

# TRADING RULES



JANUARY 2024

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## **PART 1**

### **RULES GOVERNING THE AUTOMATED TRADING SYSTEM OF THE CSE**

#### **INTRODUCTION**

The Automated Trading System (ATS) is designed to match buy and sell orders placed by the member firms of the CSE. Bid and Ask prices are entered into a central electronic order book. During trading hours, orders are matched according to fixed rules and execution prices are set. Price and volume details of all completed transactions are electronically communicated immediately to all the members involved.

The trading day at the CSE will be divided into following time periods:

1. Pre-open
2. Open-Auction
3. Regular trading
4. Close

During pre-open the system accepts orders unless otherwise stated in Rule 3. Orders can be amended and cancelled during pre-open. However, no executions take place during this stage.

During open-auction, the system temporarily closes the order book and starts matching orders. It establishes the opening price and determines the orders to be executed according to the rules for the open-auction period (please refer Rule 4).

During regular trading new orders are continually matched to existing orders in the order book according to Rule 5. If an order cannot be executed it is stored in the order book.

Preference shares, non-voting shares, warrants, units of closed-end funds and debt securities do not update the market indices.

The following rules are applicable to shares, warrants, units of closed-end funds/ETFs, debt securities and any other security to be determined by the Board of Directors of the CSE (commonly referred to as security/securities in these rules) which are traded in the ATS.

#### **ENTERING ORDERS**

Clients who have accounts with the Central Depository Systems (Pvt.) Ltd. (CDS) place their orders with the brokers, either directly or through a custodian bank. Orders are entered by the brokers through the ATS trading terminals, which are then transmitted on-line to the ATS.

The ATS trading terminals are located in the member firm's offices. The trading terminal performs three functions; display of market data, display of trader's orders and executions, and acceptance of new orders, amendments and cancellation of orders.

The ATS acknowledges the receipt of an order, marks it with a time stamp, and checks it for validity (please refer Rule 2.1– Order Validation). If it is technically valid, processing continues. If not, it is returned with the appropriate comment. No checks apart from those explicitly stated in these rules will be performed on order size or price.

The ATS maintains an order book for each traded security, divided into bids and asks. The prices are determined and orders executed according to specific rules detailed in the Trading Rules.

Only the 'Qualified Investors' specified in Rule 8 shall be permitted to trade on BASEL III Complaint Debt Securities defined therein. It shall be the responsibility of the relevant Stockbroker Firm entering the order to ensure that only the Qualified Investors trade on BASEL III Complaint Debt Securities.

#### **DIVISION OF MARKET**

The market is primarily divided into the Equity market and the Debt market.

The equity market comprising of shares, warrants and units of closed end funds is divided into the normal lot board, and the crossings board.

The Debt Securities Market is divided into three boards based on the settlement period, namely:

TOM Board	-	Settlement on T+1
SPOT Board	-	Settlement on T+2
Crossing Board	-	Negotiated trades

#### **TRADING SESSIONS**

The securities market is open from Monday to Friday except on days declared as holidays by the Exchange, as specified below:

**(a) Regular Market:**

Pre-open	:	9.00 A.M. to 9.30 A.M.
Open-auction	:	9.30 A.M.
Regular trading	:	9.30 A.M. to 2.30 P.M.
Close	:	2.30 P.M.

In the event of technical problem with the ATS the Exchange may change the above trading hours as necessary.

**(b) Buy – In Board:**

The Buy-In Board will be operated by the Exchange from 2.00 P.M. to 2.45 P.M.

The Trading sessions applicable for the Buy-in Board are as follows:

- Auction Initiation Session
- Auction Call Session
- Auction Execution Session

The duration of the above trading sessions will be as determined by the Exchange.

The Exchange reserves the right to change the trading hours set out above as deemed necessary with prior notice to Stockbroker Firms.

**1. TYPES OF TRANSACTIONS**

There are three types of orders that can be placed in the ATS:

1. Limit orders
2. Market orders
3. Stop and Stop Limit orders

**1.1 Limit Orders**

This is an order in which the maximum buying price or minimum selling price is specified.

**1.2 Market Orders**

A market order is defined as an order to buy or sell a security at the best price or prices prevailing in the market at that point in time.

To prevent market orders being executed at extreme prices due to the presence of existing orders it is necessary to protect market orders by having a protection price. The “protection price” (see 1.2.2 Protection Price) is calculated by the system every time a market order is placed. The protection price is calculated on a fixed percentage of the ‘touchline’ price (see 1.2.1 Touch line).

For market buy orders, protection would be applied to the touchline sell price, and for market sell orders protection would be applied to touchline bid price. After attaching the protection price to the market order, the order will be executed similar to any other limit order.

If a market order cannot be executed it will be cancelled immediately. If a market order is partially executed the balance unexecuted quantity of the order, if any, will be cancelled immediately. Market orders do not appear in the order book.

A market order may be submitted during the pre-open session. Such market orders will get the priority over limit orders in the open auction.

**1.2.1 Touchline**

The touchline bid is the highest bid price and the touchline ask is the lowest ask price in the market available at that point in time. If bids or asks are unavailable for the day the touchline is defined as the previous closing price. For the first day of trading of an IPO the touchline is defined as the issue price. (See 2.4 New Issue Price Discovery)

Example:

Table 1 represents the order book for security ABC.

**Table 1**

Bid	Price	Ask
	100.00	100
	97.00	100
	95.00	300
	90.00	200
400	88.00	
100+200	87.50	
300+100	87.00	

As per the above example, the touchline bid price is Rs.88 and the touchline ask price is Rs.90.

**1.2.2 Protection price**

The protection price is the touchline price plus or minus the allowed percentage variation. The percentage variation allowed on the touchline price is a configurable percentage applicable to all listed securities. It is set at the discretion of the CSE and will be made known to member firms. The protection price limits the possible price at which market orders can be executed.

For a sell market order the protection price is calculated in the following manner:

$$\text{Protection Price} = \text{Touchline Bid Price} - (\text{Protection \%} \times \text{Touchline Bid Price})$$

For a buy market order the protection price is calculated in the following manner:

$$\text{Protection Price} = \text{Touchline Ask Price} + (\text{Protection \%} \times \text{Touchline Ask Price})$$

Example:

Broker X places a market order for buying 1000 securities of security type ABC. The touchline while placing the order is Rs 90 (ask) and Rs 88 (bid) - see Table 1 in Section 1.2.1.

Assume the protection % is 10%. In this case the protection price would be Rs 99 i.e. Rs 90 (being the touchline Ask price) + [10% X 90 (touchline Ask price)]

The order book is:

**Table 2**

Price Markers		Price	Orders Asks Broker	
			Orders	Asks
Protection	99 (bid)	100	100	Z
		97	100	Y
		95	300	B
Touch line	90 (ask)	90	200	A
Touch line	88 (bid)			
Protection	79.20 (ask)			

Broker X’s market order would thus get executed as

1. 200@90 for A
2. 300@95 for B
3. 100@97 for Y

Since the order for sale from broker Z has a higher price than the protection price, it will not be matched. The balance unexecuted order quantity of 400 securities will be cancelled.



### 1.3 Stop and Stop Limit Orders

A stop order is a market order that will remain unelected, i.e does not enter the order book. A stop order is elected to the order book based on the last traded price, once a stop order is elected to the order book, it will be treated in a similar manner as a new market order. A stop order does not contain a price. However, a stop order must be submitted with a stop price.

A stop limit order is a limit order that will remain unelected, i.e does not enter the order book. A stop limit order is elected to the order book based on the last traded price, once a stop order is elected to the order book, it will be treated in a similar manner as a new limit order. A stop limit order must contain both a stop price and a limit price.

Stop and Stop limit orders will only be elected to the order book during the regular trading session. At the commencement of the regular trading session, stop and stop limit orders will be elected to the order book based on the opening price.

If a change in the last traded price causes multiple stop and stop limit orders to be elected, the election priority will be based on the stop price value and time of entry. Stop and stop limit orders at the same stop price are elected based on time priority.

Examples of Stop and Stop Limit orders are given Annexure 1.

### 1.4 Order Attributes

Orders can have the following attributes.

1. Qualifiers
2. Time in force
3. Minimum fill quantity
4. Disclosed quantity

These attributes can be used by the brokers to tune the execution strategy of an order to a limited degree.

#### 1.4.1 Order Qualifiers

Order qualifiers modify the execution conditions of an order based on volume, time and price constraints.

##### 1.4.1.1 No qualifiers

Orders will be executed at a specified price or better. If a partial execution occurs the remainder will be added to the order book and will remain in the order book till executed, cancelled, or expired.

##### 1.4.1.2 Fill or Kill (FOK)

Requires the immediate purchase or sale of a specified quantity, at a given price or better. If the whole order cannot be filled immediately, it is killed. (These orders do not get entered into the order book). FOK orders cannot be entered into the system during pre-open.

### **1.4.1.3 Immediate or Cancel (IOC)**

Requires immediate purchase or sale of a specified quantity at a specified price or better for all or part of the order. If no immediate execution occurs the order is cancelled. If an immediate partial execution occurs the remainder is immediately cancelled. IOC orders cannot be entered into the system during pre-open.

## **1.4.2 Time in Force (TIF)**

Time in force choices limit the lifetime of an order in the book.

### **1.4.2.1 Good till cancel (GTC)**

The order remains valid till cancelled or for 5 market days.

### **1.4.2.2 Good till day (GTD)**

The order is cancelled at the end of the specified trading day if unexecuted (maximum 5 days).

### **1.4.2.3 Good till time (GTT)**

The order is cancelled at the end of the specified time during trading day if unexecuted. However, GTT orders entered during the Pre-open session with a time of expiry before the Open Auction will expire after the Open Auction.

