

DRAFT RULES APPLICABLE TO EQUITY CROWD FUNDING

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,

ABth XXX, 2022.

RULES APPLICABLE TO EQUITY CROWD FUNDING	
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	These Rules may be cited as the Rules applicable to Equity Crowd Funding.
General interpretation	<p>1. The words and terms defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021(SEC Act) shall unless the context requires otherwise have the same meaning assigned to them in the said Act.</p> <p>“Commission” means the Securities and Exchange Commission of Sri Lanka established in terms of the SEC Act.</p> <p>“Equity Crowd Funding (ECF)” is the process of raising funds to finance a project or business from the public through an online platform hosted by a registered “Equity Crowd Funding Market Operator”</p> <p>“Equity Crowding Funding Market Operator” (ECFMO) means a body corporate registered with the SEC pursuant to Section 118 of the SEC Act solely for the purpose of running an equity crowdfunding platform. It shall be incorporated in Sri Lanka unless otherwise permitted by the Commission.</p> <p>“ECF platform” means an online platform operated by the registered ECFMO.</p> <p>“ECF issuer ” means an entity which is hosted on an Equity Crowd Funding platform to offer its shares on the platform.</p> <p>“ECF Investor” means a person or entity who commits capital to an Equity Crowd Funding issuer hosted on such platform.</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>“A Retail Investor” is an individual who subscribe for a value of not more than Rupees Hundred Thousand (will be in line with the definition included in the listing rules)</p> <p>“An Accredited investor” shall have the same meaning as section 188 of the SEC Act</p>

<p>Applicability</p>	<p>2. The Rules set out herein shall apply to ECFMO registered under the section 118 of the SEC Act.</p> <p>3. Every ECFMO 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 ECFMO as stipulated in Schedule II of these Rules.</p>
<p>Requirement for registration</p>	<p>4. No entity shall engage in the function of an ECFMO without having first obtained a registration from the Commission under section 118 of the SEC Act.</p> <p>5. An ECFMO shall be a body corporate incorporated in Sri Lanka</p> <p>6. The period of validity of a registration granted to ECFMO shall be twelve (12) months.</p>
<p>Recognition of Foreign ECFMO</p>	<p>7. A body corporate established in a country other than Sri Lanka which has been registered by a foreign regulatory authority to establish, manage and operate ECFMO may apply to the Commission for approval and the Commission may grant approval to such body corporate to operate such Equity Crowdfunding Platform in Sri Lanka.</p> <p>8. An application for such approval shall be made in the manner provided for under the Rules of the Commission made in respect of ECFMO.</p> <p>9. An ECFMO in respect of which approval is sought from the Commission shall ensure the same protection is offered to the investors in Sri Lanka.</p>
<p>Procedure to obtain registration</p>	<p>10. The grant of a registration shall be a two (2) stage process. An applicant shall 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 documents confirming the fulfilment of requirements stipulated under section 119 of the SEC Act. In addition to the requirements included under the section 119 of the SEC Act, following shall also be submitted 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>

- (ii) documents outlining the business model to carry on the functions of an ECFMO including financial feasibility;
 - (iii) documents outlining the structures, systems and controls in place which will enable the ECFMO to differentiate and segregate its commercial interests from its regulatory responsibilities;
 - (iv) documents outlining the governance structure of an ECFMO;
 - (v) a declaration by the applicant as per Schedule I of these Rules;
 - (vi) an operating plan including fees, charges and other expenses that it may charge, impose on issuers or investors;
 - (vii) documents which demonstrate competence and capacity to analyse business and financial plans of issuers;
 - (viii) documents which specify the technical system and procedures to be adopted;
 - (ix) details of contingency plans of the ECFMO ;
 - (x) documents outlining the governance structure of the ECFMO;
 - (xi) a copy of the draft Rules of the applicant in conformity with the requirements set out in Section 122 of the SEC Act.
 - (xii) a copy of the internal compliance manual as set out in Schedule IV of these Rules;
 - (xiii) documentation in support of measures taken to acquire information systems as stated in Rule 17 of these Rules;
 - (xiv) documentation in support of steps taken to recruit adequate human resources as stated in Rule 31 of these Rules to effectively discharge the obligations in keeping with the identified organizational structure of the applicant;
 - (xv) correspondence in support of measures taken to set up an online ECF platform
 - (xvi) a draft financial education plan;
 - (xvii) any other requirements and/or information that the Commission may require considering particular circumstances; and
 - (xviii) the processing fee specified by way of regulations made by the Minister from time to time;
- b) No later than six (6) months from the date of obtaining in-principle approval, the applicant shall fulfil the following requirements and submit the following documents as proof thereof in order to obtain the registration:

	<ul style="list-style-type: none"> (i) confirmation from chief executive officer and a director of the ECFMO that the applicant has implemented an online ECF platform as set out in these rules ; (ii) confirmation from the auditor that the applicant has met the minimum financial requirements as spelt out in Rule 29 of these rules; (iii) documents to establish the sources of funding of capital of the Entity; (iv) declarations by Key Management Persons relating to their fitness and propriety 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) a confirmation from the chief executive officer and a director of the ECFMO of the implementation of information systems as stated in Rule 15 of these Rules (vi) a confirmation from the chief executive officer and a director of the ECFMO of the recruitment of adequate human resources, particularly the officers stated in Rule 31 of these rules along with their names and designations; (vii) any other information that may be requested by the Commission; (viii) the annual registration fee specified by way of regulations by the Minister from time to time. (ix) It shall be the duty of the ECFMO to obtain the prior approval of the Commission of any change in particulars specified in an application to be registered as an ECFMO.
Registration fee	11. An ECFMO shall pay such registration fee as prescribed by way of regulations made by the Minister from time to time
Minimum financial requirements and submission of reports	<p>12. An ECFMO 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 Assets as determined by the Commission from time to time; (c) inform the Commission immediately if minimum Shareholders' Funds and/or Liquid Assets fall below the requirement as stipulated in Rule 12 (a) and (b) above. <p>13. An ECFMO 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 the chief executive officer and a director within forty five (45) days from the end of each quarter; (b) a copy of the annual report within a period of five (5) months from the close of each financial year; and (c) a copy of the compliance report as stated in Rule 44 hereof.

	<p>14. An ECFMO shall, within three (3) months from the date of the auditor’s report, take steps to rectify the deficiencies if any, made out in the auditor’s report.</p>
Change in shareholding	<p>15. A change in the shareholding of five per centum (5%) or more of the total shareholding of an ECFMO shall be made only with prior written consent of the Commission.</p>
Duties of an ECFMO	<p>16. An ECFMO shall at all times ensure that it complies with duties and functions stipulated under section 120 of the SEC Act.</p> <p>17. An ECFMO shall ensure that following functions are undertaken in addition to duties and functions stipulated under section 120 of the SEC Act:</p> <ul style="list-style-type: none"> a) carry out a due diligence exercise on prospective issuers planning to use the ECF platform; b) monitor and ensure compliance with its rules and disclosure requirements; c) maintain internally developed procedures clearly setting out evaluation criteria used in conducting due diligence on issuers; d) ensure that the issuer maintains an accurate list of investors e) issue risk warning statements, including all risk factors that investors may require in making a decision to participate on the platform.
Infrastructure and related requirements	<p>18. An ECFMO shall have all the capabilities to operate and conduct the functions of an ECFMO and shall ensure the availability of the following infrastructure and related features in its systems at a minimum:</p> <ul style="list-style-type: none"> (a) automated trading system; (b) market surveillance system; (c) operational procedures pertaining to Management Information Systems (MIS); (d) information dissemination and delivery channels (eg: website, mobile applications); (e) infrastructure requirements for internal business operations: <ul style="list-style-type: none"> (i) internal network; (ii) accounting system; (iii) documents archiving and retention system; (iv) an electronic communication mechanism; (v) data center (hosted on-site and off-site) and a separate disaster recovery facility at a suitable location to be maintained on a real time basis. <p>19. An ECFMO shall ensure that its business applications minimize manual intervention in information inputs and outputs at all times and prevent unauthorized changes to its databases.</p> <p>20. Information systems of an ECFMO shall be subjected to control reviews at least once in every two (2) years and the control gaps identified shall be rectified following a time plan. The scope of testing shall cover business logic, system function, security controls and system performance at a minimum.</p> <p>21. An ECFMO shall have a documented Disaster Recovery (DR) Plan.</p> <p>22. A DR test shall be conducted annually in line with the DR plan of the ECFMO.</p>

