

CSE Clear (Pvt) Ltd.

Fully Owned Subsidiary of the Colombo Stock Exchange

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28th April 2025

To: Managing Directors/CEOs of Clearing Members

CIRCULAR NO: 08-04-2025

Dear Sir/Madam,

IMPLEMENTATION OF CLEARING HOUSE RULES OF CSE CLEAR (PRIVATE) LIMITED

With the intention of establishing a Central Counterparty (CCP) for the clearing and settlement of equity transactions carried out on the Colombo Stock Exchange (CSE), the CSE has established an entity under the name of "CSE Clear Private Limited" (CSE Clear). The said CSE Clear would function as a clearing house licensed by the Securities and Exchange Commission of Sri Lanka (SEC) under the category of a 'Market Institution'.

In order to facilitate the establishment of the CCP, the CSE has carried out a comprehensive revision of the existing CDS-Clearing House Rulebook, and the revised Rulebook of the clearing house to function as a CCP shall be referred to as "CSE Clear Rules".

The said CSE Clear Rules have been approved by the SEC and is marked as "**Annexure**" and for your reference.

Please note that the effective date of the aforesaid CSE Clear Rules would be notified to you in due course, to coincide with the implementation of the CCP.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Renuke', is written over a horizontal blue line.

Renuke Wijayawardhane
Chief Regulatory Officer

CSE CLEAR (PVT) LTD.



Clearing House Rules

(Effective from [to be notified])

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INTERPRETATION

(i) DEFINITIONS

The following expressions shall bear the following meanings unless the context otherwise requires:

Account Holder

means any person who holds a Client Account in the CDS.

Board of Directors

means the Board of Directors of the Clearing House.

Buy-In Board Settlement Date

means the date on which the settlement of a Trade on the Buy-in Board of the CSE shall take place in accordance with these Rules.

CBSL

means the Central Bank of Sri Lanka.

CCP Settled Trades

means Trades to be cleared and settled by the Clearing House in the capacity of a Central Counterparty as specifically provided for in these Rules.

CDS

means the Central Depository Systems (Private) Limited, which acts as a licensed Central Depository in terms of the SEC Act.

CDS Rules

means the rules issued by the CDS, in its capacity as a Central Depository.

Central Counterparty

means a central counterparty as defined in the SEC Act.

Cleared Balance

means the portfolio of Securities held in a Client Account, which are free from lien or any other encumbrances and have been cleared and settled in terms of these Rules.

Cleared Funds

means funds that are realized and available for drawing in the respective settlement bank.

Clearing Facility

means a Clearing Facility as defined in the SEC Act.

Clearing House

means CSE Clear (Private) Limited, which acts as a licensed Clearing House in terms of the SEC Act.

Clearing or Settlement

means clearing or settlement as defined in the SEC Act.

Clearing Member

means a Clearing Member as defined in the SEC Act and admitted as a Clearing Member of the Clearing House in terms of these Rules and who may act as (i) a Self Clearing Member, or a Professional Clearing Member and/or, (ii) a Limited Clearing Member.

Clearing Member Agreement

means an agreement entered into between the Clearing House and a Clearing Member setting forth the terms and conditions subject to which the Clearing Member shall be admitted and thereupon function as a Clearing Member, based on the standard form Clearing Member Agreement prescribed by the Clearing House in terms of these Rules.

Client

means, a client of a Clearing Member in respect of a particular Trade to be cleared and settled by such Clearing Member, who shall;

(a) in respect of a Non-CCP Settled Trade, be the buyer or the seller, as the case may be, of Securities under such Trade;

(b) in respect of a CCP Settled Trade executed by a Self Clearing Member or a Professional Clearing Member as a Trading Participant, be the buyer or the seller, as the case may be, of Securities under such Trade; and

(c) in respect of a CCP Settled Trade executed as a Trading Participant by a Limited Clearing Member that has entered into an agreement with a Professional Clearing Member in terms of Rule 7.2.2 of these Rules, be such Limited Clearing Member.

Client Account

means an account opened by a Depository Participant on behalf of a person in the CDS in accordance with Section 3 of the CDS Rules.

Commencement Date

means the date of commencement of provision of clearing and settlement services by CSE Clear (Private) Limited as a Licensed Clearing House, which date shall be specified in a notification to be issued by [CSE Clear (Private) Limited].

CSE

means the Colombo Stock Exchange.

Custodian Bank

means a Bank licensed under the Banking Act No. 30 of 1988, as amended, providing custodial services and admitted by the CDS as a Depository Participant in terms of the CDS Rules.

Custodian Bank Clearing Member

means a Clearing Member that is a Custodian Bank.

Custodian Trade

means a Trade carried out by an Account Holder registered through a Custodian Bank.

Default Proceedings

means Default Proceedings as defined in the SEC Act, which are initiated by the Clearing House in the process of clearing and settling the Market Contracts in terms of these Rules.

Default Rules

means Default Rules as defined in the SEC Act, which are specified in **Sections 10, 13 and 14** of these Rules.

Defaulter

means a Defaulter as defined in the SEC Act, which is a Clearing Member that is subject to Default Proceedings under these Rules.

Designated Foreign Currency(s)

means the foreign currencies specified by the CBSL as permitted foreign currencies in terms of the Banking Act No. 30 of 1988, as amended, for the purpose of engaging in foreign exchange transactions.

Excluded Crossing

means a Trade executed on the Crossing Board/Window of the CSE, ***which is referred to and defined in Rule 2.8.2 of these Rules and settled in accordance with Section 15 of these Rules.***

Government Securities

means instruments issued by the Government of Sri Lanka signifying a debt that is repayable by the issuer including treasury bills and treasury bonds and repurchase agreements in that regard.

Licensed Clearing House

means a corporate entity licensed by the SEC to clear and settle securities transactions which take place on the CSE and includes CSE Clear (Private) Limited.

Limited Clearing Member

means a Clearing Member licensed by the Clearing House to clear and settle Non-CCP Settled Trades.

Limited Clearing Member Client

means a Limited Clearing Member which (i) is not admitted as a Self Clearing Member or a Professional Clearing Member in respect of CCP Settled Trades and, (ii) has engaged the services of a Professional Clearing Member to clear and settle such CCP Settled Trades carried out by it.

Listed Entity

means a Public Limited Company listed in terms of the Listing Rules of the CSE.

Market Collateral

means Market Collateral as defined in the SEC Act.

Market Contract

means a Market Contract as defined in the SEC Act.

Market Day

means any day on which the CSE is open for trading.

Non-CCP Settled Trades

means Trades cleared and settled by the Clearing House in terms of these Rules, which are identified in Rule 2.3 as Trades that shall not be cleared and settled by the Clearing House as a Central Counterparty.

Pending Buy Trades

means any Market Contract for purchase of securities which has been executed and is pending settlement.

Pending Sell Trades

means any Market Contract for sale of securities which has been executed and is pending settlement.

Professional Clearing Member

means a Clearing Member as defined in the SEC Act and admitted by the Clearing House to clear and settle (i) all CCP Settled Trades carried out by it as a Trading Participant or affirmed by it as a Custodian Bank and, (ii) all CCP Settled Trades carried out by a Limited Clearing Member.

Rules

means these rules issued by the CSE Clear (Private) Limited in its capacity as a Licensed Clearing House:-

SBL Module

Shall have the same meaning as set out in Section 16 of these Rules.

SBL Transaction

Shall have the same meaning as set out in Section 16 of these Rules.

SEC

means the Securities and Exchange Commission of Sri Lanka incorporated under the SEC Act.

SEC Act

means the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021.

Securities

means Securities as defined in the SEC Act and recognized by the Clearing House as eligible Securities for Clearing or Settlement in terms of these Rules.

Self Clearing Member

means, a Clearing Member as defined in the SEC Act and admitted by the Clearing House to only clear and settle all CCP Trades carried out by it as a Trading Participant or affirmed by it as a Custodian Bank.

Settlement

means the settlement of Market Contracts in accordance with these Rules.

Settlement Date

means the date on which the settlement of a Market Contract shall take place in accordance with these Rules.

Settlement Schedule

means the schedule issued by the Clearing House on each Trade Day to a Clearing Member, reflecting the amounts to be payable or receivable (as the case may be) by such Clearing Member to the Clearing House on the Settlement Date.

Short Position

means in respect of a Market Contract for a Short Sale Transaction executed in terms of section 16 of the Trading Rules of the CSE, a position where the aggregate of the Cleared Balance of the relevant Securities in a Client Account and the number of Securities purchased under Pending Buy Trades in relation to such Client Account is, as at the end of the Trade Day, less than the aggregate of the Securities sold under such Short Sale Transaction and the number of Securities sold under Pending Sell Trades in relation to such Client Account.

Short Sale Transaction

shall have the same meaning as set out in the Trading Rules of the CSE.

Stock Broker

means a Stock Broker as defined in the SEC Act and admitted as a Trading Participant of the CSE.

Stock Broker Clearing Member

means a Clearing Member that is a Stock Broker.

Stock Dealer

means a Stock Dealer as defined in the SEC Act and admitted as a Trading Participant of the CSE.

Trade

means a transaction for the purchase or sale of Securities executed on the CSE, which is to be cleared or settled by the Clearing House, being a Market Contract for purposes of the SEC Act.

Trade Day

means in respect of a particular Trade, the Market Day on which the Trade is executed.

Trading Participant

means a Trading Participant as defined in the SEC Act and admitted as a Trading Participant by the CSE in terms of the Trading Participant Rules.

(ii) INTERPRETATION OF RULES

Headings are provided for ease of reference only and shall not affect the interpretation or construction of the provisions of these Rules.

Unless expressly provided to the contrary, the interpretation of these Rules shall be in conformity with the definitions set out above and in terms of the provisions of the SEC Act and the Rules, Regulations and Directives made thereunder. In the event of any ambiguity, the Board of Directors of the Clearing House or any Committee thereof, or their designee(s) shall have authority to interpret these Rules. Interpretations of the Board of Directors or any Committee thereof, or their designee(s) shall be final and binding subject to an appeal to the SEC provided that such appeal is made within seven (07) days of the interpretation being communicated to the aggrieved party.

If there is any conflict between any of the provisions of these Rules, the Circulars, Operational guidelines and procedures, these Rules shall prevail.

SECTION 1

GENERAL

1.1 Role of the CSE Clear (Private) Limited as a Clearing House

The Clearing House, a wholly owned subsidiary of the CSE, was incorporated on 28th March 2016 as a private company with limited liability under the Companies Act No. 07 of 2007.

The Clearing House has been licensed by the SEC in terms of the SEC Act to operate and maintain a clearing facility for the purpose of clearing and settlement of securities transactions on the CSE.

The Clearing House provides clearing and settlement services as the Central Counterparty that guarantees clearing and settlement of securities transactions, other than for certain securities transactions identified by the Clearing House in Rule 2.3. With regard to those securities transactions which are identified in Rule 2.3, the Clearing House will provide clearing and settlement services by making available the clearing and settlement facility to Clearing Members for the clearing and settlement of such securities transactions. The Clearing House will not act as a Central Counterparty or guarantee clearing and settlement of securities transactions on the CSE which are identified in Rule 2.3.

1.2 Application of the Rules

The Clearing House Rules are issued by the Clearing House in terms of Section 36 (4) of the SEC Act in the discharge of its duties as a licensed clearing house under the SEC Act, including the obligation to act in the public interest having regard to the need to protect investors.

These Rules;

- (a) apply to all transactions that are cleared or settled through the Clearing House; and,
- (b) operate as a binding contract between the Clearing House and each Clearing Member, and between the Clearing Members of the Clearing House.

A Clearing Member who utilizes the clearing and settlement services of the Clearing House shall be liable as principal for all obligations incurred in relation to that service, whether the Clearing Member is acting on its own behalf or on behalf of another person or is acting through another person.

1.3 Waivers or Variation

(a) Power of the Clearing House to Waive/Vary the Rules

The Clearing House may, at its discretion, waive the application of a Rule governing matters of a procedural nature (in whole or part) to suit particular Internal circumstances, with prior notice to the SEC, unless the Rule specifically prohibits such waiver. Such waivers may be granted subject to conditions as the Clearing House considers appropriate.

(b) Failure or delay to not deemed a waiver

No failure or delay by the Clearing House to exercise or enforce any rights conferred upon it by these Rules shall be deemed to be a waiver of any such rights or operate so as to bar the subsequent exercise or enforcement thereof.

1.4 Circulars and Operational Guidelines/Procedures

The Clearing House may, from time to time, issue;

- (a) circulars to the Clearing Members of the Clearing House to supplement or explain these Rules (Circulars); and
- (b) operational guidelines and procedures in the form of letters to the Clearing Members for administrative purposes (Operational Guidelines).

These Circulars and Operational guidelines and procedures issued by the Clearing House, may be unilaterally issued, amended or revoked by the Clearing House subject to the SEC Act and shall be effective on the date specified by the Clearing House.

1.5 Limitation of Liability

Neither the Clearing House, its successors and/or assignees, nor its directors, officers, employees or agents will be liable to the Clearing Members or any person for any loss or damage (including consequential or indirect loss or damage), however caused or arising, including but not limited to any loss or damage arising directly or indirectly from or in connection with the following or anything done or not done as a direct or indirect consequence of the following:

- (a) any failure, error, delay, security breach or malfunction of the Clearing or Settlement facilities operated by the Clearing House whether or not identified or identifiable provided the Clearing House is able to demonstrate that it has taken due care to ensure the non-occurrence or mitigation of such failure, delay, security breach or malfunction;
- (b) the access to, use of or inability to use the Clearing or Settlement facilities operated by the Clearing House other than due to the negligence or fault of the Clearing House;
- (c) anything done (including any statement made) or omitted to be done in the course of, or in connection with the exercise of rights or the discharge or

purported discharge of the Clearing House's obligations or rights under the SEC Act, any other applicable law, or under these Rules;

- (d) any breach or failure of any Clearing Member to comply with these Rules;
- (e) the insolvency or the acts or omissions of any of the Clearing Members;
- (f) the insolvency or the acts or omission of the appointed settlement bank(s) of the Clearing House;
- (g) the acts or omission of the CSE and the CDS;
- (h) any failure, security breach, inoperability or malfunction of equipment, software or any other product supplied to a Clearing Member or in respect of its installation, maintenance or removal, provided the Clearing House is able to demonstrate that it has taken due care to ensure the non-occurrence or mitigation of such failure, security breach, inoperability or malfunction;
- (i) the exercise of a decision-making or regulatory power or discretion under these Rules;
- (j) any virus or other destructive, malicious, or corrupting program, code, agent, script or macro other than due to the negligence or fault of the Clearing House;
- (k) any errors, inaccuracy, omissions or delay in the calculation of margins;
- (l) the originality, accuracy, adequacy, timeliness or completeness of the settlement system or any content, information, materials, images, sounds, graphics, video and other materials displayed therein or any functionalities or applications, programs or services provided therein other than due to the fault or negligence of the Clearing House;
- (m) any information transmitted or received by or on behalf of the Clearing House or a Clearing Member, including through the settlement system, or the interception of or access to such information by unauthorized persons.

Further and for the avoidance of doubt, the Clearing House has no obligations or liabilities under these Rules or otherwise, to any person other than a Clearing Member or its settlement banks, as the Clearing House has no contractual relationship with the Clients of a Clearing Member.

1.6 Indemnity

Each Clearing Member shall indemnify the Clearing House, its directors and employees and hold each of them harmless against all costs, fees, expenses, liabilities and damages of any nature whatsoever suffered or incurred by them directly or indirectly as a result of or in connection with the following matters:

- (a) the participation in any of the services or facilities of the Clearing House by the Clearing Member or the Clearing Member's activities in any of the services or facilities and all matters relating thereto as contemplated in these Rules;

- (b) the failure by the Clearing Member to comply with these Rules, Circulars, Operational Guidelines/Procedures and any Agreement (including without limitation the representations and warranties contained therein) or to comply with any conditions imposed on the Clearing Member by the Clearing House;

the actions and/or omission by the Clearing House, its directors and employees in reliance on any instructions or communication believed in good faith by any of them to have been given by or on behalf of the Clearing Member, or the failure of the Clearing Member to give instructions to the Clearing House as contemplated in these Rules.

1.7 Action by the Clearing House

Except where action of the Board of Directors is specifically required by these Rules, the Chief Executive Officer of the Clearing House or any person acting on his or her behalf shall act on behalf of the Clearing House in respect of its Clearing or Settlement functions.

No act carried out or omitted to be carried out by the Clearing House in good faith in connection with or for the purpose of these Rules shall subject any person acting on behalf of the Clearing House, including;

- (a) any member of the Board of Directors, or any member of any committee established by any the Board of Directors,
- (b) any officer assigned to carry out Clearing or Settlement functions of the Clearing House, and
- (c) any agent of, or any person acting under the direction of the Clearing House,

to any liability whether personally or otherwise.

If any matter which arises in connection with or relating to Clearing or Settlement functions of the Clearing House is not provided for in these Rules, the Clearing House shall have the right to determine such matter. Any such determination shall be binding on the Clearing Members.

1.8 Notices and communications with Clearing Members

Any notice and/or communication by the Clearing House to any Clearing Member in terms of these Rules or otherwise may be issued through any method or means of communication available to and as may be deemed appropriate by the Clearing House. Such notice and/or communication shall be deemed to have been received by and/or delivered to the Clearing Member, if:

- (a) by email, upon its dispatch from the server of the Clearing House,
- (b) by fax, upon generation of transmission confirmation by the facsimile transmitter,
- (c) by courier, upon delivery to the Clearing Member.

1.9 Forms

All forms and other documents issued and/or prescribed by the Clearing House in connection with carrying out the Clearing or Settlement functions of the Clearing House in terms of these Rules, may be varied by additions, deletions, exclusions at the sole discretion of the Clearing House.

1.10 Amendments to these Rules

Subject to the approval of the SEC in terms of the SEC Act, the Clearing House may amend the provisions of these Rules from time to time

1.11 Transitional Provisions

From the Commencement Date, all securities transactions on the CSE shall be cleared and settled by CSE Clear (Private) Limited as the Licensed Clearing House and clearing and settlement services in respect of securities transactions on the CSE by Central Depository Systems (Private) Limited, after such date, shall be limited to and only be in respect of those securities transactions on the CSE carried out prior to the Commencement Date which remain outstanding as at end of trading of the Market day immediately preceding the Commencement Date.

Further, the SBL Module referred to in Rule 16 hereof, which was previously operated by Central Depository Systems (Private) Limited shall, from the Commencement Date, be operated exclusively by CSE Clear (Private) Limited. In pursuance thereof, all rights, powers, duties and obligations of Central Depository Systems (Private) Limited in respect of any outstanding SBL Transactions carried out prior to the Commencement Date on the SBL Module, have been transferred to and assumed by CSE Clear (Private) Limited. All requirements imposed by Central Depository Systems (Private) Limited in terms of the Clearing House Rules of the Central Depository Systems (Private) Limited in respect of such outstanding SBL Transactions shall be deemed to be requirements imposed by CSE Clear (Private) Limited in terms of these Rules and all actions of the Clearing Members and Central Depository Systems (Private) Limited taken under Clearing House Rules of the Central Depository Systems (Private) Limited in respect of such outstanding SBL Transactions shall be deemed to be actions taken by such Clearing Members and CSE Clear (Private) Limited under these Rules.

SECTION 2

CLEARING AND SETTLEMENT FACILITIES

2.1 Use of Clearing or Settlement Facilities

The Clearing or Settlement facilities offered by the Clearing House shall only extend to settlement of Market Contracts by Clearing Members appointed by the Clearing House in terms of these Rules.

2.2 Appointment of Settlement Bank/s

- (i) In order to facilitate the settlement of funds in relation to Market Contracts on each Settlement Date, the Clearing House shall appoint one or more commercial banks, licensed under the Banking Act No. 30 of 1988 (as amended), to function as the settlement bank/s.
- (ii) A Clearing Member shall open only one account with any one of such settlement banks appointed by the Clearing House for the purpose of facilitating the settlement of funds.

2.3 Types of Securities for Clearing and Settlement

2.3.1 All Securities listed and/or traded on the CSE, which are denominated in Sri Lankan Rupees (LKR) or Designated Foreign Currency/ies shall be eligible Securities for Clearing or Settlement in terms of these Rules.

2.3.2 All Trades, other than the Non-CCP Settled Trades identified below, shall be cleared and settled by the Clearing House as and in the capacity of a Central Counterparty in terms of these Rules:

- (i) Market Contracts relating to Securities denominated in Designated Foreign Currencies;**
- (ii) Market Contracts relating to Securities traded on the Debt Market of the CSE.**

2.3.3 Further, a Trade carried out as an Excluded Crossing shall not be cleared and settled by the Clearing House as and in the capacity of a Central Counterparty.

2.3.4 The Clearing House, by acting as Central Counterparty in respect of CCP Settled Trades, guarantees the clearing and settlement of CCP Settled Trades in terms of these Rules.

Part B of these Rules set forth the rules applicable to the clearing and settlement of the CCP Settled Trades.

Part C of these Rules set forth the rules applicable to the clearing and settlement of the Non-CCP Settled Trades.

2.4 Types of Clearing Members

A Clearing Member may be a;

- (i) Self Clearing Member;***
- (ii) Professional Clearing Member; or***
- (iii) Limited Clearing Member***

A Clearing Member Agreement entered by a Clearing Member with the Clearing House shall specify whether the Clearing Member is (a)_a Self Clearing Member or a Professional Clearing Member and/or (b) Limited Clearing Member. For the avoidance of doubt, a Clearing Member that is admitted as a Self Clearing Member or a Professional Clearing Member in respect of CCP Settled Trades may also be admitted as a Limited Clearing Member in respect of Non-CCP Settled Trades.

2.5 Availability of Facilities for Foreign Currency Settlements

Market Contracts in Securities Designated in Foreign Currency/ies shall be cleared and settled in terms of these Rules only by Custodian Bank Clearing Members as defined herein.

2.6 Delivery Vs Payment Settlement Mechanism

Settlement of all Market Contracts shall be performed by the Clearing House on a delivery vs payment basis in terms of these Rules.

2.7 Recording of Trades and Settlement Instructions

2.7.1 The Clearing House shall, upon the receipt of information from the CSE with regard to a Trade executed on the CSE, record the Trade on the settlement system of the Clearing House. The settlement order shall be final and irrevocable upon the entry thereof on the settlement system of the Clearing House. The entry of the settlement order on the settlement system shall be deemed to constitute an acceptance by the Clearing House of the obligation to clear and settle the Trade in accordance with these Rules.

2.7.2 Settlement of Market Contracts under these Rules shall be carried out in accordance with the settlement instructions issued by the Clearing House to Clearing Members.

2.7.3. Settlement instructions referred to in Rule 2.7.2 shall reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a given Settlement Date.

- 2.7.4 The Clearing House shall communicate settlement instructions to all Clearing Members and appointed settlement banks by way of Settlement Schedules issued on each Trade Day.

For the avoidance of doubt;

- (i) all Excluded Crossings shall be reflected in a separate Settlement Schedule issued by the Clearing House, setting forth the gross amount to be settled by the Clearing Members under each Excluded Crossing.
- (ii) all Market Contracts carried out on the CSE using the All-Or-None (AON) Block facility shall be reflected in the Settlement Schedule issued by the Clearing House.

- 2.7.4 The Clearing House may subsequently amend or cancel any settlement instructions to effect any settlement of Market Contracts in terms of these Rules by way of issuing an amended Settlement Schedule to the Clearing Members and appointed settlement banks of the Clearing House by T+1.

2.8 Netting Arrangements for Fund Settlements

- 2.8.1 A Clearing Member's obligation on any Settlement Date to make payment in respect of Market Contracts to be cleared or settled by such Clearing Member shall, ***except in the case of an Excluded Crossing referred in Rule 2.8.2***, be set off against such Clearing Member's entitlement to receive funds on such Settlement Date for Market Contracts cleared or settled by such Clearing Member. ***If the amount of funds that the Clearing Member is entitled to receive is greater than the amount of funds that the Clearing Member is obliged to pay on a Settlement Date, the Clearing Member shall be entitled to receive the net amount remaining after the set off from the Clearing House on the Settlement Date. If the amount of funds that the Clearing Member is entitled to receive is less than the amount of funds that the Clearing Member is obliged to pay on a Settlement Date, the Clearing Member shall pay the net amount remaining after the set off to the Clearing House on the Settlement Date.***

- 2.8.2 ***In the case of any Trade in Securities on the Equity Market of the CSE with a value of over Rupees One Hundred Million (Rs.100,000,000) executed by way of a crossing in terms of the Automated Trading System of the CSE, the Clearing Members in relation to the Trade may agree and request the Clearing House, by end of trading on the Trade Day, that payment in respect of such transaction be excluded from the set off of payment obligations referred to Rule 2.8.1 above ("Excluded Crossings").***

The Clearing Members shall make such request to the Clearing House in the format prescribed by the Clearing House for such purpose. ***The request by the Clearing Members shall not be approved by the Clearing House unless required number of Securities to fully settle the Trade are available as cleared balance in the seller's Client Account in the form of Cleared Balance at the point of making the request to the Clearing House.***

Upon approval of such request by the Clearing House, all payment obligations relating to such Excluded Crossings shall be settled on a gross basis by the Clearing Member.

