

CENTRAL DEPOSITORY SYSTEMS (PVT) LTD.

Clearing House Rules

(Effective from 3rd April 2023)



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INTRODUCTION

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

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.

The CDS is a Licensed Clearing House in terms of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (SEC Act). The CDS has been licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to operate and maintain a clearing facility for the purpose of clearing and settlement of securities transactions on the CSE.

Provided however that the CDS neither acts as a central counterparty nor guarantees clearing and settlement of securities transactions on the CSE.

(ii) **Application of the Rules**

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

These Rules shall;

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

(iii) **Waivers or Variation**

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

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

(b) **Failure or delay to not deemed a waiver**

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

(iv) Circulars and Operational Guidelines/Procedures

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

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

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

(v) Limitation of Liability

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

- (a) any failure, error, delay, security breach or malfunction of the settlement facilities operated by the Clearing House whether or not identified or identifiable provided the Clearing House is able to demonstrate that it has taken due care to ensure the non-occurrence or mitigation of such failure, delay, security breach or malfunction;
- (b) the access to, use of or inability to use the settlement facilities operated by the Clearing House other than due to the negligence or fault of the Clearing House;
- (c) anything done (including any statement made) or omitted to be done in the course of, or in connection with the exercise of rights or the discharge or purported discharge of the Clearing House's obligations or rights under the SEC Act, any other applicable law, or under these Rules;
- (d) any breach or failure of any Clearing Member to comply with these Rules;
- (e) the insolvency or the acts or omissions of any of the Clearing Members;
- (f) the insolvency or the acts or omission of the appointed Settlement Bank(s) of the Clearing House;
- (g) the acts or omission of the CSE and the Central Depository;
- (h) any failure, security breach, inoperability or malfunction of equipment, software or any other product supplied to a Clearing Member or in respect of its installation, maintenance or removal, provided the Clearing House is able to demonstrate that it has taken due care to ensure the non-occurrence or mitigation of such failure, security breach, inoperability or malfunction;

- (i) the exercise of a decision-making or regulatory power or discretion under these Rules;
- (j) any virus or other destructive, malicious, or corrupting program, code, agent, script or macro other than due to the negligence or fault of the Clearing House;
- (k) any errors, inaccuracy, omissions or delay in the calculation of margins;
- (l) the originality, accuracy, adequacy, timeliness or completeness of the settlement system or any content, information, materials, images, sounds, graphics, video and other materials displayed therein or any functionalities or applications, programs or services provided therein other than due to the fault or negligence of the Clearing House;
- (m) any information transmitted or received by or on behalf of the Clearing House or a Clearing Member, including through the settlement system, or the interception of or access to such information by unauthorized persons.

(vi) Indemnity

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

- a) the participation in any of the services or facilities of the Clearing House by the Clearing Member or the Clearing Member's activities in any of the services or facilities and all matters relating thereto as contemplated in these Rules;
- b) the failure by the Clearing Member to comply with these Rules, Circulars, Operational Guidelines/Procedures and any Agreement (including without limitation the representations and warranties contained therein) or to comply with any conditions imposed on the Clearing Member by the Clearing House;
- c) the actions and/or omission by the Clearing House, its directors and employees in reliance on any instructions or communication believed in good faith by any of them to have been given by or on behalf of the Clearing Member, or the failure of the Clearing Member to give instructions to the Clearing House as contemplated in these Rules.

(vii) Action by the Clearing House

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

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

- a) any member of the Board of Directors, or any member of any committee established by any the Board of Directors,

- b) any officer assigned to carry out Clearing or Settlement functions of the Clearing House, and
 - c) any agent of, or any person acting under the direction of the Clearing House,
- to any liability whether personally or otherwise.

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

(viii) Notices and communications with Clearing Members

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

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

(ix) Forms

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

(x) Amendments to these Rules

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

INTERPRETATION

(i) DEFINITIONS

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

Account Holder

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

Board of Directors

means Board of Directors of the CDS - Clearing House.

Buy-In Board Settlement Date

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

CDS

means the Central Depository Systems (Private) Limited.

CBSL

means the Central Bank of Sri Lanka.

Central Counterparty

means a Central Counterparty as defined in the SEC Act.

Cleared Balance

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

Central Depository

means a Central Depository as defined in the SEC Act.

Clearing Facility

means a Clearing Facility as defined in the SEC Act.

Clearing or Settlement

means a Clearing or Settlement as defined in the SEC Act.

Clearing Member

means a Clearing Member as defined in the SEC Act and admitted as a Clearing Member of the Clearing House in terms of these Rules.

Client Account

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

CSE

means the Colombo Stock Exchange.

Custodian Bank

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

Custodian Trade

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

Default Proceedings

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

Default Rules

means Default Rules as defined in the SEC Act, which are specified in Section 6 of these Rules.

Defaulter

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

Designated Foreign Currency(s)

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

Excluded Crossings

means a Trade executed on the Crossing Board/Window of the CSE, which is settled in accordance with Section 5 of these Rules.

Licensed Clearing House

means a corporate entity licensed by the SEC to clear and settle securities transactions which take place on the CSE and includes the CDS for the time being.

Market Collateral

means Market Collateral as defined in the SEC Act.

Market Contract

means a Market Contract as defined in the SEC Act.

Market Day

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

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.

Listed Entity

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

Rules

means these rules issued by the CDS acting as a Clearing House-

SEC

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

SEC Act

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

Securities

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

Settlement

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

Settlement Date

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

Settlement Schedule

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

Short Position

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

Short Sale Transaction

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

Stock Broker

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

Stock Dealer

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

Trade

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

Trade Day

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

Trading Participant

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

(ii) INTERPRETATION OF RULES

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

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

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

SECTION 1

CLEARING MEMBERS

1.1 Admission as a Clearing Members

1.1.1 Eligible Categories

The following persons are eligible for appointment as Clearing Members:

- (i) A Trading Participant of the CSE, who is a Stock Broker or Stock Dealer.
- (ii) A Custodian Bank.

1.1.2 Entry Requirements

An applicant for appointment as a Clearing Member shall, on the date of application;

- (i) comply with the following capital requirements:
 - a) If a Stock Broker or Stock Dealer which is a Trading Participant of the CSE; a minimum liquid capital of Rs. 35 Million and a minimum shareholders' fund position of Rs. 100 Million or 50% of the Stated Capital of such Stock Broker or Stock Dealer, whichever is higher.
 - b) If a commercial bank licensed by the CBSL, which is a Custodian Bank of the CDS - Central Depository, a minimum total shareholders' equity of Rs. 500 Million.

For the purposes of this Rule 1.1.2(i);

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

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

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

1.1.3 Application to be appointed as a Clearing Member

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

1.1.4 Grant of Clearing Member Status

- (i) If the application to be appointed as a Clearing Member referred to in Rule 1.1.3 is accepted by the Clearing House, the Clearing House shall grant Clearing Member status to the applicant.
- (ii) Grant of Clearing Member status shall be subject to the Clearing Member agreeing to be bound by these Rules in addition to such terms and conditions indicated in the Clearing Member Agreement entered into with the Clearing House at the time of granting the Clearing Member status.

1.2 Persons authorized to act on behalf of a Clearing Member

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

1.3 Clearing Member Fees

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

1.4. Records

1.4.1 Reconciliation of Records

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

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

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

1.4.2. Maintenance of Records

- (a) Every Clearing Member shall maintain records relating to its business operations as required to demonstrate compliance with these Rules for a period of six (6) years.
- (b) Clearing Members shall notify the Clearing House of the place where the records referred to in Rule 1.4.2 (a), are kept and made available for inspection by the Clearing House and/or the SEC.

1.5. Reporting of Adverse Events

Clearing Members shall immediately notify the Clearing House, if:

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

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

1.6. Provision of Information by Clearing Members

- 1.6.1 Clearing Members shall, upon the request of the Clearing House, provide any information or records and render such assistance (including giving access to its premises, systems and employees) as the Clearing House requires to discharge any of its duties (including to promote safe and efficient settlement), to make authorized disclosures or perform any other acts described in these Rules, or to investigate compliance with or enforce any Rule, from time to time.
- 1.6.2. The Clearing House reserves the right to use or disclose, all information and records so received pursuant to Rule 1.6.1 above, and each Clearing Member irrevocably consents to such use or disclosure.
- 1.6.3 The Clearing Member shall exercise due care to ensure that any information or records provided to the Clearing House do not contain untrue statements, are not misleading and include rather than omit any material statements/information.

1.7 Suspension/Termination of Clearing Member Status

- 1.7.1 The Clearing House may, suspend or cancel the Clearing Member status, if;
- (i) a Clearing Member fails to comply with or is in breach of any provision of these Rules or of the Clearing Member Agreement with the Clearing House.
 - (ii) the Clearing Member ceases to be, or is suspended in its capacity as a Trading Participant or Depository Participant.
 - (iii) the Clearing Member breaches any term, condition or restriction imposed by the Clearing House under these Rules.
 - (iv) winding up proceedings have commenced in respect of the Clearing Member.
 - (v) the Clearing Member is, in the opinion of the Clearing House;
 - (a) in financial or operating difficulty, including but not limited to not meeting fund settlement obligations and margin requirements as specified by the Clearing House;
 - (b) conducting its activities in a manner detrimental to the financial integrity, reputation or interests of the Clearing House, or clearing or settlement facilities operated by the Clearing House;
 - (c) no longer fit and proper to continue participating in settlement in terms of these Rules.

- (vi) it is necessary or desirable, in the interests of ensuring safe and efficient settlement or settlement facilities, or for ensuring the integrity of the capital market or for the proper mitigation and management of systemic risk, or for investor protection,
 - (vii) as directed by the SEC, or
 - (viii) as directed by the CBSL in respect of a Custodian Bank.
- 1.7.2 The Clearing House shall not be obliged to provide any clearing or settlement facilities to a Clearing Member or to perform any of its obligations under these Rules towards the Clearing Member from the effective date of the suspension/termination of such Clearing Member, other than to the extent of facilitating the closing down operations of the suspended or terminated Clearing Member in relation to outstanding clearing and settlements.
- 1.7.3 A Clearing Member that is suspended pursuant to Rule 1.7.1, may be reinstated by the Clearing House upon complying with these Rules and/or any additional conditions as the Clearing House may impose.
- 1.7.4 The suspended Clearing Member shall, from the effective date of such suspension until reinstatement of Clearing Member status respectively:
- (a) pay all outstanding charges owing to the Clearing House;
 - (b) fulfill all outstanding settlement and other obligations to the Clearing House; and
 - (c) continue to comply with the terms and conditions set out in the Clearing Member Agreement and these Rules.
- 1.7.5 Termination of clearing member status shall not affect the rights and obligations of the Clearing Member which have accrued up to the effective date of termination.
- 1.7.6 The Clearing House shall forthwith notify the SEC, CSE, and the CDS - Central Depository of any action taken, or proceedings instituted against a Clearing Member in terms of this Rule 1. 7.

SECTION 2

CLEARING AND SETTLEMENT FACILITIES

2.1 Use of Clearing and Settlement Facilities

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

2.2 Appointment of Settlement Bank/s

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

2.3 Types of Products/Eligible Securities for Clearing and Settlement

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

2.4 Availability of Facilities for Foreign Currency Settlements

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

2.5 Delivery Vs Payment Settlement Mechanism

Settlement of all Market Contracts shall be performed by the Clearing House on a Delivery Vs Payment basis in terms of these Rules.

2.6 Settlement Instructions

- 2.6.1 Settlement of Market Contracts under these Rules shall be carried out in accordance with the Settlement Instructions issued by the Clearing House.
- 2.6.2 Settlement Instructions referred to in Rule 2.6.1 shall reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a given Settlement Date.

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

For the avoidance of doubt;

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

2.6.4 The Clearing House may subsequently amend or cancel any Settlement Instructions to effect any settlement of Market Contracts in terms of these Rules by way of issuing an amended Settlement Schedule to the Clearing Members and appointed settlement banks of the Clearing House by T+2.