23. An ECFMO shall ensure that its hosted servers are subjected to vulnerability assessments and penetration tests annually. The issues arising from such tests shall be rectified according to a time bound plan.
24. The reports pertaining to reviews and tests specified in Rules 17, 19 and 20 shall be retained for reference for a minimum period of six (6) years.
25. An ECFMO shall maintain a duly updated Systems and Procedures Manual covering the following areas at a minimum, to ensure compliance with these Rules:
- (a) the organizational structure of the ECFMO identifying key functions and persons, and their reporting structure;
 - (b) operational procedures pertaining to an ECFMO covering the following areas at a minimum:
 - (i) operational procedures pertaining to MIS;
 - (ii) procedures on staff trades by employees of an ECFMO; and
 - (iii) a procedure to handle client complaints.
 - (c) policies, standards and procedures:
 - (i) sound and prudent policies, standards and procedures for managing technology risks; and
 - (ii) review and update policies, standards and procedures regularly, taking into consideration the evolving technology and cyber threat landscape.
 - (d) management of third party services:
 - (i) an ECFMO shall assess and manage its exposure to technology risk that may affect confidentiality, integrity and availability of information technology systems and data before entering into a contractual agreement or partnership with third parties; and
 - (ii) a comprehensive information technology security awareness training program shall be established to maintain a high level of awareness among all staff of an ECFMO.
 - (e) data and infrastructure security:
 - develop comprehensive data loss prevention policies and adopt measures to detect and prevent unauthorized access, modification, copying or transmission of its confidential data.
 - (f) user access management:
 - establish a user access management process covering provisions relating to change and the revocation of access rights.
 - (g) network security:
 - deploy effective security mechanisms to protect information assets(eg: firewall), network access controls.
 - (h) cyber security:
 - establish a security operations center or acquire managed security services (the processes, roles and responsibilities for security operations should be defined).
 - (i) system backup and recovery:

	<p>establish a system and data backup and recovery strategy and develop a plan to perform regular backups.</p> <p>(j) investor education and communication:</p> <p>measures to raise awareness among investors on the security best practices and terms and conditions that investors should adhere to when using online services.</p> <p>(k) incident management:</p> <p>establish an incident management framework with the objective of restoring an affected information technology service or system to a secure and stable state as quickly as possible to minimize the impact to the business and the investors.</p> <p>26. An ECFMO shall have sufficient and appropriate processes to ensure the functions of legal and enforcement, compliance, market surveillance, supervision of Trading Participants, information technology, finance and administration, internal audit and risk management are carried out.</p> <p>27. An ECFMO shall operate and maintain a convenient channel to facilitate communication with issuers and investors.</p>
Rules of an ECFMO	<p>28. An ECFMO shall in addition to the requirements stipulated in section 122 of the SEC Act, make provisions for the following in its Rules.:</p> <ul style="list-style-type: none"> (a) the conditions on which an applicant for raising funds via ECFMO security may be revoked (b) the timely and accurate disclosure of all material information required for investors to make informed investment decisions (c) the protection of investors in securities from misrepresentation, misleading information, fraud, deceit and other adverse practices in the issue and trading of securities and from the abuse by certain persons holding privileged information not yet made available to the general public; (d) protection of issuers (e) to obtain and retain self-declared risk acknowledgement forms from its users prior to them using the facility (f) ensuring that investors' funds and securities are segregated from the businesses of the ECFMO (g) procedure on issuing risk warning statements, including all risk factors that investors may require in making a decision on participating on the ECFMO platform. (h) proper functioning of the platform (i) promoting fairness and transparency (j) management of conflict of interest (k) supervision and surveillance functions <p>29. Any changes or additions to the Rules shall be subject to prior approval of the Commission</p>
Appointment of directors of the ECFMO	<p>30. The appointment of directors of an ECFMO shall be with the prior written approval of the Commission.</p>

