



PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA

SECURITIES COUNCIL

ACT, No. 36 OF 1987

[Certified on 27th August, 1987]

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L. D.—O. 19/80.

AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF THE SECURITIES COUNCIL FOR THE PURPOSE OF REGULATING THE SECURITIES MARKET IN SRI LANKA ; TO GRANT LICENCES TO STOCK EXCHANGES, STOCK BROKERS AND STOCK DEALERS WHO ENGAGE IN THE BUSINESS OF TRADING IN SECURITIES ; TO SET UP A COMPENSATION FUND, AND FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO.

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows:—

1. This Act may be cited as the Securities Council Act, No. 36 of 1987, and shall come into operation on such date (hereinafter referred to as the "appointed date") as may be appointed by the Minister by Order published in the Gazette.

Short title and date of operation.

PART I

ESTABLISHMENT AND THE CONSTITUTION OF THE SECURITIES COUNCIL

2. (1) There shall be established a Council which shall be called the Securities Council (hereinafter referred to as "the Council") consisting of the persons who are members thereof under section 3.

Establishment and Constitution of the Securities Council.

(2) The Council shall, by the name assigned to it by subsection (1), be a body corporate and shall have perpetual succession and a common seal and may sue and be sued in such name.

3. (1) The Council shall consist of—

Membership of the Council.

(a) The following members to be appointed by the Minister (hereinafter referred to as "appointed members.")

(i) a Deputy Governor of the Central Bank nominated by the Governor of such Bank ; and

(ii) six other persons who appear to the Minister to have wide experience and shown capacity in legal, financial, business or administrative matters ;

(b) the following *ex officio* members:—

(i) the person for the time being holding the office of Deputy Secretary to the Treasury ;

(ii) the person for the time being holding the office of Registrar of Companies ; and

(iii) the person for the time been holding the office of President Institute of chartered Accountants, established by the Chartered Accountants Act, No. 23 of 1959.

(2) The Minister shall nominate, from amongst the members of the Council, one member to be the Chairman of the Council.

Term of
office of
appointed
members.

4. Every appointed member of the Council shall, unless he vacates office earlier by death, resignation or removal, hold office for a term of three years and shall be eligible for reappointment.

Removal
and
resigna-
tion of
appointed
members.

5. (1) Any appointed member of the Council may at any time resign his office by letter to that effect addressed to the Minister and such resignation shall take effect upon it being accepted by the Minister in writing.

(2) The Minister may, by Order published in the *Gazette*, remove, any appointed member from office without assigning any reason therefor and such removal shall not be question in any court.

(3) In the event of the vacation of office by death, resignation or removal of any appointed member, the Minister may appoint another person, having regard to the provisions of paragraph (a) of subsection (1) of section 3, to hold office for the unexpired period of the term of office of the member whom he succeeds.

(4) If any appointed member of the Council is temporarily unable to perform the duties of his office during any period due to ill-health or absence from Sri Lanka or for any other cause, the Minister may appoint some other person to act in his place during such period having regard to the provisions of paragraph (a) of subsection (1) of section 3.

Remunera-
tion of
members.

6. The members of the Council may be paid such remuneration out of the fund of the Council as may be determined by the Minister.

7. (1) The Chairman of the Council shall, if present, preside at all meetings of the Council. In the absence of the Chairman from any such meetings, the members present shall elect one of the members to preside to such meeting.

Meeting
of the
Council.

(2) The quorum for any meeting of the Council shall be five members and the Council may subject to the requirement as to quorum, regulate the procedure in regard to the meetings of the Council and the transaction of business at such meetings.

(3) All questions for decision at any meeting of the Council shall be decided by the vote of the majority of the members present. In the case of an equality of votes the member presiding shall have a casting vote.

8. (1) If the Chairman of the Council is, by reason of illness or absence from Sri Lanka temporarily unable to perform the duties of his office the Minister shall nominate another member of the Council to act in his place.

Chairman
of the
Council.

(2) The Minister may, without assigning any reason therefor, terminate the appointment of the Chairman.

(3) The Chairman may at any time resign from the office of Chairman by a letter addressed to the Minister. Such resignation shall take effect upon it being accepted by the Minister in writing.

(4) Subject to the provisions of subsections (2) and (3) the term of office of the Chairman shall be his period of membership of the Council.

9. A member who is directly or indirectly interested in any decision that is to be taken on any matter by the Council shall disclose the nature of such interest at the meeting of the Council where such decision is being taken. The disclosure shall be recorded in the minutes of the meetings of the Council and such member shall not take part in any deliberation or decision of the Council with regard to that matter, and shall withdraw from such meeting while such deliberation is in progress or such decision is being made.

Members to
disclose any
interest in
any decision
to be made
by the
Council.

10. No act or decision or proceeding of the Council shall be invalidated by reason only of the existence of a vacancy among its members or of any defect in the appointment of a member thereof.

Acts not
invalidated
by reason
of a
vacancy.

Seal of the
Council.

11. (1) The seal of the Council shall be in the custody of the Council.

(2) The seal of the Council may be altered in such manner as may be determined by the Council.

(3) The seal of the Council shall not be affixed to any instrument or document except in the presence of the members of the Council who shall sign the instrument in token of their presence.