2.7 Netting Arrangements for Fund Settlements

2.7.1 A Clearing Member's obligation on any Settlement Date to make payment in respect of Market Contracts to be cleared or settled by such Clearing Member shall be set off against such Clearing Member's entitlement to receive funds on such Settlement Date for Market Contracts cleared or settled by such Clearing Member.

2.7.2 Provided however, that in the event of an Excluded Crossing, the Clearing Members clearing and settling such transaction may request the Clearing House, prior to the computation of margins by the Clearing House on the Trade Day, to exclude the settlement of funds in respect of such transaction from the set off of the payment obligations referred to in Rule 2.7.1.

The Clearing Members shall make such request to the Clearing House in the format prescribed by the Clearing House for such purpose.

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

2.8 Finality of Settlement of Market Contracts

2.8.1 The payment obligations of a Clearing Member for a given Settlement Date, as set out in the Settlement Schedule issued by the Clearing House, is discharged by and shall be final and irrevocable upon the debiting of the relevant settlement bank account of such Clearing Member maintained at the appointed settlement bank and the settlement of a Clearing Member's entitlement to receive funds on a given Settlement Date pursuant to the Settlement Schedule and shall be final and irrevocable upon the crediting of the settlement bank account of such Clearing Member maintained at the appointed settlement bank.

2.8.2 The delivery of Securities by the seller to the buyer is effected by and shall be final and irrevocable upon the debiting of the required number of relevant Securities from the seller's Client Account and the receipt of such Securities by the buyer from the seller is effected by and shall be final and irrevocable upon the crediting of such Securities into the buyer's Client Account.

SECTION 3

MINIMUM STANDARDS APPLICABLE TO A CLEARING MEMBER

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

3.1. Capital Requirements

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

The Clearing Members shall comply with the minimum capital requirements as set out below:

- (i) Clearing Members that are Trading Participants of the CSE, shall maintain a minimum liquid capital of Rs. 35 Million and a minimum shareholders' fund position of Rs. 100 Million or 50% of its Stated Capital, whichever is higher.
- (ii) Clearing Members that are Custodian Banks of the CDS shall maintain a minimum total shareholders' equity of Rs. 500 Million.

For the purposes of this Rule 3.1.1 (a);

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

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

(b) Non-compliance with Rule 3.1.1 (a)

- (i) In the event a Clearing Member fails to meet the Capital Requirements set out in Rules 3.1.1 (a) (i) or (ii) (as applicable), such Clearing Member shall immediately notify the Clearing House, in writing, and take necessary steps to comply with the applicable minimum capital requirement/s within a period of thirty (30) Calendar Days from the date of non-compliance.
- (ii) In the event the Clearing Member fails to rectify the non-compliance within the period referred to in Rule 3.1.1 (b) (i) above, the Clearing House shall prohibit such Clearing Member from carrying out the clearing functions through the Clearing House on behalf of its clients and on its own account.
- (iii) The prohibition imposed on the Clearing Member shall be lifted upon such Clearing Member meeting the applicable minimum capital requirement/s.
- (iv) In the event the Clearing Member fails to rectify the non-compliance within three (3) months from the date of prohibition referred to in Rule 3.1.1 (b) (ii) above, the Clearing House shall terminate the Clearing Member status of such Clearing Member.

- (v) The Clearing House shall publish a notice on its website stating the non-compliance with the applicable Rules and the enforcement action initiated by the Clearing House in respect of the Clearing Member concerned.
- (vi) The Clearing House shall notify the CSE, CDS – Central Depository and the SEC regarding the enforcement action initiated against the Clearing Member.

3.1.2 Financial Statements of Clearing Members:

- (i) “The Clearing Member shall submit to the Clearing House, certified copies of the following:
 - a) quarterly financial statements of the Clearing Member within two (02) months from the end of the respective quarter; and,
 - b) audited financial statements of the Clearing Member within five (05) months from the end of the financial year.
- (ii) If the Clearing Member fails to submit certified copies of such financial statements within the respective timelines set out in Rule 3.1.2 (i) above, the Clearing House shall impose a fine of Rupees Twenty-Five Thousand (Rs. 25,000/-) for every month of delay from the expiry of the stipulated time period.
- (iii) Additionally, the Clearing House shall have the right to suspend the Clearing Member status of a Clearing Member for continuous non-submission of quarterly/audited financial statements. In such event, the Clearing House shall notify the SEC, CSE and the CDS – Central Depository of such suspension.

3.2 Systems and Operations of a Clearing Member

A Clearing Member shall ensure that:

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

3.3 Business Continuity Requirements

- 3.3.1 The Clearing Members shall, at all times, have in place and maintain disaster recovery and business continuity arrangements that are adequate to ensure the timely recovery of its usual operations having regard to the nature and extent of the business carried on by that Clearing Member and any matters as may be specified by the Clearing House from time to time.

3.3.2 The Clearing House may, at any time, require a Clearing Member to undertake testing of its disaster recovery and business continuity arrangements at such times and in such manner as may be specified by the Clearing House.

3.4 Other Risk Management Requirements

3.4.1 The Clearing Member shall be responsible for the monitoring and management of risk, including determination of the nature and extent of the significant risks which the Clearing Member can reasonably undertake.

3.4.2 The Management of the Clearing Member shall oversee the Clearing Member's risk management framework and policies and ensure that Management maintains a sound system of risk management and internal controls including but not limited to maintaining adequate staff and facilities for monitoring its cash flows and funding requirements and maintaining sufficient liquidity for its day to day operations.

3.4.3 The Clearing Member shall, upon the request of the Clearing House, make available details which include the following;

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

3.5 Internal Audit Requirements

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

3.6 Submission of Compliance Report

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

SECTION 4

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

For the avoidance of doubt, the reference to the term “Securities” in this section of the Rules shall only be a reference to Securities traded on the equity market of the CSE as referred to in the Trading Rules of the CSE including but not limited to shares or any other instrument conferring or representing a legal or beneficial ownership interest in a Listed Entity including any rights, options or interests thereto and units or any other such instrument issued to the investors under an investment scheme as defined in the CSE Rules.

PART A: MARGIN REQUIREMENTS AND MARKET COLLATERAL

4.1 Margin Requirements

- (i) The Clearing House shall impose the margin requirements set out in this Section on all Clearing Members of the Clearing House in respect of all Market Contracts carried out on the Equity Market of the CSE on each Trade Day, other than the following:
 - (a) A Market Contract for sale of Securities which does not result in a Short Position;
 - (b) An Excluded Crossing;
 - (c) A Market Contract carried out on the Buy-in Board of the CSE; and
 - (d) A Market Contract in Foreign Currency denominated Securities executed on the CSE.

- (ii) The total margin requirement applicable for each Clearing Member shall comprise of the following:
 - (a) Base margin requirement; and
 - (b) Additional margin requirements (where applicable).

4.1.1 Base Margin Requirement

- (i) Each Clearing Member shall at all times maintain collateral to satisfy the base margin requirement determined by the Clearing House from time to time as morefully set out in Rule 4.2. The base margin requirement shall be computed based on the quarterly average daily purchase turnover of each Clearing Member.

- (ii) The base margin requirement applicable to each Clearing Member shall be reviewed by the Clearing House on a quarterly basis on the first (1st) Market Day of each calendar quarter, based on the average daily purchase turnover of each such Clearing Member in the preceding calendar quarter. Any increase or decrease in the base margin requirement applicable to a Clearing Member shall be notified, in writing, to such Clearing Member by the Clearing House.

- (iii) If there is an increase in the base margin requirement applicable to a Clearing Member, such Clearing Member shall comply with such increased margin requirement in accordance with Rule 4.2.
- (iv) If there is a decrease in the base margin requirement applicable to a Clearing Member, the excess collateral maintained by such Clearing Member with the Clearing House shall be refunded to the Clearing Member in accordance with Rule 4.2.

4.1.2 Additional Margin Requirements

- (i) If the base margin requirement set out in Rule 4.1.1 is insufficient to satisfy the total margin requirement of such Clearing Member in respect of Market Contracts carried out on a particular Trade Day, the Clearing House shall impose additional margin requirements on Clearing Members as set out in Rule 4.1.2.
- (ii) The additional margin requirements shall comprise of the:
 - (a) Initial margin requirement; and,
 - (b) Variation margin requirement;which shall be computed based on the methodology determined by the Clearing House from time to time and notified to the Clearing Members.
- (iii) The additional margin requirement (if any) shall be communicated to the relevant Clearing Members by the Clearing House at the end of each Trade Day (T).
- (iv) The Clearing Member shall take necessary steps to comply with such additional margin requirement in accordance with Rule 4.2.

4.2 Market Collateral

4.2.1. General

- (i) Clearing Members shall, at all times, ensure compliance with the margin requirements set out in Rule 4.1 by maintaining sufficient collateral with the Clearing House in accordance with this Rule 4.2.
- (ii) Clearing Members may obtain collateral from the relevant Client/s of the Clearing House who are Account Holders of the CDS - Central Depository, to the extent of the margin requirements arising from the Market Contracts carried out by such Account Holder/s, in satisfying the total margin requirements applicable to such Clearing Member.

4.2.2 Form of Collateral

Clearing Members shall furnish collateral to the Clearing House in the form of cash and/or an irrevocable and unconditional bank guarantee obtained from a commercial bank licensed by the CBSL, acceptable to the Clearing House.

4.2.3 Manner of Furnishing Collateral

- (i) Subject to Rule 4.2.3 (iii), Clearing Members shall furnish the required collateral to the Clearing House in fulfilment of margin requirements set out in Rule 4.1 in the following manner:
 - (a) The base margin requirement shall be initially fulfilled by the Clearing Member by furnishing the collateral by 14:30 hours on the second Market Day immediately following the date of notification by the Clearing House requesting for the furnishing of such collateral.
 - (b) In respect of any increase to the base margin requirement, the Clearing Member shall furnish the collateral by 14:30 hours on the second Market Day immediately following the date of notification by the Clearing House of the increase to the base margin requirement.
 - (c) In respect of any additional margin requirement, the Clearing Member shall furnish the collateral by 10:30 hours on the Market Day immediately following the date of notification by the Clearing House of the additional margin requirement.
- (ii) Any cash collateral furnished by a Clearing Member in fulfilment of margin requirements set out in these Rules shall be deposited into an account maintained by the Clearing House in a settlement bank for the specific purpose of margin utilization.
- (iii) In the event of Custodian Trades, a Clearing Member that is a Custodian Bank (hereinafter referred to as a 'Custodian Clearing Member') shall furnish Market Collateral to the Clearing House in the manner set out below:
 - (a) Each Custodian Clearing Member shall furnish to the Clearing House collateral in fulfilment of the margin requirements applicable to Market Contracts affirmed by such Custodian Clearing Member in terms of Rule 4.8. The Custodian Clearing Member shall furnish such collateral to the Clearing House by 10.30 hours on T+2.
 - (b) In the event of a rejection of a purchase transaction by a Custodian Clearing Member in terms of Rule 4.8, the Stockbroker, through whom such Market Contract for purchase of Securities was carried out (hereinafter referred to as a Stockbroker Clearing Member), shall furnish collateral to the Clearing House in fulfilment of the margin requirements applicable to such Market Contract by 10.30 hours on T+2.
 - (c) In the event a Custodian Clearing Member affirms a Market Contract for purchase of Securities which was initially rejected by such Custodian Clearing Member in accordance with the Rule 4.8 (v), such Custodian Clearing Member shall forthwith furnish the collateral in fulfilment of the margin requirements applicable to such Market Contract in accordance with Rule 4.1 by 10.30 hours on T+2.

4.2.4 Requirement to Replenish Collateral

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

4.2.5 Returning of Excess Collateral and Interest

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

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

- (i) The Clearing House shall have a first and paramount lien and charge over the collateral deposited with the Clearing House by a Clearing Member for the due settlement of the following payment obligations of the Clearing Member under these Rules;
 - (a) any sums due and payable by such Clearing Member to any other Clearing Member;
 - (b) any sum payable by clients of such Clearing Member pursuant to these Rules including compensation for settlement failures and/or failed Market Contracts; and/or
 - (c) any and all sums payable by such Clearing Member to the Clearing House, CDS - Central Depository, CSE and SEC including fees, commissions, charges and/or dues payable by such Clearing Member.
- (ii) The Clearing House shall be entitled to use such collateral deposited by a Clearing Member to defray the payments identified in Rule 4.2.6 (i).