2.9 Finality of Settlement of Market Contracts

- 2.9.1 The payment obligations of a Clearing Member for a given Settlement Date, as set out in the Settlement Schedule issued by the Clearing House, is discharged by and shall be final and irrevocable upon the debiting of the relevant settlement bank account of such Clearing Member maintained at the appointed settlement bank and the settlement of a Clearing Member's entitlement to receive funds on a given Settlement Date pursuant to the Settlement Schedule and shall be final and irrevocable upon the crediting of the settlement bank account of such Clearing Member maintained at the appointed settlement bank.
- 2.9.2 The delivery of Securities under a Market Contract is effected by and shall be final and irrevocable upon the debiting of the required number of relevant Securities from the seller's Client Account and the receipt of such Securities by the buyer is effected by and shall be final and irrevocable upon the crediting of such Securities into the buyer's Client Account.

2.10 Novation of Market Contracts related to CCP Settled Trades

2.10.1 When a CCP Settled Trade is recorded in the Clearing House for settlement in terms of Rule 2.7.1 above, the contractual rights and obligations of the selling Clearing Member and the buying Clearing Member, vis a vis each other with regard to the settlement of the Trade shall be deemed to have at the point of recording, ipso facto, been novated to the Clearing House.

2.10.2 The novation referred to in Rule 2.10.1 results in the Clearing House interposing itself between the selling Clearing Member and the buying Clearing Member thereby extinguishing the contractual relationship between the selling Clearing Member and the buying Clearing Member and replacing the same by the following two contractual relationships:

- (i) a contract between the Clearing House and the selling Clearing Member in terms of which the Clearing House is entitled to receive the securities from the selling Clearing Member and is subject to the obligation to settle funds to the selling Clearing Member under the Trade; and**
- (ii) a contract between the Clearing House and the buying Clearing Member in terms of which the Clearing House is entitled to receive funds from the buying Clearing Member and is subject to the obligation to deliver securities to the buying Clearing Member under the Trade.**

In the case of a sell Trade carried out by a Limited Clearing Member Client, the contract referred to in (i) above shall be between the Clearing House and the Professional Clearing Member engaged by such Limited Clearing Member Client and the term 'selling Clearing Member' in (i) above shall be a reference to the Professional Clearing Member engaged by the Limited Clearing Member Client which carried out the sell Trade.

In the case of a buy Trade carried out by a Limited Clearing Member Client, the contract referred to in (ii) above shall be between the Clearing House and the Professional Clearing Member engaged by such Limited Clearing Member Client and the term 'buying Clearing Member' in (ii) above shall be a reference to the Professional Clearing Member engaged by the Limited Clearing Member Client which carried out the buy Trade.

2.10.3 Each contract referred to in items (i) and (ii) of Rule 2.10.2, being a Market Contract, shall have force and effect, ipso facto, upon the recording of the Trade on the clearing and settlement system of the Clearing House in terms of Rule 2.7.1 above. This is the time at and from which the Clearing House assumes the role of and as Central Counterparty.

2.10.4 Each Clearing Member that is party to a Market Contract in terms of these Rules shall act as principal and not as agent, including in relation to its (end buyer or seller) Client. In performing its obligations and exercising its rights, the Clearing House shall treat the rights and obligations of the Clearing Member pursuant to Market Contracts to be a full legal and beneficial entitlement, and not subject to any encumbrance in favour of any third person other than the Clearing House according to these Rules if and as relevant.

2.11 Establishment of the Contributory Guarantee Fund

2.11.1 The Clearing House shall establish a fund named the Contributory Guarantee Fund constituting of (i) cash contributed by the Clearing House, (ii) cash and bank guarantees contributed by the Clearing Members and (iii) all accumulations and accretions to the assets of the Contributory Guarantee Fund including accrued interest and other income arising from contributions referred to in (i) and (ii). The Clearing House shall have legal and beneficial ownership of the cash contributed to the Contributory Guarantee Fund.

2.11.2 The contribution by Clearing Members of cash and bank guarantees to the Contributory Guarantee Fund shall be in the manner specified by the Clearing House to Clearing Members from time to time by way of Circulars. The Clearing Members shall comply with the requirements stipulated in such Circulars including with regard to the value of the cash and bank guarantees to be contributed by each Clearing Member and the timing of the contribution.

2.11.3 The Clearing House shall be entitled to utilize the cash and bank guarantees available at any given point of time of the Contributory Guarantee Fund only for the purpose of ensuring settlement of CCP Settled Trades as set forth in these Rules. The Contributory Guarantee Fund shall be readily available and irrevocably applied to discharge any obligations of the Clearing House in respect of CCP Settled Trades, in the event of default of a Clearing Member

2.11.4 The Clearing House may invest the assets of the Contributory Guarantee Fund in such manner and in such investments as may be identified by the Clearing House, from time to time.

2.11.5 Interest or any other income accruing to the assets of the Contributory Guarantee Fund shall, unless otherwise provided in the Rules, be appropriated by the Clearing House to the Contributory Guarantee Fund and such interest and other income shall form part of the Contributory Guarantee Fund.

2.11.6 If a Clearing Member fails to comply with the requirement to make contributions to the Contributory Guarantee Fund as envisaged in Rule 2.11.2 above, the Clearing House shall initiate the following action against such Clearing Member:

(i) Imposition of fines

(a) The Clearing House shall impose fines as set out below:

Instance of Non-Compliance	Fine (Rs.)
On the first (1st) occurrence	The Clearing House shall charge a fine of Rupees One Hundred Thousand (Rs. 100,000/-).
On the second (2nd) occurrence within one (1) year from the date of the first (1st) occurrence	The Clearing House shall charge a fine of Rupees Two Hundred Thousand (Rs. 200,000/-).
On the third (3rd) occurrence, which is within one (1) year from the date of the first (1st) occurrence	The Clearing House shall charge a fine of Rupees Five Hundred Thousand (Rs. 500,000/-) and prohibit the Clearing Member from carrying out settlement of trades for three (3) Market Days.

(b) The fines shall be charged from the Clearing Members based on a schedule issued by the Clearing House as at end of the applicable month. The Clearing Member shall pay the relevant amount as indicated in the schedule to the Clearing House within Two (2) Market Days from the date of the issue of such schedule.

(c) Additionally, the Clearing House shall notify the CSE and the CDS regarding the enforcement action initiated against the Clearing Member in terms of Rule 9.3(i)(a) above, referring to the non-compliance and the

enforcement action taken by the Clearing House against the Clearing Member for such non-compliance.

(ii) Commencement of Disciplinary Proceedings

If a Clearing Member fails to comply with the requirements imposed by the Clearing House in accordance with above Rules on more than three (3) separate occasions within any given period of twelve (12) months, the Clearing House shall, in addition to the fines stipulated in this Rule 2.11, commence disciplinary proceedings against such Clearing Member in terms of Section 4 of these Rules.

SECTION 3

INSPECTION AND INVESTIGATIONS

3.1 Right to Inspection

3.1.1 The Clearing House and/or SEC may conduct an inspection on a Clearing Member at any time on any matter relating to these Rules, the Clearing Member's internal policies and procedures and any other rules and regulations related to its functions as governed under these Rules.

3.1.2 Clearing Members and/or its employees and officials shall:

- (i) provide or procure for the Clearing House all information, documents, books and records the Clearing House requests for and allow the Clearing House to take copies and extracts thereof; and
- (ii) give the Clearing House full access to the relevant premises for the Clearing Member to conduct an inspection in terms of these Rules.

3.1.3 Notwithstanding any provision herein the Clearing House may require any Clearing Members to submit reports relating to their compliance with any of the provisions of these Rules if deemed to be required by the Clearing House

3.1.4 Clearing Members and/or its employees and officials shall:

- (i) not hinder or obstruct the Clearing House during an inspection; and
- (ii) give the Clearing House all assistance the Clearing House reasonably requires to conduct the inspection.

3.1.5 Where a Clearing Member, at any time fails to make or keep current the books and records required by the Clearing House, it shall notify the Clearing House of such failure on the same day, specifying the relevant books and records, and shall thereafter comply with all orders of the Clearing House.

3.2 Notification of Findings

3.2.1 The Clearing House will notify the Clearing Member concerned of the findings of the Clearing House's inspection.

3.2.2 Clearing Members shall within such time as may be stipulated by the Clearing House;

- (i) take corrective measure to address the Clearing House's findings; and
- (ii) notify the Clearing House in writing of the Clearing Member's board of directors decided course of action and corrective measures taken (if any) to address the findings of the Clearing House.

3.3 Right to Investigation

- 3.3.1 The Clearing House and/or SEC may conduct an investigation on a Clearing Member/s at any time on any matter in relation to these Rules, the Clearing Member's internal policies and procedures and any other rules and regulations related to its functions as governed under these Rules.
- 3.3.4 The Clearing House is empowered to require a Clearing Member to attend before the Clearing House at any time and to give such information that is relevant to the investigation;
- 3.3.5 A Clearing Member and its employees and officials shall:
- (i) provide information/explanations as required by the Clearing House;
 - (ii) cause any officer or employee of the Clearing Member to appear before the Clearing House with necessary documents and to provide any information/explanations as may be deemed necessary by the Clearing House;
 - (iii) provide the Clearing House with any documents or records of the Clearing Member;
 - (iv) not hinder or obstruct the Clearing House during the investigation;
 - (v) give the Clearing House all assistance the Clearing House reasonably requires to conduct the investigation; and
- 3.3.6 A Clearing Member shall comply with and give effect to any decisions, recommendations, procedures and guidelines that the Clearing House may issue in exercising the powers under these Rules.
- 3.3.7 Any failure or partial failure to comply with any decisions, recommendations, procedures and guidelines referred to in Rule 3.3.4 by a Clearing Member, including any concealment of, or furnishing of false or inaccurate, information, documents or records, shall be deemed to be a breach by the Clearing Member of these Rules.

Further, such failure may, inter alia, result in the Clearing House, at its sole discretion, imposing any immediate interim measures as may be necessary, in terms of these Rules.

SECTION 4

DISCIPLINARY PROCEEDINGS

4.1 General

Nothing in this Section shall be read or construed to mean that any action that the Clearing House is entitled to take under other provisions of these Rules must necessarily follow the procedure set out in this Section 4, unless such other provisions specifically state that the conduct of disciplinary proceedings under this Section 4 is a prerequisite to taking such action.

4.2 Role of the Disciplinary Committee

The Disciplinary Committee is a body established under the Clearing House rules to oversee and conduct disciplinary proceedings against Clearing Members who breach or fail to comply with the rules, circulars, guidelines, or obligations set by the Clearing House. The Disciplinary Committee shall hear, investigate and decide on the matters specified in terms of these Rules, pursuant to a referral made by the Chief Executive Officer of the Clearing House and report its findings to the Board of Directors.

4.3 Grounds for Disciplinary Action

The Clearing House may take disciplinary action against a Clearing Member ***for any breach of or failure or refusal to adhere to any provision of these Rules and/or any circulars or operational/procedural Guidelines issued or requirements stipulated by the Clearing House thereunder, including any failure to meet any payment obligations under these Rules and/or provide notifications to the Clearing House as required in terms of these Rule or in*** respect of any ***other*** conduct, act and/or omission in its capacity as a Clearing Member of the Clearing House. Such ***other*** conduct, acts and/or omissions in respect of which disciplinary action may be taken, shall include, without limitation, the following:

- a) Any matter with respect to which disciplinary action is required to be taken by the Clearing House under provisions of these Rules;
- b) Any failure or refusal to act in accordance with decisions and/or determinations made by the Clearing House in respect of Securities traded on the CSE;
- c) Any breach of the Clearing Member's agreements with the Clearing House;
- d) Any error, delay or other conduct of the Clearing Member which may be detrimental to the business and operations of the Clearing House;
- e) For not providing adequate facilities for the Clearing Member's business with the Clearing House, and

- f) If the Clearing Member fails to meet standards of conduct reasonably expected of a Clearing Member.

4.4 Disciplinary Committee

- 4.4.1 The Disciplinary Committee (referred to herein as the "Committee") shall consist of three (3) directors of the Clearing House.**
- 4.4.2 The quorum for a meeting of the Committee shall be at least two (2) directors to be present during the entire proceedings.**
- 4.4.3 The Committee may appoint experts and any other external parties to assist it in conducting and carrying out its disciplinary proceedings.**
- 4.4.4 The Committee shall schedule a date, time and place for hearings of which the parties involved shall be given reasonable notice.**
- 4.4.5 Members of the Committee shall notify the Board of Directors before any hearing of any possible conflicts of interest and abstain from participating in such proceedings.**

4.5 Procedure

4.5.1 Notice of Charges

The Committee shall give Clearing Members written notice setting out particulars of the charges against the Clearing Members.

4.5.2 Response to a Charge

- (a) A Clearing Member who receives a notice under Rule 4.4.1 above may submit its explanations to the charges within [twenty - one (21)] days from the date of the notice.**
- (b) If a Clearing Member fails to submit its explanations within twenty-one (21) days from the date of the notice of charge, the Committee shall continue with the proceedings as they deem fit.**

4.5.3 Legal Representation before the Committee

Parties noticed by the Committee may be represented by an Attorney-at-Law provided that the Committee is given notice in writing of the name of the Attorney-at-Law at least seven (07) days prior to the hearing.

4.5.4 Evidence

Each party may examine and take copies of the evidence which the other party intends to rely on at the hearing.

4.5.5 Witnesses, Examination and Cross Examination

(1) The parties may:

- (a) request the attendance of a witness; and**
- (b) request the Committee to permit the parties to examine and cross examine witnesses.**

(2) The Committee may, in its absolute discretion:

- (a) call for the attendance of any witness; and**
- (b) allow a request for the attendance of a witness or the parties to examine and cross-examine witnesses.**

Provided however, if disallowing the attendance of a witness or preventing the parties from examining or cross examining a witness could lead to the prevention of facts in issue from surfacing; then the Committee shall not disallow the attendance of any such witness nor prevent the witness from being examined or cross examined.

(3) The Committee may decide on the method of taking evidence, the adjournment and reconvening of proceedings, as it thinks fit except where expressly provided otherwise in these Rules.

4.5.6 The Committee's Deliberation

Unless permitted in writing by the Committee, the parties to the proceedings shall not be present during the deliberation of a charge by the Committee.

4.5.7 Decision of the Committee

The Committee shall submit its decision in writing with reasons to the Board of Directors.

4.5.8 Interim Measures

Nothing in this Rule 4 shall prevent the Clearing House from taking any action including taking of any disciplinary action against the Clearing Member as interim measures pending the initiation and/or conclusion of the disciplinary proceedings by the Committee, if the Board of Directors is of the view that any such action is required to be taken to uphold the integrity and/or stability of the Securities market and/or public faith and confidence in the credibility of the market pending the initiation and/or conclusion of the disciplinary proceedings.

4.6 Determination of the Clearing House

4.6.1 If the Clearing Member is found guilty of a charge, the Clearing House shall be entitled to take any disciplinary action that it may deem appropriate against a Clearing Member, which may include, without limitation, expulsion, suspension, limitation of or

restriction of activities, functions and/or operations, specific performance, warning, reprimand and/or imposition of fines or payment of costs as determined by the Clearing House.

- 4.6.2 Any determination made by the Clearing House in accordance with Rule 4.5.1, with regard to the disciplinary action taken against a Clearing Member shall be communicated in writing to the Clearing Member by the Clearing House and such determination shall be effective immediately upon delivery (in terms of these Rules) of such communication to the Clearing Member by the Clearing House.
- 4.6.3 Failure by the Clearing Member to comply with any such determination (or part thereof) made by the Clearing House under and in terms of this Rule 4.5, shall entitle the Clearing House to take further disciplinary action, in addition to those already imposed, as the Clearing House may deem fit, without any further opportunity of whatsoever nature being provided to the Clearing Member to show cause or present its case. Such further disciplinary action shall be communicated in writing to the Clearing Member and the SEC by the Clearing House, and the Clearing House may publish its decision in the website of the Clearing House (together with such details as the Clearing House thinks appropriate) and such action shall become effective immediately upon the Clearing House dispatching such communication to the Clearing Member.
- 4.6.4 Where the operation or effectiveness of any determination (or part thereof) of the Clearing House is halted, suspended and/or delayed pursuant to any lawful interim order or decision of the SEC or otherwise such determination (or part thereof) shall be deemed to take effect immediately upon such interim order or decision lapsing or being set aside. Provided however that the Clearing House shall be entitled to make, at its sole discretion, necessary amendments to its original determination only to address any matters, ramifications, issues and/or concerns that may affect the implementation of such determination (or part thereof) due to the halt, suspension and/or delay of the operation or effectiveness of such determination. Upon making such amendments, the Clearing Member shall be notified in writing by the Clearing House.
- 4.6.5 Without prejudice to the discretion available to the Clearing House to impose appropriate disciplinary measures and to determine the extent thereof, if the Clearing House decides to suspend a Clearing Member, the Clearing House may direct such Clearing Member to carry out any of the following actions with notice to the SEC and the Clearing Member shall be obliged to comply with and adhere to such direction:
- (i) to discharge its obligations which it had incurred prior to such suspension,
 - (ii) to do and carry out things as may be necessary to comply with other requirements of the determination made by the Clearing House; and/or
- to comply with any other requirements as may be imposed by the Clearing House.

4.7 Payment of costs

4.7.1 The Committee may require the parties to pay the costs of the investigation, inspection or hearing as determined by it.

4.7.2 Costs under Rule 4.6.1 shall be paid by the parties within fourteen (14) days' notice thereof.

4.7.3 If costs referred to herein remain unpaid for more than seven (7) Market Days after the due date, the Clearing Member status of the defaulting Clearing Member may be suspended by the Clearing House until it makes full payment of such costs.

SECTION 5

DISPUTE RESOLUTION

5.1 Type of Disputes

This section 5 shall be applicable in respect of disputes or disagreements between:

(i) A Clearing Member and the Clearing House in respect of decisions and/or actions taken by the Clearing House;

(ii) Two or more Clearing Members in relation to Clearing House functions

in each instance, in terms of these Rules, circulars and operational guidelines and procedures issued by the Clearing House.

5.2 Procedure

All disputes or disagreements between Clearing Members and Clearing House or between Clearing Members on any matter/s referred to in Rule 5.1 shall be determined in accordance with the Dispute Resolution Rules for the CSE Group which, for such purpose, shall be deemed to form a part and parcel of these Rules.

SECTION 6

COMMUNICATIONS BY CLEARING HOUSE WITH THE CDS AND CSE

6.1 Communications relating to Settlement Instructions

6.1.1 The Clearing House shall communicate Settlement Instructions pertaining to Clearing and Settlement of Market Contracts carried out by Clearing Members to the CDS on the Settlement Date if it is deemed necessary.

6.1.2 In the event of any additions, deletions or modifications to the settlement instructions communicated by the Clearing House in terms of 6.1.1, the Clearing House shall immediately communicate to the CDS the revised Settlement Instructions if it is deemed necessary.

6.2 Actions taken by the Clearing House

6.2.1 Where the Clearing House takes action against or in respect of a Clearing Member that also operates in the capacity of a Depository Participant of the CDS and/or a Trading Participant of the CSE, in accordance with these Rules, the Clearing House shall immediately inform the CDS, the CSE (where applicable) and the SEC of such action.

6.2.2 In the event any such action referred to in Rule 6.2.1 results in the Clearing House not giving effect to any clearing and settlement of any Market Contracts of a Clearing Member on behalf of its client/s and on its own account, the Clearing House shall issue a written notification of such decision to the CDS and CSE.

PART B – CLEARING AND SETTLEMENT OF CCP SETTLED TRADES

SECTION 7

CLEARING MEMBERS – CCP SETTLED TRADES

Self Clearing Member and Professional Clearing Member are the Clearing Members admitted by the Clearing House for settlement and clearing of CCP Settled Trades on its own behalf and on behalf of others, as the case may be.

7.1 Admission as a Self Clearing Member or a Professional Clearing Member

7.1.1 Eligible Categories

The following persons are eligible for admission as a Self Clearing Member:

- (i) A Trading Participant of the CSE, which is a Stock Broker or Stock Dealer;*
- (ii) A Custodian Bank, which is a Depository Participant of the CDS.*

The following persons are eligible for admission as a Professional Clearing Member:

- (i) A Trading Participant of the CSE, which is a Stock Broker or Stock Dealer.*
- (ii) A Custodian Bank, which is a Depository Participant of the CDS;*
- (iii) A Commercial Bank licensed by the CBSL;*
- (iv) A Non-Banking Finance Company licensed by the CBSL.*

7.1.2 Entry Requirements for a Self Clearing Member or a Professional Clearing Member

An applicant for admission as a Self Clearing Member or a Professional Clearing Member shall on the date of application;

- (i) comply with the following capital requirements:*

Self Clearing Member

- (a) If a Trading Participant of the CSE; a minimum liquid capital of Rs. 50 Million and a minimum shareholders' equity of Rs. 125 Million or 50% of the stated capital, whichever is higher.*
- (b) If a Custodian Bank; a minimum total shareholders' equity of Rs. 500 Million.*

Professional Clearing Member

- (a) ***If a Trading Participant of the CSE; a minimum shareholders' equity of Rs. 500 Million or 50% of the stated capital, whichever is higher and an additional shareholders' equity of Rs. 50 Million for each Limited Clearing Member Client in respect of whom clearing and settlement service is provided.***
- (b) ***If a Commercial Bank licensed by the CBSL (including a Custodian Bank) or a Non-Banking Finance Company licensed by the CBSL; a minimum total shareholders' equity of Rs. 500 Million and an additional shareholders' equity of Rs. 50 Million for each Limited Clearing Member Client in respect of whom clearing and settlement services are provided.***

For the purposes of this Rule 7.1.2(i);

'liquid capital' shall have the same meaning as defined in Annexure 2 of the Trading Participant Rules of the CSE.

'total shareholders' equity' shall be calculated in accordance with the Sri Lanka Accounting Standards.

- (ii) have sufficient resources and adequate systems and facilities to support the business operations of a ***Self Clearing Member or a Professional Clearing Member***, as the case may be, in terms of these Rules.
- (iii) have operational capability, including adequately trained staff, data processing capacity and suitable premises; and,
- (iv) satisfy any other requirements and criteria as may be prescribed by the Clearing House for admission of ***Self Clearing Members and Professional Clearing Members***.

7.1.3 Application to be admitted as a Self Clearing Member or a Professional Clearing Member

- (i) An application to be admitted as a ***Self Clearing Member or a Professional Clearing Member*** shall be submitted by the applicant to the Clearing House in the format specified by the Clearing House from time to time.
- (ii) The Clearing House may, accept or reject any application for admission as a ***Self Clearing Member or a Professional Clearing Member***. In the event of a rejection, the Clearing House shall state the reasons.

7.1.4 Grant of Clearing Member Status

- (i) If the application to be admitted as a Clearing Member referred to in Rule 7.1.3 above is accepted by the Clearing House, notice of admission shall be provided as a Clearing Member that is a ***Self Clearing Member or a Professional Clearing Member, as the case may be.***

- (ii) *Admission, whether as a Self Clearing Member or a Professional Clearing Member shall become effective on the execution of the Clearing Member Agreement by the Clearing Member with the Clearing House, expressly recording the status of the Clearing Member as a Self Clearing Member or a Professional Clearing Member, as the case may be. The Clearing Member Agreement shall include, inter alia, a representation and undertaking by the Clearing Member that its Market Contracts shall enable and support the effective clearing and settlement of transactions by the Clearing House, it shall have always obtained the agreement of its Clients to the risk management and in particular the default and loss allocation framework employed by the Clearing House in terms of these Rules. By executing and entering into the Clearing Member Agreement, a Self Clearing Member or a Professional Clearing Member agrees to be bound by and comply with these Rules.*

7.2 Relationship between Professional Clearing Members and Limited Clearing Member Clients

- 7.2.1 *Professional Clearing Members shall clear or settle (i) CCP Settled Trades executed by them either for their own account or for Clients who are Account Holders, and (ii) CCP Settled Trades executed by Limited Clearing Member Clients who have engaged such Professional Clearing Members to clear and settle CCP Settled Trades.*
- 7.2.2 *A Professional Clearing Member shall enter into a written agreement with each Limited Clearing Member Client that obtains its services to clear and settle CCP Settled Trades executed by such Limited Clearing Member Client, specifying the services provided by the Professional Clearing Member and the rights and obligations of each party. Such written agreement shall also contain such requirements as may be specified by the Clearing House from time to time by way of Circulars.*
- 7.2.3 *A Professional Clearing Member shall, immediately upon the execution of a written agreement in terms of Rule 7.2.2 above, provide a copy thereof to the Clearing House, also indicating the effective date of such agreement.*
- 7.2.4 *A Limited Clearing Member Client may enter into a written agreement in terms of Rule 7.2.2 only with one Professional Clearing Member at any given time. Subject to Rule 7.3.4(ii), Rule 7.9.6(iii) and Rule 7.10.1(iii) below, in the event, a Limited Clearing Member that has entered into a written agreement in terms of Rule 7.2.2 above with a particular Professional Clearing Member enters into a written agreement with another Professional Clearing Member, the Professional Clearing Member that has entered into the latter written agreement shall not be entitled to clear or settle CCP Settled Trades carried out by the relevant Limited Clearing Member Client until the first mentioned written agreement is terminated and notice of termination has been given to and acknowledged in writing as having been received by the Clearing House.*

The Clearing House shall not have any obligation to verify the expediency or conformity of the written agreement referred to in Rule 7.2.2 above and the Professional Clearing Member shall remain responsible to the Clearing House for all outstanding CCP Settled Trades executed by a Limited Clearing Member Client that has entered into a written agreement with the Professional Clearing Member.

7.2.5 The provisions of Rule 7.10 shall apply to a termination of a written agreement entered into between a Professional Clearing Member and a Limited Clearing Member Client.

7.3 Change of Clearing Member status

7.3.1 Any Self Clearing Member may submit an application to the Clearing House in accordance with Rule 7.1.3 to become a Professional Clearing Member upon satisfying the criteria set forth in Rule 7.1.2 above for a Professional Clearing Member.

