

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.

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| 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. |

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| | <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"> i. 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; ii. 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; 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 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> |
| <p>Renewal of a licence</p> | <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> |

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| 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: |

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| | <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> |
| <p>Employees dealing with Clients</p> | <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> |
| <p>Commission approval to engage in other business</p> | <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> |
| <p>Written agreement and material information</p> | <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> |

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| | <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> |

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| <p>Maintenance of records</p> | <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> |
| <p>Keeping of books and furnishing of returns</p> | <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> |
| <p>Duty to furnish information and co-operate with auditors appointed by the Commission</p> | <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> |

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| <p>Submission of information to the Commission</p> | <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> |
| <p>Compliance manual</p> | <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> |
| <p>Regulatory compliance and internal controls</p> | <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> |

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| | <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> |
| <p>Notification on the happening of certain events</p> | <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> <p>(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;</p> <p>(b) the Stock Broker ceases to carry on the business to which the licence relates;</p> <p>(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;</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 Broker in respect of a judgment debt has been returned unsatisfied in whole or in part;</p> <p>(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;</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 Broker becomes an undischarged bankrupt.</p> |

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| Advertisements | 56. A Stock Broker shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading. 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. |
| 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.