

# **Trading Membership Rules of the Maldives Stock Exchange**

Effective from 1<sup>st</sup> April 2011

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## **FOREWARD**

These rules are made by the Maldives Stock Exchange (MSE), referred to as the 'Exchange' in accordance with the powers vested in it by section 24 of the Securities Act (2/2006).

These rules govern the Trading Membership rules of the MSE. A trading member firm must agree to abide by the Trading Membership rules to gain admission as a trading member and maintain the membership. The rules contain conduct of business rules where these are in addition to the conduct of Securities Business Regulation No: 03/2006.

The MSE shall make amendments to these rules with prior permission of CMDA, which shall be communicated to the members in writing.

Trading Members are expected to comply with the spirit and the letter of these rules.

Unless the context otherwise specifies, the terms defined in these rules shall have the same meaning as of the Maldives Securities Act.

## **Section 1. MEMBERSHIP REQUIREMENTS**

### **1.1. Conditions**

1.1.1 An applicant for admission as a Trading Member shall:

- a. be a licensed dealing company under the Maldives Securities Act 2006 and regulations there under;
- b. meet applicable requirements of MSE, including compliance with the continuing qualifications;
- c. prove its professional and organisational capabilities;
- d. satisfy MSE that it has in place, appropriate systems of internal controls which will ensure continuous compliance with all requirements of MSE;
- e. comply with the capital adequacy and liquidity requirements imposed by the CMDA and any additional capital adequacy requirement imposed by MSE;
- f. have in place systems and controls which satisfactorily address the identification and management of risk.

### **1.2. Application**

1.2.1 The application for admission shall include at least the following items:

- a. the license issued by the CMDA;
- b. evidence that the applicant is in compliance with capital adequacy and liquidity requirements imposed by the CMDA and any additional capital adequacy requirement imposed by MSE;
- c. a description of the proposed activities;
- d. a description of the human and technical resources;
- e. memorandum and articles of association;

- f. the applicant's business profile;
- g. the amount, composition and breakdown of beneficial ownership of the applicant's capital and its most recent annual audited financial statements;
- h. the particulars of the applicant's senior management;
- i. a commitment of the applicant to abide by the Rules and to observe ethical standards and to act with honesty, integrity, fitness and properness, fairness, due skill and care, diligence and efficiency;
- j. authorisation for MSE to carry out such on-site investigations as required, as well as a commitment to provide all information requested in the course of such investigations;
- k. a Compliance Manual specifying the internal oversight procedures implemented to supervise the securities business in which the Trading Member engages, including the supervision of the activities of the Trading Member's employees;
- l. the location of the principal place of business and any branch offices; and
- m. any other supporting information requested by the MSE.

### **1.3. Admission as a Trading Member**

1.3.1 The MSE may:

- a. admit an applicant subject to such terms and conditions necessary to ensure compliance by the applicant with the Rules; or
- b. reject the application giving reason in writing for rejection.
- c. An applicant dissatisfied with the decision of MSE may appeal to CMDA within 30 days from the receipt of such a decision in writing and the decision of CMDA will be final.

### **1.4. Trading Membership Not Transferable**

1.4.1 A Trading Membership is not transferable.

### **1.5. Continuing Qualifications**

1.5.1 A Trading Member must at all times have:

- a. sufficient staff with adequate knowledge, experience, training and competence to ensure the Trading Member's compliance with these Rules;
- b. adequate internal procedures and controls;
- c. adequate systems in place for the execution, recording and reporting of transactions;
- d. systems and controls in place which satisfactorily address the management of risk; and
- e. satisfactory systems or arrangements in place for the clearing and settlement of transactions.

1.5.2 A Trading Member must at all times comply with the capital adequacy and liquidity requirements imposed by CMDA and with any additional capital and liquidity requirements imposed by MSE.

- 1.5.3 The Trading Member must at all times comply with the procedures and policies of MSE related to securities trading.

## **1.6. Action by CMDA**

- 1.6.1 If a Trading Member's licence is suspended or withdrawn by the CMDA the Trading Member shall be suspended immediately. MSE shall not lift such suspension unless the suspension is lifted by CMDA.

## **1.7. Fees and Charges**

- 1.7.1 A trading member shall pay such fees and charges accordingly with the Fee and Fines of MSE which has been approved by CMDA. The MSE may introduce fees and fines from time to time subject to CMDA's approval.

