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EXTRAORDINARY

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PART I : SECTION (I) — GENERAL

Government Notifications

RULES APPLICABLE TO INVESTMENT MANAGERS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, No. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC
Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.



Rules

These Rules may be cited as the Rules applicable to Investment Managers.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Client” means a person who has entered into an agreement with an Investment Manager to manage his investments;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Investment Manager” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“Liquid Capital” means unencumbered cash or investments which can be readily converted to cash such as bank/call deposits, re-purchase agreements with maturity of less than three (3) months, commercial papers which are endorsed or guaranteed by a licensed commercial bank or licensed specialized bank with a term to maturity of less than three (3) months and government issued securities with a term to maturity of one (1) year or less or any other form of instruments as determined by the Commission;</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Shareholders’ Funds” means the amount of equity of the entity, which belongs to the shareholders of the Entity.</p>
Applicability	<p>2. The Rules set out herein shall apply to Investment Managers licensed under the SEC Act.</p> <p>3. Every Investment Manager shall comply with:</p> <ul style="list-style-type: none"> (a) the Rules set out herein and any amendments made thereto; (b) provisions of the SEC Act; (c) directives issued from time to time by the Commission; and (d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules.
Requirement for a licence	<p>4. No entity shall engage in the function of an Investment Manager without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to an Investment Manager shall be twelve (12) months.</p>

<p>Procedure to obtain a licence</p>	<p>6. The grant of a licence to an Investment Manager shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <ol style="list-style-type: none"> a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein; documents outlining the business model to carry on the functions of an Investment Manager; a declaration by the applicant as per the specimen affidavit in Schedule I of these Rules; a copy of the internal compliance manual as set out in Schedule VI of these Rules; documentation in support of measures taken to acquire an information processing system as stated in Rule 22 of these Rules; documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time. <p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <ol style="list-style-type: none"> confirmation from the auditor that the applicant has met the requirements as spelt out in Rule 18 (a) and (b) of these Rules; declarations by Key Management Persons and persons making investment decisions on behalf of Clients relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; a confirmation from the chief executive officer and a director of the Investment Manager confirming the implementation of an information processing system as stated in Rule 22 of these Rules; a confirmation from the chief executive officer and a director of the Investment Manager confirming the recruitment of adequate human resources along with their names and designations; the licence fee specified by way of regulations made by the Minister from time to time.
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	<p>7. Upon obtaining the licence to function as an Investment Manager under the SEC Act, the persons dealing with Clients shall follow Continuous Professional Development (CPD) programmes conducted by the Commission annually on rules and other applicable regulations.</p> <p>8. It shall be the duty of the Investment Manager to notify the Commission and obtain its prior consent of any change in particulars contained in an application to be licensed as an Investment Manager.</p> <p>9. The Commission may refuse an application made to be licensed as an Investment Manager on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>10. An Investment Manager shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>11. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>12. Any Investment Manager who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>13. In the event the licence of an Investment Manager expires as a result of an Investment Manager failing to take steps to renew it, the provisions contained in Rule 73 of these Rules with regard to cessation of operations shall apply.</p> <p>14. An Investment Manager which has neither taken steps to cease its business operations as an Investment Manager nor taken steps to renew its licence in terms of these Rules shall not be entitled to the grant of a new licence as an Investment Manager.</p> <p>This disqualification shall also apply to a company whose board of directors comprises of any individual(s) who functioned as a director(s) of the company which has failed to have its licence renewed as aforesaid.</p> <p>15. It shall be the duty of the Investment Manager to notify the Commission and obtain its prior consent of any change in particulars contained in an application for the renewal of a licence as an Investment Manager.</p> <p>16. The Commission may refuse an application made for the renewal of a licence as an Investment Manager on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>17. An Investment Manager shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>
Minimum financial requirements and submission of reports	<p>18. An Investment Manager shall:</p> <p>(a) at all times maintain minimum Shareholders' Funds as determined by the Commission from time to time;</p> <p>(b) at all times maintain minimum Liquid Capital as determined by the Commission from time to time;</p>

	<p>(c) inform the Commission immediately if Shareholders' Funds and/or Liquid Capital falls below the requirement as stipulated in Rule 18 (a) and (b) above; and</p> <p>(d) not carry on its activities as an Investment Manager if the minimum financial requirements as determined by the Commission are not met, unless the prior written approval of the Commission is obtained.</p> <p>19. An Investment Manager shall provide the information as set out below to the Commission:</p> <p>(a) financial statements prepared quarterly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month; and</p> <p>(b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year.</p> <p>20. An Investment Manager shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, in so far as they relate to the activity of managing investments.</p>
Change in shareholding of an Investment Manager	<p>21. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of an Investment Manager shall be made only with prior written consent of the Commission.</p>
Infrastructure and related requirements	<p>22. An Investment Manager shall at all times:</p> <p>(a) maintain proper systems including information technology processes and human resources suitable and adequate to support the proper conduct of its business as an Investment Manager;</p> <p>(b) ensure that an effective system of functional barriers is in place to prevent the flow of information that may be confidential and/or price sensitive between the functions; and</p> <p>(c) have appropriate information recording and retrieval systems and maintain such information for inspection by the Commission.</p> <p>23. The Investment Manager shall not be entitled to outsource any part of its work, which has a direct bearing on the function of managing investments.</p> <p>24. The Investment Manager shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules and directives that the Investment Manager is bound to follow.</p>

Qualifications and experience of persons making investment decisions on behalf of clients	<p>25. Any person who makes investment decisions on behalf of Clients shall possess the qualifications set out in subsection (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <p>(a) (i) a degree from a recognized university in the fields of Finance, Accountancy, Business Administration, Commerce or Economics;</p> <p>(ii) Member/Associate of a professional body of Accountants recognized by the International Federation of Accountants;</p> <p>(iii) Chartered Financial Analyst;</p> <p>(iv) Associate of the Chartered Institute of Bankers;</p> <p>(v) Associate of the Institute of Bankers of Sri Lanka;</p> <p>(vi) Associate of the Chartered Institute for Securities and Investments;</p> <p>(vii) any other professional and/or academic qualification acceptable to the Commission;</p> <p style="text-align: center;"><i>and</i></p> <p>(b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy;</p> <p style="text-align: center;"><i>or</i></p> <p>(c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider relevance, nature, scope and experience gained in determining its adequacy.</p>
Requirement for a minimum number of persons making investment decisions on behalf of Clients	<p>26. The Investment Manager shall ensure that a minimum of two (2) persons possessing qualifications and/or experience set out in these Rules are employed to make investment decisions on behalf of Clients.</p> <p>27. Persons making investment decisions on behalf of Clients of an Investment Manager shall not deal with Clients of any other licensed/ approved function of the entity unless prior written approval of the Commission is obtained.</p> <p>28. The Commission may direct the Investment Manager to vary the number of such qualified persons on account of the volume of business proposed to be undertaken or currently undertaken by such Investment Manager.</p>
Commission approval to engage in other businesses	<p>29. An Investment Manager shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>30. An Investment Manager shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>31. In the conduct of any such other business activity, the Investment Manager shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>

<p>Written agreement and material information</p>	<p>32. An Investment Manager shall execute a written agreement with each Client prior to carrying out any business for and on behalf of a Client containing all the terms and conditions agreed upon by and between itself and the Client. Without prejudice to the generality of this clause it shall <i>inter alia</i> include provisions set out in Schedule V of these Rules.</p> <p>33. An Investment Manager shall ensure that all investment decisions, recommendations and actions are consistent with the terms of the written agreement entered into between the Investment Manager and the Client.</p> <p>34. An Investment Manager shall provide Clients and potential Clients with an “Investment Management Services Guide” which shall include accurate and complete information with regard to all investments. Such Guide shall include <i>inter alia</i> the provisions set out in Schedule IV of these Rules. An Investment Manager shall not make misleading or deceptive statements to Clients and prospective Clients in the Investment Management Services Guide.</p> <p>35. An Investment Manager shall ascertain in relation to each Client, matters relating to his identity, his financial situation, investment experience and investment objectives relevant to the services to be provided prior to executing a written agreement between the Investment Manager and the Client.</p> <p>36. An Investment Manager shall ensure that the agreement entered into is in a language mutually agreed upon by the parties. The subsequent amendments to the agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p>
<p>Fund management</p>	<p>37. An Investment Manager shall at all times act in compliance with the duty that has been cast under Section 112 of the SEC Act, in making recommendations to Clients.</p> <p>38. An Investment Manager and all persons making investment decisions on behalf of Clients of the Investment Manager shall:</p> <ul style="list-style-type: none"> (a) ensure that transactions carried out on behalf of a Client are in accordance with the objectives, investment strategy, investment parameters, risk profile and other provisions stated in the Investment Policy Statement. If any amendment is to be made to the Investment Policy Statement, such amendment shall be done in consultation and in agreement with the Client; (b) establish, maintain and implement policies and procedures to ensure fair and equitable allocation of orders amongst Clients; (c) not carry out any transaction on behalf of a Client with an entity which is a connected person on terms which are more favorable to the connected person or less favorable to the Client; and (d) refrain from intentionally carrying out transactions (cross trades) between its own account, staff personal accounts and Client accounts. <p>39. When advising on the merits of an investment, the Investment Manager and all persons making investment decisions on behalf of Clients of the Investment Manager shall ensure the suitability of the information or the advice to be provided to the Client and shall disclose the financial risks associated with the securities that are being recommended to the Client.</p>

	<p>40. An Investment Manager and all persons making investment decisions on behalf of Clients of the Investment Manager shall disclose to a Client the nature of any commission or advantage he receives or is to receive from any third party with regard to the investments that are made on behalf of a Client.</p> <p>41. An Investment Manager and all persons making investment decisions on behalf of Clients of the Investment Manager shall specify the circumstances under which the Investment Manager may use information relating to the affairs of the Client.</p> <p>42. In the event of a dispute, the Investment Manager and all individuals who deal with Client portfolios of the Investment Manager shall not be held to be liable if he is able to establish that the investment decision was made in compliance with Rules 37, 38, 39, 40 and 41 above.</p> <p>43. If it is established that an Investment Manager and any person making investment decisions on behalf of Clients have violated the requirements specified in Rules 37, 38, 39, 40 and 41 the Investment Manager may become liable to compensate any direct loss or damage suffered by a Client without prejudice to any other remedy available to such Client or any other enforcement action the Commission may consider necessary.</p>
Trading in Securities	44. When trading in securities an Investment Manager shall act in compliance with the provisions contained in Section 106 of the SEC Act.
Lending and borrowing of Securities	45. In lending and borrowing of securities an Investment Manager shall act in compliance with the provisions contained in Section 107 of the SEC Act.
Segregation of Client funds	46. An Investment Manager shall with regard to the monies and assets of a Client at all times ensure that it acts in compliance with the provisions contained in Section 110 of the SEC Act.
Maintenance of records	<p>47. An Investment Manager shall maintain the following records pertaining to Clients:</p> <ul style="list-style-type: none"> (a) all agreements entered into between the Investment Manager and the Clients; (b) all Powers of Attorney granted to the Investment Manager by the Clients; (c) records of all transactions relating to the Clients, a record indicating the basis on which such investment decisions were taken on behalf of a Client, a record to support the risk profile of the Clients, investment analysis and other investment-related communications with Clients and prospective Clients; and (d) a written record of all complaints received from Clients and action taken thereon by the Investment Manager. <p>48. All of the above records shall be retained by the Investment Manager for a period of six (6) years.</p> <p>49. All of the above records pertaining to Clients whose agreements have been terminated shall be retained by the Investment Manager for a period of six (6) years from the date of such termination.</p>

	<p>50. The Investment Manager shall ensure that Client information is updated every year based on confirmation received from Clients.</p> <p>51. An Investment Manager shall ensure confidentiality of all information relating to Clients including such Client's identity, their beneficial owner and transactions carried out for such Client, unless and to the extent such disclosure is required by law.</p>
Keeping of books and furnishing of returns	<p>52. An Investment Manager shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records and other books for a period of not less than six (6) years.
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>53. Where the Commission having considered that it is in the interests of the Investment Manager or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Investment Manager:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Investment Manager relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Investment Manager relating to its business; (c) to provide all information within its knowledge or which it is capable of obtaining; and (d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars. <p>54. An Investment Manager shall not destroy, conceal or alter any records, property or books relating to the business of the Investment Manager which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
Submission of information to the Commission	<p>55. An Investment Manager shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>56. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Investment Manager shall comply with such requirements.</p>

Compliance manual	57. An Investment Manager shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule VI of these Rules.
Regulatory compliance and internal controls	<p>58. An Investment Manager shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/ experience as specified in Rule 25 of these Rules; (b) report directly to the board of directors/board sub-committee dealing with risk of the Investment Manager; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>59. The Investment Manager shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Investment Manager shall also give notice to the Commission no later than two (2) weeks from its effective date.</p> <p>60. The compliance officer on behalf of the Investment Manager shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule VII of these Rules, approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>61. Employees of the Investment Manager shall obtain the prior written approval from the compliance officer in respect of all personal account dealings. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p> <p>62. An Investment Manager shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>63. An Investment Manager shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>

<p>Notification on the happening of certain events</p>	<p>64. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Investment Manager shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Investment Manager is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka or where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Investment Manager; (b) the Investment Manager ceases to carry on the business to which the licence relates; (c) the Investment Manager has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary and the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission; (e) any execution against the Investment Manager in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Investment Manager whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director, or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director or the chief executive officer of the Investment Manager becomes an undischarged bankrupt.
<p>Advertisements</p>	<p>65. An Investment Manager shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>66. The advertisement shall not guarantee a particular yield and/or return on investment.</p> <p>67. Any reference to performance shall only be demonstrated by reference to relevant and published benchmarks.</p> <p>68. An Investment Manager shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>

Portfolio valuation	<p>69. An Investment Manager shall provide its Clients with current and accurate portfolio valuations on a monthly basis including the following:</p> <ul style="list-style-type: none"> (a) the composition and the value of the portfolio, description of security, number of securities, value of each security held in the portfolio, cash balance as at the date of the report; (b) transactions undertaken during the period of the report including the date of transaction and details of purchases and sales; (c) beneficial interest received during the relevant period in respect of interests, dividends, rights, shares or warrants; (d) expenses incurred in managing the portfolio of the Client; and (e) the performance of each Client's portfolio against appropriate benchmarks.
Cancellation or suspension of a licence	<p>70. The cancellation or suspension of a licence granted to an Investment Manager shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
Commencement of operations	<p>71. If the Investment Manager fails to commence its business operations no later than six (6) months after the issue of the licence, the licence shall cease to be valid.</p>
Licence of an Investment Manager deemed to be revoked	<p>72. A licence of an Investment Manager shall be deemed to be revoked if the company to whom a licence has been granted is wound up or otherwise dissolved.</p>
Ceasing of operations and surrender of a licence	<p>73. In the event an Investment Manager decides to cease its business operations as an Investment Manager, it shall:</p> <ul style="list-style-type: none"> (a) submit to the Commission within seven (7) working days from the date of the decision of the board of directors to cease business operations, a certified extract of the board resolution together with a status report of its Clients as at that date; (b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as an Investment Manager and the procedure to be followed by the Clients with regard to their intention to transfer to any other Investment Manager or return of any funds of the Client in the custody of the Investment Manager setting out specific timelines; (c) within twenty one (21) working days of the decision of the board of directors to cease business operations publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as an Investment Manager and indicating a time period within which its Clients are required to respond regarding their intention to transfer to any other Investment Manager or return of any funds of the Client in the custody of the Investment Manager setting out specific time lines and to call upon them to intimate if there are any complaints; (d) the Investment Manager shall keep the Commission informed in writing upon the completion of the steps (b) and (c) mentioned above.

	<p>74. The Investment Manager shall complete the tasks of transferring their portfolios to any other Investment Manager/returning of any funds of the Client in the custody of the Investment Manager and resolving any complaints within a period of not more than three (3) months from the date of the decision of the board of directors to cease business operations (or any extended period permitted by the Commission in writing) and submit to the Commission a declaration from the board of directors of the Investment Manager in the form of an affidavit confirming that:</p> <ul style="list-style-type: none">(a) all of its agreements entered into with Clients have been terminated;(b) together with the affidavit as stated in Rule 74 hereof, the Investment Manager shall return the licence to the Commission;(c) all outstanding amounts to Clients if any have been returned or has transferred the portfolio balances of the respective Clients to any other Investment Manager upon obtaining their consent;(d) the Investment Manager has published the paper notice;(f) there are no pending complaints in relation to the operations of the Investment Manager. <p>75. The surrender of a licence shall not take effect until the Commission informs the Investment Manager in writing that such surrender has been accepted upon satisfying itself that all steps with regard to the cessation of operations have been duly satisfied in terms of these Rules.</p>
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SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....
(Name)
Director

.....
(Name)
Director/Secretary

or,
Signed by the duly authorized signatories of the entity on this day of
.....
(Name)
Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees dealing with Clients, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time the Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees dealing with Clients shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and employees dealing with Clients shall not :

- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
- (b) have been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
- (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
- iii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and employees dealing with Clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (*In the case of a foreign national*) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Investment Management Services Guide

1. The Investment Management Services Guide shall *inter alia* include the following:

Corporate Information;

- (a) nature of business operations of the company
- (b) contact details
- (c) registered address
- (d) shareholding structure
- (e) details of board of directors – (i.e names, engagement capacity: executive, non – executive, independent and their profile etc.)

2. Fund Management;

- (a) objective
- (b) the type of asset class – e.g government securities, corporate debt, equity etc.
- (c) asset allocation - depicting the diversification into many asset classes in terms of liquidity, return, volatility etc.
- (d) valuation method for each asset class
- (e) performance benchmark if any (i.e benchmarks used for each asset under management)
- (f) risk profile of the target portfolio i.e. principal risks under each asset class

3. Details of Employees;

- (a) names of persons authorized by the Investment Manager and approved by the Commission
- (b) contact details of the compliance officer
- (c) experience of employees dealing with Clients

4. Other information

- (a) the amount of all fees to be paid by the Client
- (b) dispute resolution mechanisms available to a Client
- (c) details of periodic reporting to be made to the Client
- (d) informing the Clients on the requirement to update Client information (e.g. bi-annually); and
- (e) such other information which could be reasonably construed as having a bearing on functions carried out by an Investment Manager.

SCHEDULE V

Minimum Content of the Written Agreement between the Investment Manager and the Client

The written contract between the Investment Manager and the Clients shall interalia include the following;

1. Parties to the agreement
2. Composition of the agreement – (valid period of the agreement, etc.)
3. Appointment as Investment Manager – Client's consent given to the appointment of the Investment Manager
4. Investment objective –
Detailed objectives are attached in the Investment Policy Statement.
Investment Policy Statement contains;
 - (a) objectives (e.g. investment horizon, risk profile, etc.)
 - (b) responsibilities of the Investment Manager in terms of investment instruments
 - (c) portfolio selection guidelines (e.g. asset classes and investment parameters, portfolio composition, etc.)
 - (d) frequency of revising the portfolio
 - (e) performance monitoring (benchmarks, applicable fees on performance)
5. Caution to Client (acknowledgement of risks inherent to capital market, agreement to the fluctuations to the performance and profitability of the portfolio)
6. Authorisation granted by the Client (authority to the Investment Manager to carry out investments without prior approval of the Client, any rights given to authorised representative of the Client)
* Special Power of Attorney should also be obtained
7. Warranties by the Client (e.g. authenticity of the information provided by the Client)
8. Valuations and reports (types of reports provided and frequency, Income distribution policy)
9. Notice of limitations and risks (risks pertaining to portfolio management and types of investments, conflict of interest, impact of government policies, SEC regulations, etc.)
10. Payment of fees, taxes and levies
11. The maximum leverage level
12. Responsibility of the Investment Manager (fair and arm's length transactions, conflict of interest, breach of agreement, acts of employees that cause adverse impact to the Clients)
13. Notices and instructions (e.g. notices given to Clients and the mode of communication etc.)
14. Confidentiality (confidentiality in relation to the content of the agreement, confidentiality of the information provided by the Client)
15. Complaints and dispute resolution

SCHEDULE VI

Minimum Contents of a Compliance Manual

1. Conflict of Interests:

- (a) an effective internal control framework to prevent abuse or detect inappropriate investment practices or conflicts of interest between proprietary transactions, employees' transactions and Clients' transactions;

Provided that, in the event such conflict cannot be avoided there shall be full disclosure thereof to its Clients and the Investment Manager shall obtain consent of the Client in writing prior to carrying out the material transaction;

- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures to ensure that key duties and functions of the front office and back office are clearly segregated to avoid any conflicts of interest;
- (d) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (e) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (f) procedures to minimize and manage any conflicts of interest that may arise in carrying out a combination of regulated activities.

