

STAKEHOLDER CONSULTATION ON
DRAFT CODE OF CONDUCT

CORPORATE FINANCE ADVISOR

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Table of Contents

DEFINITIONS	3
1. PURPOSE.....	4
2. STANDARDS OF ETHICAL BEHAVIOUR.....	4
3. CONDUCT OF BUSINESS	6
4. COMPETENCE	8
5. CONFLICTS OF INTEREST	9
6. DUTIES TO THE CLIENT	100
7. COMPLAINTS HANDLING	122
8. PERSONAL ACCOUNT DEALINGS	122

DEFINITIONS

Code of Conduct	Standards of Conduct in relation to the provisions of services by Corporate Finance Advisors who are licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.
Corporate Finance Advisors	Shall have the same meaning as defined in the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021.
Regulators/ Commission	Securities and Exchange Commission of Sri Lanka
Act	Securities and Exchange Commission of Sri Lanka Act No.19 of 2021

1. PURPOSE

The Code of Conduct set out the standards of conduct expected from Corporate Finance Advisors (CFA) in performing their role as a licensed Market Intermediary. The purpose of this document is to provide general guidance and not intended to replace or override any legislative provisions or written directions issued under the Act in respect of conduct requirements specifically applicable to Corporate Finance Advisors.

The Securities and Exchange Commission of Sri Lanka recommends all Corporate Finance Advisors to ensure adoption of this Code of Conduct, so as to help foster professional standards and enhance confidence in the financial services industry.

The Code of Conduct should be read in conjunction with the provisions of the Act, subsidiary legislation made under the Act, applicable Rules, directives issued from time to time by the Commission and Rules issued by the Commission on fitness and propriety of a Key Management Person of a Market Intermediary.

The Securities and Exchange Commission of Sri Lanka will be guided by this Code of Conduct in considering whether a Corporate Finance Advisor satisfies the business conduct requirements that are set out in the Act or any of its subordinate legislation, or is a fit and proper person to be engaged in financial advisory services.

2. STANDARDS OF ETHICAL BEHAVIOUR

2.1 Values

Corporate Finance Advisor shall conduct its business with honesty, fairness, integrity and professionalism in order to maintain good faith and to preserve public trust in the financial services industry.

Corporate Finance Advisor shall not engage in any conduct involving fraud or dishonesty, or commit any act that reflects adversely on its honesty or trustworthiness or compromise its integrity.

Corporate Finance Advisor avoid situations that might impair its ability to make objective recommendations.

Corporate Finance Advisor shall have a process in place to duly supervise their subordinates to ensure that their subordinates are in strict compliance with this Code of Conduct.

2.2 Objectivity

Corporate Finance Advisor shall exercise reasonable care and judgment to achieve and maintain objectivity in conducting its business.

Corporate Finance Advisor shall avoid situations that might impair its ability to make objective recommendations.

2.3 Fairness

Corporate Finance Advisor shall not accept any task or provide any service whereby the fee would depend on the outcome of the operation. The opinion provided in the report must not be hostile to their independence, honesty and fair performance.

Corporate Finance Advisor shall not provide any recommendation based on any material information obtained from clients or such other sources of information, unless confirmation is obtained from reliable independent sources.

Corporate Finance Advisor shall not provide any recommendation based on any conclusion which is made without any sufficient supporting reasons or any biased conclusion which might have reflected on the Corporate Finance Advisors recommendation.

2.4 Confidentiality

Corporate Finance Advisor shall implement and maintain proper procedures to preserve confidentiality of information received from a client or which relates to a client.

Corporate Finance Advisor shall not disclose any information given by a client to any person unless:

- a) the information obtained from the client is given to the Regulator or any other government agencies in accordance with prevailing law; or
- b) the client has given his consent to the Corporate Finance Advisor to disclose the information.

2.5 Due Care, Skill and Diligence

A Corporate Finance Advisor shall act with due care, skill and diligence when advising on Corporate Finance including:

- a) exercising reasonable judgement in determining the nature and the extent of due diligence work to be performed for a transaction;
- b) making an assessment of the accuracy and the completeness of statements, confirmations and representations made, and other information given by its client or by other persons in connection with a transaction;
- c) monitoring during the course of the transaction, other information obtained and developments in relation to the customer or the transaction, that contradicts or brings into question the reliability of such information; *and*
- d) conducting appropriate verification of such information

2.6 Responsibility to Public

Corporate Finance Advisor shall perform the task that has been entrusted with the responsibility towards not only the clients or counterparties, but towards any interested parties, including public, capital markets and such other retail investors.

Corporate Finance Advisor shall not behave in any manner that is defamatory, disrespectful, and/or against the confidence and trustworthiness of the clients or the public who have placed confidence towards the profession of Corporate Finance Advisors.

