exchange;
- (b) the stopping or suspension of the securities of the exchange from being listed or traded on such exchange; or

- (c) the continuing listing requirements or such other matters as the Commission deems fit for the purpose of subsection (1).

(5) An arrangement under subsection (3) may provide for the exchange to pay such fees to the Commission as the Commission may determine for services provided by the Commission under the arrangement or otherwise.

(6) Without prejudice to the powers of the Commission to approve or amend the rules of an exchange, the Commission may by notice in writing-

- (a) modify the listing requirements of such exchange for the purpose of applying for a listing or trading of the securities of such exchange; or
- (b) exempt such exchange from any listing requirement.

## CHAPTER 2

### CLEARING HOUSE

**32.** In this Chapter, unless the context otherwise requires – Interpretation

“central counterparty” means a legal person who engages in clearing and settlement of trades on a securities market by becoming the buyer to every seller and the seller to every buyer by guaranteeing each trade;

“default proceedings” mean any proceedings or other action taken by a licensed clearing house under its default rules;

“default rules”, in relation to a licensed clearing house, mean such rules of the licensed clearing house which provide for the initiation of default proceedings if a clearing member has failed to meet