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28<sup>th</sup> July 2025

**To: Managing Directors/Chief Executive Officers of Trading Participants**

**CIRCULAR NO: 13-07-2025**

Dear Sir/Madam,

**ESTABLISHMENT AND IMPLEMENTATION OF A CENTRAL COUNTERPARTY**

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 CSE Clear, certain rules set out in the following Rulebooks have been amended by the CSE, and the revised Rules have been approved by the SEC:

1. Trading Participant Rules - marked as "**Annexure 1**"
2. Trading Rules - marked as "**Annexure 2**"
3. Dispute Resolution Rules - marked as "**Annexure 3**"

Please note that the effective date of the aforesaid Rules will be the 28<sup>th</sup> of July 2025, which are hosted on the CSE website.(www.cse.lk)

Yours faithfully,

Nilupa Perera (Ms.)  
**Chief Regulatory Officer**

**PROPOSED AMENDMENTS TO THE TRADING PARTICIPANT RULES OF THE COLOMBO STOCK EXCHANGE TO FACILITATE THE INTRODUCTION OF A CENTRAL COUNTERPARTY ON THE COLOMBO STOCK EXCHANGE.**

It is proposed to amend the Trading Participant Rules of the Colombo Stock Exchange (CSE) by the addition of the words stipulated in ***bold and italics*** as set out below, with a view to align such Rules with the amendments made to the other rules of the CSE Group as a result of the introduction of a Central Counterparty (CCP):

**1. Definitions and Interpretations**

- a) It is proposed to amend all references to the terms set out below appearing in the Trading Participant Rules in the manner set out below, with a view to reflect the establishment of the CSE Clear and its corresponding rule book:

**Present References**

- i. CDS – Clearing House
- ii. CDS – Central Depository
- iii. CDS – Central Depository Rules
- iv. CDS – Clearing House Rules

**Proposed References**

- i. CSE Clear***
- ii. CDS***
- iii. CDS Rules***
- iv. CSE Clear Rules***

- b) It is proposed to introduce the following new definitions in the Trading Participant Rules to facilitate the introduction of the CCP:

***i. “CSE Clear***

***means CSE Clear (Private) Limited.”***

***ii. Clearing Member***

***“means a Clearing Member as defined in the CSE Clear Rules.”***

- c) It is proposed to amend the following definitions in Trading Participant Rules to facilitate the introduction of the CCP on the CSE:

***i. CDS***

**Present Definition**

means the Central Depository Systems (Private) Limited.

**Proposed Definition**

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

**ii. SEC**

**Present Definition**

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

**Proposed Definition**

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

**iii. Trade**

**Present Definition**

means a purchase or sale transaction of Securities executed on the CSE.

**Proposed Definition**

“means ***a transaction for the*** purchase or sale of Securities executed on the CSE ***(which is to be cleared or settled using the Clearing Facility of the Clearing House), being a Market Contract for purposes of the SEC Act.***”

**2. Rule 1.7 – Requirement to carry out the clearing and settlement function of Securities**

It is proposed to amend Rule 1.7 of the Trading Participant Rules of the CSE in the manner set out below with a view to remove references to the establishment of a Central Counterparty as same has been established through the CSE Clear.

**Present Rule**

Trading Participants shall, in addition to the trading function, carry out functions pertaining to clearing and settlement of securities in terms of the Clearing House Rules of the CDS until a Central Counterparty is established.

**Proposed Rule**

“Trading Participants shall, in addition to the trading function, carry out functions pertaining to clearing and settlement of securities in terms of the ***CSE Clear Rules.***”

### 3. Rule 2.2 (1) – Procedure for granting Trading Participant status

It is proposed to amend Rule 2.2 (1) of the Trading Participant Rules of the CSE in the manner set out below with a view to strengthen the procedure for granting an Applicant Entity status as a Trading Participant to facilitate the efficient functioning of the CCP via the establishment of CSE Clear:

#### Present Rule

An applicant entity may in the first instance, apply for a provisional Trading Participant status of the CSE, by submitting an application to the CSE in conformity with the format published on the website of the CSE, along with the list of documents set out in Annexure 1 of these Rules.

