

CENTRAL DEPOSITORY SYSTEMS (PVT) LTD.

Central Depository Rules

(Effective from 3rd April 2023)



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INTRODUCTION

(i) Role of the Central Depository Systems (Private) Limited as a Central Depository

The Central Depository Systems (Private) Limited (CDS), a wholly owned subsidiary of the Colombo Stock Exchange (CSE) was incorporated on 30th August 1991 as a private company with limited liability under the Companies Act No. 17 of 1982 for the purpose of acting as a depository in respect of Securities traded on the CSE

The CDS is licensed by the Securities and Exchange Commission of Sri Lanka (SEC) as a Central Depository in terms of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (SEC Act), and provides services relating to the central handling of Securities for the CSE and all matters ancillary and incidental thereto.

The Central Depository Rules are issued by the CDS in terms of Section 55 (3) of the SEC Act in the discharge of its duties as a licensed Central Depository under the said Act, including the obligation to act in the public interest having regard to the need for the protection of the account holders.

These Rules govern the Central Depository functions offered by the CDS to the Depository Participants admitted in terms of these Rules and shall constitute a binding contract between the CDS and Depository Participants. Further, the obligations contained in these Rules are additional and complementary to statutory obligations.

(ii) Waivers or Variation

(a) Power of the CDS to Waive/Vary the Rules

Unless otherwise provided herein the CDS may waive the application of a rule (or any part thereof) in exceptional circumstances with the approval of the SEC. Such waivers may be granted subject to such conditions as the CDS may consider appropriate, other than in instances subsequent to a default or a breach. A defaulting Depository Participant shall not be granted the benefit of a waiver to negate a default.

(b) Failure or delay not deemed a waiver

No failure or delay by the CDS 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 as a bar to subsequent exercise or enforcement thereof.

(iii) Circulars and Operational Guidelines

The CDS may, from time to time, issue circulars, operational guidelines and procedural notes to supplement, clarify or provide administrative guidance on these Rules.

(iv) Limitation of Liability

Neither the CDS, nor its directors, officers, employees or agents shall be liable to 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 any act or omission as a direct or indirect consequence of the following:

- (a) any failure, error, delay, security breach or malfunction of the Central Depository functions operated by the CDS whether or not identified or identifiable, provided the CDS 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 Central Depository functions operated by the CDS, other than due to the negligence or fault of the CDS;
- (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 CDS's obligations or rights under the SEC Act, any other applicable law, or under these Rules;
- (d) any breach or failure of any Depository Participant to comply with these Rules;
- (e) the acts or omissions of Depository Participants;
- (f) the acts or omissions of the CDS - Clearing House and any errors in the Settlement Instructions issued by the CDS - Clearing House.
- (g) any failure, security breach, inoperability or malfunction of equipment, software or any other product supplied to a Depository Participant or in respect of its installation, maintenance or removal, provided the CDS 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
- (h) the exercise of a decision-making or regulatory power or discretion under these Rules;
- (i) any virus or other destructive, malicious, or corrupting program, code, agent, script or macro, other than due to the negligence or fault of the CDS;
- (j) the originality, accuracy, adequacy, timeliness or completeness of the Central Depository 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 negligence or fault of the CDS;
- (k) any information transmitted or received by or on behalf of the CDS or a Depository Participant, including through the Depository System, and
- (l) the interception of or access to such information by unauthorized persons other than due to the negligence or fault of the CDS.

(v) Action by the CDS

Except where action of the Board of Directors is specifically required by the Rules, the Chief Executive Officer of the CDS or any authorized person acting on his behalf shall act on behalf of the CDS in respect of its Central Depository functions.

No act or omission by the CDS in good faith in connection with or for the purpose of these Rules shall subject any person acting on behalf of the CDS, including;

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

to any liability whether personally or otherwise, except to the extent as set out by the Unfair Contract Terms Act No. 26 of 1997.

If any matter that arises in connection with or relating to the Central Depository functions of the CDS is not provided for in these Rules, the CDS shall have the right to determine such matter. Any such determination shall be binding on all parties concerned.

(vi) Notices and communications

Any notice and/or communication by the CDS to any Depository Participant under these Rules or otherwise may be issued by any method of communication available to and deemed appropriate by the CDS including, without limitation, email, fax, courier, telephone, or registered post.

Such notice and/or communication shall be deemed to have been received by and/or delivered to the Depository Participant, if:

- (a) by email, upon the dispatch of the email from the server of the CDS,
- (b) by fax, upon generation of a transmission confirmation by the facsimile transmitter,
- (c) by courier, immediately upon delivery to the Depository Participant.
- (d) by telephone, at the time of communication,
- (e) by registered post, upon expiry of 72 hours from the time of dispatch by the CDS, and
- (f) by any other means, immediately upon actual delivery thereof.

(vii) Amendments to these Rules

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

(viii) Forms

All forms and other documents issued and/or required by the CDS in connection with carrying out the depository functions/facilities of the CDS in terms of these Rules, may be varied by additions, deletions, exclusions from time to time at the sole discretion of the CDS.

(ix) Service Charges payable to CDS

The CDS may charge fees for services rendered, as determined by the CDS from time to time, from Account Holders, Listed Entities, Depository Participants or any other party.

Any change in such fees shall be notified to the Depository Participants by the CDS in the form of Circulars.

INTERPRETATION

1. Definitions

When used herein, the following expressions shall, unless the context otherwise requires, bear the following meanings:

Account Holder

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

Applicable Requirements

means circulars, operational guidelines and procedures issued by the CDS from time to time, and as well as other applicable laws, rules and regulations that may set out requirements to be complied with which are relevant to that particular issue.

Board of Directors

means the Board of Directors of the CDS.

CDS

means the Central Depository Systems (Private) Limited which operates the Central Depository.

Central Depository

means a Central Depository as defined in the SEC Act.

Client Account

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

CSE

means the Colombo Stock Exchange.

CSE Rules

means the rules promulgated by the CSE.

Companies Act

means the Companies Act, No. 07 of 2007, as amended from time to time.

Company Secretary

means the Company Secretary of a Listed Entity duly appointed in terms of the Companies Act.

Custodian Bank

means a bank licensed under the Banking Act, No. 30 of 1988, as amended providing custodial services and admitted as a Depository Participant.

Delist

means a delisting of Securities in terms of the Listing Rules of the CSE or any Rules issued by the SEC, as applicable.

Dematerialization

means the process by which Account Holders could convert their title to Securities held in the scrip form into electronic form in the CDS.

Depository Participant

means a Depository Participant as defined in the SEC Act and admitted as a Depository Participant by the CDS under these Rules.

International Security Identification Number (ISIN)

means a unique number assigned by the CSE in accordance with standards for securities identification established by the International Standards Organization.

Licensed Clearing House

means a Licensed Clearing House as defined in the SEC Act.

Listed Entity

means an entity listed in terms of the Listing Rules of the CSE.

Listed Securities

means Listed Securities as defined in the SEC Act, issued and listed by a Listed Entity, in terms of the Listing Rules of the CSE.

Locked Balance

means a portfolio of Securities held in a Client Account on which trading is restricted.

Market Day

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

NIC

means the National Identity Card issued under the Registration of Persons Act, No. 32 of 1968, as amended.

NIC Number

means the unique number which appears on the NIC.

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.

Record Date

means the date of entitlement to participate in a corporate action as set out in the Listing Rules of the CSE.

Register

means a share register or register of holders of debentures, as the case may be, of a Listed Entity.

Rematerialisation

means the conversion of the title to Securities held in the electronic form in the CDS into scrip form.

