

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.

Provided however, in the event the selling Participant fails to discharge its obligation under rule 10.3 (a) above due to:

- (i) a local client of a Custodian Participant directly placing an order through the internet trading facility provided to such local client by a Stockbroker Firm; or,
- (ii) a Short Position being created pursuant to a rejection of a trade by a Custodian Participant,

On more than five (5) separate occasions within any given period of six (6) months or on seven (7) 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.