

CHITTAGONG STOCK EXCHANGE

(BOARD AND ADMINISTRATION) REGULATIONS, 2013

In exercise of the powers conferred by section 34 of the Securities and Exchange Ordinance, 1969 (XVII of 1969) and read with section 23 of the Exchanges Demutualization Act, 2013, the Exchange hereby makes, with the prior approval of the Bangladesh Securities and Exchange Commission, the following regulations, namely: -

PART I

INTRODUCTION

1. Short Title

- (1) These regulations may be called the Chittagong Stock Exchange (Board and Administration) Regulations, 2013.
- (2) These regulations shall come into effect on Demutualization Date.

2. Definitions

- (1) In these regulations, unless there is anything in the subject or context:
 - (a) “Act” means the Bangladesh Securities and Exchange Commission Act, 1993 (Act XV of 1993);
 - (b) “Articles” means the Articles of Association of the Exchange;
 - (c) “Board ” means the Board of Directors of the Exchange;
 - (d) “Business Plan” means the business plan prepared in accordance with the Demutualization Act and shall include any subsequent business plan delineating the future expansion of the Exchange;
 - (e) “Chairman” means Chairman of the Board of the Exchange for the time being elected by the Board from amongst the Independent Directors;
 - (f) “Chief Regulatory Officer” or “CRO” means an officer of the Exchange responsible for discharging regulatory functions of the Exchange;
 - (g) “Commission” or “BSEC” means the Bangladesh Securities and Exchange Commission established under the Bangladesh Securities and Exchange Commission Act, 1993 (XV of 1993);
 - (h) “Demutualization Act” means the Exchanges Demutualization Act, 2013 (Act XV of 2013);
 - (i) “Exchange” means the “Chittagong Stock Exchange Limited” or “CSE”;
 - (j) “Fit and proper criteria” means qualification criteria including educational and professional that may be required to be satisfied by each

person to be eligible for the election or appointment as a Director of the Exchange;

- (k) "Independent Director" means an independent director of the Exchange as defined in the Demutualization Act;
 - (l) "Initial Shareholders" means the shareholders of the Exchange on the Demutualization Date;
 - (m) "Listed Companies" means Issuers of securities which are listed with the Exchange;
 - (n) "Managing Director" or "MD" means an officer of the Exchange, by whatever name called including without limitation, Chief Executive Officer, appointed by the Board in accordance with the Articles and these Regulations;
 - (o) "Memorandum" means the Memorandum of Association of the Exchange;
 - (p) "Nomination and Remuneration Committee" means a committee constituted by the Board from time to time;
 - (q) "Ordinance" means the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969);
- (2) Words and expressions used herein and not defined, but defined in the Securities & Exchange Ordinance, 1969 (Ordinance No. XVII of 1969), the Bank Companies Act, 1991 (Act XIV of 1991), the Bangladesh Securities and Exchange Commission Act, 1993 (Act XV of 1993), the Financial Institutions Act, 1993 (Act XXVII of 1993), the Companies Act 1994 (Act XVIII of 1994), the Depositories Act, 1999 (Act VI of 1999), the Insurance Act, 2010 (Act XXIII of 2010), the Exchanges Demutualization Act, 2013 (Act XV of 2013) shall have the same meanings respectively assigned to them in the said Acts and the Ordinance, and the Rules and Regulations issued there under.

PART II

BOARD OF CHITTAGONG STOCK EXCHANGE LIMITED

3. Constitution of the Board of Directors

(1) General Requirements:

- (a) Majority of the members of the Board of Directors of the Exchange, including the Chairman, shall be Independent Directors.
- (b) Board of Directors of the demutualized exchange shall elect Chairman from the Independent Directors.
- (c) The Nomination and Remuneration Committee shall nominate the names of Independent Directors and Managing Director in accordance with the fit and proper criteria.

- (d) Directors other than the Independent Directors and MD/CEO shall be elected by shareholders in accordance with the provisions of the Articles of Association.
- (e) Directors other than shareholder Directors are not required to hold any qualification shares.
- (f) Any vacancy in any particular category of Directors shall not affect the continuation of the Board and the Board shall be entitled to carry out its functions and otherwise act in accordance with its powers under the Articles of Association and in law notwithstanding such vacancy.
- (g) Subject to the provisions of the Articles, all Directors other than the Independent Directors and MD/CEO shall be liable to retire by rotation in accordance with the provisions of the Companies Act, 1994.

(2) Board Structure:

Until otherwise determined in a shareholders' General Meeting of the Exchange with prior approval of the Commission, number of Directors shall be 13 (thirteen) with the following composition:

- (a) **Independent Directors:** There shall be 7 (seven) Independent Directors. The Board of Directors of the Exchange, as per recommendation of the "Nomination and Remuneration Committee" will propose at least 2 (two) names against each post of Independent Director and then submit to the Commission for approval through the Board, provided that if the Commission does not approve the proposed names of Independent Directors, then CSE has to re-submit a fresh list of candidates (two names against each post) of Independent Director;
- (b) **Shareholder Directors:** There shall be 5 (five) Shareholder Directors from amongst the Shareholders and Strategic Investor(s). Among the shareholder directors at least 1 (one) post will be reserved for Strategic Investor(s), provided that 1 (one) post of Director from the Strategic Investor(s) shall remain unfilled pending the entrance of Strategic Investor(s); and
- (c) **Managing Director:** The Managing Director / CEO shall be Ex-Officio member of the Board with voting right.

