

**Regulation on Conduct of Securities Business**  
**Regulation No: 03/2006**

**Title**

1. This Regulation may be cited as “Regulation on conduct of Securities Business”.

**Interpretation**

2. (a) “licensee” means a person who has been issued a license in accordance with the Maldives Securities Act.  
(b) “Client” means a person who avails of the services provided by a person who has been licensed under the Maldives Securities Act.  
(c) “Act” means the Maldives Securities Act.  
(d) In this Regulation, unless the context otherwise requires, any term defined in the Maldives Securities Act shall have the meaning assigned to it in the Act.  
(e) “Staff” includes Directors of the company, employees of the Company, their spouses, and their children under 18 years, nominees and companies in which such persons have a controlling interest. A controlling interest prevails where 51% of the equity of the Company is in the name of the staff or the staff can control the composition of the board of directors of that company.

**PART II**

**CONDUCT OF BUSINESS**

**Certain Representations Prohibited**

3. (a) No person who is the holder of a license shall represent or imply or knowingly permit to be represented or implied in any manner to any person that his abilities or qualifications have in any respect been approved by the Authority.  
(b) The statement that a person is the holder of a license under the Act is not a contravention of sub-regulation (a).

**Independence**

4. Where a licensee is advising or acting for a Client:-
  - (i) he shall not claim he is independent or impartial if he is not; and

- (ii) he shall ensure that any claim he makes as to his independence or impartiality adequately includes any limitation that there may be on either.

### **Material Interest**

- 5. Where a licensee has a material interest in a transaction to be entered into with or for a Client, or a relationship which gives rise to a conflict of interest in relation to such a transaction, the licensee shall not knowingly either advise, or deal in the exercise of , discretion, in relation to that transaction unless he has:-
  - (i) fairly disclosed that material interest or relationship, as the case may be, to the Client; and/or
  - (ii) taken reasonable steps to ensure that neither the material interest nor relationship adversely affects the interests of the Client.

### **Take steps to ensure that the interests of the client are not compromised**

- 6. A licensee must take reasonable steps to ensure that neither he nor any of his employees or agents either offers or gives, or solicits or accepts, any inducement that is likely to conflict with any duties owed to Clients

### **Fair and Clear Communications**

- 7. (a) A licensee may make a communication with another person which is designed to promote the provision of securities services only if he can show that he believes on reasonable grounds that the communication is fair, comprehensive and not misleading.  
  
(b) A licensee shall take reasonable steps to ensure that any agreement, communication, notification or information that he gives or sends to Clients to whom he provides securities services is presented fairly and clearly.

### **Client's Understanding of Risk**

- 8. A licensee shall not:-
  - (i) recommend a transaction to a Client, or effect a discretionary transaction with or for him, unless he has taken all reasonable steps to enable the Client to understand the risks involved;
  - (ii) mislead a Client as to any advantages or disadvantages of a contemplated transaction; or
  - (iii) promise a return unless such return is contractually guaranteed

### **Information About Licensee**

- 9. A licensee shall take reasonable steps to ensure that a Client to whom he provides securities services is given adequate information about his identity and business address and the identity and status within the licensee's firm of employees and other relevant representatives with whom the Client has contact.

### **Written Client Agreement Required**

10. A licensee shall not provide to a Client any securities services relating to
- (i) the discretionary management of a portfolio; or
  - (ii) any other type of business related to trade of securities
- except under a written agreement signed by the Client and returned to licensee.

### **Client Agreements**

11. Where a licensee provides securities services to a Client on written contractual terms (whether pursuant to regulation fourteen or otherwise), the agreement shall set out in adequate detail the basis on which those services are provided, details of the licensee and the client, and the fees charged in regards the service provided.

### **Prohibition on including Terms in agreement affecting rights of client**

12. A licensee shall not, in any written communication or agreement, seek to exclude or restrict:-
- i. any duty or liability to a Client which he has under the Act or any regulation made thereunder,
  - ii. any other duty to act with skill, care and diligence that is owed to a Client in connection with the provision to him of securities services;
  - iii. any liability owed to a Client for failure to exercise the degree of skill, care and diligence that may reasonably be expected of him in the provision of securities services.