Rights Issue

means a Rights Issue as defined in the SEC Act.

Rules

means these Central Depository Rules issued by the CDS.

SEC

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

SEC Act

means the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021, as may be amended from time to time.

Securities

means Securities as defined in the SEC Act and recognized by the CDS from time to time as Eligible Securities.

Securities Certificate

means a certificate evidencing title to Securities in terms of applicable law.

Stock Dealer

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

Stockbroker/Stockbroker Participant

means a Stockbroker as defined in the SEC Act and admitted as a Trading Participant by the CSE.

Trade

means a purchase and sale transaction of Securities executed on the CSE, unless the context otherwise requires.

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 for trading in terms of the Trading Participant Rules of the CSE.

Trading Rules

means the trading rules of the CSE.

Unlisted Security

means Securities which are not listed on the CSE.

2. INTERPRETATION OF RULES

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

Unless expressly provided to the contrary, the interpretation of these Rules shall be in conformity with the definitions set out above. If there is any ambiguity, the Board of Directors or any committee or designee(s) of the Board shall have authority to interpret the Rules. Such interpretations shall be final and binding, unless an appeal is made to the SEC within seven (07) days of the communication of the interpretation.

If there is any conflict between these Rules and the circulars, operational guidelines and procedures issued by the CDS from time to time, these Rules shall prevail.

SECTION 1

DEPOSITORY PARTICIPANTS

All transactions pertaining to an Account Holder in the CDS shall be carried out only through a Depository Participant.

1.1 Eligibility for appointment as a Depository Participant

The following persons are eligible for appointment as a Depository Participant:

- (i) Trading Participant of the CSE.
- (ii) Custodian Bank.
- (iii) Any other entity licensed by a financial sector regulatory authority in Sri Lanka, which is acceptable to the CDS,

and having:

- (a) the minimum capital requirements stipulated by the Board of Directors.
- (b) sufficient resources and adequate systems to support the business operations of a Depository Participant in terms of these Rules.
- (c) adequate staff and facilities for monitoring the day to day operations of a Depository Participant in terms of these Rules.
- (d) any other facilities as may be determined by the Central Depository hereafter and from time to time

1.2 Application to be appointed as a Depository Participant

- (i) An application to be appointed as a Depository Participant shall be submitted by the applicant to the CDS in the format specified by the CDS from time to time.
- (ii) The CDS may accept or reject any application to admit a Depository Participant. The CDS shall not reject an application for admission as a Depository Participant without giving reasons.

1.3 Grant of Depository Participant Status

- (i) In the event the application to be appointed as a Depository Participant referred to in Rule 1.2 above, is accepted by the CDS, the CDS shall grant Depository Participant Status to the applicant.
- (ii) The grant of Depository Participant Status shall be subject to such terms and conditions contained in the Depository Participant Agreement that shall be entered into between the Depository Participant and the CDS at the time that Depository Participant Status is granted.

- (iii) Depository Participants shall ensure that they keep the CDS informed of any change in the material particulars submitted with or supporting its application for the grant of Depository Participant Status.

1.4 Depository Participant Code

Each Depository Participant shall be assigned a Depository Participant Code by the CDS for ease of identification. Such Depository Participant Code shall be used when making reference to such Depository Participant.

1.5 Persons authorized to act on behalf of a Depository Participant

- (i) Each Depository Participant shall give the CDS written notice of persons who are authorized to act on behalf of such Depository Participant.
- (ii) Such Authorized Persons shall be the contact persons and shall have the authority to instruct CDS in respect of matters concerning such Depository Participant.
- (iii) Depository Participants must ensure that any change of such Authorized Persons shall be communicated in writing to the CDS.

1.6 Depository Participant fees

Upon being admitted as a Depository Participant in terms of these Rules, Depository Participant shall pay fees, charges and reimbursement of expenses as may be specified by the CDS from time to time in respect of the Depository services and facilities offered by the CDS.

1.7 Records

1.7.1 Reconciliation of Records

The Depository Participant shall effect internal reconciliation of its accounts and total balances held in the different client accounts maintained in the CDS through such Depository Participant on a daily basis (as applicable) with the records of the CDS in relation to its daily business operations.

1.7.2 Maintenance of Records

- (i) Every Depository Participant shall maintain records relating to its business operations in a manner that will demonstrate compliance with these Rules.
- (ii) The Depository Participant shall keep the CDS informed of the place where records referred to in Rule 1.7.2 (i) are kept and made available for audit inspection.

1.8 Reporting of Adverse Events

Depository Participants shall immediately notify the CDS and the SEC if;

- (i) it is experiencing or reasonably anticipates any situation that may threaten its ability to meet its obligations or continue its operations;
- (ii) it becomes aware of any matter which adversely affects, or is likely to adversely affect its ability to meet its obligations in respect of its licensed business, and thereby affect the integrity of the capital market or the proper management of systemic risk, or to ensure protection of the account holders.
- (iii) it is unable to pay its debts as they fall due, or an application is presented against it for winding up, or an order is made against it by a court of competent jurisdiction for the commencement of winding up, or any step is taken or a resolution passed for its winding-up, dissolution or judicial management, or it enters into a compromise with its creditors or administration; or
- (iv) 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; or
- (v) it reasonably believes there exists or anticipates any events that may be prejudicial to the interests of its account holders.
- (vi) any regulatory body has taken any action against such Depository Participant 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; established by law in Sri Lanka or abroad, constituted under law as a commission of inquiry, tribunal or other similar body, or by any professional association which in the opinion of the SEC is of an established and credible stature.

1.9 Termination of Depository Participant Status

- (i) The CDS may terminate the Depository Participant Status of a Depository Participant:
 - (a) in terms of these Rules;
 - (b) in terms of the Depository Participant Agreement; or
 - (c) if the Depository Participant has not been actively engaged in business with the CDS for a prescribed period of which prior notice has been given by the CDS.

(ii) If the Depository Participant Status of a Depository Participant is terminated for any reason the Depository Participant shall;

(a) forthwith notify, in writing, the Account Holders maintaining Client Accounts in the CDS through such Depository Participant, of such termination; and,

(b) facilitate the transfer of the Client Accounts maintained through such Depository Participant to another Depository Participant of the Account Holders' choice, in accordance with the procedure specified by the CDS.

In the event the Depository Participant is unable to facilitate the transfer of any Client Account maintained through such Depository Participant, it shall inform the CDS forthwith of such fact in writing, in order to enable the CDS to initiate steps as deemed appropriate in accordance with the procedures specified by the CDS.

(iii) The obligations of the CDS towards a Depository Participant in respect of Client Accounts maintained in the CDS through such Depository Participant under these Rules shall cease with effect from the date of termination of its Depository Participant Status. Provided that the CDS shall continue to facilitate the smooth transfer of the Client Accounts opened by such Depository Participant even after the date of termination of the Depository Participant status.

(iv) A Depository Participant whose Depository Participant Status has been terminated shall:

(a) pay all outstanding charges owing to the CDS;

(b) fulfill all outstanding obligations to the CDS and to its clients; and

(c) continue to comply with the terms and conditions set out in the Depository Participant Agreement and these Rules;

until the effective date of the termination.

(v) Upon the Depository Participant fulfilling the obligations/conditions stipulated in (ii) to (iv) above, the Depository Participant shall notify the CDS and the SEC of the due completion of the said obligations/conditions.

SECTION 2

SECURITIES

2.1 Eligible Securities

- (i) Listed Securities
- (ii) Unlisted Securities

For the purpose of these rules, any securities which are delisted by the CSE shall be considered Listed Securities until the completion of formalities required in connection with such delisting, including the issue of securities certificates.

