

Central Depository Systems (Pvt) Ltd.

(Effective from Date of Implementation of Delivery Vs. Payment Settlement Mechanism)

Rules

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INTRODUCTION

(i) Central Depository Systems (Private) Limited

The Central Depository Systems (Private) Limited (CDS), a wholly owned subsidiary of the Colombo Stock Exchange (CSE) was incorporated on 30th August 1991 as a private company with limited liability under the Companies Act No. 17 of 1982, for the purpose of acting as a depository in respect of Securities traded on the CSE and additionally to facilitate clearing and settlement of such Securities.

These Rules govern the depository functions and clearing and settlement functions offered by the CDS to its Participants.

All Participants of the CDS shall comply with these Rules. Any breach of these Rules shall be construed as a breach of contract between a Participant and the CDS. The CDS Rules create obligations, which are additional and complementary to statutory obligations.

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

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

(iii) *Circulars and Operational Guidelines*

The CDS may, from time to time, issue;

- (a) Circulars to the CDS Participants in order to supplement or explain these Rules; and***
- (b) Operational guidelines and procedures in the form of letters to Participants, for administrative purposes.***

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

(iv) *Limitation of Liability*

The CDS, its respective successors and/or assignees, or its respective directors, officers, employees or agents ("Relevant Persons") shall not be liable to any person for any loss or damage (including consequential or indirect loss or damage), however caused or arising, including but not limited to any loss or damage arising directly or indirectly from or in connection with the following or anything done or not done as a direct or indirect consequence of the following:

- (a) any failure, error, delay, security breach or malfunction of the settlement facilities operated by the CDS howsoever caused and whether or not identified or identifiable;***
- (b) the access to, use of or inability to use the settlement facilities operated by the CDS;***
- (c) anything done (including any statement made) or omitted to be done in the course of, or in connection with the exercise of rights or the discharge or purported discharge of the CDS's obligations or rights under the Securities***

and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended, any other applicable law, or under these Rules;

- (d) any breach or failure of any Participant to comply with these Rules;**
- (e) the acts or omissions of any of the Participants;**
- (f) any failure, security breach, inoperability or malfunction of equipment, software or any other product supplied to a Participant howsoever caused, or in respect of its installation, maintenance or removal;**
- (g) the exercise of a decision-making or regulatory power or discretion under these Rules;**
- (h) any virus or other destructive, malicious, or corrupting program, code, agent, script or macro;**
- (i) any errors, inaccuracy, omissions or delay in the calculation of margins;**
- (j) the originality, accuracy, adequacy, timeliness or completeness of the settlement system or any content, information, materials, images, sounds, graphics, video and other materials displayed therein or any functionalities or applications, programs or services provided therein;**
- (k) any information transmitted or received by or on behalf of the CDS or a Participant, including through the settlement system, or the interception of or access to such information by unauthorised persons.**

(v) Action by the CDS

Except where action of the Board of Directors is specifically required by the Rules, the Head of the CDS or any other person authorized by the Board of Directors from time to time shall act on behalf of the CDS.

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

- (a) any member of the Board of Directors, or any member of any committee established by any the Board of Directors,**
- (b) any officer assigned to carry out functions of the CDS, and**
- (c) any agent of, or any person acting under the direction of the CDS,**

to any liability whether personally or otherwise., except to the extent as set out by the Unfair Contract Terms Act No.26 of 1997.

In the event of any matter which arises in connection with or relating to CDS not provided for in these Rules, the CDS shall have the right to determine such matter. Any determination given by the CDS in terms of this Rule shall be binding on all parties.

(vi) Notices and communications

Any notice and/or communication by the CDS to any Participant under and in terms of these Rules or otherwise may be issued by the CDS using any method or means of communication available to and as may be deemed appropriate by the CDS including, without limitation email, fax, courier, telephone, or registered post.

Such notice and/or communication shall be deemed to be have been received by and/or delivered to the Participant, in case of notice and/or communication,

- (a) by email, upon the despatch of the email from the server of the CDS,**
- (b) by fax, upon generation of transmission confirmation by the facsimile transmitter,**
- (c) by courier, immediately upon delivery to the Participant,**

- (d) by telephone, at the time of the communication,**
- (e) by registered post, upon expiry of 72 hours from the time of dispatch by the CDS, and**
- (f) by any other means, immediately upon delivery thereof.**

(vii) Amendments to these Rules

Subject to the approval of the SEC in terms of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended), the CDS may, from time to time, amend the provisions of these Rules.

(viii) Forms

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

(ix) Service Charges payable to CDS

The CDS may charge fees, as determined by the CDS from time to time, from Account Holders, Listed Entities, Participants or any other party for services rendered by the CDS.

Any change in such fees shall be notified to the Participants by the CDS in the form of Circulars.

(x) Admission to Premises of CDS

No person shall be permitted to enter the premises of CDS without the prior written approval of the Head of the CDS or in his absence the officer designated to act on his behalf.

INTERPRETATION

1. Definitions

When used herein, the following expressions shall, unless the context otherwise requires, bear the following meanings:

Account Holder

means any person who holds a Client Account in CDS.

Board of Directors

means Board of Directors of CDS.

Buy-In Board Settlement Date

means the date on which the settlement of a Trade on the Buy-in Board of the CSE shall take place in accordance with Section 10.2 of these Rules.

CDS

means Central Depository Systems (Private) Limited.

Cleared Balance

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

Client Account

means an account opened by a Participant on behalf of a person in CDS in accordance with Section 4 of these Rules.

CSE

means Colombo Stock Exchange.

CSE Rules

means the rules promulgated by the Colombo Stock Exchange.

Companies Act

means the Companies Act No. 07 of 2007 as amended from time to time.

Company Secretary

means the Company Secretary of a Listed Entity duly appointed under the Companies Act.

Custodian Bank

means a Bank licensed under the Banking Act No: 30 of 1988 (as amended) providing custodial services.

Custodian Trade

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

Dematerialisation

means the process by which account holders could convert their title to Securities held in the scrip form into electronic form in the CDS.

Excluded Crossings

means a Trade executed on the Crossing Board/Window of the CSE, which is settled in accordance with Section 10 of these Rules.

International Security Identification Number (ISIN)

means a unique number assigned by CSE in accordance with standards for securities identification established by the International Standards Organization.

Listed Entity

means an Entity which has its Securities listed on the CSE.

Listed Security

means a Security which is listed on the CSE.

Locked Balance

means a portfolio of Securities held in a Client Account on which trading is restricted at the request of the Account Holder and is not visible to the Participant except in instances set out in Rules 7.1 and 8.1 of these Rules.

Market Day

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

Member

means a Member admitted to membership either as a Member or as a Trading Member of the CSE in terms of the Articles of Association of the CSE.

NIC

means the National Identity Card issued under the Registration of Persons Act No.32 of 1968, as amended.

NIC Number

means the number which appears on the NIC.

Non-Operative Client Account

means a Client Account with no transactions for a period of three (3) years from the date of the last transaction carried out in such Client Account on which the CDS has suspended its dealings.

Participant

means an organization, entity or person approved by the CDS *under Section 1* of these Rules as a Participant.

Pending Buy

means any purchase transaction which has been executed and is pending settlement.

Pending Sell

means any sale transaction which has been executed and is pending settlement.

Record Date

means the date of entitlement to participate in a corporate action as set out in the Listing Rules of the CSE.

Register

means a share register or register of holders of debentures, as the case may be, of a Listed Entity.

Rematerialisation

means the conversion of the title to Securities held in the electronic form in the CDS into scrip form.

Rules

means these CDS Rules *issued by the CDS*.

SEC

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

SEC Act

means the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended from time to time.

Securities

means Securities as defined in the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended and recognized by the CDS from time to time as eligible Securities.

Securities Certificate

means a certificate evidencing title to the Securities in terms of applicable law.

Settlement

means the settlement of **Trades** in accordance with **Section 10** of these Rules.

Settlement Date

means the date on which the settlement of a Trade shall take place in accordance with Section 10 of these Rules.

Settlement Schedule

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

Short Position

means in respect of a particular sell Trade, a position where the aggregate of the Cleared Balance of the Securities of a Listed Entity in a Client Account and the number of Securities of such Listed Entity purchased under Pending Buy transactions in relation to such Client Account is, as at the end of the Trade Day, less than the aggregate of the Securities of such Listed Entity sold by such sell Trade and the number of Securities of such Listed Entity sold under Pending Sell transactions in respect of such Client Account.

Stock Dealer Participant

means a Member or a Trading Member of the CSE licensed by the SEC to operate as a stock dealer.

Stockbroker Participant

means a Member or a Trading Member of the CSE licensed by the SEC to operate as a stockbroker.

Trade

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

Trade Day

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

Trading Rules
means the trading rules of the CSE.

Unlisted Security
means Securities which are not listed on the CSE.

2. INTERPRETATION OF RULES

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

Unless expressly provided to the contrary, the interpretation of these Rules shall be in conformity with the definitions set out above. In the event of any ambiguity, the Board of Directors of CDS or any Committee thereof, or their designee(s) shall have authority to interpret the Rules of the CDS. Interpretations of the Board of Directors or any Committee thereof, or their designee(s) shall be final and binding subject to an appeal to the SEC and such appeal shall be made within 7 days.

In the event of any conflict between any of the provisions of these Rules, the Circulars, Operational guidelines and procedures, these Rules shall prevail.

SECTION 1

PARTICIPANTS

All transactions pertaining to an Account Holder in the CDS shall be carried out only through a CDS Participant.

1.1 Eligibility for appointment as a Participant

The following persons are eligible for appointment as a Participant:

- (i) Stockbroker,
- (ii) Stock dealer,
- (iii) Custodian Bank,
- (iv) Such other category of persons/institutions as may be determined **by the CDS** at its sole discretion.

1.2 Application to be appointed as a Participant

An application to be appointed as a Participant shall be submitted by the applicant to the CDS in the form prescribed by CDS from time to time.

1.3 Grant of Participant Status

Grant of Participant status shall be subject to such terms and conditions as may be determined by the CDS from time to time and communicated to such Participant in writing, at the time of granting the Participant Status.

1.4 Participant code

For ease of identification, each Participant shall be assigned a Participant code by the CDS, which shall be used when making reference to such Participant.

1.5 Persons authorized to act on behalf of a Participant

Each Participant shall nominate to CDS, under the hand of the Chief Executive Officer, persons who are authorised to act on behalf of such Participant. Such nominees shall be the contact persons and shall have the authority to instruct CDS in respect of matters concerning such Participant. Participants shall ensure that any change pertaining to such authorised persons shall be communicated in writing to CDS immediately upon a decision being made in that respect.

1.6 Participant fees

Upon being formally admitted as a Participant, such Participant shall pay fees, charges and reimbursement of expenses in respect of the services and facilities offered by the CDS as may be specified from time to time by the CDS.