### **Suitability**

13. A licensee shall take all reasonable steps to ensure that he does not give securities advice to, nor effect a discretionary transaction with or for, a Client unless that advice or transaction is suitable for him having regard to the facts disclosed by that Client and other relevant facts about the Client of which the licensee is or ought reasonably to be aware.

### **Charges**

14. Before a licensee provides securities services to a Client he shall disclose to the Client the basis or amount of the licensee's charges for the provision of those services and the nature of and amount of any other remuneration receivable by him and attributable to the services.

### **Confirmation and Periodic Information**

15. Where a licensee effects a sale or purchase of securities with or for a Client, he shall ensure that the Client is sent with due dispatch a contract note containing the essential details of the transaction in accordance with the requirements of the Act and any regulations made thereunder.

### **Timely Execution**

16. When a licensee has agreed or decided in his discretion to effect or arrange a Client order, he shall effect or arrange the execution of the order as soon as is reasonably practicable in the circumstances.

### **Fair Allocation**

17. (a) Where a licensee has aggregated an order for a Client transaction with an order for an own account transaction, or with an order for another Client transaction, then in the subsequent allocation:-

- i. he shall not give unfair preference to himself or to any of those for whom he dealt; and
- ii. if all orders cannot be satisfied, he shall give priority to satisfying orders for Client transactions.

(b) A licensee shall not, except as permitted by sub-regulation (c), enter into, as principal or on behalf of a person associated with him, a transaction of purchase or sale of securities that are permitted to be traded on the stock market of a stock exchange if a client of the licensee, has instructed the licensee to purchase or sell, respectively, securities of the same class and the licensee has not complied with the instruction.

(c) Sub-regulation (b) does not apply in relation to the entering into a transaction by a licensee as principal or on behalf of a person associated with him where the instructions from the client of the licensee required the purchase or sale of securities on behalf of the client to be effected only on specified conditions at which the securities were to be purchased or sold and the licensee has been unable to purchase or sell the securities by reason of those conditions.

### **Front Running**

18. Where a licensee intends to publish to Clients a price sensitive recommendation or research or analysis, he shall not knowingly effect an own account transaction in the investment concerned or in any related investment during the period of the preparation of such report or analysis and for 5 business days after dissemination of the report or analysis.

### **Churning**

19. A licensee shall not deal or arrange a deal in the exercise of discretion for any Client; or advise a Client to deal, if the dealing could in the circumstances reasonably be regarded as too frequent or too large.

### **Right to sell securities**

20. A Licensee can sell or offer to sell securities provided:

- i. At the time of offer of sale of the securities, the Licensee or where the person offering to sell is an agent of the licensee the principal had the rights to sell such securities; or
- ii. At the time of offer of sale of the securities, the Licensee or where the person offering to sell is an agent of the licensee the agent believed that the licensee had full rights to sell such securities;

### **Complaints**

21. A licensee shall have internal procedures to ensure the proper handling of complaints from Clients and to ensure that any appropriate remedial action on those complaints is promptly taken.

### **Compliance**

22. (a) A licensee shall take reasonable steps, including the establishment and maintenance of procedures, to ensure that:-
  - i. his officers, employees and other representatives are aware of their obligations under the Act and any regulations made thereunder, and that they act in conformity with them; and
  - ii. sufficient information is recorded and retained about his securities business and compliance with the regulatory system.
  - iii. each of his officers, employees and other such persons do not give advice or provide services of such a nature as is beyond his competence to give or to provide.
- (b) records required to be maintained by the regulatory system shall be kept available, for a period of not less than six years, by the licensee for inspection by any person duly authorised by the Authority.