2.2 Security ID

The CDS shall use the Security ID assigned by the CSE in respect of all Securities.

2.3 International Security Identification Number (ISIN)

The CDS shall use the unique Security Identification Number assigned by the CSE to each Security.

2.4 Acceptance/discontinuance of eligibility of Securities

The CDS shall inform Depository Participants of the date on which a Security becomes an Eligible Security or ceases to be an Eligible Security.

SECTION 3

CLIENT ACCOUNTS

3.1 Who may open Client Accounts in the CDS

Depository Participants may open Client Accounts in the CDS on behalf of bodies corporate or natural persons, provided that in the case of the latter, such person is not less than eighteen (18) years of age.

Provided further, that only a Custodian Bank shall be permitted to open and maintain Client Accounts in the CDS on behalf of non-resident bodies corporate and non-resident natural persons intending to trade in foreign currency denominated Securities listed on the CSE.

For the purpose of this Rule a “body corporate” shall mean a company or a corporation duly incorporated in Sri Lanka or a company, a corporation or an entity duly incorporated outside Sri Lanka or a statutory body duly incorporated under a statute. Depository Participants shall ensure that those for whom Client Accounts are opened have the legal capacity to contract. Depository Participants shall not open a Client Account for a body corporate/natural person who is prohibited from transacting business under any law and/or regulation.

3.2 Opening of Client Accounts in the CDS

A. Centralized Client Account Opening

Depository Participants shall ensure that all applicants provide information as required in the account opening application form and operational guidelines and procedures issued by the CDS from time to time.

Any account opening application submitted by a Depository Participant on behalf of an applicant which is not in conformity with these Rules or the CDS operational guidelines and procedures shall not be processed by the CDS. The decision of the CDS in this regard shall be final.

If the CDS has reasonable grounds to suspect the authenticity/genuineness of the information provided in an application or if the application is incomplete, it may reject such application.

B. Decentralized Client Account Opening

The types of Client Accounts that may be opened in accordance with this Rule shall be specified by the CDS from time to time. All other types of Client Accounts, which are not specified by the CDS, shall be opened in terms of Rule 3.2 (A) above.

- (a) The Depository Participant must ensure that it obtains complete and accurate information as required in the account opening application and Applicable Requirements from the applicant.
- (b) The Depository Participant shall open a Client Account in the CDS on behalf of its client in accordance with these Rules and the Applicable Requirements.

- (c) A Depository Participant shall not process any account opening application, which is not in conformity with these Rules and the Applicable Requirements.
- (d) The Depository Participant shall be liable to the CDS for any Client Account opened in the CDS, based on incomplete and/or inaccurate information.
- (e) Upon opening the Client Account in respect of an applicant, the Depository Participant shall forthwith submit to the CDS, a copy of the duly signed account opening application along with the required information, in the manner specified in the Applicable Requirements, for verification by the CDS.
- (f) If the CDS has reasonable grounds to suspect;
 - (i) that a Client Account has been opened by the Depository Participant contrary to these Rules;
 - (ii) the authenticity/genuineness of the information provided in an account opening application; or
 - (iii) that the account opening application is inaccurate and/or incomplete,

the CDS may suspend the Client Account in terms of Rule 3.8 (a) of these Rules, until a clarification, explanation and/or further documentation (as applicable) is provided by the Depository Participant. The Depository Participant shall submit such written clarification, explanation and/or further documentation (as applicable) to the CDS within three (03) Market Days of a written request by the CDS.

The suspension of the Client Account will be removed by the CDS upon the receipt of a satisfactory clarification, explanation and/or further documentation (as applicable) and the payment of a reinstatement fee as determined by the CDS.

If the Depository Participant fails to submit a clarification, explanation and/or further documentation (as applicable) to the satisfaction of the CDS, the CDS shall have the right to close such Client Account in terms of Rule 3.8 (b) of these Rules, with written notice to the Depository Participant, provided that such Client Account has no portfolio balance.

If the Client Account has a portfolio balance, the Depository Participant shall take necessary steps to divest the Securities held in such Client Account within Seven (07) Market Days from the date of the written notice to the Depository Participant and notify the CDS, in writing, no sooner the Securities have been divested. Upon receiving the said notice from the Depository Participant, the CDS shall have the right to close such Client Account in terms of Rule 3.8 (b) of these Rules.

- (g) The Depository Participant shall indemnify the CDS against any loss or damage incurred by the CDS as a result of opening a Client Account by a Depository Participant, based on incomplete, inaccurate and/or fraudulent information/documentation.

- (h) If a Depository Participant fails to comply with any of the requirements stipulated in Rules 3.2 (B) (a) to (f) above, the CDS may prohibit such Depository Participant from opening Client Accounts in terms of this Rule.

Whilst under prohibition, the Depository Participant may open Client Accounts in the CDS, through the CDS in terms of Rule 3.2 (A) above, subject to a fine as determined by the CDS from time to time.

3.3 Multiple Client Accounts

No Person may open and maintain more than one account in the CDS unless each such account is opened and maintained through different Depository Participants:

Provided, however, that bodies corporate may open and maintain more than one account through the same Depository Participant if it is required for purposes such as:

- i. compliance with requirements under law / CSE Rules.
- ii. segregation of portfolios.
- iii. any other similar purposes acceptable to the CDS.

When accounts are opened by Persons, the CDS shall assign a unique account number for such Person with the Depository Participant Code(s) of the relevant Depository Participant(s).

Provided however, the CDS shall not recognize notice of any trust, expressed, implied or constructive in respect of such multiple Client Accounts and the CDS shall for all purposes consider that the name appearing first in the account title, as the registered owner of such account.

3.4 Opening of Designated Accounts to facilitate Trades carried out on the CSE as ALL OR NONE (AON) by a Consortium of Investors

A Depository Participant may open a Special CDS Account for the purpose of carrying out AON transactions by a consortium of investors provided that such consortium shall not exceed ten (10) investors.

When a Custodian Bank opens a Special CDS Account it shall provide an undertaking to the CDS Clearing House, in the format prescribed by the CDS Clearing House that it will honor all settlement obligations arising from such Special CDS Account.

3.5 Operation of Client Accounts

- (a) All instructions to the CDS relating to a Client Account shall be given by the Account Holder only through the Depository Participant. The CDS shall act upon such instructions without any further inquiry.

The CDS shall have no obligation to act on any instructions given by a Depository Participant if such instructions do not, in the opinion of the CDS, contain sufficient details for the CDS to act on. However, in such an event, the CDS shall, within two (2) Market Days, inform the Depository Participant of the additional information required to give effect to such instructions.

- (b) The Depository Participant shall be responsible and shall be held liable for communicating any incorrect or false information regarding Client Accounts to the CDS.
- (c) The Securities held in a Client Account shall be held by the CDS for and on behalf of the Account Holder for the sole purpose of facilitating scripless transactions in Securities. The obligations and liabilities of the CDS to the Account Holder shall be limited to those provided for in these Rules.
- (d) If a Client Account has more than one name in the account title (other than joint accounts) the CDS shall only recognize the person whose name appears first in the account title for the purpose of receiving instructions.
- (e) The CDS reserves the right to rectify any erroneous or inaccurate entry made to a Client Account at any time after such error/inaccuracy is detected.
- (f) When documents are returned by the CDS to Depository Participants due to discrepancies, they shall be returned under cover of a 'returned document advice' specifying the reason/s for return. Depository Participants shall collect such documents after due acknowledgement.