7.3.2 The change of the status of a Clearing Member from a Self Clearing Member to a Professional Clearing Member upon the receipt of an application under item (i) of Rule 7.1.3 shall be entirely at the discretion of the Clearing House and the Clearing House shall state the reasons in the event of a rejection. If the application is accepted by the Clearing House, notice shall be provided to the Clearing Member, confirming that the application has been accepted and specifying the effective date of the change of status. The change of status shall become effective on the date specified in such notice. The Clearing Member Agreement of the Clearing Member shall be amended by the Clearing House to record the status of the Clearing Member as a Professional Clearing Member. Upon such status change becoming effective, the Clearing House shall immediately notify the CSE in writing of such change.

7.3.3 Any Professional Clearing Member may submit an application to the Clearing House in accordance with Rule 7.1.3 to become a Self Clearing Member, if (a) it wishes to function as a Self Clearing Member despite still satisfying the criteria set forth in Rule 7.1.2 above for a Professional Clearing Member, or (b) it no longer satisfies the criteria set forth in Rule 7.1.2 above for a Professional Clearing Member but satisfies the criteria set forth in Rule 7.1.2 above for a Self Clearing Member.

7.3.4 The change of the status of a Clearing Member from a Professional Clearing Member to a Self Clearing Member upon the receipt by the Clearing House of an application under item (i) of Rule 7.1.3 shall be entirely at the discretion of the Clearing House and the Clearing House shall state the reasons in the event of a rejection. If the application is accepted by the Clearing House, notice shall be provided to the Clearing Member, confirming that the application has been accepted. A Professional Clearing Member whose application to become a Self

Clearing Member has been accepted by the Clearing House, shall comply with the following requirements before the change of status becomes effective:

- (i) The Professional Clearing Member shall, immediately upon the receipt of the notice from the Clearing House that the application is accepted, issue a written notice to all the Limited Clearing Member Clients who have entered into written agreements with such Professional Clearing Member in terms of Rule 7.2.2 above, with a copy to the Clearing House, notifying them of the proposed change of status and providing such Limited Clearing Member Clients of a period of up to thirty (30) calendar days from the date of such written notice to engage the services of another Professional Clearing Member;**
- (ii) The Limited Clearing Member Clients shall enter into a written agreement in terms of Rule 7.2.2 with other Professional Clearing Members to engage the services of such Professional Clearing Members to clear and settle the CCP Settled Trades of the Limited Clearing Member Clients, within thirty (30) calendar days from the issue of the written notice referred to in (i) above;**
- (iii) Notwithstanding anything to the contrary contained in these Rules, the Professional Clearing Member shall continue to and be obliged to clear and settle the Trades executed by each Limited Clearing Member Client on or before the earlier of (a) the thirtieth (30th) calendar day from the from the date of such written notice, or (b) the effective date of the written agreement entered into by the Limited Clearing Member Client with a new Professional Clearing Member (which effective date shall be notified by the Limited Clearing Member Client to the Clearing House).**
- (iv) The written agreement between the Professional Clearing Member, whose application to become a Self Clearing Member has been accepted by the Clearing House, and the Limited Clearing Member Client shall be in force until the full settlement of the Trades referred to in item (iii) of this Rule 7.3.4 and shall be deemed to be terminated, ipso facto, upon the full and final settlement of all such Trades in accordance with these Rules. If the Limited Clearing Member Client has entered into a written agreement with a new Professional Clearing Member before the full and final settlement of such Trades, the new Professional Clearing Member which enters into a written agreement with the Limited Clearing Member Client in terms of this Rule 7.3.4 shall, notwithstanding any provision to the contrary contained in Rule 7.2.4 above, be entitled to clear and settle Trades of the Limited Clearing Member Client executed on or after the effective date of such written agreement (which effective date shall be notified by the new Professional Clearing Member to the Clearing House in writing), even though the written agreement of the Limited Clearing Member Client with the Professional Clearing Member whose application to become a Self Clearing Member is accepted may still be in force;**

- (v) *The termination of the written agreement shall be immediately notified by the Professional Clearing Member and the Limited Clearing Member Client to the Clearing House.*
- (vi) *The Professional Clearing Member shall not enter into any new written agreements with a Limited Clearing Member Client in terms of Rule 7.2.2 above.*

7.3.5 *In the event any Limited Clearing Member Client does not (a) enter into a written agreement with a new Professional Clearing Member or (b) become a Self Clearing Member or a Professional Clearing Member subject to satisfying the eligibility criteria for admission as a Self Clearing Member or a Professional Clearing Member in terms of these Rules and following the procedure set forth in these Rules for such admission, within thirty (30) calendar days from the issue of the written notice referred to in item (i) above, the Clearing Member status of the Limited Clearing Member Client shall be suspended by the Clearing House immediately upon the expiration of such thirty (30) calendar day period, and the Clearing House immediately notify the CSE and the CDS of such suspension.*

7.4 Persons authorized to act on behalf of a Self Clearing Member or a Professional Clearing Member

- 7.4.1 *Self Clearing Members and Professional Clearing Members* shall give written notice of the persons who are authorized to act on behalf of such Clearing Member.
- 7.4.2 Such authorized persons shall be the contact persons and shall be deemed to have the authority to instruct Clearing House in respect of matters concerning such Clearing Member.
- 7.4.3 A Clearing Member shall ensure that any change pertaining to such authorized persons shall be promptly communicated in writing to the Clearing House.

7.5 Clearing Member Fees

Upon admission as a *Self Clearing Member or a Professional Clearing Member* in terms of these Rules, such Clearing Member shall pay fees, charges and reimbursement of expenses in respect of the Clearing or Settlement services and facilities offered by the Clearing House as applicable from time to time.

7.6 Records in respect of Trades

7.6.1 Reconciliation of Records

Self Clearing Members and Professional Clearing Members shall reconcile their respective records with the records of the Clearing House on a daily basis, in relation (but not limited) to the following:

- (a) all settlement schedules issued by the Clearing House that are settled in each settlement cycle, including the funds and securities settled in respect of each settlement instruction;
- (b) transfers of securities into or out of, and the daily closing balance in the Clearing Members' and Clients' Accounts.

If there is any discrepancy between the records of a Clearing Member and the Clearing House, the Clearing Member shall immediately inform the Clearing House of such discrepancy and take necessary steps to rectify such discrepancy.

7.6.2. Maintenance of Records

- (a) Every **Self Clearing Member or Professional Clearing Member** shall maintain records relating to its business operations as required to demonstrate compliance with these Rules.
- (b) Clearing Members shall notify the Clearing House of the place where the records referred to in Rule 7.6.2 (a), are kept and made available for inspection by the Clearing House and/or the SEC.

7.7 **Reporting of Adverse Events**

A Self Clearing Member or a Professional Clearing Member shall immediately notify the Clearing House, if:

- (a) it experiences an emergency or potentially debilitating situation that threatens its business operations in the capacity of a Clearing Member;
- (b) it is insolvent or wound-up, or has had an insolvency or winding-up application presented, or an order made by a court of competent jurisdiction, or any step is taken or a resolution passed, for its winding-up, dissolution, judicial management, a compromise with its creditors or administration, whichever occurs first;
- (c) it has had any attachment, distress, execution or legal process instituted against its assets, or has had any liquidator, receiver or any similar person appointed (or an application has been made for the appointment of such person) in respect of any of its assets; and
- (d) any regulatory body has initiated any action against such Clearing Member upon being found to have committed or been connected with the commission of any act which involves fraud, deceit or dishonesty by anybody with regulatory or supervisory authority;
 - (i) established by law in Sri Lanka or abroad,
 - (ii) constituted under law as a commission of inquiry, tribunal or other similar body, or

- (iii) by any professional association which in the opinion of the SEC is of an established and credible stature.

7.8 Provision of Information by Clearing Members

- 7.8.1 ***Self Clearing Members and Professional Clearing Members*** shall, upon the request of the Clearing House, provide any information or records and render such assistance (including giving access to its premises, systems and employees) as the Clearing House requires to discharge any of its duties (including to promote safe and efficient settlement), to make authorized disclosures or perform any other acts described in these Rules, or to investigate compliance with or enforce any Rule, from time to time.
- 7.8.2. The Clearing House reserves the right to use or disclose, all information and records so received pursuant to Rule 7.8.1 above, and each Clearing Member irrevocably consents to such use or disclosure.
- 7.8.3 The Clearing Member shall exercise due care to ensure that any information or records provided to the Clearing House do not contain untrue statements, are not misleading and include rather than omit any material statements/information.

7.9 Suspension/Termination of Clearing Member Status

- 7.9.1 The Clearing House may, suspend or cancel the Clearing Member ***Status of a Self Clearing Member or a Professional Clearing Members, if; the Clearing Member fails to comply with or is in breach of any provision of these Rules or of the Clearing Member Agreement with the Clearing House.***

Additionally, the Clearing House may suspend or cancel the Clearing Member status of a Self Clearing Member or a Professional Clearing Member, in the following instances:

- (i) Where the Clearing Member is a Trading Participant or Depository Participant, such Clearing Member ceases to be, or is suspended in its capacity as a Trading Participant or Depository Participant.
- (ii) winding up proceedings have commenced in respect of the Clearing Member.
- (iii) the Clearing Member is, in the opinion of the Clearing House;
 - (a) in financial or operating difficulty, including but not limited to not meeting fund settlement obligations and margin requirements as specified by the Clearing House;
 - (b) conducting its activities in a manner detrimental to the financial integrity, reputation or interests of the Clearing House, or clearing or settlement facilities operated by the Clearing House;

- (c) no longer fit and proper to continue participating in settlement in terms of these Rules.
- (iv) it is necessary or desirable, in the interests of ensuring safe and efficient settlement or settlement facilities, or for ensuring the integrity of the capital market or for the proper mitigation and management of systemic risk, or for investor protection,
- (v) a directive has been issued to that effect by the SEC, or
- (vi) ***the CBSL has cancelled or suspended the licence issued to a Clearing Member that is Commercial Bank or a Non-Banking Finance Company to carry out banking or finance business, as the case may be.***

7.9.2 The Clearing House shall not be obliged to provide any clearing or settlement facilities to a Clearing Member ***that is suspended in respect of any Trades (including Non-CCP Settled Trades)*** or to perform any of its obligations under these Rules towards the Clearing Member from the effective date of the suspension/termination of the Clearing Member status of such Clearing Member, other than to the extent of facilitating the closing down operations of the suspended or terminated Clearing Member in relation to outstanding clearing and settlements.

7.9.3 A Clearing Member that is suspended pursuant to Rule 7.9.1, may be reinstated by the Clearing House upon complying with these Rules and/or any additional conditions as the Clearing House may impose.

7.9.4 The suspended Clearing Member shall, from the effective date of such suspension until reinstatement of Clearing Member status respectively:

- (a) pay all outstanding charges owing to the Clearing House;
- (b) fulfill all outstanding settlement and other obligations to the Clearing House;
- and
- (c) continue to comply with the terms and conditions set out in the Clearing Member Agreement and these Rules.

7.9.5 ***A Self Clearing Member that is suspended shall comply with the following additional requirements:***

- (i) ***The Self Clearing Member shall, immediately upon the suspension, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the suspension;***
- (ii) ***Notwithstanding anything to the contrary in these Rules, the Self Clearing Member shall continue to and be obliged to clear and settle the Trades executed by it on or before the effective date of suspension.***

Once such Trades executed by the suspended Self Clearing Member on or before the effective date of suspension are settled, the suspended Self Clearing Member shall not be eligible to clear and settle any Trades, unless it is reinstated as a Clearing Member in terms of Rule 7.9.3.

7.9.6 A Professional Clearing Member that is suspended shall comply with the following additional requirements:

- (i) The Professional Clearing Member shall, immediately upon the suspension, issue a written notice to all its Clients, including the Limited Clearing Member Clients who have entered into written agreements with such Professional Clearing Member in terms of Rule 7.2.2 above, with a copy to the Clearing House, notifying them of the suspension;**
- (ii) Notwithstanding anything to the contrary contained in these Rules, the Professional Clearing Member shall continue to and be obliged to clear and settle (a) the Trades executed by it and/or (b) the Trades executed by a Limited Clearing Member Client that has engaged the services of such Professional Clearing Member, on or before the effective date of suspension.**

Once such Trades executed by the suspended Professional Clearing Member and/or the Limited Clearing Member Client that has engaged the services of the suspended Professional Clearing Member, on or before the effective date of suspension are settled, the suspended Professional Clearing Member shall not be eligible to clear and settle any Trades unless it is reinstated as a Clearing Member in terms of Rule 7.9.3.

- (iii) The written agreement between the Professional Clearing Member, which has been suspended, and a Limited Clearing Member Client shall be in force until the full settlement of the Trades of the Limited Clearing Member Client referred to in item (ii) of this Rule 7.9.6 and shall be deemed to be terminated, ipso facto, upon the full and final settlement of Trades of the Limited Clearing Member Client referred to in item (ii) of this Rule 7.9.6. If the Limited Clearing Member Client has entered into a written agreement with a new Professional Clearing Member before the full and final settlement of such Trades, the new Professional Clearing Member which enters into a written agreement with the Limited Clearing Member Client in terms of this Rule 7.9.6 shall, notwithstanding any provision to the contrary contained in Rule 7.2.4 above, be entitled to clear and settle Trades of the Limited Clearing Member Client executed on or after the effective date of such written agreement (which effective date shall be notified by the new Professional Clearing Member to the Clearing House in writing), even though the written agreement of the Limited Clearing Member Client with the Professional Clearing Member who has been suspended may still be in force.**
- (iv) The Professional Clearing Member shall not enter into any new written agreements with a Limited Clearing Member Client in terms of Rule 7.2.2 above, until the reinstatement of the status as a Professional Clearing Member.**

7.9.6 *Termination of clearing member status shall not affect the rights and obligations of the Clearing Member which have accrued up to the effective date of termination.*

7.9.7 *The Clearing House shall forthwith notify the SEC, CSE, and the CDS of any action taken, or proceedings instituted against a Clearing Member in terms of this Rule 7.9.*

7.10 **Termination of Written Agreements between Professional Clearing Members and Limited Clearing Member Clients other than due to change of status**

7.10.1 *If a written agreement referred to in Rule 7.2.2 above is to be terminated by the Professional Clearing Member and/or the Limited Clearing Member Client, the Clearing House shall be notified in writing at least thirty (30) calendar days prior to the date of the intended termination. The Clearing House shall have the discretion to waive off the notice period with the concurrence of the Professional Clearing Member and the Limited Clearing Member Client. The following requirements shall apply in respect of a proposed termination of the written agreement by the Professional Clearing Member and/or the Limited Clearing Member Client:*

- (i) The Limited Clearing Member Client shall (a) enter into a written agreement in terms of Rule 7.2.2 with another Professional Clearing Member to engage the services of such Professional Clearing Member to clear and settle the CCP Settled Trades of the Limited Clearing Member Client or (b) become a Self Clearing Member or a Professional Clearing Member subject to satisfying the eligibility criteria for admission as a Self Clearing Member or a Professional Clearing Member in terms of these Rules and following the procedure set forth in these Rules for such admission, within thirty (30) calendar days from the issue of the written notice to the Clearing House of intended termination as referred to above.*
- (ii) Notwithstanding anything to the contrary contained in these Rules, the Professional Clearing Member shall continue to and be obliged to clear and settle the Trades executed by Limited Clearing Member Clients on or before the earlier of (a) the thirtieth (30th) calendar day from the from the date of such written notice, or (b) the effective date of the written agreement by the Limited Clearing Member Client with a new Professional Clearing Member (which effective date shall be notified by the Limited Clearing Member Client to the Clearing House) or (c) the date on which the Clearing Member Client is admitted as Self Clearing Member or a Professional Clearing Member.*
- (iii) The written agreement between the Professional Clearing Member and the Limited Clearing Member Client shall be in force until the full settlement of the Trades referred to in item (ii) of this Rule 7.10.1 and shall be deemed to be terminated, ipso facto, upon the full and final settlement of all such Trades in accordance with these Rules. If the Limited Clearing Member*

Client has entered into a written agreement with a new Professional Clearing Member before the full and final settlement of such Trades, the new Professional Clearing Member which enters into a written agreement with the Limited Clearing Member Client in terms of this Rule 7.10.1 (iii) shall, notwithstanding any provision to the contrary contained in Rule 7.2.4 above, be entitled to clear and settle Trades of the Limited Clearing Member Client executed on or after the effective date of such written agreement (which effective date shall be notified by the new Professional Clearing Member to the Clearing House in writing), even though the written agreement that is due to be terminated may still be in force.

- (iv) The termination of the written agreement shall be immediately notified by the Professional Clearing Member and the Limited Clearing Member Client to the Clearing House.***

7.10.2 In the event of a suspension of the Professional Clearing Member by the Clearing House, the written agreement referred to in Rule 7.2.2 above between such Professional Clearing Member and a Limited Clearing Member Clients shall terminate, ipso facto, upon such suspension, unless there are outstanding Trades executed by the Limited Clearing Member on or before the effective date of suspension as referred to in item (iii) of Rule 7.9.6 above, in which case the termination of such written agreement shall be as specified in item (iii) of Rule 7.9.6. The following requirements shall apply in the event of a termination of a written agreement pursuant to the suspension of the Professional Clearing Member:

- (i) The termination of the written agreement shall be immediately notified by the Limited Clearing Member Client to the Clearing House.***
- (ii) The Limited Clearing Member Client shall (a) enter into a written agreement in terms of Rule 7.2.2 with another Professional Clearing Member to engage the services of such Professional Clearing Member to clear and settle the CCP Settled Trades of the Limited Clearing Member Client or (b) become a Self Clearing Member or a Professional Clearing Member subject to satisfying the eligibility criteria for admission as a Self Clearing Member or a Professional Clearing Member in terms of these Rules and following the procedure set forth in these Rules for such admission, within thirty (30) calendar days from the termination of the written agreement.***

7.10.3 In the event of a breach by the Professional Clearing Member of the provisions of the written agreement or these Rules, the Limited Clearing Member Client shall be entitled to terminate the written agreement referred to in Rule 7.2.2 above with such Professional Clearing Member without notice, provided however that if there are outstanding Trades which are not cleared and settled, the termination of the written agreement shall only be effected upon the full and final settlement of such outstanding Trades. The following requirements shall apply in the event of a written agreement under this Rule 7.10.3:

- (i) The termination of the written agreement shall be immediately notified by the Limited Clearing Member Client to the Clearing House.***
- (ii) The Limited Clearing Member Client shall (a) enter into a written agreement in terms of Rule 7.2.2 with another Professional Clearing Member to engage the services of such Professional Clearing Member to clear and settle the CCP Settled Trades of the Limited Clearing Member Client or (b) become a Self Clearing Member or a Professional Clearing Member subject to satisfying the eligibility criteria for admission as a Self Clearing Member or a Professional Clearing Member in terms of these Rules and following the procedure set forth in these Rules for such admission, within thirty (30) calendar days from the termination of the written agreement.***

7.10.4 Any termination of a written agreement under Rule 7.2.2 between a Professional Clearing Member and a Limited Clearing Member Client including in terms of Rule 7.3.4 shall be notified by the Clearing House to the CSE and CDS immediately upon the Clearing House becoming aware of such termination, so as to ensure that any Trading Participant that is a Limited Clearing Member (which is not admitted as a Self Clearing Member or a Professional Clearing Member in respect of CCP Settled Trades) is not allowed to execute CCP Settled Trades until such Limited Clearing Member engages the services of another Professional Clearing Member or becomes a Self Clearing Member or a Professional Clearing Member, which fact shall also be notified by the Clearing House to the CSE and CDS immediately.

7.10.5 In the event the Limited Clearing Member Client does not enter into a written agreement with a new Professional Clearing Member or become a Self Clearing Member or a Professional Clearing Member in terms of Rule 7.10.1, 7.10.2 and 7.10.3 above within the thirty (30) calendar day period referred to therein, the Clearing Member status of the Limited Clearing Member Client shall be suspended by the Clearing House immediately upon the expiration of such thirty (30) calendar day period, and the Clearing House immediately notify the CSE and the CDS of such suspension.

SECTION 8

MINIMUM STANDARDS APPLICABLE TO A CLEARING MEMBER

The minimum standards set out below shall be complied with by all Self Clearing Members and Professional Clearing Members on an ongoing basis, upon admission in terms of these Rules.

8.1. Capital Requirements

8.1.1 (a) Minimum Capital Requirements applicable to Clearing Members:

Clearing Members shall maintain the minimum capital requirements as set out below:

For a Self Clearing Member;

- (i) If a Trading Participant of the CSE; a minimum liquid capital of Rs. 50 Million and a minimum shareholders' equity of Rs. 125 Million or 50% of the stated capital, whichever is higher.*
- (ii) If a Custodian Bank a minimum total shareholders' equity of Rs. 500 Million.*

For a Professional Clearing Member;

- (i) If a Trading Participant of the CSE; a minimum total shareholders' equity of Rs. 500 Million or 50% of the stated capital, whichever is higher and an additional shareholders' equity of Rs. 50 Million for each Limited Clearing Member Client in respect of whom a clearing and settlement services are provided.*
- (ii) If a Commercial Bank licensed by the CBSL or a Non-Banking Finance Company licensed by the CBSL, a minimum total shareholders' equity of Rs. 500 million and an additional shareholders' equity of Rs. 50 Million for each Limited Clearing Member Client in respect of whom clearing and settlement services are provided.*

For the purposes of this Rule 8.1.1 (a);

'liquid capital' shall have the same meaning as defined in Annexure 2 of the Trading Participant Rules of the CSE.

'total shareholders' equity' shall be computed in accordance with the applicable Sri Lanka Accounting Standards.

- (b) Periodic Updates on the compliance with the capital requirements by Clearing Members who are Trading Participants*

Clearing Members who are Trading Participants of the CSE shall submit to the Clearing House on a quarterly basis, together with the Quarterly Statements as required in terms of Rule 8.1.2 (i) (a), a written confirmation confirming that it is in compliance with the relevant capital requirements specified in Rule 8.1.1 (a) above.

(c) Non-compliance with Rule 8.1.1 (a)

- (i) In the event a Clearing Member fails to meet the capital requirements set out in Rules 8.1.1 (a) (as applicable), such Clearing Member shall immediately notify the Clearing House, in writing, and take necessary steps to comply with the applicable minimum capital requirement/s within a period of thirty (30) calendar days from the date of non-compliance.**

A Professional Clearing Member which fails to meet the capital requirements shall also notify all its Limited Clearing Member Clients with whom the Professional Clearing Member has entered into written agreements in terms of Rule 7.2.2 above.

- (ii) In the event a Self Clearing Member fails to meet the applicable minimum capital requirement/s within the period referred to in Rule 8.1.1 (c) (i) above, the Self Clearing Member shall comply with the following requirements with regard to its Clients:**

- (aa) The Self Clearing Member shall, on the date of expiration of the thirty (30) calendar day period referred to in Rule 8.1.1(c)(i) above, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the non-compliance and providing such Clients of a period of up to [thirty (30)] calendar days from the date of such written notice to engage a Trading Participant or a Depository Participant that has an appropriate arrangement for the clearing and settlement of Trades;**
- (bb) Notwithstanding anything to the contrary in these Rules, the Self Clearing Member shall continue to and be obliged to clear and settle any Trades executed by such Self Clearing Member on behalf of its Clients on or before the [thirtieth (30th)] calendar day from the from the date of such written notice.**

On the expiration of the said thirty y (30) calendar day period referred to in items (aa) and (bb) above, if the Self Clearing Member has not rectified the non-compliance, the Clearing House shall prohibit such Self Clearing Member from carrying out the clearing functions through the Clearing House in relation to CCP Settled Trades and a notice will be simultaneously published by the CSE Clear on its website setting out the non-compliance with applicable minimum capital requirements upon the clearing member being informed of the same by CSE Clear.

- (iii) ***In the event a Professional Clearing Member fails to rectify the non-compliance within the period referred to in Rule 8.1.1 (c) (i) above, the Professional Clearing Member shall comply with the following requirements with regard to its Clients, including the Limited Clearing Member Clients with whom the Professional Clearing Member has existing written agreements entered into in terms of Rule 7.2.2 above:***
- (aa) ***The Professional Clearing Member shall, on the date of expiration of the thirty (30) calendar day period referred to in Rule 8.1.1(c)(i) above, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the non-compliance and providing such Clients of a period of up to [thirtieth (30)] calendar days from the date of such written notice to engage the services of another Trading Participant or a Depository Participant that has an appropriate arrangement for the clearing and settlement of Trades, which shall, in the case of Limited Clearing Member Clients, mean the services of another Professional Clearing Member.***
 - (bb) ***The Limited Clearing Member Clients shall enter into written agreements in terms of Rule 7.2.2 with other Professional Clearing Member to engage the services of such Professional Clearing Members to clear and settle the CCP Settled Trades of the Limited Clearing Member Clients, within thirty (30) days from the issue of the written notice referred to in item (aa) above.***
 - (cc) ***Notwithstanding anything to the contrary in these Rules, the Professional Clearing Member shall continue to and be obliged to clear and settle any Trades executed by such Professional Clearing Member on behalf of its Clients, other than Limited Clearing Member Clients, on or before the [thirtieth (30th)] calendar day from the from the date of such written notice referred in (aa) above.***
 - (dd) ***Notwithstanding anything to the contrary contained in these Rules, the Professional Clearing Member shall continue to and be obliged to clear and settle the Trades executed by Limited Clearing Member Clients on or before the earlier of (A) the thirtieth (30th) calendar day from the from the date of such written notice, or (B) the effective date of the written agreement by the Limited Clearing Member Client with a new Professional Clearing Member (which effective date shall be notified by the Limited Clearing Member Client to the Clearing House), whichever comes first.***

On the expiration of the said thirty (30) calendar day period day period referred to in items (aa), (bb), (cc) and (dd) above, if the Professional Clearing Member has not rectified the non-compliance, the Clearing House prohibit such Professional Clearing Member from carrying out the clearing functions through the Clearing House on behalf of its Clients, including Limited Clearing Member Clients and a notice will be simultaneously published by the CSE Clear on its website setting out the non-compliance with applicable minimum capital requirements upon the clearing member being informed of the same by CSE Clear.