### **Client Confidentiality**

23. (a) Subject to sub regulation (b), all information in the possession of a licensee relating to a Client shall be kept confidential by the licensee
- (b) A licensee may disclose information relating to a Client when properly required to do so by the Authority, a clearing house or the market surveillance department of the licensed stock exchange company of which he is a member, or if he is ordered to do so by a court of competent jurisdiction or other due process of law.

### **Cessation of Business**

24. Where a licensee decides to withdraw from securities business he shall:-
  - (a) forthwith notify the Authority and each of his Clients of such decision; and

- (b) ensure to the satisfaction of the Authority that any such business which is outstanding is properly completed or transferred to another licensee.

### **Best Practice**

- 25. A license shall at all times act according to best practice in the securities industry and shall observe high standard of integrity, fair dealing and act with due skill, care and diligence.

### **Dealings as Principal**

- 26. (a) A licensee shall not, as principal, deal in any securities with a client unless he first informs the client with whom he is dealing that he is acting in the transaction as principal and not as agent.
- (b) A licensee who, as principal, enters into a transaction of sale or purchase of securities with a client shall state in the contract note that he is acting in the transaction as principal and not as agent.
- (c) Where a licensee fails to comply with sub-regulation (a) or (b) the client may, rescind the contract by a notice of rescission in writing given to the licensee not later than thirty days after the receipt of the contract note.
- (d) Nothing in sub-regulation (c) affects any right that a client has apart from that sub-regulation.

### **Payment to Seller**

- 27. Payment shall be made to the seller by the licensee on T+3 (Trade day + 3 days).

### **Staff Trades**

- 28. (a) Staff of a licensee shall trade only through their employer company.
- (b) Business shall be transacted on account of the staff of a member company only with the prior authorization in writing from the Chief Executive Officer or Compliance Officer of the company for each transaction.
- (c) The Compliance Officer of the member company should maintain a restricted securities list and staff should not trade in restricted securities.
- (d) A "**Restricted**" securities list for the purpose of this section shall mean a list of securities in which the company possesses material non public information. The securities in the following situations, should be included as a minimum in this list.
  - i. Where the research division issues a significant recommendation or report

relating to such security, during the period of preparation of the report or analysis to 5 business days after dissemination of the report or recommendation to the clients.

- ii. Securities may be added or deleted from the "**Restricted**" list at the discretion of management.

(e) Staff trades should be treated with lower priority level to clients. The procedure to be followed in this regard shall be documented by the licensee and a copy of this procedure together with any subsequent amendments should be sent to the Maldives Stock Exchange for approval. After approval is received a copy of the procedures should be filed with the Maldives Stock Exchange.

(f) The Compliance Officer should review employee trades regularly and document the review. This documentation should be made available to the Maldives Stock Exchange.

(g) Employment contract of staff of licensee should provide for strict adherence to the rules for staff trades and should make provisions for dealing with clients who contravenes such provisions.

### **PART III**

#### **ADVERTISING**

29. The licensee advertising his business shall include details of the following in his advertising.

(a) display the licensee's name and address;

(b) describe the licensee's business;

(c) general conditions of provision of service;

(d) Place where business is conducted;

(d) Without misrepresenting any information in the advertisement state the risks involved in relation to services being provided.

### **PART IV**

#### **CLIENT'S MONEY AND PROPERTY**

##### **Client's Money**

30. (a) Where a client deposits money with, or lends money to, a dealer, the dealer shall-

- i. deposit the money in an account in a bank, not later than the next day on

which the bank is open for business after the receipt of the moneys and the account shall not contain any money other than money deposited with or lent to the dealer;

- ii. furnish to the client a document, in the prescribed form, setting out the terms and conditions on which the deposit or loan is made and accepted, including the purpose for which and the manner in which the money is to be used by the dealer;
- iii. retain the money in the bank account until the client gives him a written statement acknowledging that the client has received the document referred to in paragraph (ii); and
- iv. use the money only for the purpose in the manner set out in the document referred to in paragraph (ii) or for any other purpose or in any other manner agreed to by the client in writing after the document referred to in paragraph (ii) was furnished to the client.