PART II

OBJECTS, POWERS AND FUNCTIONS

Objects
of the
Council.

12. The objects of the Council shall be—

(a) the creation and maintenance of a market in which securities can be issued and traded in an orderly and fair manner ;

(b) the protection of the financial interest of investors ;

(c) the operation of a Compensation Fund to protect investors from financial loss arising from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations ; and

(d) the regulation of the securities market and to ensure that professional standards are maintained in such market.

Powers,
duties and
functions
of the
Council.

13. For the purpose of carrying out its objects the Council may exercise, perform and discharge all or any of the following powers, duties and functions :—

(a) to grant a licence to a body corporate to operate as a stock exchange and ensure the proper conduct of its business ;

(b) to grant a licence to any person to operate as a stock broker or a stock dealer as, the case may be, and ensure the proper conduct of their business ;

(c) to give directions to a licensed stock exchange from time to time ;

(d) to grant compensation to any investor who suffers pecuniary loss resulting from the failure of a licensed stock broker or a licensed stock dealer to meet his contractual obligations ;

- (e) to advise the Government on the development of the securities market ;
- (f) to employ such officers and servants as may be necessary for the purpose of carrying out the work of the Council ;
- (g) to frame rules on matters in respect of which rules are required to be made under this Act ;
- (h) to suspend or cancel the listing of any securities or the trading of any given securities, for the protection of investors ;
- (i) to inquire into the business affairs of a licensed stock exchange, stock broker or stock dealer and public companies listed with a licensed stock exchange ;
- (j) to publish findings of malfeasance by any licensed stock broker or stock dealer or any public company listed with the licensed stock exchange ;
- (k) to implement the policies and programmes of the Government with respect to the market in securities ;
- (l) to acquire in any manner whatsoever and hold, take or give on lease or hire, mortgage, pledge, sell or otherwise dispose of any immovable or movable property ; and
- (m) to do all such other acts as may be incidental or conducive to the attainment of the objects of the Council or the exercise of its powers under this Act.

14. The Council shall in addition to the powers specified in section 13 also have the power to—

- (a) conduct regular inspections of the activities of licensed stock exchanges, stock brokers and stock dealers in order to determine whether they are operating in conformity with the rules and regulations made under the provisions of this Act ; and
- (b) require licensed stock brokers and stock dealers to file with the Council, annual balance sheet and income statements, certified by a qualified auditor in the form and manner specified by the Council.

Powers of inspection &c. of the Council.

PART III

GRANT OF LICENCE TO A STOCK EXCHANGE, A STOCK BROKER OR A STOCK DEALER

Grant of a licence as a stock exchange or as a stock broker or stock dealer.

15. Subject to the provisions of section 30 from and after the appointed date :--

(a) any body corporate which is carrying on or intends to carry on the business of operating a stock exchange ; or

(b) any person who is carrying on or who intends to carry on the business of a stock broker or of a stock dealer,

shall make an application in the prescribed form together with the prescribed fee to the Council, for the grant of a licence as a stock exchange or as a stock broker or stock dealer, as the case may be.

Terms and conditions to be complied with for the grant of a licence to a stock exchange.

16. No licences shall be granted under this Act to any body corporate as a stock exchange which does not comply with the terms and conditions set out in Part I of the Schedule hereto.

Terms and conditions to be complied with for the grant of a licence to a stock dealer or a stock broker.

17. No licence shall be granted under this Act to any body corporate as a stock dealer or a stock broker as the case may be, which does not comply with the terms and conditions set out in Part II of the Schedule hereto.

Terms and conditions to be complied with by an individual for the grant of a licence as a stock broker or stock dealers.

18. No licence shall be granted under this Act to any individual who does not comply with the terms and conditions set out in Part II of the Schedule hereto.

19. (1) On receipt of an application made under section 15, the Council having considered the particulars stated therein and, where it deems necessary, having given the applicant an opportunity of being heard, in person or by a representative, shall by written notice to the applicant, inform the applicant whether he is being granted licence or not.

Grant of certificate.

(2) Where the Council grants a licence to—

(a) a body corporate to carry on the business of a stock exchange, it shall issue a certificate to that effect for a period of five years ; or

(b) any person to carry on the business of a stock broker or stock dealer, it shall issue a certificate to that effect for a period of one year.

20. (1) A licensed stock exchange may apply to the Council for a renewal of its licence within six months prior to the expiry of the licence.

Renewal of licence.

(2) A licensed stock broker or a licensed stock dealer as the case may be, may, within three months prior to the expiry of the licence, make an application to the council in the prescribed form together with a prescribed fee for a renewal of his licence.

(3) In granting a renewal of a licence, the Council shall satisfy itself that the licensed stock exchange, the licensed stock broker or the licensed stock dealer as the case may be, has at no time been guilty of contravening any provisions of this Act or any rules or regulations made under this Act.

21. (1) The Council shall, cancel or suspend the licence granted to a stock broker or a stock dealer, where the Council is satisfied that—

Cancellation of a licence granted to a stock broker or a stock dealer.

