

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>
<p>Applicability</p>	<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.

<p>Requirement for a licence</p>	<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>
<p>Procedure to obtain a licence</p>	<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>
<p>Change in shareholding of a Margin Provider</p>	<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>
<p>Infrastructure and related requirements</p>	<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).
<p>Qualifications and experience of those dealing with Clients</p>	<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>
<p>Requirement for a minimum number of persons dealing with Clients</p>	<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>

<p>Commission approval to engage in other businesses</p>	<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>
<p>Margin Trading agreement</p>	<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>
<p>Trading in securities</p>	<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>
<p>Lending and borrowing of securities</p>	<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>
<p>Segregation of Client funds</p>	<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>
<p>Notification on the happening of certain events</p>	<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>

<p>Margin call</p>	<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>
<p>Extension of credit to purchase own securities</p>	<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.
<p>Acceptance of own securities as collateral</p>	<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>
<p>Permissible debits from the Margin Trading Account</p>	<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>
<p>Client-Margin Provider dispute resolution</p>	<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>
<p>Cancellation or suspension of a licence</p>	<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 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 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.