(b) Other than as prescribed in (a) for the use of the licensee money can be withdrawn by the licensee as fee for services rendered as agreed in writing between the Licensee and the Client.

### **Safeguarding of Client's Investment**

31. A licensee who has custody of a Client's securities in connection with or with a view to securities business shall:-
  - i. keep safe, or arrange for the safekeeping of, any documents of title, or documents evidencing title, relating to the securities;
  - ii. ensure that any securities that he buys or holds for a client are properly registered in his name or, with the consent of the client, in the name of an appropriate nominee; and
  - iii. Moneys of the client shall be deposited in the bank account.

## **PART V**

### **ACCOUNTING AND FINANCIAL REQUIREMENTS**

#### **ACCOUNTING RECORDS**

32. (a) Accounting records which are required to be kept under the Act and these Regulations shall, during the period in which they are required to be so kept, be kept in detail so that details of any specific transaction can be produced on demand.



(b) A dealer shall at least once every month, reconcile the balance on each client's account (as recorded by it) with the balance of that account (as set out on the statement issued by the bank).

## **FINANCIAL STATEMENTS**

33. A dealer shall, in respect of his securities business, prepare for each financial year annual financial statements which shall consist of:-

- (a) a balance sheet as at the last day of the financial year; and
- (b) a profit and loss account for the financial year.

34. (a) The financial statements required to be prepared under the Act and these Regulations shall comply with the provisions of the Schedule (so far as practicable) with respect to the form and content of the balance sheet, the profit and loss account and any additional information to be provided by way of notes to the financial statements;

(b) Where compliance with the provisions of the Schedule and other provisions of the Act and these Regulations as to the matters to be included in a balance sheet or profit and loss account or in notes to them, would not be sufficient to give a true and fair view, the necessary additional information shall be given in the balance sheet or profit and loss account or in a note to them.

(c) If in special circumstances, compliance with any of these provisions is inconsistent with the requirement to give a true and fair view, the dealer concerned may depart from that provision to the extent necessary to give a true and fair view.

(d) A departure under sub-regulation (c) from any such provision shall be accompanied by a note to the financial statements providing the particulars of the departure and the reasons for it.

35. (a) The Licensee shall ensure that Annual financial statements required to be prepared under the Act and these Regulations shall be submitted to an auditor for audit.

(b) The auditor's report obtained in compliance with these Regulations shall be submitted by the dealer concerned to the Authority together with:-

- i. the annual financial statements; and
- ii. confirmation in writing from the dealer who prepared the financial statements that it has complied with each and every requirement of the Act and these Regulations pertaining to the preparation of the financial statements.

(c) Where the auditor's report is qualified on the grounds of the auditor's uncertainty as to the completeness or accuracy of the accounting records, that report shall when submitted by a dealer be accompanied by a written document (signed by two directors of the company constituting the dealer) stating:-

- i. whether all the accounting records of the dealer have been made available to the auditor for the purposes of his audit;

- ii. whether all transactions undertaken by the dealer have been properly reflected and recorded in the dealer's accounting records; and

## PART VI

### MISCELLANEOUS

#### **Require production of books**

36. (a) The Authority has the power to order the production of identified books to the Authority or to a person nominated by the Authority.

(b) Any direction made under sub regulation (a) shall be in writing.

(c) For the purposes of this section identified books shall relate to-

- (i) the business or affairs of the Stock Exchange;
- (ii) any dealing in securities;
- (iii) any advice concerning securities or the issuing or publication of a report or analysis concerning securities;
- (iv) an audit of, or any report of an auditor concerning a dealing in securities or any accounts or records of a dealer or of an investment adviser.

(d) The Authority may in writing authorize any person to exercise the power to request the production of books conferred on it under this regulation.

(e) No action shall lie against any person for complying with a direction or requirement made or given under this regulation to produce books.

(f) A power conferred by this regulation to give a direction to a person extends, if the person is a body corporate, to giving that direction to any person who is or has been an officer of the body corporate whether that body corporate is in the course of being wound up or has been dissolved.