4. Quorum of the Board Meeting

The quorum shall be one-third members of the Board of Directors of which majority of the Directors present shall be Independent Directors.

5. Fit and Proper Criteria for Directors

- (1) A Director elected by the shareholders shall hold office for no more than 2 (two) consecutive terms and shall be eligible to be elected as Director after a gap of 1 (one) year;

- (2) An Independent Director shall be nominated for a term of 3 (three) years and may be renewed for another term by the Commission on recommendation of the Exchange. Thereafter however, he/she shall not be eligible to be nominated as an Independent Director until after a gap of 1 (one) year;
- (3) The Managing Director shall be nominated for a term of not more than 3 (three) years and may be renewed for another term by the Commission on recommendation of the Board.
- (4) No person shall be eligible to be elected or appointed as, or continue to occupy the office of a Director if:-
 - (a) He is found lunatic or becomes of unsound mind or incapable of efficient attention to business; or
 - (b) He remains absent in three consecutive meetings of the Board of Directors or in all meetings of the Board of Directors for a continuous period of three months, whichever is the longer, without leave of absence from the Board of Directors; or
 - (c) He is convicted of any criminal offence and sentenced to imprisonment; or
 - (d) He is a loan defaulter as per CIB (Credit Information Bureau) report of Bangladesh Bank; or
 - (e) He has entered into any business transaction with the Exchange; or
 - (f) Without prejudice to the above he fails to pass "Fit and Proper" criteria as may be framed by the Commission from time to time.
- (5) In addition to the above, a person shall not be considered as an Independent Director if:
 - (a) He is or has been an employee of the Exchange, any of its subsidiaries or holding company within the preceding 3 (three) years of his proposed date of appointment;
 - (b) He is or has been the MD/CEO of any subsidiary, associated company, associated undertaking or holding company of the Exchange within the preceding 3(three) years of his proposed date of appointment;
 - (c) He has, or had within the preceding 3 (three) years of his proposed date of appointment, a material business relationship with the Exchange either directly, or indirectly as a partner, substantial shareholder or director of a body that has such a relationship with the Exchange;
 - (d) He has received remuneration within the preceding 3 (three) years of his/her appointment as a director or receives additional remuneration, excluding retirement benefits from the Exchange apart from a director's fee or has participated in the Exchange's share option or a performance-related pay scheme;
 - (e) He is a family member or connected person, as defined in the এক্সচেঞ্জস ডিমিউচুয়ালাইজেশন আইন, ২০১৩ (Exchanges Demutualization Act, 2013), of any of the Directors, TREC holders or shareholders of the Exchange or the Exchange itself;
 - (f) He has or had any relationship with any of the TREC holders or Shareholders of the Exchange or Directors thereof;

- (g) He is or has been an employee or director of any capital market intermediary including Merchant Banker or Asset Management Company within the preceding 3 (three) years of his proposed date of appointment;
 - (h) He acts as a Director of any other exchange;
 - (i) He is an employee of any shareholder of any exchange;
 - (j) He is an employee of any regulatory organization; or
 - (k) He is a director or holds any office of a listed company.
- (6) An Independent Director must have at least any of the following educational qualification and professional experience:
- (a) Master in business, economics, statistics, computer science, mathematics, public administration or law including not less than 10 (ten) years professional experience;
 - (b) Bachelor in business, economics, statistics, computer science, mathematics, public administration or law including not less than 15 (fifteen) years professional experience;
 - (c) Professional designation like CFA, CA, CMA, CS, CPA etc, including not less than 10 (ten) years professional experience;
 - (d) Persons with at least Bachelors degree having 20 (twenty) years of management experience.

6. Powers of the Board of Directors

- (1) Without prejudice to the generality of the powers conferred upon the Board in pursuance of the Articles, the Board shall be vested with the policy making and resource mobilization powers necessary for the governance of the Exchange.
- (2) The Board shall approve the business plan, annual budget statements of the Exchange and take all measures necessary for the promotion of the objects and purposes of the Exchange.
- (3) The Board shall make and amend all regulations and bye-laws of the Exchange subject to approval of the Commission and issue such orders and directions and make such decisions as it may deem appropriate for the purposes of the Exchange.
- (4) The Board shall prescribe and impose penalties for the violation of regulations and bye-laws adopted by the Exchange and for neglect of or refusal to comply with the orders, directions or decisions issued or made by it thereunder.
- (5) The Board shall have the power to issue, revoke, vary, and suspend any TREC issued in favour of any person subject to compliance with the applicable Regulations as may be framed for such purposes.
- (6) In the discharge of its functions, the Board shall not, in any manner, interfere with the exercise of powers and discharge of functions by the Managing Director and other officers.