- (iv) ***The written agreement between the Professional Clearing Member which has failed to rectify the non-compliance within the period referred to in Rule 8.1.1 (c) (i) above and a Limited Clearing Member Client shall be in force until the full settlement of the Trades referred to in this item (cc) above and shall be deemed to be terminated, ipso facto, upon the full and final settlement of all such Trades in accordance with these Rules. If the Limited Clearing Member Client has entered into a written agreement with a new Professional Clearing Member before the full and final settlement of such Trades, the new Professional Clearing Member which enters into a written agreement with the Limited Clearing Member Client in terms of this Rule 8.1.1(c)(iii) shall, notwithstanding any provision to the contrary contained in Rule 7.2.4 above, be entitled to clear and settle Trades of the Limited Clearing Member Client executed on or after the effective date of such written agreement (which effective date shall be notified by the new Professional Clearing Member to the Clearing House in writing), even though the written agreement of the Limited Clearing Member Client with the Professional Clearing Member which has failed to rectify the non-compliance referred to in Rule 8.1.1 may still be in force.***

The termination of the written agreement shall be immediately notified by the Professional Clearing Member and the Limited Clearing Member Client to the Clearing House.

- (v) ***In the event any Limited Clearing Member Client does not enter into a written agreement with a new Professional Clearing Member within thirty (30) days from the issue of the written notice referred to in item (iii)(aa) above, the Clearing Member status of the Limited Clearing Member Client shall be suspended by the Clearing House immediately upon the expiration of such thirty (30) day period, and the Clearing House immediately notify the CSE of such suspension.***

- (vi) ***The prohibition imposed on the Clearing Member shall be lifted upon such Clearing Member meeting the applicable minimum capital requirement/s.***

In the case of a Professional Clearing Member which opts to become a Self Clearing Member in terms of Rule 7.3 of these Rules, pursuant to the failure to meet the capital requirements for a Professional Clearing Member, by fulfilling all relevant entry requirements for a Self Clearing Member, the prohibition imposed on the carrying out of clearing functions through the Clearing House on behalf of Clients (other than Limited Clearing Member Clients) shall be lifted upon the change of status becoming effective.

- (vii) ***In the event the Clearing Member fails to rectify the non-compliance within three (3) months from the date of prohibition referred to in Rule 8.1.1 (c) (ii) or Rule 8.1.1(c)(iii) above, as the case may be, the Clearing House shall terminate the Clearing Member status of such Clearing Member.***

- (viii) ***The Clearing House shall publish a notice on its website stating the non-compliance with the applicable Rules and the enforcement action initiated by the Clearing House in respect of the Clearing Member concerned.***

- (ix) ***The Clearing House shall notify the CSE, CDS and the SEC regarding the enforcement action initiated against the Clearing Member.***

8.1.2 Financial Statements of Clearing Members:

- (i) ***The Self Clearing Members and Professional Clearing Members shall submit to the Clearing House, certified copies of the following:***
 - a) ***quarterly financial statements of such Clearing Member within two (02) months from the end of the respective quarter, provided however that where the Clearing Member publishes its annual audited financial statements within three (03) months from the end of the financial year, such Clearing Member shall be exempt from publishing its quarterly financial statement for the fourth quarter of the respective year; and,***
 - b) ***audited financial statements of the Clearing Member within five (05) months from the end of the financial year.***

Provided however, this Rule 8.1.2 (i) shall not be applicable to Clearing Members that have its Securities listed on the CSE and have published its financial statements in accordance with the Listing Rules of the CSE.

- (ii) ***If the Clearing Member fails to submit certified copies of such financial statements within the respective timelines set out in Rule 8.1.2 (i) above, the Clearing House shall impose a fine of Rupees Twenty-Five Thousand (Rs. 25,000/-) for every month of delay from the expiry of the stipulated time period.***
- (iii) ***Additionally, the Clearing House shall have the right to suspend the Clearing Member status of a Clearing Member for continuous non-submission of quarterly/audited financial statements. In such event, the Clearing House shall notify the SEC, CSE and the CDS of such suspension.***

8.2 Systems and Operations of a Clearing Member

A Self Clearing Member or a Professional Clearing Member shall ensure that:

- (i) ***its systems and connectivity to the Clearing and Settlement system and facilities operate properly at all times and have adequate redundancy and scalable capacity to accommodate current and anticipated settlement volumes; and***
- (ii) ***it complies with the terms and conditions in any agreement with, and any other requirements imposed by, the Clearing House for accessing the Clearing or Settlement system and facilities or in relation to settlement under these Rules.***
- (iii) ***its back office systems operate smoothly and properly at all times and have adequate redundancy and scalable capacity to accommodate all current depository functions and future enhancements; and***

- (iv) it complies with the terms and conditions in any agreement with, and any other requirements imposed by the CSE Clear in relation to systems and operations required to support and facilitate depository functions to the extent stipulated in these Rules.
- (v) *A Clearing Member shall maintain complete and accurate records, which enable it to identify at all times, specific amounts of such monies and assets deposited with it by each client in connection with such clients' trades which are or are to be, cleared or settled through CSE Clear.*
- (vi) *Clearing Members shall maintain sufficient, qualified and competent employees at all times to perform business operations in terms of these Rules and applicable requirements.*
- (vii) *A Clearing Member shall ensure segregation of key functions of the Clearing Members to minimize and manage conflict of interests among these functions.*

8.3 Business Continuity Requirements

- 8.3.1** *The Self Clearing Members and Professional Clearing Members shall, at all times, have in place, review and maintain disaster recovery and business continuity arrangements that are adequate to ensure the timely recovery of its usual operations having regard to the nature and extent of the business carried on by that Clearing Member and any matters as may be specified by the Clearing House from time to time.*
- 8.3.2** *The Clearing House may, at any time, require a Clearing Member to undertake testing of its disaster recovery and business continuity arrangements at such times and in such manner as may be specified by the Clearing House.*
- 8.3.3** *A Clearing Member shall, at all times maintain adequate back up procedures to ensure the integrity and recoverability of its records and locate its disaster recovery hardware and related facilities off site.*

8.4 Other Risk Management Requirements

- 8.4.1** *The Self Clearing Members and Professional Clearing Members shall be responsible for the monitoring and management of risk, including determination of the nature and extent of the significant risks which the Clearing Member can reasonably undertake.*
- 8.4.2** *The management of the Clearing Member shall oversee the Clearing Member's risk management framework and policies and ensure that the management maintains a sound system of risk management and internal controls including but not limited to maintaining adequate staff and facilities for monitoring its cash flows and funding requirements and maintaining sufficient liquidity for its day to day operations.*
- 8.4.3** *The Clearing Member shall, upon the request of the Clearing House, make available details which include the following;*

- (a) *information needed by the Clearing House to make an informed assessment of the Clearing Member's risk management and internal control systems;*
- (b) *a description of the principal risks (including liquidity, financial, operational, compliance, information technology, legal, environmental, social or political risk categories) applicable to the Clearing Member and the manner in which such risks are being managed or mitigated;*
- (c) *an explanation of the Clearing Member 's approach towards identifying, measuring and monitoring its key and emerging risks, and an elaboration of its approach towards the governance and management of these risks; and,*
- (d) *an explanation of the manner in which the management of the Clearing Member has assessed the prospects of the company, together with the period under consideration and the justification/s for selection of such time period.*

8.5 Internal Audit Requirements

A Clearing Member which clears and settles CCP Settled Trades shall cause its internal auditors to conduct an internal audit of its operations annually or at such times and within such scope as prescribed by the Clearing House and to submit a report of each internal audit conducted and the follow-up actions taken to the Clearing House by such time as may be specified by the Clearing House.

8.6 Submission of Compliance Report

A Self Clearing Member or Professional Clearing Member shall submit a compliance report annually to the Clearing House setting out in detail, the manner in which the Clearing Member has complied with, or the steps taken by the Clearing Member to comply with these Rules.

SECTION 9

CLEARING AND SETTLEMENT OF CCP SETTLED TRADES

For the avoidance of doubt, this Section 9 shall only apply to CCP Settled Trades and the reference to the term “Securities” in this section of the Rules shall only be a reference to Securities of CCP Settled Trades.

PART I: MARGIN REQUIREMENTS AND MARKET COLLATERAL

9.1 Margin Requirements

- (i) The Clearing House shall impose the margin requirements set out in this Section on all Clearing Members of the Clearing House in respect of all CCP Settled Trades carried out on each Trade Day, other than the following:***
 - (a) A Market Contract for sale of Securities which does not result in a Short Position; and***
 - (b) A Market Contract carried out on the Buy-in Board of the CSE.***
- (ii)** The total margin requirement applicable for each Clearing Member shall comprise of the following:
 - (a)** Base margin requirement; and
 - (b)** Additional margin requirements (where applicable).

9.1.1 Base Margin Requirement

- (i)** Each Clearing Member shall at all times maintain collateral to satisfy the base margin requirement determined by the Clearing House from time to time as morefully set out in Rule 9.2. The base margin requirement shall be computed based on the average daily purchase turnover of all Trades settled by the Clearing Member]
- (ii)** The base margin requirement applicable to each Clearing Member shall be reviewed by the Clearing House on a quarterly basis on the first (1st) Market Day of each calendar quarter, based on the average daily purchase turnover of all Trades settled by such Clearing Member in the preceding calendar quarter. Any increase or decrease in the base margin requirement applicable to a Clearing Member shall be notified, in writing, to such Clearing Member by the Clearing House.
- (iii)** If there is an increase in the base margin requirement applicable to a Clearing Member, such Clearing Member shall comply with such increased margin requirement in accordance with Rule 9.2.
- (iv)** If there is a decrease in the base margin requirement applicable to a Clearing Member, the excess collateral maintained by such Clearing Member with the Clearing House shall be refunded to the Clearing Member in accordance with Rule 9.2.

9.1.2 Additional Margin Requirements

- (i) If the base margin requirement set out in Rule 9.1.1 is insufficient to satisfy the total margin requirement of such Clearing Member in respect of Trades carried out on a particular Trade Day, the Clearing House shall impose additional margin requirements on Clearing Members as set out in Rule 9.1.2.
- (ii) The additional margin requirements shall comprise of the:
 - (a) Initial margin requirement; and,
 - (b) Variation margin requirement;

which shall be computed based on the methodology determined by the Clearing House from time to time and notified to the Clearing Members.
- (iii) The additional margin requirement (if any) shall be communicated to the relevant Clearing Members by the Clearing House at the end of each Trade Day (T).
- (iv) The Clearing Member shall take necessary steps to comply with such additional margin requirement in accordance with Rule 9.2.

9.2 Market Collateral

9.2.1. General

- (i) Clearing Members shall, at all times, ensure compliance with the margin requirements set out in Rule 9.1 by maintaining sufficient collateral with the Clearing House in accordance with this Rule 9.2.
- (ii) Clearing Members may obtain collateral from the relevant Client/s of the Clearing Members, to the extent of the margin requirements arising from the Trades carried out by such Clients, in satisfying the total margin requirements applicable to such Clearing Member.

9.2.2 Form of Collateral

- (i) Clearing Members shall furnish collateral to the Clearing House in the form of cash and/or an irrevocable and unconditional bank ***guarantee in favour of the Clearing House*** obtained from a commercial bank licensed by the CBSL, acceptable to the Clearing House.
- (ii) The Clearing House may, from time to time, by written notification issued to Clearing Members, permit Clearing Members to provide margin in the form of

Government Securities and listed shares in such ratio and percentage as may be determined by the Clearing House.

- (iii) The collateral for the base margin requirement stipulated in Rule 9.1.1 shall be furnished only in the form of cash and/or an irrevocable and unconditional bank guarantee.
- (iv) At least fifty per centum (50%) of the collateral to be provided to satisfy the additional margin requirement stipulated in Rule 9.1.2 shall be in the form of cash or an irrevocable and unconditional bank guarantee. The collateral furnished in the form of Government Securities and/or listed shares, if and when permitted by the Clearing House, shall be limited to and not be more than fifty per centum (50%) in value of the collateral provided to satisfy the additional margin requirements.
- (v) The value of any Government Securities and listed shares provided as collateral in terms of Rule 9.2.2 (iii) above shall also be marked to market and be adjusted daily to reflect the marked to market value of such securities so as to ascertain the value of the margin provided by the Clearing Member.

9.2.3 Manner of Furnishing Collateral

- (i) Subject to Rule 9.2.3 (iii), Clearing Members shall furnish the required collateral to the Clearing House in fulfilment of margin requirements set out in Rule 9.1 in the following manner:
 - (a) The base margin requirement shall be initially fulfilled by the Clearing Member by furnishing the collateral by 14:30 hours on the second (2nd) Market Day immediately following the date of notification by the Clearing House requesting for the furnishing of such collateral.
 - (b) In respect of any increase to the base margin requirement, the Clearing Member shall furnish the collateral by 14:30 hours on the second (2nd) Market Day immediately following the date of notification by the Clearing House of the increase to the base margin requirement.
 - (c) In respect of any additional margin requirement, the Clearing Member shall furnish the collateral by 9:30 hours on the Market Day immediately following the date of notification by the Clearing House of the additional margin requirement.
- (ii) Any cash collateral furnished by a Clearing Member in fulfilment of margin requirements set out in these Rules shall be deposited into an account maintained by the Clearing House in a settlement bank for the specific purpose of margin utilization.
- (iii) The manner in which a Clearing Member may provide Government Securities and listed shares as collateral to the Clearing House shall be specified in the

written notification to be issued by the Clearing House to Clearing Members in terms of Rule 9.2.2(ii) above.

- (iv) In the event of Custodian Trades, the required collateral shall be furnished to the Clearing House in the manner set out below:
 - (a) in the event of Trades affirmed by ***the relevant Custodian Bank Clearing Member, such Custodian Bank*** Clearing Member shall furnish the collateral to the Clearing House by 9.30 hours on T+2.
 - (b) ***In the event of a rejection of a buy Trade by the relevant Custodian Bank Clearing Member in terms of Rule 9.4.3, the required collateral shall be furnished to the Clearing House by the Stock Broker Clearing Member which carried out the buy Trade in the capacity of a Trading Participant, provided however that in the event the Stock Broker Clearing Member which carried out the buy Trade is a Limited Clearing Member Client which has engaged the services of a Professional Clearing Member, then the collateral shall be furnished by such Professional Clearing Member. The required collateral referred to in this Rule 9.2.3 (iv)(b) shall be furnished to the Clearing House by 9.30 hours on T+2.***

9.2.4 Requirement to Replenish Collateral

If the Clearing House utilizes, in full or in part, any collateral furnished by a Clearing Member for a settlement failure, such Clearing Member shall replenish the collateral utilized by the Clearing House forthwith, upon same being notified to the Clearing Member by the Clearing House.

9.2.5 Returning of Excess Collateral and Interest

- (i) Any cash collateral furnished by a Clearing Member in respect of a Trade, to the extent not utilized for the purpose of settling all payment obligations of the Clearing Member and/or its client in respect of such Trade (excess cash collateral), shall be returned by the Clearing House upon a written request being made by the Clearing Member, provided however that if the Clearing Member has not provided adequate collateral in respect of its other Trades, the Clearing House may retain, from such excess cash collateral, any amount as is necessary for the fulfilment of the outstanding margin requirement of the Clearing Member.
- (ii) Any interest accruing on excess cash collateral shall also be paid to the Clearing Member with the return of the collateral, upon deducting an administration fee by

the Clearing House which shall be determined by the Clearing House from time to time.

- (iii) Any Government Securities and/or listed shares provided by a Clearing Member as collateral in respect of a Trade, to the extent not utilized for the purpose of settling all payment obligations of the Clearing Member and/or its Client in respect of such Trade, shall be returned or otherwise made available to the Clearing Member in the manner specified in the written notification to be issued by the Clearing House to Clearing Members in terms of Rule 9.2.2(ii) above.

9.2.6 Rights of the Clearing House in relation to the Collateral Deposited with the Clearing House

- (i) The Clearing House shall have a first and paramount lien and charge over the collateral deposited with or otherwise furnished to the Clearing House by a Clearing Member for the due settlement of the following payment obligations of the Clearing Member under these Rules;
 - (a) any sums due and payable by such Clearing Member and/or the Clients of the Clearing Member under and in respect of any Trade, including compensation for settlement failures; and/or
 - (b) any and all sums payable by such Clearing Member to the Clearing House, CDS, CSE and SEC including fees, commissions, charges and/or dues payable by such Clearing Member.
- (ii) The Clearing House shall be entitled to use such collateral deposited or otherwise furnished by a Clearing Member to defray the payments identified in Rule 9.2.6 (i).

9.3 Non-Compliance with Rules 9.1 and 9.2

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House in accordance with Rules 9.1 and 9.2, the Clearing House shall initiate the following action against such Clearing Member:

- (i) Imposition of fines
 - (a) The Clearing House shall impose fines as set out below:

Instance of Non-Compliance	Fine (Rs.)
On the first (1 st) occurrence	The Clearing House shall charge a fine of Rupees One Hundred Thousand (Rs. 100,000/-).
On the second (2 nd) occurrence within one (1) year from the date of the first (1 st) occurrence	The Clearing House shall charge a fine of Rupees Two Hundred Thousand (Rs. 200,000/-).
On the third (3 rd) occurrence, which is within	The Clearing House shall charge a fine of Rupees Five Hundred Thousand (Rs. 500,000/-) and

one (1) year from the date of the first (1 st) occurrence	prohibit the Clearing Member from carrying out settlement of trades for three (3) Market Days.
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- (b) The fines shall be charged from the Clearing Members based on a schedule issued by the Clearing House as at end of the applicable month. The Clearing Member shall pay the relevant amount as indicated in the schedule to the Clearing House within Two (2) Market Days from the date of the issue of such schedule.
 - (c) Additionally, the Clearing House shall notify the CSE and the CDS regarding the enforcement action initiated against the Clearing Member in terms of Rule 9.3(i)(a) above, referring to the non-compliance and the enforcement action taken by the Clearing House against the Clearing Member for such non-compliance.
- (ii) Commencement of Disciplinary Proceedings

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House in accordance with Rule 9.1 and Rule 9.2 on more than three (3) separate occasions within any given period of twelve (12) months, the Clearing House shall, in addition to the fines stipulated in Rule 9.4(i)(a), commence disciplinary proceedings against such Clearing Member in terms of Section 4 of these Rules.

PART II: SETTLEMENT OF CCP CLEARED TRADES

The integrity and stability of the Securities market is dependent on the due settlement of all Market Contracts executed on the Securities Market. Defaults in settlement of Market Contracts will result in loss of public trust and confidence in the credibility of the market. Accordingly, a Clearing Member has the obligation and responsibility to ensure that each Market Contract is duly settled on the Settlement Date. This fundamental premise with regard to settlement of Market Contracts will accordingly form the basis for the provisions of Sections 9.4 and 10.

9.4 Settlement of Funds and Securities

9.4.1 Settlement of Funds

- (i) The settlement of funds for Trades shall take place by 10.30 hours on the Settlement Date, i.e. second (2nd) Market Day after the Trade Day (T+2), through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House. ***The Clearing Member shall be obliged to instruct the settlement bank/s to execute the payment order as per the relevant Settlement Schedules.***

Provided however that, in respect of Securities traded on the Buy-in Board of the CSE, the settlement of funds shall take place by 10.30 hours on the first (1st) Market Day after the Trade day ("Buy-In Board Settlement Date").

- (ii) A Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Settlement Date to settle payment obligations arising out of Trades to be cleared and settled by such Clearing Member based on the Settlement Schedule issued by the Clearing House.

Provided however, in respect of Securities traded on the Buy-in Board of the CSE, the relevant Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Buy-In Board Settlement Date to settle payment obligations arising out of the said Trades on the Buy-in Board to be cleared and settled by such Clearing Member.

- (iv) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules ***by making an order to its settlement bank/s. An order by the Clearing House to debit or credit itself and the Clearing Members shall be final and irrevocable at the time when the settlement bank/s confirms that such payment will be made.***

- (v) Selling Clearing Member :

- (a) shall ensure that Cleared Funds are made available to its Client or as directed by its Client in writing on the Settlement Date of the Trade, unless the Client has requested the Clearing Member, in writing, to retain the sale proceeds.

- (b) can make settlements to or as directed by the Client either by cheques or electronic fund transfers to the Client's bank account. If payment is made to the Client or as directed by the Client by way of cheques they shall be duly crossed as 'Account Payee'. If the Client requests that the crossing be cancelled, the Clearing Member shall obtain a written request from the Client and such request must be authorized by the Chief Executive Officer of such Clearing Member.

No cash cheques shall be issued to Clients or any other person as per the Client's directive as aforesaid.

9.4.2 Settlement of Securities

- (i) The selling Clearing Member shall ensure that a Market Contract for a Short Sale Transaction executed in terms of section 16 of the Trading Rules of the CSE does not result in a Short Position as at the end of the Trade Day on which such Market Contract is executed.
- (ii) The selling Clearing Member in respect of a Trade is obligated to ensure that the required number of Securities are made available in the Client Account of the seller by [14.00] hours on T+1 for delivery of such Securities to the Client Account of the buyer on the Settlement Date.

- (iii) *In the event the selling Clearing Member fails to discharge its obligation under Rule 9.4.2(ii) above and there is a shortfall in the required number of Securities in the seller's Client Account to fully settle the Trade by [14:00] hours on T+1, the Clearing House shall make a buy order on the Buy-In Board of the CSE on T+1 on behalf of the selling Clearing Member with a view to purchasing the required number of Securities to cover the shortfall and any Securities purchased by the Clearing House on behalf of the selling Clearing Member pursuant to such buy order shall be credited to the seller's Client Account by 15:00 hours on T+1.*
- (iv) *The settlement of Securities by delivery thereof, pursuant to a Trade, shall take place on the Settlement Date, only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank. Upon the receipt of such confirmation, the Clearing House shall provide instructions to the CDS, to transfer the Securities from the Client Account of the seller to the Client Account of the buyer, which instructions to a Clearing Member shall be final, and irrevocable when the instructions are dispatched by the Clearing House.*

9.4.3 Trade Affirmations/Rejections in respect of Custodian Trades

- (i) Subject to Rule 9.4.3 (iii), Custodian Trades shall be affirmed or rejected by the Custodian Bank Clearing Member in respect of such Custodian Trade by 13.30 hours on T+1, in the format prescribed by the Clearing House from time to time. Provided however, that such affirmation or rejection of a Trade shall not be applicable in respect of Trades carried out on the Buy-In Board of the CSE.
- (ii) If the relevant Custodian Bank Clearing Member fails to affirm a Custodian Trade carried out by a Trading Participant prior to the stipulated time period referred to in this Rule for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Trade by the Custodian Bank Clearing Member.
- (iii) In the event of a rejection of a Custodian Trade by the relevant Custodian Bank Clearing Member, the Clearing House shall issue a revised Settlement Schedule by T+1 and substitute the said Clearing Member (i) with the ***Stock Broker Clearing Member which carried out the buy Trade in the capacity of a Trading Participant or (ii) if the Stock Broker Clearing Member which carried out the buy Trade is a Limited Clearing Member Client which has engaged the services of a Professional Clearing Member, with such Professional Clearing Member***, for the purpose of settlement of the Custodian Trade concerned on the Settlement Date.

9.4.4 Additional Rules governing Clearing and Settlement of CCP Settled Trades relating to Securities traded using The AON Block Facility on the CSE

- (i) The Clearing Members shall be responsible for the settlement of funds in relation to a Trade carried out using the AON Block facility of the CSE ("AON Market Contract") in terms of these Rules.
- (ii) If the AON Block is purchased by a consortium of investors operating through a Special Client Account in the CDS, the settlement obligations for the AON

Market Contract shall be borne by the Clearing Member which is also the Depository Participant through whom the Special Client Account was opened.

- (iii) The Clearing Member shall instruct its Client/s in respect of an AON Market Contract for the purchase of an AON Block into a Special Client Account, to ensure that Cleared Funds are made available in accordance with Part II of Section 9 of these Rules to settle the relevant AON Market Contract on the Settlement Date.
- (iv) If the AON Market Contract relates to a sale of Securities and such Securities are held by the Government of Sri Lanka through multiple entities/agencies using the AON Block facility, the Clearing Member which is also the Depository Participant, through whom the Special Client Account was opened in terms of the CDS Rules, shall ensure that sales proceeds are transferred to the respective entities/agencies on the Settlement Date.
- (v) The Clearing House, in consultation with the SEC, may waive the application of any of the Rules set out in this Rule 9.4.4 and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.

9.4.5 Settlement Failure

The Rules set out in Section 10 of these Rules shall be applicable to a settlement failure in contravention of these Rules.

Section 10

DEFAULT HANDLING OF CCP SETTLED TRADES

Section 10 shall be applicable in respect of CCP Settled Trades, except Market Contracts executed on the Buy-in Board of the CSE.