### **1.4.2.4 Day order (DAY)**

The order is cancelled at the end of the trading day.

### **1.4.2.5 Open**

The order will only take part in the open auction. If the order is not executed fully, it will expire after the open auction.

## **1.4.3 Minimum fill quantity**

The system allows a minimum fill quantity to be entered for orders. A minimum fill order seeks to execute a stated minimum quantity of securities on entry, failing which the order will be expired. If the minimum quantity is executed, then the remainder will be treated as a regular order (i.e. minimum quantity will no longer apply).

All order types (i.e. Market, Limit, Stop, Stop Limit) can be submitted with a minimum fill quantity specified. If a TIF (Time-In-Force) is submitted for a minimum fill order, the TIF will only apply on the remainder of the order, after the minimum quantity is executed.

Example: A buy limit order of 500 shares with a minimum quantity of 100 and a TIF of GTD is submitted to the order book. It executes the minimum quantity against a contra side order and the remaining quantity of 400 will be added to the order book with the GTD qualifier applied.

The exception will be an FOK min fill order. This will be treated as an FOK order and not a minimum fill order.

#### 1.4.4 Disclosed quantity (Iceberg Orders)

The order size will be revealed as the disclosed quantity and not as the full order quantity. The disclosed quantity will cause the executions to occur in blocks of disclosed quantity. When a block of disclosed quantity is executed the balance order loses its time priority. Disclosed quantities must be greater than 10% of the order size. When the total quantity for an incoming order is matched to an existing order in the order book, the incoming order's disclosed quantity is ignored as it will not be visible to the market at the time of execution. Orders with a specified disclosed quantity that appear in the order book, and hence have market visibility, will be executed in blocks of disclosed quantity in the manner specified above.

Orders with a disclosed quantity will be allowed in the pre-open session. Only the disclosed quantity will be considered for execution at the open auction. Orders with a disclosed quantity can be submitted with GTD and GTC qualifiers.

## 2. TRADING PROCEDURE

### 2.1 Order Validation

Input orders are validated for correctness prior to forwarding to the ATS. The following validation checks will be run on an order prior to forwarding it to the ATS:

- Valid trading lot size
- Valid security code
- Trading permitted on security (is it de-listed / suspended etc.)
- Price exceeding n% of the last close price will not be accepted.
- Valid Price changes (Tick size) for a security as decided by the CSE. (not applicable for debt securities)
- Valid client ID/broker ID combination.
- Volume is within foreign limit rules.
- Settlement date for Debt Securities (Only applicable for crossings)
- Availability of the required quantum of securities, including pending buys (only applicable for sell orders)

Sell Orders which are carried forward to the next Market Day, will be validated prior to the commencement of each trading day to ensure that the number of securities applicable to such sell order/s, including pending buys, is available in the relevant CDS Account of the seller. In the event the number of securities applicable to the sell order, including pending buys, is not available in the relevant CDS Account of the seller, such sell order shall be cancelled.

In respect of sell orders for Debt securities and any sell orders entered to the following boards/segments, the selling Stockbroker Firm shall ensure that the number of securities applicable to the sell order are held in the relevant CDS account by the seller at the point of order entry.

1. AON Blocks
2. Foreign-currency segment
3. Buy-In Board

An order that passes the validation checks is accepted by the ATS. Accepted orders will contain an Exchange allocated order ID, which is used for all future references to the order. If the order fails validation, then it is rejected. Until an order has been accepted by the ATS

it is not valid.

### **Accuracy of Price and Yield for Debt Securities**

Orders for Debt Securities may be given in terms of Price or Yield. The system will automatically round up or down the yield to be in line with a permitted Price tick to be determined by the CSE.

### **2.2 Trading Unit**

The trading unit of each listed security is specified by the Exchange.

The lot size is configurable.

The lot size for orders is one (1) and is not dependent on the issue price of the security.

### **2.3 Order Execution**

All trades that occur on the exchange are executed by the ATS.

When a Stockbroker Firm inputs an order through the ATS trading terminal, the order is forwarded to the ATS. Within the ATS the state of the order is tracked allowing the current status to be determined and the transaction history from the initial submission to be viewed. Orders will be queued in price and time order and are available for modification or cancellation prior to execution. Orders will be matched according to one of two methods; Open Auction or regular trading.

### **2.4 New Issues price discovery**

Due to large price swings for a new issue, and in order to allow for large premiums on IPO's etc. price discovery is completely based upon the market rather than issue price.

## **3. PRE-OPEN**

During pre-open, orders can be entered or deleted. However, no trades take place. Orders during this period are held in the ATS but are not forwarded to the execution engine.

The market status (i.e. Venue state) will be displayed as 'Open Auction Call'.

Order book information is not displayed during the Pre-open session.

Orders which are entered during pre-open with FOK, IOC or Minimum Fill qualifiers will not be accepted by the system

## **4. OPEN AUCTION**

The opening price is the price level at which the most number of shares/units of a security could be executed. All trades will be executed at the same price – the opening price.

At open-auction the system executes as many trades as possible at the calculated opening price. Bids and asks do not have to balance in quantity for a successful open-auction to occur. Orders at the opening price may remain partially filled or unexecuted due to an imbalance in the bids and asks.

If the security does not trade during open-auction the price of the first trade after auction will be its opening price.

### **4.1 Opening algorithm**

**Step 1** Volume maximization - The system will consider each price point at which there are orders in the order book and calculate the number of securities that would be executed if the auction took place at each price point. The auction price will be the price at which

the largest number of securities can be executed.

**Step 2** Minimization of order imbalance - If the volume is maximized at multiple price points, then the auction price will be the price at which the order imbalance is minimized. Order imbalance is the difference between the total (cumulative) Bids and Asks which can be executed at that price point.

**Step 3** If the volume is maximised and the imbalance is minimised at multiple price points and;

- A. if the imbalance is on the buy side of all price points, the highest price is taken as the auction price.
- B. if the imbalance is on the sell side of all price points, the lowest price is taken as the auction price.
- C. if there are imbalances in both the buy and sell sides relating to the price points, either the highest price with a buy imbalance or the lowest price with a sell imbalance, which is nearer to the closing price (or the reference price in the absence of the closing price) of the security is taken as the auction price.
- D. if both price points referred in "C" are equally near to the previous closing price (or the reference price) of the security, then the higher price point is taken as the auction price.

**Step 4** Match all possible orders using price and time priority at the opening. Match from the side of the market with the least orders against the side with the most, filling all those above and below the price.

**Step 5** Orders at the equilibrium price are satisfied according to the time priority.

**Step 6** All unmatched orders will be stored in the order book when the market opens. These orders will be stored in price/time priority order with orders of equal price given time priority.

An example of the Open Auction is given in **Annexure 2**.

## 5. REGULAR TRADING

### 5.1 Method of Transaction

(A) The criteria for execution during regular trading are as follows:

#### 1) Price Priority

The highest bid and lowest offer have precedence over all others. Orders are ranked by price sequence in the execution engine

#### 2) Time Priority

When bids or offers are at the same price, the earliest one takes priority over those delivered later.

- (B) If a new order (either a market or a limit order) matches a limit order in the order book, the price of the limit order initially in the order book limits the transaction price. The orderbook thus dictates the price.

During Regular Trading the Venue state will be displayed as “Regular Trading”.

**5.2 Regular Trading Example**

An example of a multi-stage matching process based on a new incoming order is as follows:

**Table 4**

Security ABC		
Price increment Rs 0.10		
Purchase Number per price	Price	Sale Number per price
500	98.00	
200	98.50	
	99.00	400
	99.50	200+300

A purchase order for 700 securities at 99.50 arrives. Matching starts with the order to sell 400 securities at 99.00. The price is determined by the sell limit order

First trade : 400 securities at 99.00

300 securities remain from the new order. They are matched against the next order - sell 200 securities at 99.50. Since there are two orders at 99.50, they are ranked in order of entry. The order of 200 securities is older.

Second trade : 200 securities at 99.50.

The remaining 100 securities are now matched to the sell order of 300 securities at 99.50.

Third trade : 100 securities at 99.50.

The newly arrived purchase order (700 at 99.50) is then executed. The order book now looks as follows.

**Table 5**

Purchase Number per price	Price	Sale Number per price
500	98.00	
200	98.50	
	99.50	200
Reference price (i.e. last traded price): 99.50		

## 6. CROSSINGS BOARD

A crossing will be entered by both parties specifying the security, client, contra broker ID and price. The crossing is deemed to be entered when both parties have completed the entry. If the seller does not have an adequate CDS balance the crossing will be purged from the book and will have to be reentered.

### 6.1 Price determination mechanism

The crossings will execute at the entered price.

### 6.2 Amendments / Cancellations

Orders for crossings can be amended or cancelled by Brokers prior to execution.

### 6.3 Price constraints

A crossing for equity securities shall take place at a price not exceeding a 5% negative variation from the Closing Price as defined in Rule 13.1. No price cap will be enforced.

For debt securities a crossing shall take place at a price not exceeding a 2% negative variation from the reference price. No price cap will be enforced.

### 6.4 Trading unit

To be crossed the parcel must be;

- a) More than 5% of the issued quantity of the specific security OR
- b) Greater than Rs. 20,000,000/-

For debt securities Crossings are limited to trade transactions greater than Rs 10,000,000/-.

### 6.5 Visibility

Orders placed on the crossing board will not be visible in the normal market data displays and hence will not put price pressure on other trading. The trade will be displayed as an execution.

### 6.6 Statistics

Crossings on Equity securities will not update the indices and closing price.

### 6.7 Clearing the Order Book

Crossings are not required to clear the order book.