An applicant entity shall additionally make an application to the Clearing House to be appointed as a Clearing Member in terms of the Clearing House Rules of the CDS until a Central Counterparty is established.

#### Proposed Rule

“An applicant entity may in the first instance, apply for a provisional Trading Participant status of the CSE, by submitting an application to the CSE in conformity with the format published on the website of the CSE, along with the list of documents set out in Annexure 1 of these Rules.

An applicant entity shall additionally make an application to **CSE Clear** to be **admitted** as a Clearing Member in terms of the Rules of the **CSE Clear and shall inform the CSE of the type of Clearing Member it will operate as.**”

### 4. Rule 2.11 - Grounds for termination/suspension of Trading Participant status

It is proposed to amend Rule 2.11 of the Trading Participant Rules of the CSE in the manner set out below with a view to facilitate the introduction of the CCP and ensure uniformity with the CSE Clear Rules.

#### i. Rule 2.11.1 (1) (a)

##### Present Rule

the Trading Participant ceases to be or is suspended from its capacity as a Clearing Member or Depository Participant of the CDS due to the violation of any Rules by such Trading Participant of the Clearing House or the Central Depository or the Exchange.

### Proposed Rule

“the Trading Participant ceases to be or is suspended from **or looses** its capacity to operate as a Clearing Member of CSE Clear or Depository Participant of the CDS due to the violation of any Rules by such Trading Participant of the Clearing House or the Central Depository.”

### ii. Rule 2.11.1 (2)

#### Present Rule

The CSE may suspend or terminate Trading Participant status, after giving the Trading Participant a reasonable opportunity of being heard by the Disciplinary Committee in accordance with Section 7 of these Rules, if: .....

#### Proposed Rule

“The CSE **with notice to the CDS and CSE Clear** may suspend or terminate Trading Participant status, after giving the Trading Participant a reasonable opportunity of being heard by the Disciplinary Committee in accordance with Section 7 of these Rules, if: .....

### iii. Rule 2.11.3

#### Present Rule

Trading Participants who are suspended pursuant to Rule 2.11.1 may be reinstated by the CSE with notice to the SEC upon such Trading Participant complying with applicable laws these Rules and/or any additional conditions that may be imposed by the CSE.

#### Proposed Rule

Trading Participants who are suspended pursuant to Rule 2.11.1 may be reinstated by the CSE, **subject to such Trading Participant having an appropriate clearing arrangement**, with notice to the SEC, **CDS and CSE Clear** upon such Trading Participant complying with applicable laws, these Rules and/or any additional conditions that may be imposed by the CSE.

## 5. Section 3

It is proposed to amend the following rules of the Trading Participant Rules of the CSE in the manner set out below with a view to facilitate the notification (where necessary) of a enforcement action taken by the CSE in respect of a Trading Participant to the CSE Clear as a corresponding action will have to be taken by CSE Clear:

### **Rule 3.1.3 – Non-Submission of computation relating to Minimum Capital Adequacy Requirements to the CSE**

**i. Rule 3.1.3 (1) (c)**

**Present Rule**

In the event the Trading Participant concerned fails to comply with Rule 3.1.2 (2) of these Rules for a period of ten (10) Market Days from the date of prohibition from carrying out any purchase of Securities, the Chief Executive Officer of the CSE or any person acting on his behalf shall prohibit such Trading Participant concerned from carrying out all trading activities and shall inform the SEC of such prohibition.

**Proposed Rule**

“In the event the Trading Participant concerned fails to comply with Rule 3.1.2 (2) of these Rules for a period of ten (10) Market Days from the date of prohibition from carrying out any purchase of Securities, the Chief Executive Officer of the CSE or any person acting on his behalf shall prohibit such Trading Participant concerned from carrying out all trading activities and shall inform the **CDS, CSE Clear and** SEC of such prohibition.”

