

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.