

Trading practices and conduct of a stockbroker

The stockbroker (investment advisor) and the stockbroker firm are the two primary relationships you will have when you begin your journey to investing. As an investor, choosing a broker is one of the most important decisions you'll have to make.

The essential purpose of a stockbroker is to buy and sell stocks, bonds and other investments, which they usually do on behalf of clients. Because of their experience and expertise, however, stockbrokers may be in the position to give investment advice, and others may be given permission by their clients to act on their behalf at their own discretion.

The Stockbroker Rules of the Colombo Stock Exchange (CSE) have specified certain guidelines and standards which are expected of stockbrokers in conducting their business operations with clients (investors). Furthermore, these guidelines are an indicator to ascertain whether stockbrokers have taken reasonable steps to organise and manage their business affairs responsibly.

Acting on behalf of clients

When acting on behalf of clients, a stockbroker firm and employees of such a firm who deal with clients shall:

- Observe the highest standards of professional conduct and integrity.
Act fairly.
- Avoid any conflict of interest which may arise.
If a conflict of interest arises, a stockbroker firm shall ensure equal and fair treatment to its clients by disclosing such conflict of interest or by declining to act or by taking any other appropriate measures.
- Carry out strictly the client's instructions.
- Exercise due skill, care and diligence.
- Not guarantee a client that the client will not suffer any loss as a result of carrying out securities transactions with the stockbroker firm for such client.
- Be responsible for the accuracy of all orders entered into the Automated Trading System (ATS) of the CSE by its employees.
- Handle orders of clients fairly and in the order in which they are received. Orders of clients or transactions to be undertaken on behalf of clients shall take priority over orders for the account of the stockbroker firm (if the stockbroker firm is trading on its own account) or the account of an employee of the stockbroker firm, as defined in Rules.
- Take all reasonable steps to execute client orders promptly.
- Act in good faith.

- Act in the best interest of clients and the integrity of the market.
- Execute client orders on the best available terms.
- Have procedures to prevent any conflict of interest between its client's trading activities, trading on its own account and/or on account of employee trades.
- Ensure that orders are entered in accordance with the ATS Rules and any procedures prescribed in the ATS.
- Not share directly or indirectly, the profits or losses in any account of a client.



Whenever a broker terminal is assigned to an employee working in a stockbroker firm, the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka (SEC) shall be informed of the number of the broker terminal assigned to such an employee. No other employee shall use the broker terminal used by another employee without prior notice to the CSE and the SEC.

Recording of orders

- Stockbroker firms shall within a period of six months from the date of adoption of rules (i.e. February 14, 2012) use a telephone recording system with notice to the client, to record the order instructions including date and time of the order and maintain such telephone recordings as part of its records for at least six years or, ensure that the order instructions are received from clients in writing and such written instructions are maintained as part of its records for at least six years.
- In the event of a complaint made by a client against a stockbroker firm relating to a particular transaction, if it is revealed that the order instructions have not been recorded and maintained by the stockbroker firm as required in terms of the Rule, it shall be the responsibility of the stockbroker firm to provide sufficient proof that the stockbroker firm received order instructions from the client pertaining to the disputed transaction. If the stockbroker firm fails to do so, the stockbroker firm shall be held liable.

Advice to clients

- Stockbroker firms and employees of such firms who deal with clients shall disclose, to the best of its ability, all circumstances and risks that could reasonably be expected to affect a client's decision.
- When providing advice to a client, a stockbroker firm and employees of such a firm, who deal with clients, shall act diligently and carefully.
- A stockbroker firm and employees of such a firm, who deal with clients, shall not enter into a transaction which may conflict with a client's interests, unless the client is informed of such conflict of interests and consents to the transaction.

Disclosure of client orders

A stockbroker firm and employees of such a firm, who deal with clients, shall not disclose a client's order to any third party unless:

- The prior written consent of the client is obtained for the disclosure of the information.
- The disclosure is required under any applicable law or any rules of the CSE/Central Depository System (CDS).

Discretionary accounts

A stockbroker firm shall not effect transactions in a discretionary account unless the client has given prior written authorization to the stockbroker firm to effect transactions for the client without the client's specific instructions.

- A stockbroker firm shall implement internal control procedures to ensure proper supervision of the operation of discretionary accounts.
- Such written authorization given by the client shall clearly state the investment objectives of the client.
- The Chief Executive Officer of the stockbroker firm shall approve any arrangement to operate a discretionary account.
- Each authorization or acceptance may be terminated by notice in writing by the stockbroker firm or the client, as the case may be.

Trading authority

Before accepting any orders from a third party on behalf of a client, a stockbroker firm shall first obtain written authorization from the client empowering the third party to trade on behalf of the client through the client's account.

Communication with third parties

- A stockbroker firm shall communicate in writing, directly with its clients in respect of statements, bought/sold notes or any other information unless the client has authorized otherwise in writing.
- A stockbroker firm shall not allow any person other than the client to collect share certificates, bought/sold notes, cheques or account statements, unless the client has authorized such other person in writing.

Prohibited trading activities

A stockbroker firm and employees of such a firm, who deal with clients, shall not:

- Execute its/their personal trades in the account of the client.
- Execute a buy/sell transaction in a client account without the authority of the client.
- Execute trades contrary to the instructions received from the client.
- Use the client's account for third party trading.

(Source: Stockbroker Rules, Colombo Stock Exchange)