**ii. Rule 3.1.3 (1) (d)**

**Present Rule**

The Trading Participant concerned will be permitted to resume all trading activities no sooner it submits all outstanding computations relating to the Minimum Capital Adequacy Requirements of the Trading Participant to the CSE in compliance with Rule 3.1.2 of these Rules.

**Proposed Rule**

“The Trading Participant concerned will be permitted to resume all trading activities no sooner it submits all outstanding computations relating to the Minimum Capital Adequacy Requirements of the Trading Participant to the CSE in compliance with Rule 3.1.2 of these Rules **and same shall be notified to the CDS and CSE Clear.**”

**iii. Rule 3.1.3 (1) (e) (iii)**

**Present Rule**

The CSE shall notify the CDS – Clearing House and CDS - Central Depository regarding the non-compliance with Rule 3.1.2 (2) by the Trading Participant, instructing them to facilitate the smooth transfer of portfolios of Clients to another Depository Participant of the Client’s choice in accordance with the CDS – Central Depository Rules.

**Proposed Rule**

“The CSE shall notify the **CDS** regarding the non-compliance with Rule 3.1.2 (2) by the Trading Participant, instructing them to facilitate the smooth transfer of portfolios of Clients to another Depository Participant of the Client’s choice in accordance with the CDS Rules.”

iv. **Rule 3.1.3 (1) (g), 3.1.3 (1) (h), 3.1.3 (1) (i)**

**Present Rule 3.1.3 (1) (g)**

- (g) If the Trading Participant concerned fails to submit the computations relating to Minimum Capital Adequacy Requirements to the CSE upon the expiry of thirty (30) calendar days from the date of publication of the notice referred to in Rule 3.1.3 (1) (e)(i) above, the Trading Participant status shall be suspended by the Board of Directors of the CSE in terms of these Rules.
- (h) Upon the expiry of three (3) months from suspending the Trading Participant Status in terms of Rule 3.1.3 (1) (g) above, the CSE shall terminate the Trading Participant status in terms of Rule 2.11 of these Rules.
- (i) In the event the purchases of the Trading Participant are suspended in terms of Rule 3.1.3 (1) (a) above on three (3) separate occasions within a period of two (2) years, the CSE shall forthwith take steps to suspend the Trading Participant status in terms these Rules.

**Proposed Rule**

- (g) If the Trading Participant concerned fails to submit the computations relating to Minimum Capital Adequacy Requirements to the CSE upon the expiry of thirty (30) calendar days from the date of publication of the notice referred to in Rule 3.1.3 (1) (e)(i) above, the Trading Participant status shall be suspended by the Board of Directors of the CSE in terms of these Rules with notice to **CDS and CSE Clear**.
- (h) Upon the expiry of three (3) months from suspending the Trading Participant Status in terms of Rule 3.1.3 (1) (g) above, the CSE shall terminate the Trading Participant status in terms of Rule 2.11 of these Rules **and shall inform the CDS and CSE Clear of the same**.
- (i) In the event the purchases of the Trading Participant are suspended in terms of Rule 3.1.3 (1) (a) above on three (3) separate occasions within a period of two (2) years, the CSE shall forthwith take steps to suspend the Trading Participant status in terms these Rules **and shall inform the CDS and CSE Clear of the same**.

**6. Rule 3.1.3 (2) - Non-compliance with the Minimum Capital Adequacy Requirement/s**

**i. Rule 3.1.3 (2) (d) (iv)**

**Present Rule**

Upon the expiry of seven (7) Market Days from the date of publication of the notice referred to in Rule 3.1.3 (2) (d) (i) above, the CSE shall prohibit the Trading Participant concerned from carrying out all trading activities and such Trading Participant shall;

a. Not canvass and accept new Clients; and

- b. Settle and/or return (as applicable) money belonging to the Clients (Clients' money) held with the Trading Participant

with immediate effect.

#### **Proposed Rule**

“Upon the expiry of seven (7) Market Days from the date of publication of the notice referred to in Rule 3.1.3 (2) (d) (i) above, the CSE shall prohibit the Trading Participant concerned from carrying out all trading activities and ***inform the CSE Clear of the same***. Such Trading Participant shall;

- a. Not canvass and accept new Clients; and
- b. Settle and/or return (as applicable) money belonging to the Clients (Clients' money) held with the Trading Participant

with immediate effect.”