10.1 Defaults in Settlement of Trades

10.1.1 Default of Payment in a respect of a Trade

- (a) In the event a Clearing Member fails to make available on a particular Settlement Date, sufficient funds for the full settlement of the buy Trades of the Clearing Member to be settled on such Settlement Date, the Clearing House shall:
 - (i) utilize the collateral provided by such Clearing Member to settle all such Trades in full by making payment to the selling Clearing Members who have met their obligations with regard to the delivery of Securities under such Trades; and
 - (ii) ***if the collateral provided by the Clearing Member is not sufficient to settle all Trades in full, utilize the assets of the Contributory Guarantee Fund (which includes monies that may be called upon under bank guarantees provided to the Contributory Guarantee Fund by Clearing Members) to meet the shortfall.***

A Clearing Member who fails to make sufficient funds available for the full settlement of the buy Trades on a particular Settlement Date, and whose Market Collateral furnished to the Clearing House is insufficient to satisfy the settlement obligations in full, may obtain funding from the Settlement Guarantee Fund established by the SEC and the CSE which is referred to in Rule 10.3 below to meet outstanding settlement obligations.

- (b) In the event the buying Clearing Member has identified the defaulted Trade with regard to which there is an insufficiency of funds referred to in Rule 10.1.1 (a) above by 09.30 hours on the Settlement Date, the Securities relating to such Trade shall, by arrangement with the CDS, be transferred on the Settlement Date to a suspense account opened and maintained in the name of the Clearing House with the CDS.
- (c) ***In the event the Clearing House utilizes any assets of the Contributory Guarantee Fund in terms of Rule 10.1.1 (a) above to meet any shortfall in funds for the full settlement of the buy Trades of any Clearing Member, the Clearing Member shall be liable to (aa) return to the Contributory Guarantee Fund the entire value of the assets of the Contributory Guarantee Fund which were utilized in terms of Rule 10.1.1 (a) above, and (bb) reimburse to the Clearing House, any expenses incurred by the Clearing House in the settlement of Trades of the defaulting Clearing Member including in meeting any shortfall of funds for the settlement of such Trades , within such period notified in writing by the Clearing House.***

The Clearing House shall also, without prejudice to the obligations of the Clearing Member in terms of this Rule 10.1.1(c), be entitled to sell all or part of the Securities relating to the defaulted Trade on the CSE which are transferred to the suspense account referred to in Rule 10.1.1(b) and utilize the proceeds of such sale to:

- (i) meet any further shortfall in funds required for the full settlement of the buy Trades of the Clearing Member referred to in Rule 10.1.1(a) remaining after the steps taken by the Clearing House and/or the Clearing Member in terms of Rule 10.1.1(a) above;***
 - (ii) return to the Contributory Guarantee Fund the entire value of the assets of the the Contributory Guarantee Fund utilized in terms of Rule 10.1.1(a) above; and***
 - (iii) reimburse to the Clearing House, any expenses incurred by the Clearing House in the settlement of Trades of the defaulting Clearing Member including in meeting any shortfall of funds for the settlement of such Trades.***
- (d) Any proceeds of sale of Securities referred to in Rule 10.1.1(c) above, remaining with the Clearing House after the utilization of such proceeds for the purposes referred to in items (i), (ii) and (iii) of Rule 10.1.1(c) above, may be utilized by the Clearing House to ensure the due settlement by the defaulting Clearing Member of (i) any other sums payable by such Clearing Member to the Clearing House, or (ii) sums payable by such Clearing Member to the CDS, CSE and SEC, including penalties, fees, commissions, charges and/or dues payable by such Clearing Member as applicable. Any Securities remaining in the suspense account after a sale referred to in Rule 10.1.1(c) above shall, by arrangement with the CDS, be transferred to the defaulting buyer's Client Account in the CDS on such date determined by the Clearing House at its absolute discretion.***
- (e) Notwithstanding any provision to the contrary contained in these Rules, in the event, the defaulted buy Trade that has resulted in the insufficiency of funds referred to in Rule 10.1.1(a) above is not identified by 9.30 hours on the Settlement Date, the Securities relating to all buy Trades of the buying Clearing Member of the defaulted buy Trade, to be settled on such Settlement Date shall not be transferred to the Client Accounts of the buyers under such Trades on the Settlement Date but shall, by arrangement with the CDS, instead be transferred to a suspense account opened and maintained in the name of the Clearing House with the CDS. Such Securities shall remain in the said suspense account until the defaulted buy Trade is identified by the Clearing House. Once the defaulted buy Trade is identified (the Securities relating to which shall be dealt with in the manner set forth in Rules 10.1.1(c) and 10.1.1(d) above), the Securities relating to the buy Trades that are not in default shall, by arrangement with the CDS, be transferred to the relevant Client Accounts within [two (2)] Market Days from the identification of the defaulted buy Trade.***

10.1.2 Default of Delivery of Securities

- (a) If the number of Securities held in the Cleared Balance of the Client Account of the seller maintained in the CDS through the seller's Depository Participant is insufficient to settle a Trade in full on the Settlement Date, such Trade shall be settled to the extent possible by the delivery of the entirety of the Securities held in such Client Account to the buyer's Client Account. The delivery shall take place by the debiting of such Securities from the seller's Client Account in the CDS and the crediting of the Securities to the buyer's Client Account upon the settlement of funds in respect of the Securities available in the seller's Client Account for delivery to the buyer's Client Account as aforesaid.
- (b) Where the selling Clearing Member has failed to deliver all or part of the Securities required for settlement of a Trade on the Settlement Date resulting in a shortfall in the required number of Securities in the seller's Client Account to fully settle the Trade (even where such shortfall was due to the unavailability of Securities for purchase on the Buy-In Board and/or any other reason), the buyer shall be entitled to receive compensation in the form of cash for the shortfall in the Securities required for the full settlement of the Trade. Such compensation shall be computed based on a formula to be determined by the Clearing House and notified to the Clearing Members from time to time. The compensation that the buyer is entitled to receive for a shortfall in Securities shall be included by the Clearing House on a revised Settlement Schedule to be issued to the selling Clearing Member at 15.00 hours on T+1 and shall be paid by such selling Clearing Member to the settlement bank by 9:30 hours on the Settlement Date to facilitate payment thereof by the Clearing House to the buying Clearing Member by 10.30 hours on the Settlement Date.
- (c) Where the selling Clearing Member has failed to deliver all or part of the Securities required for settlement of a Trade on the Settlement Date and there is a shortfall in the required number of Securities in the seller's Client Account to fully settle the Trade on the Settlement Date, the buyer shall, in addition to and over and above the compensation referred to in Rule 10.1.2(b), also be entitled to be compensated for entitlements accruing to those Securities in shortfall arising from any corporate actions relating to such Securities that the buyer, as the recipient of such Securities would have become entitled to and/or received but for the delivery failure.

The method of computation of compensation payable in respect of each such corporate action shall be determined by the Clearing House and notified to the Clearing Members from time to time and published on the website of the Clearing House. Such compensation shall be made available by the selling Clearing Member to the settlement bank on the applicable date as communicated to the Clearing Members by the Clearing **House to facilitate payment thereof by the Clearing House to the buying Clearing Member on the same day.**

- (d) The compensation payable in terms of this Rule 10.1.2 as computed in terms of the formula determined by the Clearing House shall be deemed to be a genuine pre-estimate of the losses and damages of the buyer arising from the failure to deliver the relevant Securities.
- (e) The payment of the compensation referred to in this Rule 10.1.2 in full to the buying Clearing Member shall be a full and complete discharge of (i) the obligations of the seller, and (ii) the obligations of the Clearing House, in respect of a Trade referred to in this Rule 10.1.2.

- (f) Upon receipt of the compensation in terms of this Rule 10.1.2, the buyer's Clearing Member shall ensure that the compensation payable to the buyer is credited to the bank account of the buyer (i) on the Settlement Date, in the case of compensation referred in Rule 10.1.2(b) and (ii) on the applicable date/s as determined and communicated to the Clearing Members by the Clearing House, in the case of compensation referred to in Rule 10.1.2(c).

10.2 Liabilities of a Clearing Member in respect of defaulted Trades

10.2.1 Default of fund settlement

If a Clearing Member defaults in settlements of funds in respect of any Trade on a particular Settlement Date in terms of Rule 9.1.1 for any reason whatsoever, including any failure by the buyer/s to make sufficient Cleared Funds available to the Clearing Member, ***the Clearing House shall initiate the following action against such Clearing Member, regardless of whether such Trades have been settled in full by the Clearing House by following the procedure set out in Rule 10.1.1 above:***

(i) Imposition of fines

The Clearing House shall impose fines as set out below:

<i>Instance of Non-Compliance</i>	<i>Fine (Rs.)</i>
<i>On the first (1st) Occurrence</i>	<i>The Clearing House shall charge a fine of Rupees Five Million (Rs.5,000,000/-).</i>
<i>On the second (2nd) Occurrence within one (1) year from the date of the first (1st) occurrence</i>	<i>The Clearing House shall charge a fine of Rupees Seven Million Five Hundred Thousand (Rs. 7,500,000/-).</i>
<i>On the third (3rd) Occurrence within one (1) year from the date of the first (1st) Occurrence</i>	<i>The Clearing House shall charge a fine of Rupees Ten Million (Rs. 10,000,000/-);</i>

(ii) In addition to the imposition of fines in terms of Rule 10.2.1 (i), the Clearing House shall take the following action against the Clearing Member in enforcement of the provisions of these Rules:

- (a) The Clearing Member shall be prohibited from clearing and settling any Trades on behalf of its Client/s and on its own account, for a period of five (05) Market Days. The Clearing House shall notify the CSE and the CDS of such prohibition, with immediate notice to the market.

Provided however, the Clearing House shall clear or settle Trades for sale of Securities of the Clearing Member subject to such Market Contracts

being carried out with a Cleared Balance on its Client/s account/s and its own account.

- (b) The Clearing House shall publish a notice in all three (03) languages in national newspapers stating the non-compliance with the applicable Rules and the enforcement action taken by the Clearing House in respect of the Clearing Member concerned.
- (c) If such Clearing Member meets its outstanding payment obligations by the expiry of the fifth (5th) Market Day period referred to in Rule 10.2.1(ii) (a), the prohibition on the Clearing Member referred to in Rule 10.2.1(ii)(a) will be lifted immediately upon payment.
- (d) If such Clearing Member fails to meet its outstanding settlement obligations by the expiry of the fifth (05th) Market Day period referred to in Rule 10.2.1(ii)(a), the Clearing House shall initiate disciplinary action against the Clearing Member in terms of Section 4 of these Rules.
- (e) The Clearing House shall publish a notice in all three (03) languages in national newspapers notifying the public of the enforcement action taken in respect of the Stockbroker/Stock Dealer Clearing Member concerned.
- (f) Notwithstanding the enforcement action referred to herein, the Clearing Member shall continue to honour its outstanding obligations with regard to fund settlement under the defaulted Trades and all other outstanding Trades.
- (g) The Clearing House shall notify the CSE, the CDS and the SEC regarding the disciplinary action initiated against the Clearing Member in terms of Section 4 of these Rules and publish a notice in its website and cause the publication of a notice on the websites of the CSE and the CDS stating the noncompliance with the applicable Rule and the fact that disciplinary action is initiated against the Clearing Member.

10.2.2 Defaults in delivery of Securities

If a Clearing Member fails to ensure that the required number of Securities are made available in the seller/s Client Account with the CDS in terms of Rule 9.4.2 above for the full settlement of a sell Trade on the Settlement Date, the Clearing House shall initiate the following action against such Clearing Member, regardless of whether the Clearing Member has complied with its obligations under Rules 10.1.2(b) and 10.1.2(c) with regard to payment of compensation to the buyer:

(i) Imposition of fines:

The Clearing House shall impose fines as set out below:

<i>Instance of Non-Compliance</i>	<i>Fine (Rs.)</i>
<i>On the first (1st) Occurrence</i>	<i>The Clearing House shall charge a fine of Rupees One Million Five Hundred Thousand (Rs.1,500,000/-) .</i>
<i>On the second (2nd) Occurrence within one (1) year from the date of the first (1st) occurrence</i>	<i>The Clearing House shall charge a fine of Rupees Two Million (Rs. 2,000,000/-).</i>
<i>On the third (3rd) Occurrence within one (1) year from the date of the first (1st) Occurrence</i>	<i>The Clearing House shall charge a fine of Rupees Three Million (Rs. 3,000,000/-);</i>

(ii) Other Enforcement Action

In addition to the fines stipulated in Rule 10.2.2 (i), if a Clearing Member fails to ensure that the required number of Securities are made available in the seller's Client Account with the CDS in terms of Rule 9.4.2 above for the full settlement of a sell Trade on the Settlement Date on four (4) separate occasions within any period of one (1) year, or five (5) separate occasions within any period of two (2) years, the Clearing House shall;

- (a) prohibit such Clearing Member from carrying out any clearing and settlement functions through the Clearing House on behalf of its Clients and on its own account, for a period of three (3) Market Days and notify the CDS thereof; and
- (b) publish in its website and cause the publication of a notice on the websites of the CSE and the CDS stating the non-compliance with the applicable Rules and the enforcement action taken by the Clearing House against the Clearing Member.

10.3 Utilization of the Settlement Guarantee Fund

- (i) In the event of a default by a Clearing Member of its payment obligations under these Rules and the Market Collateral furnished by such Clearing Member to the Clearing House is insufficient to satisfy the settlement obligations of the Clearing Member, such Clearing Member may obtain funding from the Settlement Guarantee Fund established by the SEC and the CSE to meet outstanding settlement obligations, subject to the conditions stipulated by the Settlement Guarantee Fund.

- (ii) If a Clearing Member obtains funding from the Settlement Guarantee Fund referred to in this Rule 10.3, the Clearing Member shall replenish the said Fund within the time period to be determined by the Clearing House in consultation with the SEC.
- (iii) For the avoidance of doubt, any refusal or rejection by the Settlement Guarantee Fund to provide funding to the Clearing Member pursuant to a request being made therefor by the Clearing Member, for any reason whatsoever, shall not relieve the Clearing Member from its outstanding settlement obligations in any manner whatsoever.

PART C - CLEARING AND SETTLEMENT OF NON-CCP SETTLED TRADES

SECTION 11

CLEARING MEMBERS – NON-CCP SETTLED TRADES

Non-CCP Settled Trades identified in this Part C shall be cleared and settled by a Limited Clearing Member admitted in terms of Rule 11.1 below.

For the avoidance of doubt, a Self Clearing Member or a Professional Clearing Member that is admitted by the Clearing House to clear and settle CCP Settled Trades shall, in addition to their status as a Self Clearing Member or Professional Clearing Member in respect of CCP Settled Trades, be admitted as a Limited Clearing Member in terms of Rule 11.1 below in order to clear and settle Non CCP Settled Trades carried out by it as a Trading Participant or affirmed as a Custodian Bank.

11.1 Admission as a Limited Clearing Member

11.1.1 Eligible Categories

The following persons are eligible for admission as a Limited Clearing Member:

- (i) A Trading Participant of the CSE, which is a Stock Broker or Stock Dealer;*
- (ii) A Custodian Bank which is a Depository Participant of the CDS.*

11.1.2 Entry Requirements for a Limited Clearing Member

An applicant for admission as a Limited Clearing Member shall on the date of application;

- (i) comply with the following capital requirements:*
 - (a) If a Trading Participant of the CSE; a minimum liquid capital of Rs. 35 million and a minimum shareholders' equity of Rs. 100 million or 50% of the stated capital whichever is higher.*
 - (b) If a Custodian Bank; a minimum total shareholders' equity of Rs. 500 million.*

For the purposes of this Rule 11.1.2(i);

'liquid capital' shall have the same meaning as defined in Annexure 2 of the Trading Participant Rules of the CSE.

‘total shareholders’ equity’ shall be calculated in accordance with the Sri Lanka Accounting Standards.

- (ii) have sufficient resources and adequate systems and facilities to support the business operations of a **Limited Clearing Member** in terms of these Rules.
- (iii) have operational capability, including adequately trained staff, data processing capacity and suitable premises; and
- (iv) satisfy any other requirements and criteria as may be prescribed by the Clearing House for admission of **Limited Clearing Members**.

11.1.3 Application to be admitted as a **Limited Clearing Member**

- (i) An application to be admitted as a **Limited Clearing Member** shall be submitted by the applicant to the Clearing House in the format specified by the Clearing House from time to time.
- (ii) The Clearing House may, accept or reject any application for admission as a **Limited Clearing Member**. In the event of a rejection, the Clearing House shall state the reasons.

11.1.4 Grant of Clearing Member Status

- (i) If the application to be admitted as a **Limited Clearing Member** referred to in Rule 11.1.3 above is accepted by the Clearing House, notice of admission shall be provided as a Clearing Member that is a **Limited Clearing Member**.
- (ii) Admission as a Limited Clearing Member shall become effective on the execution of a Clearing Member Agreement by the Clearing Member with the Clearing House **expressly recording the status of the Clearing Member as a Limited Clearing Member. The Clearing Member Agreement shall, inter alia, contain a representation and undertaking by the Limited Clearing Member** that its Market Contracts shall enable and support the effective clearing and settlement of transactions by the Clearing House, it shall have always obtained the agreement of its Clients to the risk management and in particular the default and loss allocation framework employed by the Clearing House in terms of these Rules etc. By executing and entering into the Clearing Member Agreement, a Limited Clearing Member agrees to be bound by and comply with these Rules.

11.2 **Persons authorized to act on behalf of a Limited Clearing Member**

- 11.2.1 **Limited Clearing Members** shall give written notice of the persons who are authorized to act on behalf of such **Limited Clearing Member**.

11.2.2 Such authorized persons shall be the contact persons and shall be deemed to have the authority to instruct Clearing House in respect of matters concerning such **Limited Clearing Member**.

11.2.3 A **Limited Clearing Member** shall ensure that any change pertaining to such authorized persons shall be promptly communicated in writing to the Clearing House.

11.3 Clearing Member Fees

Upon admission as a **Limited Clearing Member** in terms of these Rules, such Clearing Member shall pay fees, charges and reimbursement of expenses in respect of the Clearing or Settlement services and facilities offered by the Clearing House as applicable from time to time.

11.4 Records in respect of Trades

11.4.1 Reconciliation of Records

Limited Clearing Members shall reconcile their respective records with the records of the Clearing House on a daily basis, in relation (but not limited) to the following:

- (a) all settlement schedules issued by the Clearing House that are settled in each settlement cycle, including the funds and securities settled in respect of each settlement Instruction;
- (b) transfers of securities into or out of, and the daily closing balance in the Clearing Members' and Clients' Accounts.

If there is any discrepancy between the records of a Clearing Member and the Clearing House, the Clearing Member shall immediately inform the Clearing House of such discrepancy and take necessary steps to rectify such discrepancy.

11.4.2. Maintenance of Records

- (a) Every Limited Clearing Member shall maintain records relating to its business operations relating to Trades as required to demonstrate compliance with these Rules.
- (b) Clearing Members shall notify the Clearing House of the place where the records referred to in Rule 11.4.2 (a), are kept and made available for inspection by the Clearing House and/or the SEC.

11.5 Reporting of Adverse Events

A **Limited Clearing Member** shall immediately notify the Clearing House, if:

- (a) it experiences an emergency or potentially debilitating situation that threatens its business operations in the capacity of a Clearing Member;

- (b) it is insolvent or wound-up, or has had an insolvency or winding-up application presented, or an order made by a court of competent jurisdiction, or any step is taken or a resolution passed, for its winding-up, dissolution, judicial management, a compromise with its creditors or administration, whichever occurs first;
- (c) it has had any attachment, distress, execution or legal process instituted against its assets, or has had any liquidator, receiver or any similar person appointed (or an application has been made for the appointment of such person) in respect of any of its assets; and
- (d) any regulatory body has initiated any action against such Clearing Member upon being found to have committed or been connected with the commission of any act which involves fraud, deceit or dishonesty by anybody with regulatory or supervisory authority;
 - (i) established by law in Sri Lanka or abroad,
 - (ii) constituted under law as a commission of inquiry, tribunal or other similar body, or
 - (iii) by any professional association which in the opinion of the SEC is of an established and credible stature.

11.6 Provision of Information by Limited Clearing Members

- 11.6.1 Limited Clearing Members shall, upon the request of the Clearing House, provide any information or records and render such assistance (including giving access to its premises, systems and employees) as the Clearing House requires to discharge any of its duties (including to promote safe and efficient settlement), to make authorized disclosures or perform any other acts described in these Rules, or to investigate compliance with or enforce any Rule, from time to time.
- 11.6.2. The Clearing House reserves the right to use or disclose, all information and records so received pursuant to Rule 11.6.1 above, and each Clearing Member irrevocably consents to such use or disclosure.
- 11.6.3 The Clearing Member shall exercise due care to ensure that any information or records provided to the Clearing House do not contain untrue statements, are not misleading and include rather than omit any material statements/information.

11.7 Suspension/Termination of Clearing Member Status

- 11.7.1 The Clearing House may, suspend or cancel the Clearing Member status of a ***Limited Clearing Member, if the Clearing Member fails to comply with or is in breach of any provision of these Rules or any term, condition or restriction imposed by the Clearing House under these Rules or of the Clearing Member Agreement with the Clearing House.***

Additionally, the Clearing House may suspend or cancel the Clearing Member status of a Limited Clearing Member, in the following instances:

- (i) where Clearing Member is a Trading Participant or Depository Participant, such Clearing Member ceases to be, or is suspended in its capacity as a Trading Participant or Depository Participant.
- (ii) winding up proceedings have commenced in respect of the Clearing Member.
- (iii) the Clearing Member is, in the opinion of the Clearing House;
 - (a) in financial or operating difficulty, including but not limited to not meeting fund settlement obligations and margin requirements as specified by the Clearing House;
 - (b) conducting its activities in a manner detrimental to the financial integrity, reputation or interests of the Clearing House, or clearing or settlement facilities operated by the Clearing House;
 - (c) no longer fit and proper to continue participating in settlement in terms of these Rules.
- (iv) it is necessary or desirable, in the interests of ensuring safe and efficient settlement or settlement facilities, or for ensuring the integrity of the capital market or for the proper mitigation and management of systemic risk, or for investor protection; or
- (v) **a directive has been issued to that effect** by the SEC, or
- (vi) the CBSL **has cancelled or suspended the licence issued to a Commercial Bank licensed by the CBSL to carry on banking business.**

11.7.2 The Clearing House shall not be obliged to provide any Clearing or Settlement facilities to a **Limited Clearing Member that is suspended in respect of any Trades carried out as a Trading Participant or affirmed as a Custodian Bank** or to perform any of its obligations under these Rules from the effective date of the suspension/termination of the Limited Clearing Member status of such Clearing Member, other than to the extent of facilitating the closing down operations of the suspended or terminated Limited Clearing Member in relation to outstanding clearing and settlements.

11.7.3 A Limited Clearing Member that is suspended pursuant to Rule 11.7.1, may be reinstated by the Clearing House upon complying with these Rules and/or any additional conditions as the Clearing House may impose.

11.7.4 The suspended Limited Clearing Member shall, from the effective date of such suspension until reinstatement of Clearing Member status respectively:

- (a) pay all outstanding charges owing to the Clearing House;
- (b) fulfill all outstanding settlement and other obligations in respect of Trades; and
- (c) continue to comply with the terms and conditions set out in the Clearing Member Agreement and these Rules.

11.7.5 A Limited Clearing Member that is suspended shall comply with the following additional requirements:

- (i) The Limited Clearing Member shall, immediately upon the suspension, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the suspension;**
- (ii) Notwithstanding anything to the contrary in these Rules, the Limited Clearing Member shall continue to and be obliged to clear and settle the Trades executed by it on or before the effective date of suspension.**

Once such Trades executed by the suspended Limited Clearing Member on or before the effective date of suspension are settled, the suspended Self Clearing Member shall not be eligible to clear and settle Non CCP Settled Trades, unless it is reinstated as a Clearing Member in terms of Rule 11.7.3.

11.7.6 Termination of clearing member status shall not affect the rights and obligations of the Limited Clearing Member which have accrued up to the effective date of termination.

11.7.7 The Clearing House shall forthwith notify the SEC, CSE, and the CDS of any action taken, or proceedings instituted against a Limited Clearing Member in terms of this Rule 11.7.

SECTION 12

MINIMUM STANDARDS APPLICABLE TO A LIMITED CLEARING MEMBER

The minimum standards set out below shall be complied with by all Limited Clearing Members on an ongoing basis, upon admission in terms of these Rules.

12.1. Capital Requirements

12.1.1 (a) Minimum Capital Requirements applicable to Limited Clearing Members:

Limited Clearing Members shall maintain the minimum capital requirements as set out below:

- (i) If a Trading Participant of the CSE; a minimum liquid capital of Rs. 35 million and a minimum shareholders' equity of Rs. 100 million or [50% of the stated capital whichever is higher.*
- (ii) If a Custodian Bank; a minimum total shareholders' equity of Rs. 500 million .*

For the purposes of this Rule 12.1.1 (a);

'liquid capital' shall have the same meaning as defined in Annexure 2 of the Trading Participant Rules of the CSE.

'total shareholders' equity' shall be calculated in accordance with the applicable Sri Lanka Accounting Standard.

(b) Periodic Updates on the compliance with the capital requirements

Limited Clearing Members who are Trading Participants of the CSE shall submit to the Clearing House on a quarterly basis, together with the Quarterly Statements as required in terms of Rule 12.1.2 (i) (a), a written confirmation confirming that it is in compliance with the relevant capital requirements specified in Rule 12.1.1 (a) (i) above.