(a) the stock broker or the stock dealer has acted in breach of any provisions of this Act, or any rules or regulations made under this Act ; or

(b) the stock broker or the stock dealer has ceased to be of good financial standing ; or

(c) the stock broker or the stock dealer has since the grant of the licence, been disqualified for the grant of such licence ; or

(d) the stock broker or the stock dealer is guilty of malpractice or irregularity in the management of his affairs.

(2) Before the cancellation of a licence granted to a stock broker or a stock dealer in terms of the preceding subsection such stock broker or stock dealer, as the case may be, shall be given an opportunity to show cause as to why such licence should not be cancelled.

(3) Where the licence granted to a stock broker or stock dealer is cancelled, it shall be the duty of such stock broker or stock dealer to forthwith surrender his licence to the Council.

Appeal
from
a refusal,
cancellation or
suspension.

22. (1) Any person aggrieved by a decision of the Council—

(a) refusing to grant a licence under section 19 ; or

(b) cancelling or suspending a licence under section 21, may appeal to the Secretary to the Ministry of the Minister against such refusal, cancellation or suspension as the case may be, within three months from the date on which the decision was communicated to such person.

(2) The Secretary to the Ministry of the Minister may require the Council to show cause for its decision to his satisfaction.

(3) An applicant who is aggrieved by the decision of the Secretary to the Ministry of the Minister may appeal against such decision to the Court of Appeal, within fourteen days from the date on which the decision was communicated to the applicant.

Until rules are made under Article 136 of the Constitution pertaining to appeals under this section, the rules made under that Article pertaining to application by way of revision to the Court of Appeal shall apply to every appeal made under sub section (3) of this section.

(5) The Court of Appeal may, on an appeal made to it under this section confirm, revise, modify or set aside the decision of the Secretary to the Ministry of the Minister, and may make an order as the interest of justice may require.

23. Where a licensed stock broker or a licensed stock dealer dies, resigns, or is expelled from the membership of a licensed stock exchange, or becomes incapable of carrying on the business as such stock broker or stock dealer by reason of illness or due to any other cause or the licence granted to such stock broker or stock dealer is cancelled, the Council shall direct the licensed stock exchange of which such stock broker or stock dealer was a member to arrange for another licensed stock broker or a licensed stock dealer, as the case may be, to take over the outstanding contracts of a such stock broker or stock dealer.

Consequence of death, resignation, expiration &c. of a licensed stock broker or a licensed stock dealer.

24. (1) The rules of a licensed stock exchange, in so far as they have been approved by the Council, shall not be amended, varied or rescinded without the prior approval of the Council.

Rules of a licensed stock exchange.

(2) Where the Board of Directors of a licensed stock exchange wish to amend its rules it shall forward by written notice to the Council the amendments, whether by rescission, alternation or addition, to such rules which such licensed stock exchange wish to make.

(3) The Council shall, after hearing the licensed stock exchange, and within twenty-one days of receipt of a notice under subsection (2) give written notice to the stock exchange stating whether such amendments to the rules are allowed or disallowed.

In case such rules are disallowed the Council shall give reasons for such disallowance.

(4) Upon receipt of notice under subsection (3), the stock exchange, shall give immediate effect to such notice.

25. Where a licensed stock exchange, a licensed stock broker or a licensed stock dealer as the case may be, proposes to alter any particulars already furnished or undergoes or intends to undergo a change from its state specified in the application for a licence as a stock exchange, stock broker or stock dealer made under section 15, it shall be the duty of such stock exchange, stock broker or stock dealer, as the case may be, to inform the Council and obtain its prior consent before such alteration or change is effected.

Alteration of any particulars furnished.

26. A person who, in connection with an application or appeal made under this Act, wilfully makes a false or misleading statement or wilfully omits or fails to report any matter or thing without which the application is misleading in a material respect, shall be guilty of an offence under this Act, and shall be liable on conviction to a fine not exceeding one million rupees.

Lending or borrowing of securities without consent of customer prohibited.

Procedure to be adopted for sale of shares listed in a stock exchange.

Trading listed securities outside a stock exchange prohibited.

Use of words "stock exchange" "stock broker" or "stock dealer".

27. No licensed stock broker or licensed stock dealer shall lend or arrange for the lending of, any securities carried for the account of any customer without the customer's written consent, or borrow, or arrange to borrow, using the securities, carried for the account of any customer, as collateral, without the customer's written consent.

28. No person holding shares in a public company listed in a licensed stock exchange, shall sell such shares except in compliance with the trading procedure adopted by such licensed stock exchange.

29. No licensed stock broker or licensed stock dealer shall trade in listed securities outside the licensed stock exchange of which he is a member.

30. (1) From and after the appointed date, no body corporate or an individual shall use the words "stock exchange", "stock broker" or "stock dealer" as the case may be unless such body corporate or individual as the case may be, has been licensed as a stock exchange or stock broker or stock dealer, by the Council under this Act.

(2) From and after the appointed date, no body corporate or an individual shall carry on business as a stock exchange, stock broker, stock dealer as the case may be, such body corporate or individual is authorized to do so under a licence granted under the provisions of this Act:

Provided, however, any body corporate or an individual who, immediately before the appointed date was carrying on business as a stock exchange, stock broker or stock dealer as the case may be, shall be entitled to carry on such business without obtaining a licence under this Act—

(a) for a period of three months from the appointed date; and

(b) if prior to the expiration of that period an application is made for a licence under this Act, until the licence is granted or finally refused or the application is withdrawn.