4.3 Non-Compliance with Rules 4.1 and 4.2

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House in accordance with Rules 4.1 and 4.2, the Clearing House shall initiate the following action against such Clearing Member:

(i) Imposition of fines

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

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

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

(ii) Commencement of Disciplinary Proceedings

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House in accordance with Rule 4.1 and Rule 4.2 on more than three (3) separate occasions within any given period of twelve (12) months, the Clearing House shall, in addition to the fines fee stipulated in Rule 4.4(i)(a), commence disciplinary proceedings against such Clearing Member in terms of Section 8 of these Rules.

PART B: SETTLEMENT OF MARKET CONTRACTS

4.4 SETTLEMENT OF MARKET CONTRACTS DENOMINATED IN LKR

4.4.1 Inter - Clearing Member Settlement of Funds

- (i) The inter - clearing member settlement of funds for Market Contracts carried out on the Equity Market of the CSE shall take place by 10.30 hours on the Settlement Date, i.e. third (3rd) Market Day after the Trade Day (T+3), through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House. The inter - clearing member settlement shall be completed by 10.30 hours on the settlement date.

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

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

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

- (iii) A Custodian Clearing Member shall make available sufficient Cleared Funds in the settlement bank account by 09.30 hours on the Settlement Date to settle the payment obligations arising out of Market Contracts to be cleared and settled by such Custodian Clearing Member based on the Settlement Schedule issued by the Clearing House.

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

- (iv) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules.
- (v) The buying Clearing Member shall ensure that each buyer makes available, the required Cleared Funds in respect of Market Contracts so as to enable the buying Clearing Member to meet its fund settlement obligations within the time period prescribed in these Rules.

- (vi) If the buyer fails to make available the Cleared Funds referred to in Rule 4.4.1 (v), the buying Clearing Member which is a Stock Broker, may at its absolute discretion, recover interest commencing from the day after the Settlement Date up to the date of final settlement provided such interest shall not exceed 0.1% per day, provided such Clearing Member settled such Market Contract.

- (vii) Selling Clearing Member who is a Stock Broker:

- a) shall ensure that Cleared Funds are made available to the seller on the Settlement Date of the Market Contract, unless the seller has requested the Clearing Member, in writing, to retain the sale proceeds. If for any reason the sale proceeds have not been made available to the Seller by the Stock Broker on the Settlement Date without a written request from the seller as aforesaid, the seller

shall be entitled to interest from the day after the Settlement Date on the outstanding amount at 0.1% per day from the Selling Clearing Member.

- b) can make settlements to the seller either by cheques or electronic fund transfers to the seller's bank account. If payment is made to sellers by way of cheques they shall be duly crossed as 'Account Payee'. If the seller requests that the crossing to be cancelled, the selling Clearing member shall obtain a written request from the seller and such request must be authorized by the Chief Executive Officer of such Clearing Member.
- c) No cash cheques shall be issued to clients.

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

4.4.2 Settlement of Securities

- (i) A selling Clearing Member shall ensure that a Market Contract for a Short Sale Transaction executed in terms of section 16 of the Trading Rules of the CSE does not result in a Short Position as at the end of the Trade Day on which such Market Contract is executed.
- (ii) A selling Clearing Member failing to discharge its obligation under Rule 4.4.2 (i) shall, in order to facilitate the settlement of the Market Contract;
 - (a) purchase the shortfall of Securities for the sell Market Contract under reference on the Buy-In Board of the CSE on or before T+2 on behalf of the seller; or
 - (b) otherwise procure the required number of Securities to cover such shortfall by 15.00 hours on T+2.
- (iii) The selling Clearing Member shall ensure that the required number of Securities are made available in the seller's Client Account by 15.00 hours on T+2 for delivery of such Securities to the buyer's Client Account on the Settlement Date.
- (iv) A Clearing Member making a sell order of Securities on the Buy-In Board of the CSE shall ensure that the required number of Securities are held in the Cleared Balance of the seller's Client Account at the time such sell order is placed.
- (v) The settlement of Securities by delivery thereof, pursuant to a Market Contract, shall take place on the Settlement Date, only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank.

4.4.3 Trade Affirmations/Rejections by Custodian Banks

- (i) Subject to Rule 4.4.3 (iii), Market Contracts carried out on behalf of Account Holders registered through a Custodian Clearing Member shall be affirmed or rejected by the respective Custodian Clearing Member by 14.00 hours on T+1, in the format prescribed by the ^{Public} Clearing House from time to time. Provided

however, that such affirmation or rejection of a Market Contract shall not be applicable in respect of Excluded Crossings and Market Contracts carried out on the Buy-In Board of the CSE.

- (ii) If a Custodian Clearing Member fails to affirm a Market Contract carried out by a Trading Participant prior to the stipulated time period referred to in this Rule for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Market Contract by the Custodian Clearing Member.
- (iii) In the event of a rejection of a Market Contract by a Custodian Clearing Member, the Clearing House shall issue a revised Settlement Schedule by T+2 and substitute the Custodian Clearing Member with the Stockbroker/Stock Dealer Clearing Member which carried out such Market Contract in the capacity of a Trading Participant of the CSE for the purpose of settlement of the Market Contract concerned on the Settlement Date.
- (iv) A Custodian Clearing Member may subsequently affirm a Market Contract, which was initially rejected by such Custodian Clearing Member in terms of this Rule, prior to 12.00 hours on T+2 with the concurrence from the Trading Participant which carried out such Market Contract, provided that;
 - (a) the Trading Participant which carried out the Market Contract (who is also the Stockbroker/Stock Dealer Clearing Member) makes a request in writing to the Clearing House for the reversal of the obligations relating to such Market Contract from the Stockbroker Clearing Member to the Custodian Clearing Member; and,
 - (b) the Custodian Clearing Member satisfying all margin requirements set out in Rule 4.1 in the manner set out in Rule 4.2.3 (iii).
- (v) In the event of an affirmation by a Custodian Clearing Member in accordance with Rule 4.4.3 (iv), the Clearing House shall facilitate the reversal of obligations relating to such Market Contract from the Stockbroker Clearing Member to the Custodian Clearing Member and an amended Settlement Schedule shall be sent by T+2 to the relevant Clearing Member and the settlement banks by the Clearing House.

4.4.4 Settlement Failure

The Rules set out in Part C (Default Handling) of Section 4 of these Rules shall be applicable to a settlement failure in contravention of these Rules.

4.5 SETTLEMENT OF MARKET CONTRACTS DENOMINATED IN FOREIGN CURRENCIES

4.5.1 Inter - Clearing Member Settlement of Funds - Equity

- (i) The inter-Clearing Member settlement of funds for Shares denominated in Foreign Currency traded on the CSE, shall take place by 12.30 hours on the Settlement Date, i.e. T+3, through the appointed settlement bank/s as per the

Settlement Schedules issued by the Clearing House. The inter-Clearing Member settlement shall be completed by 12.30 hours on the Settlement Date.

- (ii) A Custodian Clearing Member's obligation on any Settlement Date to make payment in respect of Market Contracts carried out by such Clearing Member in respect of Shares denominated in Foreign Currency shall be set off against such Custodian Clearing Member's entitlement to receive funds on the Settlement Date for such Market Contracts carried out by the Clearing Member.
- (iii) The Clearing House shall issue, on each Market Day, a Settlement Schedule, which shall reflect the debits and credits that have been entered into the Custodian Clearing Member's account and the net amount to be settled by each Custodian Clearing Member on a particular Settlement Date in respect of transactions relating to Shares denominated in Foreign Currency.
- (iv) The Custodian Clearing Member shall, for Market Contracts executed on the CSE pertaining to Shares denominated in Foreign Currency, make available sufficient Cleared Funds in the Settlement Bank by 10.30 hours on the Settlement Date to settle the payment obligations arising out of transactions carried out by such Custodian Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (v) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules.

4.5.2 Settlement of Securities - Equity

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

to in Rule 4.5.2 (i), only upon the receipt of confirmation of the settlement of funds from the appointed Settlement Bank.

4.5.3 Trade Affirmations/Rejections by Custodian Banks

- (i) Market Contracts in Foreign Currency denominated Shares shall be affirmed or rejected by the respective Custodian Clearing Member by 14.30 hours on T+1, in the format prescribed by the Clearing House from time to time.
- (ii) If a Custodian Clearing Member fails to affirm a Market Contract carried out by a Trading Participant prior to the stipulated time period referred to in Rule 4.5.3 (i)

for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Market Contract by the Custodian Clearing Member.

- (iii) In the event of a rejection of a Market Contract of Shares denominated in Foreign Currency, such rejection shall result in a cancellation of such Market Contract and the Clearing House shall notify the CSE to cancel such Market Contract.
- (iv) In the event, a Market Contract in Foreign Currency denominated Shares is cancelled in accordance with Rule 4.5.3 (iii), the Clearing House shall issue an amended Settlement Schedule to the relevant Custodian Clearing Members and the Settlement Banks.

4.5.4 Fund Settlement Failure

In the event of a fund settlement failure by a Custodian Clearing Member in respect of a Market Trade in Foreign Currency denominated Shares, the Clearing House shall initiate enforcement action against such Custodian Clearing Member in accordance with Part C (Default Handling) of Section 4.

PART C: DEFAULT HANDLING

Part C shall be applicable in respect of all Trades executed on the equity market of the CSE as referred to in the Trading Rules, except Excluded Crossings as defined in these Rules and Market Contracts executed on the Buy-in Board of the CSE.

4.6 Responsibility of the Clearing Member

The integrity and stability of the Securities market is dependent on the due settlement by a Clearing Member of each Market Contract to be cleared and settled by such Participant. The failure to do so will result in loss of public trust and confidence in the credibility of the market. Accordingly, as set out in Part C of Section 4 of these Rules, it is the sole obligation and the responsibility of the Clearing Member to ensure that each Market Contract is duly settled on the Settlement Date. This fundamental premise with regard to settlement of Market Contracts will accordingly form the basis for the provisions of this Part C of Section 4.

I. Failures in Settlement of Market Contracts

4.7 Default of Payment

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

such Clearing Member shall, by 15.00 hours on T + 2, notify the Clearing House, in writing, that such Market Contract is likely to be defaulted. Upon the receipt of such notification, the Clearing House shall isolate such Market Contract and issue an amended Settlement Schedule, excluding the obligations arising out of such Market Contract. The amended Settlement Schedule shall be sent to the respective Clearing Members and the appointed settlement banks for settlement on the next Market Day.

Provided however that provisions of this Rule 4.7 (a) shall not be construed in any manner howsoever to be in derogation of the obligation and responsibility of the Clearing Member to ensure due settlement of each Market Contract as set out in Rule 4.6.

For the avoidance of any doubt and without prejudice to the provisions of Rule 4.9, the Clearing House shall be entitled to take disciplinary action against any Clearing Member who fails to issue notification or issues any notification in violation of the provisions of this Rule 4.7(a).

- (b) The Clearing House shall, by arrangement with the CDS - Central Depository, ensure that the Securities relating to a Trade that is isolated and removed from the Settlement Schedule in terms of Rule 4.7(a) are not transferred from the seller's Client Account to the buyer's Client Account in the CDS - Central Depository on the Settlement Date.
- (c) If Market Contracts are isolated in terms of Rule 4.7(a) and where such Market Contracts are;
 - (i) denominated in LKR, such Market Contracts shall be deemed to be failed Trades on the Settlement Date;
 - (ii) denominated in foreign Currency, the Clearing House will notify the CSE to cancel such the Market Contracts;

and the Clearing House shall communicate an amended settlement schedule to all relevant Clearing Members.

- (d) The buyer of a failed Trade referred to in Rule 4.7 (c)(i), shall be liable to pay compensation to (i) the seller of such failed Trade and (ii) the seller's Clearing Member, which shall be computed based on a formula determined by the Clearing House and notified to the Clearing Members from time to time and published on the CDS website.