## 7. ALL OR NONE (AON) BLOCKS

- 7.1** An AON block may be entered by a Stockbroker Firm for a specific security on the ATS subject to following conditions:
- a) The minimum number of securities required for an AON block shall be at least 10% of the number of securities issued.
  - b) The selling Stockbroker Firm shall ensure that the number of securities applicable to the sell order are held in the relevant CDS account of the seller at the point of order entry and execution of the trade.
- 7.2** Once an AON block has been introduced for a specific security, Blocks containing any other quantities in respect of the same security shall not be accepted until the AON Block introduced first is concluded for that security.
- 7.3** A Stockbroker who wishes to place the first order (Initial Order) for an AON Block shall, prior to placing such Initial Order, inform the following, in writing, to the CSE:
- Security
  - Whether the transaction is a buy or sell
  - Name and CDS Account Number of the buyer or seller (in the event it is a consortium, the names and CDS Account Numbers of the members of that consortium – such consortium not exceeding 10 members)
  - Number of Securities
  - Maximum purchase price (for buy orders) or minimum sell price (for sell orders)
  - The date on which the order will be placed and the expected AON Auction Execution date

The Initial Order placed by the Stock Broker for the AON Block shall comply with the information set out in Rule 7.3.

- 7.4** Upon receipt of information set out in Rule 7.3 above, and the entry of the Initial Order on the ATS for the AON Block by the relevant Stock Broker, the CSE shall make an announcement regarding the AON Block. Such announcement shall contain the information set out in Rule 7.3 above. The name of the Stock Broker and the name and CDS Account Number of the buyer/seller shall not be announced by the CSE.
- 7.5** A Stock Broker who wishes to place either an Initial Order or a contra order shall ensure that prior written authority has been obtained from the buyer, seller, or authorized representative thereof. The Stockbroker shall be responsible to demonstrate the due discharge of this obligation in the event it is requested to do so by the CSE.
- 7.6** In instances where the Government of Sri Lanka holds shares of a Listed Entity through multiple entities/agencies and wishes to submit a single sell order as a consortium using the AON Block facility on the ATS through a Stock Broker, the shares held by such



entities/agencies in their respective CDS Accounts shall first be credited to a Special CDS Account opened by a Stock Broker or Custodian Bank for this purpose.

Prior to such credit, the Stock Broker or Custodian Bank for the consortium of sellers shall obtain a declaration in writing signed by the authorized signatories of such entities/agencies, stating that due authority has been obtained from such entities/agencies of the consortium for the credit of securities to a Special CDS Account to facilitate the sell order.

The Initial order shall be placed by the Stock Broker for the consortium using the said CDS Account.

The facility to sell shares as a consortium shall only be made available to entities/agencies owned by the Government of Sri Lanka.

**7.7** (A) A Stockbroker Firm which submits a contra bid (in response to an initial order) on behalf of a consortium of investors using a Special CDS Account opened to facilitate the purchase of an AON Block, shall provide to the CSE the following information prior to placing such bid on the ATS:

- Name and CDS Account Numbers of the members of the consortium (the consortium shall not exceed ten (10) investors)
- Number of securities to be transferred to the CDS Accounts of each member of the consortium upon the settlement of the AON Block
- A written and signed declaration obtained from each member of the consortium to the effect that due authority/instructions have been obtained from each member to place a contra bid/ask for the AON Block to execute the transaction.

(B) Upon the settlement of the AON Block, if the successful bidder is a consortium of investors using a Special CDS Account opened for this purpose, the CSE shall instruct the CDS to transfer the securities from the Special CDS Account to the respective investors' CDS Accounts in accordance with the information given in (A) above.

(C) The information submitted by the Stockbroker Firm to the CSE as set out in (A) above shall not be changed subsequent to the execution of the AON Block.

**7.8** All orders subsequent to the Initial Order for the AON Block shall be for the contra side of such Initial Order placed at a price equal to or better than that of the Initial Order.

For the purpose of clarity,

If the initial order is on the buy side placed at a price of Rs. 100, contra orders (sell orders) shall be placed at a price equal to or less than Rs. 100; and

If the initial order is on the sell side placed at a price of Rs. 50, contra order (buy order) shall be placed at a price equal to or more than Rs. 50.

The order on the contra side of the Initial Order may be replaced by a better priced contra order.

**7.9** In the event the Initial Order has been placed by a Stockbroker for the sale of a stake owned by the Government, the placement of contra side buy orders for such parcel may be restricted to the Stockbroker/s who would place bids (contra side buy orders) on behalf of the investor/s who have been short-listed/authorized to bid for such parcel by the Government.

**7.10** The duration of the AON Auction shall be three (3) market days including the day on which the Initial Order for the AON Block was placed by the Stock Broker. The duration may be extended by up to one (1) additional market day if the CSE deems necessary.

**7.11 Trading Sessions**

(A) Order Entry

- (i) The Order Entry Session is the session during which orders are submitted to the AON Auction order book.
- (ii) A Stock Broker interested in the AON block shall submit a contra bid/offer (as applicable) prior to 12:00 hours on the day that the AON auction is scheduled to be concluded. Stock Brokers who have not submitted orders for the AON Block prior to the specified time shall not be permitted to submit bids/offers (as applicable) for the AON block thereafter.
- (iii) Any Stock Broker who has placed contra orders during the AON Auction may request the CSE to extend the Order Entry Session, up to a further 30 minutes. This request must be made to the CSE in writing prior to 13:00 hours on the day that the AON Auction is scheduled to be concluded.

(B) AON Auction Execution

- (i) The AON Auction Execution will be carried out at the close of market on the day that the AON Auction is concluded, unless the duration of the AON Auction or Order Entry Session is extended as per Rule 7.11 or 7.12 (as applicable)
- (ii) The AON Auction Execution will take place if the order book contains both buy and sell orders. In such an instance, the execution price shall be the best price of the order on the contra side of the Initial Order as determined in Rule 7.8.
- (iii) The execution will be reported on ATS.

If the order book contains only the Initial Order at the time of conclusion of the AON Auction, the AON block will be cancelled due to the absence of contra side interest.

**7.12 Amendments**

AON orders or trades shall not be cancelled or amended by Stock Brokers other than as provided for in Rule 7.8.

**7.13 Statistics**

AON trades shall be used to update only the turnover, number of trades, and the number of securities traded. Orders and trades on the AON order book shall not be used to update the Opening/Closing Price or Reference Price used for circuit breakers.

#### 7.14 Visibility

Only the best bid and offer of the AON order book shall be visible to the market.

#### 7.15 Waiver of Rules and/or Introduction of Additional Conditions

The CSE in consultation with the SEC may waive the application of any of these Rules and/or introduce additional conditions to facilitate the sale of a Government's stake through an AON Block.

### 8. TRADING OF BASEL III COMPLAINT DEBT SECURITIES

**8.1** The trading rules applicable to the "TOM Board", "SPOT Board" and "Crossing Board" will also apply to BASEL III Complaint Debt Securities.

#### 8.2 Eligibility to trade on BASEL III Complaint Debt Securities

Only the 'Qualified Investors' shall be permitted to trade on BASEL III Complaint Debt Securities. **Any trade executed on such securities, where the buyer or seller is not a 'Qualified Investor', shall be cancelled by the CSE as set out in Rule 12.3 of these Rules.**

For the purpose of Rule 8,

- 'Basel III Compliant Debt Securities' shall mean, Debt Securities issued by commercial banks and specialized banks licensed by the Central Bank of Sri Lanka in compliance with Direction No. 01 of 2016 of the Central Bank of Sri Lanka dated 29<sup>th</sup> December 2016.
- 'Qualified Investor' shall mean;
  - a) a commercial bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
  - b) a specialized bank licensed by the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988 (as amended);
  - c) a mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund;
  - d) a venture capital fund/company and private equity company;
  - e) a finance company licensed by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011(as amended);
  - f) a company licensed by the Central Bank of Sri Lanka to carry on finance leasing business under the Finance Leasing Act No. 56 of 2000 (as amended);
  - g) a company licensed by the Insurance Board of Sri Lanka to carry on insurance business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);
  - h) a corporate (listed or unlisted) which does not fall under the above categories and is incorporated under the Companies Act No. 7 of 2007;

- i) an investment trust or investment company;
- j) a non-resident institutional investor; and,
- k) an individual with an initial investment of Rs. 5,000,000/.

## 9. TRADING OF SECURITIES DENOMINATED IN FOREIGN CURRENCY

### DEFINITIONS

‘Designated Foreign Currency/ies’ shall mean the foreign currencies specified by the Central Bank of Sri Lanka as permitted foreign currencies in terms of the Banking Act No. 30 of 1988 (as amended) and any amendments made thereto from time to time, for the purpose of engaging in foreign exchange transactions.

‘Foreign Entity’ shall mean a body corporate duly incorporated or established outside Sri Lanka, which has its shares listed on a stock exchange of the country of its incorporation and seeking a secondary listing of its shares on the Multi-currency Board of the CSE.

‘Local Entity’ shall mean a body corporate duly incorporated or established in Sri Lanka.

‘Qualified Investors’ shall mean the category/ies of investors which are permitted by the Central Bank of Sri Lanka to invest in each Foreign Currency denominated Security types referred to in Rules 9.1 and 9.2 of these Rules and stipulated therein respectively.

### 9.1 TRADING OF FOREIGN CURRENCY DENOMINATED SHARES ISSUED BY LOCAL ENTITIES

9.1.1 The Foreign Currency denominated Shares issued by Local Entities will be traded on the ATS in a Designated Foreign Currency, based on which the shares have been listed on the CSE.

9.1.2 The Trading Rules applicable to the “Normal Board”, including order types and order attributes set out in Rule 1 of these Rules, will also apply to the Foreign Currency denominated Shares issued by Local Entities.

