

## SECTION 5

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

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

##### 5.1.1 Definitions

For the purpose of Rule 5.1:

##### **Debt Securities**

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

##### **Trading Participant for Debt Securities**

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

##### **Settlement Date**

means

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

##### **Spot Board**

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

##### **Tom Board**

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

##### 5.1.2 Settlement of Debt Securities

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

##### 5.1.3 Inter - clearing member Settlement

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

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

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

#### **5.1.4 Margin Requirements applicable for Market Contracts on Debt Securities**

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

#### **5.1.5 Provision of Market Collateral to the Clearing House**

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

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

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

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

### **(A) Definitions**

**For the purpose of Rule 5.2:**

#### **OTC Platform**

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

#### **Specified Securities**

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

#### **Trading Participant**

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

### **(B) Repurchase Transactions in Debt Securities (REPO)**

For the purposes of this Rule 5.2 (B);

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

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

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

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

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

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

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

## **(1) Settlement of Repurchase Transactions**

### **A. Fund Settlement**

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

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

**B. Confirmation of Availability of Funds and Securities**

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

**C. Settlement of Securities**

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

**D. Client Confirmations on Receipt of Funds and Securities**

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

**(2) Substitution of Purchased Securities**

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

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

**(3) Default of a Repurchase Transaction**

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

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

Purchase Date of the Repurchase Transaction

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

Repurchase Date of the Repurchase Transaction

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

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

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

**(4) Roll Over of Repurchase Transactions**

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



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

**(5) Dispute Resolution**

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

**(C) Perpetual Debt Securities**

**(1) Definitions**

For the purposes of this Rule 5.2 (C);

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

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

**(2) Settlement of Funds**

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

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

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

(j) Fund Settlement Failure

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

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

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

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

**(3) Settlement of Securities**

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