3.6 Entries made to a Client Account

The CDS shall credit a Client Account with Securities in the following instances:

- (a) Purchase of Securities into a Client Account as per Section 14.
- (b) Dematerialization/deposit of Securities into a Client Account as per Section 4.
- (c) Direct deposit of Securities by a Public Listed Company on behalf of an Account Holder.
- (d) Transfer of Securities into a Client Account as per Section 6 (A) or 6 (B) of these Rules.
- (e) Pursuant to Settlement Instructions received from the CDS – Clearing House in terms of Section 14 of these Rules.
- (f) Pursuant to an Order made by Court under and in terms of Section 180 (1) of the SEC Act.

A Client Account shall be debited with Securities in the following instances:

- (a) Sale of Securities from a Client Account as per Section 14.
- (b) Rematerialisation/withdrawal of Securities from a Client Account as per Section 5.
- (c) Transfer of Securities as per Section 6 (A) or 6 (B) of these Rules.
- (d) Upon being notified by a Listed Entity of the following events:

- a repurchase of shares under the Companies Act,
 - a minority buy-out by the Listed Entity under the Companies Act,
 - a redemption of shares under the Companies Act.
- (e) Pursuant to Settlement Instructions received from a CDS - Clearing House in terms of Section 14 of these Rules.
- (f) Pursuant to an Order made by Court under and in terms of Section 180 (1) of the SEC Act.

3.7 Segregation of Client Accounts

If a Depository Participant trades on its own account such Depository Participant shall open and maintain a separate Client Account in the CDS for that purpose.

For the purposes of this Rule 'trading on its own account' shall mean a Depository Participant buying and selling of Securities on its own account.

3.8 Suspending/Closing a Client Account

(a) Suspending a Client Account

The CDS shall suspend dealings on a Client Account:

- i. if instructed to do so by:
 - The Account Holder, through the Depository Participant;
 - A court of law; or
 - The SEC.
- ii. on receipt of a certified copy of the death certificate issued by the relevant authority pertaining to the death of an Account Holder, through the relevant Depository Participant.
- iii. in terms of Rule 3.2 B (f).
- iv. in terms of Rule 8.2.

(b) Closing a Client Account

The CDS shall close a Client Account;

- i. if instructed to do so by the Account Holder, through the Depository Participant (after obtaining due clarifications wherever necessary).
 - ii. in terms of Rule 3.2 B (f).
 - iii. in terms of Rule 8.2.
- (c) If a Client Account is suspended /closed, the CDS shall duly inform the relevant Account Holder thereof through the Depository Participant.

3.9 Non-Operative Client Accounts

(I) Identification of Non-Operative Client Accounts

1. A client account maintained with the CDS remaining dormant for a period of three (03) years from the date of its last transaction shall be deemed to be a 'non-operative client account' by the CDS.
2. The CDS shall generate a schedule on a monthly basis to identify non-operative client accounts maintained in the CDS.

(II) Classification and Suspension of Non-Operative Client Accounts by the CDS

1. Upon generating the schedule referred to in Rule 3.9 (I) (2) above, the CDS shall forthwith take necessary steps to classify the client accounts identified therein as non-operative client accounts and suspend dealings in such client accounts with notice to the respective Depository Participant.
2. Based on the notice issued by the CDS, Depository Participants shall notify the respective Account Holder/s of the designation of such Account Holder/s CDS Account as a Non-Operative client account and the suspension of same.
3. Depository Participants shall maintain complete and accurate records of the correspondence in relation to notifying clients of the designation of such client's CDS Account as non-operative, and all such records shall be made available to the CDS, upon request.
4. The CDS will not send any notices/statements to Account Holders of non-operative client accounts in terms of these Rules.

(III) Removal of the Suspension Imposed on Non-Operative Client Accounts by the CDS

1. If the account holder seeks to remove the suspension imposed on his/her/its client account maintained with the CDS, the Depository Participant shall conduct a fresh client due diligence on such Account Holder in accordance with the applicable KYC Requirements of the FIU of the CBSL and promptly inform the CDS of the same in accordance with the Operational Guidelines and Procedures of the CDS.
2. On receipt of confirmation by the Depository Participant as to the KYC requirements, the CDS shall forthwith remove the suspension imposed on the non-operative Client Account

SECTION 4

DEMATERIALIZATION OF SECURITIES (DEPOSIT OF SECURITIES)

4.1 Procedure for dematerialization of Securities in the CDS

- (a) Subject to these Rules, Account Holders may dematerialize their Securities held in scrip form by depositing such Securities Certificates into their Client Accounts. Such deposits shall be made through the relevant Depository Participant.

Depository Participants shall ensure that the Securities Certificates and the relevant CDS form/s handed over to CDS for deposit are submitted with an acknowledgement of deposit in duplicate. The duplicate of the acknowledgement shall be returned to the Depository Participant by the CDS as confirmation of receipt of the deposit. Depository Participants shall forward the duplicate of the deposit slip to the relevant Account Holder within three (03) Market Days of receiving it.

- (b) Depository Participants shall ensure that Securities Certificates to be deposited into a Client Account by an Account Holder are submitted with the relevant CDS form/s, duly completed, endorsed and executed. Any alterations to the particulars given in such form/s shall be duly certified by the Account Holder and countersigned by the Depository Participant.
- (c) The CDS shall not be obliged to act on any documentation incorrectly completed, endorsed or executed.
- (d) The quantity of Securities indicated on the Securities Certificate forwarded for deposit shall be deposited into the relevant Client Account by the CDS, subject to these Rules.
- (e) Upon receipt of the Securities Certificates for deposit in the CDS, the CDS shall record the quantity of Securities indicated therein as a 'pending' deposit and promptly give written notice to the Company Secretary of the Listed Entity of the pending deposit of Securities in the CDS for registration in the name of the CDS in the register. It shall be the responsibility of the Company Secretary to make arrangements for collecting the relevant documents from the CDS.
- (f) The Company Secretary of the Listed Entity shall confirm/reject the registration of such Securities in the name of the CDS in the register, in writing, to the CDS within two (02) Market Days from the date of the written notification from the CDS.

If the Company Secretary of the Listed Entity rejects the registration of such Securities in the name of the CDS in the Register, the Company Secretary must indicate the reasons for such rejection. On receipt of such notification from the Company Secretary, the CDS shall cancel the pending deposit and return the Securities Certificates to the Depository Participant, in accordance with Rule 3.5 (f).

- (g) Upon receipt of a written confirmation from the Company Secretary of the Listed Entity in terms of Rule 4.1 (f) above, the CDS shall deposit the quantity of Securities indicated in the Securities Certificates to the Account Holder's Client Account, with due notice to the Company Secretary of the Listed Entity.
- (h) The Company Secretary shall immediately inform the CDS when a report is lodged with the Listed Entity about any loss of a Securities Certificate, or the discovery of a forgery in a Securities Certificate, or invalidation of a Share certificate by the Company Secretary. Such notice to the CDS shall set out the details pertaining to the Securities Certificate including the name of the shareholder, Certificate number, quantity of Securities and the company name.
- (i) All liabilities arising out of invalid deposit of Securities with the CDS shall be borne by the Depository Participant.

4.2 Procedure to be adopted by Depository Participants when depositing Securities

- (a) Depository Participants depositing Securities on behalf of Account Holders shall ensure the genuineness/authenticity and validity of the Securities Certificate/s and other documents prior to deposit. The CDS shall not be responsible for any loss resulting from an invalid deposit of Securities.
- (b) If there is any trace of suspicion regarding the genuineness of a Securities Certificate, the Depository Participant shall liaise with the Company Secretary of the Listed Entity and verify whether the Securities Certificate is genuine. These precautions shall be taken prior to handing over the Securities Certificate to the CDS.

