

SECTION 8

MINIMUM STANDARDS FOR STOCKBROKER FIRMS

8.1 HUMAN RESOURCES

- 8.1.1 The Stockbroker Firm shall have an organizational structure with clearly defined responsibilities and authority for each category of employees.
- 8.1.2 The Stockbroker Firm shall have the following key persons employed by the Stockbroker Firm on a full time basis:

(1) Chief Executive Officer (CEO)

- (a) shall be a resident in Sri Lanka, functioning at the Stockbroker Firm's Head Office.
- (b) shall be a person certified by the CSE to deal with investors.

(2) Compliance Officer

- (a) shall possess a degree in Business Administration/ Finance/ Accounting/ Law or an equivalent professional qualification in Finance/ Accountancy /Law.
- (b) shall report directly to the board of directors of the Stockbroker Firm.
- (c) shall be independent of trading and sales operations.
- (d) shall be employed by the Stockbroker Firm at a managerial level.

(3) Head of Finance

- (a) shall possess a Degree or a professional qualification in Finance/Accounting with a minimum of two (2) years relevant experience in similar capacity.
- (b) shall be responsible for the preparation of monthly financial statements, audited financial statements or any other financial statement/information submitted to the CSE and maintenance of accurate and up-to-date records of the company's state of affairs.

(4) Head of Information Technology

- (a) shall possess a Bachelor's Degree from an accredited university in a relevant field with a minimum of three (3) years relevant experience in administration and implementation of systems and related technologies.
- (b) shall be responsible for the following:
 - Overseeing and proactive management of system administration functions for assigned line of business applications including the Order Management System and the Broker Back Office System;

- Ensuring that the Systems are in compliance with Information Security policies and controls of the Entity and the Stockbroker Rules of the CSE;
- Constant optimization of the performance of systems and capacity planning; and,
- Proactive identification of and timely resolution of issues to ensure maximum availability of systems.

(5) Investment Advisors

The Stockbroker Firm shall appoint a minimum of two (2) Investment Advisors who are certified by CSE to deal with investors.

(5) Documentation Officer

The Stockbroker Firm shall appoint a Documentation Officer to handle account opening for clients, KYC requirements and other CDS related functions.

8.2 MAINTENANCE OF APPLICATION SYSTEMS BY STOCKBROKER FIRMS

8.2.1 DEFINITIONS

For the purpose of Rule 8.2 of these Rules;

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| Application Systems | : | shall mean an Order Management System and the Broker Back Office System as defined below. |
| Broker Back Office System (BBO) | : | shall mean a computer application integrated with the Order Management System to facilitate the back office operations of a Stockbroker Firm, including accounting and general ledger maintenance, client trading information, client profile management, client portfolio management, compliance reporting and risk management, which conforms to the Gateway and Application Program Interface (API) Specifications issued by the CSE. |
| Gateway and Application Program Interface (API) Specifications | : | shall mean the set of documented technical requirements issued by the CSE in relation to the Order Management and Broker Back Office systems. |
| Order Management System (OMS) | : | shall mean a computer application used for submitting trading orders, which conforms to the Gateway and Application Program Interface (API) Specifications issued by the CSE. |

8.2.2 REQUIREMENT TO MAINTAIN A BBO AND AN OMS BY THE STOCKBROKER FIRMS

The Stockbroker Firm shall establish and at all times maintain a BBO and an OMS as defined in these Rules.

8.2.3 ADDITIONAL FUNCTIONALITIES AND FEATURES OF THE APPLICATION SYSTEMS

The Application Systems of the Stockbroker Firms shall have the following additional functionalities and features:

- (1) The facility to track the serial numbers of bought notes setoff against each client's payment on a 'first in - first out' basis at any given time.
- (2) The debtors' age analysis with minimum three (3) age categories for debtors over T+3 and updated values of the portfolio (including Pending Buys and excluding Pending Sells) adjusted for VaR margin of each Security.
- (3) The creditors' age analysis with minimum three (3) age categories for creditors over T+3.
- (4) The ability to generate following statements at any given time:
 - individual client account statements.
 - individual client portfolio statements reflecting the Cleared Balances. (security, quantity, price).

For the purpose of this Rule, 'Cleared Balances' shall have the same meaning as defined in the CDS Rules.

- (5) The facility to classify debtors:
 - based on Investment Advisors.
 - based on branches.
 - based on nature of client (i.e. staff, related party, margin and other).
- (6) The facility to specify the authority levels for different departments within the Stockbroker Firm:
Eg: Investment Advisors should be able to view the Account Statements and Portfolio Statements of only their clients.

Accounting staff can only enter receipts and payments and print contract notes and cheques.

- (7) The facility to process compensation to be received by or paid to a client as a result of the partially or fully unsettled Trade/s and other fees applicable to clients, as set out in the CDS Rules.