(3) Any body corporate or an individual who contravenes the provisions of subsection (1) or (2), shall be guilty of an offence under this Act and shall on conviction be liable to a fine not exceeding one million rupees.

31. No body corporate or an individual licensed under the provisions of this Act as a stock broker or stock dealer as the case may be, or, any holding, subsidiary or an associate company of such licensee, or any Director of such licensee shall—

No licensed stock broker to be licensed as a dealer &c.

(a) where such body corporate or an individual is licensed as a stock broker, be granted a licence as a stock dealer; and

(b) where such body corporate or individual is licensed as a stock dealer, be granted a licence as a stock broker.

PART IV

INSIDER DEALING

32. (1) Subject to the provision of subsection (8), an individual who is, or at any time during the six months immediately preceding the appointed date has been, knowingly connected with a company shall not trade in listed securities of that company if he has information which—

Prohibition on trading in listed securities by insiders, &c.

(a) he holds by virtue of being connected with the company;

(b) it would be reasonable to expect a person so connected and in the position by virtue of which he is so connected, not to disclose except for the proper performance of the functions attaching to that position; and

(c) he knows is unpublished price sensitive information in relation to those securities.

(2) Subject to the provisions of subsections (8) and (9), an individual who is or at any time in the six months immediately preceding the appointed date has been knowingly connected with a company shall not trade in listed securities of any other company if he has information which—

(a) he holds by virtue of being connected with the first mentioned company;

(b) it would be reasonable to expect a person so connected and in the position by virtue of which he is so connected, to disclose except for the proper performance of the functions attaching to that position ;

(c) he knows is unpublished price sensitive information in relation to those securities of that other company ; and

(d) relates to any transaction whether actual or contemplated, involving both the first mentioned company and that other company or involving one of them and securities of the other or to the fact that any such transaction is no longer contemplated.

(3) Subject to the provisions of subsections (8) and (9), where—

(a) any individual has information which he knowingly obtained, whether directly or indirectly, from another individual who is connected with a particular company, or was at any time in the six months immediately preceding the date of obtaining of the information so connected and who the former individual knows or has reasonable cause to believe, held the information by virtue of being so connected ; and

(b) the former individual knows or has reasonable cause to believe that, because of the latter's connection and position, it would be reasonable to expect him not to disclose the information except for the proper performance of the functions attaching to that position,

then, the former individual—

(i) shall not himself trade in listed securities of that company if he knows that the information is unpublished price sensitive information in relation to those securities ; and

(ii) shall not himself trade in listed securities of any other company if he knows that the information is unpublished price sensitive information in relation to those securities, and it relates to any transaction whether actual or contemplated, involving the first-mentioned company and the other company of involving one of them and securities of the other or to the fact that any such transaction is no longer contemplated.

(4) Subject to the provisions of subsections (8) and (9) where an individual is contemplating, or has contemplated, making, whether with or without another person, a take-over offer for a company in a particular capacity, that individual shall not trade in listed securities of that company in another capacity if he knows that the information that the offer is contemplated or is no longer contemplated is unpublished price sensitive information in relation to those securities.

(5) Subject to the provisions of subsections (8) and (9) where an individual has knowingly obtained, whether directly or indirectly, from an individual to whom the provisions of subsection (4) apply, information that the offer referred to in subsection (4) is being contemplated or is no longer contemplated the first-mentioned individual shall not himself trade in listed securities of that company if he knows that the information is unpublished price sensitive information in relation to those securities.

(6) Subject to the provisions of subsections (8) and (9) an individual who is for the time being prohibited by any provision of this section from trading in listed securities shall not counsel or procure any other person to deal in those securities, knowing or having reasonable cause to believe that person would trade in such listed securities.

(7) Subject to the provisions of subsections (8) and (9), an individual who is for the time being prohibited as aforesaid from trading in listed securities by reason of his having any information, shall not communicate that information to any other person if he knows or has reasonable cause to believe that or some other person will make use of the information for the purpose of counselling or procuring any other person to trade in such listed securities.

(8) The provisions of this section shall not prohibit an individual by reason of his having any information from--

(a) doing any particular thing otherwise than with the view to the making of a profit or the avoidance of a loss, whether for himself or another person by the use of that information ;

(b) entering into a transaction in the course of the exercise in good faith of his functions as liquidator, receiver, or trustee in bankruptcy ; or

(c) doing any particular thing if the information was—

(i) obtain by him in the course of the business of a stock broker or a stock dealer in which he was engaged or employed ; and

(ii) of a description which it would be reasonable to expect him to obtain in the ordinary course of that business,

and he does that thing in good faith in the course of that business.

(9) An individual shall not, by reason only of having information relating to any particular transaction, be prohibited—

(a) by the provisions of subsection (2), paragraph (ii) of subsection (3), subsection (4) or subsection (5) from trading in listed securities ; or

(b) by the provisions of subsection (6) or subsection (7) from doing any other thing in relation to listed securities which he is prohibited from trading in by any of the provisions referred to in paragraph (a), if he does that thing in order to facilitate the competition or carrying out of the transaction.

