



Media Release

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Colombo:

CSE Offers guidance to Stockbroker Firms on best practices and market Surveillance

In consultation with the Securities and Exchange Commission of Sri Lanka (SEC), the Colombo Stock Exchange (CSE) has issued a set of guidelines on best practices for Stockbroker Firms which are required to be adopted and implemented with immediate effect. The guideline has been approved by the SEC Commission on 13 January 2021 and were presented to the leadership of Stockbroker Firms which were unanimously accepted.

Under these guidelines, as requested by the Stockbroker Firms, a 3-month grace period will be provided for the implementation of a guideline on sharing of brokerage commission with Registered Investment Advisors (RIAs), which has been capped at 30% in order to maintain consistency within the industry.

As per the approved guidelines, prior to extending credit facilities to a client, the Stockbroker Firm is required to assess the client's credit worthiness. Steps should be taken to determine the buying power of each client, having assessed the credit worthiness of the client taking into consideration the Value at Risk Margin of each security.

The Stockbroker Firms have also been instructed to extend the Online Trading Platform to clients who have not opted for it with a viewer facility in order to view the Statement of Accounts, portfolio positions etc. The Firms are also required to send fortnightly notifications to the clients via electronic means, notifying the outstanding balances and ensure that records of such communications are retained. The Firm is also expected to obtain acknowledgements from the clients on a random basis to verify the receipt of Statement of Accounts, especially from clients who have carried out high volumes.

Further, the Stockbroker Firms are required to maintain client instructions in relation to the orders received from clients in compliance with CSE's Stockbroker Rules.

The guidelines require the Stockbroker Firms to segregate the key duties and functions of the individuals acting in the capacity of Compliance Officer and Head of Finance within the Firm. The guidance document also carries a list of tasks that are required to be carried out by the Compliance Officer who is also assigned with the additional task of ensuring that the Stockbroker Firm complies with the guidelines.

Additionally, the Stockbroker Firms are now required to appoint a competent person to carry out the functions in relation to Information Technology (IT) and ensure that necessary IT infrastructure is available within the Firm and are also expected to ensure RIAs have been allocated to every client. In the event a client is transferred to a different RIA within the Firm, the Firm must ensure that the Know Your Client (KYC) procedures are verified by the subsequent RIA.

The Stockbroker Firms have also been instructed to implement necessary measures to monitor the Sector and Security exposure on a daily basis and conduct stress testing at least weekly to test the risk exposure levels that they may be exposed to and to ensure that they have adequate liquidity to address the stressed conditions. Furthermore, the Stockbroker Firms will be required to ensure that tolerance ratios and limits are established in line with business objectives, strategy and overall risk appetite, with the note also specifying areas that need to be taken into consideration when doing so. Reports comparing actual positions against internal limits should be routinely prepared and reviewed by its management and excesses, irregularities and potential exposures are required to be promptly reported to its Board of Directors. The Stockbroker Firms are also expected to take necessary steps to ensure that a succession plan is in place within the firm and ensure that a satisfactory mechanism is in place to train, develop and retain its employees in line with current and projected business objectives.

The Board of Directors and the Senior Management of the Stockbroker Firms have been made responsible for developing and implementing a risk management strategy in accordance with the trade exposure undertaken by the Firm. The strategy should include specific policies on credit and liquidity management, with areas that should be observed at a minimum have been specified within this document. Additionally, the Board of Directors and the Senior Management of the Stockbroker Firms should ensure that a documented risk management and internal control procedure is in place and should be subjected to periodic evaluation.

Stockbroker Firms have been instructed to have a documented contingency plan in place, which is approved and reviewed regularly, that will address unexpected events that are likely to impact the entity's liquidity, including specific procedures for raising cash in emergency situations. The matters to be taken into consideration in formulating the contingency plan should include early warning indicators, contingency scenarios, trigger events, contingency funding strategies, and contingency procedures.

The guideline finally notes that a Stockbroker Firm should ensure it has adequately considered investment objectives of the client, investment strategy and financial position when carrying out functions of a Stockbroker Firm.

The comprehensive guidelines issued by the CSE can be accessed via www.cse.lk

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About CSE

The Colombo Stock Exchange (CSE) operates the only stock market in Sri Lanka and is responsible for providing a transparent and regulated environment where companies and investors can come together. The CSE is a company that is limited by guarantee established under the Laws of Sri Lanka. The CSE is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) and is a mutual exchange consisting of 15 Members and 15 Trading Members. All Members and Trading Members are licensed by the SEC to operate as Stockbrokers. For more information, please visit: www.cse.lk.

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