- (7) The Board shall exercise such other powers as required under the Demutualization Act.

7. Strategic Planning for the Exchange

- (1) The Directors shall participate in the formulation and execution of strategies in the best interest of the Exchange and contribute towards pro-active decision making at the Board level.
- (2) The Directors shall provide assistance in strategic planning and execution of decisions. A vision and/or mission statement and overall corporate strategy for the Exchange shall be prepared and adopted. The Directors shall further ensure that significant policies have been formulated to be executed by the management under the supervision of the Managing Director. For this purpose significant policies may include:
- (a) governance, risk management and compliance issues;
 - (b) human resource management including preparation of a succession plan;
 - (c) investors' relations including but not limited to general investor awareness, complaints and communication, etc.;
 - (d) write-off of bad/doubtful debts, advances and receivables;
 - (e) capital expenditure, planning and control;
 - (f) investments and disinvestment of funds;
 - (g) borrowing of moneys;
 - (h) listing of securities with the Exchange;
 - (i) determination and delegation of financial powers;
 - (j) transactions or contracts with associated companies and related parties;
 - (k) the corporate social responsibility, initiatives and other philanthropic activities including donations, charities, contributions and other payments of similar nature;
 - (l) the whistleblower policy; and
 - (m) any other policy document as may be decided by the Board from time to time.

8. Code of Conduct for the Directors of the Board

- (1) Meetings and Minutes:
- (a) Meetings of the Board of Directors and General Meetings, notices, agenda, minutes of the meetings shall be in accordance with the Companies Act, 1994.
 - (b) In the event that a Director is of the view that his dissenting note has not been satisfactorily recorded in the minutes of a meeting of the Board, he may refer the matter to the Company Secretary. The relevant Director may require the note to be appended to the minutes during confirmation of the minutes.

- (c) Director(s) shall not participate in the discussion on a matter in which any conflict of interest exists or arises, whether pecuniary or otherwise, and in such cases the same shall be disclosed and recorded in the minutes of the meeting.
- (2) Regulatory Compliances:
- (a) The Directors shall ensure that the Exchange abides by all the provisions of securities laws, rules and regulations framed there under and circulars, directions issued by the BSEC and other authorities as the case may be.
 - (b) The Directors shall ensure compliance at all levels so that the regulatory system does not suffer any breaches.
 - (c) The Directors shall ensure that the Exchange takes commensurate steps to honour the time limit prescribed by BSEC for corrective action.
 - (d) The Directors shall not support any decision in the meeting of the Board which may adversely affect the interest of investors and shall report forthwith any such decision to BSEC.
- (3) General Responsibility:
- (a) The Directors shall ensure performing activities of the Exchange to uphold the interest of public, i.e. the investors; and give priority to the interest of public, i.e. the investors, even it appears to be conflicting with the interest of the Exchange or its shareholders.
 - (b) The Directors shall place priority for redressing investor grievances and encourage fair practices in dealings and trading in securities and matters ancillary thereto.
 - (c) The Directors shall carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the Exchange and investors.
 - (d) The Directors shall submit necessary disclosures/statement of holdings/dealings in securities as required by the Commission and the Exchange from time to time as per their rules, regulations and bye-laws.
 - (e) The Directors shall unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in discharging their duties.
 - (f) A Director shall not use any confidential information for his personal gain, directly or indirectly, received or obtained by him in his capacity as a member of the Board.
 - (g) The Directors shall perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official responsibilities.
 - (h) The Directors shall put in place a mechanism for an annual evaluation of the Board's own performance.
 - (i) The Directors shall not, in any way, interfere in the activities of the management of the Exchange.

9. Code of Ethics for Directors

(1) Objectives and Underlying Principles:

- (a) The code of ethics for Directors of the Exchange intends to establish highest level of business/professional ethics to be followed for establishing a fair and transparent exchange. In discharging functions, the Directors shall adhere to the following fundamental principles:
 - (i) Fairness and transparency in dealing with matters relating to the Exchange and the investors;
 - (ii) Compliance with all laws/rules/regulations laid down by the Exchange and BSEC;
 - (iii) Exercising due diligence in the performance of duties; and
 - (iv) Avoidance of conflict of interest between self-interests of directors and interests of the Exchange and investors.

(2) Disclosure of Dealings in Securities by Directors of the Exchange:

- (a) Directors of the Exchange shall disclose on a periodic basis, with an interval of not more than one month, their trading activities including personal and institutional portfolio investment where such director has direct or indirect interest to the Conflict Mitigation Committee.
- (b) Directors of the Exchange shall also disclose on a periodic basis as above, the trading conducted by firms/corporate entities in which they hold 10% or more beneficial interest or hold a controlling interest, to the Conflict Mitigation Committee.