3. CONDUCT OF BUSINESS

3.1 Licensing

A Corporate Finance Advisor shall ensure that its business is properly established and conducted, and that the Key Management Persons are fit and proper and the business is licensed in accordance with the applicable Rules and Regulations of the Commission.

3.2 A Corporate Finance Advisor shall;

- a) organize and control its internal affairs in a prudent and responsible manner;
- b) maintain satisfactory financial and operational controls;
- c) maintain satisfactory risk management procedures commensurate with its business; and
- d) ensure that it has adequate competence, professional expertise and, human and technical resources for the proper performance of its duties as a Corporate Finance Advisor

3.3 A Corporate Finance Advisor in conducting its business operation shall include but not limited to, the following;

- a) Concise and careful system management and internal controls;
- b) Proper financial control system and operation;
- c) Risk management system compatible to their business; *and*
- d) Proper and sufficient allocation of human resources, taking into account the quality and standard of work

3.4 Books and Records

Corporate Finance Advisor shall maintain proper books and records, and be able to provide a proper trial of work done upon request by the SEC.

Corporate Finance Advisor shall keep records of all information it has obtained from its client, the recommendation made to the client and the basis of its recommendation.

Management of the Corporate Finance Advisor shall regularly review these records to evaluate the suitability of the recommendations made to the Clients.

3.5 Staff Supervision

Corporate Finance Advisor shall ensure that:

- a) all of its staff members who engage in advising on corporate finance are suitable and properly qualified; *and*
- b) there are clear reporting lines with supervisory and reporting responsibilities assigned

3.6 Corporate Finance Advisor shall:

- a) ensure that it has put in place an adequate framework for senior management to have oversight over matters including, but not limited to:
 - i. acceptance of an engagement to act as a Corporate Finance Advisor;
 - ii. appointment of a team, and any subsequent changes to such appointment; and
 - iii. the proposed due diligence plan for each specific transaction, and any material deviations from such due diligence plan; and
- b) ensure adequate supervision, management and review of the performance of the representatives who advise on corporate finance, including in relation to their performance of due diligence work for each specific transaction

3.7 Compliance

Corporate Finance Advisor shall:

- a) maintain an effective compliance function to monitor compliance with its own internal policies and procedures, in accordance with all applicable Rules and Regulations including this Code;
- b) ensure that its compliance function possesses the technical competence, adequate resources and experience necessary for the performance of its functions;
- c) have a compliance Manual covering the Corporate Advisory Services in compliance with the relevant Rules and Regulations; *and*
- d) ensure that its compliance function is independent of other business functions and report directly to the Board of Directors/Board Sub-Committee dealing with risk of the Corporate Finance Advisor

3.8 Cessation of Business

Prior to the cessation of its business of providing corporate financial advisory services, a Corporate Finance Adviser shall ensure that its liabilities and obligations to all clients have been fully discharged or provided for, and that proper arrangements have been put in place to ensure that its clients continue to be serviced by another Corporate Finance Advisor and ensure compliance with all applicable Rules and Regulations.

3.9 Training

A Corporate Finance Advisor shall provide relevant training to the financial advisors who deal with Clients to enhance their competence, knowledge and skills.

Upon obtaining the licence to function as a Corporate Finance Advisor, the financial advisors who deal with Clients may follow Continuous Professional Development (CPD) Programmes conducted by any recognized professional institution acceptable to the SEC.

3.10 Compliance with Laws

A Corporate Finance Advisor shall maintain adequate knowledge in respect of all applicable Rules and Regulations relevant to its business activity including the Code of Conduct and ensure due compliance accordingly.

A Corporate Finance Advisor shall take all reasonable steps, including the establishment of internal procedures, to ensure that any person it employs or appoints to conduct business or to deal with clients is conversant and compliant with all applicable Rules and Regulations relevant to its business activity.

4. COMPETENCE

4.1 Corporate Finance Advisor shall act with competence and strive to maintain the necessary knowledge and expertise in its business activities.

4.2 Corporate Finance Advisor shall provide advice only in those areas in which it has the necessary competence and skills. Where the financial adviser is not professionally competent in a specific area, it shall consult other qualified professionals or advise clients to seek the advice of other qualified professionals.

4.3 Corporate Finance Advisor shall ensure that any person it employs or appoints to conduct business for or with clients is suitably qualified and competent, and that the person possesses the relevant professional training or experience to act in the capacity of such employment.

4.4 Corporate Finance Advisor shall ensure that:

- a) personnel dealing with clients possess appropriate qualifications in providing such services;
- b) staff shall possess professional standards and professional training would be regularly and continuously provided to those staff so as to enable them to be knowledgeable and capable of performing their duties with proper ethics, responsibilities and due care; *and*
- c) ensure the line of accountability in relation to the Corporate Finance Advisory services is clearly allocated and is led by a suitable supervisor who possesses necessary qualifications.