#### **ii. Rule 3.1.3 (2) (f)**

##### **Present Rule**

The Trading Participant concerned shall be entitled to resume all trading activities no sooner it complies with the minimum Capital Adequacy Requirement/s specified in Rule 3.1.1 of these Rules.

##### **Proposed Rule**

“The Trading Participant concerned shall be entitled to resume all trading activities no sooner it complies with the minimum Capital Adequacy Requirement/s specified in Rule 3.1.1 of these Rules ***and the CSE shall inform the CDS and CSE Clear of the same.***”

#### **iii. Rule 3.1.3 (2) (g), 3.1.3 (2) (h), 3.1.3 (2) (i)**

##### **a. Rule 3.1.3 (2) (g)**

##### **Present Rule**

If the Trading Participant concerned fails to comply with the minimum Capital Adequacy Requirement/s upon the expiry of the period granted in terms of Rule 3.1.3 (2) (e) above, the Trading Participant status shall be suspended by the Board of Directors of the CSE in terms of these rules.

##### **Proposed Rule**

“If the Trading Participant concerned fails to comply with the minimum Capital Adequacy Requirement/s upon the expiry of the period granted in terms of Rule 3.1.3



(2) (e) above, the Trading Participant status shall be suspended by the Board of Directors of the CSE in terms of these rules with notice to ***the CDS and CSE Clear.***"

**b. Rule 3.1.3 (2) (h)**

**Present Rule**

Upon the expiry of three (3) months from suspending the Trading Participant Status in terms of Rule 3.1.3 (2) (g) above, the CSE shall terminate the Trading Participant status in terms of Rule 2.11 of these Rules.

**Proposed Rule**

"Upon the expiry of three (3) months from suspending the Trading Participant Status in terms of Rule 3.1.3 (2) (g) above, the CSE shall terminate the Trading Participant status in terms of Rule 2.11 of these Rules ***and inform the CDS and CSE Clear of the same.***"

**c. Rule 3.1.3 (2) (i)**

**Present Rule**

In the event the purchases of the Trading Participant are suspended in terms of Rule 3.1.3 (2) (a) above on three (3) separate occasions within a period of two (2) years, the CSE shall forthwith take steps to suspend the Trading Participant status in terms of these Rules.

**Proposed Rule**

"In the event the purchases of the Trading Participant are suspended in terms of Rule 3.1.3 (2) (a) above on three (3) separate occasions within a period of two (2) years, the CSE shall forthwith take steps to suspend the Trading Participant status in terms of these Rules ***and shall inform the CDS and CSE Clear of the same.***"

**7. Section 4**

It is proposed to amend Section 4 of the Trading Participant Rules of the CSE in the manner set out below, with a view to facilitate the notification of the CDS and CSE Clear with regards to any enforcement action taken against a Trading Participant.

**i. Rule 4.2.2 – Enforcement Procedure for non-compliance with Rule 4.2.1**

**a. Rule 4.2.2 (2)**

**Present Rule**

If a Trading Participant is prohibited from engaging in trading activities in terms of Rule 4.2.2 (1), the CSE shall immediately inform the SEC of such prohibition and publish a notice on the website of the CSE, setting out such non-compliance and the enforcement action taken/to be taken by the CSE against the Trading Participant concerned.

### Proposed Rule

“If a Trading Participant is prohibited from engaging in trading activities in terms of Rule 4.2.2 (1), the CSE shall immediately inform the **CDS, CSE Clear and SEC** of such prohibition and publish a notice on the website of the CSE, setting out such non-compliance and the enforcement action taken/to be taken by the CSE against the Trading Participant concerned.”

### b. Rule 4.2.2 (3)

#### Present Rule

Trading Participants will be permitted to resume trading activities no sooner they rectify the non-compliance/s concerned.