(3) Avoidance of Conflict of Interest:

- (a) No director of the Board or member of any committee of the Exchange shall participate in any decision making/adjudication process in respect of any person/matter in which he is in any way, directly or indirectly, concerned or interested.
- (b) No director shall be involved in any business transaction with the Exchange except transaction related to the trading of securities;
- (c) Any decision of the Conflict Mitigation Committee as to the existence of conflict of interest shall be final.

(4) Disclosures of Beneficial Interest:

All Directors shall disclose to the Conflict Mitigation Committee, upon assuming office and during their tenure in office, whenever the following arises:

- (a) Any fiduciary relationship of self and family members and directorship/partnership of self and family members in any issuer or with any capital market intermediary;
- (b) Shareholding or any changes thereof, directly or through his family, in any listed company on the Exchange or in other entities related to the capital markets; and

- (c) Any other business interests which may affect price movements of the listed securities.
- (5) Access to Information:
- (a) Directors shall not have access to any undisclosed price sensitive information, surveillance or any matter related to the market operation unless the matter is placed before a committee or board meeting, as the case may be;
 - (b) There shall be prescribed channels through which information shall move subject always to audit trail of the same. Any retrieval of confidential documents/information by any member of the Board or any Committee shall be properly recorded.
 - (c) All such information, especially which is non-public and price sensitive, shall be kept confidential and not be used for any personal gain.
 - (d) Any information relating to the business/operations of the Exchange, which may come to the knowledge of directors during performance of their duties shall be held in strict confidence and shall not be divulged to any third party and shall not be used in any manner except for the performance of their duties.
- (6) Committee for overseeing implementation of this code:
- (a) The Conflict Mitigation Committee shall be responsible for overseeing implementation of this code.

PART III

GOVERNANCE STRUCTURE OF THE EXCHANGE

10. Management of the Exchange

- (1) The overall management of CSE will be looked after by the Board of Directors. The Managing Director (“MD”) / Chief Executive Officer (“CEO”), as selected independently by the Nomination and Remuneration Committee, recommended by the Board and approved by the Commission shall have a tenure of not more than 3 (three) years, which may be renewed for another term with prior approval of the Commission.
- (2) The Managing Director must have at least any of the following educational qualification and professional experiences:
 - (a) At least Bachelor in business, economics, statistics, mathematics or law including not less than 10 (ten) years management experience;
 - (b) Professional designation like CFA, CA, CMA, CS, CPA etc, including not less than 10 (ten) years professional experience;
 - (c) In respect of exceptional candidate with international exposure in capital market or relevant field, the above qualification may be relaxed by the Board of the Exchange mentioning the reason thereof.

- (3) The provisions on appointment, removal etc. of MD/CEO shall be as follows:
- (a) Subject to the prior approval of the Commission, the Board of Directors shall appoint a person as a full-time MD/CEO of the Exchange;
 - (b) The person appointed as MD/CEO shall not be a shareholder of the Exchange, nor shall he, in any way whatsoever, be associated with any shareholder or TREC holder of the Exchange or with any issuer, and shall not engage himself in any business, directly or indirectly, including trading or dealing in any securities;
 - (c) If MD/CEO fails to discharge his duties effectively and diligently or is found guilty of misconduct, the Board of Directors may, subject to the prior approval of the Commission, remove him from his office by a resolution passed by it in a special meeting convened for the purpose by the votes of at least two-third of its total Directors:

Provided that no decision for his removal shall be taken except after giving him a reasonable opportunity of being heard and also after taking into consideration his submissions and explanations at the hearing;
 - (d) MD/CEO may resign from his office by at least a three months' notice in writing addressed to the Chairman of the Exchange with a copy to the Commission;
 - (e) The senior-most officer other than the Chief Regulatory Officer ("CRO") of the Exchange shall act as MD/CEO during the period the office of MD/CEO remains vacant or MD/CEO is unable to discharge his functions due to absence, illness or any other cause;
 - (f) The Commission may appoint an MD/CEO if the Board of Directors fails to do so within ninety days of occurrence of the vacancy in that office.
- (4) MD/CEO shall have the authority to perform all administrative functions of the Exchange, give effect to the policies, directives, guidelines and orders issued either by the Commission or by the Board from time to time, to implement any provisions of laws, rules, regulations, Articles and bye-laws and to take such other actions as may be required for these purposes:

Provided that in case of any conflict between any policy, directive, guideline or order issued by the board and the Commission on any matter, the policy, directive, guideline or order issued by the Commission shall prevail and the Managing Director shall be bound to carry out the policy, directive, guideline or order issued by the Commission. He shall be a member of all Board committees except the Regulatory Affairs Committee.
- (5) MD/CEO shall be responsible for –
- (a) designing measures to protect the interest of investors and shareholder of the Exchange;
 - (b) free, fair, transparent and efficient management and operation of the Exchange;
 - (c) effective administration and efficient financial and general management of the Exchange including management of its human resource functions;
 - (d) market related information technology of the Exchange;
 - (e) controlling and directing the officers and staff of the Exchange;