In respect of sell orders, the selling Stockbroker Firm shall ensure that the number of Foreign Currency denominated Shares applicable to the sell order are held in the relevant CDS account of the seller at the point of order entry.

9.1.3 Only Qualified Investors shall be permitted to trade on Foreign Currency denominated shares issued by Local Entities.

For the purpose of these Rules, ‘Qualified Investors’ shall mean non-resident investors including non-nationals residing in Sri Lanka, which are permitted by the Central Bank of Sri Lanka to invest in Foreign Currency denominated Shares issued by Local Entities and have opened an Inward Investment Account maintained with a commercial bank or a specialized bank licensed by the Central Bank of Sri Lanka operating through a Custodian Bank in the CDS.

9.1.4 Any trade executed on such Foreign Currency denominated Shares, where the buyer or seller is not a Qualified Investor, shall be cancelled by the CSE as set out in Rule 12.3 of these Rules.

9.1.5 Market level statistics such as turnover, number of trades, and number of securities traded, and market capitalization and sector statistics will be calculated separately for the Foreign Currency denominated Shares issued by Local Entities.

- 9.1.6 Valid Price changes (Tick size) for the Foreign Currency denominated Shares issued by Local Entities shall be decided by the CSE in consultation with SEC.

## **9.2 TRADING OF FOREIGN CURRENCY DENOMINATED SHARES ISSUED BY FOREIGN ENTITIES**

- 9.2.1 The securities that are listed on the Multi-Currency Board will be traded on the foreign-currency segment of the ATS in the respective currency based on which the security has been listed.
- 9.2.2 The trading rules applicable to the “Normal Board” will also apply to the securities traded on the foreign-currency segment. Order types and order attributes set out in Rule 1 which are applicable to Normal Board orders, are also applicable to the orders placed on securities traded on the foreign-currency segment.

In respect of sell orders, the selling Stockbroker Firm shall ensure that the number of securities applicable to the sell order are held in the relevant CDS account of the seller at the point of order entry.

- 9.2.3 Only the non-resident investors who have opened an account in the Off-shore Banking Unit of a licensed commercial bank in Sri Lanka and operating through a Custodian Bank in the CDS shall be permitted to trade in securities listed on the Multi-Currency Board. It shall be the responsibility of the Stockbroker Firms to ensure that only such investors trade on securities listed on the Multi-Currency Board.
- 9.2.4 Market level statistics such as turnover, number of trades, and number of securities traded and market capitalization and sector statistics will be calculated separately for the foreign-currency segment.
- 9.2.5 Valid Price changes (Tick size) for a security shall be decided by the CSE in consultation with SEC.

## **9.3 CROSSINGS BOARD**

A crossing will be entered by both parties specifying the security, client, contra broker ID and price. The crossing is deemed to be entered when both parties have completed the entry. If the seller does not have an adequate CDS balance the crossing will be purged from the book and will have to be re-entered.

### **(1) Price determination mechanism**

The crossings will execute at the entered price.

### **(2) Amendments/Cancellations**

Orders for crossings can be amended or cancelled by Brokers prior to execution.

### **(3) Price constraints**

A crossing shall take place at a price not exceeding a 5% negative variation from the closing price as defined in Rule 13.1 of these Rules. No price cap will be enforced.

**(4) Parcel Size/Value**

Trading unit for the crossings transaction will be as decided by the CSE in consultation with SEC.

**(5) Visibility**

Orders placed on the crossing board will not be visible in the normal market data displays and hence will not put price pressure on other trading. The trade will be displayed as an execution.

**(6) Statistics**

Crossings on Equity securities will not update the indices and closing price.

**(7) Clearing the Order Book**

Crossings are not required to clear the order book.

**10. TRADING OF SHARIAH COMPLIANT DEBT SECURITIES**

The Trading Rules applicable to the “TOM Board”, “SPOT Board” and “Crossing Board” will also apply to trading of Shariah Compliant Debt Securities issued by Listed Entities.

**11. BUY - IN BOARD**

**11.1** Stockbroker Firms shall be permitted to trade in the Buy-In Board only in the event of a Short Position with respect to a particular Trade, as defined in the CDS Rules, in order for the selling stockbroker to purchase the shortfall of securities on or before T+2 on behalf of the seller.

**11.2** Securities with the Trading status “Trading Allowed” will be the only eligible securities that are permitted for trading in the Buy – In Board.

**11.3** Only the clients who have the required number of securities in the Cleared Balance of their CDS accounts shall be permitted to place sell orders in the Buy-in Board.

**11.4** Trade cancellations shall not be permitted in respect of trades executed on the Buy-in Board.

**11.5** The following order types shall be permitted to be entered to the Buy-in Board:

- i. Good till Cancel
- ii. Limit Orders with no qualifiers

**11.6** The order initiation price (Buy-In Price) for each security and the quantities available for trading on Buy-In Board will be notified to the Stockbroker Firms in advance. The order initiation price shall be determined by the CSE based on the Volume Weighted Average Price of each security at the cut-off time or the previous day’s closing price, whichever is higher, with an added premium percentage which shall be determined by the CSE and communicated to the Stockbroker Firms.

**11.7** The Trading sessions applicable for the Buy-in Board are as follows:

1. Auction Initiation Session:

- i. The initiating orders (Buy orders) will be placed by the Stockbroker Firms on behalf of the clients/Stockbroker Firms (in the event of trade reversals) during the Auction Initiation Session.
  - ii. Orders can only be placed at the order initiation price during the Auction Initiation Session. If a Stockbroker Firm submits an order containing a price contrary to the price published by the CSE, such order will be cancelled by the CSE and a processing fee, as determined by the Board of Directors of the CSE, shall be charged from the Stockbroker Firm in respect of such cancelled orders.
  - iii. Contra side orders (sell orders) are not allowed during the Auction Initiation Session.
  - iv. Any buy orders placed by Stockbroker Firms on behalf of clients who do not have any Short Positions will be cancelled by the CSE without any prior notification to the Stockbroker Firms and a processing fee, as determined by the Board of Directors of the CSE, shall be charged from the Stockbroker Firms in respect of such cancelled orders.
  - v. Amendments to orders will not be permitted during the Auction Initiation Session. If a Stockbroker Firm wishes to amend the quantity of an existing order, such order has to be cancelled and re-entered.
2. Auction Call Session:
- i. Sell orders may be placed by Stockbroker Firms during the Auction Call session.
  - ii. A price band, as determined by the CSE, will be applicable for the sell orders entered during the Auction Call Session.
  - iii. Any sell orders placed by Stockbroker Firms on behalf of clients who do not have the required number of securities in the Cleared Balances will be cancelled by the CSE without any prior notification to the Stockbroker Firms and a processing fee, as determined by the Board of Directors of the CSE, shall be charged from the Stockbroker Firms in respect of such cancelled orders.
  - iv. The Stockbroker Firm may amend the price/quantity of an existing sell order. In such event, the amended order will lose the priority in the order book.
3. Auction Execution Session:
- i. The auction execution will take place at each sell order price regardless of the price indicated on buy order.
  - ii. At the auction execution buy orders will be given priority based on the entry time (time priority – first in first out). The sell orders will be executed based on the price-time priority.
  - iii. Any unexecuted quantities of both buy/sell orders will expire at the end of Auction Execution Session.

An example of the Auction Execution session is set out in Annexure 3.

Trades executed on the Buy-In Board will not update the indices and the closing price.

## 12. AMENDMENT/CANCELLATION OF ORDERS

Once an order is submitted to the exchange, it can if required either be cancelled or amended by the broker if conditions permit.

### 12.1 Cancellation of Orders

Orders can be cancelled by the respective Stockbroker Firms at any point prior to execution. If partially executed any un-executed portion of an order can be cancelled. The crossing board allows cancellations only.

### 12.2 Amend Order

The following fields for an order can be changed prior to execution, or for any un-executed portion of an order. An order amendment will cause an order to lose or gain priority.

- Price
- Volume
- Yield (For Debt Securities only)

### 12.3 Trade Cancellation

(a) Any trade executed on the ATS may be cancelled by the CSE upon a request being made by a Stockbroker Firm involved in the trade with the prior approval of the CSE and mutual agreement of both Stockbroker Firms involved in the trade on behalf of the buyer and the seller within the permitted time period.

(b) Provided however;

- i. any trade executed on BASEL III Complaint Debt Securities where the buyer is not a 'Qualified Investor' as defined in Rule 8 of these Rules, shall be cancelled by the CSE on T and the Buying Stockbroker Firm shall pay to the CSE a trade cancellation administration fee amounting to Rs.10,000/- or 0.005% of the total value of the transaction whichever is higher, subject to a maximum of Rs.25,000/-.
- ii. any trade executed on Foreign Currency Denominated Shares issued by Local or Foreign Entities, which is rejected by a Custodian Bank in terms of the CDS Rules, shall be cancelled by the CSE, upon being notified of same by the CDS.
- iii. any trade executed on Foreign Currency denominated Shares issued by Local or Foreign Entities where the buyer is not a 'Qualified Investor' as defined in Rule 9 of these Rules shall be cancelled by the CSE on T and the Buying Stockbroker Firm shall pay to the CSE a trade cancellation administration fee amounting to Rs.15,000.



### 13. MARKET CLOSE

As the market is in the process of being closed the Venue state will be displayed as 'CLOSING'.

When the market is closed the Venue state will display 'CLOSE'

#### 13.1 Closing Price Calculation Methodology

Closing price will be calculated using the following algorithm:

**Step 1:** Calculate the cumulative trading volume of the security from the last trade executed during the day. If the cumulative trading volume for the last one hour is greater or equal to 100, then the closing price of the security shall be the Volume Weighted Average Price (VWAP) of all trades executed during that hour.