#### Proposed Rule

“Trading Participants will be permitted to resume trading activities no sooner they rectify the non-compliance/s concerned **and same shall be notified to the CDS and CSE Clear.**”

## 8. Note 2 of Annexure 2

### i. New Item under Non-Liquid Assets contained in Note 2 of Annexure 2 of the Trading Participant Rules

It is proposed to introduce a new item under Note 2 of Annexure 2 in the manner set out below with a view to include the contribution made by the Professional and Self Clearing Members who are Trading Participants of the CSE to the Contributory Guarantee Fund established in terms of the CSE Clear Rules as new non-liquid assets of such Clearing Members:

#### Proposed new item

##### All Fixed and Non-Liquid Assets including but not limited to:

- .....
- **Contributions made to the Contributory Guarantee Fund in terms of the CSE Clear Rules**

### ii. Proposed amendment to Item under Note 2 of Annexure 2 of the Trading Participant Rules of the CSE

It is proposed to amend the deductible item in respect of collateral provided to the CDS in fulfillment of the Base Margin Requirement in the manner set out below with a view to also include the Margin Requirements furnished to the CSE Clear by the Clearing Members who are Trading Participants of the CSE in terms of the CSE Clear Rules:

**Present Note 2 of Annexure 2****All Fixed and Non-Liquid Assets including but not limited to:**

- .....
- Collateral provided to the CDS in fulfillment of the Base Margin Requirement.
- .....

**Proposed Note 2 of Annexure 2****“All Fixed and Non-Liquid Assets including but not limited to:**

- .....
- Collateral provided to **CSE Clear** in fulfillment of the Base Margin Requirement ***in terms of the CSE Clear Rules.***
- .....

**iii. Proposed new requirement under ‘Counterparty Risk’**

It is proposed to include a new item under Counterparty Risk contained in Annexure 2 of the Trading Participant Rules of the CSE in the manner set out below with a view to cover the risk of receivables created from Professional Clearing Members to Limited Clearing Members and vice versa:

**Proposed Counterparty Risk**

**‘Counterparty Risk\*’** *[not applicable to Trading Participants who are only Dealing in Equity and/or Debt Securities]*

Counterparty Risk shall be computed as follows:

The sum of:

**i) Counterparty Risk arising from Trading Function**

- 0.5% of the client receivable balance from T to T+2 resulting from transaction/s in Equity Securities.
  - Client receivable balance exceeding the settlement date resulting from transaction/s in Equity Securities in excess of the marked to market value of the client’s securities portfolio value (including Pending Buys and excluding Pending Sells) adjusted for VaR margin.
  - 0.1% of the total value of unsettled Debt transaction/s
- Less, collateral furnished to the **CSE Clear** in fulfillment of margin requirements in terms of the **CSE Clear Rules**

**ii) Counterparty Risk arising from Clearing Function**

- ***0.5% of the receivable balances resulting between Counterparties created through the Clearing Function.***

\*Counterparty Risk shall not be less than zero and Excluded Crossings as defined in the CSE Clear Rules shall not be considered under the Counterparty Risk.

For the purposes of this Rule, a “Counterparty” of the Trading Participant;

- in the context of the Trading Function, shall mean, the buyer Securities under a Trade carried out by the Trading Participant.
- in the context of the Clearing Function relating to a transaction in Equity Securities carried out by such Trading Participant that is a Limited Clearing Member, shall mean the Professional Clearing Member engaged by such Limited Clearing Member to clear and settle such transaction; and,
- in the context of the Clearing Function relating to a transaction in Equity Securities carried out by a Trading Participant that is a Professional Clearing Member shall mean the Limited Clearing Member to whom such Professional Clearing Member provides such clearing service.