1.7 Reconciliation of Records

Each Participant shall, on a daily basis, reconcile its books with the CDS's records, in relation (but not limited) to:

- (a) the Settlement Schedule for a Trade Day;***

- (b) records pertaining to payments made in connection with Trades executed;**

If any discrepancy between the CDS's and the Participant's records is noted, the Participant must inform the CDS and if required rectify the discrepancy immediately.

1.8 Reporting of Adverse Events

A Participant shall immediately notify the CDS if:

- (a) it is experiencing an emergency or potentially debilitating situation that threatens its operations;***
- (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; or***
- (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.***

SECTION 2

SECURITIES

2.1 Eligible Securities

- a.** Listed Securities
- b.** Unlisted Securities
- c.** Securities which are de-listed by the CSE until the completion of formalities required in connection with such de-listing/de-registration including the issue of securities certificates.

2.2 Security ID

The CDS shall use the Security ID assigned by the CSE in respect of all Securities.

2.3 International Security Identification Number (ISIN)

The CDS shall use the unique Security Identification Number assigned by the CSE to each Security.

2.4 Acceptance/discontinuance of eligibility of Securities

The CDS shall inform Participants the date on which a Security becomes an eligible Security or ceases to be an eligible Security.

SECTION 3

CLIENT ACCOUNTS

3.1 Who may open Client Accounts in the CDS

Participants may open Client Accounts in CDS on behalf of a body corporate or a natural person, provided that in the case of the latter the individual is of or over the age of 18 years.

Provided further, only Custodian **Bank** shall be permitted to open and maintain Client Accounts in the CDS on behalf of non-resident bodies corporate and non-resident natural persons intending to trade in securities listed on the Multi-Currency Board of the CSE.

For the purpose of this Rule a “body corporate” shall mean a company or a corporation duly incorporated in Sri Lanka or a company, a corporation or an entity duly incorporated outside Sri Lanka or a statutory body duly incorporated under a statute. Participants shall ensure that those for whom Client Accounts are opened have the legal capacity to contract. Participants shall not open a Client Account for a body corporate/natural person who is prohibited to transact business under any law and/or regulation.

3.2 Opening of Client Accounts in the CDS

A. Centralized Client Account Opening

Applicants shall provide information as required in the form of application and CDS Operational **guidelines and procedures** applicable from time to time.

Any account opening application not in conformity with these Rules or CDS Operational **guidelines and procedures** shall not be processed by the CDS. The decision of the CDS in this regard shall be final.

If the CDS has reasonable grounds to suspect the authenticity/genuineness of the information provided in an application or if the application is not complete, the CDS reserves the right to reject such application, after due consideration and inquiries.

B. Decentralized Client Account Opening

The types of Client Accounts, which are to be opened in accordance with this Rule, shall be specified by the CDS from time to time. All other types of Client Accounts, which are not specified by the CDS, shall be opened in terms of Rule 3.2 (A) above.

- (a) The **applicant** shall provide complete and accurate information, as required in the account opening application, the **Circulars and CDS Operational guidelines and procedures** applicable from time to time and any other applicable **laws, rules and regulations** pertaining to same, to the Participant.
- (b) The Participant shall open a Client Account in the CDS in accordance with **these** Rules, CDS Operational **guidelines and procedures and Circulars** applicable from time to time, and other applicable **laws, rules and regulations** pertaining to same.
- (c) Any account opening application, which is not in conformity with these Rules,

the CDS Operational **guidelines and procedures and Circulars** applicable from time to time and any other applicable **laws, rules and regulations** pertaining to same shall not be processed by the Participant.

- (d) The Participant shall be responsible and held liable to the CDS for any Client Account opened in the CDS, based on incomplete and/or inaccurate information.
- (e) Upon opening the Client Account in respect of an **applicant**, the Participant shall forthwith submit to the CDS, a copy of the duly signed account opening application along with the required information, in the manner specified by the CDS in the CDS Operational **guidelines and procedures** applicable from time to time, for verification by the CDS.
- (f) In the event, the CDS has reasonable grounds to suspect;
 - (i) that the Client Account concerned has been opened by the Participant contrary to these Rules;
 - (ii) the authenticity/genuineness of the information provided in an account opening application; or
 - (iii) that the account opening application is inaccurate and/or incomplete,

the CDS shall have the right to suspend the Client Account in terms of Rule **3.6** (a) of these Rules, until a clarification, explanation and/or further documentation (as applicable) in such regard is provided by the Participant. The Participant shall submit a written clarification, explanation and/or further documentation (as applicable) to the CDS within three (03) Market Days from the date of request for such written clarification, explanation and/or further documentation (as applicable) by the CDS.

The suspension imposed on the Client Account will be removed by the CDS, upon the Participant submitting a clarification, explanation and/or further documentation (as applicable) to the satisfaction of the CDS. In such event the Participant shall pay a 'Reinstatement Fee' as determined by the CDS from time to time, for the removal of the suspension.

If the Participant fails to submit a clarification, explanation and/or further documentation (as applicable) to the satisfaction of the CDS, the CDS shall have the right to close such Client Account in terms of Rule **3.6** (b) of these Rules, with written notice to the Participant, provided that such Client Account has no portfolio balance.

In the event the Client Account concerned has a portfolio balance, the Participant shall take necessary steps to divest the Securities held in such Client Account within Seven (07) Market Days from the date of the written notice to the Participant and notify the CDS, in writing, no sooner the Securities have been divested. Upon receiving the said notice from the **Participant, the CDS shall have the right to close such Client Account in terms of Rule 3.6 (b) of these Rules.**

- (g) The Participant shall indemnify the CDS against any loss or damage incurred by the CDS pursuant to opening of a Client Account by a Participant, based on incomplete, inaccurate and/or fraudulent information/documentation.

- (h) Where a Participant fails to comply with any of the requirements stipulated in Rules 3.2 (a) to (f) above, the CDS may prohibit such Participant from opening Client Accounts in terms of this Rule.

During the period of prohibition, the CDS may require the Participant to open Client Accounts in the CDS, through the CDS in terms of Rule 3.2 (A) above, subject to a 'Processing Fee' as determined by the **CDS from time to time**.

3.3 Multiple Client Accounts

- (a) A natural person is permitted to open and maintain more than one account in the following manner:
- i. Accounts may be opened and maintained by a natural person through different Participants. The CDS shall assign a unique account number for such person with the participant code of the relevant Participant.
 - ii. A **natural** person shall not be permitted to open and maintain more than one account with the same Participant.
- (b) A body corporate is permitted to open and maintain more than one account through the same Participant or different Participants. When accounts are opened by a body corporate, the CDS shall assign a unique account number for such body corporate with the participant code of the relevant Participant.

A body corporate may open and maintain more than one account with the same Participant, provided that such accounts are opened and maintained for purposes such as:

- i. if required under a **statute**/CSE Rules.
- ii. segregation of portfolios.
- iii. any other similar purposes acceptable to the CDS.

Provided however, the CDS shall not recognize notice of any trust, expressed, implied or constructive in respect of such multiple Client Accounts and the CDS shall for all purposes consider that the name appearing first in the account title, as the registered owner of such account.

3.4 Operation of Client Accounts

- (a) All instructions relating to a Client Account shall be given by the Account Holder to CDS only through the Participant through which such Account **Holder is registered. The CDS shall act upon such instructions without any further inquiries.**

CDS shall have no obligation to act on any instructions given by a Participant if such instructions do not, in the opinion of the CDS, contain sufficient details for CDS to act on. However upon concluding so, the CDS shall, within two (2) Market Days, inform the Participant of the additional information that would be required to effect such instructions.

- (b) The Participant shall be responsible and shall be held liable for communicating any incorrect or false information regarding Client Accounts to CDS.
- (c) Securities held in a Client Account shall be held by the CDS for and on behalf of the Account Holder for the sole purpose of facilitating scripless transactions

in Securities. The obligations and liabilities of the CDS shall be limited to the provisions of these Rules.

- (d) In the event a Client Account has more than one name in the account title (other than joint accounts) the CDS shall only recognize, for the purpose of receiving instructions by the CDS, the person whose name appears first in the account title.
- (e) The CDS reserves the right to rectify any erroneous or inaccurate entry made to a Client Account at any time after such error/inaccuracy is detected.
- (f) When documents are returned by the CDS to Participants due to discrepancies, such documents shall be returned under cover of a 'returned document advice' specifying the reason/s for returning such documents. Participants shall collect such documents after due acknowledgement.

3.5 Entries made to a Client Account

A Client Account shall be credited with Securities in the following instances:

- (a) Purchase of Securities into a Client Account as per **Sections 4 and 10**.
- (b) Dematerialization/deposit of Securities into a Client Account as per Section 5.
- (c) Direct deposit of Securities by a Listed Entity on behalf of an Account Holder.
- (d) Transfer of Securities into a Client Account as per Section **7 (A) or 7 (B)** of these Rules.

A Client Account shall be debited with Securities in the following instances:

- (a) Sale of Securities from a Client Account as **per Sections 4 and 10**.
- (b) Rematerialisation/withdrawal of Securities from a Client Account as per Section 6.
- (c) Transfer of Securities as per Section **7 (A) or 7 (B)** of these Rules.
- (d) Upon being notified by a Listed Entity of the following instances:
 - a repurchase of shares under the Companies Act,
 - a minority buy-out by the Listed Entity under the **Companies Act**,
 - a redemption of shares under the **Companies Act**.

3.6 Suspending/Closing a Client Account

(a) Suspending a Client Account

The CDS shall suspend dealings on a Client Account:

- i. if instructed to do so by any of the following persons/institutions:
 - The Account Holder, through the Participant.
 - A **court of law**.
 - SEC.
- ii. on receipt of a certified copy of the death certificate issued by the

relevant authority pertaining to the death of an Account Holder, through the relevant Participant.

- iii. in terms of Rule **3.2 B (f)** of these Rules.
- iv. in terms of Rule **14.2** of these Rules.

(b) Closing a Client Account

The CDS shall close a Client Account;

- i.* if instructed to do so by the Account Holder, through the Participant (after obtaining due clarifications which may be necessary).
 - ii.* in terms of Rule **3.2 B (f)** of these Rules.
 - iii.* in terms of Rule **3.7 (a) (iii)**.
- c)** In the event a Client Account is suspended /closed, the CDS shall duly inform the relevant Account Holder through the Participant regarding the suspension/closure (as applicable) of the Client Account.

3.7 Non-Operative Client Accounts

(a) Client Accounts without a portfolio balance

If a Client Account without a portfolio balance was not operative for a period of three (3) years from the date of the last transaction carried **out in such Client Account**,

- i.* the CDS shall designate such account as a Non-Operative Client Account and send a notice to the relevant Participant informing that the account has been designated as a Non-Operative Client Account, due to the inactivity of such account.
- ii.* The CDS shall not send any notices/statements to the Account Holders of Non-Operative Client Accounts.
- iii.* Upon expiry of six (6) months from the date of designating such account as a Non-Operative Client Account, the CDS shall, at its discretion, close such Non-Operative Client.
- iv.* In the event an Account Holder requires to activate such account, the Account Holder shall submit a fresh account opening application to the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.