(10) Where a trustee or legal representative, or where a trustee or legal representative is a body corporate, an individual acting on behalf of that trustee or legal representative, who, apart from the provisions of paragraph (a) of subsection (8) would be prohibited by the provisions of this section from counselling or procuring any other person to trade in listed securities, trades in those listed securities, or counsels or procures any other person to trade in them, he shall be presumed to have acted as referred to in that paragraph if he acted on the advice of a person who—

(a) appeared to him to be an appropriate person from whom to seek such advice ; and

(b) did not appear to him to be prohibited by this section from dealing in those securities.

33. (1) The provision of this section shall apply to any information which—

Prohibition on
disclosure of
information
obtained
in
official
capacity.

(a) is held by a public servant or former public servant by virtue of his position or former position as a public servant or is knowingly obtained by an individual (directly or indirectly) from a public servant or former public servant who he knows or has reasonable cause to believe, held the information by virtue of any such position ;

(b) it would be reasonable to expect an individual in the position of the public servant or former position of the former public servant not to disclose except for the proper performance of the functions attaching to that position ; and

(c) the individual holding it knows, is unpublished price sensitive information in relation to listed securities of a particular company (hereafter in this section referred to as "relevant securities").

(2) The provisions of this section shall apply to a public servant or former public servant holding information to which this section applies and to any individual who knowingly obtained any such information (directly or indirectly) from a public servant or former public servant who, that individual knows or has reasonable cause to believe, held the information by virtue of his position or former position as a public servant.

(3) An individual to whom the provisions of this section apply—

(a) shall not trade in any relevant securities ;

(b) shall not counsel or procure any other person to trade in any such relevant securities, knowing or having reasonable cause to believe that other person would trade in them ; and

(c) shall not communicate to any other person the information held or, as the case may be, obtained by him as referred to in subsection (2) if he knows or has reasonable cause to believe that that or some other person will make use of that information for the purpose of counselling or procuring any other person to trade in such relevant securities.

(4) An individual shall not, by reason only of having information relating to a particular transaction, be prohibited by any provision of this section from doing anything, if he does that thing in order to facilitate the completion or carrying out of the transaction.

Interpreta-
tion of
this
Part.

34. (1) For the purposes of this Part of this Act, an individual is connected with a company if, and only if—

(a) he is a director of that company or a related company; or

(b) he occupies a position as an officer (other than director) or employee of that company or a related company or a position involving a professional or business relationship between himself (or his employer or a company of which he is a director) and the first company or a related company which in either case may reasonably be expected to give him access to information which, in relation to listed securities of either company, is unpublished price sensitive information and which it would be reasonable to expect (a person in his position not to disclose except) for the proper performance of his function.

(2) Any reference in this Part of this Act to "unpublished price sensitive information" in relation to any listed securities of any company is a reference to information which—

(a) relates to specific matters relating, or of concern, (directly or indirectly) to that company that is to say, is not of a general nature relating or of concern to that company; and

(b) is not generally known to those persons who are accustomed or would be likely to deal in those listed securities but which would if it were generally known to them be likely to affect materially the price of those securities.

(3) In this Part of this Act except where the context otherwise requires—

“company” means a listed public company within the meaning of this Act;

“related company”, in relation to any company means any body corporate which is that company’s subsidiary associate or holding company, or a subsidiary of that company’s holding company;

“take-over offer for a company” means an offer made to all the holders (or all holders other than the person making the offer and his nominees) of the shares in the company to acquire those shares or a specified proportion of them, or to all the holders, or all the holders other than the person making the offer and his nominees, of a particular class of those shares to acquire the shares of that class or specified proportion of them.

PART V

FINANCE

35. (1) The Council shall have its own Fund—

**Fund of
the
Council**

(2) There shall be paid into the Fund—

(a) all such sums of money as may be voted upon from time to time by Parliament for the use of the Council;

(b) all sums of money as may be paid as fees under section 15 and section 20;

(c) all such sums of money as may be received by the Council by way of donations, gifts or grants from any source whatsoever, whether in or outside Sri Lanka.

(3) There shall be paid out of the Fund all such sums of money required to defray the expenditure incurred by the Council in the exercise, discharge and performance of its powers functions and duties.

36. The financial year of the Council shall be the period of twelve months commencing on the first day of January each year.

**Financial
year.**

**Audit of
Accounts**

37. (1) The Council shall cause proper books of accounts to be kept of the income and expenditure, assets and liabilities and all other transactions, of the Council.

(2) The provisions of Article 154 of the Constitution relating to the audit of accounts of public corporations shall apply to the audit of the accounts of the Council.

**Compensa-
tion
Fund**

38. (1) There shall be established a fund called the Compensation Fund, for the purpose of granting compensation to any investor who suffers pecuniary loss resulting from the failure of a licensed stock broker or licensed stock dealer to meet his contractual obligations.

(2) The Compensation Fund shall consist of such sums of moneys as may be voted upon by Parliament for the purpose of the Fund.

(3) Moneys belonging to the Compensation Fund may be invested by the Council in such manner as may be determined by the Council.

**Appoint-
ment of
Compen-
sation
Committee**

39. (1) The Minister shall appoint from among the members of the Council, three members who shall comprise the Compensation Committee (hereinafter referred to as the "Committee") of the Council.