<p>Governance of an ECFMO</p>	<p>31. An ECFMO shall have a board charter that inter alia includes a code of conduct for the board of directors and demarcate the responsibilities between its board of directors and the management.</p> <p>32. An ECFMO shall have, at a minimum the following sub-committees of the board of directors:</p> <ul style="list-style-type: none"> (a) a risk and audit committee; (b) a remuneration committee; (c) a nomination committee; and (d) a rules committee.
<p>Responsibilities of the Board of Directors of an ECFMO</p>	<p>33. The Board of Directors of an ECFMO shall:</p> <ul style="list-style-type: none"> (a) ensure compliance with applicable rules, (b) ensure implementation of adequate internal controls and review effectiveness of such controls periodically, (c) ensure implementation of adequate risk management policies and procedures and carry out regular assessment of risks. <p>34. Should the Board of Directors identify a breach of the Rules in the operation or management of the ECFMO, they shall immediately take steps to address the matter and notify the Commission such breaches together with remedial action taken</p>
<p>Human resources of an ECFMO</p>	<p>35. An ECFMO shall have an organizational structure with clearly defined responsibilities and authority for each category of employees.</p> <p>36. An ECFMO shall have suitably qualified persons for the following positions:</p> <ul style="list-style-type: none"> (a) Chief Executive Officer (CEO); (b) Chief Regulatory Officer (CRO); (c) Head of Compliance; (d) Head of Legal; (e) Head of Finance; and (f) Head of Information Technology.
<p>Commission approval to engage in other business</p>	<p>37. An ECFMO shall disclose to the Commission all other business activities it is engaged in at the time of applying for its registration.</p> <p>38. An ECFMO shall not engage in any other business which in the view of the Commission creates a conflict of interest and shall obtain written approval of the commission prior to engaging in any other business activity after obtaining its registration..</p> <p>39. In the conduct of any such other business activity, an ECFMO shall ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses.</p>
<p>Maintenance of records</p>	<p>40. An ECFMO shall maintain the following records but not limited to :</p> <ul style="list-style-type: none"> (a) details of issuers; (b) details of investors; (c) records of all communications that occur through the platform (d) records relating to complaints (e) notices provided by the ECFMO to issuers and investors including operational matters, changes in procedures, hardware and software maintenance denials of access; (f) daily, monthly and quarterly summaries of transactions (g) a comprehensive written record of all complaints received/disputes and action taken thereon by the ECFMO; and (h) (d) any other record the Commission requires the ECFMO to maintain from time to time.

	<p>41. All of the above records shall be retained by the ECFMO for a period of six (6) years.</p> <p>42. An ECFMO shall ensure confidentiality of all information relating to the Trading Participants unless such disclosure is required by law</p>
<p>Keeping of books and furnishing of returns</p>	<p>43. An ECFMO shall:</p> <ul style="list-style-type: none"> a) maintain or cause to be maintained, such accounting records and other books as will truly reflect the transactions and financial position of its business and enable the preparation of a true and fair income statement and a statement of financial position in keeping with the Sri Lanka Accounting Standards adopted by the Institute of Chartered Accountants of Sri Lanka; b) maintain or cause to be maintained such accounting records and other books in such manner as will enable them to be accurately audited; c) retain such accounting records or other books for a period of not less than six (6) years; d) shall furnish such returns and provide such information relating to its business as the Commission may require from time to time; <p>44. The Commission may determine that any information required shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the ECFMO shall comply with such requirements.</p>
<p>Duty to furnish information and co-operate with auditors appointed by the Commission</p>	<p>45. Where the Commission having considered that it is in the interest of the ECFMO, 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 ECFMO:</p> <ul style="list-style-type: none"> a) to produce any books, accounts and records of any assets held by the ECFMO relating to its business; b) to produce any records of any systems, processes or procedures adopted by the ECFMO relating to its business; c) to provide all information within its knowledge or which it is capable of obtaining; and 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 material particulars. <p>46. An ECFMO shall not destroy, conceal or alter any records, property or books relating to the business of the ECFMO 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>47. An ECFMO shall furnish such returns and provide such information relating to its business as the Commission may require from time to time.</p> <p>48. The Commission may determine that any information required shall be submitted within such period at such intervals in such manner or in such form as the Commission may specify and the ECFMO shall comply with such requirements.</p>