2. Corporate Governance:

- (a) good business practices and just and fair principles in the conduct of its business;
- (b) compliance requirements contained in any code or best practices introduced by the Commission in respect of Investment Managers;
- (c) an effective complaint handling process.

3. Risk Management:

- (a) sound risk management policies and processes;
- (b) explanations on the risks applicable to securities investments.

SCHEDULE VII

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:
 - (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
 - (b) Rules issued by the Commission;
 - (c) Rules of an Exchange; and
 - (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.
2. If not :
 - (a) give information as to the nature of the non-compliance or breach;
 - (b) action taken to prevent or mitigate the non-compliance or breach; and
 - (c) the outcome.
3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:
 - (a) the number generated and submitted to the FIU; and
 - (b) outcomes if any.

RULES APPLICABLE TO CREDIT RATING AGENCIES

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC
Chairman
Securities and Exchange Commission of
Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Credit Rating Agencies.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to it in the said Act:</p> <p>“Client” means the entity to which a rating has been assigned/sought or the entity whose securities have been assigned/sought an assignment of a rating;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Connected Party” means the parent, subsidiary or an associate company of the Credit Rating Agency;</p> <p>“Credit Rating Agency” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“Liquid Capital” means unencumbered cash or investments which can be readily converted to cash such as bank/call deposits, re-purchase agreements with maturity of less than three (3) months, commercial papers which are endorsed or guaranteed by a licensed commercial bank or licensed specialized bank with a term to maturity of less than three (3) months and government issued securities with a term to maturity of one (1) year or less or any other form of instruments as determined by the Commission;</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Shareholders’ Funds” means the amount of equity of the entity, which belongs to the shareholders of the entity.</p>
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Applicability	<p>2. The Rules set out herein shall apply to Credit Rating Agencies licensed under the SEC Act.</p> <p>3. Every Credit Rating Agency shall comply with:</p> <p>(a) the Rules set out herein and any amendments made thereto;</p> <p>(b) provisions of the SEC Act;</p> <p>(c) directives issued from time to time by the Commission; and</p> <p>(d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules.</p>
Requirement for a licence	<p>4. No entity shall engage in the function of a Credit Rating Agency without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Credit Rating Agency shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence to a Credit Rating Agency shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <p>(i) a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein;</p> <p>(ii) documents outlining the business model to carry on the functions of a Credit Rating Agency;</p> <p>(iii) documents setting out details of the promoter as stated in Rules 80, 81, 82 and 83 of these Rules;</p> <p>(iv) a declaration by the applicant as per the specimen in Schedule I of these Rules;</p> <p>(v) a copy of the internal compliance manual as set out in Schedule IV of these Rules;</p> <p>(vi) documentation in support of measures taken to acquire an information processing system as stated in Rules 22 and 23 of these Rules;</p>

	<p>(vii) documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and</p> <p>(viii) the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time.</p> <p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <p>(i) confirmation from the auditor that the applicant has met the requirements as spelt out in Rule 17 (a) and (b) of these Rules;</p> <p>(ii) declarations by Key Management Persons and rating analysts relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules;</p> <p>(iii) a confirmation from the chief executive officer and a director of the Credit Rating Agency confirming the implementation of an information processing system as stated in Rule 22 and 23 of these Rules;</p> <p>(iv) confirmation from the chief executive officer and a director of the Credit Rating Agency confirming the recruitment of adequate human resources along with their names and designations; and</p> <p>(v) the licence fee specified by way of regulations made by the Minister from time to time.</p> <p>7. It shall be the duty of the Credit Rating Agency to notify the Commission and obtain its prior consent of any change in particulars contained in an application to be licensed as a Credit Rating Agency.</p> <p>8. The Commission may refuse an application made to be licensed as a Credit Rating Agency on any of the grounds more fully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>9. A Credit Rating Agency shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>10. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>11. Any Credit Rating Agency who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>12. In the event the licence of a Credit Rating Agency expires as a result of a Credit Rating Agency failing to take steps to renew it, the provisions contained in Rule 88 of these Rules with regard to cessation of operations shall apply.</p>

	<p>A Credit Rating Agency which has neither taken steps to cease its business operations as a Credit Rating Agency nor taken steps to renew its licence in terms of these Rules shall not be entitled to the grant of a new licence as a Credit rating Agency.</p> <p>This disqualification shall also apply to a company whose board of directors comprises of any individual(s) who functioned as a director(s) of the company which has failed to have its licence renewed as aforesaid.</p> <p>14. It shall be the duty of the Credit Rating Agency to notify the Commission and obtain its prior consent of any change in particulars contained in an application for the renewal of licence as a Credit Rating Agency.</p> <p>15. The Commission may refuse an application made for the renewal of a licence as a Credit Rating Agency on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>16. A Credit Rating Agency shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>
Minimum financial requirements and submission of reports	<p>17. A Credit Rating Agency shall:</p> <ul style="list-style-type: none"> (a) at all times maintain minimum Shareholders' Funds as determined by the Commission from time to time; (b) at all times, maintain minimum Liquid Capital as determined by the Commission from time to time; (c) inform the Commission immediately if Shareholders' Funds and/or Liquid Capital falls below the requirement as stipulated in Rule 17 (a) and (b) above; and (d) not carry on its activities as a Credit Rating Agency if the minimum financial requirements as determined by the Commission are not met, unless the prior written approval of the Commission is obtained. <p>18. A Credit Rating Agency shall provide the information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared quarterly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month; and (b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year. <p>19. All audit and non-audit services carried out by the auditors of the Credit Rating Agency for the agency itself together with the fees and expenses charged should be disclosed separately in the relevant audited accounts.</p> <p>20. A Credit Rating Agency shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, in so far as they relate to the activity of credit rating.</p>

Change in shareholding of a Credit Rating Agency	21. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of a Credit Rating Agency shall be made only with prior written consent of the Commission.
Infrastructure and related requirements	<p>22. A Credit Rating Agency shall at all time have in place appropriate policies and procedures, including adequate financial and human resources, infrastructure and information systems to provide reliable and high-quality rating services and maintain its credit rating operations and facilities with adequate security, system capacity, contingency arrangements including business continuity plans and proper review and oversight mechanisms.</p> <p>23. A Credit Rating Agency shall have an appropriate information recording and retrieval systems and maintain such information for inspection by the Commission.</p> <p>24. The Credit Rating Agency shall not be entitled to outsource any part of its work, which has a direct bearing on the function of rating.</p> <p>25. The Credit Rating Agency shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules and directives that the Credit Rating Agency is bound to follow.</p>
Qualifications and experience of the rating committee	<p>26. Every Credit Rating Agency shall have a professional rating committee comprising of a minimum of three (3) persons who possess the qualifications and criteria set out in these Rules.</p> <p>27. All members of the rating committee and rating analysts involved in assigning ratings on behalf of a Credit Rating Agency shall possess the qualifications set out in subsection (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <p>(a) (i) a degree from a recognized university in the fields of Finance, Accountancy, Business Administration, Commerce or Economics;</p> <p>(ii) Member/Associate of a professional body of Accountants recognized by the International Federation of Accountants;</p> <p>(iii) Chartered Financial Analyst;</p> <p>(iv) Associate of the Chartered Institute of Bankers;</p> <p>(v) Associate of the Institute of Bankers of Sri Lanka;</p> <p>(vi) Associate of the Chartered Institute for Securities and Investments ;</p> <p>(vii) any other professional and/or academic qualification acceptable to the Commission ;</p> <p style="text-align: center;"><i>and</i></p> <p>(b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy;</p> <p style="text-align: center;"><i>or</i></p> <p>(c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider relevance, nature, scope and experience gained in determining its adequacy.</p>

	<p>28. The Credit Rating Agency shall not appoint any individual as a member of the rating committee who:</p> <p>(a) has a business development function of the Credit Rating Agency; or</p> <p>(b) who initiates or participates in discussions regarding fees or payments with any Client of a Credit Rating Agency.</p> <p>29. At the time of applying for a licence to function as a Credit Rating Agency, the applicant shall give the names of all members who will function as members of the rating committee and their current designations and qualifications.</p> <p>30. The Credit Rating Agency shall promptly inform the Commission of any change of composition of the rating committee.</p> <p>31. The Credit Rating Agency shall ensure that its analysts receive adequate and periodic training and facilitate the generation of independent, objective and credible rating opinions.</p>
Requirement for minimum number of persons as rating analysts	<p>32. The Credit Rating Agency shall ensure that a minimum of two (2) persons possessing qualifications and/or experience set out in these Rules are employed to act as rating analysts.</p> <p>33. The Commission may direct the Credit Rating Agency to vary the number of such qualified personnel on account of the volume of business proposed to be undertaken or currently undertaken by such Credit Rating Agency.</p>
Commission approval to engage in other businesses	<p>34. A Credit Rating Agency shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>35. A Credit Rating Agency shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>36. In the conduct of any such other business activity, the Credit Rating Agency shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>
Written agreement and material information	<p>37. A Credit Rating Agency shall execute a written agreement prior to carrying out any business for and on behalf of a Client in its capacity as a Credit Rating Agency. Such agreement shall <i>inter alia</i> contain the following terms and conditions:</p> <p>(a) the procedure to be followed in carrying out a rating;</p> <p>(b) the fees to be charged by the Credit Rating Agency;</p> <p>(c) the rights and liabilities of each party in respect of the rating;</p> <p>(d) the Client's agreement for a periodic review of the rating by the Credit Rating Agency during the tenure of the rated entity or security or a group of related entities or securities;</p>

	<p>(e) the rated security or the entity shall be updated as and when new and critical information becomes available;</p> <p>(f) the Client's consent to cooperate by providing accurate, adequate and timely information with the Credit Rating Agency to apply relevant criteria to determine the ratings of an entity or security or a group of related entities or securities.</p> <p>38. A Credit Rating Agency shall ensure that the agreement entered into is in a language mutually agreed upon by the parties. The subsequent amendments to the agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p>
Rating process, criteria, transparency and disclosure	<p>39. Prior to the commencement of a rating or during such process the Credit Rating Agency shall not promise, assure or guarantee to a Client that a particular rating will be assigned.</p> <p>40. Every Credit Rating Agency shall publish on its website:</p> <p>(a) the rating criteria and methodology that it follows in the rating analysis in order that ratings are consistent and transparent, using all information available to it, and considered relevant by the Credit Rating Agency;</p> <p>(b) rating symbols and scales that are to be used and their individual meanings;</p> <p>(c) its definition of "default" taking into consideration the timeliness of payment or performance of debt obligations and recovery values expected after a default;</p> <p>(d) a list of issues downgraded due to a default;</p> <p>(e) a historical record of any default during the preceding period of five (5) years; and</p> <p>(f) the report of the review panel consequent to an appeal by the Clients who are dissatisfied with a rating.</p> <p>41. Every Credit Rating Agency shall perform a rigorous and formal periodic review of all its methodologies. Such methodologies shall be made available to the Commission for perusal, upon request.</p> <p>42. The rating reports issued by the Credit Rating Agency shall contain:</p> <p>(a) all relevant information including an analysis on corporate governance where relevant to key rating drivers and sources of material information;</p> <p>(b) material data limitations;</p> <p>(c) any assumptions used during an analysis ; and</p> <p>(d) all material information on the entity or the security that is being rated.</p>

	<p>43. Where relevant, the rating reports shall include disclosure of any benchmark used, any sensitivity analyses performed and their results, comparative analyses made with other industries or companies and disclosure of any credit enhancements or downgrades.</p> <p>44. For purposes of transparency a Credit Rating Agency shall publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed.</p> <p>45. Except for ratings that are private or ratings that do not entail ongoing surveillance, once a rating is assigned and published, the Credit Rating Agency shall monitor on an ongoing basis and update the rating by:</p> <ul style="list-style-type: none"> (a) regularly reviewing the issuer's or instrument's creditworthiness; (b) initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action consistent with the applicable rating methodology; and (c) updating on a timely basis the rating, as appropriate, based on the results of such review. <p>46. In the event the Credit Rating Agency decides to discontinue monitoring a credit rating assigned to a rated entity or security, it shall either withdraw the credit rating or disclose such discontinuation to the public as soon as practicable together with the last reviewed date.</p> <p>47. A Credit Rating Agency shall structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process.</p>
<p>Maintenance of records</p>	<p>48. A Credit Rating Agency shall maintain the following records pertaining to Clients:</p> <ul style="list-style-type: none"> (a) all internal records to support its credit rating opinions; (b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and (c) a written record of all complaints received from Clients and action taken thereon by the Credit Rating Agency. <p>49. All of the above records shall be retained by the Credit Rating Agency for a period of six (6) years.</p> <p>50. A Credit Rating Agency shall maintain confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information.</p>

Keeping of books and furnishing of returns	<p>51. A Credit Rating Agency shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records and other books for a period of not less than six (6) years.
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>52. Where the Commission having considered that it is in the interests of the Credit Rating Agency or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Credit Rating Agency:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Credit Rating Agency relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Credit Rating Agency relating to its business; (c) to provide all information within its knowledge or which it is capable of obtaining; and (d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars. <p>53. A Credit Rating Agency shall not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
Submission of information to the Commission	<p>54. A Credit Rating Agency shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>55. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Credit Rating Agency shall comply with such requirements.</p>
Compliance manual	<p>56. A Credit Rating Agency shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.</p>

<p>Regulatory compliance and internal controls</p>	<p>57. A Credit Rating Agency shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/ experience as specified in Rule 27 of these Rules; (b) report directly to the board of directors/ board sub-committee dealing with risk of the Credit Rating Agency; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>58. The Credit Rating Agency shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Credit Rating Agency shall also give notice to the Commission no later than two (2) weeks from its effective date.</p> <p>59. The compliance officer on behalf of the Credit Rating Agency shall make an annual compliance report which shall include amongst others the contents specified in Schedule V of these Rules, approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>60. Employees of the Credit Rating Agency shall obtain the prior written approval from the compliance officer in respect of dealings by them in securities that have been rated or are in the process of being rated by the Credit Rating Agency. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p> <p>61. A Credit Rating Agency shall provide for a procedure to entertain a request from a Client for a review of a rating that has been assigned. The Credit Rating Agency shall have provision for the appointment of an independent review panel to handle such appeals. The review panel shall consist of a minimum of three (3) persons out of which two (2) shall be independent and shall possess the qualifications set out in Rule 27 hereof and shall be independent from the rating panel that had previously been involved in the original rating.</p> <p>62. A Credit Rating Agency shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>63. A Credit Rating Agency shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>
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<p>Managing conflicts of interest</p>	<p>64. When a Credit Rating Agency sends a circular or other written communication regarding securities, a Credit Rating Agency shall disclose certain interests in securities as stipulated in Section 113 of the SEC Act.</p> <p>65. All members of the rating committee shall give an individual declaration certified by an Attorney-at-Law that they will not engage in the process of rating where they have the “capacity to influence”. An employee is deemed to have the “capacity to influence” when his/her independence may be impaired and amongst others include the circumstances set out below:</p> <ul style="list-style-type: none"> (a) where he/she owns five per centum (5%) or above of the securities of the rated entity or any entity related and/or connected thereto; (b) where he/she has had employment or other significant business relationship with the rated entity within the six (6) months immediately preceding such rating; (c) where he/she has an immediate relation (<i>i.e.</i> spouse, child, sibling) who is currently employed by the rated entity; and (d) where he/she has any affiliation with the rated entity or any agent of the rated entity that could in the particular circumstances be perceived as presenting a conflict of interest. <p>66. Reporting lines for the Credit Rating Agency staff and their remuneration arrangements should be structured to eliminate or effectively manage actual and potential conflict of interest.</p> <p>67. A Credit Rating Agency analyst should not be remunerated or evaluated on the basis of the amount of revenue that a Credit Rating Agency derives from Clients that the analyst rates or with whom the analyst regularly interacts.</p> <p>68. No Credit Rating Agency shall rate a security issued by an entity which is:</p> <ul style="list-style-type: none"> (a) a borrower of its promoter other than a Commercial Bank regulated by the Central Bank of Sri Lanka; or (b) a subsidiary of its promoter; or (c) an associate of its promoter; if <ul style="list-style-type: none"> (i) the chairman or the directors are common between Credit Rating Agencies and the entity to be rated; and (ii) the employees are common. <p>69. A Credit Rating Agency shall ensure that members of its board of directors shall not have privileged access to a Client’s confidential information, unless they are part of the rating committee.</p>
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	<p>70. The Key Management Persons of the Credit Rating Agency, members of the rating committee and rating analysts shall not have any transactions with or interests in the companies whose securities are rated by them.</p> <p>Provided however, any transactions entered into in the capacity of a subscriber or consumer of a utility company, holder of an account/deposit with a commercial bank or a holder of an insurance policy with an insurance company are not prohibited provided such transactions are made on terms that are generally applicable to all such subscribers, consumers, account holders and policy holders.</p> <p>71. The Credit Rating Agency shall ensure that none of its Key Management Persons, rating committee members, rating analysts, employees, their Connected Parties and parties acting in concert, either directly or indirectly, trade in the securities in respect of which the Client has sought a rating or the securities of a member of a group of companies in instances where the Client is a member of a group of companies, during the period commencing from the day its services have been sought by the Client and until the lapse of two (2) days after the rating report has been released to the market via an Exchange.</p> <p>72. Trading in Securities by Key Management Personnel, members of the rating committee and employees shall not be carried out unless such orders are authorized in writing by the compliance officer of the Credit Rating Agency.</p> <p>For the purpose of this Rule, 'Trading in Securities' shall mean the buying or selling of a security which has been rated by the Credit Rating Agency or the buying or selling of a security where the issuer of such security has been rated by the Credit Rating Agency.</p> <p>73. A Credit Rating Agency shall maintain a Restricted Securities List. Key Management Personnel, members of the Rating Committee and employees of the Credit Rating Agency shall not trade in securities which are in the Restricted Securities List.</p> <p>74. Securities may be deleted from the Restricted Securities List whenever material non-public information are no longer possessed by the Credit Rating Agency in respect of such entities/securities.</p> <p>For the purpose of Rules 73 and 74 above, "Restricted Securities List" shall comprise a list of securities in respect of which the Credit Rating Agency possesses material and non-public information in relation to an entity or a security of an entity which has been rated or in the process of being rated by the Credit Rating Agency.</p> <p>75. In the event, the rating fees charged for rating an entity or security or rating a group of related entities or securities amounts to five per centum (5%) or more of the total revenue earned by the Credit Rating Agency in the preceding year, such fact shall be specifically stated in its rating report/s.</p> <p>76. A Credit Rating Agency shall establish, maintain and implement written policies, controls and procedures to ensure that non-public information acquired during the rating process is only used for the purpose of such ratings and prevent the misuse of non-public information.</p>
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Notification on the happening of certain events	<p>77. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Credit Rating Agency shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Credit Rating Agency is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Credit Rating Agency; (b) the Credit Rating Agency ceases to carry on the business to which the licence relates; (c) the Credit Rating Agency has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary and the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission; (e) any execution against the Credit Rating Agency in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Credit Rating Agency whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director, or the chief executive officer have been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director, or the chief executive officer of the Credit Rating Agency becomes an undischarged bankrupt.
Advertisements	<p>78. A Credit Rating Agency shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>79. A Credit Rating Agency shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>
Promoters of Credit Rating Agencies	<p>80. The Commission shall not consider an application made for the licence of a Credit Rating Agency unless the applicant is promoted by:</p> <ul style="list-style-type: none"> (a) a foreign Credit Rating Agency licensed/registered in the country of its incorporation, having at least five (5) years experience in rating entities or securities; or (b) a bank licensed by the Central Bank of Sri Lanka.