(b) Client Accounts having a portfolio balance

If a Client Account having a portfolio balance was not operative for a period of three (3) years from the date of the last transaction carried out in such Client Account;

- i.* The CDS shall send an initial notice to the relevant Participant informing

that the CDS intends to designate the Client Account as a Non-Operative Client Account, due to the inactivity of such account.

- ii.* Upon expiry of three (3) months from the date of the initial notice, the CDS shall designate such account as a Non-Operative Client Account.
- iii.* The CDS shall not send any notices/statements to the Account Holders of Non-Operative Client Accounts.
- iv.* In the event an Account Holder requires to activate his/her Non-Operative Client Account, such Account Holder shall submit a fresh account opening application to the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.

SECTION 4

RECORDING OF PURCHASES AND SALES

4.1 Purchase/Sale of Securities

The CDS shall ***be informed of all Trades of Securities executed by Participants on the CSE, for the purposes of facilitating the clearance and settlement of such Trades. The CDS shall be entitled to*** rely on the information provided by the CSE ***and by the Participants*** in respect of such ***Trades***.

The settlement of funds and delivery of Securities pursuant to the Trades carried out by Participants on the CSE shall take place on the Settlement Date.

The CDS shall not be responsible for any dispute arising between the Account Holder and the Participant in respect of ***Trades*** carried out by the Participant for and on behalf of the Account Holder.

4.2 Transfer and Registration of shares

In terms of section 86(2) of the Companies Act No.7 of 2007, where a notice of trust has been entered in the share register in respect of any shares of a Listed Entity which are held in trust by the CDS, the person for whose benefit those shares are held in trust ***by the CDS***—

- a) shall be deemed to be a shareholder in such ***Listed*** Entity; and
- b)** shall in respect of those shares, enjoy all such rights and privileges and be subject to all such duties and obligations under the Companies Act, as if his name had been entered in the share register as the holder of those shares.

SECTION 5

DEMATERIALIZATION OF SECURITIES (DEPOSIT OF SECURITIES)

5.1 Procedure for dematerialisation of Securities in CDS

- (a) Subject to these Rules, Account Holders may dematerialise their Securities held in scrip form by depositing such **Securities Certificates** into their Client Accounts. Such deposits shall be made through the relevant Participant.

Participants shall ensure that the **Securities Certificates** and the relevant CDS Form/s handed over to CDS for deposit shall be submitted together with an acknowledgement of deposit in duplicate. The duplicate of the acknowledgement shall be returned to the Participant by CDS as confirmation of receipt of the deposit. Participants shall forward such duplicate of the deposit slip to the relevant Account Holder within three **(3) Market Days of receiving same**.

- (b) Participants shall ensure that **Securities Certificates** to be deposited into a Client Account by an Account Holder are submitted together with the relevant CDS Form/s, duly completed, endorsed and executed. Any alterations to the particulars given in such Form/s shall be duly certified by the Account Holder and countersigned by the Participant.
- (c) The CDS shall not be obliged to act on any documentation incorrectly completed, endorsed or executed.
- (d) The quantity of Securities indicated on the **Securities Certificate** forwarded for deposit shall be deposited to the relevant Client Account by CDS, subject to these Rules.
- (e) Upon receipt of the **Securities Certificates** for depositing in the CDS, the CDS shall record the quantity of Securities indicated therein as a 'pending' deposit and forthwith notify the relevant Company Secretary of the Listed Entity, in writing, regarding the pending deposit of Securities in the CDS for the purpose of registering such Securities in the name of the CDS in the **Register**. It shall be the responsibility of the Company Secretary to make arrangements for collection of the relevant documents from the CDS.
- (f) The relevant Company Secretary of the Listed Entity shall confirm/reject the registration of such Securities in the name of the CDS in the **Register**, in writing, to the CDS within two (2) Market Days from the date of the written notification from the CDS.

In the event the relevant Company Secretary of the Listed Entity rejects the registration of such Securities in the name of the CDS in the **Register**, the Company Secretary shall indicate the reasons for such rejection. On receipt of such notification from the Company Secretary, the CDS shall cancel the pending deposit and return the **Securities Certificates** to the Participant, in accordance with **Rule 3.4 (f) of these Rules**.

- (g) Upon receipt of a written confirmation from the relevant Company Secretary of the Listed Entity in terms of Rule **5.1.1 (f)** above, the CDS shall deposit the quantity of Securities indicated in the **Securities Certificate** to the Account Holder's Client Account, with due notice to the relevant Company Secretary of the Listed Entity.
- (h) The Company Secretary shall immediately inform the CDS as and when a report is lodged with a Listed Entity on any loss of a **Securities Certificate**, when a Listed Entity discovers a forgery in a **Securities Certificate** or when a **Securities Certificate** has been invalidated by the Company Secretary. Such notice to the CDS shall set out the details pertaining to the **Securities Certificate** including the name of the shareholder, certificate number, quantity of **Securities** and the company name.
- (i) All liabilities arising out of invalid deposit of Securities with the CDS shall be borne by the Participant.

5.2 Procedure to be adopted by Participants when depositing Securities

- (a) The Participant depositing Securities on behalf of the Account Holder shall ensure the genuineness/authenticity and the validity of the **Securities Certificate/s** and other documents prior to deposit. The CDS shall not be responsible for any loss resulting from an invalid deposit of Securities.
- (b) If there is any trace of suspicion regarding the genuineness of the **Securities Certificate**, the Participant shall liaise with the Company Secretary of the Listed Entity and verify whether the **Securities Certificate** is genuine. These precautions shall be taken prior to handing over the **Securities Certificate** to the CDS.

5.3 Direct Deposit of Securities to Client Accounts

Notwithstanding anything stated in these Rules, the CDS may accept Securities directly from Listed Companies and/or such other issuers of Securities for deposit into Client Accounts on behalf of the respective Account Holders. The CDS will notify the details of such direct deposit to the relevant Participants.

SECTION 6

REMATERIALISATION OF SECURITIES (WITHDRAWAL OF SECURITIES)

- 6.1 Subject to these Rules, an Account Holder may rematerialise or withdraw any Securities held in his Account, either in whole or in part, in the event such Account Holder intends to mortgage the Securities in his Account. Any request to withdraw Securities shall be made through the relevant Participant through whom the Client Account is maintained in CDS.
- 6.2 Participants shall ensure that a request to rematerialize Securities by an Account Holder shall contain the relevant CDS Form/s, duly completed, endorsed and executed. Any alterations to the particulars given in such Form/s shall be duly certified by the Account Holder and counter signed by the Participant.
- 6.3 All liabilities arising out of invalid withdrawal of Securities shall be borne by the Participant.
- 6.4 Upon withdrawal of Securities from the CDS, the CDS shall on the date of withdrawal, inform the relevant Company Secretary of the Listed Entity regarding such withdrawal of Securities, for the purpose of issuing a **Securities Certificate** in the name of the Account Holder. It shall be the responsibility of the Company Secretary to make arrangements for collection of the relevant documents from the CDS.
- 6.5 The Company Secretary shall submit to the CDS the **Securities Certificate** issued in the name of the Account Holder pertaining to the withdrawal of Securities in CDS, before the expiry of seven (7) Market Days from the date of receipt of the relevant documents from the CDS.

SECTION 7

TRANSFER OF SECURITIES

A. TRANSFER OF SECURITIES WITHIN THE CDS

7.1 Transfer of Securities between Client Accounts held by the same Account Holder (Intra – Account transfer of Securities) / Change of Participant pertaining to a Client Account

- i. Subject to the provisions of these Rules, an Account Holder who intends to transfer the Securities held in his/her Client Account with one Participant to his/her Client Account held with another Participant shall submit a written request for the transfer of such Securities (intra-account transfer request) to the existing Participant and the Participant receiving such Securities.

The Participants shall, at all times, maintain complete and accurate records of intra-account transfer requests received by such Participants from the Account Holders, either in hard copy or electronic form.

- ii. The Participants shall process intra-account transfer requests of Account Holders by electronic means through the system provided by the CDS, in the manner set out in the CDS Operational **guidelines and procedures** applicable from time to time.
- iii. The Participants shall be solely responsible to verify the genuineness, authenticity and the accuracy of an intra-account transfer request, prior to processing such request.
- iv. The existing Participant shall not delay or refuse to carry out an intra-account transfer request to change the Participant unless;
 - the Account Holder has not paid for the Securities held in the Client Account, or;
 - the Securities are held under lien for payments outstanding to the Participant or any other institution.
- v. If the intra-account transfer request cannot be processed by the existing Participant, the Participant **that is to receive** such Securities shall be informed on or before the second (2nd) Market Day from the date of receipt of such intra-account transfer request by the existing Participant.
- vii. If the Participant **that is to receive** such Securities is not satisfied with the reasons attributed for the delay/refusal by the existing Participant, it shall be brought to the notice of the CDS. The CDS shall consider the reasons for such delay/refusal and take appropriate action.
- viii. In the event a Participant requires the CDS to process an intra-account transfer of Securities on behalf of an Account Holder, the CDS may process such intra-account transfer in the manner specified in the CDS Operational **guidelines and procedures** applicable from time to time, **subject to a 'Processing Fee' as determined by the CDS from time to time.**

- ix. All liabilities arising out of processing intra-account transfer requests shall be borne by the Participants.

7.2 Transfer of Securities between Client Accounts held by separate Account Holders (Inter-account transfer of Securities)

Prior written approval of the SEC shall be obtained by Participants, in the prescribed form, in order to transfer Securities from one Client Account to another Client Account, outside the trading procedure of the CSE.

All such transfer application forms shall be submitted to the CDS along with original letter of approval received from the SEC.

7.3 Transfer of Securities pertaining to an offer made under the Company Takeovers and Mergers Code of 1995 as amended in 2003 /de-listing

The CDS shall, upon receiving instructions pertaining to transfer of Securities in connection with an offer made under the Company Takeovers and Mergers Code 1995, as amended in 2003 or a de-listing, transfer such Securities to the Offeror's Reserve Account. Upon confirmation of payment, the CDS shall transfer such Securities to the Offeror's Client Account.

7.4 Transmission of Securities in CDS in the event of death of an Account Holder

In the event of a death of an Account Holder, Securities held by such Account Holder in CDS shall be transmitted to **the** legal heirs.

For this purpose a request to transmit such Securities shall be made to CDS in the prescribed form/s, through the respective Participant/s.

B. INTER-DEPOSITORY TRANSFER OF SECURITIES (TRANSFER OF SECURITIES BETWEEN THE CDS AND FOREIGN DEPOSITORIES)

If an Account Holder, who holds Securities which are listed on the Multi-Currency Board of the CSE, intends to transfer such Securities to the CDS or the Foreign Depository (as the case may be), such transfer of Securities shall be carried out by the said Account Holder in the manner specified in the CDS Operational ***guidelines and procedures***.