**Step 2:** If the last hour's cumulative trading volume is less than 100, then the previous hour's trades shall also be taken into consideration for calculation of the VWAP. This process will be repeated until the cumulative volume of the security reaches 100 during the day.

**Step 3:** If the total cumulative volume traded during the day for a security is less than 100, the previous day's closing price shall be the closing price of the security.

#### Example 1:

Security X - trade records for dd/mm/yyyy

Time	Price	Volume	Cum. Volume	Value (Rs.)	Cum. Value (Rs.)
9.53	115.00	15	300	1,725.00	33,205.50
10.03	120.00	110	285	13,200.00	31,480.50
10.26	100.00	28	175	2,800.00	18,280.50
10.51	110.00	12	147	1,320.00	15,480.50
11.05	101.50	70	135	7,105.00	14,160.50
11.25	110.00	20	65	2,200.00	7,055.50
11.53	103.70	15	45	1,555.50	4,855.50
12.11	110.00	30	30	3,300.00	3,300.00

In the above example the first trade for security X for the day took place at 9.53 a.m. The last trade for the day was executed at 12.11 p.m. The cumulative volume during the last trading hour is less than 100 and it reaches 100 with the trade executed at 11.05am.

The VWAP for security X for day DD/MM/YYYY:

$$\text{VWAP} = \frac{\text{Total Value Traded From 10.11 A.M.To 12.11 P.M.}}{\text{Total Volume Traded From 10.11 A.M. To 12.11 P.M.}} = \frac{18,280.50}{175}$$

= Rs.104.46 (Closing price will be Rs.104.50 after rounding off)

## 14. DISSEMINATION OF MARKET INFORMATION

The exchange system provides the means for market participants and investors to gain access to market information on a real time basis.

## 15. TRADING HALTS

### 15.1 Market Halts

The market can be halted at the discretion of the CSE during pre-open and regular trading hours.

During a market halt the Venue status will be displayed as “HALT”.

The CSE can subsequently lift the halt on the market and the market will return to its Venue state prior to imposing the halt.

### 15.2 Security Halts

The Exchange may impose a trading halt on a security in the following instances:

- 1) prior to the announcement of any price sensitive information.
- 2) to obtain a clarification from the company on a rumour/report regarding the company which has been brought to the attention of the CSE.
- 3) when there is unusual movement in price/volume of a security.  
Trading in the security will resume as soon as the announcement/clarification from the company is disseminated to the market.

A trading halt may be imposed for a time period during a market day or the halt may extend beyond one day until the company issues a statement to the Exchange for dissemination.

The CSE has set a circuit breaker for individual securities (known as trip percentages). When the price of a security exceeds the trip percentage, trading in the security is automatically halted.

## 16. REGULATED SHORT SELLING

### Definitions

For the purpose of this Section;

**Borrower:** shall have the same meaning as set out in the CDS Clearing House Rules.

**CDS- Clearing House Rules:** shall mean the rules made by the CDS in terms of section 36 of the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 with regard to the clearing house operated by the CDS.

**Eligible Securities:** shall mean the securities eligible for regulated short selling determined by the CSE from time to time.

**Lender:** shall have the same meaning as set out in the CDS Clearing House Rules.

**Order Management**

**System:** shall mean a computer application used for submitting trading orders, which conforms to the Gateway and Application Program Interface (API) Specifications and any other specifications determined by the CSE and communicated to the Trading Participants from time to time.

**SBL Transaction:** shall have the same meaning as set out in the CDS- Clearing House Rules.

**Short Seller:** shall mean a client executing a Short Sell Transaction in terms of Rule 16.1 (II).

**Short Sell Order:** shall mean an order placed to carry out a Short Sell Transaction in accordance with Rule 16.1.

**Short Sell**

**Transaction:** shall mean a sell trade carried out by a seller which will result in a short position within the meaning of the Clearing House Rules as at the end of trading day of such trade.

**16.1 Regulated Short Selling**

- I. A Short Sell Transaction may be executed on the ATS pursuant to the matching of a Short Sell Order with a buy order in accordance with these Rules.
- II. A Short Sell order shall be entered by a Trading Participant in terms of these Rules only where the seller:
  - a) has borrowed the Eligible Securities required to settle the sell trade in full through an SBL Transaction in terms of the CDS - Clearing House Rules prior to placing the Short Sell Order; or
  - b) ensures that the securities required to settle the trade in full are credited to the CDS Account of the seller by the end of the trade date of the Short Sell Transaction by borrowing the required quantum of securities through an SBL Transaction in accordance with the CDS - Clearing House Rules.
- III. It shall be the obligation and responsibility of the Trading Participant to ensure that the client who intends to carry out a Short Sell Transaction has entered into an agreement to carry out an SBL Transaction and has complied with all other requirements set forth in the CDS - Clearing House Rules, prior to placing the Short Sell Order.

No sell trade shall be executed on the ATS unless the CDS account of the seller has adequate number of securities for the settlement of the trade as at the time of placing the sell order (which is computed by taking into account the cleared balance of the account and the pending buy and sell transactions relating to the account, as at the time of the order), except where such sell trade is carried out as a Short Sell Transaction as permitted in these Rules. In the context of a Short Sell Transaction executed on the ATS, the Trading Participant of the seller shall ensure that such Short Sell Transaction does not result in a short position within the meaning of the CDS - Clearing House Rules as at the end of trade date of the Short Sell Transaction.

**16.2 Execution of a Short Sell Order**

- I. When entering a Short Sell Order, the Trading Participant shall ensure that the Short Sell Order meets the criteria set out in Rule 16.1 (II) above.

## Trading Rules

- II. The price of the Short Sell Order shall be in conformity with the requirements set out in Rule 16.3 below.
- III. The Trading Participant shall:
  - a. enter the Short Sell Order to the Order Management System through the screen designated for entering of Short Sell Orders; and
  - b. flag such order as a Short Sell Order.
- IV. The Short Sell Orders shall;
  - a) be placed as limit orders.
  - b) only be entered during the Regular Trading Session.
  - c) not be carried forward to the next Market Day.
  - d) not be entered in the Crossing Board or as an AON Block in terms of Section 6 and Section 7 of Part 1 of these Rules.
- V. Subject to these Rules set out in Section 16 relating to Short Sell Transactions, all other rules applicable to sale transactions set out in these Trading Rules shall apply to Short Sell Transactions.

### 16.3 Uptick Rule

If the price of a security declines by 10% from the previous closing price, an 'Uptick Rule' shall be applicable. In such event, Short Sell Orders in respect of such security shall be entered to the system at least one tick size above the last traded price of such security. Any Short Sell Order placed at a price equivalent to or less than the last traded price of the security shall be rejected.

### 16.4 Suspension of short selling of a security

In the event the price of the security declines by 20% or more from the previous closing price, Short Sell Transactions shall not be permitted in respect of such security until the price appreciates above the given limit.

### 16.5 Reporting

The CSE shall, on a daily basis, publish aggregate information on Short Sell Transactions in respect of each Eligible Security on the website of the CSE.

### 16.6 Consequences of Non-compliance

- I. In the event the Trading Participant fails to comply with the obligations imposed under Rule 16.1 (II)(b) above, the CSE shall initiate enforcement action against such Trading Participant in terms of Rule 16.7 below.
- II. Additionally, in the event of a non-compliance with Rule 16.1 (II)(b) above, such Trading Participant shall procure the required number of securities to settle the trade via the Buy-in Board or any other mechanism on T+1 to fulfill its settlement obligations in relation to the trade executed in terms of these Rules.

### 16.7 Enforcement Action

## Trading Rules

In the event of a non-compliance with Rule 16.1 (II) (b) above by a Trading Participant, the CSE shall impose fines as set out below:

Instance of Non-Compliance	Fine (Rs.)
On the first (1 <sup>st</sup> ) occurrence	A fine of Rupees One Hundred Thousand (Rs.100,000/-).
On the second (2 <sup>nd</sup> ) and third (3 <sup>rd</sup> ) occurrences within one (1) year from the date of the first (1 <sup>st</sup> ) occurrence	A fine of Rupees Two Hundred Thousand (Rs. 200,000/-) on each such occurrence.
On the fourth (4 <sup>th</sup> ) occurrence within one (1) year from the date of the first (1 <sup>st</sup> ) occurrence	A fine of Rupees Two Hundred Thousand (Rs. 200,000/-). Additionally, the Trading Participant shall be prohibited from entering any Short Sell Orders for a period of six (06) months from the date of the fourth (4 <sup>th</sup> ) occurrence.

### 17. MISCELLANEOUS

**17.1** The CSE will not hold itself liable for any loss incurred to a person due to a technical failure of the ATS or due to a bona fide oversight in the operation of the ATS by its servants and/or agents, except to the extent as set out by the Unfair Contract Terms Act No. 26 of 1997.

**17.2** In the event of the occurrence of a contingency in connection with a transaction not provided by these rules, the CSE in consultation with the SEC, shall have the right to determine such matter which determination shall be final and binding on all parties.

**Example: Stop and Stop limit orders**

Assume the following:

The last traded price of ABC shares is Rs. 25.00. The market is currently in the regular trading session. Broker 1 submits a buy stop order (Order ID X) of 200 ABC shares with a stop price of Rs. 30.00. The current state of the order book is set out in the following Table:

ABC Order Book					
Bids			Asks		
ID	Qty	Price	Price	Qty	ID
A	200	30.00	31.00	300	E
B	300	29.00	32.00	200	F
C	100	28.00	33.00	200	G
D	200	27.00			

The stop order is not elected to the order book as the last traded price is less than the stop price of Order X.

Another broker (Broker 2) submits a sell limit order (Order ID Y) of 500 ABC shares at a price of Rs. 30.00. This order will partially execute against order A (200 shares) on the buy side.