The compensation payable in respect of a failed Trade as computed in terms of the said formula shall be deemed to be a genuine pre-estimate of the losses and damages of (i) the seller and (ii) the seller's Clearing Member, arising from the failure of the Trade.

- (e) The compensation payable by the buyer to the seller and the seller's Clearing Member in respect of a failed trade in terms of this Rule 4.7 (c)(i), shall be settled by the buyer's Clearing Member to the seller's Clearing Member on the applicable date/s as determined and communicated to the Clearing Members by the Clearing House.
- (f) The payment by the buyer through the buyer's Clearing Member of the compensation referred to in this Rule 4.7 (e) in full to (i) the seller through the seller's Clearing Member and (ii) the seller's Clearing Member shall be a full and complete discharge of the obligations of the buyer in respect of a failed Trade referred to in this Rule 4.7 (c)(i).
- (g) Upon receipt of the compensation in respect of a failed Trade from the buyer's Clearing Member, the seller's Clearing Member shall ensure that the compensation payable to the seller is credited to the bank account of the seller on the applicable date/s as determined and communicated to the Clearing Members by the Clearing House.

4.8 Default of Delivery of Securities

- (a) If the number of Securities held in the Cleared Balance of the Client Account of the seller maintained in the CDS - Central Depository through the seller's Depository Participant is insufficient to settle a Market Contract in full on the Settlement Date, such Market Contract shall be settled to the extent possible by the delivery of the entirety of

the Securities held in such Client Account to the buyer. The delivery shall take place by the debiting of such Securities from the seller's Client Account in the CDS - Central Depository and the crediting of the Securities to the buyer's Client Account upon the settlement of funds in respect of the Securities available in the seller's Client Account for delivery to the buyer as aforesaid.

- (b) The Seller's Clearing Member shall ensure that, the seller who has failed to deliver all or part of the Securities required for settlement of a Market Contract on the Settlement Date (even where the failure of the seller to procure sufficient Securities was due to the unavailability of Securities for purchase on the Buy-In Board and/or any other reason) shall be liable to pay compensation to (i) the buyer and (ii) the buyer's Clearing Member, which shall be computed based on a formula to be determined by the Clearing House and notified to the Clearing Members from time to time.
- (c) The Seller's Clearing Member shall ensure that, the seller who has failed to deliver all or part of the Securities required for settlement of a Market Contract on the Settlement Date shall, in addition to and over and above the compensation referred to in Rule 4.8(b), be liable to compensate the buyer for entitlements accruing to those Securities arising from any corporate actions relating to such Securities that the buyer, as the recipient of such Securities would have become entitled to and/or received but for the delivery failure.

The method of computation of compensation payable in respect of each such corporate action shall be determined by the Clearing House and notified to the Clearing Members from time to time and published on the CDS website.

- (d) The compensation payable by the seller to the buyer and the buyer's Clearing Member in terms of this Rule 4.8 shall be settled by the seller's Clearing Member to the buyer's Clearing Member on the applicable date/s as determined and communicated to the Participants by the Clearing House.

The compensation payable in terms of this Rule 4.8 as computed in terms of the formula determined by the Clearing House shall be deemed to be a genuine pre-estimate of the losses and damages of (i) the buyer and (ii) the buyer's Clearing Member arising from the failure to deliver the relevant Securities.

- (e) The payment by the seller through the seller's Clearing Member of the compensation referred to in this Rule 4.8 in full to (i) the buyer through the buyer's Clearing Member and (ii) the buyer's Clearing Member shall be a full and complete discharge of the obligations of the seller in respect of a failed Trade referred to in this Rule 4.8.
- (f) Upon receipt of the compensation in terms of this Rule 4.8 from the seller's Clearing Member, the buyer's Clearing Member shall ensure that the compensation payable to the buyer is credited to the bank account of the buyer on the applicable date/s as determined and communicated to the Clearing Members by the Clearing House.

II. Liabilities of a Clearing Member in respect of a Settlement

Failure 4.9 Default of fund settlement

If a Clearing Member defaults in settlements of funds in respect of any Market Contract on a particular Settlement Date in terms of Rule 4.4.1 for any reason whatsoever including any failure by the buyer/s to make sufficient Cleared Funds available to the Clearing Member, (i) such Clearing Member shall pay to the Clearing House a fine to be determined by the Clearing House at its discretion from time to time and (ii) the Clearing House shall take the following action in enforcement of the provisions of these Rules.

(A) In respect of a Stockbroker/Stock Dealer Clearing Member:

- (a) The Clearing House shall not clear or settle any Market Contracts for purchase of Securities of such Stockbroker/Stock Dealer Clearing Member on behalf of its client/s and on its own account, for a period of fifteen (15) Market Days and shall notify the CSE and CDS - Central Depository, with immediate notice to the market.

Provided however, the Clearing House shall clear or settle Market Contracts for sale of Securities of the Stockbroker/Stock Dealer Clearing Member subject to such Market Contracts being carried out with a Cleared Balance on its client/s account/s and its own account.

- (b) The Clearing House shall publish a notice in all three (03) languages in national newspapers stating the non-compliance with the applicable Rules and the enforcement action taken by the Clearing House in respect of the Stockbroker/Stock Dealer Clearing Member concerned.
- (c) If such Stockbroker/Stock Dealer Clearing Member fails to meet its outstanding settlement obligations by the expiry of the fifteenth (15th) Market Day period referred to in Rule 4.9(A)(a), the Clearing House shall, in addition to the above, not clear or settle Market Contracts for sale of Securities of such Stockbroker/Stock Dealer Clearing Member on behalf of its clients and on its own account and shall notify the CSE and the CDS – Central Depository thereof.
- (d) The Clearing House shall publish a notice in all three (03) languages in national newspapers notifying the public of the enforcement action taken in respect of the Stockbroker/Stock Dealer Clearing Member concerned.
- (e) Notwithstanding the enforcement action referred to herein, the Stockbroker/Stock Dealer Clearing Member shall continue to honour its obligations with regard to fund settlement to other Clearing Members.
- (f) The Clearing House shall notify the CSE, CDS – Central Depository and the SEC regarding the enforcement action initiated against the

Stockbroker/Stock Dealer Participant in terms of Section 11 of these Rules.

- (g) The Clearing House shall initiate disciplinary action against the Stockbroker/Stock Dealer Participant concerned in terms of Section 8 of these Rules.

(B) In respect of a Custodian Clearing Member pertaining to Trades in Shares denominated in LKR:

- (a) The Clearing House shall prohibit the Custodian Clearing Member from carrying out any clearing and settlement functions through the Clearing House with immediate effect and shall notify the CSE and the CDS – Central Depository thereof.
- (b) The Clearing House shall publish a notice in all three (03) languages in national newspapers notifying the public of the fund default of the Custodian Clearing Member and the corresponding enforcement action taken by the Clearing House.
- (c) Notwithstanding the prohibition referred to herein, the Custodian Clearing Member shall continue to honor its obligations with regard to fund settlement to other Participants.

The Clearing House shall notify the CSE and CDS – Central Depository regarding the enforcement action initiated against the Custodian Clearing Member in terms of Section 11 of these Rules.

(C) In respect of a Custodian Clearing Member pertaining to Trades in Shares denominated in Foreign Currency:

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

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

- (ii) If a Custodian Clearing Member fails to meet the fund settlement obligations in terms of Rule 4.5.1 of these Rules,
 - a. on two (2) separate occasions within any given period of six (6) months; or,
 - b. on three (3) separate occasions within any given period of one (1) year,

the Clearing House shall, in addition to the processing fee referred to in Rule 4.9(C)(i), prohibit such Custodian Clearing Member from carrying out any

Clearing House functions with immediate effect for a period of three (3) Market Days.

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

4.10 Securities Default

If a Clearing Member fails to ensure that the required number of Securities are made available in the seller/s Client Account with the CDS - Central Depository on the Settlement Date in terms of Rule 4.4.2, the Clearing House shall initiate the following action against such Clearing Member:

(a) Imposition of fines:

(i)

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

(b) Other Enforcement Action

In addition to the fines stipulated in Rule 4.10 (a), if a Clearing Member fails to ensure that the required number of Securities are made available in the seller/s Client Account with the CDS - Central Depository on the Settlement Date on four (4) separate occasions within any period of one (1) year in terms of Rule 4.10(a), or five (5) separate occasions within any period of one (1) year in terms of Rule 4.10 (a) the Clearing house shall;

- (i) prohibit such Clearing Member from carrying out any clearing and settlement functions through the Clearing House on behalf of its clients

and on its own account, for a period of three (3) Market Days and notify the CDS - Central Depository thereof

and,

- (ii) publish a notice on the websites of the CSE and the CDS stating the noncompliance with the applicable Rules and the enforcement action taken by the Clearing House against the Clearing Member.

4.11 Utilization of the Settlement Guarantee Fund

- (i) In the event of a default of fund settlement by a Clearing Member and the Market Collateral furnished to the Clearing House is insufficient to satisfy the settlement obligations of such Clearing Member, such Clearing Member may obtain funding from the Settlement Guarantee Fund established by the SEC and the CSE to meet outstanding settlement obligations, subject to the conditions stipulated by the Settlement Guarantee Fund.
- (ii) If a Clearing Member obtains funding from the Settlement Guarantee Fund referred to in Rule 4.11, the Clearing Member shall replenish the said Fund within the time period to be determined by the Clearing House in consultation with the SEC.
- (iii) For the avoidance of doubt, any refusal or rejection by the Settlement Guarantee Fund to provide funding to the Clearing Member pursuant to a request being made therefor by the Clearing Member, for any reason whatsoever, shall not relieve the Clearing Member from its outstanding settlement obligations in any manner whatsoever.
- (iv) The Clearing House may, require the Clearing Members to contribute to a Settlement Guarantee Fund to be established by the Clearing House in the manner specified by the Clearing House from time to time.

SECTION 5

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

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

5.1.1 Definitions

For the purpose of Rule 5.1:

Debt Securities

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

Trading Participant for Debt Securities

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

Settlement Date

means

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

Spot Board

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

Tom Board

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

5.1.2 Settlement of Debt Securities

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

5.1.3 Inter - clearing member Settlement

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

- (ii) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules.
- (iii) The Clearing House shall issue, on each Market Day, a Settlement Schedule, which will reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a particular Settlement Date.
- (iv) A Stockbroker Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Settlement Date to clear and settle Market Contracts of such Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (v) A Custodian Clearing Member shall make available sufficient Cleared Funds in the settlement bank by 09.30 hours on the Settlement Date to settle payment arising out of Market Contracts of such Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (vi) A buyer shall make available, and the buying Clearing Member shall ensure that such buyer makes available, the required Cleared Funds in respect of a Market Contract so as to enable the buying Clearing Member to meet its fund settlement obligations within the time period prescribed in these Rules.
- (i) If the buyer fails to make available the Cleared Funds as referred to in Rule 5.1.3 (vi), the buying Clearing Member which is a Stock Broker, may at its absolute discretion, recover interest commencing from the day after the Settlement Date up to the date of final settlement and such interest shall not exceed 0.1% per day, provided such Clearing Member settled such Market Contract.
- (vii) A Selling Clearing Member who is a Stock Broker:
 - (a) shall ensure that Cleared Funds are made available to the seller on the Settlement Date of the Market Contract, unless the seller has requested the Clearing Member, in writing, to retain the sale proceeds. If for any reason the sale proceeds have not been made available to the Seller by the Stock Broker on the Settlement Date without a written request from the seller as aforesaid, the seller shall be entitled to interest from the day after the Settlement Date on the outstanding amount at 0.1% per day from the Selling Clearing Member.
 - (b) could make settlements to the seller either by cheques or electronic fund transfers to the seller's bank account. If payment is made to sellers by way of cheques, such cheques shall be duly crossed as 'Account Payee'. If the seller requests that the crossing to be cancelled, the selling Clearing member shall ensure that a request shall be made in writing by the seller and same is authorized by the Chief Executive Officer of such Clearing Member.
 - (c) No cash cheques shall be issued to clients.

