

17th May 2007

**To: Chief Executive Officers
Member Firms / Trading Members**

CIRCULAR NO: 05-05-2007

Dear Sir / Madam,

AMENDMENTS TO THE MEMBER REGULATIONS

In terms of a direction received from the SEC the following rules have been incorporated as rule 24 & 25 under Section 1 (Business Conduct) of CSE Member Regulations.

Please note that rule 24 will be applicable with immediate effect. Rule 25 will be effective from **1st July 2007**.

Rule 24

Member Firms shall not, directly or indirectly obtain the services of any person, whether as an independent contractor or otherwise, to deal with clients of the Member Firms, if such person has been;

- a) **charged in a court of law** with the commission of offences of insider dealing, market manipulation and/or involving fraud or deception, which are offences specifically identified under the SEC Act (as amended) or Rule or Regulation made thereunder, until such person is discharged from liability by a court of competent jurisdiction on the charges brought against him;

or

- b) **convicted by a court of law** with the commission of any offence involving fraud and/or dishonesty and/or identified as an offence under the SEC Act (as amended) or Rules or Regulations made thereunder;

or

- c) **against whom an offence is compounded** in terms of the SEC Act (as amended), for a period of three years from the date of compounding, unless the CSE, in consultation with or upon a directive from the SEC, varies the duration of such period.

Rule 25

Where a Member Firm is not registered as a margin provider with the SEC, and extends credit facilities to its clients, such Member Firm shall ensure that:

- (i) the credit facility is extended to its clients on the basis of a written agreement which clearly sets out the terms and conditions entered into between the parties. Every amendment to such agreement shall also be in writing.
- (ii) the value of credit extended to all clients at any given time shall not exceed ten (10) times the value of the Member Firm's net capital. Net capital shall be computed in terms of rule 2 of Section 3 of the Member Regulations.
- (iii) credit is extended on the basis of collateral comprising only listed securities. The credit extended shall not exceed 75% of the market value of the individual client's securities portfolio, which is pledged to secure the credit.

"market value" shall mean the value of the listed securities marked to market at the end of each market day.

- (iv) in the event the market value of the securities pledged falls by 10%, the Member Firm shall inform the client to meet the shortfall by the next market day, to ensure compliance with rule (iii) above.
- (v) in the event the client fails to meet the shortfall on the next market day, the Member Firm shall sell the securities which are pledged to ensure compliance with rule (iii) above.
- (vi) the Member Firm shall not grant a 'Single Client' credit, the value of which is in excess of 15% of the total value of credit extended by such Member Firm to its clients.

"Single Client" in the context of a corporate body means the borrowing company, its parent and subsidiary companies and in the context of a natural person, means the borrower, his/her spouse and dependent children.

The CSE will forward the amended Section 1 in due course.

Yours faithfully,

Renuke Wijayawardhane
Assistant General Manager
Regulatory Affairs

de