(c) Non-compliance with Rule 12.1.1 (a)

- (i) In the event a Limited Clearing Member fails to meet the capital requirements set out in Rules 12.1.1 (a) (as applicable), such Limited Clearing Member shall immediately notify the Clearing House, in writing, and take necessary steps to comply with the applicable minimum capital requirement/s within a period of thirty (30) calendar days from the date of non-compliance.*

(ii) *In the event a Clearing Member fails to meet the applicable capital requirement/s for a Limited Clearing Member within the period referred to in Rule 12.1.1 (c) (i) above, the Limited Clearing Member shall comply with the following requirements with regard to its Clients:*

(aa) *The Limited Clearing Member shall, on the date of expiration of the thirty (30) calendar day period referred to in Rule 12.1.1(c)(i) above, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the non-compliance and providing such Clients of a period of up to thirty (30) calendar days from the date of such written notice to engage a Trading Participant or a Depository Participant that has an appropriate arrangement for the clearing and settlement of Trades ;*

(bb) *The Limited Clearing Member shall continue to and be obliged to clear and settle any Trades executed by such Limited Clearing Member on behalf of its Clients on or before the thirtieth (30th) calendar day from the from the date of such written notice.*

On the expiration of the said thirty (30) calendar day period referred to in items (aa) and (bb) above, if the Limited Clearing Member has not rectified the non- compliance, the Clearing House shall prohibit such Limited Clearing Member from carrying out the clearing functions through the Clearing House in relation to any Trades and a notice will be simultaneously published by the CSE Clear on its website setting out the non-compliance with applicable minimum capital requirements upon the Limited Clearing Member being informed of the same by CSE Clear.

(iii) *The prohibition imposed on the Limited Clearing Member shall be lifted upon such Limited Clearing Member meeting the applicable minimum capital requirement/s.*

(iv) *In the event the Limited Clearing Member fails to rectify the non-compliance within three (3) months from the date of prohibition referred to in Rule 12.1.1 (c) (ii) above, the Clearing House shall terminate the Limited Clearing Member status of such Clearing Member.*

(v) *The Clearing House shall publish a notice on its website stating the non-compliance with the applicable Rules and the enforcement action initiated by the Clearing House in respect of the Clearing Member concerned.*

(vi) *The Clearing House shall notify the CSE, CDS and the SEC regarding the enforcement action initiated against the Clearing Member.*

12.1.2 Financial Statements of Limited Clearing Members:

(i) *The Limited Clearing Members shall submit to the Clearing House, certified copies of the following:*

a) *quarterly financial statements of the Clearing Member within two (02) months from the end of the respective quarter, provided however that where the Clearing Member publishes its annual audited financial statements within*

three (03) months from the end of the financial year, such Clearing Member shall be exempt from publishing its quarterly financial statement for the fourth quarter of the respective year; and,

- b) audited financial statements of the Clearing Member within five (05) months from the end of the financial year.***

Provided however, this Rule 12.1.2 (i) shall not be applicable to Clearing Members that have its Securities listed on the CSE and have published its financial statements in accordance with the Listing Rules of the CSE.

- (ii) If the Limited Clearing Member fails to submit certified copies of such financial statements within the respective timelines set out in Rule 12.1.2 (i) above, the Clearing House shall impose a fine of Rupees Twenty-Five Thousand (Rs. 25,000/) for every month of delay from the expiry of the stipulated time period.***
- (iii) Additionally, the Clearing House shall have the right to suspend the Limited Clearing Member status of a Clearing Member for continuous non-submission of quarterly/audited financial statements. In such event, the Clearing House shall notify the SEC, CSE and the CDS of such suspension.***

12.2 Systems and Operations of a Clearing Member

A Limited Clearing Member shall ensure that:

- (i) its systems and connectivity to the Clearing and Settlement system and facilities operate properly at all times and have adequate redundancy and scalable capacity to accommodate current and anticipated settlement volumes; and***
- (ii) it complies with the terms and conditions in any agreement with, and any other requirements imposed by, the Clearing House for accessing the Clearing or Settlement system and facilities or in relation to settlement under these Rules.***
- (iii) its back office systems operate smoothly and properly at all times and have adequate redundancy and scalable capacity to accommodate all current depository functions and future enhancements; and***
- (iv) it complies with the terms and conditions in any agreement with, and any other requirements imposed by the CSE Clear in relation to systems and operations required to support and facilitate depository functions to the extent stipulated in these Rules.***
- (v) A Limited Clearing Member shall maintain complete and accurate records, which enable it to identify at all times, specific amounts of such monies and assets deposited with it by each client in connection with such clients' trades which are or are to be, cleared or settled through CSE Clear.***

- (vi) *Limited Clearing Members shall maintain sufficient, qualified and competent employees at all times to perform business operations in terms of these Rules and applicable requirements.*
- (vii) *A Limited Clearing Member shall ensure segregation of key functions of the Clearing Members to minimize and manage conflict of interests among these functions.*

12.3 Business Continuity Requirements

- 12.3.1 The Limited Clearing Members shall, at all times, have in place, review and maintain disaster recovery and business continuity arrangements that are adequate to ensure the timely recovery of its usual operations having regard to the nature and extent of the business carried on by that Clearing Member and any matters as may be specified by the Clearing House from time to time.
- 12.3.2 The Clearing House may, at any time, require a Limited Clearing Member to undertake testing of its disaster recovery and business continuity arrangements at such times and in such manner as may be specified by the Clearing House.
- 12.3.3 *A Limited Clearing Member shall, at all times maintain adequate back up procedures to ensure the integrity and recoverability of its records and locate its disaster recovery hardware and related facilities off site.*

12.4 Other Risk Management Requirements

- 12.4.1 The Limited Clearing Members shall be responsible for the monitoring and management of risk, including determination of the nature and extent of the significant risks which the Clearing Member can reasonably undertake.
- 12.4.2 The management of the Limited Clearing Member shall oversee the Clearing Member's risk management framework and policies and ensure that the management maintains a sound system of risk management and internal controls including but not limited to maintaining adequate staff and facilities for monitoring its cash flows and funding requirements and maintaining sufficient liquidity for its day-to-day operations.
- 12.4.3 The Limited Clearing Member shall, upon the request of the Clearing House, make available details which include the following;
 - (a) Information needed by the Clearing House to make an informed assessment of the Clearing Member's risk management and internal control systems;
 - (b) a description of the principal risks (including liquidity, financial, operational, compliance, information technology, legal, environmental, social or political risk categories) applicable to the Clearing Member and the manner in which such risks are being managed or mitigated;
 - (c) an explanation of the Clearing Member 's approach towards identifying, measuring and monitoring its key and emerging risks, and an elaboration of its approach towards the governance and management of these risks; and,

- (d) an explanation of the manner in which the management of the Clearing Member has assessed the prospects of the company, together with the period under consideration and the justification/s for selection of such time period.

12.5 Internal Audit Requirements

A Limited Clearing Member shall cause its internal auditors to conduct an internal audit of its operations annually or at such times and within such scope as prescribed by the Clearing House and to submit a report of each internal audit conducted and the follow-up actions taken to the Clearing House by such time as may be specified by the Clearing House.

12.6 Submission of Compliance Report

A Limited Clearing Member shall submit a compliance report annually to the Clearing House setting out in detail, the manner in which the Clearing Member has complied with or the steps taken by the Clearing Member to comply with these Rules.

SECTION 13

CLEARING AND SETTLEMENT OF MARKET CONTRACTS DENOMINATED IN FOREIGN CURRENCIES TRADED ON THE CSE

For the avoidance of doubt, Market Contracts denominated in Foreign Currencies shall only be cleared and settled by Limited Clearing Members which are Custodian Banks.

13.1 SETTLEMENT OF MARKET CONTRACTS DENOMINATED IN FOREIGN CURRENCIES

13.1.1 Inter - Clearing Member Settlement of Funds

- (i) The inter-Clearing Member settlement of funds for Shares denominated in Foreign Currency traded on the CSE, shall take place by 12.30 hours on the Settlement Date, i.e. T+2, through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House. The inter-Clearing Member settlement shall be completed by 12.30 hours on the Settlement Date.
- (ii) A Clearing Member's obligation on any Settlement Date to make payment in respect of Trades carried out by such Clearing Member in respect of Shares denominated in Foreign Currency shall be set off against such Clearing Member's entitlement to receive funds on the Settlement Date for such Trades carried out by the Clearing Member.

The Clearing House shall issue, on each Market Day, a Settlement Schedule, which shall reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a particular Settlement Date in respect of transactions relating to Shares denominated in Foreign Currency.

- (iii) The Clearing Member shall, for Trades executed on the CSE pertaining to Shares denominated in Foreign Currency, make available sufficient Cleared Funds in the settlement bank by 10.30 hours on the Settlement Date to settle the payment obligations arising out of transactions carried out by such Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (iv) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules.

13.1.2 Settlement of Securities

- (i) The selling Clearing Member shall ensure that the required number of Foreign Currency denominated Shares are available in the seller's Client Account on the Trade Date. The Clearing House shall, by arrangement with the CDS, ensure that such quantity of Shares are locked-in the seller's Client Account in order for delivery of such Shares to the buyer's Client Account on the Settlement Date.
- (ii) The settlement of Foreign Currency denominated Shares by delivery thereof, pursuant to a Trade, shall take place on the Settlement Date referred to in Rule

13. 1.2 (i), only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank.

13.1.3 Trade Affirmations/Rejections by Clearing Members

- (i) Trades in Foreign Currency denominated Shares shall be affirmed or rejected by the respective Clearing Member by 13.30 hours on T+1, in the format prescribed by the Clearing House from time to time.
- (ii) If a Clearing Member fails to affirm a Trade carried out by a Trading Participant prior to the stipulated time period referred to in Rule 13.1.3 (i) for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Trade by the Clearing Member.
- (iii) In the event of a rejection of a Trade of Shares denominated in Foreign Currency, such rejection shall result in a cancellation of such Trade and the Clearing House shall notify the CSE to cancel such Trade.
- (iv) In the event, a Trade in Foreign Currency denominated Shares is cancelled in accordance with this Rule 13.1.3 (iii), the Clearing House shall issue an amended Settlement Schedule to the relevant Clearing Members and the settlement banks.

13.2 Defaults in Settlement of Funds by a Clearing Member

13.2.1 Responsibility of the Clearing Member

The integrity and stability of the Securities market is dependent on the due settlement by a Clearing Member of each Trade in Foreign Currency denominated Shares to be cleared and settled by such Clearing Member. The failure to do so will result in loss of public trust and confidence in the credibility of the market. Accordingly, it is the sole obligation and the responsibility of the Clearing Member to ensure that each Trade is duly settled on the Settlement Date. This fundamental premise with regard to settlement of Market Contracts will accordingly form the basis for the provisions of Rules 13.2 and 13.3.

13.2.2 Default of Payment

- (a) If a Clearing Member:
 - (i) is aware that the fund settlement in respect of a Trade in Foreign Currency denominated Shares on the Settlement Date is likely to be defaulted due to a potential failure by the buyer to make sufficient Cleared Funds available to such Clearing Member; and/or
 - (ii) is unable to reasonably ascertain that the fund settlement in respect of a Trade on the Settlement Date will take place,

such Clearing Member shall, by 15.00 hours on T + 1, notify the Clearing House, in writing, that such Trade is likely to be defaulted. Upon the receipt of such notification, the Clearing House shall isolate such Trade and issue an amended Settlement Schedule, excluding the obligations arising out of such Trade. The amended Settlement Schedule shall be sent to the respective Clearing Members and the appointed settlement banks for settlement on the next Market Day.

Provided however that provisions of this Rule 13.2.2 (a) shall not be construed in any manner howsoever to be in derogation of the obligation and responsibility of the Clearing Member to ensure due settlement of each Trade as set out in Rule 13.2.1.

For the avoidance of any doubt and without prejudice to the provisions of Rule 13.3.1, the Clearing House shall be entitled to take disciplinary action against any Clearing Member who fails to issue notification or issues any notification in violation of the provisions of this Rule 13.2.2(a)

- (b) The Clearing House shall, by arrangement with the CDS, ensure that the Securities relating to a Trade that is isolated and removed from the Settlement Schedule in terms of Rule 13.2.2(a) are not transferred from the seller's Client Account to the buyer's Client Account in the CDS on the Settlement Date.
- (c) ***If Trades are isolated in terms of Rule 13.2.2(a) , the Clearing House shall (i) notify the CSE to cancel such Trades and (ii) communicate an amended Settlement Schedule to the relevant Clearing Members.***
- (d) ***In the case of any Trade that is not isolated in terms of Rule 13.2.2(a), if the buying Clearing Member fails to make available on the Settlement Date, sufficient funds for the full settlement of such Trade in the manner set out in Rule 13.1.1(iii) above, the Trade shall be deemed to be a defaulted Trade. Accordingly, the Securities shall not be transferred from the seller's Client Account to the buyer's Client Account in the CDS. The Clearing House shall initiate enforcement action against the defaulting Clearing Member in accordance with Rule 13.3 below.***

13.3 Liabilities of a Clearing Member in respect of a Fund Settlement Failure

If a Clearing Member defaults in settlements of funds in respect of any Trade on a particular Settlement Date in terms of Rule 13.1.1 for any reason whatsoever including any failure by the buyer/s to make sufficient Cleared Funds available to the Clearing Member,

- (a) such Clearing Member shall pay to the Clearing House a fine to be determined by the Clearing House at its discretion from time to time; and

(b) the Clearing House shall take the following action in enforcement of the provisions of these Rules:

- (i) The Clearing House shall impose and the Clearing Member shall pay a processing fee of USD 500 or equivalent thereof for each instance of a fund settlement failure by a Clearing Member on a given Settlement Date.

The Clearing Member shall pay such processing fee to the Clearing House within Two (2) Market Days from the date of imposition of such processing fee,

- (ii) If a Clearing Member fails to meet the fund settlement obligations in terms of Rule 13.1.1 of these Rules,

- (a) on two (2) separate occasions within any given period of six (6) months; or,
 - (b) on three (3) separate occasions within any given period of one (1) year,

the Clearing House shall, in addition to the processing fee referred to in Rule 13.3.1(b)(i), prohibit such Clearing Member from carrying out any Clearing or Settlement functions through the Clearing House with immediate effect for a period of three (3) Market Days.

- (iii) The Clearing House shall publish a notice on the website of the Clearing House notifying the public of the fund settlement default by the Clearing Member and the corresponding enforcement action taken by the Clearing House.
- (iv) Notwithstanding the prohibition referred to in Rule 13.3.1(b)(ii), the Clearing Member shall continue to honor its obligations with regard to fund settlement to other Clearing Members.

SECTION 14

CLEARING AND SETTLEMENT OF MARKET CONTRACTS RELATING TO SECURITIES TRADED ON THE DEBT MARKET OF THE CSE

14.1 Rules Governing Debt Securities Traded on the Automated Trading System (ATS) of the CSE

14.1.1 Definitions

For the purpose of Rule 14.1:

Debt Securities

means corporate debt Securities which are traded on the debt market of the CSE.

Trading Participant for Debt Securities

means a Stock Broker Participant or a Stock Dealer Participant (as applicable) who has been permitted by the CSE to trade in Debt Securities.

Settlement Date

means

- (i) the first Market Day after the Trade Day (T+1) for Debt Securities transacted on the Tom Board, and;
- (ii) the second Market Day after the Trade Day (T+2) for Debt Securities transacted on the Spot Board.

Spot Board

means the trading board on which the transactions are executed where the Settlement Date for the transactions is the second Market Day after Trade Day (T+2).

Tom Board

means the trading board on which the transactions are executed where the Settlement Date for the transactions is the first Market Day after Trade Day (T+1).

14.1.2 Settlement of Debt Securities

Pursuant to a Trade carried out through the CSE, the crediting of Debt Securities to the buyer's Client Account shall take place only upon the receipt of confirmation of settlement of funds from the appointed settlement bank.

14.1.3 Inter-clearing member Settlement

- (i) The inter - clearing member settlement of funds for Trades in Debt Securities traded on the CSE shall take place by 10.30 hours on the Settlement Date, through the settlement bank/s as per the Settlement Schedules issued by the Clearing House.

- (ii) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules.
- (iii) The Clearing House shall issue, on each Market Day, a Settlement Schedule, which will reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a particular Settlement Date.
- (iv) A Stock Broker Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Settlement Date to clear and settle Trades of such Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (v) A Custodian Bank Clearing Member shall make available sufficient Cleared Funds in the settlement bank by 09.30 hours on the Settlement Date to settle payment obligations arising out of Trades of such Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (vi) A buyer shall make available, and the buying Clearing Member shall ensure that such buyer makes available, the required Cleared Funds in respect of a Trade so as to enable the buying Clearing Member to meet its fund settlement obligations within the time period prescribed in these Rules.
- (vii) If the buyer fails to make available the Cleared Funds as referred to in Rule 14.1.3 (vi), the buying Clearing Member which is a Stock Broker, may at its absolute discretion, recover interest commencing from the day after the Settlement Date up to the date of final settlement and such interest shall not exceed 0.1% per day, provided such Clearing Member settled such Trade .
- (viii) A selling Clearing Member which is a Stock Broker:
 - (a) shall ensure that Cleared Funds are made available to the seller on the Settlement Date of the Trade , unless the seller has requested the Clearing Member, in writing, to retain the sale proceeds. If for any reason the sale proceeds have not been made available to the seller by the selling Clearing Member on the Settlement Date without a written request from the seller as aforesaid, the seller shall be entitled to interest from the day after the Settlement Date on the outstanding amount at 0.1% per day from the selling Clearing Member.
 - (b) could make settlements to the seller either by cheques or electronic fund transfers to the seller's bank account. If payment is made to sellers by way of cheques, such cheques shall be duly crossed as 'Account Payee'. If the seller requests that the crossing to be cancelled, the selling Clearing member shall ensure that a request shall be made in writing by the seller and same is authorized by the Chief Executive Officer of such Clearing Member.

No cash cheques shall be issued to clients.

(ix) **Fund Settlement Failure**

A failure to settle funds by a buying Clearing Member in respect of a Trade on the Settlement Date as set out in Rule 14.1.3 shall result such Trade being deemed to be a defaulted Trade. Accordingly, the Securities shall not be transferred from the seller's Client Account to the buyer's Client Account in the CDS.

(x) **Consequences of a fund Settlement Failure on Clearing Members**

- (i) ***If a buying Clearing Member defaults in settlement of funds in respect of any Trade on the Settlement Date in terms of Rule 14.1.3(v) due to any reason whatsoever, including any failure by the buyer to make sufficient Cleared Funds available to the Clearing Member, such Clearing Member shall pay to the Clearing House a processing fee of Rs. 1,000,000 for each occurrence of non-compliance.***
- (ii) ***The processing fee shall be paid by the Clearing Member to the Clearing House within seven (7) Market Days from the date of communicating such fee to the Clearing Member.***

For the purposes of this Rule, 'Cleared Funds' shall mean funds that are realized and available for drawing in the respective settlement bank.

14.1.4 Margin Requirements applicable for Trades on Debt Securities

- (i) A margin requirement shall be computed by the Clearing House pursuant to Trades executed on the Spot Board in respect of each Clearing Member, taking into consideration the settlement risk arising from such Trades cleared and settled through such Clearing Member pending inter - clearing member settlement. Such margin requirement shall be communicated by the Clearing House to the Clearing Member end of Trade Day (T).
- (ii) The margin requirement shall be computed in accordance with a methodology as determined by the Clearing House from time to time.
- (iii) The margin requirement shall be applicable for a Clearing Member if the aggregate value of the purchases executed by such Clearing Member on the Spot Board on a Market Day equals or exceeds Rupees Ten (Million (Rs. 10,000,000)).
- (iv) Margin requirements will not be computed for Trades executed on the Tom Board.

14.1.5 Provision of Market Collateral to the Clearing House

- (i) If a margin requirement is applicable as set out in Rule 14.1.4 (iii), the Clearing Member shall provide Market Collateral to the Clearing House by 09.30 hours on T+1. The value of Market Collateral furnished to the Clearing House shall be at least equivalent to the margin requirement of such Clearing Member computed in terms of Rule 14.1.4.

- (ii) The Market Collateral furnished to the Clearing House shall be in the form of a cash deposit.
- (iii) The Market Collateral shall be used by the Clearing House to defray;
 - (i) Any sums due and payable by a Clearing Member in default to any client of such Clearing Member;
 - (ii) Any sums due and payable by such Clearing Member to any other Clearing Member of the Clearing House; and/or
 - (iii) Any fees, commissions, charges and dues payable by such Clearing Member to CDS, Clearing House, CSE and SEC.
- (iv) If a Clearing Member fails to provide the requisite Market Collateral to meet its margin requirement, the Clearing House shall commence disciplinary proceedings against such Clearing Member in terms of Section 4.

14.2 RULES GOVERNING REPURCHASE TRANSACTIONS ON DEBT SECURITIES ON THE OVER THE COUNTER (OTC) PLATFORM OF THE CSE

(A) Definitions

For the purpose of Rule 14.2:

OTC Platform

shall mean the Over the Counter trading platform operated by the CSE for carrying out transactions in Specified Securities in terms of these Rules.

Specified Securities

shall mean Securities that are eligible to be traded on the OTC Platform of the CSE, as determined by the Board of Directors of the CSE and published from time to time.

Trading Participant

shall mean a Trading Participant as defined in the SEC Act who is permitted by the CSE to carry out transactions in Specified Securities on the OTC Platform of the CSE.

(B) Repurchase Transactions in Debt Securities

(REPO) For the purposes of this Rule 14.3 (B);

Borrower:	shall mean seller of the Purchased Securities (i.e. the borrower of funds) on the Purchase Date in a Repurchase Transaction
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Eligible Investors for REPO Transactions:	shall mean the following categories of investors who are permitted by the CSE to carry out transactions on Specified Securities on its OTC Platform:
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- a commercial bank licensed by the Central Bank of Sri Lanka (CBSL) in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the CBSL in terms of the Banking Act No. 30 of 1988 (as amended);
- a finance company licensed by the CBSL in terms of the Finance Business Act No. 42 of 2011(as amended);
- a company licensed by the CBSL to carry on finance leasing business under the Finance Leasing Act No 56 of 2000 (as amended);
- a primary dealer licensed by the CBSL;
- a company licensed by the Insurance Regulatory Commission of Sri Lanka to carry on insurance business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);
- Members and Trading Members of the CSE possessing a Stock Dealer license for Debt Securities from the SEC;
- The trustee or the manager of a collective investment scheme; Pension fund or superannuation fund;
- a venture capital fund/company or private equity company;
- a wealth management/asset management company/Investment Manager;
- a non-resident institutional investor;

- an individual investor who is a party to a transaction on specified Securities on the OTC Platform amounting to a minimum of Rs. 5,000,000

Lender:	shall mean the buyer of the Purchased Securities (i.e. the Lender of funds) on the Purchase Date in the Repurchase Transaction.
Master Repurchase Agreement:	shall mean the agreement entered between a Trading Participant and an Eligible Investor, two (2) Trading Participants or two (02) Eligible Investors operating through the same Trading Participant for the purpose of carrying out Repurchase Transactions on Debt Securities on the OTC Platform of the CSE.
Purchase Date:	shall mean the date on which the Repurchase Transaction shall be matched and recorded on the OTC Platform.
Purchase Price:	shall mean the amount payable by the Lender to the Borrower, i.e. the amount lent on the Purchase Date.
Purchase Securities:	shall mean Debt Securities, which are the subject matter of a Repurchase Transaction
Repurchase Date:	shall mean the date on which the Lender has agreed to
	resell the Purchased Securities to the Borrower.
Repurchase Price:	shall mean the price at which the Lender has agreed to resell the Purchased Securities to the Borrower on the Repurchase Date
Repurchase Transaction:	shall mean a repurchase agreement/transaction on Debt Securities.
Rolled Over Repurchase Transaction:	shall mean that a Repurchase Transaction which would be rolled over by the same parties on the Repurchase Date of the original Repurchase Transaction based on new terms and conditions

(1) Settlement of Repurchase Transactions

A. Fund Settlement

- (1) The settlement of funds relating to a Repurchase Transaction on Debt Securities carried out on the OTC Platform shall take place outside the Clearing House in accordance with the Master Repurchase Agreement entered into between the parties to such Transaction.
- (2) The Clearing House, its directors, employees and the parent entity shall not be responsible for any losses and/or damages that may be incurred by the parties to a Repurchase Transaction on Debt Securities carried out on the OTC Platform of the CSE as a result of non-availability of funds for settlement of the said Transaction on the settlement date/s or any matters connected thereto.
- (3) The respective Clearing Members shall indemnify, defend and hold the Clearing House, its directors, employees and parent entity harmless from and against all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries and deficiencies, including interest, penalties and attorneys' fees, (collectively, "Claims"), arising from or any matter connected to the failure to settle funds in a Repurchase Transaction in Debt Securities carried out on the OTC Platform of the CSE on the Purchase Date (or the Settlement Date, if different to the Purchase Date) or the Repurchase Date as the case may be.

B. Confirmation of Availability of Funds and Securities

Pursuant to a Repurchase Transaction on Debt Securities carried out on the OTC Platform of the CSE, the respective Clearing Members shall confirm the availability of funds and securities to the Clearing House by 10.30 hours on the Purchase Date (or the Settlement Date, if different to the Purchase Date) or the Repurchase Date, as the case may be, of the Repurchase Transaction in the format prescribed by the Clearing House from time to time.

C. Settlement of Securities

- (a) Upon receiving the confirmation referred to in Rule 14.2.B (1) (B), the Clearing House shall notify the CDS to:
 - (i) lock the quantum of securities pertaining to such transaction which is held in the respective Borrower's Client Account on the Purchase Date (if different to the settlement date); and,
 - (ii) transfer the Purchased Securities pertaining to the Repurchase transaction from the Borrower's Client Account to the Lender's Client Account on the Purchase Date (or the Settlement Date, if different to the Purchase Date); and,
 - (iii) transfer the Securities from the Lender's Client Account to the Borrower's Client Account on the Repurchase Date of the Repurchase Transaction.