- (f) ensuring disclosure of all price sensitive/material information in the manner prescribed by the Commission or the Exchange;
 - (g) adopting necessary measures to pre-empt conflict of interest;
 - (h) providing extensive financial education to investors, general public, market intermediaries, listed companies and others related to the capital market;
 - (i) discharging all other duties and responsibilities delegated by the Board from time to time;
 - (j) representing the Exchange before the Commission and any other authority concerned;
 - (k) forming management committee(s) to oversee the selection, promotion and disciplinary functions related to employees, below the rank of Company Secretary and equivalent, of the Exchange; and
 - (l) carrying out the policy, directive, guideline or order issued by the Commission.
- (6) Separate regulatory affairs division will be created to oversee the regulatory functions of the Exchange independently. It will be headed by the Chief Regulatory Officer, reporting directly to the Regulatory Affairs Committee, with administrative reporting to MD/CEO. All other divisional heads will report to MD/CEO.

11. Committee Structure

The following Board Committees shall, among others, be formed and empowered to ensure superior corporate governance for CSE:

- a. Nomination and Remuneration Committee;
- b. Regulatory Affairs Committee;
- c. Audit and Risk Management Committee;
- d. Appeals Committee; and
- e. Conflict Mitigation Committee.

12. Quorum of Committees

Quorum for any committee constituted by the Board shall be three members, of which majority shall be Independent Directors.

13. General Principles of Board Committees

- (1) The Board committees shall be duly formed and empowered to ensure superior corporate governance for Chittagong Stock Exchange Limited. All such committees will adhere to the following general principles in discharging their functions and responsibilities:
- (a) Unless otherwise stated, each Committee shall be comprised of 5 (five) members including ex-officio member, out of which at least 3 (three) members including the Chairman shall be Independent Directors.
 - (b) All the members of the Regulatory Affairs Committee (RAC) shall be Independent Directors except the ex-officio member.

- (c) All members of the Audit and Risk Management Committee should be “financially literate” and at least 1 (one) member shall have accounting or related financial management experience.
- (d) Chairman of the Audit and Risk Management Committee or any member of the Audit and Risk Management Committee appointed by the Chairman shall remain present in the Annual General Meeting (AGM).
- (e) Chairman of the RAC shall not be eligible for becoming member of any other Committee.
- (f) MD/CEO of the Exchange shall be the ex-officio member of all Board Committees except the RAC and the Appeals Committee with voting right.
- (g) Chief Regulatory Officer (“CRO”) shall be the ex-officio member of RAC without voting right.
- (h) If any Committee has reported to the Board about anything having material impact on the activities of the Exchange and that any rectification is necessary and if such recommendation has been unreasonably ignored or the Board has failed to discuss on the report in its 2 (two) consecutive meetings from the date of reporting by the committee, MD/CEO shall report such finding to the Commission,
- (i) When the term of service of the Committee members expires or there is any circumstance causing any Committee member to be unable to hold office until expiration of the term of service, thus making the number of the Committee members to be lower than the prescribed number, the Board of Directors shall appoint new Committee member(s) to fill up the vacancy(s) immediately or not later than 1 (one) month from the date of vacancy(s) in the Committee to ensure continuity of the performance of work of the Committee.
- (j) All terms of reference for the committees shall be approved by the Board of Directors and circulated to all respective committee members and disclosed on the Exchange’s website.
- (k) These committees shall have the authority to hire independent external consultants to obtain expert opinions in advisory capacity and incur necessary expenses subject to prior approval of the Board;
- (l) Despite delegation of the various tasks to the Committees as per the assigned terms of reference, the Board shall be ultimately accountable for the performance/ progress of committees.
- (m) The Chairman of each committee shall be the coordinator for the respective committee while the company secretary shall be responsible for all matters relating to convening the meeting, proceedings, agenda and preparation of minutes and the Managing Director shall be responsible for execution of the committee decisions as may be approved by the board.
- (n) The secretarial functions of each committee constituted by the Board shall be discharged by the Company Secretary or by a nominee of the Secretary unless otherwise stated in the Regulations or decided by the Board.

- (o) The members of each committee shall strictly adhere to all applicable rules, regulations and any other securities laws in discharging their functions, duties and responsibilities.
- (p) Tenure of each committee shall be a period of one year from the date of constitution. Unless otherwise decided by the Board, each committee shall continue to operate notwithstanding expiry of their tenure until a new committee is constituted by the Board. The Board shall have the authority to reconstitute any committee or to replace any member of a committee from time to time as it deem fit regardless of the tenure of the respective committee or its members.
- (q) Unless otherwise provided herein, the committees shall meet at least once in every quarter of the financial year. Additional meetings may be held, as and when deemed necessary.
- (r) In addition to the scheduled meetings approved by the Board, the committee may regulate its own procedures and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat. The Secretary shall, on the requisition of a member, summon a meeting of the members.
- (s) If, at any meeting, the Chairman is not present within 1 (one) hour after the time appointed for holding the meeting, the members present shall choose another member of the Committee to Chair the meeting.
- (t) In case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.
- (u) A resolution in writing, signed by a majority of the members for the time being entitled to receive notice of a meeting of the committee (of which a majority shall be independent), shall be valid as effectual as if it had been passed at a meeting of the committee duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more member.
- (v) The committees shall undertake any task assigned by the Board from time to time.