8.2.4 REQUIREMENTS RELATING TO RECONCILIATION OF SECURITIES BALANCES BY STOCKBROKER FIRMS

- (1) The Stockbroker Firm shall;
 - (a) update the BBO and OMS with the securities balances provided by the CDS at the end of each Trade Day; and,
 - (b) at all times, ensure that the securities balances of its clients reflected in the such Application Systems accurately correspond with the Securities balances of its clients in the CDS through reconciliation of balances prior to the commencement of trading on the next Market Day.
- (2) The Stockbroker Firm shall, upon reconciliation of securities balances as set out in Rule 8.2.4 (1) above, submit an Exception Report to the CSE, not later than 9.00 hours on the following Market Day, in the manner and the form specified by the CSE for such purpose from time to time.

The Stockbroker Firm shall ensure that the Exception Report is submitted to the CSE by the Chief Executive Officer or any other person authorized by the Stockbroker Firm for such purpose.

- (3) In the event the Exception Report referred to in Rule 8.2.4 (2) above indicates any discrepancies in the securities balances of a client, the Stockbroker Firm shall ensure that no orders are placed by the Stockbroker Firms on behalf of such clients or by the clients on their behalf, until the discrepancies in the securities balances of such clients have been rectified.

8.2.5 ENFORCEMENT PROCEDURE

- (1) The Chief Executive Officer of the CSE or any person acting on his behalf may prohibit a Stockbroker Firm from carrying out all trading activities in any of the following instances:
 - (a) Failure to maintain a BBO and an OMS as required in terms of Rule 8.2.2 of these Rules;
 - (b) Failure to ensure compliance with Rule 8.2.4 (1) of these Rules;
 - (c) Failure to submit the Exception Report as required in terms of Rule 8.2.4 (2) of these Rules;
 - (d) Failure to ensure compliance with Rule 8.2.4 (3) of these Rules;
- (2) In the event a Stockbroker Firm is prohibited from carrying out all trading activities in terms of Rule 8.2.5 (1) above, the CSE shall immediately inform the SEC of such prohibition.
- (3) The Stockbroker Firm will be permitted to resume all trading activities no sooner such Firm rectifies the non-compliance/s concerned.

- (4) In the event a Stockbroker Firm is prohibited from carrying out all trading activities pursuant to Rules 8.2.5 (1) (a), (b) or (c) above, for ten (10) consecutive Market Days, the CSE shall commence disciplinary action against such Stockbroker Firm in terms of Section 11 of these Rules.
- (5) Where the CSE initiates enforcement action in terms of Rule 8.2.5 (1) (b), (c) and (d) of these Rules for;
- (a) two (2) times within a period of six (6) months; or,
 - (b) three (3) times within a period of one (1) year;
- whichever is earlier, the CSE shall commence disciplinary action against such Stockbroker Firm in terms of Section 11 of these Rules.
- (6) In instances where the CSE has decided to take disciplinary action against a Stockbroker Firm in terms of Rule 8.2.5 of these Rules, an aggrieved Stockbroker Firm may appeal to the SEC against such decision of the CSE within a period of seven (7) days from the date of such decision.

8.3 ACCOUNTING SYSTEM

8.3.1 The Stockbroker Firm shall have;

- (1) The ability to generate up-to-date accounting records at any given time.
- (2) The ability to generate Balance Sheet and Income Statement through the system at any given time.

8.3.2 The Accounting System of the Stockbroker Firm should be integrated with the BBO of the Stockbroker Firm.

8.4 GENERAL PROCEDURES

8.4.1 The Stockbroker Firm shall maintain a duly updated Systems & Procedures Manual covering the following areas, as a minimum:

- trading
- financial management information systems
- research (If applicable)
- human resource management

8.4.2 The Stockbroker Firm shall have a documented Disaster Recovery Plan (Eg. Daily back-up of all accounting and other records maintained off-site).

8.5 AUDITORS

8.5.1 The Stockbroker Firm shall appoint a reputed firm of Chartered Accountants as its Auditors, which shall have a minimum of three (3) partners. There shall be separate partners to act as the engagement partner and the review partner in relation to the audit functions of the Stockbroker Firm.

- 8.5.2 Auditors of the Stockbroker Firm shall not be involved in any accounting, book keeping or other services relating to the accounting records or financial statements of the Stockbroker Firm.

8.6 LIQUIDITY DEPOSIT

- 8.6.1 A Stockbroker Firm shall furnish and maintain a liquidity deposit of Rs. One (1) million with the CSE
- 8.6.2 The liquidity deposit shall only be in the form of cash.
- 8.6.3 The liquidity deposit maintained by a Stockbroker Firm with the CSE will be used by the CSE to defray;
- (a) the subscription fees, entrance fees and other charges and dues payable by the Stockbroker Firm to the CSE; and,
 - (b) any sums due and payable by the Stockbroker Firm to any client of such Stockbroker Firm.
- 8.6.4 In the event that the CSE uses all or part of the liquidity deposit for the purposes described in Rule 8.6.3 of these Rules, the Stockbroker Firm shall replace the amount utilized by the CSE immediately.