(2) The Committee appointed under subsection (1) shall be responsible for assessing and awarding compensation in respect of any application made under section 40 and the decision of such Committee on any such assessment or award shall for all purposes be final and conclusive.

**Applica-
tion for
compen-
sation.**

40. (1) Any investor who has suffered pecuniary loss due to the failure of a licensed stock broker or a licensed stock dealer to meet his contractual obligation towards such investor may, within three months of the date on which he suffered such pecuniary loss, make an application to the Committee in the prescribed form claiming compensation from the Compensation Fund.

(2) The Committee may from time to time, require an applicant to produce any document or other evidence in support of his claim for compensation. Where the applicant fails to comply with such request, the Committee may disallow his claim.

(3) If at any time the Committee considers it necessary so to do, it may hold an inquiry into the claim of the applicant and shall by notice in writing, inform the applicant

to be present on such date, and at such time and place as may be specified in the notice. Where the applicant fails to appear for such inquiry on the date set out in the notice, the Committee may disallow his claim.

41. (1) The Committee may, after examination of the documents and other evidence produced in support of the claim by an applicant, or in any case where an inquiry was held on the conclusion of such inquiry, allow or disallow such claim for compensation.

Payment
of
Compensation.

(2) Where the Committee allows any claim it shall make an assessment of the amount of compensation payable and shall make an award in relation thereto. Notice of such award shall be given in writing to the applicant.

(3) The Council shall make rules relating to the assessment of compensation payable and the assessment of compensation by the Committee under subsection (2) shall be in accordance with such rules.

PART VI

GENERAL

42. (1) The Minister shall, in consultation with the Council, appoint a Director-General of the Council, who shall be its chief executive officer. The conditions of employment including remuneration of the Director-General shall be determined by the Minister.

Director-
General.

(2) The Director-General shall, subject to the general direction and control of the Council, be charged with the direction of the affairs and transactions of the Council, the exercise, discharge and performance of its powers, functions and duties, and the administration and control of the employees of the Council.

(3) The Director-General may, with the approval of the Council, whenever he considers it necessary to do so, delegate to any employee any power, function or duty conferred or imposed on or assigned to him by this Act and such employee shall exercise, discharge and perform such power, function or duty subject to the general or special directions of the Director-General.

(4) The Minister may remove from office the Director-General appointed under subsection (1) and such removal shall not be called in question in any Court.

Staff of
the
Council

43. (1) The Council may appoint such other officers and servants as it considers necessary for the efficient discharge of its functions.

(2) The officers and servants appointed under subsection (1) shall be remunerated in such manner and at such rates and shall be subject to such conditions of service as may be determined by the Council.

(3) At the request of the Council any officer in the public service may, with the consent of the officer and the Secretary to the Ministry of the Minister in charge of the subject of Public Administration, be temporarily appointed to the Council for such period as may be determined by the Council with like consent, or be permanently appointed to such staff.

(4) Where any officer in the public service is temporarily appointed to the staff of the Council, the provisions of subsection (2) of Section 13 of the Transport Board Law, No. 19 of 1978, shall, *mutatis mutandis*, apply to and in relation to him.

(5) Where any officer in the public service is permanently appointed to the staff of the Council, the provision of subsection (3) of section 13 of the Transport Board Law, No. 19 of 1978, shall, *mutatis mutandis*, apply to and in relation to him.

(6) Where the Council employs any person who has agreed to serve the Government for a specified period, any period of service to the Council by that person shall be regarded as service to the Government for the purpose of discharging the obligations of such agreement.

(7) At the request of the Council any member of the Local Government Service or any other officer, or servant of a local authority, may, with the consent of such member, officer or servant and the Local Government Service Commission, or the local authority, as the case may be, be temporarily appointed to the staff of the Council for such period as may be determined by the Council with like consent or be permanently appointed to such staff on such terms and conditions including those relating to pension or provident fund rights as may be agreed upon by the Council and the Local Government Service Commission or that local authority.

(8) Where any member of the Local Government Service or any officer or servant of any local authority is appointed temporarily under subsection (7) to the staff of the Council, he shall be subject to the same disciplinary control as any other member of such staff.

44. (1) At the request of the Council any officer or servant of a public corporation may, with consent of such officer or servant and the governing board of such corporation, be temporarily appointed to the staff of the Council for such period as may be determined by the Council with like consent or with like consent be permanently appointed to the staff of the Council on such terms and conditions, including those relating to pension or provident fund rights, as may be agreed upon by the Council and the governing board of such corporation.

Appoint-
ment of
officers
and
servants
of
public
corpora-
tions
to the
staff
of the
Council.

(2) Where any person is appointed whether temporarily or permanently under subsection (1) to the staff of the Council he shall be subject to the same disciplinary control as any other member of the staff.

45. (1) For the purpose of enabling the Council to exercise, perform and discharge any of its powers, functions and duties under section 13 of this Act, the Council or any person authorized in that behalf by the Council may by notice in writing require any person to furnish to the Council or to the person authorized, within such period as shall be specified in the notice, all such returns or information as shall be specified in such notice.

Returns and
Informa-
tion.