14. Roles of Independent Directors in Committees

Independent Directors shall play the most important role in the Board Committees by ensuring neutrality, improving corporate governance and enhancing business efficiency through their diverse experience and expertise. Independent Directors shall be majority in all the Board Committees including the Chairman in all the committees and thus their strong role will be ensured in decisions and functions of these committees.

15. Board Committees

(1) Nomination and Remuneration Committee:

Functions:

The Committee shall discharge such functions as may be vested to it by the Board from time to time. Without prejudice to the generality of the nature, functions of the committee shall be as follows:

- (i) scrutinize nomination papers that may be submitted by a candidate for the post of Director including Independent Directors according to "Fit and Proper Criteria" as described in this Scheme and the Regulations concerned. ;
- (ii) provide recommendation of remuneration and other facilities of the Directors for approval of the shareholders through the Board;
- (iii) provide recommendation of remuneration for the Managing Director for approval of the shareholders through the Board;
- (iv) carry out the function of searching qualified persons for the recruitment of the Managing Director;
- (v) short-list candidates for the appointment of the Managing Director;
- (vi) recommend the appointment, compensation, succession planning and removal of the CRO to the Board in consultation with the RAC. Provided that CRO can only be appointed and removed upon recommendation by the RAC to the Board and with final approval of the Commission. For this purpose, non-renewal of the contract with CRO shall also be considered as removal;
- (vii) recommend, review and/or make revisions of human resource management policies, including compensation and appraisal policies of CSE;
- (viii) ensure that compensation policy is not biased in favour or against any particular position or positions;
- (ix) recommend to the Board the selection, evaluation, compensation (including retirement benefits) of Chief Operating Officer ("COO"), Chief Financial Officer ("CFO"), Chief Technology Officer ("CTO") and Company Secretary or any other position comparable with these roles;
- (x) oversee proper implementation of all Human Resource policies; and
- (xi) submit written reports to the Board of CSE regarding activities and proceedings as and when requested by the Board.

(2) Regulatory Affairs Committee:

The Regulatory Affairs Committee ("RAC") shall act as the vehicle for separation of business and regulatory activities of the Exchange. RAC shall ensure that the Regulatory Affairs Division ("RAD") functions effectively and take measures necessary to create and maintain an effective regulatory environment to improve investor confidence and market integrity.

RAC shall act as the vehicle for separation of business activities from self-regulation.

Functions:

The Regulatory Affairs Committee shall:

- (i) develop an overall regulatory plan and roles and responsibilities of each department of RAD;
- (ii) ensure adequacy and effectiveness of the exchange's regulatory plan and approve annual plans/targets for the RAD;
- (iii) recommend all required regulatory amendments to the Board;
- (iv) assess performance of the RAD in the light of regulatory program and take measures and where necessary make recommendations to the Board for improvements;
- (v) recommend any allowance that may be paid to the personnel of RAD for proper and smooth functioning of the division;
- (vi) formulate and recommend to the Board for approval, budget and staff allocation for RAD;
- (vii) conduct hearings of any appeal against the enforcement actions/arbitration awards of RAD;
- (viii) identify and manage potential conflicts of interest between commercial and regulatory functions regularly;
- (ix) train/educate employees of RAD in respect of conflict management and also develop the manual on conflict management policy and circulate to all employees of RAD;
- (x) prepare an annual report of the RAD on the activities, conclusions, recommendations of the last year with special focus on the identification and mitigation of conflicts of interest and identify the targets for next year along with any other matters, for the Board and BSEC;
- (xi) all appointments and removals from RAD shall only be subject to the approval of RAC;
- (xii) establish criteria for evaluating candidates for the senior management of RAD including CRO; and
- (xiii) carry out any other function that may be mutually agreed upon by the RAC and the Board.

(3) Audit and Risk Management Committee:

(a) Functions:

- (i) The Audit and Risk Management Committee shall assist the Board of Directors in ensuring that the financial statements reflect true and

fair view of the state of affairs of the company and in ensuring a good internal monitoring system within the business;

- (ii) The Audit and Risk Management Committee shall be responsible for internal financial, cost and management audits of the Exchange periodically;
- (iii) The Audit and Risk Management Committee shall assess the risks related to investments and associated financial management of the exchange, perform benefit-cost analysis and advise the Board to make financial decisions;
- (iv) The Audit and Risk Management Committee shall:
 - (1) oversee the financial reporting process;
 - (2) monitor choice of accounting policies and principles;
 - (3) monitor Internal Control and Risk management process;
 - (4) oversee hiring and performance of external auditors;
 - (5) review along with the management, the annual financial statements before submission to the Board for approval;
 - (6) review along with the management, the quarterly and half yearly financial statements before submission to the Board for approval;
 - (7) review the adequacy of internal audit function;
 - (8) review statement of significant related party transactions submitted by the management;
 - (9) review Management Letters/ Letter of Internal Control weakness issued by statutory auditors;
 - (10) advise the management in adopting appropriate accounting and investment policies; and
 - (11) ensure that statutory statements are submitted to the regulators in time.