4.3 Direct Deposit of Securities to Client Accounts

Notwithstanding anything stated in these Rules, the CDS may accept Securities directly from Listed Entities and/or such other issuers of Securities for deposit into Client Accounts on behalf of the respective Account Holders. The CDS will notify the details of such direct deposit to the relevant Depository Participants.

SECTION 5

REMATERIALISATION OF SECURITIES (WITHDRAWAL OF SECURITIES)

- 5.1 Subject to these Rules, an Account Holder may rematerialize or withdraw any Securities held in his/her/its account, whether in whole or in part, if such Account Holder intends to mortgage the Securities in his/her/its account. Any request to withdraw Securities shall be made through the Depository Participant through whom the Client Account is maintained in the CDS.
- 5.2 Depository Participants shall ensure that requests to rematerialize Securities by an Account Holder must be made by way of duly completed, endorsed and executed CDS form/s. Any alterations to the particulars given in such form/s shall be duly certified by the Account Holder and counter signed by the Depository Participant.
- 5.3 All liabilities arising out of invalid withdrawals of Securities shall be borne by the Depository Participant.
- 5.4 Immediately upon withdrawal of Securities from the CDS, the CDS shall inform the Company Secretary of the Listed Entity of such withdrawal for the purpose of issuing a Securities Certificate in the name of the Account Holder. It shall be the responsibility of the Company Secretary of the Listed Entity to make arrangements for collection of the relevant documents from the CDS.
- 5.5 The Company Secretary shall submit the Securities Certificate issued in the name of the Account Holder pertaining to the withdrawal of Securities from the CDS to the CDS within seven (07) Market Days of receipt of the relevant documents from the CDS.

SECTION 6

TRANSFER OF SECURITIES

A. TRANSFER OF SECURITIES WITHIN THE CDS

6.1 Transfer of Securities between Client Accounts held by the same Account Holder (Intra – Account transfer of Securities) / Change of Depository Participant pertaining to a Client Account

- i. Subject to these Rules, an Account Holder who wishes to transfer Securities held in a Client Account with one Depository Participant to that Account Holder's Client Account with another Depository Participant shall submit a written request for the transfer of such Securities (intra-account transfer request) to the existing Depository Participant and the Depository Participant receiving such Securities.

Depository Participants shall maintain complete and accurate records of intra-account transfer requests received by them from the Account Holders, either in hard copy or electronic form at all times.

- ii. Depository Participants shall process intra-account transfer requests of Account Holders by electronic means through the system provided by the CDS and in the manner set out in applicable CDS Operational guidelines and procedures.
- iii. Depository Participants shall be solely responsible for verifying the genuineness, authenticity and the accuracy of intra-account transfer requests, prior to processing them.
- iv. Depository Participants shall not delay or refuse to carry out an intra-account transfer request unless:
 - the Account Holder has not paid for the Securities held in the Client Account; or
 - the Securities are held under lien for payments outstanding to the Depository Participant or any other institution.
- v. If an intra-account transfer request cannot be processed by the existing Depository Participant, the Depository Participant that is to receive such Securities shall be informed of such within two (02) Market Days from the date of receipt of such intra-account transfer request by the existing Depository Participant.
- vi. If the Depository Participant that is to receive such Securities is not satisfied with the reasons attributed for the delay/refusal by the existing Depository Participant, it shall be brought to the notice of the CDS. The CDS shall consider the reasons for such delay/refusal and may impose a fine on such Depository Participant.
- vii. When a request is made by a Depository Participant to the CDS to process an intra-account transfer of Securities on behalf of an Account Holder the CDS may

do so in the manner specified in the applicable CDS Operational guidelines and procedures subject to a processing fee as may be determined by the CDS.

- viii. All liabilities arising out of processing intra-account transfer requests shall be borne by the Depository Participants.

6.2 Transfer of Securities/change of Depository Participant in the event of termination, cessation or suspension of Depository Participant Status

- i If the CDS takes enforcement action against a Depository Participant in terms of Rule 14.3, the CDS shall facilitate the transfer of Securities of Account Holders of the said Depository Participant to any other Depository Participant of the Account Holders choice.
- ii Such transfers shall be made only after settlement of any outstanding obligations to such Depository Participant.
- iii Such transfers shall be carried out in terms of these Rules and any guidelines/procedures set out by the CDS from time to time.
- iv The procedures set out in (i), (ii) and (iii) above shall be followed by the CDS in the event the CSE or the SEC takes any enforcement action against a Depository Participant, which may lead to a termination, cessation or suspension of the Depository Participant status.

6.3 Transfer of Securities between Client Accounts held by separate Account Holders (Inter-account transfer of Securities)

Prior written approval of the CSE or the SEC (as applicable) shall be obtained by Depository Participants, in the prescribed form, to transfer Securities from one Client Account to another Client Account, outside the trading procedure of the CSE.

All such duly completed transfer application forms shall be submitted to the CDS along with the original letter of approval received from the CSE or the SEC (as applicable).

6.4 Transfer of Securities pertaining to an offer made under the Company Takeovers and Mergers Code of 1995 as amended in 2003 /de-listing

When the CDS receives instructions pertaining to the transfer of Securities in connection with an offer made under the Company Takeovers and Mergers Code 1995, as amended in 2003 or a de-listing, it shall transfer such Securities to the Offeror's Reserve Account and upon confirmation of payment transfer such Securities to the Offeror's Client Account.

6.5 Transfers of Shares pertaining to Trades Carried out on the CSE by a Consortium of Investors using the AON Block Facility

- 1. If a consortium of investors places a buy order using a Special CDS Account opened through a Depository Participant in relation to an AON Block as set out in the Trading Rules of the CSE and the AON Block is purchased through the Special CDS Account, the CDS shall transfer such shares from the Special CDS

Account to the Buyers' respective Client Accounts on the settlement date, based on the settlement instructions received from the CDS Clearing House.

2. If the Government of Sri Lanka holds shares of a Listed Entity through multiple entities/agencies and wishes to submit a single sell order as a consortium using the AON Block facility on the ATS through a Depository Participant, the shares held by such entities/agencies in their respective Client Accounts shall first be credited to a Special CDS Account opened by the Depository Participant for such purpose.
3. The CDS, in consultation with the SEC, may waive the application of any of the Rules set out in this Rule 6.5 and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.

6.6 Transfers of Securities pertaining to Trades Carried out on the CSE in relation to Repurchase Transactions

1. Upon receiving instructions from the CDS Clearing House in relation to a Repurchase Transaction on Debt Securities carried out on the Over the Counter (OTC) Platform of the CSE, the CDS shall transfer the Purchased Securities for the Repurchase Transaction:
 - (i) 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,
 - (ii) from the Lender's Client Account to the Borrower's Client Account on the Repurchase Date of the Repurchase Transaction,subject to instructions received from the CDS Clearing House in relation to a Roll Over of a Repurchase Transaction.
2. Upon the completion of the transfer of Debt Securities for a Repurchase Transaction in accordance with Rule 6.6 (1), the Central Depository shall confirm the same to the CDS Clearing House.
3. The CDS, 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 Securities on the Purchase Date (or the Settlement Date, if different to the Purchase Date) or the Repurchase Date as the case may be or the transfer of such Purchased Securities based on the instructions received by the CDS from the CDS Clearing House or any matters connected thereto.

6.7 Transmission of Securities in the CDS in the event of death of an Account Holder

Upon the death of an Account Holder, Securities held by such Account Holder in the CDS shall be transmitted to the legal heirs.