	<p>81. The promoters of the applicant shall collectively hold at least thirty per centum (30%) of the total stated capital of the Credit Rating Agency.</p> <p>82. If the promoter is a foreign Credit Rating Agency, such agency shall hold a minimum of twenty per centum (20%) of the total stated capital of the Credit Rating Agency and shall maintain such holding for a minimum period of five (5) years after the grant of a licence by the Commission.</p> <p>83. If there is a change in the shareholding by the promoter after a period of five (5) years, the Credit Rating Agency shall ensure that any new promoter complies with the requirements stated herein and shall replace the promoter or a subsequent holder only upon obtaining prior written approval from the Commission.</p>
Publishing of ratings	<p>84. The Credit Rating Agency shall publish on its website all ratings issued to the Client and any changes made thereto within three (3) market days from it being made available to such Client.</p> <p>However, if any rating is given to a listed entity or security or security intended to be issued to the public or an entity that has sought a listing, such rating shall mandatorily be published on the website of the Credit Rating Agency and in addition be disclosed to the Exchange on which such entity or security is listed or is to be listed.</p>
Cancellation or suspension of a licence	<p>85. The cancellation or suspension of a licence granted to a Credit Rating Agency shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
Commencement of operations	<p>86. If the Credit Rating Agency fails to commence its business operations no later than six (6) months after the issue of the licence, the licence will cease to be valid.</p>
Licence of a Credit Rating Agency deemed to be revoked	<p>87. A licence of a Credit Rating Agency shall be deemed to be revoked if the company to whom a licence has been assigned is wound up or otherwise dissolved.</p>
Ceasing of operations and surrender of a licence	<p>88. In the event a Credit Rating Agency decides to cease its business operations as a Credit Rating Agency, it shall:</p> <ul style="list-style-type: none"> (a) submit to the Commission within seven (7) working days from the date of the decision of the board of directors to cease business operations, a certified extract of the board resolution together with a status report of its Clients as at that date; (b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as a Credit Rating Agency and request the Client to engage the services of another registered Credit Rating Agency to discharge the rating obligations; (c) within twenty one (21) working days of the decision of the board of directors to cease business operations publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as a Credit Rating Agency and indicating a time period within which its Clients are required to respond regarding the request the Client to engage the services of another licensed Credit Rating Agency to discharge the rating obligations setting out specific timelines and to call upon them to intimate if there are any complaints.

	<p>89. The Credit Rating Agency shall complete the tasks as stated in Rule 89 hereof and request the Client to engage the services of another registered Credit Rating Agency to discharge the rating obligations of the Clients and resolving any complaints within a period of not more than three (3) months from the date of the decision of the board of directors to cease business operations (or any extended period permitted by the Commission in writing) and submit to the Commission a declaration from the board of directors of the Credit Rating Agency in the form of an affidavit confirming that:</p> <ul style="list-style-type: none"> (a) all of its agreements entered into with Clients have been terminated; (b) together with the affidavit as stated in Rule 89 hereof, the Credit Rating Agency shall return the licence to the Commission; (c) all outstanding amounts to Clients if any have been settled upon obtaining their consent; (d) the Credit Rating Agency has published the paper notice; (e) there are no pending complaints in relation to the operations of the Credit Rating Agency. <p>90. The surrender of a licence shall not take effect until the Commission informs the Credit Rating Agency in writing that such surrender has been accepted upon satisfying itself that all steps with regard to the cessation of operations have been duly satisfied in terms of these Rules.</p>
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SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and rating analysts, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time a Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and rating analysts shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership *or* other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act *or* any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka *or* abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position *or* office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and rating analysts shall not:

- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
- (b) have been subject to any judgment debt *or* award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
- (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and rating analysts shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; *and/or*
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents for a Compliance Manual

1. Conflicts of Interest:

- (a) procedures to ensure that a Credit Rating Agency shall not engage in any activity which could cause a conflict of interest in terms of its credit rating functions;

In any case, a Credit Rating Agency shall not provide consultancy or advisory services to companies which are or could be prospective Clients. All ancillary business activities of the Credit Rating Agency shall be prominently disclosed on its website.

- (b) procedures to ensure that a Credit Rating Agency and its holding company, where applicable, that none of the ancillary services including those relating to advisory, origination and structuring of securities are offered to any of its rating Clients by its employees or by its related companies at all times;
- (c) procedures to ensure that the credit rating analysts and the members of the Rating Committee refrain from soliciting or obtaining benefits from its Clients;
- (d) procedures to ensure the Credit Rating Agency's independence from the companies it rates and its disclosures of actual and potential conflicts of interest to its Client should be clear, complete, timely, concise and specific and it shall submit all such information when required to do so by the Commission.

2. Corporate Governance :

- (a) good business practices and follow just and fair principles in the conduct of its business; and
- (b) compliance requirements contained in any code or best practices introduced by the Commission in respect of Credit Rating Agencies.

3. Risk Management :

- (a) sound risk management policies and processes.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:
 - (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
 - (b) Rules issued by the Commission;
 - (c) Rules of an Exchange; and
 - (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.
2. If not:
 - (a) give information as to the nature of the non-compliance or breach;
 - (b) action taken to prevent or mitigate the non-compliance or breach; and
 - (c) the outcome.
3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:
 - (a) the number generated and submitted to the FIU; and
 - (b) outcomes if any.

RULES APPLICABLE TO MARGIN PROVIDERS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC

Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Margin Providers.

General interpretation	<ol style="list-style-type: none">1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to it in the said Act: “Central Depository” shall have the same meaning as defined in Section 188 of the SEC Act; “Client” means a person who is desirous of purchasing Securities listed on a licensed Stock Exchange and has signed a Margin Trading agreement with the Margin Provider; “Collateral” means cash or marginable securities permitted by the Commission for Margin Trading; “Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act; “Custodian” means a Bank licensed under the Banking Act, No. 30 of 1988 (as amended) providing custodial services; “Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;
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	<p>“Liquid Capital” means unencumbered cash or investments which can be readily converted to cash such as bank/call deposits, re-purchase agreements with maturity of less than three (3) months, commercial papers which are endorsed or guaranteed by a licensed commercial bank or licensed specialized bank with a term to maturity of less than three (3) months and government issued securities with a term to maturity of one (1) year or less or any other form of instruments as determined by the Commission;</p> <p>“Maintenance Margin” means the minimum amount of the Client’s Collateral (cash and/or Marginable Securities) that should be maintained at all times commensurate to the Margin Trading facility;</p> <p>“Margin Provider” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Marginable Securities” means the securities listed in a licenced Exchange, where such securities shall be valued by adjusting for Value at Risk (VaR) as provided by the licenced Exchange to the market value of the securities ;</p> <p>“Margin Trading” means purchasing listed securities using credit facilities obtained from a licensed Margin Provider;</p> <p>“Margin Trading Account” means an account where details of all the transactions carried out on behalf of a Client by a Margin Provider are recorded;</p> <p>“Persons Acting in Concert” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021;</p> <p>“Shareholders’ Funds” means the amount of equity of the entity, which belongs to the shareholders of the entity;</p> <p>“Stock Broker” shall have the same meaning as defined in Section 188 of the SEC Act.</p>
Applicability	<p>2. The Rules set out herein shall apply to Margin Providers licenced under the SEC Act.</p> <p>3. Every Margin Provider shall comply with:</p> <ul style="list-style-type: none"> (a) the Rules set out herein and any amendments thereto; (b) provisions of the SEC Act; (c) directives issued from time to time by the Commission; and (d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as spelt out in Schedule II of these Rules.

Requirement for a licence	<p>4. No entity shall engage in the function of a Margin Provider without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Margin Provider shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence to a Margin Provider shall be a two (2) stage process. An applicant may in the first instance apply for 'in-principle' approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval, an applicant shall submit to the Commission:</p> <ul style="list-style-type: none"> i. a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein; ii. documents outlining the business model to carry on the functions of a Margin Provider; iii. a declaration by the applicant as per the specimen in Schedule I of these Rules; iv. a copy the internal compliance manual as set out in Schedule IV of these Rules; v. correspondence in support of measures taken to acquire an automated information processing system as stated in Rules 21 and 22 of these Rules; vi. documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and vii. the fee payable for processing the application for in-principle approval specified by way of regulations from time to time. <p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <ul style="list-style-type: none"> i. confirmation from the auditor that the applicant has met the requirements as spelt out in Rule 16 (a) and (b) of these Rules; ii. declarations by Key Management Persons and employees dealing with Clients relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as contained in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; iii. a confirmation from the chief executive officer and a director of the Margin Provider confirming the implementation of an automated information processing system as stated in Rules 21 and 22 of these Rules;

	<p>iv. a confirmation from the chief executive officer and a director of the Margin Provider confirming the recruitment of adequate human resources along with their names and designations; and</p> <p>v. the licence fee specified by way of regulations made by the Minister from time to time.</p> <p>7. Upon obtaining the licence to function as a Margin Provider under the SEC Act, every officer who is authorizing the Margin Trading facility and persons dealing with Clients shall follow Continuous Professional Development (CPD) programmes conducted by the Commission annually on rules and other applicable regulations.</p> <p>8. It shall be the duty of the Margin Provider to notify the Commission and obtain its prior consent of any change in particulars contained in an application to be licensed as a Margin Provider.</p> <p>9. The Commission may refuse an application made to be licensed as a Margin Provider on grounds morefully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>10. As stipulated in Section 94 of the SEC Act, a Margin Provider that wishes to have its licence renewed shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>11. A Margin Provider that wishes to have its licence renewed shall submit an application for renewal in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>12. Any Margin Provider who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>13. It shall be the duty of the Margin Provider to notify the Commission and obtain its prior consent of any change in particulars contained in the application for the renewal of a licence as a Margin Provider.</p> <p>14. The Commission may refuse an application made for the renewal of a licence as a Margin Provider on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>15. A Margin Provider shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>
Minimum financial requirements and submission of reports	<p>16. A Margin Provider shall:</p> <p>(a) at all times maintain a minimum Shareholders' Funds as determined by the Commission from time to time;</p> <p>(b) at all times maintain a minimum Liquid Capital as determined by the Commission from time to time;</p> <p>(c) inform the Commission immediately if Shareholders' Funds and/or Liquid Capital falls below the requirement as stipulated in Rule 16 (a) and (b) above; and</p> <p>(d) not carry on its activities if the minimum financial requirements as determined by the Commission are not met, unless the prior written approval of the Commission is obtained.</p>

	<p>17. A Margin Provider shall provide the information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared monthly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month; (b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year; and (c) a copy of the compliance report as stated in Rule 53 hereof. <p>18. Credit balances payable to Clients should be accounted separately in the financial statements under current liabilities and should not be netted off against the total debtors balance.</p> <p>19. A Margin Provider shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, insofar as they relate to the activity of margin providing.</p>
Change in shareholding of a Margin Provider	<p>20. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of a Margin Provider shall be made only with prior written consent of the Commission.</p>
Infrastructure and related requirements	<p>21. A Margin Provider shall be required to maintain an automated information processing system which enables the processing, storing and retrieving of information including but not limited to the:</p> <ul style="list-style-type: none"> (a) initial facility granted and the extensions thereafter; (b) receipts to the account and payments from the account with proper description of the receipt or payment; (c) interest and other charges charged to the accounts; (d) daily opening and closing balances of each account; (e) single Client exposure, Maintenance Margin requirement, restricted securities, margin calls, default loans etc.; (f) daily portfolio valuation reports of the Clients; and (g) data of Clients and Stock Brokers. <p>22. A Margin Provider shall ensure that its information processing systems are capable of generating default loan reports, margin exposure reports, analysis of top Clients and daily status reports indicating the key exposures of Clients for the existing clientele.</p> <p>23. A Margin Provider shall ensure that its business applications minimize manual intervention in information inputs and outputs where possible and prevent unauthorized changes to its databases.</p>

	<p>24. Information systems of Margin Providers shall be subjected to control reviews by them at least once in every two (2) years and the control gaps identified shall be rectified following a time plan. The reports generated shall be retained for reference for a minimum period of six (6) years.</p> <p>25. A Margin Provider shall ensure that its hosted servers are subjected to vulnerability assessments and penetration tests annually. The issues arising from such tests shall be rectified according to a time bound plan and the reports generated shall be retained for reference for a minimum period of six (6) years.</p> <p>26. A Margin Provider shall maintain a duly updated 'systems and procedures manual' covering the following areas, to ensure compliance with these Rules:</p> <ul style="list-style-type: none"> (a) operational procedures pertaining to Margin Trading; (b) organizational structure of the Margin Provider identifying key functions and personnel and their reporting structure; (c) operational procedures pertaining to Management Information Systems (MIS).
Qualifications and experience of those dealing with Clients	<p>27. All persons dealing with Clients shall possess the qualifications set out in subsection (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <ul style="list-style-type: none"> (a) (i) a degree from a recognized university in the fields of Finance Accountancy, Business Administration, Commerce or Economics; (ii) Member/Associate of a professional body of Accountant recognized by the International Federation of Accountants; (iii) Chartered Financial Analyst; (iv) Associate of the Chartered Institute of Bankers; (v) Associate of the Institute of Bankers of Sri Lanka; (vi) Associate of the Chartered Institute for Securities and Investments; (vii) any other professional and/or academic qualification acceptable to the Commission ; <p style="text-align: center;"><i>and</i></p> <p>(b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy.</p> <p style="text-align: center;"><i>or</i></p> <p>(c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider the relevance, nature, scope and experience gained in determining its adequacy.</p>
Requirement for a minimum number of persons dealing with Clients	<p>28. A Margin Provider shall ensure that a minimum of two (2) persons possessing qualifications and/or experience specified in these Rules are assigned to deal with Clients.</p> <p>29. The Commission may direct the Margin Provider to vary the number of such qualified personnel having considered the volume of business proposed to be undertaken or currently undertaken by such Margin Provider.</p>

Commission approval to engage in other businesses	<p>30. A Margin Provider shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>31. A Margin Provider shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>Provided however if a Margin Provider is regulated as a licensed or registered financial institution by the Central Bank of Sri Lanka, the above requirements shall not apply.</p> <p>32. In the conduct of any such other business activity, the Margin Provider shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>
Margin Trading agreement	<p>33. A Margin Provider shall execute a tripartite written agreement containing all the terms and conditions agreed by and between the Client, Margin Provider and the Stock Broker prior to carrying out any business for and on behalf of a Client. Such Margin Trading agreement shall contain amongst others the terms as communicated by the Commission from time to time.</p> <p>34. A Margin Provider shall ensure that the agreement entered into is in a language mutually agreed upon by the parties. The subsequent amendments to the agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p>
Trading in securities	<p>35. In trading in securities, a Margin Provider shall act in compliance with the provisions contained in Section 106 (b) and (d) of the SEC Act.</p>
Lending and borrowing of securities	<p>36. In lending and borrowing of securities a Margin Provider shall act in compliance with the provisions contained in Section 107 of the SEC Act.</p>
Segregation of Client funds	<p>37. All cash or securities of Margin Trading Clients shall be segregated and separated from securities held by the Margin Provider on its own account.</p> <p>38. Margin Providers who are not licensed commercial banks shall maintain a separate bank account for Margin Trading transactions with a licensed commercial bank.</p> <p>39. Balances lying to the credit of Clients shall not be used for any purpose other than to repay the relevant Client or to be used for extending further Margin Trading loans to the relevant Clients.</p> <p>40. For the purpose of the protection of Client's assets, a Margin Provider shall act in compliance with the provisions contained in Section 110 of the SEC Act.</p>

<p>Maintenance of records</p>	<p>41. A Margin Provider shall maintain the following records pertaining to Clients:</p> <ul style="list-style-type: none"> (a) Margin Trading agreements; (b) account opening forms; (c) Client identification documents and Know Your Client information (KYC); (d) credit appraisals performed to determine the credit worthiness of the Client; (e) disclosures made to the Client in respect of the financial risks involved in Margin Trading activity before commencing such activity with the Client; (f) Client statements, portfolio statements, contract notes, instructions given to Stock Brokers and other information related to securities transactions; (g) correspondence with Clients; (h) records that contain reasons as to why particular securities were force sold to recover outstanding margins; (i) a written record of all complaints received from Clients and action taken thereon by the Margin Provider. <p>42. All of the above records shall be retained by the Margin Provider for a period of six (6) years.</p> <p>43. All of the above records pertaining to Clients whose agreements have been terminated shall be retained by the Margin Provider for a period of six (6) years from the date of such termination.</p> <p>44. A Margin Provider shall ensure confidentiality of all information relating to Clients including such Client's identity, their beneficial owner and transactions carried out for such Client, unless and to the extent such disclosure is required by law.</p>
<p>Keeping of books and furnishing of returns</p>	<p>45. A Margin Provider shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records and other books for a period of not less than six (6) years.

<p>Duty to furnish information and co-operate with auditors appointed by the Commission</p>	<p>46. Where the Commission having considered that it is in the interests of the Margin Provider or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Margin Provider:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Margin Provider relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Margin Provider relating to its business; (c) to provide all information within its knowledge or which it is capable of obtaining; (d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars. <p>47. A Margin Provider shall not destroy, conceal or alter any records, property or books relating to the business of the Margin Provider which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
<p>Submission of information to the Commission</p>	<p>48. A Margin Provider shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>49. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Margin Provider shall comply with such requirements.</p>
<p>Compliance manual</p>	<p>50. A Margin Provider shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.</p>
<p>Regulatory compliance and internal controls</p>	<p>51. A Margin Provider shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/experience as specified in Rule 27 of these Rules; (b) report directly to the board of directors/board sub-committee dealing with risk of the Margin Provider; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>52. The Margin Provider shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Margin Provider shall also give notice to the Commission no later than two (2) weeks from its effective date.</p>

	<p>53. The compliance officer on behalf of the Margin Provider shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule V of these Rules approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date of which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>54. Employees of the Margin Provider shall obtain the prior written approval from the compliance officer in respect of all Personal Account Dealings. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p> <p>For the purpose of this Rule, 'Personal Account Dealing' means Margin Trading transactions carried out for and on behalf of Margin Trading Accounts opened for their employees.</p> <p>55. A Margin Provider shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>56. A Margin Provider shall have a mechanism in place to identify restricted shares and remove such shares from the list of Marginable Securities.</p> <p>57. A Margin Provider shall have a procedure spelling out instances where the Margin Provider may release information relating to the margin facility of the Client.</p> <p>58. Margin Providers shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>
Notification on the happening of certain events	<p>59. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Margin Provider shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Margin Provider is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Margin Provider; (b) the Margin Provider ceases to carry on the business to which the licence relates; (c) the Margin Provider has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary and the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission;

	<p>(e) any execution against the Margin Provider in respect of a judgment debt has been returned unsatisfied in whole or in part;</p> <p>(f) the Margin Provider whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation;</p> <p>(g) any director, or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or</p> <p>(h) any director or the chief executive officer of the Margin Provider becomes an undischarged bankrupt.</p>
Advertisements	<p>60. A Margin Provider shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>61. The Margin Provider shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>
Credit assessment	<p>62. The Margin Provider shall perform a credit assessment of the Client to determine his credit worthiness before granting the margin facility.</p> <p>63. The Margin Provider shall ensure that its account opening procedures are sufficiently diligent to identify the creditworthiness of Clients.</p> <p>64. The Margin Provider shall ascertain matters such as the Client's financial position, investment experience and investment objectives in relation to the services to be provided.</p> <p>65. The Margin Provider shall ensure that before carrying out Client's instructions, the capacity of the Client to proceed with such transaction and advice the Client on the steps to be taken in order to enable such transaction to proceed.</p>
Individual/joint Client account	<p>66. A Margin Provider shall obtain particulars of the Client, including the full name, a copy of the National Identity Card/Passport, specimen signature, residential and correspondence addresses, e-mail address, telephone numbers, occupation, bank account details and the name, address and telephone numbers of the Client's employer/ business, prior to opening the Margin Trading Account.</p>
Corporate Client account	<p>67. Where the Client is a corporate entity, the Margin Provider shall obtain particulars of the Client, including the full names, National Identity Card details, telephone numbers of the board of directors, the beneficial owners of the entity, business registration number, mailing addresses, e-mail address/es, bank account details, names of persons authorized to trade, authorized signatories, certified copy of the certificate of incorporation and articles of association of the Client, the certificate for commencement of business (if applicable) and board resolution to obtain a Margin Trading facility, prior to opening a Margin Trading Account.</p>