Buyer ID	Seller ID	Qty	Price
A	Y	200	30.00

Since the last traded price is now Rs. 30.00, the buy stop order will be elected to the order book. The order book will then look like the following: -

ABC Order Book					
Bids			Asks		
ID	Qty	Price	Price	Qty	ID
X	200	MKT	30.00	300	Y
B	300	29.00	31.00	300	E
C	100	28.00	32.00	200	F
D	200	27.00	33.00	200	G

The market order will be fully executed against the remainder of the sell order submitted earlier.

Buyer ID	Seller ID	Qty	Price
X	Y	200	30.00

Assume another Broker (Broker 3) submits a sell stop order (Order ID P) of 300 ABC shares with a stop price of Rs. 29.00. This will not be elected to the order book as the sell stop price (Rs. 29.00) is less than the last traded price (Rs. 30.00). The order book will be as follows:

ABC Order Book					
Bids			Asks		
ID	Qty	Price	Price	Qty	ID
B	300	29.00	30.00	100	Y
C	100	28.00	31.00	300	E
D	200	27.00	32.00	200	F
			33.00	200	G

A Broker (Broker 4) submits a sell limit order (Order ID Q) of 100 ABC shares with a price of Rs. 29.00. This will be fully executed against the order B on the buy side.

Buyer ID	Seller ID	Qty	Price
B	Q	100	29.00

Since the last traded price of ABC share is Rs. 29.00, it allows the sell stop order to be elected to the order book. The order book will be as follows:

ABC Order Book					
Bids			Asks		
ID	Qty	Price	Price	Qty	ID
B	200	29.00	MKT	300	P
C	100	28.00	30.00	100	Y
D	200	27.00	31.00	300	E
			32.00	200	F
			33.00	200	G

This stop order will execute partially against the contra side order.

Buyer	Seller	Qty	Price
B	P	200	29.00

The remainder of the stop order will expire.

The election of stop limit orders will be the same except for the fact that such orders will contain a price. Therefore, the position of an elected stop limit order will depend on the price points in the order book.

Example 1: If a buy stop limit order is elected to the order book with a limit price of Rs. 30.00. There already exist two limit buy orders in the order book with a price of Rs. 30.00. Therefore, the elected stop limit order will be at the bottom of the price point of Rs. 30.00.

Example 2: There are 2 Buy stop orders with stop prices of Rs. 35.00 and Rs. 36.00 respectively. There is also one buy stop limit order with a stop price of Rs. 34.00 and a limit price of Rs. 38.00. The last traded price is Rs. 30.00.

A sudden shift in the market causes a trade to occur at the price of Rs. 37.00. This causes all three orders to be elected to the order book. The stop limit order will be set at a price point of Rs. 38.00. The 2 stop orders will be elected to the order book as market orders. The stop order which was submitted first would be the first to get elected to the contra side of the order book.

**Example: Open Auction****a) The Volume is maximised at a Single Price Point**

The order book at the end of the Pre-Open session is set out below:

<b>Order Book - XYZ.N.0000</b>				
<b>Cumulative Bids</b>	<b>Bids</b>	<b>Price</b>	<b>Asks</b>	<b>Cumulative Asks</b>
1000	1000	MKT BUY		
1000		14.80	300	7500
2000	1000	14.50	200	7200
4000	2000	14.20	1000	7000
5000	1000	14.00	2000	6000
7000	2000	13.60	2000	4000
8000	1000	13.30	1000	2000
8100	100	13.00		1000
8500	400	12.00		1000
		MKT SELL	1000	1000

The tradable quantity at each price point is set out below:

<b>Price</b>	<b>Executable Quantity</b>
14.20	4000
14.00	5000
13.60	4000
13.30	2000

The Opening Price will be Rs. 14.00 as this is the price at which volume is maximized.

**b) Multiple volume maximizing prices – The Opening Price is the Price that Minimizes the Imbalance**

The order book at the end of the Pre-Open session is set out below:

<b>Order Book - XYZ.N.0000</b>				
<b>Cumulative Bids</b>	<b>Bids</b>	<b>Price</b>	<b>Asks</b>	<b>Cumulative Asks</b>
1000	1000	MKT BUY		
1000		14.80	300	7500
1000		14.50	200	7200
3000	2000	14.20	1000	7000
4000	1000	14.00	2000	6000
5000	1000	13.60	2000	4000
6000	1000	13.30	1000	2000
6100	100	13.00		1000
6500	400	12.00		1000
		MKT SELL	1000	1000

The tradable quantity and the imbalance at each price point are set out below:



Price	Executable Quantity	Executable Buys	Executable Sells	Order Imbalance
14.20	3000	3000	7000	4000 (SELL)
14.00	4000	4000	6000	2000 (SELL)
13.60	4000	5000	4000	1000 (BUY)
13.30	2000	6000	2000	5000 (BUY)

Volume is maximized at Rs. 14.00 and Rs. 13.60. Therefore, the order imbalances are considered in these two price points. The Opening Price will be Rs. 13.60 as this is the price at which volume is maximized and the imbalance is minimized.

**c) Multiple volume maximizing prices with the same order imbalance -**

**1) All Imbalances at such prices in the Buy side:**

The order book at the end of the Pre-Open session is set out below:

Order Book - XYZ.N.0000				
Cumulative Bids	Bids	Price	Asks	Cumulative Asks
1000	1000	MKT BUY		
1000		14.80	300	5500
1000		14.50	200	5200
7000	6000	14.20	0	5000
7000	0	14.00	1000	5000
11000	4000	13.60	1000	4000
12000	1000	13.30	2000	3000
12100	100	13.00		1000
12400	300	12.50		1000
		MKT SELL	1000	1000

The tradable quantity and Imbalance at each price point is set out below:

Price	Executable Quantity	Executable Buys	Executable Sells	Order Imbalance
14.20	5000	7000	5000	2000 (BUY)
14.00	5000	7000	5000	2000 (BUY)
13.60	4000	11000	4000	7000 (BUY)
13.30	3000	12000	3000	8000 (BUY)

Volume is maximized at Rs. 14.20 and Rs. 14.00 and the order imbalance of both these price points is the same and is in the Buy side. In this scenario when all the order imbalances are in the buy side the Opening Price is taken as the highest price, which is Rs. 14.20.

**2) All Imbalances at such prices in the Sell side:**

The order book at the end of the Pre-Open session is set out below:

Order Book - XYZ.N.0000				
Cumulative Bids	Bids	Price	Asks	Cumulative Asks

1000	1000	MKT BUY		
1000		14.80	300	9500
1000		14.50	200	9200
2000	1000	14.20	2000	9000
3000	1000	14.00	0	7000
3000	0	13.60	5000	7000
4000	1000	13.30	1000	2000
4100	100	13.00		1000
4400	300	12.50		1000
		MKT SELL	1000	1000

The tradable quantity and Imbalance at each price point is set out below:

Price	Executable Quantity	Executable Buys	Executable Sells	Order Imbalance
14.20	2000	2000	9000	7000 (SELL)
14.00	3000	3000	7000	4000 (SELL)
13.60	3000	3000	7000	4000 (SELL)
13.30	2000	4000	2000	2000 (BUY)

Volume is maximized at Rs. 14.00 and Rs. 13.60 and the order imbalance of both these price points is the same and is in the Sell side. In this scenario when all the order imbalances are in the sell side the Opening Price is taken as the lowest price, which is Rs. 13.60.

**3) When there are imbalances in both the Buy and the Sell sides:**

The order book at the end of the Pre-Open session is set out below:

Order Book - XYZ.N.0000				
Cumulative Bids	Bids	Price	Asks	Cumulative Asks
1000	1000	MKT BUY		
1000		14.80	300	7500
2000	1000	14.50	200	7200
3000	1000	14.20	1000	7000
4000	1000	14.00	2000	6000
6000	2000	13.60	1000	4000
7000	1000	13.30	2000	3000
7100	100	13.00		1000
7400	300	12.50		1000
		MKT SELL	1000	1000

The tradable quantity and Imbalance at each price point is set out below:

Price	Executable Quantity	Executable Buys	Executable Sells	Order Imbalance
14.20	3000	3000	7000	4000 (SELL)
14.00	4000	4000	6000	2000 (SELL)
13.60	4000	6000	4000	2000 (BUY)
13.30	3000	7000	3000	4000 (BUY)

Volume is maximized at Rs. 14.00 and Rs. 13.60 and the order imbalance of both these price points is the same. In this scenario the order imbalances are in both sides of the order book, i.e.,

the Buy side and the Sell side. In order to calculate the Opening Price the following two prices are considered.

- The highest price with a buy imbalance – Rs. 13.60 in this case
- The Lowest price with a sell imbalance – Rs. 14.00 in this case

Out of the above two price points, the price nearer to the previous closing price is taken as the Opening price.

i.e. If the previous closing price was Rs. 13.50, the opening price will be Rs. 13.60.

**d) If both price points are equally near to the Closing Price:**

Ex: In the order book given in example c.3 above, if the closing price was Rs. 13.80, both the price points (Rs 14.00 and Rs 13.60) would be equally near to the Closing Price of Rs. 13.80. Therefore, Rs. 14.00 will be the Opening price since it is the higher out of the two price points.