SECTION 8

ENTITLEMENTS

8.1 General Provisions relating to Entitlements

- (a) The Company Secretary of the Listed Entity shall process entitlements **relating to corporate actions applicable to** Account Holders based on the information obtained from the CDS on the **relevant** date, subject to Rule **8.1 (d)**.
- (b) An Account Holder's entitlement to a corporate action, such as payment of a dividend, allotment of shares credited as fully paid up by way of capitalization of reserves or allotment of Rights or any other distribution, shall be determined on the basis of the **Cleared Balance** held in **the** Client Account **of the Account Holder** as at the **Record Date**.
- (c) **The Company Secretary of the Listed Entity may, at his/her/its discretion and at his/her/its own risk, deviate from the information given by the CDS pertaining to the address or the dividend payment instructions given by an Account Holder who is entitled to a corporate benefit, if sufficient proof is produced by the Account Holder to the satisfaction of the Company Secretary of the Listed Entity, giving reasons for such deviation from the instructions/information given by the CDS.**

8.2 Dividends

- (a) In the event of a Listed Entity declaring a dividend, the CDS shall furnish the Company Secretary of the Listed Entity a list of Account Holders with their respective holdings with regard to that Security as at the **Record Date**.
- (b) In the event of a cash dividend, the Listed Entity shall dispatch the dividend payments as **per the instructions given by** the respective Account Holders **to the CDS**.
- (c) In the event of a scrip dividend, the allotted shares shall be deposited directly to the respective Client Accounts, as per the information provided by the Company Secretary to the CDS.

8.3 Issue of shares credited as fully paid up by way of capitalization of reserves

In the event of a Listed Entity issuing shares credited as fully paid up by way of capitalization of reserves, the CDS shall furnish the Company Secretary of the Listed Entity a list of Account Holders with their respective holdings with regard to that Security as at the **Record Date**.

The **newly** allotted shares shall be deposited directly to the respective Client accounts as per the information provided by the Company Secretary to the CDS.

8.4 Rights issues

- (a) In the event of a Listed Entity issuing Rights, the CDS shall furnish the Company Secretary of the Listed Entity a list of Account Holders with their respective holdings with regard to that Security as at the **Record Date**.
- (b) The Listed Entity shall post the Provisional Letters of Allotment directly to the respective Account Holders as per information provided by CDS, subject to Rule **8.1 (d)**.
- (c) An Account Holder may renounce his Provisional allotment of Rights arising from the Rights issue to the CDS through the Participant. For this purpose, the duly perfected Provisional Letter of Allotment shall be deposited in the respective Client Account by the Account Holder through his Participant, in accordance with the procedure for dematerializing evidence of title set out in the CDS Operational Guidelines and Procedures applicable from time to time. The Account Holder may trade on such Rights through the Participant. Such deposits and trading in Rights shall be allowed during the period of renunciation of the Rights issue.
- (d) The CDS shall submit to the Participants a list of Account Holders who hold Rights in the CDS through such Participant with their respective holdings in Rights as at the last date of renunciation. The Participants shall submit the payments in respect of the Rights shares subscribed for by the Account Holders to CDS by 10.30 hours on the last date of Acceptance of Rights. Such payments shall be duly forwarded by the CDS to the relevant Listed Entity.

Details of any Rights not subscribed by Account Holders shall be notified by the respective Participants to the CDS by 10.30 hours on the last date of Acceptance of Rights. Such Rights not subscribed by Account Holders will be duly withdrawn by the **CDS**.
- (e) Any Rights duly subscribed by the Account Holders in the CDS, shall be converted to shares as per the instructions given by the Company Secretary of the Listed Entity upon the listing of such shares on the CSE pursuant to the Rights issue.

SECTION 9

For the avoidance of doubt, the reference to the term “Securities” in Sections 9, 10 and 11 of the Rules shall only be a reference to Securities traded on the equity market of the CSE as referred to in the Trading Rules including but not limited to shares or any other instrument conferring or representing a legal or beneficial ownership interest in a Listed Entity including any rights, options or interests thereto and units or any other such instrument issued to the investors under an investment scheme as defined in the CSE Rules.

MARGINS AND COLLATERAL

9.1 Margin Requirements

- (a) The CDS shall impose the margin requirements set out in this Section on all Participants of the CDS in respect of Trades on Securities executed by the Participants on each Trade Day, other than the following Trades:***
 - (i) A sell Trade which does not result in a Short Position;***
 - (ii) An Excluded Crossing; and***
 - (iii) A Trade carried out on the Buy-in Board of the CSE.***

- (b) The total margin requirement applicable for each Participant shall comprise of the following:***
 - (i) base margin requirement; and***
 - (ii) additional margin requirements (where applicable).***

9.1.1 Base Margin Requirement

- (a) Each Participant shall at all times maintain collateral to satisfy the base margin requirement determined by the CDS from time to time as morefully set out in Rule 9.2 below. The base margin requirement shall be computed based on the quarterly average daily purchase turnover of each Participant.***

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

- (c) In the event of an increase in the base margin requirement applicable to a Participant, such Participant shall comply with such increased margin requirement in accordance with Rule 9.2 below.***

- (d) In the event of a decrease in the base margin requirement applicable to a Participant, the excess collateral maintained by such Participant with the CDS shall be refunded to the Participant in accordance with Rule 9.2 below.***

9.1.2 Additional Margin Requirements

- (a) In the event the base margin requirement set out in Rule 9.1.1 above is insufficient to satisfy the total margin requirement of such Participant in respect of Trades on a particular Trade Day, the CDS shall impose additional margin requirements on Participants as set out in Rule 9.1.2 (b) below.**
- (b) The additional margin requirements shall comprise of the:**
 - i. Initial margin requirement; and,**
 - ii. Variation margin requirement;**

which shall be computed based on the methodology determined by the CDS from time to time and notified to the Participants.
- (c) The additional margin requirement (if any) shall be communicated to the relevant Participants by the CDS at the end of each Trade Day (T).**
- (d) The Participant shall take necessary steps to comply with such additional margin requirement in accordance with Rule 9.2 below.**

9.2 Collateral

9.2.1 General

- (a) The Participants shall, at all times, ensure compliance with the margin requirements set out in Rule 9.1 above by maintaining sufficient collateral with the CDS in accordance with this Rule.**
- (b) A Participant may obtain collateral from the relevant Account Holder/s of the CDS, to the extent of the margin requirements arising from the Trades carried out by the such Account Holder/s, in satisfying the total margin requirements applicable to such Participant.**

9.2.2 Form of Collateral

The Participant shall furnish collateral to the CDS in the form of cash and/or an irrevocable and unconditional bank guarantee obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the CDS.

9.2.3 Manner of Furnishing Collateral

- (a) Subject to Rule 9.2.3 (c) below, the Participants shall furnish the required collateral to the CDS in fulfilment of margin requirements set out in Rule 9.1 above in the following manner:**
 - (i) The base margin requirement shall be initially fulfilled by the Participant by furnishing the collateral by 14:30 hours on the second Market Day immediately following the date of notification by the CDS requesting for the furnishing of such collateral.**

- (ii) *In respect of any increase to the base margin requirement, the Participant shall furnish the collateral by 14:30 hours on the second Market Day immediately following the date of notification by the CDS of the increase to the base margin requirement.*
- (iii) *In respect of any additional margin requirement, the Participant shall furnish the collateral by 10:30 hours on the Market Day immediately following the date of notification by the CDS of the additional margin requirement.*
- (b) *Any cash collateral furnished by a Participant in fulfilment of margin requirements set out in these Rules shall be deposited into an account maintained by the CDS in a settlement bank for the specific purpose of margin utilization.*
- (c) *In the event of Custodian Trades, the collateral shall be furnished to the CDS in the manner set out below:*
 - (i) *Each Custodian Bank shall furnish to the CDS collateral in fulfilment of the margin requirements applicable to Trades affirmed by such Custodian Bank in terms of Rule 10.5 of these Rules. The Custodian Bank shall furnish such collateral to the CDS by 10.30 hours on T+2.*
 - (ii) *In the event of a rejection of a purchase transaction by a Custodian Bank in terms of Rule 10.5 of these Rules, the Stockbroker Participant, through whom such purchase transaction was carried out, shall furnish collateral to the CDS in fulfilment of the margin requirements applicable to such purchase transaction by 10.30 hours on T+2*
 - (iii) *In the event a Custodian Bank affirms a purchase transaction which was initially rejected by such Custodian Bank in accordance of the Rule 10.5 (d) of these Rules, such Custodian Bank shall forthwith furnish the collateral in fulfilment of the margin requirements applicable to such purchase transaction in accordance with Rule 9.1 above by 10.30 hours on T+2.*

9.2.4 Requirement to Replenish Collateral

In the event the CDS utilizes, in full or in part, any collateral furnished by a Participant for a settlement failure, such Participant shall replenish the collateral utilized by the CDS forthwith, upon same being notified to the Participant by the CDS.

9.2.5 Returning of Excess Collateral and Interest

- (a) *Any cash collateral furnished by a Participant in respect of a Trade, to the extent not utilized for the purpose of settling all payment obligations of the Participant and/or its client in respect of such Trade (excess cash collateral), shall be returned by the CDS upon a written request being made by the Participant, provided however that if the Participant has not provided adequate collateral in respect of its other Trades, the CDS may retain, from such excess cash collateral, any amount as is necessary for the fulfilment of the outstanding margin requirement of the Participant.*

- (b) **Any interest accruing on excess cash collateral shall also be paid to the Participant with the return of the collateral, upon deducting an administration fee by the CDS which shall be determined by the CDS from time to time.**

9.2.6 Rights of CDS in relation to the Collateral Deposited with the CDS

- (a) **The CDS shall have a first and paramount lien and charge over the collateral deposited with the CDS by a Participant for the due settlement of the following payment obligations of the Participant under these Rules;**
 - (i) **any sums due and payable by such Participant to any other Participant;**
 - (ii) **any sum payable by clients of such Participant pursuant to these Rules including compensation for settlement failures and/or failed trades; and/or**
 - (iii) **any and all sums payable by such Participant to the CDS, CSE and SEC including fees, commissions, charges and/or dues payable by such Participant.**
- (b) **The CDS shall be entitled to use such collateral deposited by a Participant to defray the payments identified in Rule 9.2.6 (a) above.**

9.3 Non-Compliance with Rules 9.1 and 9.2

In the event a Participant fails to comply with the margin requirements imposed by the CDS in accordance with Rule 9.1 and 9.2 above, the CDS shall initiate the following action against such Participant:

- (i) **Imposition of an administrative fee**
 - (a) **The CDS shall impose and the Participant shall pay an administrative fee of Rs 200,000 for each instance of non-compliance.**
 - (b) **The administrative fee shall be charged from the Participants based on a schedule issued by the CDS as at end of the applicable month. The Participant shall pay the relevant amount as indicated in the schedule to the CDS within Two (2) Market Days from the date of the issue of such schedule.**
- (ii) **Commencement of Disciplinary Proceedings**

In the event a Participant fails to comply with the margin requirements imposed by the CDS in accordance with Rule 9.1 and Rule 9.2 on more than three (3) separate occasions within any given period of twelve (12) months, the CDS shall, in addition to the administrative fee stipulated in Rule 9.3(i)(a) above, commence disciplinary proceedings against such Participant in terms of Section 17 of these Rules.

