

SECTION 3

MINIMUM STANDARDS APPLICABLE TO A CLEARING MEMBER

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

3.1. Capital Requirements

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

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

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

For the purposes of this Rule 3.1.1 (a);

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

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

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

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

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

3.1.2 Financial Statements of Clearing Members:

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

3.2 Systems and Operations of a Clearing Member

A Clearing Member shall ensure that:

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

3.3 Business Continuity Requirements

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

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

3.4 Other Risk Management Requirements

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

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

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

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

3.5 Internal Audit Requirements

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

3.6 Submission of Compliance Report

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