(b) Reporting of the Audit and Risk Management Committee:

- (i) Reporting to the Board of Directors
 - (1) The Audit and Risk Management Committee shall report on its activities to the Board of Directors.

(2) The Audit and Risk Management Committee shall immediately report to the Board of Directors on the following findings, if any:

- (a) report on conflicts of interests;
- (b) suspected or presumed fraud or irregularity or material defect in the internal control system;
- (c) suspected infringement of laws, including securities related laws, rules and regulations; and
- (d) any other matter which should be disclosed to the Board of Directors immediately.

(ii) Reporting to the Shareholders and General Investors

Report on activities carried out by the Audit and Risk Management Committee during the year, shall be signed by the Chairman of the Committee and disclosed in the annual report of the Exchange.

(4) Appeals Committee:

Functions:

The Appeals Committee shall have the authority to decide on any appeal against decisions to take disciplinary action against officers/employees of the Exchange.

No member of the Appeals Committee shall be involved in the decision to take disciplinary action against the officer or employee lodging the appeal.

The Appeals Committee shall also review the operations of the "Disciplinary Procedures" on a continuous basis and propose improvements/inclusions as the committee considers necessary to the Board and ensure that the Exchange's disciplinary rules are appropriate to handle the disciplinary issues.

(5) Conflict Mitigation Committee:

Functions:

The Conflict Mitigation Committee shall satisfy the Board of Directors ("Board") that any perceived or actual conflict of interest between the Exchange's regulatory responsibilities and commercial interests is addressed. These functions include:

- (i) Deal with perceived or actual conflict between regulatory responsibilities and commercial interests of the Exchange; and
- (ii) Review the adequacy of the arrangements within the Exchange for dealing with any perceived or actual conflict arising from/during:

- (1) the commercial interests of the Exchange to its shareholders, including any conflict of interest or potential conflict of interest arising as a result of the listing of the shares of the Exchange in its own bourse;
- (2) supervision and monitoring disclosures made by the Directors of the Exchange in discharge of their obligation under the Code of Conduct and Ethics;
- (3) recommending the course of action to be taken against the disclosing Director in case any concealment or omission of material information is detected;
- (4) notifying the BSEC of all relevant facts, including any proposals for resolving the matter in a manner which assures the proper performance of any relevant regulatory functions; and
- (5) reviewing the regulatory implications and reputational risks of strategic initiatives requiring Board approval and are referred to the Committee, and to thereafter report its views to the Board.

PART IV

REGULATORY FUNCTIONS OF THE EXCHANGE

16. Regulatory Affairs Division

The Exchange shall have a separate Regulatory Affairs Division (“RAD”) to conduct the regulatory functions of the Exchange. The RAD shall be headed by the Chief Regulatory Officer (“CRO”).

(1) Chief Regulatory Officer

- (a) The CRO shall be the head of the RAD and shall oversee the efficient functioning of the division in accordance with the terms of reference approved by the Board on the recommendations of the RAC;
- (b) The CRO shall report directly to the RAC but will also have an administrative reporting to the CEO;
- (c) The CRO shall be appointed by the Board with approval from the Commission upon the recommendations of the Nomination and Remuneration Committee in consultation with the Chairman of the RAC;
- (d) The CRO can only be removed on the recommendations of RAC and approval from the Commission. The affairs relating to compensation, succession planning and removal of the CRO shall be recommended to the Board by Nomination and Remuneration Committee in consultation with the Chairman of RAC. For this purpose, non-renewal of the contract with CRO shall also be considered as removal;

- (e) The CRO must not be a connected person with the MD/CEO, TREC holders and the strategic investor(s), or any financial institution holding more than 5% of the shares of the CSE;
- (f) The CRO and his/her family member(s) shall not be engaged in any investment activity with reference to the shares of the Exchange or any listed company;
- (g) The CRO shall be a dedicated position and CRO must not have any other responsibility in the Exchange except the regulatory role;
- (h) The CRO shall also liaise between the Exchange and BSEC on regulatory affairs;
- (i) The CRO shall be responsible for taking disciplinary measures in appropriate cases against persons violating the Exchange regulations or bye-laws;
- (j) The CRO shall be responsible for securing surveillance of market activities and information technology relating to surveillance;
- (k) The CRO shall be the representative of the Exchange in respect of all external investigations, law enforcement, prosecution agencies and courts of law and related matters. However, the CRO may authorize any person from within the RAD or form legal department for any of the aforesaid purposes subject to intimation to the RAC;
- (l) The CRO shall submit a report on regulatory compliance status to the RAC with copy to the Commission every month, as per a format to be prescribed by RAC; and
- (m) Compensation arrangement of the CRO should be determined against the measurable criteria and should not be linked with the number of violations detected or the amount of fine recovered from the market participants.