For this purpose, a request to transmit such Securities shall be made to the CDS in the prescribed form/s, through the respective Depository Participant/s.

B. INTER-DEPOSITORY TRANSFER OF SECURITIES (TRANSFER OF SECURITIES BETWEEN THE CDS AND FOREIGN DEPOSITORIES)

If an Account Holder holding Securities which are listed on the Multi-Currency Board of the CSE, intends to transfer such Securities to the CDS or the Foreign Depository (as the case may be), such transfer of Securities shall be carried out by the Account Holder in the manner specified in the CDS Operational guidelines and procedures.

SECTION 7

ENTITLEMENTS

7.1 General Provisions relating to Entitlements

- (a) Subject to Rule 7.1 (c), Listed Entities shall process entitlements relating to corporate actions applicable to Account Holders based on information obtained from the CDS on the relevant date.
- (b) An Account Holder's entitlement to a corporate action, such as the payment of a dividend, allotment of shares credited as fully paid up by way of capitalization of reserves or allotment of Rights or any other distribution, shall be determined on the basis of the Cleared Balance held in the Client Account of the Account Holder as at the Record Date.
- (c) Listed Entities may, at their discretion and at their own risk, deviate from the information given by the CDS pertaining to the address or the dividend payment instructions given by an Account Holder who is entitled to a corporate benefit, if sufficient proof is produced by the Account Holder to the satisfaction of the Listed Entity with reasons for such deviation from the instructions/information given by the CDS.

7.2 Dividends

- (i) When a Listed Entity declares a dividend the CDS shall furnish it with a list of Account Holders with their respective holdings of that Security as at the Record Date.
- (ii) Listed Entities shall dispatch cash dividend payments as per the instructions given by the respective Account Holders to the CDS.
- (iii) In the event of a scrip dividend, the allotted shares shall be deposited directly to the respective Client Accounts, as per the information provided by the Listed Entity to the CDS.

7.3 Issue of shares credited as fully paid up by way of capitalization of reserves

When a Listed Company issues shares credited as fully paid up by way of capitalization of reserves, the CDS shall furnish it with a list of Account Holders with their respective holdings of that Security as at the Record Date.

The newly allotted shares shall be deposited directly to the respective Client accounts as per the information provided by the Listed Entity to the CDS.

7.4 Rights issues

- (a) When a Listed Entity makes a Rights Issue, the CDS shall furnish it with a list of Account Holders with their respective holdings of that Security as at the Record Date.

- (b) Subject to Rule 7.1 (c), the Listed Entity shall dispatch/make available the Provisional Letters of Allotment to the respective Account.
- (c) The CDS shall directly deposit the Rights to the respective CDS Accounts of the Shareholders based on the instructions received from the Listed Entities and/or such other issuers of Securities.
- (d) Shareholders of a Listed Entity may renounce their respective Rights only through the CDS. For this purpose, Shareholders who maintain their shareholding outside the CDS in scrip form shall deposit the duly perfected Provisional Letter of Allotment in their Client Account in the CDS through the Depository Participant, in accordance with the procedure for dematerializing evidence of title set out in the CDS Operational Guidelines and Procedures. Such deposits shall be permitted during the period of renunciation of the Rights, as defined in the Listing Rules of the CSE.

The Account Holder may trade on such Rights through the Depository Participant during the period of renunciation of the Rights as defined in the Listing Rules of the CSE.

- (e) The CDS shall submit a list of Account Holders who hold Rights in the CDS with their respective Rights holdings to their respective Depository Participants on the Market Date immediately preceding the last date of payment and acceptance of such Rights. Payments in respect of the Rights subscribed for by the Account Holders shall be submitted to the Listed Company in the manner specified by the CDS.

Details of any unsubscribed Rights by Account Holders shall be notified by the respective Depository Participants to the CDS by 10.30 hours on the last date of payment and acceptance of Rights. Such unsubscribed Rights by Account Holders will be duly withdrawn by the CDS.

- (f) Any Rights duly subscribed by the Account Holders in the CDS, shall be converted to shares as per the instructions given by the Listed Entity upon the listing of such shares on the CSE pursuant to the Rights issue by the Listed Entity.

7.5 Interest and Maturity Proceeds on Debt Securities

- (a) The CDS shall furnish the Listed Entity a list of Account Holders with their respective holdings with regard to the Corporate Debt Security as at the date of entitlements.
- (b) The interest and maturity proceeds shall be made directly to the Account Holder as per the information provided by the CDS.

7.6 Interest and Maturity Proceeds on Perpetual Debt Securities

- (a) The CDS shall furnish the Listed Entity with a list of Account Holders with their respective holdings with regard to the respective Perpetual Debt Securities as at the date of entitlements.

- (b) The interest and maturity proceeds shall be paid by the Listed Entity directly to the Account Holder as per the information provided by the CDS.

SECTION 8

CDS ACCOUNT STATEMENTS

8.1 Periodic CDS Account Statements

A. *Methodology of forwarding CDS Account Statements*

The CDS shall send Account Holders a CDS account statement which includes:

- (a) A list of Securities held by the Account Holder in the Cleared Balance of the Client Account;
- (b) A list of Securities held by the Account Holder in the Client Account which are subject to a Pending Sell Trade and a list of Securities subject to Pending Buy Trade; and
- (c) The quantity of Securities listed in (a) and (b) above in such Client Account.

The CDS account statement shall be forwarded to the Account Holder directly by the CDS in electronic form to an e-mail address provided by the Account Holder through the relevant Depository Participant, unless the Account Holder requests a printed copy of the CDS account statement in accordance with Rule 8.3. Where the Client Account is maintained through a Custodian Bank, the statements shall be forwarded to the Account Holder by the relevant Custodian Bank through whom the Client Account is maintained on behalf of the CDS.

Depository Participants shall ensure that the e-mail addresses provided to the CDS have been obtained from the relevant Account Holders.

B. *Frequency of Issuing CDS Account Statements*

The frequency of issuing CDS account statements shall be as follows:

- a) The CDS shall forward to the Account Holder a monthly statement if the Client Account was active during a particular month (monthly statement).

For the purpose of Rule 8.1 (B) (a) above, an active Client Account shall *be an account with at least one transaction (purchase / sale / deposit / withdrawal / transfer) during a particular month.*

- b) The CDS shall forward a statement annually as at 31st March to all Account Holders in respect of their Client Accounts having credit balances.

Provided however, that the CDS may, at its discretion, forward statements in electronic form to Account Holders in respect of their Client Accounts having credit balances in a more frequent manner.

8.2 Returned CDS Account Statements

(a) CDS account statements sent in electronic form

If a CDS account statement forwarded to the email address registered with the CDS is returned to the CDS or an Account Holder informs the CDS in writing that the CDS account statement was not received by such Account Holder, the CDS shall require the relevant Depository Participant to obtain in writing an alternate email address from the Account Holder to which the statement shall be forwarded. If the Depository Participant does not furnish an alternate email address to the CDS as set out herein within one (01) week of such request, the CDS shall send the CDS account statement in printed form to the postal address registered with the CDS.

(b) The CDS account statements sent in printed form

If a statement forwarded to the address registered with the CDS is returned to the CDS, the CDS shall require the relevant Depository Participant to obtain in writing an alternate address from the Account Holder to which the statement shall be forwarded. If the Depository Participant does not furnish an alternate address to the CDS as set out herein within two (02) weeks of such request, the CDS shall suspend dealings of the relevant Client Account. The CDS shall not thereafter forward the CDS account statements to the registered address of the Account Holder, until the Account Holder informs the CDS in writing, through the relevant Depository Participant of an alternate address, which shall then be considered as the registered address of the Account Holder. Upon the Account Holder informing the CDS of an address to which statements can be forwarded, the CDS shall remove the suspension on dealings of the relevant Client Account.