4.5 Relying on Experts

Corporate Finance Advisor shall have reasonable grounds to be satisfied with the knowledge, skills and experience, as well as the qualifications and independence of any expert appointed by the Corporate Finance Advisor for the purposes of providing an expert's opinion in connection with the assignments undertaken by the Corporate Finance Advisor.

Corporate Finance Advisor shall satisfy itself that its reliance on the conclusions or opinions of any report prepared by an expert referred to paragraph above is reasonable.

Corporate Finance Advisor shall review and discuss with its clients and experts or other professionals the qualifications, bases and assumptions adopted by the experts or the other professionals in the

course of their work and satisfy itself that the qualifications, bases and assumptions have been made with due care and objectivity, and on a reasonable basis.

Corporate Finance Advisor remains responsible for the work done by any expert appointed by the Corporate Finance Advisor and shall set out clearly the scope and extent of the work to be performed.

5. CONFLICTS OF INTEREST

5.1 Corporate Finance Advisor shall act in the best interests of its clients when providing financial advisory services to its clients. It shall disclose in writing to the client any actual or potential conflicts of interest arising from any connection, including any material information or facts that might compromise its objectivity or independence in the carrying on of financial advisory services.

5.2 Corporate Finance Advisor shall;

- (a) take all reasonable steps to avoid situations that are likely to involve a conflict of interest;
- (b) not unfairly place its interest above those of its clients;
- (c) withdraw from, or decline to accept, a mandate where a material conflict of interest arises with its client;
- (d) ensure full disclosure thereof to its Clients and to obtain consent of the Client in writing prior to carrying out any transaction in the event a conflict cannot be avoided; *and*
- (e) ensure procedures that key duties and functions of the front office and back office are clearly segregated to avoid any conflicts of interest;

5.3 Chinese walls

Where a Corporate Finance Advisor is part of a group of companies undertaking other activities, the Corporate Finance Advisor shall ensure that there is an effective system of functional barriers (Chinese walls) to prevent the flow of information that may be confidential or price sensitive between the corporate finance activities and the other business activities

5.4 Conflicts of Interest Management

Corporate Finance Advisor shall advise their clients upon the occurrence of any conflicts of interest or any possible conflicts of interest and in the event that the conflicts of interest cannot be eliminated, Corporate Finance Advisor may consider withdrawing themselves for the provisions of services to the satisfaction of their clients. However, Corporate Finance Advisor may continue providing services to their clients if an agreement between their clients and themselves could be reached and such agreement and provisions are not contrary to the general practices, the provisions of the SEC Act and the applicable Rules and Regulations of the Commission.

5.5 Corporate Finance Advisor shall:

- a) not offer or accept any offer, the nature of which is to acquire the benefit for its business without disclosing any relevant information concerning the conflicts of interest against their clients;
- b) set out policies for their personnel to disclose information regarding the benefit to be obtained from their performance outside the company; *and*

- c) set out policies in relation to the acceptance of gifts or such other benefits from the clients

5.6 Contingency fees

Corporate Finance Advisor shall disclose, upon request by the regulators particularly if these is a Conflict of interest concerned, any fees or other benefits that are offered contingent upon a success of a transaction.

5.7 Receipt or provision of benefits

Corporate Finance Advisor shall:

- (a) not offer or accept any inducements in connection with the business of, or a transaction involving, its client without first disclosing the particulars of the said inducements to the client. If the client is a corporation such disclosure should be made to the Board of Directors of the corporation; *and*
- (b) ensure it develops and maintains written policies and procedures on the disclosure of the value of gifts given to, or provided by, its staff members which is above a certain monetary limit, and the circumstances in which they were offered or received.

5.8 Segregation

Corporate Finance Advisor shall ensure that there are effective safeguards to prevent the disclosure of confidential or price sensitive information by its directors, employees, or representatives or other agents who receive such information when carrying on activities in relation to the corporate finance advisor's business in advising on corporate finance, to personnel carrying on other activities. The safeguards shall cover the following;

- (a) physical segregation and segregation of roles between Personnel carrying on activities in relation to the corporate finance advisor's business in advising on corporate finance, and personnel who carry on other activities; *and*
- (b) restriction of Personnel's access to confidential or price sensitive information to a need-to-know basis

6. DUTIES TO THE CLIENT

Corporate Finance Advisor shall ensure that it acts in the best interests of its client at all times.

6.1 Know Your Client

When making a recommendation to a client, a Corporate Finance Advisor shall take all reasonable steps to determine the client's background, the nature of its business, financial objectives, risk tolerance, financial situation, investment experience and particular needs and if the client is a Company, the identity of its controlling shareholders and its shareholding structure.