(2) Educational qualification and professional experience

The Chief Regulatory Officer must have at least any of the following educational qualification and professional experience:

- (a) At least Bachelor in business, economics or law including not less than 10 (ten) years management experience;
- (b) Professional designation like CFA, CA, CMA, CS, CPA etc, including not less than 10 (ten) years professional experience.

(3) Functions of RAD

The RAD shall perform following functions through different departments:

(a) TREC Holder Affairs

- (i) set minimum admission standards and eligibility criteria for TREC holders;
- (ii) formulate rules and regulations relating to proprietary and client level trading by the TREC holders;

- (iii) create awareness about the code of conduct amongst the TREC holders;
- (iv) process approvals/NOCs (No Objection Certificates) for changes in majority shareholding of brokerage houses;
- (v) formulate comprehensive guidelines for TREC holders to meet all obligations to investors in conformity with applicable laws;
- (vi) develop detailed system for TREC holders to keep proper records of all transactions and orders and client profile; and
- (vii) monitor compliance of all the requirements for TREC holders in accordance with the securities laws and recommend/initiate enforcement actions in case of non-compliance.

(b) Listing/Company Affairs

- (i) set listing standards and making efforts to continuously enhance the same;
- (ii) ensure continuous and timely disclosure of material information by the listed companies;
- (iii) ensure compliance of listing regulations;
- (iv) take steps in case of non-compliance of listing regulations;
- (v) ensure compliance of corporate finance requirements by the listed companies;
- (vi) ensure compliance with the Code of Corporate Governance by the listed companies; and
- (vii) recommend / initiate enforcement action against non-compliant listed companies within the jurisdiction allowed under the securities laws.

(c) Monitoring and Surveillance of the Market

- (i) ensure continuous monitoring and surveillance of trading activities;
- (ii) investigate violations of trading rules and disciplinary requirements;
- (iii) ensure that proper systems for detecting violations/ market malpractices are in place and in operation;
- (iv) review and implement risk management standards;
- (v) ensure compliance with the capital adequacy regime;
- (vi) conduct research of various jurisdictions in respect of risk management and developments therein;
- (vii) adopt and implement any international standard code of conduct with approval from RAC; and
- (viii) monitor compliance of all the requirements related to trading in accordance with the securities laws and recommend/initiate enforcement actions in case of non-compliance.

(d) Enforcement and Compliance

- (i) establish compliance procedures to ensure that the procedures reflect current laws and provide adequate guidance to the employees about what is permissible conduct;
- (ii) supervise system audit of brokers/dealers and introduce a system of regular inspection of brokers/dealers;
- (iii) continuously liaise between the Exchange/BSEC and the TREC holders etc. on compliance related issues;
- (iv) ensure that adequate systems and procedures are in place and maintained by supervisory personnel;
- (v) ensure that all applicable rules/regulations/procedures/directives, code of conduct and any amendments therein are strictly adhered to by all personnel;
- (vi) initiate enforcement actions or recommend enforcement actions to BSEC, whichever is applicable, such as imposition of penalties, suspensions etc. Cases requiring litigation shall be forwarded to the Litigation Wing;
- (vii) disseminate material disciplinary actions through website for the information of general public. Maintain and publication of a database of past enforcement actions in accordance with the dissemination policy approved by the Board; and
- (viii) ensure that all post-trade information/reports are made available to investors by TREC holders in line with prescribed rules/regulations.

(e) Investors Complaints, Arbitration and Litigation

- (i) establish a dispute resolution mechanism;
- (ii) handle and process investor complaints;
- (iii) conduct preliminary enquiries, hearings and mediations;
- (iv) coordinate arbitration proceedings; ensure implementation of arbitration awards etc; and
- (v) initiate / defend legal proceedings in respect of enforcement actions of Enforcement and Compliance Wing.

(f) Other Function

- (i) create awareness among market participants including TREC holders, regarding the Code of Conduct and other compliance issues through regular seminars, newsletters and workshops.

PART V
REPEAL AND SAVINGS

17. Repeal and Savings

- (1) **Repeal:** The Chittagong Stock Exchange (Board and Administration) Regulations, 2000 is hereby repealed.
- (2) **Savings:** Notwithstanding the repeal, the *Chittagong Stock Exchange (Board and Administration) Regulations, 2000* and any amendments of the regulations made thereunder, shall continue to apply, as if those regulations had not been repealed to any acts of the Exchange at any period prior to the commencement of these regulations.

By Order of the Board of Directors

Syed Sajid Husain
Managing Director
Chittagong Stock Exchange Ltd.