Margin Trading Account	<p>68. The Margin Trading Account shall be utilized to debit all costs of the purchase of Marginable Securities, interest, commissions, charges, fees and all other monies payable by the Client arising from the facilities extended and to which shall be credited all proceeds of the sale of Marginable Securities held by the Margin Provider on behalf of the Client and to defray all government levies and taxes payable.</p> <p>69. The maximum margin loan extendable by a Margin Provider to a single Client shall be fifteen per centum (15%) of the maximum margin loan exposure of the Margin Provider stipulated by the Commission from time to time.</p> <p>70. If a margin loan is granted to a body corporate, such body corporate, its parent, subsidiary companies, joint ventures and associates and if a margin loan is granted to a natural person, such natural person, his/her spouse and dependent children shall be treated as a Margin Trading facility granted to a single Client for the purpose of computing the single Client exposure limit under this Rule.</p>
Slash accounts	<p>71. Margin Providers shall open slash accounts with the Central Depository in respect of all its margin Clients, through which all transactions relating to the Marginable Securities will be conducted.</p> <p>72. A Margine provider shall ensure that the slash accounts shall be operated by the Stock Broker only on the specific instructions of the Margin Provider.</p>
Statement of accounts to Clients	<p>73. A Margin Provider shall send a statement of accounts to all Clients on a monthly basis not later than the seventh (7th) day of the following month in respect of the Margin Trading Account <i>via</i> electronic means. This shall apply to all Clients who have had transactions and have a debit or credit balance in the account. In addition, at the end of the dealing day, a transaction report containing the details of trades made during the day shall also be sent to the Clients <i>via</i> electronic means.</p> <p>74. The statement of accounts is to be sent by post only if the Client makes a request in writing.</p>
Margin Requirement	<p>75. A Margin Provider shall ensure that:</p> <p>(a) the initial margin permitted to its Clients on share purchases does not exceed fifty per centum (50%) of cash value of the marginable securities portfolio of the Clients; and</p> <p>(b) the minimum Maintenance Margin of thirty per centum (30%) or any other percentage as decided by the Commission from time to time, shall be maintained at all times in the form of cash and/or Marginable Securities.</p>
Margin exposure	<p>76. The Margin Provider shall ensure that the aggregate value of loans extended as margin at no time exceeds four (4) times the value of its Shareholders' Funds or any other value as determined by the Commission from time to time.</p> <p>Provided however, this limit shall not apply to Margin Providers who have been granted a licence and are regulated by the Central Bank of Sri Lanka.</p>

Margin call	<p>77. A Margin Provider shall make a margin call when the value of the marginable securities in the slash account fall below the Maintenance Margin requirement.</p> <p>78. The Client shall be required to respond to the margin call within three (3) market days by:</p> <ul style="list-style-type: none"> (a) providing cash or marginable securities to satisfy the Maintenance Margin requirement; or (b) instructing the Margin Provider to sell his securities to recover the shortfall. <p>79. In the event the investor fails to respond within three (3) market days of the margin call, the Margin Provider shall recover the Maintenance Margin outstanding by force selling the marginable securities in the slash account as the case maybe.</p> <p>80. In the event of forced selling, a written notice (either electronically or otherwise) shall be forwarded to the Client at the end of the market day, upon the sale being concluded.</p>
Extension of credit to purchase own securities	<p>81. A Margin Provider shall not grant credit facilities to purchase:</p> <ul style="list-style-type: none"> (a) its own securities or those held by its directors, employees, or registered persons; (b) securities of its parent, subsidiaries joint ventures and associates of the Margin Provider.
Acceptance of own securities as collateral	<p>82. A Margin Provider shall not accept the following as marginable securities:</p> <ul style="list-style-type: none"> (a) its own securities; or (b) securities of its parent, subsidiaries joint ventures and associates of the Margin Provider. <p>83. A Margin Provider shall ensure that the Collateral held for Margin Trading shall not be used as Collateral for any other facilities of the Client.</p>
Permissible debits from the Margin Trading Account	<p>84. A Margin Provider shall ensure that withdrawals of sales proceeds from the Margin Trading Account may only be permitted upon:</p> <ul style="list-style-type: none"> (a) ensuring compliance with the minimum Maintenance Margin requirement; and (b) recovering the interest charged on the particular purchase of securities. <p>85. In the event a sale of securities gives rise to a credit balance, such credit balance in the Margin Trading Account shall be paid to the Client immediately upon the actual receipt of the sales proceeds unless the Client's written consent is obtained to retain such sales proceeds.</p>
Client-Margin Provider dispute resolution	<p>86. Without prejudice to the powers of the Commission as set out in these Rules, any dispute between the Client and the Margin Provider with regard to terms and conditions set out in the tripartite agreement as the case may be, shall be resolved in accordance with the provisions set out in the Margin Trading agreement pertaining to dispute resolution.</p> <p>87. In the event any dispute has been resolved in a court of law or by an arbitration tribunal as the case may be, a copy of the final order/judgment of court/arbitrator's award shall be submitted to the Commission by the Margin Provider immediately upon receiving such judgement/order/award.</p>
Cancellation or suspension of a licence	<p>88. The cancellation or suspension of a licence granted to a Margin Provider shall be governed by the provisions contained in Section 105 of the SEC Act.</p>

Commencement of operations	89. If the Margin Provider fails to commence the business not later than six (6) months after the issue of the licence, then the licence will cease to be valid.
Licence of a Margin Provider deemed to be revoked	90. A licence of a Margin Provider shall be deemed to be revoked if the company to whom a licence has been granted is wound up or otherwise dissolved.
Cessation of operations and surrender of a licence	<p>91. In the event a Margin Provider decides to cease its business operations as a Margin Provider, it shall:</p> <ul style="list-style-type: none"> (a) submit to the Commission within seven (7) working days from the date of the decision of the board of directors to cease business operations, a certified extract of the board resolution together with a status report of its Clients as at that date; (b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as a Margin Provider and the procedure to be followed by the Clients with regard to their intention to transfer to any other Margin Provider or settlement of the facility setting out specific timelines; (c) within twenty-one (21) working days of the decision of the board of directors to cease business operations, publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as a Margin Provider and indicating a time period within which its Clients are required to respond regarding their intention to transfer to any other Margin Provider or settlement of the facility with specific timelines and to call upon them to intimate if there are any claims/complaints. <p>92. The Margin Provider shall complete the tasks of settling the facilities of the Clients/ transferring their portfolios to any other Margin Provider and resolving any complaints within a period of not more than three (3) months from the date of the decision of the board of directors to cease business operations (or any extended period permitted by the Commission in writing) and submit to the Commission a declaration from the board of directors of the Margin Provider in the form of an affidavit confirming that:</p> <ul style="list-style-type: none"> (a) all of its Margin Trading agreements entered into with Clients have been terminated; (b) together with the affidavit as stated in Rule 92 hereof, the Margin Provider shall return the licence to the Commission; (c) all outstanding amounts to Clients if any have been settled or has transferred the portfolio balances of the respective Clients to any other Margin Provider upon obtaining their consent; (d) the Margin Provider has published the paper notice; and (e) there are no pending complaints in relation to the operations of the Margin Provider. <p>93. Where a Margin Provider ceases to carry on the business in all or any of the regulated activities to which the licence relates, it shall return the licence to the Commission within fourteen (14) days of the date of such cessation.</p> <p>94. The surrender of a licence shall not take effect until the Commission informs the Margin Provider in writing that such surrender has been accepted upon satisfying itself that all steps with regard to the cessation of operations have been duly satisfied in terms of these Rules.</p>

SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees dealing with Clients, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time the Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees dealing with Clients shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership *or* other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act *or* any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka *or* abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position *or* office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and employees dealing with Clients shall not:

- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
- (b) have been subject to any judgment debt *or* award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
- (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and employees dealing with Clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; *and/or*
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim] do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
 COMMISSIONER FOR OATHS

SCHEDULE IV
Minimum Contents of a Compliance Manual

1. Conflicts of Interest:

- (a) an effective internal control framework to prevent abuse or detect inappropriate practices or conflicts of interest between proprietary transactions, employees' transactions and Clients' transactions;
Provided that, in the event such conflict cannot be avoided there shall be full disclosure thereof to its Clients and the Margin Provider shall obtain consent of the Client in writing prior to carrying out the material transaction;
- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (d) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (e) ensure that it does not carry out any activities, which could cause a conflict of interest with its margin providing functions.

2. Corporate Governance:

- (a) good business practices and follow just and fair principles in the conduct of its business;
- (b) compliance requirements contained in any code or best practices introduced by the Commission in respect of Margin Providers;
- (c) the timely issuance of Client statements;
- (d) an effective complaint handling process.

3. Risk Management:

- (a) sound risk management policies and processes;
- (b) explanations on the risks applicable to securities financing.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:
 - (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
 - (b) Rules issued by the Commission;
 - (c) Rules of an Exchange; and
 - (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.
2. If not:
 - (a) give information as to the nature of the non-compliance or breach;
 - (b) action taken to prevent or mitigate the non-compliance or breach; and
 - (c) the outcome.
3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:
 - (a) the number generated and submitted to the FIU; and
 - (b) outcomes if any.

RULES APPLICABLE TO MANAGING COMPANIES

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC

Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Managing Companies.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Collective Investment Scheme (CIS)” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>For the avoidance of doubt Unit Trusts established and in operation in terms of the SEC Act, No. 36 of 1987 as amended shall come under this definition;</p> <p>“Collective Investment Scheme Code (CIS Code)” shall mean the CIS Code issued by the Commission and published in the <i>Gazette</i> and applicable to all Collective Investment Schemes established in terms of the SEC Act;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Custodian” shall mean a person referred to as a ‘Professional Participant’ in the CIS Code and acting as a Custodian of a CIS;</p> <p>“Key Investor Information Document (KIID)” means a written statement that discloses the terms of the offering of a CIS;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“Managing Company” shall have the same meaning as defined in Section 188 of the SEC Act;</p>
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	<p>“Related Person” means in relation to a Trustee or the Managing Company of a Collective Investment Scheme:</p> <ul style="list-style-type: none"> (a) a person owning twenty per centum (20%) or more of the ordinary share capital of the Trustee or the Managing Company directly or indirectly; (b) a person exercising twenty per centum (20%) or more of the total votes of the Trustee or the Managing Company voting rights directly or indirectly; (c) a corporate entity where twenty per centum (20%) or more of the ordinary share capital of the corporate entity is held by the Trustee or the Managing Company directly or indirectly; (d) a corporate entity where twenty per centum (20%) or more of voting rights of the total votes exercised by the Trustee or the Managing Company directly or indirectly; (e) a corporate entity where twenty per centum (20%) or more of the ordinary share capital of the corporate entity is held together by the Trustee and the Managing Company directly or indirectly; (f) a corporate entity where twenty per centum (20%) or more of voting rights of the total votes are exercised together by the Trustee and the Managing Company directly or indirectly; (g) a Key Management Person of the Trustee or the Managing Company of a CIS. <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Shareholders’ Funds” means the amount of equity of the entity, which belongs to the shareholders of the entity;</p> <p>“Trustee” shall mean a person referred to as a ‘Professional Participant’ in the CIS Code and acting as a Trustee of a CIS;</p> <p>“Unit Holder” shall have the same meaning as defined in the Collective Investment Scheme Code.</p>
Applicability	<p>2. The Rules set out herein shall apply to a Managing Company licensed under the SEC Act.</p> <p>3. Every Managing Company shall comply with:</p> <ul style="list-style-type: none"> (a) the Rules set out herein, the provisions of the CIS Code and any amendments made thereto; (b) provisions of the SEC Act; (c) directives issued from time to time by the Commission; and (d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as spelt out in Schedule II of these Rules.
Requirement for a licence	<p>4. No entity shall engage in the function of a Managing Company of a CIS without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Managing Company shall be twelve (12) months.</p>

<p>Procedure to obtain a licence</p>	<p>6. The grant of a licence to a Managing Company shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <ol style="list-style-type: none"> a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein; the certificate of incorporation of the Managing Company; the shareholding structure; names of directors; the organizational chart and the group structure including details of Related Persons; documents outlining the business model to carry on the functions of a Managing Company; licence/registration status of any other regulated activities; audited financial statements and if such statements are not available, the audited interim financial statements; names of the Key Management Persons if they have been identified; a declaration by the applicant as per the specimen in Schedule I of these Rules; a copy of the internal compliance manual as set out in Schedule IV of these Rules; documentation in support of measures taken to acquire an information processing system as stated in Rule 26 of these Rules; documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time. <p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <ol style="list-style-type: none"> confirmation from the auditor that the applicant has met the requirements as spelt out in Rule 22 (a) of these Rules;
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	<ul style="list-style-type: none"> ii. declarations by Key Management Persons and persons making investment decisions on behalf of Unit Holders relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as contained in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; iii. a confirmation from the chief executive officer and a director of the Managing Company confirming the implementation of an information processing system as stated in Rule 26 of these Rules; iv. a confirmation from the chief executive officer and a director of the Managing Company confirming the recruitment of adequate human resources along with their names and designations; v. a copy of the application form to be used for the subscription of units by prospective Unit Holders of the CIS to be established; vi. names of members of the investment committee; vii. a copy of the draft trust deed in respect of the CIS proposed to be established; viii. details of the Custodian and its consent to function as a Custodian of the CIS proposed to be established; ix. a copy of the proposed KIID of the CIS to be established; x. name of the intended Trustee and its consent to function as a Trustee of the CIS to be established; and xi. the licence fee specified by way of regulations made by the Minister from time to time. <p>7. It shall be the duty of the Managing Company to notify the Commission and obtain its prior consent of any change in particulars contained in an application to be licensed as a Managing Company.</p> <p>8. The Commission may refuse an application made to be licensed as a Managing Company on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Obtaining approval of the Commission to establish a CIS	<p>9. In order to establish, manage, operate and market a CIS, a Managing Company shall obtain the prior written approval of the Commission. An application for such approval shall be in accordance with the specimen provided on the website of the Commission.</p>

	<p>10. In establishing, managing, operating and marketing a CIS, a Managing Company shall comply with the provisions contained in the CIS Code.</p> <p>11. In establishing, managing, operating and marketing a CIS, a Managing Company shall ensure that:</p> <ul style="list-style-type: none"> (a) the Trustee and the Managing Company are separate persons; (b) the Custodian and the Managing Company are separate persons; (c) the Trustee is not a Related Person of the Managing Company; (d) the KIID (and any amendments thereto) has been approved by the Commission; (e) the Trustee has been approved by the Commission; (f) approval of the Trustee has been obtained for the KIID; and (g) the trust deed between the Managing Company and the Trustee has been approved by the Commission. <p>12. In the event a Managing Company licensed by a regulatory authority of a country other than Sri Lanka intends to market a CIS in Sri Lanka, it shall provide the following documents to obtain approval to market such CIS:</p> <ul style="list-style-type: none"> (a) a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents set out therein; (b) a copy of the licence granted by the foreign regulatory authority along with copies of documents submitted to obtain such licence; (c) copies of any approvals obtained from the Central Bank of Sri Lanka under the Foreign Exchange Act, No.12 of 2017; and (d) any other information that the Commission may deem necessary. <p>13. The fee payable in respect of obtaining approval for a CIS shall be specified by way of regulations made by the Minister from time to time.</p> <p>* For the avoidance of doubt, any Unit Trust which has been licensed by the Commission in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987 and which licence is valid at the time of the introduction of these Rules shall not be required to obtain the approval of the Commission in terms of Rule 9 herein. The licence so granted shall be construed as the approval referred to herein.</p>
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Renewal of a licence	<p>14. A Managing Company shall submit an application for renewal of its licence three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>15. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>16. A Managing Company who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>17. In the event the licence of a Managing Company expires as a result of a Managing Company failing to take steps to renew it, the provisions contained in Clause 16 (3) (e) of the CIS Code shall apply.</p> <p>18. A Managing Company which has neither taken steps to voluntarily terminate its appointment in the manner provided under the CIS Code nor taken steps to renew its licence in terms of these Rules shall not be entitled to the grant of a new licence as a Managing Company.</p> <p>This disqualification shall also apply to a company whose board of directors comprises of any individual(s) who functioned as a director(s) of the company which has failed to have its licence renewed as aforesaid.</p> <p>19. It shall be the duty of the Managing Company to notify the Commission and obtain its prior consent of any change in particulars specified in an application for the renewal of licence as a Managing Company.</p> <p>20. The Commission may refuse an application made for the renewal of a licence as a Managing Company on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>21. A Managing Company shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>
Minimum financial requirements and submission of reports	<p>22. A Managing Company shall:</p> <ul style="list-style-type: none"> (a) at all times maintain minimum Shareholders' Funds as determined by the Commission from time to time; (b) inform the Commission immediately if Shareholders' Funds fall below the requirement as stipulated in Rule 22 (a) above; (c) not carry on its activities as a Managing Company if the minimum financial requirements as determined by the Commission are not met, unless the prior written approval of the Commission is obtained. <p>23. A Managing Company shall provide the following information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared monthly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month;

	<p>(b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year.</p> <p>24. A Managing Company shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, in so far as they relate to the activity of managing investments.</p>
Change in shareholding of a Managing Company	<p>25. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of a Managing Company shall be made only with prior consent of the Commission.</p>
Infrastructure and related requirements	<p>26. A Managing Company shall at all times:</p> <p>(a) maintain proper systems including information technology processes and human resources suitable and adequate to support the proper conduct of its business as a Managing Company;</p> <p>(b) ensure that an effective system of functional barriers is in place to prevent the flow of information that may be confidential and/or price sensitive to persons not entitled to receive such information; and</p> <p>(c) have appropriate information recording and retrieval systems and maintain such information for inspection by the Commission.</p>
Qualifications and experience of A person making investment decisions on behalf of Unit Holders	<p>27. Any person who on behalf of a Managing Company is involved making decisions for a CIS shall possess the qualifications set out in sub section (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <p>(a)</p> <p>(i) a degree from a recognized university in the fields of Finance, Accountancy, Business Administration, Commerce and Economics;</p> <p>(ii) Member/Associate of a professional body of Accountants recognized by the International Federation of Accountants;</p> <p>(iii) Chartered Financial Analyst;</p> <p>(iv) Associate of the Chartered Institute of Bankers;</p> <p>(v) Associate of the Institute of Bankers of Sri Lanka;</p> <p>(vi) Associate of the Chartered Institute for Securities and Investments;</p> <p>(vii) any other professional and/or academic qualification acceptable to the Commission;</p> <p style="text-align: center;"><i>and</i></p> <p>(b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy;</p> <p style="text-align: center;"><i>or</i></p> <p>(c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider relevance, nature, scope and experience gained in determining its adequacy.</p>

Requirement for a minimum number of persons on behalf of Unit Holders making investment decisions	<p>28. A Managing Company shall ensure that a minimum of two (2) persons possessing qualifications and/or experience as set out in these Rules are employed by the Managing Company to make investment decisions in accordance with the investment objective and policy set out in the KIID and the trust deed of the CIS and to deal with Unit Holders.</p> <p>29. Any person who on behalf of a Managing Company is involved in making investment decisions for a CIS shall not make investment decisions of any other licensed/approved business activity of the entity unless prior written approval of the Commission is obtained.</p> <p>30. Any person who on behalf of a Managing Company is involved in making investment decision for a CIS and any person engaged in the process of marketing a CIS shall follow Continuous Professional Development (CPD) programmes conducted by the Commission on an annual basis.</p> <p>31. The Commission may direct the Managing Company to vary the number of such qualified personnel on account of the volume of business proposed to be undertaken or currently undertaken by such Managing Company.</p>
Managing Company dealing with Unit Holders	<p>32. A Managing Company and all individuals who deal with Unit Holders of the CIS shall:</p> <p>(a) ensure that transactions carried out on behalf of the CIS are in accordance with the objectives, investment strategy, investment parameters, risk profile and other provisions contained in the KIID, the SEC Act, these Rules and the CIS Code; and</p> <p>(b) refrain from intentionally carrying out transactions (cross trades) between its own accounts, personal accounts of its employees, private portfolio accounts and the CIS.</p>
Functions, duties and general business obligations of a Managing Company	<p>33. A Managing Company of a CIS shall in addition to these Rules comply with the functions, duties and general business obligations assigned to it under the CIS Code.</p>
Commission approval to engage in other business	<p>34. A Managing Company shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>35. A Managing Company shall not engage in any other business, which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>36. In the conduct of any other business activity, the Managing Company shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>
Restrictions on the Managing Company to buy/sell or deal in securities for its own behalf	<p>37. Unless approved by the Commission a Managing Company shall be prohibited from buying or selling any securities in its own name or having equity interest in any entity wholly or partly, directly or indirectly engaged in the business of dealing in securities.</p>

Transactions with Related Persons	<p>38. A Managing Company shall not invest the assets of the CIS in the securities issued by a related company of the Managing Company without the prior written consent of the Trustee. All such transactions shall be disclosed in the annual report of the CIS.</p> <p>39. The following transactions shall only be made with the prior written consent of the Trustee and shall be disclosed in the annual report of the CIS:</p> <ul style="list-style-type: none"> (a) all transactions between the CIS and the Managing Company, a Key Management Person/employee of the Managing Company or any immediate family member of such Key Management Person/employee; (b) all transactions between the CIS and an associate, joint venture, subsidiary or holding company of the Managing Company. <p>For the purposes of this Rule an associate means an enterprise in which the Managing Company has significant influence and which is neither a subsidiary nor a joint venture of the Managing Company.</p>
Amendments to the KIID	<p>40. A Managing Company may amend its KIID either by the substitution of a completely new memorandum or by the addition or deletion of any information contained therein with the prior approval of the Trustee:</p> <ul style="list-style-type: none"> (a) upon the occurrence of any material change in the information stated therein; or (b) any significant development takes place which requires it to be included therein.
Disclosures required for changes in fees	<p>41. The Managing Company shall give the Unit Holders, not less than one (1) month prior written communication of any increase in the Managing Company's annual charges, up to the maximum permitted level specified in the trust deed.</p>
Situations where investments of one CIS are made in another CIS under the management of the same Managing Company	<p>42. Where the CIS invests in units of any other CIS, there shall be no increase in the front-end fee, annual fee or any other costs or charges borne by Unit Holders or out of the funds of the CIS if both CIS are managed by the same Managing Company or by a Related Person of the Managing Company.</p>
Maintenance of records	<p>43. A Managing Company shall maintain the following records pertaining to Unit Holders:</p> <ul style="list-style-type: none"> (a) the register of Unit Holders disclosing the name and address of Unit Holders, their nominees and beneficial owners; (b) the number of units including the fraction of a unit held by each Unit Holder; (c) the date on which the Unit Holder was registered or a CDS account was opened on behalf of the Unit Holder in respect of the units standing in the Unit Holder's name; and (d) the number of units including fractions of units for the time being in issue.