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

5.1.4 Margin Requirements applicable for Market Contracts on Debt Securities

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

5.1.5 Provision of Market Collateral to the Clearing House

- (i) If a margin requirement is applicable as set out in Rule 5.1.4 (iii), the Clearing Member shall provide Market Collateral to the Clearing House by 09.30 hours on T+1. The value of Market Collateral furnished to the Clearing House shall be at least equivalent to the margin requirement of such Clearing Member computed in terms of Rule 5.1.4.
- (ii) The Market Collateral furnished to the Clearing House shall be in the form of a cash deposit.
- (iii) The Market Collateral shall be used by the Clearing House to defray;
 - (i) Any sums due and payable by a Clearing Member in default to any client of such Clearing Member;
 - (ii) Any sums due and payable by such Clearing Member to any other Clearing Member of the Clearing House; and/or
 - (iii) Any fees, commissions, charges and dues payable by such Clearing Member to CDS - Central Depository, Clearing House, CSE and SEC.
- (iv) If a Clearing Member fails to provide the requisite Market Collateral to meet its margin requirement, the Clearing House shall commence disciplinary proceedings against such Clearing Member in terms of Section 9.

5.1.6 Settlement Liability of Market Contracts carried out through a Custodian Clearing Member

If a Market Contract of Debt Securities carried out on behalf of an Account Holder registered through a Custodian Clearing Member is not settled by such Clearing Member, the settlement liability of such Market Contract shall devolve on the Stockbroker Clearing Member that is also the Trading Participant who executed the Market Contract.

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

(A) Definitions

For the purpose of Rule 5.2:

OTC Platform

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

Specified Securities

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

Trading Participant

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

(B) Repurchase Transactions in Debt Securities (REPO)

For the purposes of this Rule 5.2 (B);

Borrower: shall mean seller of the Purchased Securities (i.e. the borrower of funds) on the Purchase Date in a Repurchase Transaction

Eligible Investors for REPO Transactions: shall mean the following categories of investors who are permitted by the CSE to carry out transactions on Specified Securities on its OTC Platform:

- a commercial bank licensed by the Central Bank of Sri Lanka (CBSL) in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the CBSL in terms of the Banking Act No. 30 of 1988 (as amended);

- a finance company licensed by the CBSL in terms of the Finance Business Act No. 42 of 2011(as amended);
- a company licensed by the CBSL to carry on finance leasing business under the Finance Leasing Act No 56 of 2000 (as amended);
- a primary dealer licensed by the CBSL;
- a company licensed by the Insurance Regulatory Commission of Sri Lanka to carry on insurance business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);
- Members and Trading Members of the CSE possessing a Stock Dealer license for Debt Securities from the SEC;
- The trustee or the manager of a collective investment scheme; Pension fund or superannuation fund;
- a venture capital fund/company or private equity company;
- a wealth management/asset management company/Investment Manager;
- a non-resident institutional investor
- an individual investor who is a party to a transaction on specified Securities on the OTC Platform amounting to a minimum of Rs. 5,000,000

Lender: shall mean the buyer of the Purchased Securities (i.e. the Lender of funds) on the Purchase Date in the Repurchase Transaction.

Master Repurchase Agreement: shall mean the agreement entered between a Trading Participant and an Eligible Investor, two (2) Trading Participants or two (02) Eligible Investors operating through the same Trading Participant for the purpose of carrying out Repurchase Transactions on debt securities on the OTC Platform of the CSE.

Purchase Date:	shall mean the date on which the Repurchase Transaction shall be matched and recorded on the OTC Platform.
Purchase Price:	shall mean the amount payable by the Lender to the Borrower, i.e. the amount lent on the Purchase Date.
Purchase Securities:	shall mean Debt Securities, which are the subject matter of a Repurchase Transaction
Repurchase Date:	shall mean the date on which the Lender has agreed to resell the Purchased Securities to the Borrower.
Repurchase Price:	shall mean the price at which the Lender has agreed to resell the Purchased Securities to the Borrower on the Repurchase Date
Repurchase Transaction:	shall mean a repurchase agreement/transaction on debt securities.
Rolled Over Repurchase Transaction:	shall mean that a Repurchase Transaction which would be rolled over by the same parties on the Repurchase Date of the original Repurchase Transaction based on new terms and conditions

(1) Settlement of Repurchase Transactions

A. Fund Settlement

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

of the CSE on the Purchase Date (or the Settlement Date, if different to the Purchase Date) or the Repurchase Date as the case may be.

B. Confirmation of Availability of Funds and Securities

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

C. Settlement of Securities

- (a) Upon receiving the confirmation referred to in Rule 5.2.B (1) (B), the Clearing House shall notify the CDS – Central Depository to:
- (i) lock the quantum of securities pertaining to such transaction which is held in the respective Borrower's Client Account on the Purchase Date (if different to the settlement date); and,
 - (ii) transfer the Purchased Securities pertaining to the Repurchase transaction from the Borrower's Client Account to the Lender's Client Account on the Purchase Date (or the Settlement Date, if different to the Purchase Date); and,
 - (iii) transfer the Securities from the Lender's Client Account to the Borrower's Client Account on the Repurchase Date of the Repurchase Transaction.

D. Client Confirmations on Receipt of Funds and Securities

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

(2) Substitution of Purchased Securities

Upon receiving a request for substitution of Purchased Securities in a Repurchase Transaction on Debt Securities from the CSE via the OTC Platform, the Clearing House

shall instruct the CDS – Central Depository to replace the existing Purchased Securities with the new Purchased Securities by effecting the respective transfers of securities to and from the respective Client Accounts based on the information received from the CSE and confirm the completion of same to the respective Clearing Members.

(3) Default of a Repurchase Transaction

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

- (i) Events of defaults arising out of the Repurchase Transaction:

Purchase Date of the Repurchase Transaction

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

Repurchase Date of the Repurchase Transaction

- a. If the Borrower fails to transfer funds to the Lender on the Repurchase Date of the Repurchase Transaction.
- b. If the Lender does not have the Purchased Securities in the Lender's Client Account in the CDS - Central Depository on the Repurchase Date of the Repurchase Transaction.

- (ii) Events of default arising due to regulatory action on the Debt Securities placed as Purchased Securities;

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

(4) Roll Over of Repurchase Transactions

- (1) Based on the notification received from the CSE regarding a Roll Over of a Repurchase Transaction, the Clearing House shall instruct the CDS - Central Depository to carry out the necessary transfers of Purchased Securities to and from the Borrower's and Lender's Client Accounts in the CDS - Central Depository, on the Repurchase Date of the Repurchase Transaction.

- (2) Upon the CDS - Central Depository confirming to the Clearing House regarding the completion of the transfers of the Purchased Securities relating to the Rolled Over Repurchase Transactions by the CDS - Central Depository, the relevant Clearing Members shall be informed of same by the Clearing House.
- (3) The Clearing House shall maintain a log of every Rolled Over Repurchase Transaction notified by the CSE and communicated to the CDS - Central Depository for effecting the necessary transfers of Purchased Securities as set out in Rule 5.2.4 (1).

(5) Dispute Resolution

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

(C) Perpetual Debt Securities

(1) Definitions

For the purposes of this Rule 5.2 (C);

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

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

(2) Settlement of Funds

- (a) Settlement of funds relating to Perpetual Debt Securities transacted on the OTC Platform of the CSE will be carried out by the Clearing House on a gross basis, based on the transaction details received from the CSE on the Trade Day (T).
- (b) The Clearing House shall issue a Settlement Schedule to each Participant on the Trade Day in respect of each transaction on Perpetual Debt Securities, which will reflect the settlement obligations by each Clearing Member on the Settlement Date.
- (c) The settlement of funds for Transactions on Perpetual Debt Securities shall take place by 10.30 hours on the Settlement Date, i.e. T+2, through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House.

- (d) The Stockbroker Clearing Members shall ensure that sufficient Cleared Funds are made available in the settlement bank account by 09.30 hours on the Settlement Date to settle payment arising out of Transactions on Perpetual Debt Securities carried out by such Stockbroker Clearing Members based on the Settlement Schedule issued by the Clearing House.
- (e) The Custodian Bank Clearing Members shall make available sufficient Cleared Funds in the settlement bank and shall confirm same to the Clearing House by 09.30 hours on the Settlement Date to settle payment arising out of transactions on Perpetual Debt Securities carried out by such Custodian Clearing Member based on the Settlement Schedule issued by the Clearing House.
- (f) The Clearing House shall debit or credit itself and the relevant Clearing Members with the amounts payable and receivable in accordance with these Rules.
- (g) A buyer shall make available, and the buying Clearing Member shall ensure that such buyer makes available, the required Cleared Funds in respect of a particular transaction on Perpetual Debt Securities so as to enable the buying Clearing Member to meet its fund settlement obligations within the time period prescribed in these Rules.
- (h) If the buyer fails to make available the Cleared Funds as referred to in Rule 5.2 (C)(2)(g), the buying Clearing Member which is a Stock Broker, may at its absolute discretion, recover interest commencing from the day after the Settlement Date up to the date of final settlement provided such interest shall not exceed 0.1% per day.
- (i) Selling Clearing Member who is a Stock Broker:
 - (a) shall ensure that Cleared Funds are made available to the seller on the Settlement Date of the Market Contract, unless the seller has requested the Clearing Member, in writing, to retain the sale proceeds. If for any reason the sale proceeds have not been made available to the Seller by the Stock Broker on the Settlement Date without a written request from the seller as aforesaid, the seller shall be entitled to interest from the day after the Settlement Date on the outstanding amount at 0.1% per day.
 - (b) could make settlements to the seller either by cheques or electronic fund transfers to the seller's bank account. If payment is made to sellers by way of cheques they shall be duly crossed as 'Account Payee'. If the seller requests that the crossing be cancelled, the selling Clearing member shall ensure that a request is made in writing by the seller and same is authorized by the Chief Executive Officer of such Clearing Member.

(c) No cash cheques shall be issued to clients.

(j) Fund Settlement Failure

A failure to settle funds by a buying Participant on the Settlement Date as set out in Rule 5.2 (C)(2) shall result in the cancellation of such transaction on Perpetual Debt Securities and the Clearing House will inform the CSE to cancel the defaulted transaction in terms of the Trading Rules of the CSE.

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

(i) If a buying Clearing Member defaults in settlement of funds in respect of any transaction on Perpetual Debt Securities on the Settlement Date in terms of Rule 5.2(C)(2) due to any reason whatsoever, including any failure by the buyer to make sufficient Cleared Funds available to the Clearing Member, such Clearing Member shall pay to the Clearing House a processing fee of Rs. 100,000 for each occurrence of noncompliance.

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

(3) Settlement of Securities

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

SECTION 6

ADDITIONAL RULES GOVERNING CLEARING AND SETTLEMENT OF MARKET CONTRACTS RELATING TO SECURITIES TRADED USING THE AON BLOCK FACILITY ON THE CSE

- 6.1 The Clearing Members shall be responsible for the settlement of funds in relation to Market Contracts carried out using the AON Block facility of the CSE in terms of these Rules.
- 6.2 If the AON Block is purchased by a consortium of investors operating through a Special Client Account in the CDS - Central Depository, the settlement obligations for the AON Market Contract shall be borne by the Clearing Member which is also the Depository Participant through whom the Special Client Account was opened.
- 6.3 The Clearing Member shall instruct the respective investors for whose benefit such Special Client Account was used, to ensure that Cleared Funds are made available in accordance with Part B of Section 4 these Rules to settle the relevant Market Contract on the Settlement Date.
- 6.4 If the Market Contract relates to a sale of Securities and such Securities are held by the Government of Sri Lanka through multiple entities/agencies using the AON Block facility, the Clearing Member which is also the Depository Participant, through whom the Special Client Account was opened in terms of the CDS - Central Depository Rules, shall ensure that sales proceeds are transferred to the respective entities/agencies on the Settlement Date.
- 6.5 The Clearing House, in consultation with the SEC, may waive the application of any of the Rules set out in this Section 6 and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.