SECTION 10

FACILITATION OF SETTLEMENT OF TRADES

10.1 Appointment of Settlement Bank/s

In order to facilitate the settlement of funds for **Trades** carried out by the Participants through the CSE (inter-**participant** settlement), the CDS shall appoint one or more commercial banks, licensed under the Banking Act No. 30 of 1988 (as amended), to function as the settlement bank/s. A Participant shall open only one account with any one of such settlement banks **appointed by the CDS** for the purpose of facilitating the inter-participant settlement of funds.

10.2 Inter-participant Settlement of Funds

- (a) The inter-participant settlement of funds for Securities traded on the CSE shall take place by 10.30 hours on the **Settlement Date, i.e. third (3rd) Market Day** after the Trade **Day** (T+3), through the **appointed** settlement bank/s as per the Settlement Schedules issued by the CDS. The inter-participant settlement shall be completed by 10.30 hours on the settlement date.

Provided however that;

- (i) ***in respect of Securities traded on the Multi Currency Board of the CSE, the inter-participant settlement of funds shall take place by 12.30 hours on the Settlement Date, through the appointed settlement bank/s as per the Settlement Schedules issued by the CDS. The inter-participant settlement shall be completed by 12.30 hours on the settlement date.***
- (ii) ***in respect of Securities traded on the Buy-in Board of the CSE, the inter-participant settlement of funds shall take place by 10.30 hours on the first (1st) Market Day after the Trade day (“Buy-In Board Settlement Date”).***
- (b) ***A Participant’s obligation on any Settlement Date to make payment in respect of Trades carried out by such Participant shall be set off against such Participant’s entitlement to receive funds on such Settlement Date for Trades carried out by the Participant.***

Provided however, in the event of an Excluded Crossing, the Participants executing such transaction may request the CDS to, prior to the computation of margins by the CDS on the Trade Day, exclude the settlement of funds in respect of such transaction from the set off of the payment obligations referred to in Rule 10.2(b) of these Rules.

The Participants shall make such request to the CDS in the format prescribed by the CDS for such purpose.

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

- (c) The CDS shall issue, on each Market Day, a Settlement Schedule, which **shall** reflect the debits and credits that have been entered into the Participant’s account and the net amount to be settled by each Participant on a particular

Settlement Date. For avoidance of doubt, all Excluded Crossings referred to in Rule 10.2(b) above, shall be reflected in a separate Settlement Schedule issued by the CDS, setting forth the gross amount to be settled by Participants under each Excluded Crossing.

- (d) The Stockbroker Participants shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the **Settlement Date** to settle payment **obligations** arising out of transactions **carried out by such Participant based on the Settlement Schedule issued by the CDS.**

Provided however, in respect of Securities traded on the Buy-in Board of the CSE, the Stockbroker Participants shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Buy-In Board Settlement Date to settle payment obligations arising out of transactions carried out by such Participant on the Buy-In Board of the CSE.

- (e) The Custodian Banks shall make available sufficient Cleared Funds in the settlement bank **account** by 09.30 hours on the **Settlement Date** to settle **the** payment **obligations** arising out of transactions carried out by such Custodian Bank based on the Settlement Schedule issued by the CDS.

Provided however that,

- (i) **in respect of Securities traded on the Multi Currency Board of the CSE, the Custodian Banks shall make available sufficient Cleared Funds in the settlement bank by 10.30 hours on the Settlement Date to settle payment obligations arising out of transactions carried out by such Custodian Bank based on the Settlement Schedule issued by the CDS.**
- (ii) **in respect of Securities traded on the Buy-in Board of the CSE, the Custodian Banks shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Buy-In Board Settlement Date to settle payment obligations arising out of transactions carried out by such Participant on the Buy-In Board.**
- (f) **The CDS shall debit or credit itself and the Participants with the amounts payable and receivable in accordance with these Rules.**
- (g) **The payment obligations of a Participant for a particular Settlement Date, as set out in the Settlement Schedule issued by the CDS, is discharged by and shall be final upon the debiting of the relevant settlement bank account of such Participant maintained at the appointed settlement bank and the settlement of a Participant's entitlement to receive funds on a particular Settlement Date pursuant to the Settlement Schedule issued by the CDS is effected by and shall be final upon the crediting of the settlement bank account of such Participant maintained at the appointed settlement bank.**
- (h) **A buyer shall make available, and the buying Participant shall ensure that such buyer makes available, the required Cleared Funds in respect of a particular Trade so as to enable the buying Participant to meet its fund settlement obligations within the time period prescribed in these Rules.**

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

10.3 Settlement of Securities

- (a) A selling Participant shall ensure that a sell Trade does not result in a Short Position as at the end of the Trade Day on which the sell Trade is executed.**
- (b) A selling Participant failing to discharge its obligation under Rule 10.3(a) above shall, in order to facilitate the settlement of the Trade;**
 - (i) purchase the shortfall of Securities for the sell Trade under reference on the Buy-In Board of the CSE on or before T+2 on behalf of the seller; or**
 - (ii) otherwise procure the required number of Securities to cover such shortfall by 15.00 hours on T+2.**
- (c) The selling Participant shall ensure that the required number of Securities are made available in the seller's Client Account by 15.00 hours on T+2 for delivery of such Securities to the buyer's Client Account on the Settlement Date.**
- (d) A Participant making a sell order of Securities on the Buy-In Board of the CSE shall ensure that the required number of Securities are held in the Cleared Balance of the seller's Client Account at the time such sell order is placed.**
- (e) The settlement of Securities by delivery thereof, pursuant to a Trade (including on the Multi Currency Board of the CSE), shall take place on the Settlement Date, only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank.**
- (f) 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 the relevant 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.**

10.4 Non-compliance with Rule 10.3(a)

- (a) In the event a selling Participant fails to discharge its obligation under Rule 10.3(a) above on more than three (3) separate occasions within any given period of six (6) months or on five (5) separate occasions within any given period of one (1) year, the CDS shall impose and the Participant shall pay an administrative fee of Rs. 50,000 for each instance of non-compliance occurring thereafter.**
- (b) The administrative fee shall be charged from the Participant based on a schedule issued by the CDS as at end of the applicable month. The Participant shall pay the relevant amount as indicated in the schedule to**

the CDS within Two (2) Market Days from the date of the issue of such schedule.

10.5 Trade Affirmations/Rejections by Custodian Banks

- (a) **Subject to Rule 10.5(c) below**, Trades carried out on behalf of Account Holders registered through a Custodian Bank shall be affirmed or rejected by the respective Custodian Bank by **14.00 hours on T+1**, in the format prescribed by the CDS from time to time. **Provided however, such Trade affirmation or rejection shall not be applicable in respect of Excluded Crossings and transactions carried out on the Buy-In Board of the CSE.**
- (b) In respect of Securities traded on the Multi Currency Board of the CSE, **Trades** shall be affirmed or rejected by the respective Custodian Bank by 12.30 hours on T+1, in the format prescribed by the CDS from time to time.
- (c) In the event the Custodian Bank fails to affirm a Trade carried out by a Stockbroker Participant prior to the stipulated **time** period referred to in this Rule for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Trade by the Custodian Bank.
- (d) In the event of a rejection of a Trade by a Custodian Bank, the CDS shall **issue a revised Settlement Schedule and** substitute **the** Custodian Bank with the Stockbroker Participant which carried out the Trade **for the purpose** of settlement of **the Trade concerned on the Settlement Date.**

Provided however **that**, in the event of a rejection of **a Trade** of Securities listed on the Multi Currency Board of the CSE in terms of this Rule, such rejection shall result in a cancellation of such **Trade** and the CDS shall notify the CSE to cancel such **Trade.**

- (e) **A Custodian Bank may subsequently affirm a Trade, which was initially rejected by such** Custodian Bank in **terms of this Rule, prior to 12.00 hours on T+2 with the concurrence** from the Stockbroker Participant **which carried out such Trade**, provided that;
 - (i) the Stockbroker Participant **which carried out the Trade makes a request in writing to the CDS for the reversal of the obligations relating to such Trade from the Stockbroker Participant to the Custodian Bank; and,**
 - (ii) **the Custodian Bank satisfying all margin requirements set out in Rule 9.1 in the manner set out in Rule 9.2.3 (c).**
- (f) **In the event of a Trade affirmation by a Custodian Bank in accordance with Rule 10.5 (e) above, the CDS shall facilitate the reversal of obligations relating to such Trade from the Stockbroker Participant to the Custodian Bank and an amended Settlement Schedule shall be sent to the relevant Participant and the settlement banks by the CDS.**

10.6 Settlement Failure

The Rules set out in Section 11 (Default Handling) of these Rules shall be applicable to a settlement failure in contravention of these Rules.

SECTION 11

DEFAULT HANDLING

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

11.1 Responsibility of the Participant

The integrity and stability of the Securities market is dependent on the due settlement by a Participant of each Trade executed by such Participant. The failure to do so will result in loss of public trust and confidence in the credibility of the market. Accordingly, as set out in Section 10 of these Rules, it is the sole obligation and the responsibility of the Participant to ensure that each Trade executed by the Participant is duly settled on the Settlement Date. This fundamental premise with regard to settlement of Trades will accordingly form the basis for the provisions of this Section 11.

A. Failures in Settlement of Trades

11.2 Default of Payment

- (a) ***In the event a Participant,***
- (i) ***is aware that the fund settlement in respect of a Trade on the Settlement Date is likely to be defaulted due to a potential failure by the buyer to make sufficient Cleared Funds available to such Participant; and/or***
 - (ii) ***is unable to ascertain beyond reasonable doubt that the fund settlement in respect of a Trade on the Settlement Date will take place,***

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

Provided however that provisions of this Rule 11.2 (a) shall not be construed in any manner howsoever to be in derogation of the obligation and responsibility of the Participant to ensure due settlement of each Trade executed by the Participant as set out in Rule 11.1 above.

For the avoidance of any doubt and without prejudice to the provisions of Rule 11.4 below, the CDS shall be entitled to take disciplinary action against any Participant who fails to issue notification or issues any notification in violation of the provisions of this Rule 11.2 (a).

- (b) ***The Securities relating to a Trade that is isolated and removed from the Settlement Schedule in terms of Rule 11.2(a) above shall not be transferred by the CDS from the seller's Client Account to the buyer's Client Account on the Settlement Date.***
- (c) ***All isolated Trades referred to in Rule 11.2(a) above shall be deemed to be failed Trades on the Settlement Date.***
- (d) ***The buyer of a failed Trade shall be liable to pay compensation to (i) the seller of***

such failed Trade and (ii) the seller's Participant, which shall be computed based on a formula determined by the CDS and notified to the Participants from time to time.