Compliance Manual	<p>49. An ECFMO 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	<p>50. An ECFMO shall appoint a suitably qualified Key Management Person as a compliance officer.</p> <p>51. The compliance officer on behalf of the ECFMO shall make a quarterly compliance report which shall include amongst others the contents specified in Schedule V of these Rules approved by the board of directors and signed by the chief executive officer and a director 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 Transaction 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 together with the steps that have been taken by the board of directors to rectify such non-compliance.</p> <p>52. Compliance Officer shall not perform any other duties that may compromise or be in conflict with the responsibilities of the compliance officer.</p> <p>53. An ECFMO shall have a fair and transparent complaint handling procedure to ensure the best interest of the public and shall maintain procedures to ensure that complaints received are handled in a timely and effective manner.</p> <p>54. An ECFMO 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 from time to time.</p>
Notification on the happenig of certain ecents	<p>55. Without prejudice to the generality of the duties imposed under the SEC Act, in the event any one or more of the following events occur, an ECFMO shall forthwith provide written notice to the Commission:</p> <ul style="list-style-type: none"> (a) the ECFMO 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 ECFMO; (b) the ECFMO is unable to carry its functions of an market operator; (c) the ECFMO 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 Operator and the Rules specified herein or any other directive issued by the Commission from time to time; (d) any information or document furnished to the Commission is false or misleading or there is any change in any information contained in a document furnished to the Commission; (e) any execution against the ECFMO in respect of a judgment debt has been returned unsatisfied in whole or in part; (f) the ECFMO 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;

	<p>(g) a Key Management Person has been convicted of any offence involving fraud or dishonesty or a violation of securities law within or outside of Sri Lanka; and/or</p> <p>(h) a Key Management Person of the ECFMO becomes an undischarged bankrupt</p>
Cancellation of registration	56. The Commission may cancel registration of an ECFMO under Section 123 of the Act.
Commencement of operations	57. If the ECFMO fails to commence its business operations within six (6) months from the issue of registration, the registration shall cease to be valid.
Review of the Performance of the market operator	58. The Commission may review the performance of the market operators as per the section 124 of the SEC Act
Monitoring and reporting	<p>59. An ECFMO shall monitor issuers to ensure that fundraising limits are not breached and that action is taken against any misconduct.</p> <p>60. An ECFMO shall monitor investors to ensure that investment limits are not breached.</p> <p>61. Unless otherwise directed by the Commission, an ECFMO shall submit to the Commission the following reports on a quarterly basis:</p> <ul style="list-style-type: none"> (a) total number of issuers (b) total number of investors (c) total amount raised (d) any risks identified and action taken (e) any breaches detected and remedial action taken (f) all complaints and steps taken to resolve them (g) any other information that the Commission may require from time to time
Advertisements	<p>62. An ECFMO shall ensure that the content in advertisements promoting its services is accurate, complete and is not misleading</p> <p>63. An ECFMO 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>
Dispute resolution mechanisms and avoiding conflicts of interest	<p>64. A dispute resolution mechanism shall be set out in writing, and made known to both issuers and investors by the ECFMO</p> <p>65. In the event any dispute has been resolved in a court of law or by an arbitration tribunal as the case may be, a copy of the final order/judgment of court/arbitrator's award shall be submitted to the Commission by the ECFMO immediately upon receiving such judgement/order/award</p>
Safeguarding and management of investor and issuer funds	<p>An ECFMO shall:</p> <ul style="list-style-type: none"> maintain accurate and up-to-date records of investors' monies held and ensure that investors' funds are not misappropriated; 66. maintain separate bank accounts for funds raised for different issuers; 67. at any given point of time be able to identify the amount of money belonging to each investor separately

	<p>68. ensure that it has sufficient financial, human and other resources to manage funds;</p> <p>69. establish and maintain in a licensed institution, one or more trust accounts designated for the funds raised by an issuer hosted on its platform</p>
Financial education program	70. An ECFMO shall have in place and carry out a financial education program to support both issuers and investors.
Registration of an ECFMO deemed to be revoked	71. A registration of an ECFMO shall be deemed to be revoked if the company to whom a registration has been granted is wound up or otherwise dissolved
Management of ECFMO platform cessation	<p>72. An ECFMO shall have in place a business cessation plan to manage a voluntary or involuntary cessation.</p> <p>73. An ECFMO shall protect all transactions that have taken place if a registration is subsequently cancelled or revoked in accordance with section 123</p> <p>74. The cessation of operation plans shall include any communication plans to investors including:</p> <ol style="list-style-type: none"> a. public notices 30 days prior to the cessation of operations, b. contact details following the ECFMO's closure and details of any other party appointed to continue liaising with the investor; and c. the plan for handling investors' funds including the transfer of funds/operations to another ECFMO.
Categories of investors and investment limits	<p>75. The maximum investment for a Retail Individual Investor shall be LKR 100,000 per issue.</p> <p>76. The Commission may impose additional investment limits to investors where deemed necessary.</p> <p>77. An ECFMO shall ensure that it maintains accurate records about the type of investor accessing its platform.</p> <p>78. An ECFMO shall ensure that the investment limits imposed on investors are not breached.</p>
Cooling off/right of cancellation	79. Investors shall be permitted a cooling off period of two (2 days) from the date of close of the offer within which they may withdraw their investment, provided that such withdrawal is approved by the ECFMO
Eligibility of Issuers	<p>80. Only unlisted companies incorporated in Sri Lanka shall be hosted on an ECFMO platform.</p> <p>81. The following companies are not eligible to raise funds through an ECFMO platform:</p> <ol style="list-style-type: none"> a) Companies incorporated outside Sri Lanka; b) companies that are listed on an Exchange licensed by the Commission c) investment companies; d) companies that have not specified a business plan or have indicated their main business plan is to engage in a merger or acquisition with an unidentified company or companies and e) any other company that may be specified by the Commission.
Information disclosure requirements	<p>82. An ECFMO shall:</p> <p>Disclose and display prominently on its platform all information relevant to the use of the platform including that related to:</p> <ol style="list-style-type: none"> f) issuers hosted on the platform g) educational materials h) risk warning statements i) communications and dispute resolution procedures