D. Client Confirmations on Receipt of Funds and Securities

- (a) The Clearing Members shall;
 - (i) obtain a written confirmation from the Lender and Borrower regarding the receipt of funds and the Purchased Securities; and,
 - (ii) immediately inform the Clearing House upon receiving such confirmations from the Lending and Borrowing clients.
- (b) The Clearing Members shall maintain records of such confirmation received from the Lending and Borrowing clients and submit a copy such communications to the Clearing Members, upon request.

(2) Substitution of Purchased Securities

Upon receiving a request for substitution of Purchased Securities in a Repurchase Transaction on Debt Securities from the CSE via the OTC Platform, the Clearing House shall instruct the CDS to replace the existing Purchased Securities with the new Purchased Securities by effecting the respective transfers of securities to and from the respective Client Accounts based on the information received from the CSE and confirm the completion of same to the respective Clearing Members.

(3) Default of a Repurchase Transaction

- (1) In the event of a default of a Repurchase Transaction on Debt Securities carried out on the OTC Platform, the Clearing House shall inform the respective Clearing Members regarding such Default and the parties to the Transaction shall initiate necessary action in terms of the Master Repurchase Agreement.
- (2) The following shall constitute events of default of a Repurchase Transaction on Debt Securities carried out on the OTC Platform:
 - (i) Events of defaults arising out of the Repurchase Transaction:

Purchase Date of the Repurchase Transaction

- a. If the Lender fails to transfer the funds to the Borrower on the Purchase Date (or the Settlement Date, if different to the Purchase Date) of the Repurchase Transaction.

- b. If the Borrower does not have the Purchased Securities in the Borrower's Client Account in the CDS on the Purchase Date (or the Settlement Date, if different to the Purchase Date) of the Repurchase Transaction.

Repurchase Date of the Repurchase Transaction

- a. If the Borrower fails to transfer funds to the Lender on the Repurchase Date of the Repurchase Transaction.
 - b. If the Lender does not have the Purchased Securities in the Lender's Client Account in the CDS on the Repurchase Date of the Repurchase Transaction.
- (ii) Events of default arising due to regulatory action on the Debt Securities placed as Purchased Securities;

If a trading halt has been imposed by the CSE on the Debt Securities due to a regulatory action, the Repurchase Transaction would result in a default.

(4) Roll Over of Repurchase Transactions

- (1) Based on the notification received from the CSE regarding a Roll Over of a Repurchase Transaction, the Clearing House shall instruct the CDS to carry out the necessary transfers of Purchased Securities to and from the Borrower's and Lender's Client Accounts in the CDS, on the Repurchase Date of the Repurchase Transaction.
- (2) Upon the CDS confirming to the Clearing House regarding the completion of the transfers of the Purchased Securities relating to the Rolled Over Repurchase Transactions by the CDS, the relevant Clearing Members shall be informed of same by the Clearing House.
- (3) The Clearing House shall maintain a log of every Rolled Over Repurchase Transaction notified by the CSE and communicated to the CDS for effecting the necessary transfers of Purchased Securities as set out in Rule 14.2.(B) 4 (1).

(5) Dispute Resolution

If there is any dispute or difference arising in relation to clearing and settlement of funds or securities or any matter/s connected thereto arising between the Lender and Borrower in a Repurchase Transaction on Debt Securities carried out on the OTC Platform of the CSE, such dispute or difference shall be resolved in accordance with the terms and conditions stipulated in the Master Repurchase Agreement.

(C) Perpetual Debt Securities

(1) Definitions

For the purposes of this Rule 14.2 (C);

Perpetual Debt Securities : shall mean Debt Securities traded on the OTC platform of the CSE which are perpetual in nature and do not have a redemption date.

Cleared Funds : shall mean funds that are realized and available for drawing in the respective settlement bank.

(2) Settlement of Funds

- (a) Settlement of funds relating to Perpetual Debt Securities transacted on the OTC Platform of the CSE will be carried out by the Clearing House on a gross basis, based on the transaction details received from the CSE on the Trade Day (T).
- (b) The Clearing House shall issue a Settlement Schedule to each Participant on the Trade Day in respect of each transaction on Perpetual Debt Securities, which will reflect the settlement obligations by each Clearing Member on the Settlement Date.
- (c) The settlement of funds for transactions on Perpetual Debt Securities shall take place by 10.30 hours on the Settlement Date, i.e. T+2, through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House.
- (d) The Stock Broker Clearing Members shall ensure that sufficient Cleared Funds are made available in the settlement bank account by 09.30 hours on the Settlement Date to settle payment arising out of transactions on Perpetual Debt Securities carried out by such Stock Broker Clearing Members based on the Settlement Schedule issued by the Clearing House.
- (e) The Custodian Bank Clearing Members shall make available sufficient Cleared Funds in the settlement bank and shall confirm same to the Clearing House by 09.30 hours on the Settlement Date to settle payment arising out of transactions on Perpetual Debt Securities carried out by such Custodian Bank Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (f) The Clearing House shall debit or credit itself and the relevant Clearing Members with the amounts payable and receivable in accordance with these Rules.
- (g) A buyer shall make available, and the buying Clearing Member shall ensure that such buyer makes available, the required Cleared Funds in respect of a particular transaction on Perpetual Debt Securities so as to

enable the buying Clearing Member to meet its fund settlement obligations within the time period prescribed in these Rules.

- (h) If the buyer fails to make available the Cleared Funds as referred to in Rule 14.2 (C)(2)(g), the buying Clearing Member which is a Stock Broker, may at its absolute discretion, recover interest commencing from the day after the Settlement Date up to the date of final settlement provided such interest shall not exceed 0.1% per day.
- (i) Selling Clearing Member which is a Stock Broker:
 - (a) shall ensure that Cleared Funds are made available to the seller on the Settlement Date of the Market Contract, unless the seller has requested the Clearing Member, in writing, to retain the sale proceeds. If for any reason the sale proceeds have not been made available to the Seller by the Clearing Member on the Settlement Date without a written request from the seller as aforesaid, the seller shall be entitled to interest from the day after the Settlement Date on the outstanding amount at 0.1% per day.
 - (b) could make settlements to the seller either by cheques or electronic fund transfers to the seller's bank account. If payment is made to sellers by way of cheques they shall be duly crossed as 'Account Payee'. If the seller requests that the crossing be cancelled, the selling Clearing member shall ensure that a request is made in writing by the seller and same is authorized by the Chief Executive Officer of such Clearing Member.

No cash cheques shall be issued to clients.

(j) Fund Settlement Failure

A failure to settle funds by a buying Clearing Member on the Settlement Date as set out in Rule 14.2 (C)(2) shall result in the cancellation of such transaction on Perpetual Debt Securities and the Clearing House will inform the CSE to cancel the defaulted transaction in terms of the Trading Rules of the CSE.

(k) Consequences of a fund Settlement Failure on Clearing Members

- (iii) If a buying Clearing Member defaults in settlement of funds in respect of any transaction on Perpetual Debt Securities on the Settlement Date in terms of Rule 14.2(C)(2) due to any reason whatsoever, including any failure by the buyer to make sufficient Cleared Funds available to the Clearing Member, such Clearing Member shall pay to the Clearing House a processing fee of Rs. 100,000 for each occurrence of noncompliance.

- (iv) The processing fee shall be paid by the Clearing Member to the Clearing House within seven (7) Market Days from the date of communicating such fee to the Clearing Member.

(3) Settlement of Securities

- a) Settlement of Securities relating to Perpetual Debt Securities transacted on the OTC Platform of the CSE will be carried out by the Clearing House on a gross basis, based on the transaction details received from the CSE on the Trade Day (T).
- b) Upon the CSE notifying the Clearing House of a transaction on Perpetual Debt Securities carried out through the OTC Platform, the Clearing House shall, notify the CDS to lock the quantum of securities pertaining to such transaction which is held in the respective client account on the Trade Date.
- c) The crediting of Perpetual Debt Securities to the buyer's Client Account shall take place on the Settlement Date, only upon the receipt of confirmation of settlement of funds from the appointed settlement bank.
- d) The delivery of Securities by the seller to the buyer is effected by and shall be final upon the debiting of the required number of Perpetual Debt Securities from the seller's Client Account and the receipt of Securities by the buyer from the seller is effected by and shall be final upon the crediting of such Securities into the buyer's Client Account. The Clearing House shall notify the CDS regarding the transfer of Securities.

SECTION 15

CLEARING AND SETTLEMENT OF TRADES CARRIED OUT AS EXCLUDED CROSSINGS

15.1 SETTLEMENT OF TRADES

15.1.1 Inter - Clearing Member Settlement of Funds

- (i) The inter-Clearing Member settlement of funds for a Trade carried out as an Excluded Crossing, shall take place by 10.30 hours on the Settlement Date, i.e. T+2, through the appointed settlement bank as per a Settlement Schedule issued by the Clearing House. The inter-Clearing Member settlement shall be completed by 10.30 hours on the Settlement Date. The Clearing Member shall be obliged to instruct the settlement bank/s to execute the payment order as per the relevant Settlement Schedules.*
- (ii) All Excluded Crossings shall be reflected in a separate Settlement Schedule issued by the Clearing House, setting forth the gross amount to be settled by Clearing Members under each Excluded Crossing. The payment obligations under a Trade carried out as an Excluded Crossing shall be settled on a gross basis by the buying Clearing Member.*
- (iii) The Clearing Member shall make available sufficient Cleared Funds in the settlement bank by 9.30 hours on the Settlement Date to settle the payment obligations arising out of the Trade.*
- (iv) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable under the Trade in accordance with these Rules.*
- (v) The selling Clearing Member, (a) shall ensure that Cleared Funds are made available to its Client or as directed by its Client in writing on the Settlement Date of the Trade, unless the Client has requested the Clearing Member, in writing, to retain the sale proceeds, and (b) can make settlements to or as directed by the Client either by cheques or electronic fund transfers to the Client's bank account. If payment is made to the Client or as directed by the Client by way of cheques they shall be duly crossed as 'Account Payee'. If the Client requests that the crossing be cancelled, the Clearing Member shall obtain a written request from the Client and such request must be authorized by the Chief Executive Officer of such Clearing Member. No cash cheques shall be issued to Clients or any other person as per the Client's directive as aforesaid.*

15.1.2 Settlement of Securities

- (i) The selling Clearing Member shall ensure that the required number of Securities are available in the seller's Client Account in the form of*

Cleared Balance prior to requesting the Clearing House to classify such trade as an Excluded Crossing in terms of Rule 2.8.2 of these Rules. The Clearing House shall, by arrangement with the CDS, ensure that such quantity of Shares are locked- in the seller's Client Account in order for delivery of such Shares to the buyer's Client Account on the Settlement Date.

- (ii) The settlement of Securities by delivery thereof, pursuant to a Trade, shall take place on the Settlement Date referred to in Rule 15.1.2 (i), only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank.***

15.2 Defaults in Fund Settlement of Trades carried out as Excluded Crossings

15.2.1 A failure to settle funds by a buying Clearing Member on the Settlement Date as set out in Rule 15.1 shall result such transaction being deemed to be a defaulted transaction.

15.2.2 The Securities of a defaulted transaction resulting from a fund settlement failure shall not be transferred from the seller's Client Account to the buyer's Client Account in the CDS.

SECTION 16

STOCK BORROWING AND LENDING

DEFINITIONS

Borrower:	shall mean an Account Holder of the CDS, who has entered into an SBL Agreement with a Borrowing Clearing Member and pursuant thereto, enters into an SBL Transaction, to borrow Eligible Securities in accordance with these Rules.
Borrowed Securities:	shall, in respect of a particular SBL Transaction, mean the Eligible Securities borrowed under such SBL Transaction.
Borrowing Account:	shall, in respect of a particular SBL Transaction, mean the Client Account of the Borrower or the Designated Securities Account of the Borrowing Clearing Member, as the case may be, to which the Borrowed Securities shall be credited and from which the Settlement Securities shall be debited in settlement of such SBL Transaction.
Borrowing Clearing Member:	shall mean a Clearing Member of the Clearing House who wishes to or has entered into an SBL Transaction pursuant to having been authorised to do so under and in terms of an SBL Agreement with a Borrower in terms of these Rules.
Cleared Funds:	shall mean funds that are realized and available for drawing in the respective settlement bank.
Collateral Securities:	shall mean the securities eligible to be provided as collateral for the purposes of these Rules, as determined by the Clearing House and communicated to the Clearing Members from time to time.
Designated Securities Account:	shall mean the account opened and maintained with the CDS by a Borrowing Clearing Member or Lending Clearing Member for the specific purpose of facilitating pooled borrowing orders or pooled lending orders as identified in these Rules.
Eligible Security/Securities	shall have the meaning set out in Rule 16.2.
Income:	shall mean any interest, dividends or other distributions of any kind whatsoever that enures to or accrues with respect to any Borrowed Securities.

Lender:	shall mean an Account Holder of the CDS, who has entered into an SBL Agreement with a Lending Clearing Member and pursuant thereto enters into an SBL Transaction, to lend Eligible Securities in accordance with these Rules.
Lending Account:	shall, in respect of a particular SBL Transaction, mean the Client Account of the Lender or the Designated Securities Account of the Lending Clearing Member, as the case may be, from which the Borrowed Securities shall be debited and to which the Settlement Securities shall be credited in settlement of such SBL Transaction.
Lending Clearing Member:	shall mean a Clearing Member of the Clearing House who wishes to or has entered into an SBL Transaction having been authorized to do so under and in terms of an SBL Agreement with a Lender in terms of these Rules.
Lending Fee:	shall mean the fee payable by the Borrower to the Lender in respect of the SBL Transaction in the manner set out in Rule 16.9.3, calculated based on a formula approved by the board of directors of the Clearing House and published on the website of the Clearing House.
Return Date:	shall mean the date on which the Settlement Securities are to be returned by the Borrower to the Lender in accordance with the terms and conditions of the SBL Transaction.
SBL Agreement:	shall mean an agreement, entered into between; (i) a Borrower and a Borrowing Clearing Member authorizing the Borrowing Clearing Member to enter into one or more SBL Transactions on behalf of the Borrower and setting forth the terms and conditions subject to which the Borrowing Clearing Member shall enter into such SBL Transactions; or (ii) a Lender and a Lender Clearing Member authorizing the Lender Clearing Member to enter into one or more SBL Transactions on behalf of the Lender and setting forth the terms and conditions subject to which the Lending Clearing member shall enter into such SBL Transactions, based on the standard form Securities Lending and Borrowing Agreement prescribed by the Clearing House in terms of these Rules,

SBL Module:	shall mean the Stock Borrowing and Lending Module operated by the Clearing House for facilitating and enabling SBL Transactions in Eligible Securities in terms of these Rules.
SBL Transaction:	shall mean a transaction for the lending and borrowing of Eligible Securities of a particular Listed Entity in accordance with these Rules, effected by way of a transfer by the Lender of such Eligible Securities to the Borrower subject to a simultaneous agreement by the Borrower to transfer to the Lender on an agreed date, Settlement Securities.
Settlement Date:	shall mean the Market Day immediately following the Return Date.
Settlement Securities:	shall, in respect of a particular SBL Transaction, mean the Eligible Securities to be transferred by the Borrower to the Lender on the Return Date in settlement of such SBL Transaction, which shall (i) have been issued by the same Listed Entity that has issued the Borrowed Securities, (ii) be of the same class as the Borrowed Securities, and (iii) be equivalent in number to the Borrowed Securities, provided however that, if the Borrowed Securities have been subdivided into a greater number of Securities in any one or more instances or consolidated into a lesser number of Securities in any one or more instances, subsequent to the execution of the SBL Transaction, the Settlement Securities shall be equivalent to the greater number of Securities that the Borrowed Securities were subdivided to or the lesser number of Securities that the Borrowed Securities were consolidated to, as the case may be.

16.1 GENERAL

16.1.1 The Rules set out in this section shall be applicable to all Clearing Members in relation to SBL Transactions executed on the SBL Module of the Clearing House.

16.1.2 Clearing Members shall carry out SBL Transactions on the SBL Module in compliance with these Rules and any procedures and circulars issued by the Clearing House from time to time.

16.1.3 Clearing Members intending to carry out SBL Transactions shall:

- (i) enter into an SBL Agreement with the Borrower/Lender, as the case may be, in the format specified by the Clearing House and published on its website, prior to entering into an SBL Transaction in the SBL Module.

- (ii) open a Designated Securities Account in the CDS, in the manner specified by the CDS, to facilitate SBL Transactions in the form of a pooled borrowing order and/or pooled lending order, for the purposes identified in these Rules.
- (iii) comply with the minimum margin requirement in terms of Rule 16.5.1 below, and
- (iv) any other requirement as may be specified by the Clearing House from time to time.

16.2 ELIGIBLE SECURITIES

- 16.2.1 Securities eligible for an SBL Transaction (hereinafter referred to as 'Eligible Securities') shall be specified by the Clearing House in terms of this section and published on its website from time to time.
- 16.2.2 Eligible Securities shall comprise of the Securities of Entities listed on the CSE which satisfy the criteria determined by the Board of Directors of the Clearing House, from time to time.
- 16.2.3 Eligible Securities shall be held by the Lender or by the Lending Clearing Member in the CDS at the time of entering into the transaction.

16.3 LIMITATIONS APPLICABLE FOR SBL

The quantum of Eligible Securities of a particular Listed Company that may be subject to outstanding SBL transactions in terms of these Rules at any given time, shall be limited to a maximum of five per centum (5%) of the total number of such Eligible Securities that are in issue in such Listed Company.

16.4 TYPES OF SBL TRANSACTIONS

- 16.4.1 The following types of SBL Transactions shall be permitted to be carried out by a Clearing Member on the SBL Module:
 - (i) A transaction where the borrowing of Eligible Securities is carried out by a Borrowing Clearing Member on behalf of a Borrower/s through a Designated Securities Account pursuant to a pooled borrowing order and the lending of Eligible Securities is carried out by a Lending Clearing Member on behalf of a Lender/s through a Designated Securities Account pursuant to a pooled lending order.
 - (ii) A transaction where borrowing and lending of Eligible Securities are carried out by the Borrower and the Lender directly from their respective Client Accounts in the CDS.
 - (iii) A transaction where the borrowing of Eligible Securities is carried out by a Borrowing Clearing Member on behalf of Borrower/s through a Designated Securities Account pursuant to a pooled borrowing order and the lending of Eligible

Securities is carried out by the Lender directly from his Client Account in the CDS.

- (iv) A transaction where the borrowing of Eligible Securities is carried out by the Borrower directly from his Client Account in the CDS and the lending of Eligible Securities is carried out by a Lending Clearing Member on behalf of Lenders through a Designated Securities Account pursuant to a pooled lending order.

16.4.2 Any Eligible Securities deposited in the Designated Securities Account of a Lending Clearing Member for the time being, in pursuance of a pooled lending order made by the Lending Clearing Member on behalf of a particular Lender, shall be deemed to be held in trust by such Lending Clearing Member for the benefit of such Lender.

16.4.3 Any Eligible Securities deposited in the Designated Securities Account of a Borrowing Clearing Member for the time being, in pursuance of a pooled borrowing order made by the Borrowing Clearing Member on behalf a particular Borrower, shall be deemed to be held in trust by such Borrowing Clearing Member for the benefit of such Borrower.

16.5 MARGIN REQUIREMENTS

- (i) The Clearing House shall impose margin requirements as set out in this Rule on all Borrowing Clearing Members who intend to carry out SBL Transactions in terms of these Rules.
- (ii) The applicable margin requirement for each SBL Transaction shall be computed based on the formula determined by the Clearing House and published on the website of the Clearing House from time to time.
- (iii) The total margin requirement applicable to each Borrowing Clearing Member in respect of SBL Transactions shall comprise of the following:
 - (a) Minimum margin requirement,
 - (b) Additional margin requirement (where applicable), and
 - (c) Daily margin requirement (where applicable).

16.5.1 Minimum Margin Requirement

Each Borrowing Clearing Member shall, at all times, maintain adequate collateral to satisfy the minimum margin requirement determined by the Clearing House from time to time and published on the website of the Clearing House.

16.5.2 Additional Margin Requirement

- (i) In the event the collateral maintained by the Borrowing Clearing Member in terms of Rule 16.5.1 above is insufficient to satisfy the total margin requirement in respect of a borrowing order entered to the SBL Module to initiate an SBL Transaction, the Clearing House shall impose additional margin requirements on the Borrowing Clearing Member.
- (ii) The additional margin requirement referred to in Rule 16.5.2(i) above shall be calculated by the Clearing House based on the formula determined by the Clearing House and published on the website of the Clearing House from time to time.

- (iii) The additional margin requirement shall be communicated by the Clearing House to the relevant Borrowing Clearing Member in the circumstances set out in Rule 16.5.2(i) above, and the Borrowing Clearing Member shall take necessary steps to comply with such additional margin requirement based on the instructions provided by the Clearing House. The Borrowing Clearing Member shall not be permitted to carry out the requested SBL Transaction, unless such Borrowing Clearing Member complies with the additional margin requirement.

16.5.3 Daily Margin Requirement

- (i) All ongoing SBL Transactions of a Borrowing Clearing Member shall be marked to market based on the closing price of the Borrowed Securities and the margin requirements referred to in Rules 16.5.1 and 16.5.2 shall be adjusted daily by the Clearing House to reflect the marked to market value of the SBL Transactions of the Borrowing Clearing Member (hereinafter referred to as the 'daily margin requirement').
- (ii) Upon such adjustment, the Clearing House shall, at the end of each Market Day, notify the relevant Borrowing Clearing Member of the daily margin requirement to be satisfied by the Borrowing Clearing Member for the SBL Transactions of such Borrowing Clearing Member.
- (iii) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is more than the margin already provided, the Borrowing Clearing Member shall take necessary steps to comply with the daily margin requirement by 9.30 hours on the Market Day immediately following the date of notification by the Clearing House.
- (iv) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is less than the margin already provided, the Clearing House shall, upon request by the Borrowing Clearing Member, take necessary steps to return the excess margin to the Borrowing Clearing Member by 9.30 hours on the Market Day immediately following the date of notification by the Clearing House.

16.5.4 Collateral for Stock Borrowing and Lending

(A) General

- (i) The Borrowing Clearing Members shall, at all times, ensure compliance with the margin requirements for SBL Transactions set out in this Rule 16.5 by maintaining sufficient collateral in the manner and form specified by the Clearing House in this Rule 16.5.4.
- (ii) In order to satisfy the total margin requirements imposed on a Borrowing Clearing Member in terms of this Rule 16.5, the Borrowing Clearing Member may obtain collateral from each of the Borrowers under SBL Transactions up to the extent required to fulfil the margin requirement arising from the SBL Transactions executed on behalf of each such Borrower.

(B) Form of Collateral

- (i) Subject to Rule 16.5.4(B)(ii) and (iii) below, the Borrowing Clearing Members shall furnish collateral to the Clearing House in fulfillment of the margin requirements set out in Rule 16.5 above, in one or more form set out below:
 - (a) cash
 - (b) an irrevocable and unconditional bank guarantee obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the Clearing House;
 - (c) Collateral Securities owned by a Borrower or the Borrowing Clearing Member, as determined by the Clearing House and communicated to the Clearing Members from time to time.
- (ii) The collateral for the minimum margin requirement stipulated in Rule 16.5.1 shall be furnished only in the form of cash or an irrevocable and unconditional bank guarantee.
- (iii) At least fifty per centum (50%) of the collateral to be provided to satisfy the additional margin requirement and daily margin requirement stipulated in Rules 16.5.2 and 16.5.3 respectively shall be in the form of cash or an irrevocable and unconditional bank guarantee and any Collateral Securities shall be limited to and not be more than fifty per centum (50%) in value of the collateral provided to satisfy the said margin requirements.
- (iv) The value of any Collateral Securities provided in terms of Rule 16.5.4 (B) (iii) above shall also be marked to market and be adjusted daily to reflect the marked to market value of such Collateral Securities so as to ascertain the value of the margin provided by the Borrowing Clearing Member.

(C) Manner of Furnishing Collateral

A Borrowing Clearing Member shall furnish collateral to satisfy the margin requirements applicable to such Borrowing Clearing Member in the manner set out below:

- (i) Any cash provided as collateral shall be deposited by a Borrowing Clearing Member into an account maintained by the Clearing House in a settlement bank for the specific purpose of margin utilization for SBL Transactions, by the CDS.
- (ii) The bank guarantee shall be an irrevocable and unconditional guarantee in favour of the Clearing House and obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the Clearing House.
- (iii) Any Collateral Securities shall be held in the collateral locked balance of the Client Account of the Borrower maintained with the CDS and such collateral shall not be available for trading. The SBL Agreement entered into by the Borrower and the Borrowing Clearing Member shall contain an undertaking and agreement by the Borrower to

(a) the Collateral Securities being held in the collateral locked balance of the Client Account of the Borrower and (b) the sale and utilization of the proceeds of the sale of the Collateral Securities to settle the payments identified in Rule 16.5.5(i) below, in the form specified by the Clearing House.

The Clearing House shall notify the CDS to transfer the Collateral Securities for an SBL Transaction to the collateral locked balance of the Client Account of the Borrower maintained with the CDS, prior to the execution of the SBL Transaction on the SBL Module.