**Example: Buy-In Board****Scenario 1: Security A open for Buy-In Auction**

Auction Initiation Session				Auction Call Session			
Order ID	Client ID	Bid Qty.	Bid Price (Rs.)	Order ID	Client ID	Offer Qty.	Offer Price (Rs.)
1	Investor 1	50,000	100.00	3	Investor 3	50,000	101.00
2	Investor 2	75,000	100.00	4	Investor 4	5,000	102.00
		125,000		5	Investor 5	7,500	101.50
				6	Investor 6	20,000	102.00
				7	Investor 7	42,500	103.00
						125,000	

The Auction Execution is as follows:

Auction Execution Session		
Order Match	Qty	Price (Rs.)
1 → 3	50,000	101.00
2 → 5	7,500	101.50
2 → 4	5,000	102.00
2 → 6	20,000	102.00
2 → 7	42,500	103.00
	125,000	

**Scenario 2: Security B open for Buy-In Auction**

Auction Initiation Session				Auction Call Session			
Order ID	Client ID	Bid Qty.	Bid Price (Rs.)	Order ID	Client ID	Offer Qty.	Offer Price (Rs.)
1	Investor 1	20,000	150.00	3	Investor 3	2,000	150.50
2	Investor 2	35,000	150.00	4	Investor 4	7,000	150.20
		55,000		5	Investor 5	4,000	150.80
				6	Investor 6	10,000	150.00
				7	Investor 7	5,000	151.00
				8	Investor 8	6,000	151.50
				9	Investor 9	15,000	150.10
						49,000	

The Auction Execution is as follows:

Auction Execution Session		
Order Match	Qty.	Price (Rs.)
1 → 6	10,000	150.00
1 → 9	10,000	150.10
2 → 9	5,000	150.10
2 → 4	7,000	150.20

2 → 3	2,000	150.50
2 → 5	4,000	150.80
2 → 7	5,000	151.00
2 → 8	6,000	151.50
	49,000	

Note: Investor 2 could not cover his / her 6,000 short quantities of shares from the Buy-In Board Auction, as there are only 49,000 shares available in the sell side.

**Scenario 3: Security C open for Buy-In Auction**

Auction Initiation Session				Auction Call Session			
Order ID	Client ID	Bid Qty.	Bid Price (Rs.)	Order ID	Client ID	Offer Qty.	Offer Price (Rs.)
1	Investor 1	20,000	180.00	3	Investor 3	5,000	185.00
2	Investor 2	35,000	180.00	4	Investor 4	10,000	182.00
3	Investor 3	5,000	180.00	5	Investor 5	10,000	187.00
		60,000		6	Investor 6	8,000	183.00
				7	Investor 7	5,000	190.00
				8	Investor 8	15,000	188.50
				9	Investor 9	18,000	196.00
						71,000	

The Auction Execution is as follows:

Auction Execution Session		
Order Match	Qty	Price (Rs.)
1 → 4	10,000	182.00
1 → 6	8,000	183.00
1 → 3	2,000	185.00
2 → 3	3,000	185.00
2 → 5	10,000	187.00
2 → 8	15,000	188.50
2 → 7	5,000	190.00
2 → 9	2,000	196.00
3 → 9	5,000	196.00
	60,000	

Note: The excess quantities of 11,000 shares of the Investor 9 will not be executed in the Buy-In Board as the buy-in quantities are less than the total sell quantity available. Orders executed based on the price-time priority and any excess quantities will get expired at the closure of the Buy-In Board upon the auction execution.

## PART 2

### RULES GOVERNING THE OVER THE COUNTER PLATFORM OF THE CSE

#### A. GENERAL

##### 1. INTRODUCTION

The Over the Counter (OTC) Platform is a Trading Platform operated by the Colombo Stock Exchange for the purpose of trading Specified Securities which shall be determined by the Board of Directors of the CSE and published from time to time.

The OTC Platform is aimed at Eligible Investors as defined in these Rules and all such Eligible Investors are required to trade on the OTC Platform through a Trading Participant authorized to carry out transactions in Specified Securities on the OTC Platform of the CSE.

All such Trading Participants are required to comply with these Rules and any amendments made thereto from time to time.

The CSE, being the operator of the OTC Platform, will not hold itself liable for any loss incurred to a person due to a technical failure of the OTC Platform or due to a bona fide oversight in the operation of the OTC Platform by its employees and/or agents, except to the extent as set out by the Unfair Contract Terms Act No. 26 of 1997.

The Trading Participants shall indemnify, defend and hold the CSE, its directors, employees and subsidiaries 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 transactions in Specified Securities carried out on the OTC Platform of the CSE on their behalf or on behalf of their clients.

##### 2. DEFINITIONS

When used in the Part 2 of these Rules, the following expressions shall, unless the context otherwise requires, bear the following meanings:

<b>Borrower</b>	: shall mean the seller of the Purchased Securities (i.e. the borrower of funds) on the Purchase Date in a Repurchase Transaction
<b>CSE</b>	: shall mean the Colombo Stock Exchange
<b>CDS</b>	: shall mean the Central Depository Systems (Pvt.) Ltd.
<b>Eligible Investors for Perpetual Debt Securities</b>	: shall be limited to 'Qualified Investors'.  Qualified Investors' shall mean,  (a) an individual -  (i) whose net personal assets excluding primary residential property, exceeds two hundred million rupees (Rs. 200,000,000/-) in value; or

- (ii) whose average annual income in the preceding three (3) years is not less than thirty million rupees (Rs. 30,000,000/-); and,
- (iii) who makes a declaration on his experience, ability and sophistication to take on the investment risk.

(b) a corporate entity with net assets exceeding one thousand million rupees in value as determined by:

- (i) the most recent audited balance sheet of the entity; or
- (ii) in the absence of the audited balance sheet, the most recent balance sheet of the corporate entity certified by the entity as giving a true and fair view of the state of affairs of the entity as of the date of the balance sheet, which date shall be within the preceding twelve (12) months.

(c) the trustee of a trust as the Commission may specify when acting in that capacity.

**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 the OTC Platform of the CSE:

- 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);
- Trading Participants of the CSE possessing a Stock Dealer license for Debt Securities from the SEC
- the trustee or the manager of a mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund;
- a venture capital fund/company and private equity company;

- a wealth management company;
- the trustee or the manager of a unit trust, investment scheme or investment company;
- 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 a Repurchase Transaction.

**Master Repurchase Agreement** : shall mean the agreement entered between a Trading Participant and an Eligible Investor or 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.

**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.

**Perpetual Debt Securities** : shall mean fixed income securities issued by a Commercial Bank or Specialized Bank licensed by the CBSL, which do not have a maturity date and listed on the Exchange in terms of the CSE Listing Rules.

**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.

**Purchased Securities** : shall mean the 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 transaction whereby the Borrower agrees to sell the Purchased Securities to the Lender at the Purchase Price on the Purchase Date and the Lender simultaneously agrees to sell the Purchased Securities to the Borrower for the Repurchase Price on the Repurchase Date.

**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



immediately preceding Repurchase Transaction based on new terms and conditions.

**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 of the CSE permitted to carry out transactions in Specified Securities on the OTC Platform of the CSE.

## **B. REPURCHASE TRANSACTIONS ON DEBT SECURITIES**

### **1. GENERAL**

- (1)** The Rules set out in this section are applicable to Repurchase Transactions on debt securities carried out on the OTC Platform.
- (2)** Trading Participants shall carry out Repurchase Transactions on the OTC Platform in compliance with these Rules, the applicable CDS Rules and the Master Repurchase Agreement entered into between the Trading Participant and the Eligible Investor and/or between the Eligible Investors operating through the same Trading Participant, as applicable.
- (3)** Trading Participants shall ensure that Repurchase Transactions on the OTC Platform are carried out only by Eligible Investors.
- (4)** Repurchase Transactions may be carried out on Market Days and trading hours as prescribed by the CSE from time to time.

### **2. TYPES OF REPURCHASE TRANSACTIONS**

The following types of Repurchase Transactions shall be permitted on the OTC Platform:

- (A)** Transactions between two Trading Participants
- (B)** Transactions between a Trading Participant and an Eligible Investor operating through the same Trading Participant
- (C)** Transactions between two Eligible Investors operating through the same Trading Participant

### **3. MASTER REPURCHASE AGREEMENT**

- (1)** The Trading Participant shall enter into a Master Repurchase Agreement with the Eligible Investor and/or Trading Participant (as the case may be), prior to carrying out Repurchase Transactions on the OTC Platform. If the Repurchase Transaction is between two Eligible Investors operating through the same Trading Participant, such Trading Participant shall ensure that a Master Repurchase Agreement is entered into between the two Eligible Investors prior to carrying out any Repurchase Transactions on the OTC Platform.
- (2)** The Master Repurchase Agreement referred to in Rule (B) 3 (1) above shall be in conformity

with the format prescribed by the CSE.

#### **4. TRADING PROCEDURE**

##### **4.1 Entering Transaction Details to the OTC Platform**

- (1)** The Trading Participant shall ensure that the information relating to the Repurchase Transactions are entered to the OTC Platform only by authorized persons.
- (2)** The Trading Participant shall be responsible for the information entered to the OTC Platform relating to the Repurchase Transaction.
- (3)** Information entered to the OTC Platform relating to the Repurchase Transaction shall contain, at a minimum, the following information and any other information as prescribed by the CSE from time to time:
  - Purchase Date
  - Settlement Date (if different to the Purchase Date)
  - Name of the Lender and Borrower
  - Nature of the Transaction
  - Purchase Price (Lending/Borrowing amount)
  - Interest Rate (Yield)
  - Lending / Borrowing Client's CDS Account
  - Description of Purchased Securities (Collateral)
  - Quantity of Purchased Securities
  - Repurchase Date
  - Repurchase Price

##### **4.2 Modification or Cancellation of Transaction Details**

- (1)** Any information relating to a Repurchase Transaction entered to the OTC Platform may be modified or cancelled only by the authorized persons of the Trading Participant.
- (2)** Any modification or cancellation of information relating to a Repurchase Transaction entered to the OTC Platform shall be carried out prior to the matching of the transaction details, except in the following instances:
  - (a) Rolled Over Repurchase Transactions
  - (b) Substitution of Purchased Securities
- (3)** In the event the information submitted by a Trading Participant relating to a Repurchase Transaction does not match with the transaction details provided by the corresponding Trading Participant, who is the counterparty to the Repurchase Transaction, such transaction details will be cancelled by the CSE with notice to the relevant Trading Participant.