SECTION 7

STOCK BORROWING AND LENDING

DEFINITIONS

- Borrower:** shall mean an Account Holder of the CDS – Central Depository, who has entered into an SBL Agreement with a Borrowing Clearing Member and pursuant thereto, enters into an SBL Transaction, to borrow Eligible Securities in accordance with these Rules.
- Borrowed Securities:** shall, in respect of a particular SBL Transaction, mean the Eligible Securities borrowed under such SBL Transaction.
- Borrowing Account:** shall, in respect of a particular SBL Transaction, mean the Client Account of the Borrower or the Designated Securities Account of the Borrowing Clearing Member, as the case may be, to which the Borrowed Securities shall be credited and from which the Settlement Securities shall be debited in settlement of such SBL Transaction.
- Borrowing Clearing Member:** shall mean a Clearing Member of the CDS - Clearing House who wishes to or has entered into an SBL Transaction pursuant to having been authorised to do so under and in terms of an SBL Agreement with a Borrower in terms of these Rules.
- Cleared Funds:** shall mean funds that are realized and available for drawing in the respective settlement bank.
- Collateral Securities:** shall mean the securities eligible to be provided as collateral for the purposes of these Rules, as determined by the CDS - Clearing House and communicated to the Clearing Members from time to time.
- Designated Securities Account:** shall mean the account opened and maintained with the CDS - Central Depository by a Borrowing Clearing Member or Lending Clearing Member for the specific purpose of facilitating pooled borrowing orders or pooled lending orders as identified in these Rules.
- Eligible Security/Securities** shall have the meaning set out in Rule 7.2.
- Income:** shall mean any interest, dividends or other distributions of any kind whatsoever that enures to or accrues with respect to any Borrowed Securities.

Lender: shall mean an Account Holder of the CDS – Central Depository, who has entered into an SBL Agreement with a Lending Clearing Member and pursuant thereto enters into an SBL Transaction, to lend Eligible Securities in accordance with these Rules.

Lending Account: shall, in respect of a particular SBL Transaction, mean the Client Account of the Lender or the Designated Securities Account of the Lending Clearing Member, as the case may be, from which the Borrowed Securities shall be debited and to which the Settlement Securities shall be credited in settlement of such SBL Transaction.

Lending Clearing Member: shall mean a Clearing Member of the CDS - Clearing House who wishes to or has entered into an SBL Transaction having been authorized to do so under and in terms of an SBL Agreement with a Lender in terms of these Rules.

Lending Fee: shall mean the fee payable by the Borrower to the Lender in respect of the SBL Transaction in the manner set out in Rule 7.9.3, calculated based on a formula approved by the board of directors of the CDS - Clearing House and published on the website of the CDS – Clearing House.

Return Date: shall mean the date on which the Settlement Securities are to be returned by the Borrower to the Lender in accordance with the terms and conditions of the SBL Transaction.

SBL Agreement: shall mean an agreement, entered into between;

- (i) a Borrower and a Borrowing Clearing Member authorizing the Borrowing Clearing Member to enter into one or more SBL Transactions on behalf of the Borrower and setting forth the terms and conditions subject to which the Borrowing Clearing member shall enter into such SBL Transactions or;
- (ii) a Lender and a Lender Clearing Member authorizing the Lender Clearing Member to enter into one or more SBL Transactions on behalf of the Lender and setting forth the terms and conditions subject to which the Lending Clearing member shall enter into such SBL Transactions,

based on the standard form Securities Lending and Borrowing Agreement prescribed by the CDS – Clearing House in terms of these Rules,

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

7.1 GENERAL

- 7.1.1 The Rules set out in this section shall be applicable to all Clearing Members in relation to SBL Transactions executed on the SBL Module of the CDS – Clearing House.
- 7.1.2 Clearing Members shall carry out SBL Transactions on the SBL Module in compliance with these Rules and any procedures and circulars issued by the CDS - Clearing House from time to time.
- 7.1.3 Clearing Members intending to carry out SBL Transactions shall:
- (i) enter into an SBL Agreement with the Borrower/Lender, as the case may be, in the format specified by the CDS - Clearing House and published on its website, prior to entering into an SBL Transaction in the SBL Module.

- (ii) open a Designated Securities Account in the CDS - Central Depository, in the manner specified by the CDS – Central Depository, to facilitate SBL Transactions in the form of a pooled borrowing order and/or pooled lending order, for the purposes identified in these Rules.
- (iii) comply with the minimum margin requirement in terms of Rule 7.5.1 below, and
- (iv) any other requirement as may be specified by the CDS - Clearing House from time to time.

7.2 ELIGIBLE SECURITIES

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

7.3 LIMITATIONS APPLICABLE FOR SBL

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

7.4 TYPES OF SBL TRANSACTIONS

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

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

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

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

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

7.5 MARGIN REQUIREMENTS

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

7.5.1 Minimum Margin Requirement

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

7.5.2 Additional Margin Requirement

- (i) In the event the collateral maintained by the Borrowing Clearing Member in terms of Rule 7.5.1 above is insufficient to satisfy the total margin requirement in respect of a borrowing order entered to the SBL Module to initiate an SBL Transaction, the CDS - Clearing House shall impose additional margin requirements on the Borrowing Clearing Member.
- (ii) The additional margin requirement referred to in Rule 7.5.1 above shall be calculated by the CDS - Clearing House based on the formula determined by the CDS - Clearing House and published on the website of the CDS – Clearing House from time to time.

- (iii) The additional margin requirement shall be communicated by the CDS - Clearing House to the relevant Borrowing Clearing Member in the circumstances set out in Rule 7.5.2(i) above, and the Borrowing Clearing Member shall take necessary steps to comply with such additional margin requirement based on the instructions provided by the CDS - Clearing House. The Borrowing Clearing Member shall not be permitted to carry out the requested SBL Transaction, unless such Borrowing Clearing Member complies with the additional margin requirement.

7.5.3 Daily Margin Requirement

- (i) All ongoing SBL Transactions of a Borrowing Clearing Member shall be marked to market based on the closing price of the Borrowed Securities and the margin requirements referred to in Rules 7.5.1 and 7.5.2 shall be adjusted daily by the CDS – Clearing House to reflect the marked to market value of the SBL Transactions of the Borrowing Clearing Member (hereinafter referred to as the 'daily margin requirement').
- (ii) Upon such adjustment, the CDS - Clearing House shall, at the end of each Market Day, notify the relevant Borrowing Clearing Member of the daily margin requirement to be satisfied by the Borrowing Clearing Member for the SBL Transactions of such Borrowing Clearing Member.
- (iii) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is more than the margin already provided, the Borrowing Clearing Member shall take necessary steps to comply with the daily margin requirement by 9.30 hours on the Market Day immediately following the date of notification by the CDS - Clearing House.
- (iv) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is less than the margin already provided, the CDS- Clearing House shall, upon request by the Borrowing Clearing Member, take necessary steps to return the excess margin to the Borrowing Clearing Member by 9.30 hours on the Market Day immediately following the date of notification by the CDS - Clearing House.

7.5.4 Collateral for Stock Borrowing and Lending

(A) General

- (i) The Borrowing Clearing Members shall, at all times, ensure compliance with the margin requirements for SBL Transactions set out in this Rule 7.5 by maintaining sufficient collateral in the manner and form specified by the CDS - Clearing House in this Rule 7.5.4.
- (ii) In order to satisfy the total margin requirements imposed on a Borrowing Clearing Member in terms of this Rule 7.5, the Borrowing Clearing Member may obtain collateral from each of the Borrowers under SBL Transactions up to the extent required to fulfil the margin requirement arising from the SBL Transactions executed on behalf of each such Borrower.

(B) Form of Collateral

- (i) Subject to Rule 7.5.4(B)(ii) and (iii) below, the Borrowing Clearing Members shall furnish collateral to the CDS - Clearing House in fulfillment of the margin requirements set out in Rule 7.5 above, in one or more form set out below:
 - (a) cash
 - (b) an irrevocable and unconditional bank guarantee obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the CDS - Clearing House;
 - (c) Collateral Securities owned by a Borrower or the Borrowing Clearing Member, as determined by the CDS - Clearing House and communicated to the Clearing Members from time to time.
- (ii) The collateral for the minimum margin requirement stipulated in Rule 7.5.1 shall be furnished only in the form of cash or an irrevocable and unconditional bank guarantee.
- (iii) At least fifty per centum (50%) of the collateral to be provided to satisfy the additional margin requirement and daily margin requirement stipulated in Rules 7.5.2 and 7.5.3 respectively shall be in the form of cash or an irrevocable and unconditional bank guarantee and any Collateral Securities shall be limited to and not be more than fifty per centum (50%) in value of the collateral provided to satisfy the said margin requirements.
- (iv) The value of any Collateral Securities provided in terms of Rule 7.5.4 (B) (iii) above shall also be marked to market and be adjusted daily to reflect the marked to market value of such Collateral Securities so as to ascertain the value of the margin provided by the Borrowing Clearing Member.

(C) Manner of Furnishing Collateral

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

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

the Collateral Securities being held in the collateral locked balance of the Client Account of the Borrower and (ii) the sale and utilization of the proceeds of the sale of the Collateral Securities to settle the payments identified in Rule 7.5.5(i) below, in the form specified by the Clearing House.

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

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

- (i) The CDS-Clearing House shall have a first and paramount lien and charge over the cash collateral delivered to the CDS-Clearing House by a Borrowing Clearing Member and shall be entitled to use all collateral delivered to the CDS-Clearing House to ensure due settlement of the following obligations of such Borrowing Clearing Member in terms of this section:
 - (a) any sum payable by the Borrowing Clearing Member to the Lending Clearing Member;
 - (b) any sum payable by the Borrower/s who have executed SBL Transactions through the Borrowing Clearing Member such as compensation for failed SBL Transactions; and/or
 - (c) any and all sums payable by such Borrowing Clearing Member to the CDS-Clearing House, CDS - Central Depository, CSE and SEC including penalties, fees, commissions, charges and/or dues payable by such Borrowing Clearing Member as applicable.
- (ii) To ensure the due settlement of the obligations referred to in Rule 7.5.5 (i) above, the CDS - Clearing House shall be entitled to and shall require the Borrowing Clearing Member to sell such Collateral Securities in full or in part and the Borrowing Clearing Member shall forthwith comply with such requirement. The Borrowing Clearing Member shall ensure that the sales proceeds are made available to the CDS - Clearing House on the Settlement Date of such sale transaction, to be utilized for the purposes set out in Rule 7.5.5 (i) above.
- (iii) In the event the Borrowing Clearing Member fails to sell the Collateral Securities as required in terms of Rule 7.5.5 (ii) above, the CDS - Clearing House shall be entitled to take any and all necessary action to ensure the discharge of its obligations under the SEC Act and the rules of the CDS - Clearing House, including without limitation, requiring the Exchange to effect a sale of the Collateral Securities on behalf of the CDS-Clearing House.
- (iv) Notwithstanding any provision to the contrary contained in these Rules, the CDS – Clearing House shall be entitled to retain and/or cause the retention of the proceeds of sale of the Collateral Securities in terms of Rules 7.5.5(ii) and (iii) above, to

ensure utilization of such proceeds to settle the obligations referred to in (a) to (c) in Rule 7.5.5 (i) above.

7.5.6 Requirement to Replenish Collateral

If the CDS - Clearing House utilizes, in full or in part, any collateral furnished by a Borrowing Clearing Member in terms of Rule 7.5.5 (i) above, such Clearing Member shall replenish the collateral utilized by the CDS - Clearing House forthwith, upon same being notified to the Clearing Member by the CDS - Clearing House.