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

- (e) The compensation payable by the buyer to the seller and the seller's Participant in terms of this Rule 11.2 shall be settled by the buyer's Participant to the seller's Participant on the applicable date/s as determined and communicated to the Participants by the CDS.**
- (f) The payment by the buyer through the buyer's Participant of the compensation referred to in this Rule 11.2 in full to (i) the seller through the seller's Participant and (ii) the seller's Participant shall be a full and complete discharge of the obligations of the buyer in respect of a failed Trade referred to in this Rule 11.2.**
- (g) Upon receipt of the compensation in respect of a failed Trade from the buyer's Participant, the seller's Participant shall ensure that the compensation payable to the seller is credited to the bank account of the seller on the applicable date/s as determined and communicated to the Participants by the CDS.**

11.3 Default of Delivery of Securities

- (a) In the event the number of Securities held in the Cleared Balance of the Client Account of the seller maintained in the CDS through the seller's Participant is insufficient to settle a Trade in full on the Settlement Date, such Trade shall be settled to the extent possible by the delivery of the entirety of the Securities held in such Client Account to the buyer. The delivery shall take place by the debiting of such Securities from the seller's Client Account in the CDS and the crediting of the Securities to the buyer's Client Account upon the settlement of funds in respect of the Securities available in the seller's Client Account for delivery to the buyer as aforesaid.**
- (b) The seller who has failed to deliver all or part of the Securities required for settlement of a Trade on the Settlement Date (even where the failure of the seller to procure sufficient Securities was due to the unavailability of Securities for purchase on the Buy-In Board and/or any other reason) shall be liable to pay compensation to (i) the buyer and (ii) the buyer's Participant, which shall be computed based on a formula to be determined by the CDS and notified to the Participants from time to time.**
- (c) A seller who has failed to deliver all or part of the Securities required for settlement of a Trade on the Settlement Date shall, in addition to and over and above the compensation referred to in Rule 11.3(b) above, be liable to compensate the buyer for entitlements accruing to those Securities arising from any corporate actions relating to such Securities that the buyer, as the recipient of such Securities would have become entitled to and/or received but for the delivery failure.**

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

- (d) **The compensation payable by the seller to the buyer and the buyer's Participant in terms of this Rule 11.3 shall be settled by the seller's Participant to the buyer's Participant on the applicable date/s as determined and communicated to the Participants by the CDS.**

The compensation payable in terms of this Rule 11.3 as computed in terms of the formula determined by the CDS shall be deemed to be a genuine pre-estimate of the losses and damages of (i) the buyer and (ii) the buyer's Participant arising from the failure to deliver the relevant Securities.

- (e) **The payment by the seller through the seller's Participant of the compensation referred to in this Rule 11.3 in full to (i) the buyer through the buyer's Participant and (ii) the buyer's Participant shall be a full and complete discharge of the obligations of the seller in respect of a failed Trade referred to in this Rule 11.3.**
- (f) **Upon receipt of the compensation in terms of this Rule 11.3 from the seller's Participant, the buyer's Participant shall ensure that the compensation payable to the buyer is credited to the bank account of the buyer on the applicable date/s as determined and communicated to the Participants by the CDS.**

B. Liabilities of a Participant in respect of a Settlement Failure

11.4 Default of fund settlement

In the event a Participant defaults in settlements of funds in respect of any Trade on a particular Settlement Date in terms of Rule 10.2 of these Rules due to any reason whatsoever including any failure by the buyer/s to make sufficient Cleared Funds available to the Participant, (i) such Participant shall pay to the CDS an administrative fee to be determined by the CDS at its discretion from time to time and (ii) the CDS shall take the following action in enforcement of the provisions of these Rules.

(A) In respect of a Stockbroker Participant:

- (a) **The CDS shall not give effect to any purchase transactions of such Stockbroker Participant on behalf of its client/s and on its own account, for a period of fifteen (15) Market Days.**

Provided however, the CDS shall give effect to carry out sale transactions of Stockbroker Participant subject to such transactions being carried out with a Cleared Balance on its client/s account/s and its own account.

- (b) **The CDS shall publish a notice in all three (03) languages in national newspapers stating the non-compliance with the applicable Rules and the enforcement action taken by the CDS in respect of the Stockbroker Participant concerned.**
- (c) **In the event such Stockbroker Participant fails to meet its outstanding settlement obligations by the expiry of the fifteenth (15th) Market Day period referred to in Rule 11.4(A)(a) above, sale transactions of such Stockbroker Participant on behalf of its clients and on its own account shall also not be given effect to by the CDS.**

- (d) ***The CDS shall publish a notice in all three (03) languages in national newspapers notifying the public of the enforcement action taken in respect of the Stockbroker Participant concerned.***
 - (e) ***Notwithstanding the enforcement action referred to herein, the Stockbroker Participant shall continue to honour its obligations with regard to fund settlement to other Participants.***
 - (f) ***Account Holders who hold Securities with a Stockbroker Participant in default may transfer their Securities from such Participant to any other Participant of their choice. The Account Holders may do so only after the settlement of any outstanding dues or payables to such Stockbroker Participant in default. Such transfer of Securities shall be carried out in terms of Section 7 of the Rules.***
 - (g) ***The CDS shall initiate disciplinary action against the Stockbroker Participant concerned in terms of Section 17 of these Rules.***
- (B) *In respect of a Custodian Bank:***
- (a) ***The CDS shall prohibit the Custodian Bank from carrying out any CDS functions with immediate effect.***
 - (b) ***The CDS shall publish a notice in all three (03) languages in national newspapers notifying the public of the fund default of the Custodian Bank and the corresponding enforcement action taken by the CDS.***
 - (c) ***Notwithstanding the prohibition referred to herein, the Custodian Bank shall continue to honor its obligations with regard to fund settlement to other Participants.***
 - (d) ***Account Holders who maintain Securities in the CDS through such Custodian Bank may, in view of the prohibition imposed on the Custodian Bank, obtain the services of the CDS through any other Participant of their choice. The Account Holders may do so only upon the settlement of any outstanding dues or payables to such Custodian Bank in default. Change of Participant in the CDS shall be carried out in terms of Section 7 of the Rules.***

11.5 Securities Default

- (i) ***In the event a Participant fails to ensure that the required number of Securities are made available in the seller/s Client Account on the Settlement Date in terms of Rule 10.3 of these Rules,***
 - (a) ***on two (2) separate occasions within any given period of six (6) months; or,***
 - (b) ***on three (3) separate occasions within any given period of one (1) year***

the CDS shall take the enforcement action set out in Rules 11.5 (ii)

below.

(ii) The CDS shall:

(a)

- 1) in the respect of a Stockbroker Participant, not give effect to any transactions of such Stockbroker Participant on behalf of its client/s and on its own account, for a period of three (3) Market Days.**
- 2) in the respect of a Custodian Bank, prohibit such Participant from carrying out any CDS functions with immediate effect, for a period of three (3) Market Days.**

(b) publish a notice on the websites of the CSE and CDS stating the non-compliance with the applicable Rules and the enforcement action taken by the CDS in respect of such Participant.

(c) in the event of any further instance of a securities default by the same Participant, pursuant to action being taken in terms of Rule 11.5 (ii) (a) above, the CDS shall initiate disciplinary action against such Participant in terms of Section 17 of these Rules.

11.6 Implementation of enforcement action

Without prejudice to the provisions of the Rules set out herein, the CDS shall be entitled to take any action or step as is necessary to implement and give effect to the enforcement actions referred to in Rules 11.4 and 11.5 above. The CDS shall, immediately upon deciding to take the enforcement action in Rules 11.4(A)(a), 11.4(A)(c) and 11.5(ii)(a)1) above, provide written notification thereof to the CSE.

C. Utilization of the Settlement Guarantee Fund

In the event of a default of fund settlement by a Participant and the collateral furnished to the CDS is insufficient to satisfy the settlement obligations of such Participant, such Participant may obtain funding from the Settlement Guarantee Fund (SGF) to meet outstanding settlement obligations, subject to the conditions stipulated by the SGF. For the avoidance of doubt, any refusal or rejection by the SGF to provide funding to the Participant pursuant to a request being made therefor by the Participant, for any reason whatsoever, shall not relieve the Participant from its outstanding settlement obligations in any manner whatsoever.

SECTION 12

ADDITIONAL RULES FOR THE CLEARING AND SETTLEMENT OF TRADES CARRIED OUT AS ALL OR NONE (AON) BLOCKS ON THE CSE

12.1 Designated Account for Trades carried out by a Consortium of Investors

A Participant shall open a Special CDS Account to be used for the purpose of carrying out AON transactions by a consortium of investors and such consortium shall not exceed ten (10) investors.

In the event such Special CDS Account is opened through a Custodian Bank, at the time of opening the Special CDS Account, such Custodian Bank shall provide an **undertaking** to the CDS, in the format prescribed by the CDS from time to time, that it would honour all settlement obligations arising from such Special CDS Account.

12.2 Share Transfers pertaining to Trades Carried out by a Consortium of Investors using the AON Block Facility

1. In the event a consortium of investors places a buy order using a Special CDS Account opened through a Participant in relation to an AON Block as set out in the ATS Rules and the AON Block is purchased through such Special CDS Account, the CDS shall transfer such shares **from the Special CDS Account to the Buyers' respective Client Accounts on the Settlement Date, subsequent to the inter-participant settlement of the transaction**.
2. 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 Participant, the shares held by such entities/agencies in their respective **Client** Accounts shall first be credited to a Special CDS Account opened by the Participant for this purpose.

12.3 Facilitation of Settlement of Funds

1. **For the avoidance of doubt, the Settlement Schedule issued by the CDS in terms of Section 10.2(c) of these Rules** shall include the **Trades** carried out using the AON Block facility. **The Participants** shall be responsible for the settlement of funds in **relation to Trades carried out using the AON Block facility in terms of Section 10** of these Rules.
2. In the event the AON Block is purchased by a consortium of investors operating through a Special CDS Account, the settlement obligations for the AON transaction shall be borne by the Participant through which the Special CDS Account was opened. The Participant shall instruct the respective investors for whose benefit such Special CDS Account was used, to ensure that **Cleared Funds** are made available **in accordance with Section 10.2 of these Rules** to settle the relevant transaction on the **Settlement Date**.
3. In the event a sell transaction is executed on account of securities held by the Government of Sri Lanka through multiple entities/agencies using the AON Block facility, the Participant, through whom the Special CDS Account was opened in terms of Rule **12.2.2** above shall ensure that sales proceeds are transferred to the respective entities/agencies on the **Settlement Date**.

12.4 Waiver of Rules and/or Introduction of Additional Conditions

The CDS, in consultation with the SEC, may waive the application of any of ***the Rules set out in this Section 12*** and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.

SECTION 13

RULES PERTAINING TO SECURITIES TRADED ON THE DEBT MARKET OF THE CSE

13.1 Definitions

Corporate Debt Securities

means debt **Securities** issued by an Entity

Debt Securities

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

Government Securities

means

- Treasury Bills issued in terms of the Local Treasury Bills Ordinance No. 8 of 1923 (as amended).
- Treasury Bonds issued in terms the Registered Stock and Securities Ordinance No. 7 of 1937 (as amended).
- any security issued by the Central Bank of Sri Lanka in terms of the Monetary Law Act No. 58 of 1949 (as amended).