	<ul style="list-style-type: none"> j) information on rights of investors relating to investing or trading in ECF k) fees, charges and other expenses that it may charge on its users l) information on processes and contingency arrangements in the event ECFMO is unable to carry out its operations or cessation of business m) publish information on the rights of investors relating to participation in equity crowdfunding n) publish information on processes and contingency arrangements in the event it is unable to carry out its operations or ceases business. o) any other information as may be specified by the Commission. p) ensure the issuer’s disclosure document is verified for accuracy and made accessible to investors through the Equity Crowdfunding platform q) review and approve the prospectus or similar offer document prepared by an issuer making an offer to the public via the equity crowdfunding platform r) ensure that issuer making an issue to the public by way of a prospectus or a similar offer document shall provide following information but not limited to: <ul style="list-style-type: none"> i. that explains the key characteristics of the issue; ii. that explains the purpose for raising the funds and the amount that the issuer seeks to raise; iii. that sets out to the issuer’s business plan; and iv. the general and specific risks associated with the issue and the issuer v. audited financial statements; or vi. where audited financial statements are unavailable, certified financial statements or information by the issuer’s management. s) Issuers shall inform the investors through the ECFMO communication channels of any material adverse change
<p>Limitations on the value of shares issued under ECFMO</p>	<p>83. An issuer shall raise:</p> <ul style="list-style-type: none"> a) A maximum of LKR 24,999,999 within a 12 month period, irrespective of the number of projects an issuer may seek funding for during the twelve (12) month period; and b) A minimum of LKR 2,000,000 excluding the issuer’s own capital contribution or any funding obtained through private sources. <p>84. An ECFMO shall ensure that the fundraising limits imposed on the issuer by the commission are not breached.</p> <p>85. An issuer shall not raise funds simultaneously on multiple ECF platforms in relation to the same issue.</p>
<p>Other requirements</p>	<p>86. ECF share issuance shall be on an “all or nothing” basis, such that if that if the target amount is not raised among investors within the twelve months period, the issuance shall not qualify to proceed for the allotment. Any such money of such issuance shall be refunded by the ECFMO to respective investors in order of their subscription within a period of not exceeding five market days.</p>
<p>Release of funds to issuer by the ECFMO</p>	<p>87. The trust money shall be released by the ECFMO to the issuer upon fulfilling following requirements:</p> <ul style="list-style-type: none"> (a) once a pre-set targeted amount to be raised has been reached;

	<p>(b) when there is no material adverse change made to the offer during the relevant offer period</p> <p>(c) when the cooling-off period has expired;</p> <p>(d) where the shares have been issued and allocated to the investors.</p> <p>88. Subject to the approval of the Commission, the ECFMO may impose additional conditions before releasing the funds to the issuer provided that they serve the interests of investors.</p> <p>89. The Commission may impose additional conditions to the ECFMO before releasing the funds to the issuer and the ECFMO shall comply with the conditions imposed by the Commission from time to time.</p>
Re-selling of shares	<p>90. Shares purchased on an ECFMO shall not be resold until a period of one year has elapsed.</p> <p>91. The re-selling of shares on an ECF platform shall be restricted to the initial pool of investors in an ECF scheme-</p>

SCHEDULE I

Declaration by the Applicant

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

In consideration of being registered to operate as an Equity Crowd Funding Market Operator 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 registered 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 registration 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 ECF Market Operator

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 under 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.