**PROPOSED AMENDMENTS TO THE TRADING RULES OF THE COLOMBO STOCK EXCHANGE IN ORDER TO FACILITATE THE INTRODUCTION OF A CENTRAL COUNTERPARTY VIA THE ESTABLISHMENT OF CSE CLEAR (PVT) LTD.**

It is proposed to amend the Trading Rules of the Colombo Stock Exchange (CSE) as set out below in order to facilitate the introduction of a Central Counterparty (CCP) via the establishment of CSE Clear (Pvt.) Ltd. (CSE Clear):

**1. Amendment of reference to CDS Rules to CSE Clear Rules**

It is proposed to amend Rules 11.1, 12.3(b)(ii), 16 (Definitions), 16.1(ii)(a) and (b), 16.1(iii) and the last paragraph of Rule 16.1 of Part I of the Trading Rules and Rules B.1(2), C.1(3) and C.4 of Part II of the Trading Rules along with the references in the Master Repurchase Agreement in Section 7(i)(e) and 14, by replacing the term 'CDS Rules' to "CSE Clear Rules", to facilitate regulatory symbiosis between the CSE and CSE Clear:

**2. Amendment of reference to CDS to CSE Clear**

It is proposed to amend Rules 12.3(b)(ii), 16 (Definitions) of Part I of the Trading Rules and Rules B.5(1) and (2), C.2.3 (2) of Part II of the Trading Rules by replacing the term 'CDS' to "CSE Clear" with a view to more accurately indicate to facilitate the introduction of the CCP Via CSE Clear:

**3. Rule C.4**

It is proposed to amend Rule C.4 of part II of the Trading Rules as set out below in order to make reference to the Buying Clearing Member wherein it is presently referred to as the 'Buying CDS Participant', to facilitate the introduction of the CCP Via CSE Clear:

**Present Rule**

Any trade pertaining to Perpetual Debt Securities recorded on the OTC Platform of the CSE, where the settlement of funds has been defaulted by the Buying CDS Participant to such trade in terms of the CDS Rules, shall be cancelled by the CSE upon being notified of same by the CDS.

**Proposed Rule**

"Any trade pertaining to Perpetual Debt Securities recorded on the OTC Platform of the CSE, where the settlement of funds has been defaulted by the Buying **Clearing Member** to such trade in terms of the CDS Rules, shall be cancelled by the CSE upon being notified of same by the CDS."

**PROPOSED AMENDMENTS TO THE DISPUTE RESOLUTION RULES OF THE COLOMBO STOCK EXCHANGE IN ORDER TO FACILITATE THE INTRODUCTION OF A CENTRAL COUNTERPARTY VIA THE ESTABLISHMENT OF CSE CLEAR (PVT) LTD.**

It is proposed to amend the Dispute Resolution Rules of the Colombo Stock Exchange (CSE) as set out below in order to facilitate the introduction of a Central Counterparty (CCP) via the establishment of CSE Clear (Pvt.) Ltd. (CSE Clear):

**1. Section 1.1 – Introduction**

It is proposed to amend Rule 1.1 – Introduction as set out below, to facilitate the introduction of the CCP Via CSE Clear:

**Present Rule**

The Dispute Resolution Rules of the CSE Group (hereinafter referred to as “these Rules”) shall be applicable to the resolution of disputes between the parties referred to in Rule 1.2 below, arising from an exercise or failure to perform the duties, rights and/or functions by and of them in terms of the Rules of the CSE and/or the CDS or circulars, operational guidelines, procedures issued thereunder and directives issued by the SEC.

**Proposed Rule**

“The Dispute Resolution Rules of the CSE Group (hereinafter referred to as “these Rules”) shall be applicable to the resolution of disputes between the parties referred to in Rule 1.2 below, arising from an exercise or failure to perform the duties, rights and/or functions by and of them in terms of the Rules of the CSE, **the CDS *and/or CSE Clear*** or circulars, operational/***procedural*** guidelines issued thereunder and directives issued by the SEC.”

**2. Amendment of Rules 1.2 (c), 1.2 (g), 3.1(a)(iii) and 3.1(a)(vii)**

It is proposed to amend Rules 1.2 (c), 1.2 (g), 3.1(a)(iii) and 3.1(a)(vii) as set out below to make reference to CSE Clear wherein it is presently referred to as the ‘Clearing House - CDS’, to facilitate the introduction of the CCP via CSE Clear:

**Present Rule**

Clearing House – CDS

**Proposed Rule**

**“CSE Clear”**