Participant

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

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

13.2 Reference to Debt Securities

In these Rules, any reference made to trading, clearing and settlement of Debt Securities shall unless the context so requires, imply the trading, clearing and settlement of the beneficial interest in such Debt Securities.

13.3 Settlement of Debt Securities

Pursuant to a **Trade** 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 nominated **settlement bank.**

13.4 Inter-participant Settlement

- (a) The inter-participant settlement of funds for 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 CDS.
- (b) The CDS shall debit or credit itself and the Participants with the amounts payable and receivable in accordance with these **Rules**.
- (c) The CDS shall issue, on each Market Day, a Settlement Schedule, which will reflect the debits and credits that have been entered into the **Participant's account and the net amount to be settled by each Participant on a particular Settlement Date**.
- (d) The Stockbroker Participants shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Settlement Date to settle payment arising out of transactions carried out by such Participant based on the Settlement Schedule issued by the CDS.
- (e) The Custodian Banks shall make available sufficient Cleared Funds in the settlement bank by 09.30 hours on the Settlement Date to settle payment arising out of transactions carried out by such Custodian Bank based on the Settlement Schedule issued by the CDS.
- (f) **A buyer shall make available, and the buying Participant shall ensure that such buyer makes available, the required Cleared Funds in respect of a particular Trade so as to enable the buying Participant to meet its fund settlement obligations within the time period prescribed in these Rules.**

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

13.5 Margin Requirements applicable for transactions on Debt Securities

- (a) A margin requirement shall be computed by the CDS pursuant to **Trades** executed on the Spot Board in respect of each Participant, taking into consideration the settlement risk arising from such transactions carried out by the Participant pending inter participant settlement. Such margin requirement shall be communicated by the CDS to the Participant end of Trade Day (T).
- (b) The margin requirement shall be computed in accordance with a methodology as determined by the **CDS** from time to time.
- (c) The margin requirement shall be applicable for a Participant in the event the aggregate value of the purchases executed by such **Participant on the Spot Board on a Market Day equals or exceeds Rupees ten (10) Million**.
- (d) Margin requirement will not be computed for **Trades** executed on the Tom Board.

13.6 Provision of Collateral to the CDS

- (a) In the event a margin requirement is applicable as set out in Rule **13.5 (c)** above, the Participant shall provide collateral to the CDS by 09.30 hours on

T+1. The value of collateral furnished to the CDS shall be at least equivalent to the margin requirement of such Participant computed in terms of Rule **13.5** above.

- (b) The collateral furnished to the CDS shall be in the form of a cash deposit and/or Government Securities deposited in a Locked Account.

For the purposes of this Rule “Locked Account” means a designated account of the Participant maintained in the CDS, in which Trading is suspended.

- (c) The collateral shall be used by the CDS to defray;
 - (i) Any sums due and payable by a Participant in default to any client of such Participant;
 - (ii) Any sums due and payable by such Participant to any other Participant of the CDS; and/or
 - (iii) Any fees, commissions, charges and dues payable by such Participant to CDS, CSE and SEC.
- (d) The Government Securities referred to in Rule **13.6 (b)** above shall not be traded. Such Government Securities shall be marked to market at the close of trading on each Market Day and as and when transfers are carried out to and/or from the Locked Account. The marked to market value of Government Securities shall be taken into account when determining the value of such Government Securities held in the Locked Account.
- (e) Transfer of Government Securities from the Locked Account to the Participant’s trading account in the CDS will be permitted, in the event the cash deposit and/or the value of the Government Securities provided by such Participant is in excess of the required level as determined by the **CDS** from time to time.
- (f) In the event a Participant fails to provide the requisite collateral to meet its margin requirement, **CDS shall commence disciplinary proceedings against such Participant in terms of Section 17 of these Rules.**

13.7 Settlement Liability of Trades carried out through a Custodian Bank

In the event a **Trade** of Debt Securities carried out on behalf of an Account Holder registered through a Custodian Bank is not settled by the relevant **Custodian Bank, the settlement liability of such Trade shall devolve on the Stockbroker Participant who executed the Trade.**

13.8 Interest and Maturity Proceeds on Corporate Debt Securities

- (a) The CDS shall furnish the Company Secretary of the Entity a list of Account Holders with their respective holdings with regard to the Corporate Debt Security as at the date of the entitlement.
- (b) The interest and maturity proceeds shall be made directly to the Account Holder as per the information provided by the CDS.

13.9 Interest and Maturity Proceeds on Government Securities

- (a) Payment of interest and maturity proceeds of Government Securities shall be made to Participants by the CDS.

- (b) The CDS shall provide such Participants with a list of Account Holders who are entitled to receive interest/maturity proceeds on the Government Securities.
- (c) The Participant shall ensure that the interest/maturity proceeds received by them are duly paid to the Account Holders as per the information provided by the CDS.
- (d) If the due date for payment of interest/maturity proceeds falls on a day which is not a Market Day, such interest/maturity proceeds shall be made to the Participants by the CDS, in accordance with the practices adopted by the Central Bank of Sri Lanka.

13.10 Deposit of Government Securities

- (a) Account Holders may transfer the title to Government Securities held by them to the CDS through a Participant. Upon such transfer, the Government Securities shall be deposited in the relevant Client Accounts by the CDS.
- (b) The beneficial interest shall be retained by the Account Holder subject to any future trading in the beneficial interest in such Government Securities.
- (c) All liabilities arising out of invalid deposit of Government Securities with the CDS shall be borne by the Participant.

SECTION 14

CDS ACCOUNT STATEMENTS

14.1 Periodic CDS Account Statements

A. Methodology of forwarding CDS Account Statements

The CDS shall **send to the** Account Holders a CDS account statement which includes;

- (a) **A list of** Securities held by the Account Holder **in the Cleared Balance of the Client Account;**
- (b) **A list of Securities held by the Account Holder in the Client Account which are subject to a Pending Sell and and a list of Securities subject to Pending Buy in respect of such Client Account; and**
- (c) the quantity of Securities **listed in (a) and (b)** above in such Client Account.

The CDS account statement **shall** be forwarded to the Account Holder directly by the CDS in electronic form to an e-mail address provided by the Account Holder through the relevant **Participant, unless the Account Holder has requested for a printed copy of the CDS account statement in accordance with Rule 14.3.** Where the Client Account is maintained through a Custodian Bank, the statements **shall** be forwarded to the Account Holder **by** the relevant Custodian Bank through whom the Client Account is maintained on behalf of the CDS.

The Participants shall ensure that the e-mail addresses provided to the CDS have been obtained from the relevant Account Holders.

B. Frequency of Issuing CDS Account Statements

The frequency of issuing CDS account statements shall be as follows:

- a) The CDS shall forward to the Account Holder a monthly statement **if the Client Account** was active during a particular month (monthly statement).

*For the purpose of rule (a) above an active **Client Account** shall be an account with at least one transaction (purchase / sale / deposit / withdrawal / transfer) during a particular month.*

- b) The CDS shall forward a statement annually as at 31st March to all Account Holders in respect of their Client Accounts having credit balances.

Provided however, the CDS may, at its discretion, forward statements in electronic form to Account Holders in respect of their Client Accounts having credit balances in a more frequent manner.

14.2 Returned CDS Account Statements

(a) CDS account statements sent in electronic form

In the event a CDS account statement forwarded to the email address registered with the CDS is returned to the CDS or where an Account Holder informs the CDS in writing that the CDS account statement was not received by such Account Holder, the CDS shall require the relevant Participant to obtain in writing an alternate email address from the Account Holder to which the statement shall be forwarded. In the event that the Participant does not furnish an alternate email address to the CDS as set out herein within one (01) week of such request, the CDS shall send the CDS account statement in printed form to the postal address registered with the CDS.

(b) The CDS account statements sent in printed form

In the event a statement forwarded to the address registered with the CDS is returned to the CDS, the CDS shall require the relevant Participant to obtain in writing an alternate address from the Account Holder to which the statement shall be forwarded. In the event the Participant does not furnish an alternate address to the CDS as set out herein within two (02) weeks of such request, the CDS shall suspend dealings of the relevant Client Account. The CDS shall not thereafter forward the CDS account statements to the registered address of the Account Holder, until such time the Account Holder informs the CDS, through the relevant Participant, of an alternate address in writing which address shall be considered thereafter as the registered address of the Account Holder. Upon the Account Holder informing an address where the statements can be forwarded, the CDS shall remove the suspension on dealings of the relevant Client Account.

Provided however, *the* CDS may, on a request made by a Stockbroker Participant, remove the suspension of a Client Account imposed in terms of this Rule where the continuance of the suspension would result in a restriction on the Stockbroker Participant's rights to recover sums due to the Stockbroker Participant from the Account Holder.

Prior to the removal of suspension, the CDS shall obtain an affidavit from the Chief Executive Officer of the Stockbroker Participant setting out the following:

- the Stockbroker Participant has adopted reasonable measures to comply with the 'know your customer' requirements at the time of opening the CDS Account,
- the Account Holder owes moneys to the Stockbroker Participant,
- the Stockbroker Participant undertakes to indemnify the CDS and/or the CSE against any exposure in the event a claim is made by the Account Holder, and;
- the Stockbroker Participant has made adequate efforts to trace the Account Holder, which include the following steps taken by the Stockbroker Participant:
 1. the Stockbroker Participant has taken efforts to contact the Account Holder through audio communication and/or via email (proof of communication via email should be attached to the

- affidavit)
2. the Stockbroker Participant has sent a communication to the Account Holder via registered post to the address registered with the CDS regarding returning of the CDS Account Statement (proof of communication via registered post should be attached to the affidavit)
 3. any other steps taken by the Stockbroker Participant to trace the Account Holder (where applicable).

14.3 Copies of CDS Account Statements

If an Account Holder wishes to obtain a printed copy of a CDS account statement, the Account Holder may either request through the relevant Participant or call over personally at the office of the CDS and obtain such statement, upon proving his/her identity.

In the alternative, Account Holders may write to CDS requesting for a copy of the CDS account statement. The CDS shall mail such CDS account statement to the postal address or the email address registered with the CDS, as requested by the Account Holder.

The CDS may charge a fee from the Account Holders for providing printed copies of CDS account statements.

SECTION 15

Release of CDS information

(a) Information pertaining to a Client Account

The CDS shall release information pertaining to a Client Account;

- i. upon a written request being made by the relevant Participant.
- ii. upon a written request being made by an Account Holder.
(Such information shall be forwarded by the CDS to the registered address/email address/telephone number of such Account Holder or handed over to the Account Holder upon verification of proper identification).
- iii. upon a written request being made by the relevant Company Secretary.
- iv. if required by any applicable law or an Order of Court.
- v. upon a written request being made by the SEC.
- vi. upon a written request being made by the Financial Intelligence Unit of the Central Bank of Sri Lanka (FIU).