(g) Where the required books are produced under this regulation the person to whom they are produced-

- (i) may take possession of them, make copies of them, or take extracts from them;
- (ii) may require the other person or any person who was party to the compilation of the books to make a statement providing an explanation of any of the books;

(h) where the books are not produced, the Authority or the authorised person may require the person who should have produced the books-

- (i) to state, to the best of his knowledge and belief, where the books may be found;
- (ii) to identify the person who, to the best of his knowledge and belief, last had custody of the books and where he may be found; or
- (iii) to state the reasons why the books cannot be produced.

### **Court Order to search premises**

37. (a) Where a person refuses to disclose a book upon direction to do so, and the Authority has reasonable grounds to believe that the book is in the custody of the person to whom the direction was issued, the Authority may apply for a court order specified below.
- (i) to search the premises and to break open and search any cupboard, drawer, container or other receptacle, whether a fixture or not, in the premises; and
  - (ii) to take possession of, secure against interference, any books that appear to be books the production of which was so directed.
- (b) In this regulation “premises” includes any structure, building, place aircraft, vehicle, boat or vessel.

### **Incriminating statement**

38. Where the person claims before making a statement required of him, that the statement provided in answer to the request shall, if it would in fact incriminate him, not be admissible in evidence against him in any criminal proceedings other than criminal proceedings instigated under this regulation.

### **Secrecy of information from books**

39. No information obtained from any books that have been produced under this regulation shall be published or disclosed to any person other than to the Authority, its officers and employees, without the previous consent in writing of the person who had custody or control of the book, unless the publication or disclosure is required under any other law or by a court order.

### **Disclosure to the Authority**

40. (a) The Authority may, where it considers it necessary for the protection of investors, require a dealer to disclose to it, in relation to any acquisition or disposal of securities, the name of the person from or through whom or on whose behalf the securities were acquired or disposed of and the nature of the instructions given to the dealer in respect of the acquisition or disposal.
- (b) The Authority may require a stock exchange to disclose to it, in relation to an acquisition or disposal of securities on the stock market of that stock exchange, the names of the members of the stock exchange who acted in the acquisition or disposal.

## **Power of Authority to prohibit trading**

41. (a) Where the Authority is of the opinion that it is necessary to prohibit trading in particular securities of or made available by, an issuer on the stock market established by the Stock Exchange in order to protect persons buying or selling securities or to protect the interest of the public, the Authority may give notice in writing to the Licensee thereto stating that it has formed that opinion and setting out its reasons.
- (b) Where a direction is issued under sub regulation (a)
- (i) at the same time send a copy of the notice to the issuer together with a statement setting out the reasons for the giving of the notice; and
  - (ii) as soon as practicable furnish to the Minister a written report setting out the reasons for the giving of the notice and send a copy of the report to the Licensee.

## **Breach of this regulation**

42. Failure to comply with any provision of this Regulation shall be an offence punishable in accordance with the Securities Act.

## **Amendments**

43. Amendments to this regulation can be brought by a meeting of the Board.

## APPENDIX 1

### **BALANCE SHEET FORMAT**

#### **A. FIXED ASSETS**

- 1. Intangible Assets
  - 1. Development costs
  - 2. Goodwill (1)
  - 3. Other
  
- II. Tangible Assets
  - 1. Freehold land and buildings
  - 2. Leasehold land and buildings
  - 3. Motor vehicles

4. Office equipment and computers
5. Fixtures and fittings
6. Payments on account
7. Other tangible assets

III. Investments

- I. Loans to and shares in group companies and connected companies
2. Other listed investments
3. Other unlisted investments

**B. CURRENT ASSETS**

I. Physical stocks

II. Debtors (2)

1. Trade debtors (3)
2. Other debtors
3. Amounts due from connected and group companies
4. Prepayments and accrued income