## **1.8. Observance of Rules**

- 1.8.1 A Trading Member shall be bound by and observe:
- a. these rules
  - b. any rules and procedures set out in any supplementary documentation issued by MSE under these rules;
  - c. the provisions of any notice under these rules; and
  - d. any requirement, decision or direction of MSE subject to these rules.

## **1.9. Notifications**

- 1.9.1 A Trading Member shall give MSE prior written notice of:
- a. a change in its name or the name under which it carries on business
  - b. a change in the address of its principal place of business or branch office
  - c. a change in its legal structure
  - d. a change in ownership control
  - e. a change in directors, senior management, dealer representatives or officers
  - f. any change to the arrangements it has in place for the clearing and settlement of Transactions on MSE

## **1.10. Responsibilities**

- 1.10.1 A Trading Member is responsible to MSE for the conduct of its directors, employees and agents. Such conduct shall be treated for the purposes of these Rules as conduct of the Trading Member.

## **1.11. Maintenance of Records**

- 1.11.1 Each Trading Member shall maintain at least six years of data, information, financial statements, forms, books, records, reports, filings and papers required by any MSE requirement.

## **1.12. Dissemination of Stock Market Information**

1.12.1 Member firms will disseminate the information provided by the Exchange only for the benefit of their clients. Re-distribution of information other than to clients by member firms is prohibited. Member firms will not be permitted to act as data vendors.

## **1.13. Principal**

1.13.1 Each Trading Member shall designate a Principal who shall where necessary represent, vote and act for the Trading Member in all the affairs of MSE. The Principal shall:

- a. represent the Trading Member in all dealings with MSE, with full authority to speak for and bind the Member;

## **1.14. Dealer's Representative**

1.14.1 The MSE may impose requirements on any person who acts as a Dealer's Representative for the Trading Member.

## **1.15. Resignation from Trading Membership**

1.15.1 A Trading Member shall resign only by a formal written resignation delivered to MSE. The resignation shall not take effect until the longest of forty five (45) calendar days after the receipt thereof by MSE or the time when all debts and obligations due the MSE have been satisfied and all outstanding disciplinary actions have been concluded. The CMDA should be informed of such notification within 5 working days by the trading member.

1.15.2 The resigning or terminating Trading Member shall not have the right to the repayment of any fees, charges or penalties paid to MSE.

## **1.16. Termination of Trading Membership**

1.16.1 The MSE may terminate the membership of any Trading Member as follows:

- a. the commencement of bankruptcy or similar insolvency proceedings against the Trading Member;
- b. the Trading Member's application for membership contained material errors or omissions;
- c. occurrence of any of the grounds for suspension if MSE considers that the relevant facts and circumstances present a degree of seriousness that stands in the way of continuation of membership.

1.16.2 Trading Membership shall terminate on the revocation or expiration without renewal of the Trading Member's license by the CMDA.

## **1.17. Suspension of Trading Membership**

1.17.1 The MSE may immediately suspend any Trading Membership or limit the use of the Exchange's facilities by any Trading Member if:

- a. the License of the Trading Member to conduct its securities business is suspended by the CMDA;
- b. the Trading Member fails to make payments or execute other obligations it has to the MSE; or
- c. the MSE determines that financial or operational problems of Trading Member might impair the operation of the MSE or the Trading Member's obligations to its, other Trading Members or MSE;

- 1.17.2 A suspension may be for a definite period of time or until specified conditions have been met by the Trading Member, whichever is longer.

## **Section 2. INFORMATION MONITORING AND INVESTIGATION**

### **2.1. Inspections**

- 2.1.1 The MSE shall conduct regular inspections to ensure continuous compliance of Trading Members to the Trading Membership Rules. The Trading Member shall give full cooperation and arrange inspections within 72 hours from request.

### **2.2. Duty to Notify Breaches of Rules**

- 2.2.1 A Trading Member shall notify MSE immediately when it becomes aware of any breach of these Rules by the Trading Member, or any of its directors, officers or employees. The CMDA should be notified of such, immediately by MSE.