	<p>44. All of the above records shall be retained by the Managing Company for a period of six (6) years.</p> <p>45. All of above records pertaining to Unit Holders whose units have been redeemed shall be retained by the Managing Company for a period of six (6) years from the date of such redemption.</p> <p>46. The Managing Company shall ensure that a Unit Holder's information is updated regularly and in any event on an annual basis.</p> <p>47. A Managing Company shall ensure confidentiality of all information relating to Unit Holders including such Unit Holder's identity, their beneficial owner and transactions carried out for such Unit Holder, unless and to the extent such disclosure is required by law.</p>
Keeping of books and furnishing of returns	<p>48. A Managing Company shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records and other books for a period of not less than six (6) years.
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>49. Where the Commission having considered that it is in the interests of the Managing Company or of the Unit Holders, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter pertaining to the Managing Company or any CIS under its management, it shall be the duty of such Managing Company:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Managing Company relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Managing Company relating to its business; (c) to provide all information within its knowledge or which it is capable of obtaining; and (d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars. <p>50. A Managing Company shall not destroy, conceal or alter any records, property or books relating to the business of the Managing Company which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>

Submission of information to the Commission	<p>51. A Managing Company shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>52. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Managing Company shall comply with such requirements.</p>
Compliance manual	<p>53. A Managing Company shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.</p>
Regulatory compliance and internal controls	<p>54. A Managing Company shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/experience as specified in Rule 27 of these Rules; (b) report directly to the board of directors/board sub-committee dealing with risk of the Managing Company; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>55. The Managing Company shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Managing Company shall give notice to the Commission no later than two (2) weeks from its effective date.</p> <p>56. The compliance officer on behalf of the Managing Company shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule V of these Rules approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>57. A Managing Company shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>

Notification on the happening of certain events	<p>58. Without prejudice to the generality of the duties imposed under the SEC Act, the CIS Code, these Rules or directives, the Managing Company shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Managing Company is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka or where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Managing Company; (b) the Managing Company ceases to carry on the business to which the licence relates; (c) the Managing Company has failed to comply with the provisions of the SEC Act, the CIS Code, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary or the Rules specified herein or any other directive issued by the Commission from time to time; (d) it becomes aware that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission; (e) any execution against the Managing Company in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Managing Company whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director, or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director or the chief executive officer of the Managing Company becomes an undischarged bankrupt.
Advertisements	<p>59. All advertisements and promotional material in respect of a CIS shall be prepared in accordance with the guidelines contained in Appendix 2 of the CIS Code.</p> <p>60. No advertisement or promotional material shall be issued or published by the Managing Company on behalf of a CIS, without the prior written approval of the Trustee.</p> <p>61. A Managing Company shall submit a copy of the proposed advertisement and/or promotional material for the perusal of the Commission one (1) week prior to its publication along with a copy of the approval of the Trustee.</p>
Termination and replacement of a Managing Company	<p>62. The manner of termination and replacement of a Managing Company of a CIS shall be made in terms of the provisions contained in the CIS Code.</p>
Cancellation or suspension of a licence	<p>63. The cancellation or suspension of a licence granted to a Managing Company shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
Commencement of operations	<p>64. If the Managing Company fails to commence its business operations no later than six (6) months after the issue of the licence, the licence shall cease to be valid.</p>

SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and persons making investment decisions on behalf of Unit Holders, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time the Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and persons making investment decisions on behalf of Unit Holders shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and persons making investment decisions on behalf of Unit Holders shall not:
 - (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
 - (b) have been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
 - (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and persons making investment decisions on behalf of Unit Holders shall:
- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
 - (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
 - (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
 - (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
 - (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.

11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.
12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents of a Compliance Manual

1. Conflicts of Interest:

- (a) an effective internal control framework to prevent abuse or detect inappropriate investment practices or conflicts of interest between proprietary transactions, employees' transactions and transactions of the CIS;

Provided that, in the event such conflict cannot be avoided there shall be full disclosure thereof to its Unit Holders and the Managing Company shall obtain consent of the Trustee in writing prior to carrying out the material transaction.

- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures to ensure that key duties and functions of the front office and back office are clearly segregated to avoid any conflicts of interest;
- (d) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (e) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner; and
- (f) procedures to minimize and manage any conflicts of interest that may arise in carrying out a combination of regulated activities.

* The above procedures, frameworks and mechanisms shall be in accordance with the guidelines contained in Appendix 6 of the CIS code.

2. Corporate Governance:

- (a) good business practices and just and fair principles in the conduct of its business; and
- (b) compliance requirements contained in any Code or Best Practices introduced by the Commission in respect of Managing Companies;
- (c) an effective complaint handling process in accordance with the guidelines contained in Appendix 7 of the CIS code.

3. Risk Management:

- (a) sound risk management policies and processes; and
- (b) explanations on the risks applicable to securities investments.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:
 - (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
 - (b) Rules issued by the Commission including the Collective Investment Schemes Code;
 - (c) Rules of an Exchange (as applicable); and
 - (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.
2. If not:
 - (a) give information as to the nature of the non-compliance or breach;
 - (b) action taken to prevent or mitigate the non-compliance or breach; and
 - (c) the outcome.
3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:
 - (a) the number generated and submitted to the FIU; and
 - (b) outcomes if any.

RULES APPLICABLE TO CORPORATE FINANCE ADVISORS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC
Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Corporate Finance Advisors.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Client” means a person who has entered into an agreement with a Corporate Finance Advisor to obtain its services;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Corporate Finance Advisor” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Exchange” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly.</p> <p>“Listed Public Company” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Shareholders’ Advisor” means a Corporate Finance Advisor appointed by the listed entity to prepare an opinion for shareholders of the listed entity.</p>
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Applicability	<p>2. The Rules set out herein shall apply to Corporate Finance Advisors licensed under the SEC Act.</p> <p>3. Every Corporate Finance Advisor shall comply with:</p> <p>(a) the Rules set out herein and any amendments made thereto;</p> <p>(b) provisions of the SEC Act;</p> <p>(c) directives issued from time to time by the Commission; and</p> <p>(d) Rules issued by the Commission on the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules.</p>
Requirement for a licence	<p>4. No entity shall engage in the function of a Corporate Finance Advisor without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Corporate Finance Advisor shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence to a Corporate Finance Advisor shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <p>i. a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein;</p> <p>ii. documents outlining the business model to carry on the functions of a Corporate Finance Advisor;</p> <p>iii. a declaration by the applicant as per the affidavit in Schedule I of these Rules;</p> <p>iv. a copy of the internal compliance manual as set out in Schedule IV of these Rules;</p> <p>v. documentation in support of measures taken to acquire an information processing system as stated in Rules 21 and 22 of these Rules;</p> <p>vi. documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and</p> <p>vii. the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time.</p> <p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p>

<p>Procedure to obtain a licence</p>	<ol style="list-style-type: none"> i. declarations by Key Management Persons and employees dealing with Clients relating to their fitness and propriety to hold such office in terms of Fitness and Propriety of a Key Management Person of a Market Intermediary stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; ii. a confirmation from the chief executive officer and a director of the applicant confirming the implementation of an information processing system as stated in Rule 21 and 22 of these Rules; iii. a confirmation from the chief executive officer and a director of the applicant confirming the recruitment of adequate human resources along with their names and designations; and iv. the licence fee specified by way of regulations made by the Minister from time to time. <ol style="list-style-type: none"> 7. It shall be the duty of the Corporate Finance Advisor to notify the Commission and obtain its prior consent of any change in particulars contained in an application to be licensed as a Corporate Finance Advisor. 8. The Commission may refuse an application made to be licensed as a Corporate Finance Advisor on any of the grounds morefully set out in Section 95 of the SEC Act.
<p>Renewal of a licence</p>	<ol style="list-style-type: none"> 9. A Corporate Finance Advisor shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee. 10. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein. 11. Any Corporate Finance Advisor who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time. 12. In the event the licence of a Corporate Finance Advisor expires as a result of a Corporate Finance Advisor failing to take steps to renew it, the provisions contained in Rule 58 of these Rules with regard to cessation of operations shall apply. 13. A Corporate Finance Advisor which has neither taken steps to cease its business operations as a Corporate Finance Advisor nor taken steps to renew its licence in terms of these Rules shall not be entitled to the grant of a new licence as a Corporate Finance Advisor. This disqualification shall also apply to a company whose board of directors comprises of any individual(s) who functioned as a director(s) of the company which has failed to have its licence renewed as aforesaid. 14. It shall be the duty of the Corporate Finance Advisor to notify the Commission and obtain its prior consent of any change in particulars contained in an application for the renewal of licence as a Corporate Finance Advisor. 15. The Commission may refuse an application made for the renewal of a licence as a Corporate Finance Advisor on grounds more fully set out in Section 95 of the SEC Act.

Licensing fee	16. A Corporate Finance Advisor shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.
Submission of reports	<p>17. A Corporate Finance Advisor shall provide the information set out below to the Commission:</p> <p>(a) financial statements prepared quarterly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month; and</p> <p>(b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year.</p> <p>18. All audit and non-audit services carried out by the auditors of the Corporate Finance Advisor for the entity itself together with the fees and expenses charged should be disclosed separately in the relevant audited accounts.</p> <p>19. A Corporate Finance Advisor shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, in so far as they relate to Corporate Finance Advisor functions.</p>
Change in shareholding of a Corporate Finance Advisor	<p>20. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of a Corporate Finance Advisor shall be made only with prior written consent of the Commission.</p> <p>Provided however if the Corporate Finance Advisor is a Listed Public Company this requirement shall not apply.</p>
Infrastructure and related requirements	<p>21. A Corporate Finance Advisor shall at all time have in place appropriate policies and procedures, including adequate financial and human resources, infrastructure and information systems to provide reliable and high-quality corporate finance advisory services and maintain its operations and facilities with adequate security, system capacity, contingency arrangements including business continuity plans and proper review and oversight mechanisms.</p> <p>22. A Corporate Finance Advisor shall have a suitable information recording and retrieval system and maintain such information for inspection by the Commission.</p> <p>23. The Corporate Finance Advisor may outsource part of its work in respect of any area in which the Corporate Finance Advisor has no expertise but is required to prepare or jointly prepare or render an opinion in that area as a Corporate Finance Advisor. The Corporate Finance Advisor may use information obtained from other experts in the area as reference, provided that the Corporate Finance Advisor has verified that the experts are qualified in such area.</p> <p>However, if any function is to be outsourced, such fact shall be brought to the attention of the Client in writing and be included in the agreement entered into with the Client.</p> <p>24. The Corporate Finance Advisor shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they will comply with the laws, rules and directives that the Corporate Finance Advisor is bound to follow.</p>

<p>Qualifications and experience of those performing corporate finance advisory functions</p>	<p>25. Any person who on behalf of a Corporate Finance Advisor is involved in performing corporate finance advisory functions for and on behalf of a Client, shall possess the qualifications set out in subsection (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <p>(a) (i) a degree from a recognized university in the fields of Finance, Accountancy, Business Administration and Economics;</p> <p>(ii) Member/Associate of a professional body of Accountants recognized by the International Federation of Accountants;</p> <p>(iii) Chartered Financial Analyst;</p> <p>(iv) Associate of the Chartered Institute of Bankers;</p> <p>(v) Associate of the Institute of Bankers of Sri Lanka;</p> <p>(vi) Associate of the Chartered Institute for Securities and Investments; and</p> <p>(vii) any other professional and/or academic qualification acceptable to the Commission;</p> <p style="text-align: center;"><i>and</i></p> <p>(b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy;</p> <p style="text-align: center;"><i>or</i></p> <p>(c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider relevance, nature, scope and experience gained in determining its adequacy.</p>
<p>Requirement for minimum number of financial advisors dealing with Clients</p>	<p>26. The Corporate Finance Advisor shall ensure that a minimum of two (2) persons possessing qualifications and/or experience set out in these Rules are employed to deal with Clients.</p> <p>27. The Commission may direct the Corporate Finance Advisor to vary the number of such qualified personnel having considered the volume of business proposed to be undertaken or currently undertaken by such Corporate Finance Advisor.</p>
<p>Commission approval to engage in other businesses</p>	<p>28. A Corporate Finance Advisor shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>29. A Corporate Finance Advisor shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>30. In the conduct of any such other business activity, the Corporate Finance Advisor shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>

Written agreement and material information	<p>31. A Corporate Finance Advisor shall execute a written agreement with each Client prior to carrying out any business for and on behalf of a Client containing all the terms and conditions agreed to by and between itself and the Client. Without prejudice to the generality of this clause it shall <i>inter alia</i> contain the following terms and conditions:</p> <ul style="list-style-type: none"> (a) the procedure to be followed in carrying out the duties and functions; (b) the fees to be charged by the Corporate Finance Advisor; and (c) the rights and liabilities of each party in respect of the duties and functions carried out. <p>32. A Corporate Finance Advisor shall ensure that the agreement entered into is in a language mutually agreed upon by the parties. The subsequent amendments to the agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p>
Duties with regard to the issue of securities	<p>33. The Corporate Finance Advisor shall perform the following duties in respect of the issue of securities:</p> <ul style="list-style-type: none"> (a) prepare and file an application on behalf of the issuer or offeror of securities, to Offer for Sale/Offer for Subscription/Introduction together with a draft prospectus and other relevant documents for the approval of the Commission/Exchange; (b) take steps to verify that information submitted by an issuer of securities in an application for the sale of newly issued shares submitted for approval of the Commission/Exchange and the information contained in the draft prospectus is accurate and complete and that all the information for consideration by the Commission/Exchange and investors has been disclosed and is not misleading to those relying on such information; (c) notify the Commission/Exchange that the issuer of securities has satisfied the requirements contained in the Listing Rules and therefore qualified to Offer for Sale/Offer for Subscription/Introduction; (d) advise or take any action required to ensure that the issuer or the offeror of securities is aware of its duties, responsibilities, rules, regulations, conditions and other relevant procedures and ensure that the issuer of securities implements good corporate governance and sound management and operations for accountability to its shareholders; (e) ensure that the assumptions and rationale for relying on such assumptions in preparing pro forma financial statements are reasonable and feasible; (f) submit to the Commission/Exchange a written certification of the performance of the duties set out in Rules 33(a), 33(b), 33(c), 33(d) and 33(e); and (g) notify the Commission/Exchange that the issue and Offer for Sale of securities has concluded as indicated in the application for the sale of newly issued shares submitted for approval by the Commission/Exchange.

	<p>34. In the event the Corporate Finance Advisor or the Group Company wishes to publish any article or research paper prepared by itself or on its behalf, on the securities relevant to it, the said Corporate Finance Advisor or Group Company shall comply with the following requirements:</p> <p>(a) such article or research paper shall be prepared by a work unit or company that is engaged in the conduct of research and whose function is distinctly independent and separate from the function of the Corporate Finance Advisor and securities Underwriter if any for the issuance;</p> <p>Provided however, the above shall not apply to a research report that has been prepared by a Corporate Finance Advisor/ Initial Public Offer (IPO) Manager to a particular issue justifying the IPO price or price band and the basis and methodologies used to determine the IPO price/price band.</p> <p>(b) the said article or research paper shall be based on the information contained in the draft prospectus except for information emanating after the closing date of the securities offering;</p> <p>(c) the said article or research paper shall be prepared in a prudent and unbiased manner; and</p> <p>(d) the said article or research paper shall expressly state any conflict of interest or any other interest in the respective securities that a Corporate Finance Advisor may have. In the event the said article or research paper is published prior to the closing date of the offer for sale of securities, investors shall be cautioned to peruse the prospectus thoroughly prior to making any investment decisions and such a statement of caution shall be in a legible print.</p> <p>For the purpose of this Rule, “Group Company” shall mean:</p> <p>(i) a company which holds twenty per centum (20%) or more of the total shares with voting rights of the Corporate Finance Advisor; or</p> <p>(ii) a company in which the Corporate Finance Advisor holds twenty per centum (20%) or more of its total shares with voting rights; or</p> <p>(iii) a company whose shareholders hold shares in the said company and the Corporate Finance Advisor amounting to twenty per centum (20%) or more of the total shares with voting rights of such company and Corporate Finance Advisor.</p>
<p>Maintenance of records</p>	<p>37. A Corporate Finance Advisor shall maintain the following records pertaining to Clients:</p> <p>(a) all agreements entered into between the Corporate Finance Advisor and the Clients;</p> <p>(b) all internal records and working papers as a record and evidence in performing the duties as Corporate Finance Advisor; and</p> <p>(c) a written record of all complaints received from Clients and action taken thereon by the Corporate Finance Advisor.</p>

	<p>38. All of the above records shall be retained by the Corporate Finance Advisor for a period of six (6) years.</p> <p>39. A Corporate Finance Advisor shall ensure confidentiality of all information at all times relating to Clients including such Client's identity and functions carried out for such Client unless and to the extent such disclosure is required by law.</p>
Keeping of books and furnishing of returns	<p>40. A Corporate Finance Advisor shall:</p> <p>(a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of true and fair Income Statement and Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka;</p> <p>(b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and</p> <p>(c) retain such accounting records or other books for a period of not less than six (6) years.</p>
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>41. Where the Commission having considered that it is in the interests of the Corporate Finance Advisor or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Corporate Finance Advisor:</p> <p>(a) to produce any books, accounts and records of any assets held by the Corporate Finance Advisor relating to its business;</p> <p>(b) to produce any records of any systems, processes or procedures adopted by the Corporate Finance Advisor relating to its business;</p> <p>(c) to provide all information within its knowledge or which it is capable of obtaining; and</p> <p>(d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars.</p> <p>42. A Corporate Finance Advisor shall not destroy, conceal or alter any records, property or books relating to the business of the Corporate Finance Advisor which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
Submission of information to the Commission	<p>43. A Corporate Finance Advisor shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>44. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Corporate Finance Advisor shall comply with such requirements.</p>

Compliance manual	45. A Corporate Finance Advisor shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.
Regulatory compliance and internal controls	<p>46. A Corporate Finance Advisor shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/ experience as specified in Rule 25 of these Rules; (b) report directly to the board of directors/board sub-committee dealing with risk of the Corporate Finance Advisor; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>47. The Corporate Finance Advisor shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Corporate Finance Advisor shall also give notice to the Commission no later than two (2) weeks from its effective date.</p> <p>48. The compliance officer on behalf of the Corporate Finance Advisor shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule V of these Rules, approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>49. Employees of the Corporate Finance Advisor shall obtain the prior written approval from the compliance officer in respect of all personal account dealings. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p> <p>50. A Corporate Finance Advisor shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>51. A Corporate Finance Advisor shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>