III. Investments

IV. Cash at bank and in hand

**C. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

1. Bank loans and overdrafts
2. Subordinated loans (4)
3. Other debenture loans
4. Trade creditors (5)
5. Investments (short positions)
6. Income tax (if any)
7. Amount due to group and connected companies
8. Other creditors
9. Accruals and deferred income

**D. NET CURRENT ASSETS (LIABILITIES)**

**E. TOTAL ASSETS LESS CURRENT LIABILITIES**

**F. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

1. Bank loans and overdrafts
2. Subordinated loans (4)

3. Other debenture loans
4. Trade creditors (5)
5. Income tax
6. Amounts due to group and connected companies
7. Other creditors
8. Accruals and deferred income

**G. PROVISIONS FOR LIABILITIES AND CHARGES**

1. Commissions on indemnity terms
2. Pension and similar obligations
3. Taxation including deferred taxation
4. Other provisions

**H. TOTAL ASSETS LESS TOTAL LIABILITIES**

**I. CAPITAL AND RESERVES**

1. Called up share capital
2. Share premium account
3. Directors current accounts
4. Revaluation reserve
5. Other reserves
6. Profit and loss account
- 7.

**Notes on the Balance Sheet Format**

(1) **GOODWILL**

Goodwill shall be included only in so far as it was acquired for valuable consideration.

(2) **DEBTORS**

The amount falling due after more than one year shall be shown separately for each item included under debtors.

(3) **TRADE DEBTORS**

(a) Fees

Outstanding for more than 30 days

Outstanding for 30 days or less.

(b) Commissions

Outstanding for more than 30 days    Outstanding for 30 days or less

- (c) Other

Amount outstanding for more than 30 days

Amount outstanding for 30 days or less.

4. *SUBORDINATED LOANS*

- (a) Long term subordinated loans
- (b) Short term subordinated loans
- (c) Committed undrawn subordinated loan facilities
- (d) Bank Undertakings

5. *TRADE CREDITORS*

- (a) Amounts due to be paid against delivery of securities
- (b) Amounts due to be paid in respect of securities transactions otherwise than against delivery of securities.
- (c) Other (specify)

**APPENDIX 2**

**PROFIT AND LOSS ACCOUNT FORMAT**

A. *DEALING*

Gains/losses on principal dealings (trading)

- 1. equities
- 2. debt instruments
- 3. units in collective investment schemes
- 4. other (specify)

**B. REVENUE**

I Commissions on transaction in collective investment schemes

- 1. authorised mutual fund and unit trust schemes.
- 2. other (specify)

II Commissions on securities transactions

- 1. equities
- 2. debt instruments
- 3. other (specify)

- III Investment management fees
- IV Fee income in respect of financial advice
- V Trustee fees
- VI Interest and dividends
  - 1. investments positions
  - 2. loan accounts and margin accounts
  - 3. in respect of balances in client's bank account
  - 4. other (specify)
- VII Dealing and settlement services
- VIII Revenue from research and consulting services
- IX. Retained underwriting and placing commissions
- X Other revenue (specify if material)

**C. EXPENDITURE**

- I. Commissions
  - 1 paid to staff
  - 2. paid to other investment businesses
  - 3.. other (specify)
- II Salaries and other employment costs (exclusive of commission)
- III Directors emoluments
- IV Staff bonuses
- V Interest charges
  - 1. payable to client's in respect of client's money balances
  - 2. other (specify)
- VI Establishment costs
- VII Communications and marketing
- VIII Office equipment and services
- IX Provisions for losses, bad and doubtful debts
- X Professional charges
- XI Securities exchange and clearing house charges



- XII Regulatory fees and expenses
- XIII Audit fees (including expenses)
- XIV Miscellaneous office expenses
- XV Other expenditure (specify if material)

**D. PROFIT OR LOSS BEFORE TAXATION**

**E. TAXATION**

**F. PROFIT OR LOSS AFTER TAXATION**

*G. EXTRAORDINARY ITEMS*

**H. PROFIT OR LOSS FOR THE FINANCIAL YEAR.**