“ECF Market Operator” 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.

“Clients” in this context covers issuers and investors on the platform.

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 ECF Market Operator unless that individual is a fit and proper person to hold such office in such entity as more fully 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 more fully described in these rules prior to such individual being appointed and at the time the market Intermediary seeks a licence or a renewal of licence.
4. The information contained in the affidavit shall not be misleading or vague and shall contain a statement that the contents are true and accurate.
5. Adherence to these rules shall be a continuous requirement and the compliance officer of a ECF Market Operator shall immediately inform the board of directors of any matter that may disqualify the appointment or the continuation in office of a Key Management Person and the board of directors shall immediately notify the Commission the decision made in respect of such matter.

Honesty, integrity and reputation

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

abroad for the Commission of any criminal offence or capital market offence having proved to have been committed with the knowledge or involvement or negligence attributable to such person;

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

Financial soundness

7. The Key Management Person and employees dealing with Clients shall not:

- (a) have proceedings instituted to be declared bankrupt or have been declared bankrupt and/or had assets sequestered;
- (b) have been subject to any judgement debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; and/or
- (c) have been a person of a company in a position that exercises significant influence in a company that:
 - (i) has been subject to any judgment debt or award in Sri Lanka or abroad that remains unpaid in whole or in part; or
 - (ii) has in Sri Lanka or abroad, made any arrangements in composition with its creditors, filed for bankruptcy, been declared bankrupt, had assets sequestered, involved in winding-up proceedings ordered by a court of law or been involved in proceedings relating to any of the foregoing.

Competence and capability

8. The Key Management Person and employees dealing with Clients shall:

- (a) not have been declared by a court of competent jurisdiction in Sri Lanka or abroad to be of unsound mind;
- (b) possess the qualifications required to provide the services for which registration 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 Operator ECF

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 registration has been revoked or licence has been suspended or cancelled by the Commission for violating any provision of the SEC Act, any rules or regulations made thereunder.
8. I affirm/state that I have not been a person who has been censured, disciplined, suspended or refused membership or registration by the Commission, an Exchange or any other regulatory authority in Sri Lanka or abroad during a period of three (3) years immediately preceding the date of this affidavit.
9. I affirm/state that I have not been a person who has been disqualified by the Commission, an Exchange or any other regulatory body or professional body from serving as a director of a company or has been dismissed or requested to resign from any position or office due to mismanagement of funds or the Commission of a financial fraud.
10. I affirm/state that I am not a person against whom an inquiry and/or investigation by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in

Sri Lanka or abroad is presently pending, for the Commission of suspected capital market offences or any act which involves fraud, deceit or dishonesty or that a finding has been made by the Commission/an Exchange or any other regulatory/ supervisory authority/ professional body in Sri Lanka or abroad that I have committed any act which involves fraud, deceit or dishonesty.

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

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

Affix stamps as applicable

Before me
Justice of the Peace/
Commissioner for Oaths

SCHEDULE IV
Minimum Contents of a Compliance Manual

1. Conflicts of Interest:

- (a) an effective internal control framework to prevent abuse or detect inappropriate practices or conflicts of interest between proprietary transactions, employees' transactions and Clients' transactions;

Provided that, in the event such conflict cannot be avoided there shall be full disclosure thereof to its issuers and investors.

- (b) procedures to prevent or control the exchange of information between persons engaged in activities that give rise to a risk of a conflict of interest;
- (c) procedures for the prevention or limitation of any person from exercising inappropriate influence over the manner in which a relevant person carries out services or activities;
- (d) a mechanism to monitor and identify non-compliance with the conflicts of interest policy and steps to address such non-compliance in an appropriate and in a timely manner;
- (e) ensure that it does not carry out any activities, which could cause a conflict of interest with its ECFMO functions.

2. Corporate Governance:

- (a) good business practices and follow just and fair principles in the conduct of its business;
- (b) compliance requirements contained in any code or best practices introduced by the Commission in respect of Market Operators;
- (c) an effective complaint handling process.

3. Risk Management:

- (a) sound risk management policies and processes;
- (b) explanations on the risks applicable to Equity Crowd Funding.

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 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.