Provided that the CDS may, on a request made by a Depository Participant who is a Stockbroker (Stockbroker Participant), remove the suspension of a Client Account imposed in terms of this Rule where the continuance of the suspension would result in a restriction on the Stockbroker Participant's rights to recover sums due to the Stockbroker Participant from the Account Holder.

Prior to the removal of suspension, the CDS shall obtain an affidavit from the Chief Executive Officer of the Stockbroker Participant that:

- the Stockbroker Participant has adopted reasonable measures to comply with the 'know your customer' requirements at the time of opening the CDS Account,
- the Account Holder owes moneys to the Stockbroker Participant,
- the Stockbroker Participant undertakes to indemnify the CDS and/or the CSE against any liability if a claim is made by the Account Holder, and;
- the Stockbroker Participant has made adequate efforts to trace the Account Holder, which includes the following steps:

1. the Stockbroker Participant has taken efforts to contact the Account Holder through audio communication and/or via email (proof of communication via email should be attached to the affidavit).
2. the Stockbroker Participant has sent a communication to the Account Holder via registered post to the address registered with the CDS regarding returning of the CDS account statement (proof of communication via registered post should be attached to the affidavit).
3. any other steps taken by the Stockbroker Participant to trace the Account Holder (where applicable).

8.3 Copies of CDS Account Statements

If an Account Holder wishes to obtain a printed copy of a CDS account statement, the Account Holder may make a request either through the relevant Depository Participant or call over personally at the office of the CDS and obtain such statement, having proven his/her identity.

In the alternative, Account Holders may write to CDS requesting for a copy of the CDS account statement. The CDS shall mail such CDS account statement to the postal address or the email address registered with the CDS, as requested by the Account Holder.

The CDS may charge a fee from the Account Holders for providing printed copies of CDS account statements.

SECTION 9

RELEASE OF CLIENT ACCOUNT INFORMATION

The CDS shall release information pertaining to a Client Account:

- i. upon a written request from the relevant Depository Participant.
- ii. upon a written request from an Account Holder.

(Such information shall be forwarded by the CDS to the registered address/email address/telephone number of such Account Holder or handed over to the Account Holder upon verification of proper identification).

- iii. upon a written request from the relevant Company Secretary.
- iv. if required by any applicable law or an Order of Court.
- v. upon a written request from the SEC.
- vi. upon a written request from the Financial Intelligence Unit of the Central Bank of Sri Lanka (FIU).

SECTION 10

MINIMUM STANDARDS APPLICABLE TO DEPOSITORY PARTICIPANTS

10.1 The following minimum standards shall be complied with by all Depository Participants on an ongoing basis upon admission in terms of these Rules.

10.1.1 Capital Requirements

(A) Depository Participant shall comply with the minimum capital requirements as set out below:

- (i) Depository Participants who are Trading Participants of the CSE, shall comply with the capital requirements applicable to such Trading Participants stipulated in the Trading Participant Rules of the CSE.
- (ii) Depository Participants who are Custodian Banks, shall comply with capital requirements applicable to the Licensed Commercial Banks of Sri Lanka as specified by Central Bank of Sri Lanka (CBSL).
- (iii) Depository Participants that are entities licensed by a regulatory authority in Sri Lanka [other than the Depository Participants referred to in Rule 10.1.1 (A) (i) and (ii)], shall comply with the minimum capital requirements stipulated by the Board of Directors of the CDS from time to time.

(B) Financial Statements of Depository Participants:

- (i) Depository Participants shall submit to the CDS, certified copies of the following:
 - (a) quarterly financial statements of the Depository Participant within two (02) months from the end of the respective quarter; and,
 - (b) audited financial statements of the Depository Participant within five (05) months from the end of the financial year.
- (ii) The failure to submit certified copies of such Financial Statements within the respective timelines set out in Rule 10.1.1 (B) (i) above, may result in the CDS imposing a fine as determined by the Board of Directors of the CDS from time to time on the Depository Participant until such Financial Statements are submitted to the CDS.
- (iii) The CDS shall have the right to suspend a Depository Participant from using the services and facilities offered by CDS if such Depository Participant is deemed to be financially unstable as referred to in Rule 10.1.1 (A) above.

10.1.2 Systems and Operations

Depository Participants shall ensure;

- (i) that 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
- (ii) compliance with the terms and conditions in any agreement with, and any other requirements imposed by the CDS in relation to systems and operations required to support and facilitate depository functions to the extent stipulated in these Rules.

10.1.3 Business Continuity Requirements

- (i) Depository Participants shall have adequate disaster recovery and business continuity arrangements in place at all times to ensure the timely recovery of its usual operations having regard to the nature and extent of the business carried on by such Depository Participant and any requirements specified by the CDS from time to time.
- (ii) The CDS may require a Depository Participant to undertake testing of its disaster recovery and business continuity arrangements at such times and in such manner as may be specified by CDS.

10.1.4 Risk Management Requirements

- (i) Depository Participants shall establish and maintain adequate and robust risk management frameworks and internal controls which are sufficient to support and facilitate depository operations of such Depository Participant.
- (ii) The management of Depository Participants shall oversee and periodically review the adequacy of the risk management framework and internal controls referred to in Rule 10.1.4 (i).

10.1.5 Human Resource Requirements

Depository Participants shall maintain sufficient and skilled employees at all times to perform business operations in terms of these Rules and Applicable Requirements.

10.2 Non-compliance with minimum standards

If a Depository Participant fails to comply with the minimum standards stipulated in Rule 10.1, the CDS may suspend/terminate its Depository Participant status having conducted an inspection in terms of these Rules and after having given the Depository Participant an opportunity of being heard.

SECTION 11

RIGHT TO INSPECTION

11.1 Right to Inspection

- (1) The CDS may conduct an inspection on a Depository Participant at any time on any matter relating to the observance or application of these Rules or the Depository Participant's relevant internal policies and procedures, or any other applicable laws.
- (2) Depository Participants and/or its Authorized Persons shall:
 - (a) provide or procure for the CDS all information, documents, books and records relating to Depository Participant at the request of the CDS and / or permit the CDS to take copies and extracts thereof; and
 - (b) give the CDS full access to the premises of the Depository Participant to conduct its inspection in terms of these Rules.
 - (c) be liable to disciplinary action in terms of Section 12 of these Rules in the event such Depository Participant provides any information or documents which is/are false or misleading in any material particular.
- (3) Notwithstanding any provision herein the CDS may require any Depository Participant to submit reports relating to their compliance with any of the provisions of these Rules if deemed to be required by the CDS.
- (4) Depository Participants and Authorized Persons shall:
 - (a) not hinder or obstruct the CDS during the inspection; and
 - (b) give the CDS all assistance as it would reasonably require to conduct the inspection.

11.2 Notification of Findings

- (1) Upon the CDS notifying the Depository Participant concerned of the findings of any inspection carried out in terms of Rule 11.1 above, the Depository Participant shall promptly bring such findings to its Board of Directors.
- (2) The Depository Participant shall within the timeline specified by the CDS:
 - a. take corrective measures and confirm the implementation thereof in writing to the CDS, or;
 - b. notify the CDS in writing of the corrective course of action decided by its Board of Directors together with the timelines for completing the same.