Notification on the happening of certain events	<p>52. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules and directives, the Corporate Finance Advisor shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Corporate Finance Advisor is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Corporate Finance Advisor; (b) the Corporate Finance Advisor ceases to carry on the business to which the licence relates; (c) the Corporate Finance Advisor has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary and the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission; (e) any execution against the Corporate Finance Advisor in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Corporate Finance Advisor whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director or chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director or chief executive officer of the Corporate Finance Advisor becomes an undischarged bankrupt.
Advertisements	<p>53. A Corporate Finance Advisor shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>54. A Corporate Finance Advisor shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>
Cancellation or suspension of a licence	<p>55. The cancellation or suspension of a licence granted to a Corporate Finance Advisor shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
Commencement of operations	<p>56. If the Corporate Finance Advisor fails to commence its business operations no later than six (6) months after the issue of the licence, the licence will cease to be valid.</p>

Licence of a Corporate Finance Advisor deemed to be revoked	<p>57. A licence of a Corporate Finance Advisor shall be deemed to be revoked if the company to whom a licence has been assigned is wound up or otherwise dissolved.</p>
Ceasing of operations and surrender of a licence	<p>58. In the event a Corporate Finance Advisor decides to cease its business operations as a Corporate Finance Advisor, it shall:</p> <ul style="list-style-type: none"> (a) submit to the Commission within seven (7) working days from the date of the decision of the board of directors to cease business operations together with a certified extract of the board resolution together with a status report of its Clients as at that date and measures to mitigate possible impacts on the Client; (b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as a Corporate Finance Advisor; (c) within twenty-one (21) working days of the decision of the board of directors to cease business operations publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as a Corporate Finance Advisor; and (d) the Corporate Finance Advisor shall keep the Commission informed in writing upon the completion of the steps (b) and (c) mentioned above. <p>59. The Corporate Finance Advisor shall complete the task as stated in Rule 59 hereof and resolve any complaints by Clients within a period of not more than three (3) months from the date of the decision of the board of directors to cease business operations (or any extended period permitted by the Commission in writing) and submit to the Commission a declaration from the board of directors of the Corporate Finance Advisor in the form of an affidavit confirming that:</p> <ul style="list-style-type: none"> (a) all of its agreements entered into with Clients have been terminated; (b) together with the affidavit as stated in Rule 59 hereof, the Corporate Finance Advisor shall return the licence to the Commission; (c) all outstanding amounts to Clients if any have been settled upon obtaining their consent; (d) the Corporate Finance Advisor has published the paper notice; and (e) there are no pending complaints in relation to the operations of the Corporate Finance Advisor. <p>60. The surrender of a licence shall not take effect until the Commission informs the Corporate Finance Advisor in writing that such surrender has been accepted upon satisfying itself that all steps with regard to the cessation of operations have been duly satisfied in terms of these Rules.</p>

SCHEDULE I
Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....
(Name)
Director

.....
(Name)
Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....
(Name)
Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees dealing with cli8ents, making investment decisions on behalf of Unit Holders, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time a Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees dealing with clients shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

- 7. The Key Management Person and persons and employees dealing with clients shall not:
 - (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
 - (b) have been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
 - (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and employees dealing with clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents of a Compliance Manual

1. Conflicts of Interest:

- (a) an internal control network to ensure that there will be no conflict of interest in terms of its corporate finance advisory functions;
- (b) procedures to ensure its independence from the parties it serves including related parties and disclose actual and potential conflicts of interest in a clear, complete, timely, concise and specific manner and submit all such information; and
- (c) reporting lines for Corporate Finance Advisor staff and their remuneration arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.

2. Corporate Governance:

- (a) good business practices and just and fair principles in the conduct of its business;
- (b) compliance requirements contained in any Code or Best Practices introduced by the Commission in respect of Corporate Finance Advisors ;
- (c) procedure to ensure that the directors and staff of a Corporate Finance Advisor act with due diligence and a reasonable degree of care in carrying out their functions; and
- (d) procedures to establish, maintain and implement written policies, controls and procedures to ensure that non - public information acquired during the corporate finance advisory process is only used for the purpose of performing such duties and functions and prevent the misuse of non-public information.

3. Risk Management:

- (a) sound risk management policies and processes.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:

- (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
- (b) Rules issued by the Commission;
- (c) Rules of an Exchange (as applicable); and
- (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.

2. If not:

- (a) give information as to the nature of the non-compliance or breach;
- (b) action taken to prevent or mitigate the non-compliance or breach; and
- (c) the outcome.

3. Whether any Suspicious Transaction Reports (STRs) have been generated.

If so:

- (a) the number generated and submitted to the FIU; and
- (b) outcomes if any.

RULES APPLICABLE TO UNDERWRITERS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC
Chairman
Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Underwriters.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Client” means a person who is desirous of selling or offering for sale securities listed on a licensed exchange and has signed an underwriting agreement with an Underwriter;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“Liquid Capital” means unencumbered cash or investments which can be readily converted to cash such as bank/call deposits, re-purchase agreements with maturity of less than three months (3), commercial papers which are endorsed or guaranteed by a licensed commercial bank or licensed specialized bank with a term to maturity of less than three (3) months and government issued securities with a term to maturity of one year (1) or less or any other form of instruments as determined by the Commission;</p>
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	<p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Shareholders’ Funds” mean the amount of equity of the entity, which belongs to the shareholders of the entity;</p> <p>“Underwriter” shall have the same meaning as defined in Section 188 of the SEC Act;</p>
Applicability	<p>2. The Rules set out herein shall apply to Underwriters licensed under the SEC Act.</p> <p>3. Every Underwriter shall comply with:</p> <p>(a) the Rules set out herein and any amendments made thereto;</p> <p>(b) provisions of the SEC Act;</p> <p>(c) directives issued from time to time by the Commission; and</p> <p>(d) Rules issued by the Commission on the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated out in Schedule II of these Rules.</p>
Requirement for a licence	<p>4. No entity shall engage in the function of an Underwriter without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to an Underwriter shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <p>(i) a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein;</p> <p>(ii) documents outlining the business model to carry on the functions of an Underwriter;</p> <p>(iii) a declaration by the applicant as per the specimen in Schedule I of these Rules;</p> <p>(iv) a copy of the internal compliance manual as set out in Schedule IV of these Rules;</p> <p>(v) documentation in support of measures taken to acquire an information processing system as stated in Rule 24 of these Rules;</p>

	<p>(vi) documentation in support of steps taken to recruit adequate human resources to effectively discharge the obligations in keeping with the identified organizational structure of the applicant; and</p> <p>(vii) the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time.</p> <p>(b) No later than (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <p>(i) confirmation from the auditor that applicant has met the requirements as spelt out in Rule 19 (a) and (b) of these Rules;</p> <p>(ii) declarations by Key Management Persons and persons dealing with Clients relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules;</p> <p>(iii) a confirmation from the chief executive officer and a director of the Underwriter confirming the implementation of an information processing system as stated in Rule 24 of these Rules;</p> <p>(iv) a confirmation from the chief executive officer and a director of the Underwriter confirming the recruitment of adequate human resources along with their names and designations;</p> <p>(v) the licence fee specified by way of regulations made by the Minister from time to time.</p> <p>7. Upon obtaining the licence to function as an Underwriter under the SEC Act, the persons dealing with Clients shall follow Continuous Professional Development (CPD) programmes conducted by the Commission annually on rules and other applicable regulations.</p> <p>8. It shall be the duty of the Underwriter to notify the Commission and obtain its prior consent of any change in particulars specified in an application to be licensed as an Underwriter.</p> <p>9. The Commission may refuse an application made to be licensed as an Underwriter on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>10. An Underwriter shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>11. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>12. Any Underwriter who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p>

	<p>13. In the event the licence of an Underwriter expires as a result of an Underwriter failing to take steps to renew it, the provisions contained in Rule 63 with regard to cessation of operations shall apply.</p> <p>14. An Underwriter which has neither taken steps to cease its business operations as an Underwriter nor taken steps to renew its licence in terms of these Rules shall not be entitled to the grant of a new licence as an Underwriter.</p> <p>15. This disqualification shall also apply to a company whose board of directors comprises of any individual(s) who functioned as a director(s) of the company which has failed to have its licence renewed as aforesaid.</p> <p>16. It shall be the duty of the Underwriter to notify the Commission and obtain its prior consent of any change in particulars contained in an application for the renewal of a licence as an Underwriter.</p> <p>17. The Commission may refuse an application made for the renewal of a licence as an Underwriter on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>18. An Underwriter shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>
Minimum financial requirements and submission of reports	<p>19. An Underwriter shall:</p> <ul style="list-style-type: none"> (a) at all times maintain minimum Shareholders' Funds as determined by the Commission from time to time; (b) at all times, maintain minimum Liquid Capital as determined by the Commission from time to time; (c) inform the Commission immediately if Shareholders' Funds and/or Liquid Capital falls below the requirement as stipulated in Rule 19 (a) and (b) above; (d) not carry on its activities as an Underwriter if the minimum financial requirements as determined by the Commission are not met, unless the prior written approval of the Commission is obtained. <p>Provided however if an Underwriter is regulated as a licensed or registered Financial Institution by the Central Bank of Sri Lanka, the above requirements shall not apply.</p> <p>20. An Underwriter shall provide the information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared quarterly in conformity with the Sri Lanka Accounting Standards signed by a director and the chief executive officer before the twentieth (20th) day of the following month; (b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year. <p>21. An Underwriter shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report, in so far as they relate to the function of underwriting.</p>

Change in shareholding of an Underwriter	<p>22. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of an Underwriter shall be made only with prior written consent of the Commission.</p> <p>Provided however if the Underwriter is a listed public company this requirement shall not apply.</p> <p>23. An Underwriter shall keep the Commission informed in writing of the percentage holdings in it/by it, its parent/owning company(s), subsidiary company(s), associate company(s) and partnership(s) and of shareholders holding more than twenty per centum (20%) or more of its equity.</p>
Infrastructure and related requirements	<p>24. An Underwriter shall at all times:</p> <ul style="list-style-type: none"> (a) maintain proper systems including information technology processes and human resources suitable and adequate to support the proper conduct of its business as an Underwriter; (b) ensure that an effective system of functional barriers is in place to prevent the flow of information that may be confidential and/or price sensitive between the functions; and (c) have appropriate information recording and retrieval systems and maintain such information for inspection by the Commission. <p>25. The Underwriter shall not be entitled to outsource any part of its work, which has a direct bearing on the act of underwriting.</p> <p>26. The Underwriter shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they will comply with the laws, rules and directives that the Underwriter is bound to follow.</p>
Qualifications and experience of those dealing with Clients	<p>27. Any person who on behalf of an Underwriter is involved in the function of Underwriting for and on behalf of a Client and an individual who wishes to deal with Clients shall possess the qualifications set out in subsection (a) and the experience set out in subsection (b) or possess the experience set out in subsection (c):</p> <ul style="list-style-type: none"> (a) (i) a degree from a recognized university in the fields of Finance, Accountancy, Business Administration, Commerce or Economics; (ii) Member/Associate of a professional body of Accountants recognized by the International Federation of Accountants; (iii) Chartered Financial Analyst; (iv) Associate of the Chartered Institute of Bankers; (v) Associate of the Institute of Bankers of Sri Lanka; (vi) Associate of the Chartered Institute for Securities and Investments; (vii) any other professional and/or academic qualification acceptable to the Commission; <p style="text-align: center;"><i>and</i></p> <ul style="list-style-type: none"> (b) experience in the financial/securities market for a minimum period of two (2) years. The Commission shall consider the relevance, nature, the scope and experience in determining such adequacy; <p style="text-align: center;"><i>or</i></p> <ul style="list-style-type: none"> (c) experience in the financial/securities market for a minimum period of seven (7) years. The Commission shall consider relevance, nature, scope and experience gained in determining its adequacy.

Requirement for a minimum number of persons to deal with Clients	<p>28. The Underwriter shall ensure that a minimum of two (2) persons possessing qualifications and/or experience set out in these Rules are employed to deal with Clients.</p> <p>29. The Commission may direct the Underwriter to vary the number of such qualified persons on account of the volume of business proposed to be undertaken or currently undertaken by such Underwriter.</p>
Commission approval to engage in other businesses	<p>30. An Underwriter shall disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission.</p> <p>31. An Underwriter shall not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained.</p> <p>32. In the conduct of any such other business activity, the Underwriter shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p> <p>Provided however, if such Underwriter is a licensed or a registered financial institution regulated by the Central Bank of Sri Lanka, there shall be no requirement for such an Underwriter to obtain the approval of the Commission to carry out such activities.</p>
Approval of the Commission for underwriting obligations	<p>33. An Underwriter shall obtain the approval of the Commission in writing on a case-by-case basis for any underwriting obligation prior to entering into any underwriting agreement.</p> <p>34. In considering the grant of approval for the purpose of Rule 33 above, the Commission shall require the Underwriter to demonstrate its financial capacity to meet a particular underwriting obligation.</p> <p>35. Approval of the Commission may be conditional on the Underwriter fulfilling further requirements as specified by the Commission as may be deemed to be relevant to the Commission having regard to a particular case.</p>
Written underwriting agreement and material information	<p>36. An Underwriter shall execute a written underwriting agreement prior to carrying out any business for and on behalf of a Client containing all the terms and conditions agreed upon by and between itself and the Client.</p> <p>37. An Underwriter shall ensure that the underwriting agreement entered into is in a language mutually agreed upon by the parties. Subsequent amendments to the underwriting agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p> <p>38. An Underwriter shall:</p> <ul style="list-style-type: none"> (a) in the event of being called upon to subscribe to the securities underwritten pursuant to an underwriting agreement, subscribe such securities within such time as specified in the underwriting agreement but shall not exceed fifteen (15) days starting from the date of issue of such information/notice/invitation by the issuer or offeror, as the case may be; (b) sell the securities subscribed pursuant to an underwriting agreement in the secondary market or to persons other than the directors, sponsors and associates of the issuer or the offeror as the case may be, within a period of not more than two (2) years from the date of such subscription or in such time period extended by the Commission on written request by the Underwriter.

Maintenance of records	<p>39. An Underwriter shall maintain the following records pertaining to Clients:</p> <ul style="list-style-type: none"> (a) all underwriting agreements entered into between the Underwriter and the Clients; (b) records of all transactions relating to the Clients; and (c) a written record of all complaints received from Clients and action taken thereon by the Underwriter. <p>40. All of the above records shall be retained by the Underwriter for a period of six (6) years.</p> <p>41. All of the above records pertaining to Clients whose underwriting agreements have been terminated shall be retained by the Underwriter for a period of six (6) years from the date of such termination.</p> <p>42. An Underwriter shall ensure confidentiality of all information relating to Clients including such Client's identity, their beneficial owner and transactions carried out for such Client, unless and to the extent such disclosure is required by law.</p>
Keeping of books and furnishing of returns	<p>43. An Underwriter shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records and other books for a period of not less than six (6) years.
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>44. Where the Commission having considered that it is in the interests of the Underwriter or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Underwriter:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Underwriter relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Underwriter relating to its business; (c) to provide all information within its knowledge or which it is capable of obtaining; and (d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars. <p>45. An Underwriter shall not destroy, conceal or alter any records, property or books relating to the business of the Underwriter which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>

Submission of information to the Commission	<p>46. An Underwriter shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>47. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Underwriter shall comply with such requirements.</p> <p>48. The Underwriter shall keep the Commission informed in writing of the percentages of holdings in it/ by it, its parent/owning Company(s), subsidiary company(s), associated company(s) and partnership(s) and of shareholders holding more than twenty per centum (20%) or more of its equity.</p>
Compliance manual	<p>49. An Underwriter shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set in Schedule IV of these Rules.</p> <p>50. An Underwriter and its directors shall be responsible for due compliance with such internal compliance manual.</p>
Regulatory compliance and internal controls	<p>51. An Underwriter shall have a compliance officer employed by the Underwriter on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/ experience as specified in Rule 27 of these Rules; (b) report directly to the board of directors/board sub-committee dealing with risk of the Underwriter; and (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer. <p>52. The Underwriter shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Underwriter shall also give notice to the Commission no later than two (2) weeks from its effective date.</p> <p>53. The compliance officer on behalf of the Underwriter shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule V of these Rules, approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p>

	<p>54. Employees of the Underwriter shall obtain the prior written approval from the compliance officer in respect of all personal account dealings. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p> <p>55. An Underwriter shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>56. An Underwriter shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>
Operational matters	<p>57. An Underwriter shall not:</p> <ul style="list-style-type: none"> a) undertake underwritings exceeding five (5) times its equity (including unrealized gain and revaluation surplus) at any time; b) enter into any buy-back or repurchase arrangement with the issuer or offeror or any other person with respect to the securities underwritten by it; c) derive any undue benefits directly or indirectly, from any underwriting other than the commission payable to it under the underwriting agreement; and/or d) willfully make false statement or conceal any material fact in any document, report or paper furnished to the Commission.
Notification on the happening of certain events	<p>58. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Underwriter shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Underwriter is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka or where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Underwriter; (b) the Underwriter ceases to carry on the business to which the licence relates; (c) the Underwriter has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary and the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading; or there is any change in any information or document furnished to the Commission; (e) any execution against the Underwriter in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Underwriter whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director, or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director or the chief executive officer of the Underwriter becomes an undischarged bankrupt.

Advertisements	<p>59. An Underwriter shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>60. An Underwriter shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>
Cancellation or suspension of a licence	<p>61. The cancellation or suspension of a licence granted to an Underwriter shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
License of an Underwriter deemed to be revoked	<p>62. A licence of an Underwriter shall be deemed to be revoked if the company to whom a licence has been granted is wound up or otherwise dissolved.</p>
Ceasing of operations and surrender of a licence	<p>63. In the event an Underwriter decides to cease its business operations as an Underwriter, it shall:</p> <ul style="list-style-type: none"> (a) submit to the Commission within seven (7) working days from the date of the decision of the board of directors to cease business operations together with a certified extract of the board resolution and a status report of its Clients as at that date; (b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as an Underwriter and the procedure to be followed by the Clients with regard to their intention to transfer to any other Underwriter or return of any funds of the Client in the custody of the Underwriter setting out specific timelines; (c) within twenty one (21) working days of the decision of the board of directors to cease business operations, publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as an Underwriter and indicating a time period within which its Clients are required to respond regarding their intention to transfer to any other Underwriter or return of any funds of the Client in the custody of the Underwriter setting out specific time lines and to call upon them to intimate if there are any complaints; (d) the Underwriter shall keep the Commission informed in writing upon the completion of the steps (b) and (c) mentioned above. <p>64. The Underwriter shall complete the tasks of transferring their portfolios to any other Underwriter/returning of any funds of the Client in the custody of the Underwriter and resolving any complaints within a period of not more than three (3) months from the date of the decision of the board of directors to cease business operations (or any extended period permitted by the Commission in writing) and submit to the Commission a declaration from the board of directors of the Underwriter in the form of an affidavit confirming that:</p> <ul style="list-style-type: none"> (a) all of its underwriting agreements entered into with Clients have been terminated; (b) together with the affidavit as stated in Rule 64 hereof, the Underwriter shall return the licence to the Commission; (c) all outstanding amounts to Clients if any have been returned or has transferred the portfolio balances of the respective Clients to any other Underwriter upon obtaining their consent; (d) the Underwriter has published the paper notice; (e) there are no pending complaints in relation to the operations of the Underwriter. <p>65. The surrender of a licence shall not take effect until the Commission informs the Underwriter in writing that such surrender has been accepted upon satisfying itself that all steps with regard to the cessation of operations have been duly satisfied in terms of these Rules.</p>

SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at (address) hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant /renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees dealing with Clients shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees dealing with Clients shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and employees dealing with Clients shall not:
- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
 - (b) have been subject to any judgement debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
 - (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgement debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and Employees dealing with Clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents of a Compliance Manual

1. Conflicts of Interest :

- (a) an effective internal control framework to prevent abuse or detect inappropriate practices or conflicts of interest between proprietary transactions, employees' transactions and Client's transactions;

Provided that, in the event such conflict cannot be avoided there shall be full disclosure thereof to its Clients and the Underwriter shall obtain consent of the Trustee in writing prior to carrying out the material transaction.

- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures to ensure that key duties and functions of the front office and back office are clearly segregated to avoid any conflicts of interest;
- (d) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (e) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (f) procedures to minimize and manage any conflicts of interest that may arise in carrying out a combination of regulated activities.

