

CODE OF CONDUCT FOR AUTHORIZED MONEY BROKING COMPANIES



**DOMESTIC OPERATIONS DEPARTMENT
CENTRAL BANK OF SRI LANKA
November 2018**

MARKET CONDUCT AND PRACTICES FOR AUTHORIZED MONEY BROKERS

1.0 Scope of the Code of Conduct

- 1.1 With a view to further strengthening the market conduct and practices of the Authorized Money Broking Companies (AMBs), the Central Bank of Sri Lanka (CBSL) intends to issue a code of conduct (hereinafter, the Code) to ensure that operations of AMBs are carried out with high standards of integrity and professionalism in line with the international best practices. These measures are expected to further develop the money broking industry through enhanced mutual trust and confidence between AMBs and its clients.
- 1.2 This is issued under the section 10(C) of the Monetary Law Act No. 58 of 1949. In the event of any discrepancy between this Code and the Money Broking Regulations No. 01 of 2018 (MBR), MBR shall prevail.
- 1.3 The proposed framework shall apply to all AMBs which have been issued a Certificate of Authorization by the Monetary Board under the Regulation 2 of the MBR. In addition, AMBs shall also be bound by ACI Model Code and Global FX Code.
- 1.4 Violations and breaches of the Code shall be subject to regulatory sanction specified in Regulation 21 of MBR.
- 1.5 AMBs shall put in place required monitoring mechanisms to ensure enforcement of the Code.

2.0 The principles of the Code

The principles of the Code developed to provide a common set of guidelines to promote effective functioning and good practice of the AMBs. The Code is organized around four leading principles namely ethics and standards of conduct, general dealing principles, risk management principles and level of standards.

2.1 Ethics and standards of conduct

- (i) Market conduct
- (ii) Confidentiality
- (iii) Dealing for personal (own) account

(iv) Entertainments, gifts and favours

(v) Bets and gambling;

2.2 General dealing principles

(i) Recording of deal conversations

(ii) After-hours and off- premises dealing

(iii) Cancellation of deals

(iv) Keeping records of all money broking activities

(v) Existence of Business Continuity Planning

2.3 Risk management principles

(i) Segregation of duties

(ii) Internal audit function

2.4 Level of standards

(i) Professionalism and knowledge level

(ii) Required qualifications

3.0 Ethics and standards of conduct

3.1 Market conduct

(i) AMBs shall demonstrate a high standard of personal and professional integrity in their conduct.

(ii) AMBs shall implement internal policies and procedures which prohibit all forms of market misconduct and management shall observe the same at all times.

(iii) AMBs shall exercise skill, care and diligence, and act in good faith in money broking activities.

(iv) AMBs shall not engage in manipulative or deceptive conduct or any form of conduct which would give other users of the market or the regulator a false or misleading impression on prevailing market conditions, including but not limited to price, yield rate, supply or demand.

(v) AMBs shall exercise extreme care when in possession of non-public, price sensitive information and shall ensure that they do not deal for their own account or induce another party to so deal, on the basis of such information.

(vi) AMBs shall not willfully spread rumors or disseminate false or misleading information or shall not misuse or manipulate price discovery mechanism.

- (vii) AMBs shall immediately report to the Director of Domestic Operations/Director of International Operations, any undue influence from the member of the Board or a shareholder of the respective companies to execute a transaction based on the non-public market information available with such parties.
- (viii) AMBs shall not provide any information on market developments to media anonymously and should disclose their identity with the statement.
- (ix) AMBs shall report to the Director of Domestic Operations/Director of International Operations, any signs/evidence of malpractices and misdemeanor by any other AMBs and/ or any other parties involved in a transaction, if such signs/evidence comes to it's notice.

3.2 Confidentiality

- (i) As specified in Regulation 11(g) of MBR, AMBs shall not divulge the information of deals to any party, other than those permitted by MBR.
- (ii) AMBs shall preserve, and aid in preserving, confidentiality in all matters including information of dealing counterparties. They shall share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality.
- (iii) AMBs shall train their staff to identify and treat non-public sensitive information and establish suitable policies and procedures to ensure that confidential materials are handled appropriately.
- (iv) AMBs shall not use non-public sensitive information of counterparties for their benefit, or for the benefit of their representative or known party, or induce another party to perform on the basis of such non-public information.
- (v) AMBs shall be cautious not to discuss the affairs of the counterparties in public places including through mobile phones or any other media and shall not leave in public places any documents, electronic media or personal computers which contain confidential information.
- (vi) AMBs shall not, in any way, pressure anyone by inducement, threat or promise, or any improper method to divulge information. AMBs shall similarly reject any request from their counterparties to divulge confidential

information and shall immediately report any such incidents to their management, the Director, Domestic Operations and Director, International Operations.