16.5.5 Rights and obligations of the Clearing House in relation to the Collateral furnished by a Borrowing Clearing Member

- (i) The Clearing House shall have a first and paramount lien and charge over the cash collateral delivered to the Clearing House by a Borrowing Clearing Member and shall be entitled to use all collateral delivered to the Clearing House to ensure due settlement of the following obligations of such Borrowing Clearing Member in terms of this section:
 - (a) any sum payable by the Borrowing Clearing Member to the Lending Clearing Member;
 - (b) any sum payable by the Borrower/s who have executed SBL Transactions through the Borrowing Clearing Member such as compensation for failed SBL Transactions; and/or
 - (c) any and all sums payable by such Borrowing Clearing Member to the Clearing House, CDS, CSE and SEC including penalties, fees, commissions, charges and/or dues payable by such Borrowing Clearing Member as applicable.
- (ii) To ensure the due settlement of the obligations referred to in Rule 16.5.5 (i) above, the Clearing House shall be entitled to and shall require the Borrowing Clearing Member to sell such Collateral Securities in full or in part and the Borrowing Clearing Member shall forthwith comply with such requirement. The Borrowing Clearing Member shall ensure that the sales proceeds are made available to the Clearing House on the Settlement Date of such sale transaction, to be utilized for the purposes set out in Rule 16.5.5 (i) above.
- (iii) In the event the Borrowing Clearing Member fails to sell the Collateral Securities as required in terms of Rule 16.5.5 (ii) above, the Clearing House shall be entitled to take any and all necessary action to ensure the discharge of its obligations under the SEC Act and the rules of the Clearing House, including without limitation, requiring the CSE to effect a sale of the Collateral Securities on behalf of the Clearing House.
- (iv) Notwithstanding any provision to the contrary contained in these Rules, the Clearing House shall be entitled to retain and/or cause the retention of the proceeds of sale of the Collateral Securities in terms of Rules 16.5.5(ii) and (iii) above, to

ensure utilization of such proceeds to settle the obligations referred to in (a) to (c) in Rule 16.5.5 (i) above.

16.5.6 Requirement to Replenish Collateral

If the Clearing House utilizes, in full or in part, any collateral furnished by a Borrowing Clearing Member in terms of Rule 16.5.5 (i) above, such Clearing Member shall replenish the collateral utilized by the Clearing House forthwith, upon same being notified to the Clearing Member by the Clearing House.

16.5.7 Returning of Collateral and Interest

- (i) Any cash collateral furnished by a Borrowing Clearing Member in respect of a particular SBL Transaction shall be returned by the Clearing House to the said Borrowing Clearing Member upon the settlement of such SBL Transaction in terms of Rule 16.8 of these Rules.
- (ii) Any Collateral Securities provided in respect of a particular SBL Transaction and placed in the collateral locked balance of the Client Account of the Borrower maintained with the CDS referred to in Rule 16.5.4 (C) (iii) shall be unlocked and made available in the trading balance of such Client Account upon the settlement of such SBL Transaction.
- (iii) Any cash collateral furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be returned by the Clearing House to the said Borrowing Clearing Member upon a written request being made by the Borrowing Clearing Member. Provided however, if such Borrowing Clearing Member has not furnished adequate collateral in respect of other SBL transactions carried out by such Borrowing Clearing Member, the Clearing House may retain, from such excess collateral, any amount as is necessary for the fulfilment of the outstanding total margin requirements of the said Borrowing Clearing Member.
- (iv) Any Collateral Securities furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be unlocked and made available in the trading balance of such Client Account, upon a written request being made by the Borrowing Clearing Member for same.
- (v) Any interest accruing on excess cash collateral shall also be paid to the Borrowing Clearing Member with the return of the collateral by the Clearing House from time to time.

16.5.8 Substitution of Collateral Securities

- (i) Collateral Securities provided in terms of Rule 16.5.4 (C)(iii) above may be substituted by a Borrowing Clearing Member with any other collateral of the same value in accordance with this Rule.

- (ii) A Borrowing Clearing Member that intends to substitute the Collateral Securities provided to the Clearing House shall submit a written request to the Clearing House in the format specified by the Clearing House.
- (iii) Upon receiving a request as referred to in Rule 16.5.8 (ii) above, the Clearing House shall;
 - (a) instruct the CDS to replace the existing Collateral Securities with the new Collateral Securities by effecting the respective transfer of securities to and from the collateral locked balance of the Client Account of the Borrower maintained with the CDS; and
 - (b) notify the substitution of collateral to the respective Borrowing Clearing Member upon completion of same.

16.6 SBL PROCEDURE

16.6.1 Entering Transaction Details to the SBL Module

- (i) Clearing Members shall ensure that the information relating to the SBL Transactions are entered to the SBL Module only by persons duly authorized by the Clearing Members.
- (ii) The Clearing Member carrying out an SBL Transaction shall be responsible for the information entered to the SBL Module relating to such SBL Transaction.
- (iii) The information entered to the SBL Module relating to the SBL Transaction shall contain, at a minimum, the following information and any other information as prescribed by the Clearing House from time to time via its Circulars:
 - Client Account used for purposes of the SBL Transaction
 - Eligible Security
 - Quantity
 - Borrowing Period /Lending Period (as applicable)
 - Borrowing Rate or Lending Rate (as applicable)

16.6.2 The Borrowing Clearing Member shall ensure adequate collateral to support the margin requirements for the SBL Transactions in compliance with the margin requirements stipulated by the Clearing House in terms of Rule 16.5 of these Rules.

16.6.3 The Lending Clearing Member shall ensure that the quantum of Eligible Securities to be transferred under the SBL Transaction are available for delivery at the time of entering the lending order in the SBL Module.

16.6.4 Matching and Recording of SBL Transactions

- (i) The SBL Transactions carried out on the SBL Module shall be matched based on and recorded by the Clearing House based on the transaction details entered to the SBL Module by the respective Clearing Members.

- (ii) Once the SBL Transaction is matched, the Clearing House shall notify the CDS to immediately transfer the Borrowed Securities from the Lending Account to the Borrowing Account based on the information provided by the Clearing House.
- (iii) The delivery of the Borrowed Securities from the Lending Account to the Borrowing Account is effected by and shall be completed upon the debiting of the required number of the relevant Eligible Securities from the Lending Account and the crediting of such Securities into the Borrowing Account.
- (iv) If the SBL Transaction is carried out pursuant to a pooled lending order made by the Lending Clearing Member on behalf of two or more Lenders and the Lending Account is a Designated Securities Account of the Lending Clearing Member, CDS shall effect the delivery of the relevant Eligible Securities from the Client Accounts of the Lenders to the Designated Securities Account of the Lending Clearing Member prior to the execution of the SBL Transaction, upon a request being made therefor by the Lending Clearing Member, in the manner specified by the Clearing House.
- (v) If the SBL Transaction is carried out pursuant to a pooled borrowing order made by the Borrowing Clearing Member on behalf of two or more Borrowers and the Borrowing Account is a Designated Securities Account of the Borrowing Clearing Member, CDS shall effect delivery of the Borrowed Securities from the Designated Securities Account to the Client Accounts of the Borrowers, upon a request being made therefor by the Borrowing Clearing Member, in the manner specified by the Clearing House.

16.6.5 Notifications to Clients

- (i) Once the SBL Transaction is carried out in terms of these Rules;
 - (a) the Clearing House shall notify the Borrowing Clearing Member and the Lending Clearing Member of the execution of the SBL Transaction; and,
 - (b) the Borrowing Clearing Member and the Lending Clearing Member shall notify the Borrower and Lender, respectively, of the execution of such SBL Transaction in conformity with Rule 16.6.5 (ii) below.
- (ii) The notification to the Borrower and Lender referred to in Rule 16.6.5 (i)(b) above shall, at a minimum, the following;
 - (a) Client Account
 - (b) Eligible Security
 - (c) Quantity
 - (d) Lending/Borrowing rate
 - (e) Return date

16.7 TRANSFER OF THE SECURITIES

- 16.7.1** The Borrowed Securities shall be deemed to be transferred on delivery of the Borrowed Securities to the Borrower's account or to the Designated Securities Account of the Borrowing Clearing Member, as the case may be, in terms of these Rules.

16.7.2 The Settlement Securities shall be deemed to be transferred on delivery of the Settlement Securities to the Lender's account or to the Designated Securities Account of the Lending Clearing Member, as the case may be, in terms of these Rules.

16.8 SETTLEMENT OF SBL TRANSACTIONS

An SBL Transaction shall be settled by (i) the delivery and transfer of the Settlement Securities from the Borrowing Account to the Lending Account and (ii) the payment of the Lending Fee by the Borrower to the Lender.

16.8.1 Delivery of the Settlement Securities

- (i) The Borrowing Clearing Member shall ensure that the required number of Settlement Securities are made available in the Borrowing Account by 10.30 hours on the Return Date.
- (ii) The Clearing House shall notify the CDS to deliver and transfer the Settlement Securities from the Borrowing Account to the Lending Account by 10.30 hours on the Settlement Date, based on the information provided by the Clearing House.
- (iii) The delivery of Settlement Securities from the Borrowing Account to the Lending Account is effected by and shall be final upon the debiting of the required number of the relevant Eligible Securities from the Borrowing Account and the crediting of such Securities into the Lending Account.
- (iv) If the SBL Transaction settled is in respect of a pooled borrowing order made by the Borrowing Clearing Member on behalf two or more Borrowers and the Borrowing Account is a Designated Securities Account of the Borrowing Clearing Member, CDS shall effect the delivery of the relevant Eligible Securities from the Client Accounts of the Borrowers to the Designated Securities Account of the Borrowing Clearing Member by 10.30 hours on the Return Date, upon a request being made therefor by the Borrowing Clearing Member in the manner specified by the Clearing House.
- (v) If the SBL Transaction settled is in respect of a pooled lending order made by the Lending Clearing Member on behalf two or more Lenders and the Lending Account is a Designated Securities Account of the Lending Clearing Member, CDS shall effect the delivery of the Settlement Securities from the Designated Securities Account of the Lending Clearing Member to the Client Accounts of the Lenders, upon a request being made therefor by the Lending Clearing Member in the manner specified by the Clearing House.

16.8.2. In the event the Borrowing Account, does not have, in the Cleared Balance, the required number of Settlement Securities in terms of Rule 16.8.1 (i) above on the Return Date, such SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.

16.8.3 Payment of Lending Fee

The Lending Fee payable by the Borrower to the Lender in respect of an SBL Confidential Transaction shall accrue daily for the period commencing on and inclusive of the first Market Date on which the SBL Transaction was executed and ending on but

excluding the Settlement Date and shall be payable on the Settlement Date through the appointed settlement banks.

- (ii) The Borrowing Clearing Member shall ensure that the Lending Fee for each SBL Transaction is made available in Cleared Funds in the settlement bank account of the Clearing House by 10:30 hours on the Settlement Date based on instructions that may be provided by the Clearing House, from time to time.
- (iii) The Clearing House shall debit itself and credit the settlement bank account of the Lending Clearing Members with the Lending Fee receivable by the Lenders on the Settlement Date in accordance with these Rules.
- (iv) The obligation of a Borrowing Clearing Member to make available the Lending Fee is discharged by and shall be final upon the debiting of the settlement bank account of the Borrowing Clearing Member and the settlement of a Lender's entitlement to receive the Lending Fee on the Settlement Date is effected by and shall be final upon the crediting of the settlement bank account of the relevant Lending Clearing Member.
- (v) The Borrower shall make available, and the Borrowing Clearing Member shall ensure that such Borrower makes available the Lending Fee in respect of a particular SBL Transaction to enable the Borrowing Clearing Member to meet its obligations as set out in Rule 16.8.3 (ii) above.
- (vi) In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the Lending Fee referred to in Rule 16.8.3 (i) above, the Clearing House shall utilize the collateral in terms of Rule 16.6.5 above to ensure due settlement of the Lending Fee in full.
- (vi) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of Rule 16.8.3 (ii) above, the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

For the purposes of this Rule, 'Cleared Funds' shall mean funds that are realized and available for drawing in the respective settlement bank.

16.9 Changes to the Borrowing/Lending Period of an SBL Transaction

16.9.1 Early Recall by the Lender

- (i) Subject to the terms and conditions set out in the SBL Agreement and in the manner prescribed by the Clearing House, the Lender shall have the right to require, in writing, that the Settlement Securities be delivered to the Lender on a date prior to the Return Date executed on the SBL Module (hereinafter referred to as Early Recall) in the following instances in order to be eligible to;
 - 1. a Corporate Action
 - 2. vote at a shareholders' meeting

For the avoidance of doubt, the exercise by the Lender of the right to require early delivery of an SBL Transaction shall be in respect of all of the Settlement Securities and the Borrower shall not be entitled to early settle an SBL Transaction in respect of part of the Settlement Securities.

- (ii) The right to require early delivery of the Settlement Securities shall be exercised by the Lender by providing the Borrower with a minimum of three (03) Market Days (excluding the date of notification), prior written notification. Such notification shall specify the date for early delivery of

Settlement Securities under the SBL Transaction and the number of Settlement Securities to be delivered on such date.

- (iii) The notification of early recall shall be made by the Lender through the Lending Clearing Member to the Clearing House and the Clearing House shall forthwith notify same to the Borrower through the Borrowing Clearing Member and amend the Return Date of the SBL Transaction.
- (iv) The early recall of Eligible Securities shall be carried out by the Lender in accordance with this Rule 16.9.1 and any other conditions stipulated in the SBL Agreement.
- (v) Subject to the provisions of Rule 16.10.1(iv) below, on the date notified for early delivery of the Settlement Securities (which shall be the Return Date in respect of such early delivery to the Lender and the Settlement Date shall be the Market Day immediately following such date), the delivery of the Settlement Securities to the Lender shall take place in terms of the procedure provided in Rule 8.8.1 above.
- (vi) In the event of an early delivery of the Settlement Securities to the Lender pursuant to this Rule 16.9.1, the Lending Fee payable by the Borrower to the Lender in respect of the Settlement Securities to be delivered early shall be payable on the Settlement Date in respect of such early delivery to the Lender in the manner set forth in Rule 16.8.3 above.
- (vii) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities to be delivered early to the Lender, in terms of Rule 16.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (viii) In the event the Lending Fee is not made available by the Borrowing Clearing Member in respect of Settlement Securities to be delivered early to the Lender in terms of this Rule 16.9.1, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.2 Early settlement by the Borrower

- (i) The Borrower shall have the right, at any time, subject to the terms and conditions in the SBL Agreement, to settle an SBL Transaction by the delivery of the Settlement Securities to the Lender on a date prior to the Return Date executed in the SBL Module, by providing the Lender with a minimum of one
 - (1) Market Day, excluding the date of notification, prior written notification. Such notification shall specify the date for early settlement of the SBL Transaction. For the avoidance of doubt, the exercise by the Borrower of the option to early settle an SBL Transaction shall be in respect of all of the Settlement Securities and the Borrower shall not be entitled to early settle an SBL Transaction in respect of part of the Settlement Securities.
- (ii) The notification of the early settlement of the SBL Transaction shall be made by the Borrower through the Borrowing Clearing Member to the Clearing House and the Clearing House shall forthwith notify same to the Lender through the Lending Clearing Member and amend the Return Date of the SBL Transaction.
- (iii) On the date notified for early settlement of the SBL Transaction (which shall be the Return Date in respect of such early delivery and the Settlement Date shall be the Market Day immediately following such date), the settlement of the SBL Transaction shall take place by the delivery of the Settlement Securities to the Lender in terms of the procedure provided in Rule 16.8.1 above.

- (iv) The early settlement of Eligible Securities shall be carried out by the Borrower in accordance with this section and any other conditions stipulated in the SBL Agreement.
- (v) In the event of an early settlement of an SBL Transaction pursuant to this Rule 16.9.2, the Lending Fee payable by the Borrower to the Lender shall be payable on the Settlement Date in respect of such early settlement in the manner set forth in Rule 16.8.3 above.
- (vi) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities, in terms of Rule 16.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (vii) In the event the Lending Fee is not made available by the Borrowing Clearing Member for the early settlement of the SBL Transaction in terms of this Rule 16.9.2, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.3 Foreclosure of an SBL Transaction

- (a) An SBL Transaction shall be foreclosed by the Clearing House in the instances specified by the Clearing House and made available on the website of the Clearing House.
- (b) Where an SBL Transaction is foreclosed by the Clearing House in terms of Rule 16.9.3(a) above, the settlement of the SBL Transaction shall take place by the delivery of all of the Settlement Securities to the Lender and the payment of the Lending Fee, in terms of the procedure provided in Rule 16.8 above, on the date specified by the Clearing House.
- (c) In the event the Borrowing Account, does not have, as a Cleared Balance, Eligible Securities equivalent to the Settlement Securities as of 10.30 hours Market Day immediately preceding the date of settlement as referred to in Rule 16.9.3(b) above, the Borrowing Clearing Member is deemed to not have a sufficient number of Eligible Securities to settle the SBL Transaction through the delivery of the Settlement Securities to the Lender and in such an event, the Borrowing Clearing Member shall settle the SBL Transaction by paying the Lender through the Lender Clearing Member, a sum of cash equal to the Market Value of the Settlement Securities calculated as of the Market Day immediately preceding the date of settlement referred to in Rule 16.9.3(b) above.

In such event, the Borrowing Clearing Member shall ensure that payment as aforesaid is made available as Cleared Funds in the settlement bank account of the Clearing House by 10:30 hours on the date of settlement referred to in Rule 16.9.3(b) above based on any further instructions that may be provided by the Clearing House, from time to time.

- (d) In the event the SBL Transaction is not fully settled in terms of this Rule 16.9.3 by 10.30 hours on the date of settlement referred to in Rule 16.9.3(b) above by the delivery of all of the Settlement Securities to the Lender, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (e) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of this Rule 16.9.3, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.4 Extension of the Return Date

- (i) In the event the Lender or Borrower intends to extend the lending period of an SBL Transaction by postponing the Return Date, the relevant Lending Clearing Member or Borrowing Clearing Member, as the case maybe, shall inform the Clearing House of the proposed Return Date.
- (ii) The Clearing House shall inform the respective contra Borrowing Clearing Member or Lending Clearing Member, as the case may be, of the intention of the other party to extend the lending period of an SBL Transaction by postponing the Return Date and the proposed Return Date.
- (iii) In the event the Borrowing Clearing Member or Lending Clearing Member, as the case may be, is agreeable to the proposed Return Date or if not agreeable, has discussed and agreed with the other Clearing Member on an alternative Return Date, the Clearing Members shall, jointly or individually, inform the Clearing House in writing of the revised Return Date and the Clearing House shall record the revised Return Date on the SBL Module.
- (iv) On the revised Settlement Date pursuant to the revision of the Return Date in terms of Rule 16.9.4(iii), the settlement of the SBL Transaction shall take place in terms of the procedure provided in Rule 16.8 above.

16.10 CORPORATE ACTIONS

16.10.1 Where the issuer of the Settlement Securities carries out any corporate action that is relevant to or affects the Settlement Securities under an SBL Transaction prior to the settlement of such SBL Transaction, the Borrower shall make available to the Lender any securities arising from such corporate action or provide sufficient cleared funds (as applicable) based on the instructions provided by the Clearing House from time to time.

16.10.2 The delivery of any securities and/or the provision of any funds by the Borrower to the Lender in terms of this Rule 16.10 shall be carried out on the date specified by the Clearing House, in the same manner specified in Rule 16.8 above as applicable to a delivery of securities and payment of the Lending Fee on the settlement of an SBL Transaction.

16.10.3 The Borrowing Clearing Member shall be responsible and liable to ensure compliance by the Borrower with the provisions of this Rule 16.10 and failure to do so shall result in enforcement action being taken against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.11 HANDLING OF DEFAULTS OF DELIVERY OF SECURITIES

16.11.1 A Borrower shall deliver all the Settlement Securities in order to settle a SBL Transaction and failure to deliver all the Settlement Securities (even where the failure of the Borrower to procure sufficient Eligible Securities was due to the unavailability of Eligible Securities for purchase on the market shall be liable to pay compensation to the Lender, which shall be computed based on a formula to be determined by the Clearing House and notified to the Clearing Members from time to time by Circulars..

16.11.2 A Borrower who has failed to deliver the Settlement Securities on the Settlement Date shall, in addition to the compensation referred to in Rule 16.11.1 above, be liable to compensate the Lender for entitlements accruing to those Securities from any corporate actions relating to such Securities that the Lender would have become entitled to and/or received but for the delivery failure. The method of computation of compensation payable in respect of each such corporate action shall be determined by the Clearing House and notified to the Clearing Members from time to time.

- 16.11.3** The compensation payable based on the said formula in terms of this Rule shall be deemed to be a genuine pre-estimate of the losses and damages of the Lender arising from the failure to deliver the Settlement Securities.
- 16.11.4** The compensation payable by the Borrower to the Lender in respect of a defaulted SBL Transaction in terms of Rule 16.11.1 above, shall be settled by the Borrowing Clearing Member to the Lending Clearing Member on the Settlement Date.
- 16.11.5** Upon receipt of the compensation in respect of a defaulted SBL Transaction from the Borrowing Clearing Member, the Lending Clearing Member shall ensure that such compensation payable to the Lender is credited to the bank account of the Lender on the Settlement Date.
- 16.11.6** The payment of compensation in full referred to in Rule 16.11 by the Borrower through the Borrowing Clearing Member to the Lender through the Lending Clearing Member shall be a full and complete discharge of the obligations of the Borrower in respect of the defaulted SBL Transaction.
- 16.11.7** In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the compensation referred to in Rule 16.11, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the said compensation.
- 16.11.8** If the Borrowing Clearing Member fails to comply with this Rule 16.11, the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.12 ENFORCEMENT

The following enforcement actions shall be initiated by the Clearing House against a Borrowing Clearing Member in respect of the non-compliances set out below:

Type of Non-Compliance	Frequency of Occurrence	Enforcement
1. Default in Redelivery of Securities.	On the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees One Million (Rs.1,000,000/-).
	On the second (2nd)	The Clearing House shall charge a penalty of Rs.1,250,000/-).

2. Default in payment of the monetary value of securities in respect of a cash settled SBL transaction (where securities are available in the market) in a foreclosure 3. Default in relation to a Corporate Action in terms of Rule 16.11. 4. Default in payment of Compensation arising from a default in redelivery of Securities	occurrence within one (1) year from the date of the first (1st) occurrence On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence	The Clearing House shall charge a penalty of Rupees Rs. 1,500,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of one (01) year from the date of the third (3rd) occurrence.
5. Default in payment of the Lending Fee. 6. Default in delivery of securities in a foreclosure of an SBL transaction (where securities are not available in the market)	On the first (1st) occurrence On the second (2nd) occurrence within one (1) year from the date of the first (1st) occurrence On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence	The Clearing House shall charge a penalty of Rupees Five Hundred Thousand (Rs. 500,000/-). The Clearing House shall charge a penalty of Rupees Rs. 625,000/-. The Clearing House shall charge a penalty of Rs. 750,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of six (6) months from the date of the third (3rd) occurrence.
7. Non-compliance with the Daily Margin Requirement	(i) The (ii)	The Clearing House shall prohibit the Borrowing Clearing Member from entering into any new SBL Transactions in the capacity of a Borrowing Clearing Member with immediate effect. The ability to enter into new SBL Transactions in the capacity of a Borrowing Clearing Member shall be permitted upon compliance with the Daily Margin Requirement by the Borrowing Clearing Member; and; The Clearing House shall charge penalties as set out below:

		On the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Two Hundred and Fifty Thousand (Rs. 250,000/-).
		On the second (2 nd) occurrence within one (1) year from the date of the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Five Hundred Thousand (Rs. 500,000/-).
		On the third (3 rd) occurrence within one (1) year from the date of the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Seven Hundred and Fifty Thousand (Rs. 750,000/-), and; notwithstanding anything to the contrary set out in this section, the Borrowing Clearing Member shall not be permitted to carry out any new SBL transactions for a period of six (6) months from the date of the third (3 rd) occurrence.

16.13 Liability

The Clearing House, being the operator of the SBL Module, shall not be liable to any person for any loss or damage that may be incurred or suffered by such person as a result of the exercise or intended exercise of any power or performance of any duty or function conferred or imposed on the Clearing House or omission of same in relation to SBL Transactions and exercised or omitted by the Clearing House in good faith.

16.14 Force Majeure

The Clearing House or its directors or employees shall not be liable for any losses or damages that may be incurred or suffered by a Clearing Member arising from or relating to an act or omission of the Clearing House in the execution of a SBL Transaction or the operation of the SBL Module for causes beyond the reasonable control of and without negligence of the Clearing House including, without limitation, acts of god or the public enemy, acts of a civil or military authority, natural disasters, embargoes, industrial action, fires, floods, mechanical breakdowns, computer or system failures or sabotage, delay or inability to act by any registrar, interruptions of power supplies or other utility or services, any law, regulation or order of any government, regulatory authority or any court or tribunal, war or terrorism.

In the event that the Clearing House is required to suspend the operation of the SBL Module and the provision of all ancillary services where for any reason, other than

the negligence of the Clearing House, and the records of the Clearing House, the CDS or the SBL Module are unavailable, inaccessible, delayed or hindered in any manner, the Clearing House shall not be liable for any losses or damages suffered by any person whomsoever from the failure, hindrance or delay in the provision of services or for the failure to give or the delay in giving effect to any notice or communication from or to a Clearing Member.

16.15 Indemnity by Clearing Members

The Clearing Members shall indemnify, defend and hold the Clearing House, its directors and employees harmless from and against all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries and deficiencies, including interest, penalties and attorneys' fees, (collectively, "Claims"), arising from or as a result of the SBL Transactions carried out on the SBL Module of the Clearing House on their behalf or on behalf of their clients."

16.16 Maintenance of Records pertaining to SBL transactions

The Borrowing and Lending Clearing Members shall maintain complete and accurate records relating to all SBL Transactions carried out on behalf of the Borrowers and Lenders, as applicable, for a period of six (06) years and all such records shall be made available to the Clearing House, upon request.