

RULES APPLICABLE TO CREDIT RATING AGENCIES

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

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

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

Colombo,
15th March, 2022.

Rules

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

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

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

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

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

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

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

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

<p>Keeping of books and furnishing of returns</p>	<p>51. A Credit Rating Agency 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 and 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>52. Where the Commission having considered that it is in the interests of the Credit Rating Agency or those of its Clients, appoints an independent auditor or such other person or a body of persons to examine, audit and report either generally or in relation to any particular matter, it shall be the duty of such Credit Rating Agency:</p> <p>(a) to produce any books, accounts and records of any assets held by the Credit Rating Agency relating to its business;</p> <p>(b) to produce any records of any systems, processes or procedures adopted by the Credit Rating Agency 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>53. A Credit Rating Agency shall not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination.</p>
<p>Submission of information to the Commission</p>	<p>54. A Credit Rating Agency shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>55. The Commission may determine that any information required herein shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the Credit Rating Agency shall comply with such requirements.</p>
<p>Compliance manual</p>	<p>56. A Credit Rating Agency shall have an internal compliance manual applicable to its directors and employees which shall include amongst others adequate compliance procedures and practices as set out in Schedule IV of these Rules.</p>

Regulatory compliance and internal controls

57. A Credit Rating Agency shall have a compliance officer on a full-time basis who shall:
- (a) be an Attorney-at-Law having a minimum period of five (5) years of experience in matters relating to compliance or possesses any other qualification/ experience as specified in Rule 27 of these Rules;
 - (b) report directly to the board of directors/ board sub-committee dealing with risk of the Credit Rating Agency; and
 - (c) not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer.
58. The Credit Rating Agency shall inform the Commission on the appointment of such compliance officer no later than one (1) week prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the Credit Rating Agency shall also give notice to the Commission no later than two (2) weeks from its effective date.
59. The compliance officer on behalf of the Credit Rating Agency shall make an annual compliance report which shall include amongst others the contents specified in Schedule V of these Rules, approved by the board of directors and signed by a director and the chief executive officer confirming compliance with the provisions of the SEC Act, the criteria set out herein, any other rules or directives issued by the Commission from time to time and the Financial Transactions Reporting Act, No. 06 of 2006 where applicable and forward same to the Commission before the twentieth (20th) day of the following month.
- 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.
60. Employees of the Credit Rating Agency shall obtain the prior written approval from the compliance officer in respect of dealings by them in securities that have been rated or are in the process of being rated by the Credit Rating Agency. Such dealings shall be conducted in a manner that will not prejudice the interests of its Clients.
61. A Credit Rating Agency shall provide for a procedure to entertain a request from a Client for a review of a rating that has been assigned. The Credit Rating Agency shall have provision for the appointment of an independent review panel to handle such appeals. The review panel shall consist of a minimum of three (3) persons out of which two (2) shall be independent and shall possess the qualifications set out in Rule 27 hereof and shall be independent from the rating panel that had previously been involved in the original rating.
62. A Credit Rating Agency shall maintain procedures to ensure that complaints of Clients relating to the conduct of its business are handled in a timely and effective manner.
63. A Credit Rating Agency shall adhere to the Know Your Client (KYC) and due diligence procedures specified by the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka where applicable from time to time.

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

	<p>81. The promoters of the applicant shall collectively hold at least thirty per centum (30%) of the total stated capital of the Credit Rating Agency.</p> <p>82. If the promoter is a foreign Credit Rating Agency, such agency shall hold a minimum of twenty per centum (20%) of the total stated capital of the Credit Rating Agency and shall maintain such holding for a minimum period of five (5) years after the grant of a licence by the Commission.</p> <p>83. If there is a change in the shareholding by the promoter after a period of five (5) years, the Credit Rating Agency shall ensure that any new promoter complies with the requirements stated herein and shall replace the promoter or a subsequent holder only upon obtaining prior written approval from the Commission.</p>
Publishing of ratings	<p>84. The Credit Rating Agency shall publish on its website all ratings issued to the Client and any changes made thereto within three (3) market days from it being made available to such Client.</p> <p>However, if any rating is given to a listed entity or security or security intended to be issued to the public or an entity that has sought a listing, such rating shall mandatorily be published on the website of the Credit Rating Agency and in addition be disclosed to the Exchange on which such entity or security is listed or is to be listed.</p>
Cancellation or suspension of a licence	<p>85. The cancellation or suspension of a licence granted to a Credit Rating Agency shall be governed by the provisions contained in Section 105 of the SEC Act.</p>
Commencement of operations	<p>86. If the Credit Rating Agency fails to commence its business operations no later than six (6) months after the issue of the licence, the licence will cease to be valid.</p>
Licence of a Credit Rating Agency deemed to be revoked	<p>87. A licence of a Credit Rating Agency shall be deemed to be revoked if the company to whom a licence has been assigned is wound up or otherwise dissolved.</p>
Ceasing of operations and surrender of a licence	<p>88. In the event a Credit Rating Agency decides to cease its business operations as a Credit Rating Agency, it shall:</p> <p>(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;</p> <p>(b) within fourteen (14) working days of the decision of the board of directors to cease business operations, communicate to its Clients in writing its decision to cease operations as a Credit Rating Agency and request the Client to engage the services of another registered Credit Rating Agency to discharge the rating obligations;</p> <p>(c) within twenty one (21) working days of the decision of the board of directors to cease business operations publish a notice in all three (3) languages in national newspapers announcing its decision to cease business operations as a Credit Rating Agency and indicating a time period within which its Clients are required to respond regarding the request the Client to engage the services of another licensed Credit Rating Agency to discharge the rating obligations setting out specific timelines and to call upon them to intimate if there are any complaints.</p>

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

Declaration by the Applicant

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

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

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

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

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

.....

(Name)

Director

.....

(Name)

Director/Secretary

or,

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

.....

(Name)

Authorized Signatory

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

SCHEDULE II

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

General interpretation

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

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

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

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

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

Submission of an affidavit to the Commission

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

Honesty, integrity and reputation

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

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

Financial soundness

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

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

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

Competence and capability

8. The Key Management Person and rating analysts shall:

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

SCHEDULE III

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

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

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

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

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



Affix stamps as applicable

Before me

JUSTICE OF THE PEACE/
COMMISSIONER FOR OATHS

SCHEDULE IV

Minimum Contents for a Compliance Manual

1. Conflicts of Interest:

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

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

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

2. Corporate Governance :

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

3. Risk Management :

- (a) sound risk management policies and processes.

SCHEDULE V

Minimum Matters to be Disclosed in a Compliance Report

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