(2) It shall be the duty of any person who is required to furnish any return or information by a notice under subsection (1) to comply with such requirement within the time specified in such notice, except where such person is precluded from making such return or divulging such information under the provisions of any law.

(3) The Council or any member thereof, or any officer or servant of the Council, shall not disclose to any person or use any returns or information acquired under subsection (1), except when required to do so by a court of law or for the purposes of achieving, the objects of the Council.

46. (1) The Council may establish a Committee consisting of three members of the Council to hear and determine complaints of shareholders of any public company listed in a licensed stock exchange, relating to the professional conduct or activities of such stock exchange, any licensed stock broker, or stock dealer of such exchange.

Establish-
ment of
Committee
to hear
Complaints
of share-
holders.

(2) The Committee may, on receipt of any written complaint made by any shareholder, examine the documents and other evidence produced, if any, in support of such complaint, and determine whether such licensed stock exchange or any licensed stock broker or stock dealer of such stock exchange has violated any provisions of this Act or any rule or regulation made under this Act. No such determination shall be made without affording such licensed stock exchange, licensed stock dealer, or stock broker, an opportunity of being heard.

(3) Where the Committee determines that a licensed stock exchange or any licensed stock broker or stock dealer of such exchange has violated any provisions of this Act or any rule or regulation made under this Act, the Committee shall recommend to the Council the nature of action to be taken against such licensed stock exchange, or any licensed stock broker or stock dealer, as the case may be.

(4) The Council shall upon receiving such recommendations made by the Committee under subsection (3), take such action as it may deem expedient, in accordance with the provisions of this Act.

Members and employees of the Council deemed to be public servants.

47. All members, officers and servants of the Council shall be deemed to be public servants within the meaning and for the purposes of the Penal Code.

Council deemed to be a Scheduled institution within the meaning of the Bribery Act.

48. The Council shall be deemed to be a Scheduled institution within the meaning of the Bribery Act, and the provisions of that Act shall be construed accordingly.

Furnishing of information, &c. to the Minister.

49. The Minister may, from time to time, direct the Council to furnish to him in such form as he may require returns, accounts and other information with respect to the work of the Council and the Council shall carry out any such direction.

50. (1) No suit or prosecution shall be instituted against any member of the Council or against any of the officers or servants of the Council for any act which in good faith is done or purported to be done by such person under this Act or on the direction of the Council.

Protec-
tion for
action
taken
under
the Act

(2) Any expenses incurred by the Council in any suit or prosecution brought by or against it before any court, shall be paid out of the Fund of the Council, and any costs paid to, or recovered by, the Council in any such suit or prosecution shall be credited to the Fund of the Council.

(3) Any expenses incurred by any such person as is referred to in subsection (1) in any suit or prosecution brought against him before any court in respect of any act which is done or purported to be done by him under this Act or on the direction of the Council shall, if the court holds that such act was done in good faith be paid out of the Fund of the Council, unless such expenses are recovered by him in such suit or prosecution.

51. (1) Any person who—

Offence:

- (a) contravenes any provision of this Act or any requirement imposed under the provisions of this Act or of any regulation made thereunder ;
- (b) furnishes for the purposes of this Act any information which is or any return the contents of which is, to his knowledge untrue or incorrect ; or
- (c) wilfully obstructs any member of the Council or an officer or servant of the Council in the performance of his duties under the provisions of this Act,

shall be guilty of an offence under this Act.

(2) Any person who is found guilty of an offence under this Act for which no penalty is expressly provided for under this Act, shall liable on conviction after summary trial by a Magistrate, to a sentence of imprisonment of either description for a period not exceeding five years or to a fine not exceeding ten million rupees or to both such imprisonment and fine.

regulations
made
by the
Minister.

52. (1) The Minister may make regulations in respect of matters required by this Act to be prescribed or in respect of which regulations are authorized to be made.

(2) Every regulation made by the Minister shall be published in the *Gazette* and shall come into operation on the date of such publication or on such later date as may be specified in the regulation.

(3) Every regulation made by the Minister shall, as soon as it is convenient after its publication in the *Gazette*, be brought before Parliament for approval. Any regulation which is not so approved shall be deemed to be rescinded as from the date of such disapproval, but without prejudice to anything previously done thereunder.

(4) Notification of the date on which any regulation is deemed to be rescinded shall be published in the *Gazette*.

Rules
made
by the
Council.

53. Without prejudice to the generality of the powers conferred upon it by section 13, the Council shall formulate the following rules as may be required from time to time for the purpose of ensuring orderly and fair trading in securities and protection of investors interest—

(a) listing of securities in a licensed stock exchange;

(b) disclosures by dealers about share transactions, by persons who acquired or disposed of securities and by a licensed stock exchange about security transactions;

(c) Proper maintenance of books, records, accounts and audits by licensed stock dealers and licensed stock brokers and regular reporting by such licensed stock dealers and licensed stock brokers to the council of their affairs.

Amendment
to the
Companies
Act, No.
17 of 1982.

54. The Companies Act, No. 17 of 1982 is hereby amended by the repeal of sections 220, 221, 222 and 223 of that Act.

Interpretation.