(b) Information pertaining to the settlement of funds

The CDS shall release information pertaining to the settlement of funds to the settlement bank/s of the CDS, as provided in Section **10** of these Rules.

SECTION 16

FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY OF PARTICIPANTS

- 16.1** CDS may establish, as it deems necessary or appropriate, standards of financial responsibility, operational capability, experience and competence for Participants. CDS may also establish guidelines for Participants, for being accepted as Participants. CDS shall have the authority to examine the financial responsibility and operational capability of any Participant or applicant to become a Participant. In conducting such examinations, CDS may require a Participant or **applicant** to furnish such information, to make its books and records available and to provide sworn or unsworn testimony, as will be sufficient in the opinion of CDS, to demonstrate the financial responsibility and operational capability of the Participant or **applicant**.
- 16.2** On admission Participants shall submit to CDS quarterly financial statements before the expiry of twenty (20) days from the end of each quarter and audited financial statements within six (06) months from the end of the financial year. Failure to submit such statements on or before the due date may result in the CDS suspending the Participant until such reports are filed.
- 16.3** The CDS shall have the right of suspending a Participant from using the services and facilities offered by CDS if such participant is found to be financially **unstable**.
- 16.4** The CDS may withdraw participatory status from a **Participant** if such **Participant** had not been actively engaged in business with CDS for a continuous period, the duration of which may be determined by the **CDS**.

SECTION 17

DISCIPLINARY PROCEEDINGS

17.1 General

Nothing in this Section shall be read or construed to mean that any action that the CDS is entitled to take under other provisions of these Rules shall necessarily follow the procedure set out in this Section 17, unless such other provisions explicitly state that the conduct of disciplinary proceedings under this Section 17 is a prerequisite to taking such action.

17.2 Grounds for Disciplinary Action

The CDS may take disciplinary action against a Participant in respect of any conduct, act and/or omission in its capacity as a Participant of the CDS. Such conduct, acts and/or omissions of any Participant in respect of which disciplinary action may be taken, shall include, without limitation, the following:-

- a. Any breach of or failure to adhere to any provision of these Rules and/or any determinations made or requirements stipulated by the CDS thereunder, including any failure to provide notifications to CDS as required in terms of these Rules;***
- b. Any breach of or failure to adhere to Circulars and Operational guidelines and procedures issued by the CDS;***
- c. Any matter with respect to which disciplinary action is required to be taken by the CDS under provisions of these Rules;***
- d. Any failure or refusal to act in accordance with any procedures or processes of the CDS whether made in terms of these Rules or otherwise;***
- e. Any failure or refusal to act in accordance with decisions and/or determinations made by the CDS in respect of Securities traded on the CSE;***
- f. Any breach of the Participant's agreements with the CDS;***
- g. Any error, delay or other conduct of the Participant which may be detrimental to the business and operations of CDS;***
- h. For not providing adequate facilities for the Participant's business with CDS, and***
- i. Any conduct unbecoming of a Participant in respect of Securities traded on the CSE.***

17.3 Procedure

- (a) The CDS shall be entitled to determine, on a case by case basis or otherwise and at its sole discretion, the procedure to be followed by the CDS in taking disciplinary action against the Participant so long as such***

procedure provides the Participant with adequate opportunity to show cause or present its case.

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

- (b) Without prejudice to the generality of the provisions of Rule 17.3 (a) above, the CDS may appoint any committee consisting of officers of the CDS and/or external persons (whom the CDS, at its sole discretion, considers as necessary in conducting its disciplinary proceedings) in order for the CDS to hear and determine any matter of disciplinary nature.**

17.4 Investigations

- (a) In the event the CDS is of the view that any conduct, act and/or omission of any Participant in its capacity as a Participant of the CDS, needs to be investigated for the purpose of ascertaining whether disciplinary proceedings should be commenced against such Participant, the CDS is entitled to direct the Participant to immediately do and carry out any and all acts, including the following, that the CDS considers necessary to carry out such investigations:-**
 - (i) To provide information/explanations as required by the CDS;**
 - (ii) To cause any officer or employee of the Participant to appear before the CDS with necessary documents and to provide any information/explanations as may be deemed necessary by the CDS; and/or**
 - (iii) To provide the CDS with any documents or records of the Participant.**
- (b) Any failure or partial failure to comply with such direction of the CDS including any concealment of, or furnishing of false or inaccurate, information, documents or records, shall be deemed to be a breach by the Participant of these Rules. Further, such failure may, inter alia, result in, the CDS, at its sole discretion, imposing any immediate interim measures as referred to in Rule 17.3 (a) above.**

17.5 Determination of the CDS

- (a) The CDS shall be entitled to take any disciplinary action that the CDS may deem appropriate against the Participant, which may include, without limitation, expulsion, suspension, limitation of or restriction of activities, functions and/or operations, specific performance, warning, reprimand and/or payment of any fees or costs as determined by the CDS.**
- (b) Any determination made by the CDS in accordance with Rule 17.3 above, with regard to the disciplinary action taken against a Participant shall be communicated to the Participant by the CDS in writing and such determination shall be effective immediately upon delivery (in terms of**

these Rules) of such communication to the Participant by the CDS.

- (c) Failure by the Participant to comply with any such determination (or part thereof) made by the CDS under and in terms of this Rule 17, shall entitle the CDS to take further disciplinary action, in addition to those already imposed, as the CDS may deem fit, without any further opportunity of whatsoever nature being provided to the Participant to show cause or present its case. Such further disciplinary action shall be communicated to the Participant by the CDS in writing and such action shall become effective immediately upon the CDS dispatching such communication to the Participant.**
- (d) Where the operation or effectiveness of any determination (or part thereof) of the CDS is halted, suspended and/or delayed pursuant to any lawful interim order or decision of the SEC or otherwise, immediately upon such interim order or decision lapses or is set aside, such determination (or part thereof) of the CDS shall be deemed to have been given effect to immediately upon the lapse or setting aside of such interim order or decision. Provided however that the CDS shall be entitled to make, at its sole discretion, necessary amendments to its original determination only to address any matters, ramifications, issues and/or concerns that may affect the implementation of such determination (or part thereof) due to the halt, suspension and/or delay of the operation or effectiveness of such determination. Upon making such amendments, the Participant shall be notified in writing by the CDS.**
- (e) Without prejudice to the discretion available with the CDS to impose appropriate disciplinary measures and to determine the extent thereof, in the event CDS decides to suspend a Participant, the CDS may direct such Participant to carry out any of the following actions and the Participant shall be obliged to comply with and adhere to such direction:**

 - (i) to discharge its obligations which it had incurred prior to such suspension,**
 - (ii) to facilitate the transfer of Securities of clients held in Client Accounts maintained by the Participant to Client Accounts maintained with other Participant/s;**
 - (iii) to do and carry out things as may be necessary to comply with other requirements of the determination made by the CDS; and/or**
 - (iv) to comply with any other requirements as may be imposed by the CDS.**

17.6 Notification to the CSE

Where any disciplinary action taken by the CDS results in CDS deciding to not give effect to any transactions of a Participant on behalf of its client/s and on its own account, the CDS shall issue a written notification of such decision to the CSE.

SECTION 18

RULES ON THE PROCEDURE TO BE FOLLOWED CONSEQUENT TO A DIRECTION RECEIVED BY CSE FROM THE SEC

- 18.1** If the CSE is directed by the SEC, in terms of Section 23 of the SEC Act, to arrange for a Stockbroker/Stock Dealer Participant to take over the outstanding contracts relating to transactions in Securities of another Stockbroker/Stock Dealer Participant, the following procedure shall be followed by the CDS, upon been directed to do so by the CSE.
- 18.2** The CDS will publish a notice in the newspapers in all **three (3)** languages informing the settlement failure of the Stockbroker/Stock Dealer Participant **pursuant to any condition stipulated in Section 23 of the SEC Act**, the direction issued by the SEC and the action that should be taken by Account Holders who maintain **Client Accounts in the CDS** through such Stockbroker/Stock Dealer Participant.
- 18.3** The Account Holders who **maintain Client Accounts in the CDS through** the Stockbroker/Stock Dealer Participant in default will be given the opportunity of transferring their Securities from such Stockbroker/Stock Dealer Participant to any other Participant of their choice within **thirty (30)** Market Days of the publication of the notice referred to in Rule **18.2 above**, provided that there are no encumbrances and outstanding payments to the Stockbroker/Stock Dealer Participant on the Securities **held in the Client Accounts** concerned.
- 18.4** In the **event of any of the Securities in such Client Account is subject to an encumbrance**, the Account Holder will be permitted to transfer the Securities to an alternative Participant only if and when such obligations are duly settled, subject however to any restrictions imposed by an order of Court.
- 18.5** The CDS would provide details of Securities **held in such Client Accounts that are** not transferred by **the** Account Holders within **thirty (30)** Markets Days of the publication of the notice to the Stockbroker/Stock Dealer Participant concerned and request confirmation from such Stockbroker/Stock Dealer Participant within **seven (7)** Market Days as to whether such Securities **held in the Clients Accounts** can be transferred, and if not, the reasons for same and details of any encumbrances attached to such Securities. In the event information is not received within seven (7) Market Days after such request, it **shall** be presumed that the Securities **are free from encumbrances and** can be transferred, subject to any restrictions imposed by an order of Court.
- 18.6** Based on the information provided by the Stockbroker Participant/Stock Dealer Participant, the CDS may take **any** one of the following steps with regard to the Securities **held in the Client Account** that are not encumbered, as declared by the Stockbroker/Stock Dealer Participant or deemed not encumbered in terms of Rule **18.5:**
- (i) Initiate action to transfer such Securities to another Participant/s appointed by the CDS in the following manner.
 - (a) Request Participants who are interested in taking over the Securities **in the Client** Accounts of the Stockbroker/Stock Dealer Participant in default to write to CDS expressing their interest which shall not be subject to any condition.
 - (b) If more than one Participant expresses interest the CDS will decide on

what basis the outstanding Securities **in the Client** Accounts are to be distributed amongst the Participants who have expressed interest.

- (ii) If no Participant has expressed interest in taking over the Securities **in the Client** Accounts of the Stockbroker/Stock Dealer Participant in default the CDS shall;
 - (a) suspend such **Client Accounts**, or
 - (b) make arrangements with the relevant Listed **Entities** to issue **securities** certificates in the names of the respective Account Holders, according to their holdings deposited with the Stockbroker/Stock Dealer Participant, and dispatch such certificates to the Account Holder.

18.7 Securities **held in the Client Account** that are encumbered, as declared by the Stockbroker/Stock Dealer Participant in terms of Rule **18.5** shall be suspended by the CDS.

18.8 Account Holders who subsequently settle outstanding payments and encumbrances shall obtain a certificate to that effect from the Stockbroker/Stock Dealer Participant and request for a transfer of Securities to another Participant.

18.9 Securities **in the Client Account that remain** suspended subsequent to the application of the above procedure may be transferred to any other party with the approval of the SEC.