##### **4.3 Matching and Recording of Repurchase Transactions**

- (1)** All Repurchase Transactions carried out on the OTC Platform shall be matched and recorded by the CSE based on the transaction details entered to the OTC Platform by the respective Trading Participants.

- (2) Upon matching and recording the Repurchase Transaction, the CSE shall inform the CDS and the respective Trading Participants regarding the Repurchase Transaction.

#### **5. SETTLEMENT OF REPURCHASE TRANSACTIONS**

- (1) The settlement of funds relating to Repurchase Transactions carried out on the OTC Platform shall take place outside the CDS in accordance with the Master Repurchase Agreement.
- (2) The transfer of the Purchased Securities relating to a Repurchase Transaction on the Purchase Date and a retransfer on the Repurchase Date shall be carried out in accordance with the applicable Rules of the CDS.

#### **6. SUBSTITUTION OF PURCHASED SECURITIES IN A REPURCHASE TRANSACTION**

- (1) The Purchased Securities in a Repurchase Transaction may be substituted through the OTC Platform with the prior written agreement of the Lender and the Borrower.

The Trading Participants shall submit a copy of such written agreement to the CSE via the OTC Platform as set out in Rule (B) 6 (3) below.

- (2) A request for the substitution of Purchased Securities in a Repurchase Transaction shall be entered to the OTC Platform only by the authorized persons of the relevant Trading Participant after the settlement of the Purchase Price and prior to the settlement of the Repurchase Price of the Repurchase Transaction.
- (3) Such request to substitute the Purchased Securities shall contain the following information:
  - Effective date
  - Purchased Securities to be substituted and the quantity
  - A description of the new Purchased Securities which will substitute the existing Purchased Securities and the quantity
  - A copy of the written agreement between the Lender and the Borrower to substitute the Purchased Securities

- (4) In the event of the Purchased Securities are suspended by the CSE the Purchased Securities cannot be substituted in accordance with these Rules, until such time the trading suspension is lifted by the CSE.

- (5) Any request for substitution of the Purchased Securities which has been entered to the OTC Platform contrary to these Rules shall be cancelled by the CSE, with notice to the relevant Trading Participant.

- (6) All requests to substitute the Purchased Securities received by the CSE through the OTC Platform in conformity with this Rule shall be communicated to the CDS, for transfer of securities within the relevant CDS Accounts.

#### **7. ROLL OVER OF REPURCHASE TRANSACTIONS**

- (1) In the event a Repurchase Transaction is to be rolled over on the Repurchase Date, the authorized persons of the Trading Participants shall notify the CSE regarding same via the

OTC Platform at least one (1) Market Day prior to the Repurchase Date of the Repurchase.

- (2) The Rolled Over Repurchase Transaction shall be considered as a new Repurchase Transaction and the applicable Trading Rules will apply to such new Repurchase Transaction.
- (3) In the event, the value of the Rolled Over Repurchase Transaction is higher than the original Repurchase Transaction, the Rolled Over Repurchase Transaction/new Repurchase Transaction shall be supported with additional Purchased Securities, as agreed between the Lender and Borrower.
- (4) The relevant Trading Participant shall submit the request for providing additional Purchased Securities for the Rolled Over Repurchase Transaction via the OTC Platform, and such request shall contain details pertaining to the additional Purchased Securities.
- (5) All notifications received by the CSE regarding Rolled Over Repurchase Transactions in conformity with these Rules shall be communicated to the CDS on the new Purchase Date of the Rolled Over Repurchase Transaction.

## **8. NOTIFICATIONS TO THE TRADING PARTICIPANTS AND CLIENTS**

- (1) Once a Repurchase Transaction is matched and recorded, a confirmation will be issued to the respective Trading Participants by the CSE via the OTC Platform.
- (2) The Trading Participants shall issue a confirmation regarding the Repurchase Transactions carried out on the OTC Platform to the Lenders and Borrowers no sooner the Trading Participants receive the confirmation from the CSE in terms of Rule (B) 8 (1) above. Such confirmation shall contain the information set out in Annexure II of the Master Repurchase Agreement.
- (3) The Trading Participants shall submit all notifications sent by the CSE regarding confirmations, substitution, Rolled Over Repurchase Transactions, fund settlements and cancellation / modification of Repurchase Transactions to its clients and shall maintain records of all such communications for the time period as required by law.

## **9. DEFAULT OF THE REPURCHASE TRANSACTIONS**

- (1) In the event of a default of a Repurchase Transaction carried out on the OTC Platform, the Lender and Borrower to the Transaction shall take appropriate action in terms of the Master Repurchase Agreement.
- (2) The CSE shall not be responsible for any damages or losses that may be incurred by the Lender or Borrower as a result of a default of a Repurchase Transaction carried out on the OTC Platform of the CSE.

## **C. PERPETUAL DEBT SECURITIES**

### **1. GENERAL**

- (1) The Rules set out in this section are applicable to transactions carried out on Perpetual

Debt Securities on the OTC Platform.

- (2) All Trading Participants shall carry out Transactions on Perpetual Debt Securities on the OTC Platform in compliance with these Rules and the applicable CDS Rules.
- (3) Transactions in Perpetual Debt Securities shall be carried out by Eligible Investors as defined in these Rules. Provided however, in instances where the Perpetual Debt Securities amount to BASEL III compliant Debt Securities, the Trading Participants shall ensure that trading in such Debt Securities are limited to Qualified Investors as defined in Rule 8.2 of Part 1 of these Rules.
- (4) Transactions in Perpetual Debt Securities may be carried out on Market Days and trading hours as prescribed by the CSE from time to time.
- (5) Any REPO transactions on Perpetual Debt Securities will be carried out on the REPO Transaction module of the OTC Platform in accordance with Rule (B) of Part 2 of these Rules.

## 2. TRADING PROCEDURE

### 2.1 Entering Transaction Details to the OTC Platform

- (1) The Trading Participant shall ensure that the information relating to the Perpetual Debt Securities Transactions are entered to the OTC Platform only by authorized persons.
- (2) The Trading Participant shall be responsible for the information entered to the OTC Platform relating to the Perpetual Debt Securities Transaction.
- (3) Information entered to the OTC Platform relating to the Perpetual Debt Securities Transaction shall contain, at a minimum, the following information and any other information as prescribed by the CSE from time to time:
  - Transaction Date
  - Security ID
  - Price
  - Quantity
  - Settlement Value
  - Client's CDS Account Number
  - Nature of the Transaction
  - Expected yield

### 2.2 Modification or Cancellation of Transaction Details

- (1) Any information entered to the OTC Platform relating to a transaction to be carried out on Perpetual Debt Securities may be modified or cancelled only by the authorized persons of the Trading Participant.
- (2) Any such modification or cancellation of information entered to the OTC Platform relating to a transaction to be carried out on Perpetual Debt Securities referred to in Rule (C) 2.2 (1) above shall be carried out prior to the matching of the Transaction details.

- (3) In the event the information submitted by a Trading Participant relating to a transaction to be carried out on Perpetual Debt Securities does not match with the Transaction details provided by the corresponding Trading Participant, who is the counterparty to the transaction, such Transaction details will be cancelled by the CSE with notice to the relevant Trading Participants.

### **2.3 Matching and Recording of Perpetual Debt Securities Transactions**

- (1) All transactions on Perpetual Debt Securities carried out on the OTC Platform shall be matched and recorded by the CSE based on the Transaction details entered to the OTC Platform by the respective Trading Participants.
- (2) Upon matching and recording the transaction on Perpetual Debt Securities, the CSE shall inform the CDS regarding the transaction on the Trade Day.

### **3. TRANSACTION FEES**

The transaction fees applicable to Perpetual Debt Securities Transactions carried out in the OTC Platform shall be determined by the CSE and published on the CSE website.

### **4. TRADE CANCELLATIONS DUE TO DEFAULT OF FUNDS**

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

### **5. NOTIFICATIONS TO THE TRADING PARTICIPANTS AND CLIENTS**

- (1) Once a Transaction on Perpetual Debt Securities is matched and recorded, a confirmation shall be issued by the CSE to the respective Trading Participants.
- (2) The Trading Participants shall issue a confirmation regarding the Perpetual Debt Securities carried out on the OTC Platform to the respective clients, no sooner the Trading Participants receive the confirmation from the CSE in terms of Rule (C) 5 (1) above.
- (3) The Trading Participants shall submit all notifications sent by the CSE regarding Trade confirmations and cancellation of Perpetual Debt Securities Transactions to its clients and shall maintain records of all such communications for the time period as required by law.

### **6. PUBLICATION OF PERPETUAL DEBT SECURITIES TRANSACTION CARRIED OUT ON THE OTC PLATFORM**

All transactions carried out on Perpetual Debt Securities on the OTC Platform and any subsequent cancellation of such transactions by the CSE (if any) in accordance with Rule (C) 4 above, will be published on the CSE website and other applicable publications of the CSE.

### **7. SECURITY HALTS**

The CSE may impose a trading halt on the Perpetual Debt Securities issued by a Listed Entity on the OTC Platform in the following instances:

- a) Prior to announcement of any price sensitive information.
- b) To obtain a clarification from the Listed Entity on a rumor/report regarding such Entity, which has been brought to the attention of the CSE.
- c) If the CSE deems it necessary for the purpose of disseminating information.

d) Upon being directed by the SEC to do so.

The duration of a trading halt will be determined by the CSE or the SEC, as the case may be and may be extended beyond one (01) Market Day.