55. In this Act, unless the context otherwise requires—

“investor” means a person who invests in securities purchased or transacted through a licensed stock broker of a licensed stock exchange;

“listed public company” means any public company which has its securities listed or quoted on a licensed stock exchange;

- “listed securities”** means securities of any listed public company ;
- “securities”** means debentures, stocks and shares in a public company or corporation, funds or bonds of any government or of any body, corporate or unincorporate, including any right or option in respect thereof or any other certificate or interest bought or sold on a stock exchange ;
- “stock exchange”** means a market, exchange or other place at which securities are regularly offered for sale, purchase or exchange, including any services connected with such business ;
- “stock broker”** means any individual or body corporate engaged in the business of buying or selling of securities on behalf of investors in return for a Commission ;
- “stock dealer”** means any individual or body corporate engaged in the business of buying or selling of securities or in the dealing or jobbing or trading of securities, or the underwriting or retailing of securities.

SCHEDULE

[section 16]

PART I

Requirements and conditions to be satisfied for the purpose of granting a licence as a stock exchange to a body corporate are as follows :—

- (a) that the applicant is—
- (i) a public limited liability company incorporated under the Companies Act, No. 17 of 1982 ; or
 - (ii) an association registered as a company with limited liability under section 21 of the Companies Act, No. 17 of 1982 ;
- (b) that the articles or association of the applicant company referred to in paragraph (a) do not permit any distribution of profits to members ;
- (c) that the articles of association of the applicant company restricts the membership of the stock exchange to brokers and dealers only ;

- (d) that at least six members of the applicant company will carry on brokering business in securities independently of and in competition with each other and that at least four members have experience in brokering in securities during the last five years ;
- (e) that the applicant company is engaged solely in the business of operating a stock exchange ;
- (f) that the Board of Directors and the chief executive of the applicant company consists of persons of business integrity ;
- (g) that the Board of Directors of the applicant company consists of five members who are individual stock brokers or stock dealers or nominees of any company licensed as a stock broker or stock dealer elected by the general membership ;
- (h) that the applicant company's location and activities will enable the creation of a more orderly market for securities in Sri Lanka ;
- (i) that the applicant company's financial standing is satisfactory ; and
- (j) that the rules of applicant company make satisfactory provision—
 - (i) for admission of members ;
 - (ii) for exclusion from membership of person who are not of good character and high business integrity ;
 - (iii) for the expulsion, suspension or disciplining of members for conduct inconsistent with just and equitable principles in the transaction of business or for a contravention of or failure to comply with rules of the stock exchange or the provisions of this Act ;
 - (iv) for appointment of authorized representatives and clerks ;
 - (v) with respect to the conditions under which securities may be listed for trading in the market ;
 - (vi) with respect to conditions under which listing of a particular security may be revoked ;
 - (vii) with respect to the conditions governing dealings in securities by its members ;
 - (viii) with respect to timely and accurate disclosure of all material information required for investors to make informed investment decisions ;

- (ix) with respect to 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 of certain persons of privileged information not yet made available to the general public ;
- (x) with respect to prohibition of securities market manipulation of any form including false trading, market rigging, &c. ;
- (xi) for investigating into trading in securities and financial transactions of stock brokers and stock dealers for conducting surprise checks on the members ;
- (xii) for suspension of trading of any given security for the protection of investors or for the conduct of orderly and fair trading ;
- (xiii) with respect to the conduct of securities trading of stock brokers and stock dealers and the manner in which information relating to transaction be maintained ; and
- (xiv) for ensuring that the customers' funds are segregated from other business of the security brokers or dealers.

PART II

[Section 17]

Terms and conditions to be complied with for the purpose of granting a licence as a stock broker or stock dealer to a body corporate are—

- (a) that the applicant company is a member of a stock exchange licensed under this Act ;
- (b) that the applicant is a company incorporated under the companies Act, No. 17 of 1982 :
- (c) that the Directors of the applicant company—
 - (i) have never been declared bankrupt ;
 - (ii) have never been themselves, or been Directors of, a company that has been denied a licence as a stock broker or stock dealer ; or
 - (iii) have never been themselves or been Directors of, a company whose licence as a stock broker or stock dealer had been removed by the appropriate authority ;
- (d) that at least one Director and at least one employee who will be the chief employee of the applicant company, is certified by a stock exchange licensed under the provisions of this Act, as sufficiently trained in stock exchange operations ; and

- (e) that the applicant company has lodged security in such sum as may be determined by the Minister, having regard to the value of transactions that are likely to be carried on by such applicant or an equivalent in bank guarantee with a stock exchange licensed under the provisions of this Act.

PART III

[section 18]

Terms and conditions to be complied with for the purpose of granting a licence as a stock broker or a stock dealer to an individual are that the applicant—

- (a) is a citizen of Sri Lanka ;
- (b) is a fit and proper person and is of sound financial standing ;
- (c) is a member of a stock exchange licensed under this Act and is certified by such stock exchange as sufficiently trained in stock exchange operations ;
- (d) has lodged security in such sum as may be determined by the Minister, having regard to the value of transactions that are likely to be carried on by such applicant or an equivalent in bank guarantee with a stock exchange licensed under this Act ; and
- (e) has not been expelled or debarred from membership of any stock exchange licensed under this Act.