6.2 Conduct towards a client

When acting for a client, a Corporate Finance Advisor shall:

- a) ensure that all representations made and information provided by it to its client are true, accurate, complete and not misleading;
- b) take all reasonable steps to give its client, any information required to enable its client to make a balanced and informed decision in a comprehensive and timely manner;
- c) be ready to provide a full and fair account of its fulfilment of responsibilities towards its client; *and*
- d) ensure that it makes adequate disclosure of all relevant and material information when dealing with its client

6.3 Confidentiality

Corporate Finance Advisor shall:

- a) safeguard the confidentiality of information provided to it by its client; *and*
- b) take reasonable steps to ensure that all other persons who receive the confidential information from the Corporate Finance Advisor avoid an accidental leak of information

6.4 Clients Behaviour

Corporate Finance Advisor shall use all reasonable efforts to ensure that its client understands the relevant regulatory requirements and their implications at all stages of a transaction. If the Corporate Finance Advisor becomes aware that its clients fail to comply or abide by the governing Rules and Regulations, it shall advise its client to bring the matter to the attention of the Regulator. If this is declined by the client without any valid reasons, it shall consider the need to cease to act.

6.5 Disclosure to Client

Corporate Finance Advisor shall provide clients with adequate information about the types of financial advisory service it is licensed to provide, including the type of investment products it is allowed to give advice on or market to clients.

In the case where a Corporate Finance Advisor is part of a financial services group and act for one or more related companies, the Corporate Finance Advisor shall inform the client of the capacity in which he is acting.

Corporate Finance Advisor shall draw the client's attention to the warnings, exclusions and disclaimers in all documents, advertising materials and literature relating to an advisory services and recommendations made to the client.

Corporate Finance Advisor shall ensure at all times that any representation made and information provided to the client is clear, adequate and not false or misleading.

Corporate Finance Advisor shall participate in the preparation of information to be disclosed to the public so as to ensure the completeness and accurateness of the documents for complete and clear understanding of material information which might affect the decision of investors.

Corporate Finance Advisor shall distinguish between facts and opinion in its presentation of recommendations to the client.

7. COMPLAINTS HANDLING

Corporate Finance Advisor shall have a proper procedure in place for handling complaints relating to its financial advisory business.

It shall ensure that:

- (a) complaints are handled in a fair, timely and appropriate manner;
- (b) complaints are promptly investigated and responded to; *and*
- (c) an officer is designated to handle all complaints.

The Compliance Officer shall ensure to maintain a register for complaints, containing details of complaints received and how they have been dealt with. Management shall review the register regularly

8. PERSONAL ACCOUNT DEALINGS

8.1 Corporate Finance Advisor shall ensure that all personal account dealings are properly conducted.

8.2 The following are intended to address the basic principle that a Corporate Finance Advisor shall avoid conflicts of interests when dealing in securities on its own account while discharging its duties as advisor to its Client.

- (a) Corporate Finance Advisor shall have a policy which has been communicated to Relevant Persons in writing as to whether they are permitted to deal for their own accounts in securities.
- (b) In the event that Relevant Persons are permitted to deal with their own accounts in securities:
 - (i) the written policy should specify the conditions on which Relevant Persons may deal for their own accounts;
 - (ii) Relevant Persons shall be required to identify all related accounts and report them to the Designated Compliance Officer;
 - (iii) Relevant Persons shall generally be required to deal through the Corporate Finance Advisor;
 - (iv) If Relevant Persons are permitted to deal through another company, the Corporate Finance Advisor and the Relevant Persons shall arrange for duplicate trade confirmations and statements of account to be provided to the Designated Compliance Officer;
 - (v) Any transactions for such Relevant Persons' accounts and related accounts shall be separately recorded and clearly identified in the accounting records of the Corporate Finance Advisor;
 - (vi) The transactions of Relevant Persons' accounts and related accounts shall be reported to and actively monitored by the Designated Compliance Officer who shall not have any beneficial or other interests in the transactions and who shall maintain procedures to detect irregularities and ensure that the handling of these transactions or orders by the Corporate Finance Advisor is not prejudicial to the interests of the Corporate Finance Advisor's clients.

8.3 Restricted Securities List

Corporate Finance Advisor shall maintain a Restricted Securities List. Key Management Personnel, financial advisors deal with Clients and employees of the Corporate Finance Advisor shall not trade in securities which are in the Restricted Securities List

Securities may be deleted from the Restricted Securities List whenever material non-public information are no longer possessed by the Corporate Finance Advisor in respect of such entities/securities

For the purpose of the Clause above, "Restricted Securities List" shall comprise a list of securities in respect of which the Corporate Finance Advisor possesses material and non-public information in relation to an entity or a security of an entity which has been provided with advice or in the process of being advised by the Corporate Finance Advisor.