2. Corporate Governance:

- (a) good business practices and just and fair principles in the conduct of its business;
- (b) compliance requirements contained in any Code or Best Practices introduced by the Commission in respect of Underwriters;
- (c) an effective complaint handling process.

3. Risk Management:

- (a) sound risk management policies and processes.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:

- (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
- (b) Rules issued by the Commission;
- (c) Rules of an Exchange; and
- (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.

2. If not:

- (a) give information as to the nature of the non-compliance or breach;
- (b) action taken to prevent or mitigate the non-compliance or breach; and
- (c) the outcome.

3. Whether any Suspicious Transaction Reports (STRs) have been generated.

If so:

- (a) the number generated and submitted to the FIU; and
- (b) outcomes if any.

RULES APPLICABLE TO STOCK BROKERS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC

Chairman

Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Stock Brokers.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Client” shall have the same meaning as defined in Section 109 of the SEC Act;</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Exchange” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Securities” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Securities Account” means an account opened in a Central Depository;</p> <p>“Stock Broker” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Trading Participant” shall have the same meaning as defined in Section 188 of the SEC Act.</p>
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Applicability	<p>2. The Rules set out herein shall apply to Stock Brokers licensed under the SEC Act.</p> <p>3. Every Stock Broker shall comply with:</p> <ul style="list-style-type: none"> (a) the Rules set out herein and any amendments made thereto; (b) provisions of the SEC Act; (c) directives issued from time to time by the Commission; (d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules; and (e) the Trading Participant Rules of an Exchange approved by the Commission.
Requirement for a licence	<p>4. No entity shall engage in the function of a Stock Broker without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Stock Broker shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence to a Stock Broker shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <p>(a) In order to obtain in-principle approval an applicant shall submit to the Commission:</p> <ul style="list-style-type: none"> i. a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein; ii. confirmation from the Exchange on the grant of provisional Trading Participant status; iii. a declaration by the applicant as per the specimen in Schedule I of these Rules; iv. a declaration by directors relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; v. the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time.

	<p>(b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <ol style="list-style-type: none"> written confirmation from the Exchange confirming that the applicant has satisfied all entry requirements stipulated in the Rules of the Exchange to be admitted as a Trading Participant of the Exchange and therefore a recommendation that the applicant be granted a licence as a Stock Broker; declarations by Key Management Persons (excluding directors) and employees dealing with Clients relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; a copy of the internal compliance manual as set out in Schedule IV of these Rules; the licence fee specified by way of regulations made by the Minister from time to time; and any other information that the Commission may require the applicant to submit in the evaluation of the application for the licence. <p>7. It shall be the duty of the Stock Broker to notify the Commission and obtain its prior consent for any change in particulars contained in an application to be licensed as a Stock Broker.</p> <p>8. The Commission may refuse an application made to be licensed as a Stock Broker on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>9. A Stock Broker shall submit an application for renewal of a licence three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>10. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>11. Any Stock Broker who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>12. It shall be the duty of the Stock Broker to notify the Commission and obtain its prior consent of any change in particulars contained in an application for the renewal of licence as a Stock Broker.</p> <p>13. The Commission may refuse an application made for the renewal of a licence as a Stock Broker on any of the grounds morefully set out in Section 95 of the SEC Act.</p>

Licensing fee	14. A Stock Broker shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.
Minimum financial requirements and submission of reports	<p>15. A Stock Broker shall:</p> <ul style="list-style-type: none"> (a) at all times maintain minimum shareholders' funds as determined by the Exchange of which it is a Trading Participant; (b) at all times, maintain minimum liquid capital as determined by the Exchange of which it is a Trading Participant; (c) at all times maintain minimum Capital Adequacy Requirements as determined by the Exchange of which it is a Trading Participant; (d) inform the Commission immediately if shareholders' funds, liquid capital and/or the minimum Capital Adequacy Requirements fall below the requirement stipulated in the Rules of the Exchange of which it is a Trading Participant; and (e) not carry on its activities as a Stock Broker if the minimum financial requirements as determined in the Rules of the Exchange of which it is a Trading Participant are not met, unless the prior written approval of the Commission is obtained. <p>16. A Stock Broker shall provide the information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared monthly as determined by the Exchange of which it is a Trading Participant within twenty (20) days from the end of the particular month signed by a director and the chief executive officer of such Stock Broker; and (b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year. <p>17. A Stockbroker shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report.</p>
Change in shareholding of a Stock Broker	18. A change in the shareholding of twenty per centum (20%) or more of the total shareholding of a Stock Broker shall be made only with the prior written consent of the Commission.
Extension of credit	19. A Stock Broker may extend credit to its Clients in accordance with the Rules of an Exchange of which it is a Trading Participant.
Infrastructure and related requirements	20. A Stock Broker shall at all times ensure that the requirements with regard to infrastructure and related requirements of an Exchange of which it is a Trading Participant are complied with and in any event ensure that steps are taken to:

	<p>(a) maintain proper systems including an order management system, a back office system and processes relating to information technology;</p> <p>(b) maintain adequate human resources to support the proper conduct of its business as a Stock Broker;</p> <p>(c) ensure that an effective system of functional barriers is in place to prevent the flow of information that may be confidential and/or price sensitive between the functions; and</p> <p>(d) have appropriate information recording and retrieval systems and maintain such information for inspection by the Commission.</p> <p>21. A Stock Broker shall not be entitled to outsource its core function to any other party. However, if any other function other than the core function of the Stock Broker is to be outsourced, the Stock Broker shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules and directives that the Stock Broker is bound to follow.</p>
Employees dealing with Clients	<p>22. A Stock Broker shall ensure that a minimum of three (3) persons possessing the qualifications and/or experience as set out in the Rules of an Exchange of which the Stock Broker is a Trading Participant are employed to deal with Clients.</p> <p>23. Any person employed by a Stock Broker to deal with Clients on its behalf shall be a Registered Investment Advisor (RIA) certified by the Commission and shall possess any other qualifications and/or experience stipulated in the Rules of an Exchange of which the Stock Broker is a Trading Participant.</p> <p>24. Any person employed by a Stock Broker to deal with Clients shall follow Continuous Professional Development (CPD) programmes conducted by the Commission annually on rules and other applicable regulations.</p> <p>25. A Stock Broker shall ensure that any person employed to deal with Clients shall comply with Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary.</p> <p>26. Persons employed to deal with Clients in the capacity of a Stock Broker shall not deal with Clients of any other licensed/ approved function of the entity.</p> <p>27. The Commission may direct the Stock Broker to vary the minimum number of such qualified persons to deal with Clients on account of the volume of business proposed to be undertaken or currently undertaken by such Stock Broker.</p>
Commission approval to engage in other business	<p>28. A Stock Broker shall not engage in any other business activity which is not regulated by the Commission unless the prior written approval of the Commission is obtained.</p>
Written agreement and material information	<p>29. A Stock Broker shall execute a written agreement with each Client prior to carrying out any business for and on behalf of a Client containing all the terms and conditions agreed to by and between itself and the Client.</p>

	<p>30. The Client agreement shall include a written risk disclosure statement to the effect that the Client is aware of the risk associated with the trading in Securities.</p> <p>31. A Stockbroker shall ensure that the agreement entered into is in a language mutually agreed upon by the parties. The subsequent amendments to the agreement, if any, shall be mutually agreed upon by the parties and be in writing.</p>
Duty in making recommendations	32. A Stock Broker shall at all times act in compliance with the duty that has been cast by Section 112 of the SEC Act, in making recommendations to Clients.
Trading in Securities	33. When trading in Securities a Stock Broker shall act in compliance with the provisions contained in Section 106 of the SEC Act.
Restricted Securities	34. A Stock Broker shall ensure that its employees do not trade in Securities which are subject to financial advice or research, during such period that the Stock Broker holds material non-public information relating to such Security or issuer of such Security.
Lending and borrowing of Securities	35. In lending and borrowing of Securities a Stock Broker shall act in compliance with the provisions contained in Section 107 of the SEC Act.
Segregation of Client funds	36. A Stock Broker shall with regard to the monies and assets of a Client at all times ensure that it acts in compliance with the provisions contained in Section 110 of the SEC Act and the provisions contained in the Rules of an Exchange of which it is a Trading Participant in that regard.
Appointment of agents	<p>37. If any person is to act as an agent or hold himself out as acting as an agent of a Stock Broker, the Stock Broker shall:</p> <p>(a) obtain approval from the Exchange of which the Stock Broker is a Trading Participant; or</p> <p>(b) obtain approval of the Commission.</p>
Maintenance of records	<p>38. A Stock Broker shall maintain the records as required under the Trading Participant Rules of the Exchange of which it is a Trading Participant and in any event maintain the following records:</p> <p>(a) all documents pertaining to the opening and maintenance of a Securities Account and all agreements entered into between the Stock Broker and the Clients;</p> <p>(b) trade information and any obligations arising out of such trades;</p> <p>(c) trade confirmation notes;</p> <p>(d) notifications pertaining to partially and/or fully unsettled trades;</p> <p>(e) books of accounts;</p> <p>(f) records of the disaster recovery and business continuity plans;</p> <p>(g) records pertaining to human resources; and</p> <p>(h) a comprehensive written record of all complaints received from Clients and action taken thereon by the Stock Broker.</p>

Maintenance of records	<p>39. All of the above records shall be retained by the Stock Broker for a period of six (6) years.</p> <p>40. All of the above records pertaining to Clients whose agreements have been terminated shall be retained by the Stock Broker for a period of six (6) years from the date of such termination.</p> <p>41. A Stock Broker shall ensure confidentiality of all information relating to Clients including such Client's identity, their beneficial owner and transactions carried out for such Client, unless and to the extent such disclosure is required by law.</p>
Keeping of books and furnishing of returns	<p>42. A Stock Broker shall:</p> <p>(a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka;</p> <p>(b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and</p> <p>(c) retain such accounting records or other books for a period of not less than six (6) years.</p>
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>43. Where the Commission having considered that it is in the interest of the Stock Broker or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Stock Broker:</p> <p>(a) to produce any books, accounts and records of any assets held by the Stock Broker relating to its business;</p> <p>(b) to produce any records of any systems, processes or procedures adopted by the Stock Broker relating to its business;</p> <p>(c) to provide all information within its knowledge or which it is capable of obtaining; and</p> <p>(d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars.</p> <p>44. A Stock Broker shall not destroy, conceal or alter any records, property or books relating to the business of the Stock Broker which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>

Submission of information to the Commission	<p>45. A Stock Broker shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>46. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Stock Broker shall comply with such requirements.</p>
Compliance manual	<p>47. A Stock Broker shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.</p>
Regulatory compliance and internal controls	<p>48. A Stock Broker shall have a compliance officer on a full-time basis who shall:</p> <ul style="list-style-type: none"> (a) possess a degree in Business Administration/Finance/Accounting/Law or an equivalent professional qualification in Finance/Accountancy/Law; (b) report directly to the board of directors of the Stock Broker; (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer; and (d) be employed by the Stock Broker at a managerial level. <p>49. The Stock Broker shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Stock Broker shall also give notice to the Commission no later than two (2) weeks prior to its effective date.</p> <p>50. The compliance officer on behalf of the Stock Broker shall make a monthly compliance report which shall include amongst others the contents specified in Schedule V of these Rules approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward the same to the Commission, before the twentieth (20th) day of the following month.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed as to the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>51. Employees of the Stock Broker shall obtain the prior written approval from the compliance officer in respect of all Personal Account Dealings. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.</p>

	<p>For the purposes of this Rule, “Personal Account Dealings” shall mean buying and selling of Securities into Securities Accounts of employees of the Stock Broker.</p> <p>52. A Stock Broker shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.</p> <p>53. Procedures of the Stock Broker in relation to Client complaint handling shall be in accordance with the Rules of an Exchange of which it is a Trading Participant.</p> <p>54. A Stock Broker shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.</p>
Notification on the happening of certain events	<p>55. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Stock Broker shall forthwith provide written notice to the Commission if:</p> <ul style="list-style-type: none"> (a) the Stock Broker is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka or where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Stock Broker; (b) the Stock Broker ceases to carry on the business to which the licence relates; (c) the Stock Broker has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary, the Rules specified herein or any other directive issued by the Commission from time to time; (d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission; (e) any execution against the Stock Broker in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the Stock Broker whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation; (g) any director or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or (h) any director or the chief executive officer of the Stock Broker becomes an undischarged bankrupt.

Advertisements	<p>56. A Stock Broker shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading.</p> <p>57. A Stock Broker shall submit a copy of all advertisements proposed to be published, for the perusal of the Commission at least one (1) week prior to its publication in the media.</p>
Cancellation or suspension of a licence	58. The cancellation or suspension of a licence granted to a Stock Broker shall be governed by the provisions contained in Section 105 of the SEC Act.
Commencement of operations	59. If the Stock Broker fails to commence its business operations no later than six (6) months after the issue of the licence, the licence shall cease to be valid.
Licence of a Stock Broker deemed to be revoked	60. A licence of a Stock Broker shall be deemed to be revoked if the company to which a licence has been granted is wound up or otherwise dissolved.
Ceasing of operations	61. In the event a Stock Broker decides to cease its operations as a Stock Broker or its status as a Trading Participant is terminated by the Exchange of which it is a Trading Participant, such Stock Broker shall comply with the procedure set out in the Rules of such Exchange and simultaneously keep the Commission informed of every step that is taken.

SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act.

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees dealing with clients shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time a Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees dealing with clients.
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company, or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person and employees dealing with Clients shall not:
- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
 - (b) have been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
 - (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; *or*
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and employees dealing with Clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
- (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
- (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
- (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents of a Compliance Manual

1. Conflicts of Interest:

- (a) an effective internal control framework to prevent abuse or detect inappropriate practices or any conflicts of interest between proprietary transactions, employees' transactions and Clients' transactions and steps to address such situations in a timely manner;
- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures to ensure that key duties and functions of the front office and back office are clearly segregated to avoid any conflicts of interest;
- (d) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (e) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (f) establish a procedure to ensure that the Stock Broker does not engage in transactions with related parties in a manner that would grant such parties more favourable treatment than that accorded to third parties in the ordinary course of business;
- (g) procedures to minimize and manage any conflicts of interest that may arise in carrying out a combination of regulated activities; and
- (h) ensure that it does not carry out any activities, which could cause a conflict of interest with its functions of a Stock Broker.

2. Corporate Governance:

- (a) a code of conduct and ethics, good business practices and the requirement to follow just and fair principles in the conduct of its business;
- (b) requirement to comply with the SEC Act, applicable rules and regulations and requirements of any regulatory authority in respect of functioning in the capacity of a Stock Broker;
- (c) compliance requirements contained in any code or best practices introduced by the Commission in respect of Stock Brokers;
- (d) an effective complaint handling process;
- (e) requirement to implement a sound financial and business reporting structure;
- (f) requirement to segregate assets of the Clients from those of the Stock Broker; and
- (g) requirement to ensure compliance with Fitness and Proprietary Rules issued by the Commission from time to time.

3. Risk Management:

- (a) availability of sound internal controls and risk management policies and processes;
- (b) availability of internal audit systems;
- (c) regular review of adequacy and effectiveness of financial, operational and compliance controls;
- (d) regular review of the adequacy of the total margin requirements in carrying out its functions as a Stock Broker;
- (e) regular review of disaster recovery and business continuity arrangements;
- (f) regular review of the principal risks (including financial, operational, compliance and information technology risk categories) applicable to the Stock Broker and the manner in which such risks are being managed or mitigated approach towards identifying, measuring and monitoring the key risks, and its approach towards the governance and management of these risks; and
- (g) regular review of adequacy and effectiveness of risk management policies and procedures.

SCHEDULE V
Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:

- (a) Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;
- (b) Rules issued by the Commission of which it is a Trading Participant;
- (c) Rules of an Exchange of which it is a Trading Participant ; and
- (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.

2. If not:

- (a) give information as to the nature of the non-compliance or breach;
- (b) action taken to prevent or mitigate the non-compliance or breach; and
- (c) the outcome.

3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:

- (a) the number generated and submitted to the FIU; and
- (b) outcomes if any.

RULES APPLICABLE TO STOCK DEALERS

THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA ACT, NO. 19 OF 2021

RULES made by the Securities and Exchange Commission of Sri Lanka, in terms of Section 183 of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

VIRAJ DAYARATNE PC
Chairman
Securities and Exchange Commission of Sri Lanka.

Colombo,
15th March, 2022.

Rules

These Rules may be cited as the Rules applicable to Stock Dealers.

General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context requires otherwise have the same meaning assigned to them in the said Act:</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;</p> <p>“Dealing in its Own Account” means buying and selling of securities by a Stock Dealer to its Securities Account;</p> <p>“Exchange” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Issuer” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;</p> <p>“Listed Public Company” shall have the same meaning as defined in Section 188 of the SEC Act.</p> <p>“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021;</p> <p>“Securities” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Securities Account” means an account opened in a Central Depository;</p> <p>“Stock Broker” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Stock Dealer” shall have the same meaning as defined in Section 188 of the SEC Act;</p> <p>“Trading Participant” shall have the same meaning as defined in Section 188 of the SEC Act;</p>
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Applicability	<p>2. The Rules set out herein shall apply to Stock Dealers licensed under the SEC Act.</p> <p>3. Every Stock Dealer shall comply with:</p> <ul style="list-style-type: none"> (a) the Rules set out herein and any amendments made thereto; (b) provisions of the SEC Act; (c) directives issued from time to time by the Commission; (d) Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules; and (e) the Trading Participant Rules of an Exchange approved by the Commission.
Requirement for a licence	<p>4. No entity shall engage in the function of a Stock Dealer without having first obtained a licence from the Commission.</p> <p>5. The period of validity of a licence granted to a Stock Dealer shall be twelve (12) months.</p>
Procedure to obtain a licence	<p>6. The grant of a licence to a Stock Dealer shall be a two (2) stage process. An applicant may in the first instance apply for in-principle approval upon satisfying the requirements as set out in (a) hereof and after having obtained in-principle approval may thereafter apply for final approval upon satisfying the requirements as set out in (b) hereof:</p> <ul style="list-style-type: none"> (a) In order to obtain in-principle approval, an applicant shall submit to the Commission: <ul style="list-style-type: none"> (i) a duly completed application form according to the specimen provided on the website of the Commission along with the supporting documents mentioned therein; (ii) confirmation from the Exchange on the grant of provisional Trading Participant status; (iii) declaration by an applicant as per the specimen in Schedule I of these Rules; (iv) declaration by directors relating to their fitness and propriety according to the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; and (v) the fee payable for processing the application for in-principle approval specified by way of regulations made by the Minister from time to time.