7.5.7 Returning of Collateral and Interest

- (i) Any cash collateral furnished by a Borrowing Clearing Member in respect of a particular SBL Transaction shall be returned by the CDS - Clearing House to the said Borrowing Clearing Member upon the settlement of such SBL Transaction in terms of Rule 7.8 of these Rules.
- (ii) Any Collateral Securities provided in respect of a particular SBL Transaction and placed in the collateral locked balance of the Client Account of the Borrower maintained with the CDS – Central Depository referred to in Rule 7.5.4 (C) (iii) shall be unlocked and made available in the trading balance of such Client Account upon the settlement of such SBL Transaction.
- (iii) Any cash collateral furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be returned by the CDS - Clearing House to the said Borrowing Clearing Member upon a written request being made by the Borrowing Clearing Member. Provided however, if such Borrowing Clearing Member has not furnished adequate collateral in respect of other SBL transactions carried out by such Borrowing Clearing Member, the CDS - Clearing House may retain, from such excess collateral, any amount as is necessary for the fulfilment of the outstanding total margin requirements of the said Borrowing-Clearing Member.
- (iv) Any Collateral Securities furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be unlocked and made available in the trading balance of such Client Account, upon a written request being made by the Borrowing Clearing Member for same.
- (v) Any interest accruing on excess cash collateral shall also be paid to the Borrowing Clearing Member with the return of the collateral by the CDS - Clearing House from time to time.

7.5.8 Substitution of Collateral Securities

- (i) Collateral Securities provided in terms of Rule 7.5.4 (C)(iii) above may be substituted by a Borrowing Clearing Member with any other collateral of the same value in accordance with this Rule.

- (ii) A Borrowing Clearing Member that intends to substitute the Collateral Securities provided to the Clearing House shall submit a written request to the CDS - Clearing House in the format specified by the CDS - Clearing House.
- (iii) Upon receiving a request as referred to in Rule 7.5.8 (ii) above, the Clearing House shall;
 - (a) instruct the CDS – Central Depository to replace the existing Collateral Securities with the new Collateral Securities by effecting the respective transfer of securities to and from the collateral locked balance of the Client Account of the Borrower maintained with the CDS – Central Depository; and,
 - (b) notify the substitution of collateral to the respective Borrowing Clearing Member upon completion of same.

7.6 SBL PROCEDURE

7.6.1 Entering Transaction Details to the SBL Module

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

7.6.2 The Borrowing Clearing Member shall ensure adequate collateral to support the margin requirements for the SBL Transactions in compliance with the margin requirements stipulated by the CDS - Clearing House in terms of Rule 7.5 of these Rules.

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

7.6.4 Matching and Recording of SBL Transactions

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

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

7.6.5 Notifications to Clients

- (i) Once the SBL Transaction is carried out in terms of these Rules;
 - (a) the CDS – Clearing House shall notify the Borrowing and Lending Clearing Members of the execution of the SBL transaction; and,
 - (b) the Borrowing and Lending Clearing Members shall notify the Borrower and Lender, respectively, of the execution of such SBL transaction in conformity with Rule 7.6.5 (ii) below.
- (ii) The notification to the Borrower and Lender referred to in Rule 7.6.5 (i)(b) above shall, at a minimum, the following;
 - (a) Client Account
 - (b) Eligible Security
 - (c) Quantity
 - (d) Lending/Borrowing rate
 - (e) Return date

7.7. TRANSFER OF THE SECURITIES

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

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

7.8 SETTLEMENT OF SBL TRANSACTIONS

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

7.8.1 Delivery of the Settlement Securities

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

7.8.2. In the event the Borrowing Account, does not have, in the Cleared Balance, the required number of Settlement Securities in terms of Rule 7.8.1 (i) above, such SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 7.11 below shall apply.

7.8.3 Payment of Lending Fee

- (i) The Lending Fee payable by the Borrower to the Lender in respect of an SBL Transaction shall accrue daily for the period commencing on and inclusive of the Market Date on which the SBL Transaction was executed and ending on but excluding the Settlement Date and shall be payable on the Settlement Date through the appointed settlement banks.
- (ii) The Borrowing Clearing Member shall ensure that the Lending Fee for each SBL Transaction is made available in Cleared Funds in the settlement bank account of the CDS - Clearing House by 10:30 hours on the Settlement Date based on instructions that may be provided by the CDS - Clearing House, from time to time.
- (iii) The CDS - Clearing House shall debit itself and credit the settlement bank account of the Lending Clearing Members with the Lending Fee receivable by the Lenders on the Settlement Date in accordance with these Rules.
- (iv) The obligation of a Borrowing Clearing Member to make available the Lending Fee is discharged by and shall be final upon the debiting of the settlement bank account of the Borrowing Clearing Member and the settlement of a Lender's entitlement to receive the Lending Fee on the Settlement Date is effected by and shall be final upon the crediting of the settlement bank account of the relevant Lending Clearing Member.
- (v) The Borrower shall make available, and the Borrowing Clearing Member shall ensure that such Borrower makes available the Lending Fee in respect of a particular SBL Transaction to enable the Borrowing Clearing Member to meet its obligations as set out in Rule 7.8.3 (ii) above.
- (vi) In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the Lending Fee referred to in Rule 7.8.3 (i) above, the CDS - Clearing House shall utilize the collateral in terms of Rule 7.6.5 above to ensure due settlement of the Lending Fee in full.
- (vi) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of Rule 7.8.3 (ii) above, the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 7.12 below.

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

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

7.9.1 Early Recall by the Lender

- (i) Subject to the terms and conditions set out in the SBL Agreement and in the manner prescribed by the CDS - Clearing House, the Lender shall have the right to require, in writing, that the Settlement Securities be delivered to the Lender on a date prior to the

Return Date executed on the SBL Module (hereinafter referred to as Early Recall) in the following instances in order to be eligible to;

1. a Corporate Action
2. vote at a shareholders' meeting

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

- (ii) The right to require early delivery of the Settlement Securities shall be exercised by the Lender by providing the Borrower with a minimum of three (03) Market Days (excluding the date of notification), prior written notification. Such notification shall specify the date for early delivery SBL Transaction and the number of Settlement Securities to be delivered on such date.
- (iii) The notification of early recall shall be made by the Lender through the Lending Clearing Member to the CDS – Clearing House and the CDS – Clearing House shall forthwith notify same to the Borrower through the Borrowing Clearing Member and amend the Return Date of the SBL Transaction.
- (iv) The early recall of Eligible Securities shall be carried out by the Lender in accordance with this Rule 7.9.1 and any other conditions stipulated in the SBL Agreement.
- (v) Subject to the provisions of Rule 7.10.1(iv) below, on the date notified for early delivery of the Settlement Securities (which shall be the Return Date in respect of such early delivery to the Lender and the Settlement Date shall be the Market Day immediately following such date), the delivery of the Settlement Securities to the Lender shall take place in terms of the procedure provided in Rule 7.9 above.
- (vi) In the event of an early delivery of the Settlement Securities to the Lender pursuant to this Rule 7.9.1, the Lending Fee payable by the Borrower to the Lender in respect of the Settlement Securities to be delivered early shall be payable on the Settlement Date in respect of such early delivery to the Lender in the manner set forth in Rule 7.8.3 above.
- (vii) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities to be delivered early to the Lender, in terms of Rule 7.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 7.11 below shall apply.
- (viii) In the event the Lending Fee is not made available by the Borrowing Clearing Member in respect of Settlement Securities to be delivered early to the Lender in terms of this Rule 7.9.1, the CDS - Clearing House shall utilize the collateral in terms of Rule 7.5.5 above to ensure due settlement of the Lending Fee in full and the CDS - Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 7.12 below.

7.9.2 Early settlement by the Borrower

- (i) The Borrower shall have the right, at any time, subject to the terms and conditions in the SBL Agreement, to settle an SBL Transaction by the delivery of the Settlement Securities to the Lender on a date prior to the Return Date executed in the SBL Module, by providing the Lender with a minimum of one (01) Market Day, excluding the date of notification, prior written notification. Such notification shall specify the date for early settlement of the SBL Transaction. For the avoidance of doubt, the exercise by the Borrower of the option to early settle an SBL Transaction shall be in respect of all of the Settlement Securities and the Borrower shall not be entitled to early settle an SBL Transaction in respect of part of the Settlement Securities.
- (ii) The notification of the early settlement of the SBL Transaction shall be made by the Borrower through the Borrowing Clearing Member to the CDS - Clearing House and the CDS - Clearing House shall forthwith notify same to the Lender through the Lending Clearing Member and amend the Return Date of the SBL Transaction.
- (iii) On the date notified for early settlement of the SBL Transaction (which shall be the Return Date in respect of such early delivery and the Settlement Date shall be the Market Day immediately following such date), the settlement of the SBL Transaction shall take place by the delivery of the Settlement Securities to the Lender in terms of the procedure provided in Rule 7.8 above.
- (iv) The early settlement of Eligible Securities shall be carried out by the Borrower in accordance with this section and any other conditions stipulated in the SBL Agreement.
- (v) In the event of an early settlement of an SBL Transaction pursuant to this Rule 7.9.2, the Lending Fee payable by the Borrower to the Lender shall be payable on the Settlement Date in respect of such early settlement in the manner set forth in Rule 7.8.3 above.
- (vi) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities, in terms of Rule 7.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 7.11 below shall apply.
- (vii) In the event the Lending Fee is not made available by the Borrowing Clearing Member for the early settlement of the SBL Transaction in terms of this Rule 7.9.2, the CDS - Clearing House shall utilize the collateral in terms of Rule 7.5.5 above to ensure due settlement of the Lending Fee in full and the CDS - Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 7.12 below.

7.9.3 Foreclosure of an SBL Transaction

- (a) An SBL Transaction shall be foreclosed by the CDS - Clearing House in the instances specified by the CDS - Clearing House and made available on the website of the CDS.
- (b) Where an SBL Transaction is foreclosed by the CDS - Clearing House in terms of Rule 7.9.3(a) above, the settlement of the SBL Transaction shall take place by the delivery of all of the Settlement Securities to the Lender and the payment of the Lending Fee, in terms of the procedure provided in Rule 7.8 above, on the date specified by the CDS - Clearing House.
- (c) In the event the Borrowing Account, does not have, as a Cleared Balance, Eligible Securities equivalent to the Settlement Securities as of 10.30 hours Market Day immediately preceding the date of settlement as referred to in Rule 7.9.3(b) above, the Borrowing Clearing Member is deemed to not have a sufficient number of Eligible Securities to settle the SBL Transaction through the delivery of the Settlement Securities to the Lender and in such an event, the Borrowing Clearing Member shall settle the SBL Transaction by paying the Lender through the Lender Clearing Member, a sum of cash equal to the Market Value of the Settlement Securities calculated as of the Market Day immediately preceding the date of settlement referred to in Rule 7.9.3(b) above.

In such event, the Borrowing Clearing Member shall ensure that payment as aforesaid is made available as Cleared Funds in the settlement bank account of the Clearing House by 10:30 hours on the date of settlement referred to in Rule 7.9.3(b) above based on any further instructions that may be provided by the CDS - Clearing House, from time to time.

- (d) In the event the SBL Transaction is not fully settled in terms of this Rule 7.9.3 by 10.30 hours on the date of settlement referred to in Rule 7.9.3(b) above by the delivery of all of the Settlement Securities to the Lender, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 7.11 below shall apply.
- (e) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of this Rule 7.9.3, the CDS - Clearing House shall utilize the collateral in terms of Rule 7.5.5 above to ensure due settlement of the Lending Fee in full and the CDS - Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 7.12 below.

7.9.4 Extension of the Return Date

- (i) In the event the Lender or Borrower intends to extend the lending period of an SBL Transaction by postponing the Return Date, the relevant Lending Clearing Member or Borrowing Clearing Member, as the case maybe, shall inform the CDS - Clearing House of the proposed Return Date.
- (ii) The CDS - Clearing House shall inform the respective contra Borrowing Clearing Member or Lending Clearing Member, as the case may be, of the intention of the

other party to extend the lending period of an SBL Transaction by postponing the Return Date and the proposed Return Date.

- (iii) In the event the Borrowing Clearing Member or Lending Clearing Member, as the case may be, is agreeable to the proposed Return Date or if not agreeable, has discussed and agreed with the other Clearing Member on an alternative Return Date, the Clearing Members shall, jointly or individually, inform the Clearing House in writing of the revised Return Date and the Clearing House shall record the revised Return Date on the SBL Module.
- (iv) On the revised Settlement Date pursuant to the revision of the Return Date in terms of Rule 7.9.4(iii), the settlement of the SBL Transaction shall take place in terms of the procedure provided in Rule 7.8 above.