### **2.3. Investigation**

- 2.3.1 MSE will consider all cases where the Trading Member may have breached the rules and may require immediate documents or information.
- 2.3.2 Any matter which involves a prima facie breach of the law will be referred to the CMDA for further action.

### **2.4. Request for explanation**

- 2.4.1 As a result of an investigation or inspection carried out by MSE and where it appears that a trading member has failed to comply with Regulations and MSE Rules for member firms, the Exchange shall notify the member firm concerned in writing of the alleged offence committed and request an explanation.

### **2.5. Decision and Rulings**

- 2.5.1 The Trading Member shall take corrective actions against every case of breach of these rules within 5 working days.
- 2.5.2 If corrective action is not taken by the Trading Member within the time stipulated in Rule 2.5.1, MSE shall decide whether to give a public reprimand and/or fine as per the approved fine schedule of MSE and/or suspension from trading.
- 2.5.3 The MSE shall notify all Trading Members of decisions and rulings made under this rule.
- 2.5.4 The MSE may in its absolute discretion and in such manner as it may think fit notify the public that disciplinary action has been taken against a Trading Member.

## **Section 3. DISPUTE RESOLUTION AND APPEAL**

### **3.1. Client Complaints**

- 3.1.1 If a client has a complaint against a member firm in respect of dealings in securities of the Trading Member, the Trading Member shall deal with the complaint and should ensure it is resolved quickly and satisfactorily.
- 3.1.2 If the client is not satisfied with a decision taken by the Trading Member or if the Trading Member delays a decision in the opinion of the client for an unduly long time, the client may then refer the complaint to the CMDA.

### **3.2. Disputes between Trading Members**

- 3.2.1 Any disputes between Trading Members that cannot first be resolved by the parties themselves must be referred to the MSE.
- 3.2.2 The dispute will be dealt with by MSE and the decision will be conveyed to the parties in dispute. If a party is not satisfied with the decision taken by MSE, such party may appeal to the Dispute Resolution Committee.

### **3.3. Disputes between Trading Members and MSE**

- 3.3.1 If the trading member is not satisfied by decisions and rulings of MSE made under clause 2.5.2, the Trading Member may appeal to the Dispute Resolution Committee of MSE.

### **3.4. Dispute Resolution Committee of MSE**

- 3.4.1 The Dispute Resolution Committee will consist of two appointed Directors of MSE and one dealer representative. A quorum for hearing a dispute shall be three members of the Committee.
- 3.4.2 The Dispute Resolution Committee shall adjudicate upon such dispute and if required, the Committee may give a hearing to the Trading Member/s.
- 3.4.3 The decision of the Dispute Resolution Committee will be put to the Board of Directors of MSE for ratification and then conveyed to the relevant parties in dispute. The Decision of the Board is binding on both parties.
- 3.4.4 Failure of a Trading Member firm to comply with the decision reached by the Board will render the member firm liable to a reprimand and/or a fine and/or a suspension from trading.

## **Section 4. EXTENDED OPERATIONS**

### **4.1. Branch Office**

- 4.1.1 A branch office is a location under the direct management of the Trading Member at which services within the limits of the Trading License issued by CMDA are offered to the clients.

### **4.2. Services from Branch Office**

- 4.2.1 A branch office of a Trading Member will provide both front office and back office services to investors. Front office services will include but not be limited to, provision of information, accepting orders from investors, the operation of a complaints desk and promotion of share trading. Back office

services will include but not be limited to receiving and paying funds on the settlement date and follow-up on overdue payments.

### **4.3. Direct Control**

- 4.3.1 A branch office at which the Trading Member carries out business shall be under the supervision and direct control of a Licensed Broker who is registered at the MSE.

### **4.4. Systems and Facilities**

- 4.4.1 Each branch office shall be equipped with adequate systems and facilities to display the trading board and other real time market information.
- 4.4.2 The branch office shall also have adequate communication facilities, which include telephone and fax facilities to ensure real time access between the head office of the Trading Member and the branch office.

### **4.5. Communication of Orders**

- 4.5.1 If the branch office has a trading terminal then client orders could be entered direct to the terminal for execution. If there is no trading terminal, orders will then have to be immediately communicated to the head office for execution.
- 4.5.2 When orders are communicated between the Branch Office, Head office and MSE, the Branch Office and Head Office shall comply with all relevant procedures of MSE.