	<p>No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfill the following requirements and submit the following documents as proof thereof in order to obtain the licence:</p> <ul style="list-style-type: none"> (i) a written confirmation from the Exchange confirming that the applicant has satisfied all entry requirements stipulated in the Rules of the Exchange to be admitted as a Trading Participant of the Exchange and therefore a recommendation that the applicant be granted a licence as a Stock Dealer; (ii) declarations by Key Management Persons (excluding directors) and employees Dealing in its Own Account relating to their fitness and propriety to hold such office in terms of the Fitness and Propriety of a Key Management Person of a Market Intermediary as stipulated in Schedule II of these Rules. Such declaration shall be in the form of an affidavit prepared in accordance with the specimen provided in Schedule III of these Rules; (iii) a copy of the internal compliance manual as set out in Schedule IV of these Rules; (iv) the licence fee specified by way of regulations made by the Minister from time to time; and (v) any other information that the Commission may require the applicant to submit in the evaluation of the application for the licence. <p>7. It shall be the duty of the Stock Dealer to notify the Commission and obtain its prior consent for any change in particulars contained in an application to be licensed as a Stock Dealer.</p> <p>8. The Commission may refuse an application made to be licensed as a Stock Dealer on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Renewal of a licence	<p>9. A Stock Dealer shall submit an application for renewal three (3) months prior to the expiry of the licence along with the renewal fee.</p> <p>10. An application for renewal shall be in the format provided by the Commission on its website along with the supporting documents mentioned therein.</p> <p>11. Any Stock Dealer who fails to submit an application for renewal within the aforesaid time period shall be charged a late fee as prescribed by way of regulations made by the Minister from time to time.</p> <p>12. It shall be the duty of the Stock Dealer to notify the Commission and obtain its prior consent for any change in particulars contained in an application for the renewal of a licence as a Stock Dealer.</p> <p>13. The Commission may refuse an application made for the renewal of a licence as a Stock Dealer on any of the grounds morefully set out in Section 95 of the SEC Act.</p>
Licensing fee	<p>14. A Stock Dealer shall pay such licensing fee as prescribed by way of regulations made by the Minister from time to time.</p>

<p>Minimum financial requirements and submission of reports</p>	<p>15. A Stock Dealer shall:</p> <ul style="list-style-type: none"> (a) at all times maintain minimum shareholders' funds as determined by the Exchange of which it is a Trading Participant; (b) at all times maintain minimum liquid capital as determined by the Exchange of which it is a Trading Participant; (c) at all times maintain minimum Capital Adequacy Requirements (CAR) as determined by the Exchange of which it is a Trading Participant; (d) inform the Commission immediately if shareholders' funds, liquid capital and/or the minimum Capital Adequacy Requirements fall below the requirements stipulated in the Rules of the Exchange of which it is a Trading Participant; and (e) not carry on its activities as a Stock Dealer if the minimum financial requirements as determined in the Rules of the Exchange of which it is a Trading Participant are not met, unless the prior written approval of the Commission is obtained. <p>16. A Stock Dealer shall provide the information as set out below to the Commission:</p> <ul style="list-style-type: none"> (a) financial statements prepared monthly as determined by the Exchange of which it is a Trading Participant within twenty (20) days from the end of the particular month signed by a director and the chief executive officer of such Stock Dealer; and (b) a copy of the statement of audited accounts prepared annually in accordance with the Sri Lanka Accounting Standards and audited in accordance with the Sri Lanka Auditing Standards within a period of four (4) months from the close of each financial year. <p>17. A Stock Dealer shall, within three (3) months from the date of the auditor's report or any additional period of time permitted by the Commission, take steps to rectify the deficiencies if any, made out in the auditor's report.</p>
<p>Change in shareholding of a Stock Dealer</p>	<p>18. A change in the shareholding of twenty percentum (20%) or more of the total shareholding of a Stock Dealer shall be made only with the prior consent of the Commission.</p> <p>Provided however, this Rule shall not be applicable to a Stock Dealer, which is a Primary Dealer or a Licensed Commercial Bank regulated by the Central Bank of Sri Lanka.</p>
<p>Directors' duty of a Stock Dealer</p>	<p>19. A director of the Stock Dealer, who has Information of another Listed Public Company acting in his capacity as a director or employee of such Listed Public Company, shall not use such Information for the purpose of Dealing in its Own Account.</p> <p>For the purpose of this Rule, 'Information' shall mean information held by a director relating to a listed entity in which the director acts as a director or an employee, which would not otherwise be available to him.</p>

Employees Dealing in its Own Account	<p>20. A Stock Dealer shall ensure that a minimum of one (1) person who is a Registered Investment Advisor (RIA) possessing qualifications and/or experience set out in Rules of an Exchange of which it is a Trading Participant is employed to Deal in its Own Account.</p> <p>21. Any person employed by a Stock Dealer to Deal in its Own Account shall follow Continuous Professional Development (CPD) programmes conducted by the Commission on rules and other applicable regulations.</p> <p>22. A Stock Dealer shall ensure that any person employed to Deal in its Own Account shall comply with Rules issued by the Commission relating to Fitness and Propriety of a Key Management Person of a Market Intermediary.</p> <p>23. In the event a Stock Dealer also operates as a Stock Broker, persons employed to Deal in its Own Account shall not trade on behalf of Clients of the Stock Broker.</p> <p>24. The Commission may direct the Stock Dealer to vary the minimum number of such qualified persons to Deal in its Own Account, depending on the volume of business proposed to be undertaken or currently undertaken by such Stock Dealer.</p>
Lower priority to orders relating to Dealing in its Own Account	<p>25. In the event a Stock Dealer operates as a Stock Broker, the Stock Dealer shall ensure that orders relating to Dealing in its Own Account are treated with lower priority level over the orders of the Clients.</p>
Restricted Securities	<p>26. A Stock Dealer shall not execute any trade in respect of its own account in relation to a Security which is subject to financial advice or research, during such period that the Stock Dealer holds material non-public information relating to such Security or issuer of such Security.</p>
Maintenance of a separate bank account	<p>27. A Stock Dealer shall maintain a separate bank account for the purpose of making settlement of funds in respect of Dealing in its Own Account.</p>
Settlements in respect of Dealing in its Own Account	<p>28. A Stock Dealer, prior to carrying out purchase of Securities for its own account shall ensure that there is an adequate cash balance in hand or in its bank account.</p> <p>29. In the event a Stock Dealer operates as a Stock Broker, a Stock Dealer shall at no time utilize its Clients' money for settlement of purchase of Securities to its own account.</p>
Dealing limits	<p>30. A Stock Dealer shall comply with dealing limits applicable, when Dealing in its Own Account as specified in Rules of the Exchange of which it is a Trading Participant.</p>
Dealing in its Own Account	<p>31. When Dealing in its Own Account, a Stock Dealer shall act in compliance with the provisions contained in Section 106 of the SEC Act.</p>
Infrastructure and related requirements	<p>32. A Stock Dealer shall at all times ensure that the requirements with regard to infrastructure and related requirements of an Exchange of which it is a Trading Participant are complied with and in any event ensure that steps are taken to:</p>

	<p>(a) maintain proper systems including an order management system and a back office system and processes relating to information technology;</p> <p>(b) maintain adequate human resources suitable and adequate to support the proper conduct of its business as a Stock Dealer;</p> <p>(c) ensure that an effective system of functional barriers is in place to prevent the flow of information that may be confidential and/or price sensitive between the functions; and</p> <p>(d) have appropriate information recording and retrieval systems and maintain such information for inspection by the Commission.</p> <p>33. A Stock Dealer shall not be entitled to outsource its core function to any other party. However, if any other function other than the core function of the Stock Dealer is to be outsourced, the Stock Dealer shall enter into a written agreement with the party to whom any work is outsourced. Such agreement shall contain an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules and directives that the Stock Dealer is bound to follow.</p>
Regulatory compliance and internal controls	<p>34. A Stock Dealer shall have a compliance officer on a full-time basis who shall:</p> <p>(a) possess a degree in Business Administration/Finance/Accounting/Law or an equivalent professional qualification in Finance/Accountancy/Law;</p> <p>(b) report directly to the board of directors of the Stock Dealer;</p> <p>(c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer; and</p> <p>(d) be employed by the Stock Dealer at a managerial level.</p> <p>35. The Stock Dealer shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Stock Dealer shall also give notice to the Commission no later than two (2) weeks prior to its effective date.</p> <p>36. The compliance officer on behalf of the Stock Dealer shall make a monthly compliance report which shall include amongst others the contents specified in Schedule V of these Rules approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time.</p> <p>However, in the event any non-compliance or breach is detected, the compliance officer shall immediately report such matter to the board of directors for rectification and inform the Commission within a period of twenty-eight (28) days from the date on which the board of directors were informed together with steps that have been taken by the board of directors to rectify such non-compliance.</p>

Compliance manual	37. A Stock Dealer shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.
Maintenance of records	<p>38. A Stock Dealer shall maintain the records as required under the Trading Participant Rules of the Exchange of which it is a Trading Participant and in any event maintain the following records:</p> <ul style="list-style-type: none"> (a) all documents pertaining to the opening and maintenance of Securities Accounts; (b) trade information and any obligations arising out of such trades; (c) notifications pertaining to partially and/or fully unsettled trades; (d) trade confirmation notes; and (e) books of accounts. <p>39. All of the above records shall be retained by the Stock Dealer for a period of six (6) years.</p>
Keeping of books and furnishing of returns	<p>40. A Stock Dealer shall:</p> <ul style="list-style-type: none"> (a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair Income Statement and a Statement of Financial Position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; (b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; and (c) retain such accounting records or other books for a period of not less than six (6) years.
Commission approval to engage in other business	<p>41. A Stock Dealer shall not engage in any other business activity which is not regulated by the Commission unless the prior written approval of the Commission is obtained.</p> <p>However, this Rule shall not be applicable in respect of Stock Dealers who are Commercial Banks licensed by the Central Bank of Sri Lanka (CBSL) and Primary Dealers authorized by the CBSL.</p>
Duty to furnish information and co-operate with auditors appointed by the Commission	<p>42. Where the Commission having considered that it is in the interest of the Stock Dealer appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Stock Dealer:</p> <ul style="list-style-type: none"> (a) to produce any books, accounts and records of any assets held by the Stock Dealer relating to its business; (b) to produce any records of any systems, processes or procedures adopted by the Stock Dealer relating to its business;

	<p>(c) to provide all information within its knowledge or which it is capable of obtaining; and</p> <p>(d) to ensure that all the information which is furnished to the auditor or independent auditor as the case may be is not false or misleading in any particulars.</p> <p>43. A Stock Dealer shall not destroy, conceal or alter any records, property or books relating to the business of the Stock Dealer which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
Submission of information to the Commission	<p>44. A Stock Dealer shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>45. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Stock Dealer shall comply with such requirements.</p>
Notification on the happening of certain events	<p>46. Without prejudice to the generality of the duties imposed under the SEC Act, these Rules or directives, the Stock Dealer shall forthwith provide written notice to the Commission if:</p> <p>(a) the Stock Dealer is in the course of being wound up or otherwise dissolved whether within or outside Sri Lanka or where a receiver, liquidator or an equivalent person has been appointed in respect of any property of the Stock Dealer;</p> <p>(b) the Stock Dealer ceases to carry on the business to which the licence relates;</p> <p>(c) the Stock Dealer has failed to comply with the provisions of the SEC Act, Rules relating to Fitness and Propriety of a Key Management Person of a Market Intermediary specified herein or any other directive issued by the Commission from time to time;</p> <p>(d) it comes to know that any information or document furnished to the Commission is false or misleading or there is any change in any information or document furnished to the Commission;</p> <p>(e) any execution against the Stock Dealer in respect of a judgment debt has been returned unsatisfied in whole or in part;</p> <p>(f) the Stock Dealer whether within or outside Sri Lanka has entered into a compromise or scheme of arrangement with its creditors being a compromise or scheme of arrangement that is still in operation;</p> <p>(g) any director or the chief executive officer has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; or</p> <p>(h) any director or the chief executive officer of the Stock Dealer becomes an undischarged bankrupt.</p>

Licence of a Stock Dealer deemed to be revoked	47. A licence of a Stock Dealer shall be deemed to be revoked if the company to whom a licence has been granted is wound up or otherwise dissolved.
Cancellation or suspension of a licence	48. The cancellation or suspension of a licence granted to a Stock Dealer shall be governed by the provisions contained in Section 105 of the SEC Act.
Commencement of operations	49. If the Stock Dealer fails to commence its business operations no later than six (6) months after the issue of the licence, the licence will cease to be valid.
Cessation of operations	50. In the event a Stock Dealer decides to cease its business operations as a Stock Dealer or his status as a Trading Participant is terminated by the Exchange of which it is a Trading Participant, such Stock Dealer shall comply with the procedure set out in the Rules of such Exchange and simultaneously keep the Commission informed of every step that is taken.

SCHEDULE I

Declaration by the Applicant

To: Chairman
Securities and Exchange Commission of Sri Lanka
Level 28 & 29, East Tower
World Trade Centre
Echelon Square, Colombo 01, Sri Lanka.

In consideration of being licensed to operate as (category of the market intermediary), we (name of the applicant entity) being duly incorporated and having our registered office/ principal place of business at(address)..... hereby undertake and agree:

1. to be licensed at the sole discretion of the Commission and for such period as may be determined by the Commission; and
2. to be bound by the applicable laws, rules, regulations and directives of the Commission as amended or replaced from time to time.

We further declare that no finding has been made against the applicant the Applicant entity by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence or any other act which involves fraud, deceit, dishonesty, misrepresentation, breach of contract or breach of fiduciary duty and that the statements made and information provided along with the application for the grant/renewal of a licence are true and accurate to the best of our knowledge.

Given under the common seal of the entity on this day of in the presence of

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

Signed by the duly authorized signatories of the entity on this day of

.....

(Name)

Authorized Signatory

Note: Please attach a certified true copy of the board resolution/Power of Attorney in proof of such authority.

SCHEDULE II

Fitness and Propriety of a Key Management Person of a Market Intermediary

General interpretation

1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 shall unless the context so requires have the same meaning assigned to them in the said Act :

“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act;

“Key Management Person” means directors (executive or otherwise) and shall include alternate directors, a chief executive officer, a compliance officer and persons having authority and responsibility for planning, directing and controlling the activities of a company/entity either directly or indirectly;

“Market Intermediary” shall have the same meaning as defined in Section 188 of the SEC Act;

“SEC Act” means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.

Submission of an affidavit to the Commission

2. No individual shall be appointed, elected, nominated or continue to serve as a Key Management Person or employee Dealing in its own Account of a Market Intermediary unless that individual is a fit and proper person to hold such office in such entity as morefully described in these Rules.
3. An individual proposed to be appointed, elected or nominated or who intends to continue to serve in the capacity of a Key Management Person and employees Dealing in its own Account with, shall submit an affidavit to the Commission affirming that such person is not subject to any of the infirmities morefully described in these Rules prior to such individual being appointed and at the time a Market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these Rules shall be a continuous requirement and the compliance officer of a Market Intermediary shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

6. The Key Management Person and employees Dealing in its own Accounts shall not:
 - (a) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence;
 - (b) be a person who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of a capital market offence or against whom an offence has been compounded in terms of the SEC Act during a period of three (3) years immediately preceding the date of the application;

- (c) have been a Key Management Person of a body corporate who has been found guilty/held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;
- (d) be a person who has been subject to an administrative sanction by the Commission during a period of three (3) years immediately preceding the date of the application;
- (e) be a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act or any rules or regulations made thereunder;
- (f) be a person who has been censured, disciplined, suspended or refused membership or registration by the Commission and any other regulatory authority in Sri Lanka or elsewhere during a period of three (3) years immediately preceding the date of the application;
- (g) be a person against whom a finding has been made by the Commission or any other regulatory/supervisory authority/professional body in Sri Lanka or abroad that such individual has committed any act which involves fraud, deceit or dishonesty;
- (h) be a person who has been disqualified from acting as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of financial fraud by the Commission, any other regulatory body or professional body;
- (i) be a person against whom an inquiry and/or investigation by the Commission and/or an Exchange or any other regulatory/professional body in Sri Lanka or elsewhere is presently pending for the commission of suspected capital market offences or any matter that involves fraud, deceit or dishonesty; and/or
- (j) be a person who has contravened any written law enacted for the protection of the members of the public against financial loss due to dishonesty or malpractice of such person.

Financial soundness

7. The Key Management Person shall not:

- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
- (b) have been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
- (c) have been a person of a company in a position that exercises significant influence in a company that:

- i. has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
- ii. has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

- 8. The Key Management Person shall:
 - (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
 - (b) possess the qualifications required to provide the services for which a licence has been sought/obtained from the Commission;
 - (c) have satisfied the relevant training and competence requirements in relation to the regulated function the person performs or intends to perform;
 - (d) possess adequate time to perform the regulated function and meet the responsibilities associated with that function; and/or
 - (e) have not contravened any written law enacted for the protection of the members of the public against financial loss due to incompetence of such person.

SCHEDULE III

Specimen of an Affidavit for Fitness and Propriety of a Key Management Person of a Market Intermediary

I, _____ [Full name] holder of NIC No./Passport No. (In the case of a foreign national) _____ of _____ [Address], being a [Buddhist/Hindu/Muslim] do hereby solemnly, sincerely and truly declare and affirm] / [Christian/Catholic make oath and swear as follows]:

1. I am the [affirmant/deponent] above named.
2. I affirm/state that I am a _____ [Designation] of _____ [Name of the applicant entity].
3. I affirm/state that I possess the following academic and/ or professional qualification/s:
.....
.....
.....
4. I affirm/state that I have not been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence / capital market offence.
5. I affirm/state that I have not been a Key Management Person of a body corporate which has been found guilty / held responsible by a court of law in Sri Lanka or abroad for the commission of any criminal offence/ capital market offence, proved to have been committed with the knowledge or involvement or negligence attributable to me.
6. I affirm/state that I am not a person against whom an offence has been compounded in terms of the Securities and Exchange Commission of Sri Lanka Act, No.19 of 2021 ('SEC Act') nor an administrative sanction has been imposed by the Commission during a period of three (3) years immediately preceding the date of this affidavit.
7. I affirm/state that I have not been a Key Management Person of a company, partnership or other organization whose licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad is presently pending, for the commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.
11. I affirm / state that I have not contravened any written law enacted for the protection of the members of the public against financial loss by dishonesty, incompetence or malpractice.

12. I affirm / state that no proceedings have been instituted in a court of law in Sri Lanka or abroad requesting that I be declared bankrupt or that I have not been declared bankrupt and that my assets have not been sequestered.
13. I affirm/state that I have not been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part.
14. I affirm/state that I am not a person/ director of a company or a shareholder in a position that exercises significant influence in a company that:
 - (a) has been subject to any judgment debt or award in Sri Lanka or abroad, that remains unpaid in whole or in part; or
 - (b) has in Sri Lanka or abroad made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.
15. I affirm/state that I have not been declared as a person of unsound mind by a court of competent jurisdiction in Sri Lanka or abroad.
16. I affirm/state that I have the relevant training, competence and expertise in the nature of the business being conducted by the entity.
17. I affirm/state that I have adequate time to perform the regulated functions and meet the responsibilities associated with such function of the entity.
18. I affirm/state that I have the technical knowledge and ability to perform the prescribed duties which I am engaged in, especially recognised professional qualifications and membership of relevant professional institutions.
19. I affirm/state that I have not contravened any written law enacted for the protection of the members of the public against financial loss due to my incompetence.
20. I affirm/state that all of the above are true and accurate to the best of my knowledge.

The averments contained herein were read over to the [affirmant/deponent] who having understood the contents hereof and having accepted same as true, [affirmed/ swore] to and placed his/her signature at on this day of.....

Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents of a Compliance Manual

1. Conflict of Interest:

- (a) an effective internal control framework to prevent abuse or detect inappropriate investment practices and in the event a Stock Dealer operates as a Stock Broker, conflicts of interest between dealing in Securities on its behalf and trading on behalf of its Clients
- (b) procedures to prevent taking advantage of material non-public information held by the Stock Dealer in respect of a Security or issuer of a Security during the period of financial advice or research being carried out.
- (c) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (d) procedures to ensure that key duties and functions of the front office and back office are clearly segregated to avoid any conflict of interest;
- (e) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (f) a mechanism to monitor and identify non-compliance with the conflict of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (g) procedures to minimize and manage any conflict of interest that may arise in carrying out a combination of regulated activities; and
- (h) procedures to ensure that it does not carry out any activities, which could cause a conflict of interest with its functions of a Stock Dealer.

2. Corporate Governance:

- (a) a code of conduct and ethics, good business practices and the requirement to follow just and fair principles in the conduct of its business;
- (b) compliance requirement with the SEC Act, applicable rules and regulations and requirements of any regulatory authority in respect of functioning under the capacity of a Stock Dealer;
- (c) compliance requirements contained in any code or best practices introduced by the Commission in respect of Stock Dealers;
- (d) sound financial and business reporting structure;
- (e) best practices to ensure that the best interest of the investing public to remain over the interests of the Stock Dealer.

3. Risk Management:

- (a) sound internal controls and risk management policies and processes;
- (b) internal audit systems;
- (c) regular review of adequacy and effectiveness of financial, operational and compliance controls;
- (d) regular review of the principal risks (including financial, operational, compliance and information technology risk categories) applicable to the Stock Dealer and the manner in which such risks are being managed or mitigated;
- (e) approach towards identifying, measuring and monitoring the key risks, and its approach towards the governance and management of these risks; and
- (f) regular review of adequacy and effectiveness of risk management policies and procedures.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

1. Confirmation that the business has been conducted in conformity with the:
 - (a) Securities and Exchange of Sri Lanka Act, No. 19 of 2021;
 - (b) Rules issued by the Commission;
 - (c) Rules of an Exchange of which it is a Trading Participant; *and*
 - (d) Rules and Regulations of the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka including Rules and Regulations pertaining to Anti Money Laundering.
2. If not:
 - (a) give information as to the nature of the non-compliance or breach;
 - (b) action taken to prevent or mitigate the non-compliance or breach; and
 - (c) the outcome.
3. Whether any Suspicious Transaction Reports (STRs) have been generated.
If so:
 - (a) the number generated and submitted to the FIU; and
 - (b) outcomes if any.