11.3 Investigations

- (a) If the CDS is of the view that any conduct, act and/or omission of any Depository Participant needs to be investigated for ascertaining whether disciplinary proceedings should be commenced against such Depository Participant, it may direct the Depository Participant to *inter alia*:
 - (i) provide information/explanations as required by the CDS; and / or
 - (ii) cause any officer or employee of the Depository Participant to appear before the CDS with necessary documents and to provide any information/explanations as may be deemed necessary by the CDS.
- (b) Any failure by a Depository Participant to comply with such direction of the CDS including any concealment of, or furnishing of false or inaccurate, information, documents or records, shall be deemed to be a breach of these Rules. Further, such failure may, *inter alia*, result in the CDS, at its sole discretion, imposing any immediate interim measures as referred to in Section 12.

SECTION 12

DISCIPLINARY PROCEEDINGS

12.1 General

Nothing in this Section shall be read or construed to mean that any action that the CDS is entitled to take under other provisions of these Rules must necessarily follow the procedure set out in this Section 12, unless such other provisions specifically state that the conduct of disciplinary proceedings under this Section 12 is a prerequisite to taking such action.

12.2 Grounds for Disciplinary Action

The CDS may take disciplinary action against a Depository Participant in respect of any conduct, act and/or omission in its capacity as a Depository Participant. Such conduct, acts and/or omissions in respect of which disciplinary action may be taken, shall include, without limitation, the following:

- a. Any breach of or failure to adhere to any provision of these Rules and/or any determinations made, or requirements stipulated by the CDS, including any failure to provide notifications to the CDS as required in terms of these Rules;
- b. Any breach of or failure to adhere to Applicable Requirements;
- c. Any matter with respect to which disciplinary action is required to be taken by the CDS under provisions of these Rules;
- d. Any failure or refusal to act in accordance with any procedures or processes of the CDS whether made in terms of these Rules or circulars, operational guidelines and procedures issued by the CDS;
- e. Any failure or refusal to act in accordance with decisions and/or determinations made by the CDS in respect of Securities traded on the CSE;
- f. Any breach of the Depository Participant's agreements with the CDS;
- g. Any error, delay or other conduct of the Depository Participant which may be detrimental to the business and operations of the CDS;
- h. For not providing adequate facilities for the Depository Participant's business with the CDS, and
- i. Any conduct unbecoming of a Depository Participant in respect of Securities traded on the CSE.

12.3 Procedure

- (a) The CDS shall be entitled to determine the procedure to be followed by the CDS in taking disciplinary action against the Depository Participant at its sole

discretion so long as such procedure provides the Depository Participant with adequate opportunity to show cause.

Provided that nothing in this Rule shall prevent the CDS from taking any action including of any disciplinary action against the Depository Participant as interim measures pending the initiation and/or conclusion of the disciplinary proceedings, if the CDS 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.

- (b) Without prejudice to the generality of the provisions of Rule 12.3 (a), the CDS may appoint committee(s) consisting of officers of the CDS and/or external persons (whom the CDS, at its sole discretion, consider as necessary in conducting its disciplinary proceedings) to hear and determine any matter of disciplinary nature.

12.4 Determination of the CDS

- (a) The CDS shall be entitled to take any disciplinary action that it may deem appropriate against a Depository Participant, 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 CDS.
- (b) Any determination made by the CDS in accordance with Rule 12.3, with regard to the disciplinary action taken against a Depository Participant shall be communicated in writing to the Depository Participant by the CDS and such determination shall be effective immediately upon delivery (in terms of these Rules) of such communication to the Depository Participant.
- (c) Failure by the Depository Participant to comply with any such determination (or part thereof) made by the CDS under this Section 12, shall entitle the CDS to take further disciplinary action, in addition to those already imposed, as the CDS may deem fit, without any further opportunity of whatsoever nature being provided to the Depository Participant to show cause or present its case. Such further disciplinary action shall be communicated in writing to the Depository Participant by the CDS and such action shall become effective immediately upon the CDS dispatching such communication to the Depository Participant.
- (d) Where the operation or effectiveness of any determination (or part thereof) of the CDS 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 that the CDS shall be entitled to make, at its sole discretion, necessary amendments to its original determination 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 Depository Participant shall be notified in writing by the CDS.

- (e) Without prejudice to the discretion available to the CDS to impose appropriate disciplinary measures and to determine the extent thereof, if the CDS decides to suspend a Depository Participant, the CDS may direct such Depository Participant to carry out any of the following actions and the Depository Participant 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 facilitate the transfer of Securities of clients held in Client Accounts maintained by the Depository Participant to Client Accounts maintained with other Depository Participant/s;
 - (iii) to do and carry out such things as may be necessary to comply with other requirements of the determination made by the CDS; and/or
 - (iv) to comply with any other requirements as may be imposed by the CDS.

12.5 Notification to the CSE and SEC

Where any disciplinary action taken by the CDS results in the CDS deciding to not give effect to any transactions of a Depository Participant on behalf of Account Holders/s and on its own account, the CDS shall issue a written notification of such decision to the CSE and SEC.

SECTION 13

DISPUTE RESOLUTION

13.1 Type of Disputes

This section 13 shall be applicable in respect of disputes between:

- (i) Depository Participants and the CDS in respect of decisions and/or actions taken by the CDS;
- (ii) Two or more Depository Participants in relation to depository functions

in terms of these Rules and Applicable Requirements.

13.2 Procedure

All disputes or disagreements between Depository Participants and the CDS or between Depository Participants on any matters referred to in Rule 13.1 shall be determined in accordance with the Dispute Resolution Rules for the CSE Group which shall be deemed to form part and parcel of these Rules.

SECTION 14

COMMUNICATIONS WITH THE CDS CLEARING HOUSE AND THE CSE

14.1 Information regarding Securities available for Dematerialization

The CDS shall, by arrangement with the Clearing House, ensure that the CDS Clearing House is notified;

- (i) when a Security is admitted for dematerialization on the CDS.
- (ii) of any addition, deletion or modification to the Securities admitted for dematerialization on the CDS.

14.2 Instructions Received from the CDS Clearing House

- (i) The CDS shall credit and debit a Client Account in the CDS with Securities on the Settlement Date pursuant to the settlement of Market Contracts, based on the settlement instructions received from the CDS Clearing House.
- (ii) The CDS shall substitute Securities in respect of Repurchase Transactions on debt securities carried out on the CSE based on the instructions received from the CDS – Clearing House.
- (iii) The CDS shall be entitled to rely on the information provided by the CDS Clearing House in respect of such Trades.
- (iv) The CDS shall not be responsible for any dispute arising between the Account Holder and the Depository Participant in respect of Market Contracts carried out by the Participant for and on behalf of the Account Holder.

For the purpose this Rule,

‘Settlement Date’ means the date on which the settlement of a Market Contract shall take place in accordance with the Clearing House Rules of the CDS.

‘Market Contract’ means a Trade which is or is to be cleared or settled through the CDS - Clearing House in accordance with the Clearing House Rules of the CDS.

14.3 Notifications from the CDS - Clearing House and CSE

- (i) Where the CDS is notified in writing by the CSE and/or CDS - Clearing House of any disciplinary action taken against or in respect of a Trading Participant and/or Clearing Member which also operates in the capacity of a Depository Participant of the CDS, it shall facilitate such disciplinary action, as deemed necessary in terms of these Rules.
- (ii) If any such action referred to in Rule 14.3 (i) results in the CSE and/or CDS Clearing House suspending/terminating the Trading Participant and/or Clearing Member status, the CDS shall not permit such Depository Participant to perform any Depository functions in terms of these Rules.