3.3 Dealing for personal (own) account

- (i) No AMB or an employee of an AMB shall act on its own behalf as a counterparty to a client or as a principal for transactions of financial products as specified in Regulation 9 of MBR.
- (ii) No AMB or an employee of an AMB is allowed to deal/ trade for immediate family or friends or other related parties, in any of the products specified in Regulation 9 of MBR.
- (iii) There shall be a full disclosure and transparency requirement ensuring that the employees give their full attention to their money broking business without being distracted by personal financial concerns.
- (iv) AMBs shall identify actual and potential conflicts of interest that may compromise or be perceived to compromise the ethical or professional judgement of AMBs. AMBs shall disclose such conflicts and take immediate action to avoid them.

3.4 Entertainments, gifts and favours

- (i) Although gifts and entertainment may be offered in the normal course of business, employees shall never offer inappropriate inducements to conduct business, nor solicit them from the personnel of other institutions.
- (ii) Management shall monitor the form, frequency and cost of entertainment/gifts that employees receive and have a clearly articulated policy towards the giving/receipt thereof, ensuring such policy is observed properly.
- (iii) Management shall establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence and ensure the transparency of all entertainment received or provided.
- (iv) AMBs shall not solicit any undue favours from counterparties for their family, relatives or any known party, if such favours conflict with customary standards of fairness and integrity.

3.5 Bets and gambling

- (i) Gambling or betting amongst market participants has obvious dangers and should be strictly prohibited.

4.0 General dealing principles

4.1 Recording of deal conversations

- (i) The voice recording system of the AMBs shall be capable of recording and storing each deal conversation in serially numbered order along with the phone number, date and time of the deal conversation.
- (ii) AMBs shall formulate internal policies in line with international best practices to ensure that they comply with appropriate data and tape recording requirements.
- (iii) AMBs shall ensure that telephone conversation records are stored independently from the office premises and access to such records whether in use or in store, is strictly controlled so that they cannot be tampered with.
- (iv) AMBs shall periodically test the recording system to ensure that the recording system works properly.
- (v) AMBs shall maintain agreements for the voice recorder, and other services obtained from external parties.

4.2 After-hours and off-premises dealing

- (i) Transactions carried out off premises cannot be allowed and management should list the employees, who are authorized to do after hours transactions and stipulate a procedure for the prompt reporting and recording of such transactions.
- (ii) Reporting should be submitted in written format. In the case of verbal reporting, voice-mail equipment should be installed and located in such a way that reported transactions cannot be erased subsequently without Board approval.
- (iii) Board should issue clear written guidelines to employees regarding the limit and type of any deals that may be permitted outside of normal hours.

4.3 Cancellation of deals uploaded through the Central Integrated Market Monitor

- (i) Cancellation of deals reported shall be carried out only where all the parties to the trade agree to such cancellation. AMBs shall report full details of such cancelled transaction, on the date of such cancellation, via email to the Director of Domestic Operations/Director of International Operations of the Central Bank of Sri Lanka.
- (ii) AMBs shall subsequently check whether erroneous deals have been corrected in the Central Integrated Market Monitor.

4.4 Keeping records of all money broking activities

- (i) AMBs shall maintain and preserve documentary evidences, electronically or otherwise, with regard to transactions with counterparties for a period stipulated by the Regulation 16 of MBR, and forward such documents to Regulator as and when required.
- (ii) AMBs shall ensure to properly maintain books of accounts and other records/activities for a time period stipulated under Regulation 16 of MBR and AMBs are also responsible to provide such documents to the regulator as and when required.

4.5 Existence of Business Continuity Planning (BCP)

- (i) AMBs shall define a BCP strategy and a detailed BCP plan in their Operational Manuals.
- (ii) The BCP procedures should be updated and tested at least yearly.

5.0 Risk management principles

5.1 Segregation of duties

AMBs shall ensure proper physical and functional segregation of duties between the front and back offices of the money broking activities.

5.2 Internal audit function

- (i) AMBs shall ensure that their Internal Audit function conduct periodic reviews on internal controls and risk management processes relating to money broking activities in order to ensure their integrity, accuracy and compliance with the prescribed processes.

- (ii) The reviews shall ensure effective control over money broking activities, including the accuracy and completeness of recording of transactions, effective segregation of duties, accurate reporting of exceptions, payments of performance linked remuneration, daily backup procedures, and all relevant internal controls.

6.0 Level of standards

6.1 Professionalism and knowledge level

- (i) AMBs shall maintain a consistently high level of awareness and understanding of market practices and conduct so as to strengthen the overall professional standards of the market. AMBs shall maintain a high level of awareness and understanding of the local and international markets and regulatory developments and systematically update and upgrade their professional knowledge through structured training and development.

6.2 Required qualifications

- (i) Dealers of AMBs shall possess the following minimum qualification/s:
 - (a) Money Broking Certificate offered by Institute of Bankers of Sri Lanka.
 - (b) Certificate program on Treasury and Foreign Exchange Operations offered by Center for Banking Studies of Central Bank of Sri Lanka.
 - (c) any other relevant professional qualification acceptable to the Director of Domestic Operations / Director of International Operations of the Central Bank.
 - (d) In addition to above minimum qualifications, AMBs may possess any other additional qualifications in related subject areas.



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