7.10 CORPORATE ACTIONS

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

7.10.2 The delivery of any securities and/or the provision of any funds by the Borrower to the Lender in terms of this Rule 7.10 shall be carried out on the date specified by the CDS - Clearing House, in the same manner specified in Rule 7.8 above as applicable to a delivery of securities and payment of the Lending Fee on the settlement of an SBL Transaction.

7.10.3 The Borrowing Clearing Member shall be responsible and liable to ensure compliance by the Borrower with the provisions of this Rule 7.10 and failure to do so shall result in enforcement action being taken against the Borrowing Clearing Member in terms of Rule 7.12 below.

7.11 HANDLING OF DEFAULTS OF DELIVERY OF SECURITIES

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

7.11.2 A Borrower who has failed to deliver the Settlement Securities on the Settlement Date shall, in addition to the compensation referred to in Rule 7.11.1 above, be liable to compensate the Lender for entitlements accruing to those Securities from any corporate actions relating to such Securities that the Lender would have become entitled to and/or received but for the delivery failure.

The method of computation of compensation payable in respect of each such corporate action shall be determined by the CDS – Clearing House and notified to the Clearing Members from time to time.

- 7.11.3** The compensation payable based on the said formula in terms of this Rule shall be deemed to be a genuine pre-estimate of the losses and damages of the Lender arising from the failure to deliver the Settlement Securities.
- 7.11.4** The compensation payable by the Borrower to the Lender in respect of a defaulted SBL Transaction in terms of Rule 7.11.1 above, shall be settled by the Borrowing Clearing Member to the Lending Clearing Member on the Settlement Date.
- 7.11.5** Upon receipt of the compensation in respect of a defaulted SBL Transaction from the Borrowing Clearing Member, the Lending Clearing Member shall ensure that such compensation payable to the Lender is credited to the bank account of the Lender on the Settlement Date.
- 7.11.6** The payment of compensation in full referred to in Rule 7.11 by the Borrower through the Borrowing Clearing Member to the Lender through the Lending Clearing Member shall be a full and complete discharge of the obligations of the Borrower in respect of the defaulted SBL Transaction.
- 7.11.7** In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the compensation referred to in Rule 7.11, the CDS- Clearing House shall utilize the collateral in terms of Rule 7.5.5 above to ensure due settlement of the said compensation.
- 7.11.8** If the Borrowing Clearing Member fails to comply with this Rule 7.11, the CDS - Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 7.12 below.

7.12 ENFORCEMENT

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

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

<p>2. Default in payment of the monetary value of securities in respect of a cash settled SBL transaction (where securities are available in the market) in a foreclosure</p> <p>3. Default in relation to a Corporate Action in terms of Rule 7.11.</p> <p>4. Default in payment of Compensation arising from a default in redelivery of Securities</p>	<p>occurrence within one (1) year from the date of the first (1st) occurrence</p> <p>On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence</p>	<p>The CDS - Clearing House shall charge a penalty of Rupees Rs. 1,500,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of one (01) year from the date of the third (3rd) occurrence.</p>
<p>5. Default in payment of the Lending Fee.</p> <p>6. Default in delivery of securities in a foreclosure of an SBL transaction (where securities are not available in the market)</p>	<p>On the first (1st) occurrence</p> <p>On the second (2nd) occurrence within one (1) year from the date of the first (1st) occurrence</p> <p>On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence</p>	<p>The CDS - Clearing House shall charge a penalty of Rupees Five Hundred Thousand (Rs. 500,000/-).</p> <p>The CDS - Clearing House shall charge a penalty of Rupees Rs. 625,000/-.</p> <p>The CDS - Clearing House shall charge a penalty of Rs. 750,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of six (6) months from the date of the third (3rd) occurrence.</p>
<p>7. Non-compliance with the Daily Margin Requirement</p>	<p>(i) The CDS - Clearing House shall prohibit the Borrowing Clearing Member from entering into any new SBL Transactions in the capacity of a Borrowing Clearing Member with immediate effect.</p> <p>The ability to enter into new SBL Transactions in the capacity of a Borrowing Clearing Member shall be permitted upon compliance with the Daily Margin Requirement by the Borrowing Clearing Member;</p> <p>and;</p> <p>(ii)</p>	<p>The CDS - Clearing House shall charge penalties as set out below:</p>

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

7.13 Liability

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

7.14 Force Majeure

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

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

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

7.15 Indemnity by Clearing Members

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

7.16 Maintenance of Records pertaining to SBL transactions

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

SECTION 8

INSPECTION AND INVESTIGATIONS

8.1 Right to Inspection

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

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

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

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

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

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

8.2 Notification of Findings

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

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

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

8.3 Right to Investigation

- 8.3.1 The Clearing House and/or SEC may conduct an investigation on a Clearing Member/s at any time on any matter in relation to these Rules, the Clearing Member's internal policies and procedures and any other rules and regulations related to its functions as governed under these Rules.
- 8.3.4 The Clearing House is empowered to require a Clearing Member to attend before the Clearing House at any time and to give such information that is relevant to the investigation;
- 8.3.5 A Clearing Member and its employees and officials shall:
- (i) provide information/explanations as required by the Clearing House;
 - (ii) cause any officer or employee of the Clearing Member to appear before the Clearing House with necessary documents and to provide any information/explanations as may be deemed necessary by the Clearing House;
 - (iii) provide the Clearing House with any documents or records of the Clearing Member;
 - (iv) not hinder or obstruct the Clearing House during the investigation;
 - (v) give the Clearing House all assistance the Clearing House reasonably requires to conduct the investigation; and
- 8.3.6 A Clearing Member shall comply with and give effect to any decisions, recommendations, procedures and guidelines that the Clearing House may issue in exercising the powers under these Rules.
- 8.3.7 Any failure or partial failure to comply with any decisions, recommendations, procedures and guidelines referred to in Rule 8.3.4 by a Clearing Member, including any concealment of, or furnishing of false or inaccurate, information, documents or records, shall be deemed to be a breach by the Clearing Member of these Rules.

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

SECTION 9

DISCIPLINARY PROCEEDINGS

9.1 General

Nothing in this Section shall be read or construed to mean that any action that the Clearing House is entitled to take under other provisions of these Rules must necessarily follow the procedure set out in this Section 9, unless such other provisions specifically state that the conduct of disciplinary proceedings under this Section 9 is a prerequisite to taking such action.

9.2 Grounds for Disciplinary Action

The Clearing House may take disciplinary action against a Clearing Member in respect of any conduct, act and/or omission in its capacity as a Clearing Member of the Clearing House. 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 Clearing House thereunder, including any failure to provide notifications to the Clearing House as required in terms of these Rules;
- b) Any breach of or failure to adhere to Circulars and Operational guidelines and procedures issued by the Clearing House;
- c) Any matter with respect to which disciplinary action is required to be taken by the Clearing House under provisions of these Rules;
- d) Any failure or refusal to act in accordance with any procedures or processes of the Clearing House whether made in terms of these Rules or otherwise;
- e) Any failure or refusal to act in accordance with decisions and/or determinations made by the Clearing House in respect of Securities traded on the CSE;
- f) Any breach of the Clearing Member's agreements with the Clearing House;
- g) Any error, delay or other conduct of the Clearing Member which may be detrimental to the business and operations of the Clearing House;
- h) For not providing adequate facilities for the Clearing Member's business with the Clearing House, and
- i) If the Clearing Member fails to meet standards of conduct reasonably expected of a Clearing Member.

9.3 Procedure

- 9.3.1 The Clearing House shall be entitled to determine, on a case by case basis or otherwise and at its sole discretion, the procedure to be followed by the Clearing House in taking disciplinary action against the Clearing Member so long as such procedure provides the Clearing Member with adequate opportunity to show cause or present its case.

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

- 9.3.2 Without prejudice to the generality of the provisions of Rule 9.3.1, the Clearing House may appoint any committee consisting of officers of the Clearing House and/or external persons (whom the Clearing House, at its sole discretion, considered as necessary in conducting its disciplinary proceedings) in order for the Clearing House to hear and determine any matter of disciplinary nature.

9.4 Determination of the Clearing House

- 9.4.1 The Clearing House shall be entitled to take any disciplinary action that it may deem appropriate against a Clearing Member, which may include, without limitation, expulsion, suspension, limitation of or restriction of activities, functions and/or operations, specific performance, warning, reprimand and/or imposition of fines or payment of costs as determined by the Clearing House.

- 9.4.2 Any determination made by the Clearing House in accordance with Rule 9.4.1, with regard to the disciplinary action taken against a Clearing Member shall be communicated in writing to the Clearing Member by the Clearing House and such determination shall be effective immediately upon delivery (in terms of these Rules) of such communication to the Clearing Member by the Clearing House.

- 9.4.3 Failure by the Clearing Member to comply with any such determination (or part thereof) made by the Clearing House under and in terms of this Rule 9.4, shall entitle the Clearing House to take further disciplinary action, in addition to those already imposed, as the Clearing House may deem fit, without any further opportunity of whatsoever nature being provided to the Clearing Member to show cause or present its case. Such further disciplinary action shall be communicated in writing to the Clearing Member and the SEC by the Clearing House, and the Clearing House may publish its decision in the website of the CDS (together with such details as the Clearing House thinks appropriate) and such action shall become effective immediately upon the Clearing House dispatching such communication to the Clearing Member.

- 9.4.4 Where the operation or effectiveness of any determination (or part thereof) of the Clearing House is halted, suspended and/or delayed pursuant to any lawful interim order or decision of the SEC or otherwise such determination (or part thereof) shall be

deemed to take effect immediately upon such interim order or decision lapsing or being set aside. Provided however that the Clearing House shall be entitled to make, at its sole discretion, necessary amendments to its original determination only to address any matters, ramifications, issues and/or concerns that may affect the implementation of such determination (or part thereof) due to the halt, suspension and/or delay of the operation or effectiveness of such determination. Upon making such amendments, the Clearing Member shall be notified in writing by the Clearing House.

9.4.5 Without prejudice to the discretion available to the Clearing House to impose appropriate disciplinary measures and to determine the extent thereof, if the Clearing House decides to suspend a Clearing Member, the Clearing House may direct such Clearing Member to carry out any of the following actions with notice to the SEC and the Clearing Member shall be obliged to comply with and adhere to such direction:

- (i) to discharge its obligations which it had incurred prior to such suspension,
- (ii) to do and carry out things as may be necessary to comply with other requirements of the determination made by the Clearing House; and/or

to comply with any other requirements as may be imposed by the Clearing House.

SECTION 10

DISPUTE RESOLUTION

10.1 Type of Disputes

This section 10 shall be applicable in respect disputes between:

- (i) A Clearing Member and the Clearing House in respect of decisions and/or actions taken by the Clearing House;
- (ii) Two or more Clearing Members in relation to Clearing House functions

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

10.2 Procedure

All disputes or disagreements between Clearing Members and Clearing House or between Clearing Members on any matters referred to in Rule 10.1 shall be determined in accordance with the Dispute Resolution Rules for the CSE Group which shall be deemed to form a part and parcel of these Rules.

SECTION 11

COMMUNICATIONS BY CLEARING HOUSE WITH THE CDS - CENTRAL DEPOSITORY AND CSE

11.1 Communications relating to Settlement Instructions

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

11.1.2 In the event of any additions, deletions or modifications to the settlement instructions communicated by the Clearing House in terms of 11.1.1, the Clearing House shall immediately communicate to the CDS - Central Depository the revised Settlement Instructions if it is deemed necessary

11.2 Actions taken by the Clearing House

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

11.2.2 In the event any such action referred to in Rule 11.2.1 results in the Clearing House not giving effect to any Clearing and Settlement of any Market Contracts of a Clearing Member on behalf of its client/s and on its own account, the Clearing House shall issue a written notification of such decision to the CDS - Central Depository and CSE.