

## **SECTION 13**

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

#### **13.1 Rules Governing Debt Securities Traded on the ATS**

##### **13.1.1 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).

##### **13.1.2 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.

##### **13.1.3 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.

#### **13.1.4 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.

#### **13.1.5 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.

#### **13.1.6 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.

#### **13.1.7 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.

#### **13.1.8 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.

#### **13.1.9 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.

### **13.1.10 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.

## **13.2 Rules Governing Repurchase Transactions in Debt Securities Carried Out on the Over the Counter (OTC) Platform of the CSE**

### **13.2.1 Definitions**

For the purposes of this Rule 13.2;

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

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

- a commercial bank licensed by the Central Bank of Sri Lanka (CBSL) in terms of the Banking Act No. 30 of 1988 (as amended);
- a specialized bank licensed by the CBSL in terms of the Banking Act No. 30 of 1988 (as amended);
- a finance company licensed by the CBSL in terms of the Finance Business Act No. 42 of 2011(as amended);
- a company licensed by the CBSL to carry on finance leasing business under the Finance Leasing Act No. 56 of 2000 (as amended);
- a primary dealer licensed by the CBSL;
- a company licensed by the Insurance Regulatory Commission of Sri Lanka to carry on insurance

business in terms of the Regulation of Insurance Industry Act No. 43 of 2000 (as amended);

- Members and Trading Members of the CSE possessing a Stock Dealer license for Debt Securities from the SEC;
- the trustee or the manager of a mutual fund, pension fund, Employee Provident Fund or any other similar pooled fund;
- a venture capital fund/company and private equity company;
- a wealth management company;
- the trustee or the manager of a unit trust, investment scheme or investment company;
- a non-resident institutional investor
- an individual investor who is a party to a transaction on Specified Securities on the OTC Platform amounting to a minimum of Rs. 5,000,000.

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

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

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

**Purchase Date** : shall mean the date on which the Repurchase Transaction shall be matched and recorded on the OTC Platform.

**Purchase Price** : shall mean the amount payable by the Lender to the Borrower, i.e. the amount lent on the Purchase Date.

**Purchased Securities** : shall mean Debt Securities, which are the subject matter of a Repurchase Transaction.

**Repurchase Date** : shall mean the date on which the Lender has agreed to resell the Purchased Securities to the Borrower.

**Repurchase Price** : shall mean the price at which the Lender has agreed to resell the Purchased Securities to the Borrower on the Repurchase Date.

**Repurchase Transaction** : shall mean a repurchase agreement/transaction on debt securities.

Rolled Over Repurchase Transaction	: shall mean that a Repurchase Transaction which would be rolled over by the same parties on the Repurchase Date of the original Repurchase Transaction based on new terms and conditions.
Specified Securities	: shall mean Securities that are eligible to be traded on the OTC Platform of the CSE, as determined by the Board of Directors of the CSE and published from time to time.
Trading Participant	: shall mean a Member or Trading Member of the CSE permitted to carry out transactions in Specified Securities on the OTC Platform of the CSE.

### 13.2.2 Opening of Client Accounts in the CDS

- (1) All Eligible Investors who intend to trade on Repurchase Transactions in Debt Securities on the OTC Platform of the CSE, shall open a Client Account in the CDS through;
  - a) a Stockbroker or Stock Dealer Participant, who is eligible to trade in Debt Securities; or,
  - b) a Custodian Participant.
- (2) All such Client Accounts shall be opened in the CDS in accordance with Section 4 of the CDS Rules.

### 13.2.3 Settlement of Repurchase Transactions

#### A. Fund Settlement

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

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

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

## **C. Transfer of Securities in the CDS**

- (1) Upon receiving the confirmation referred to in Rule 13.2.3 (B) above, the CDS shall transfer the Purchased Securities for the Repurchase Transaction;
  - i) from the Borrower's Client Account to the Lender's Client Account on the Purchase Date (or the Settlement Date, if different to the Purchase Date); and,
  - ii) from the Lender's Client Account to the Borrower's Client Account on the Repurchase Date of the Repurchase Transaction,

subject to Rule 13.2.7 below, based on the transaction details received from the CSE through the OTC Platform.

- (2) Upon the completion of the transfer of Debt Securities for a Repurchase Transaction in accordance with Rule 13.2.3 (C) (1) above, the CDS shall confirm the same to the respective CDS Participants.
- (3) The CDS, its directors, employees and the parent entity shall not be responsible for any losses and/or damages that may be incurred by the parties to a Repurchase Transaction on Debt Securities carried out on the OTC Platform of the CSE as a result of non-availability of securities on the Purchase Date (or the Settlement Date, if different to the Purchase Date) or the Repurchase Date as the case may be or the transfer of such Purchased Securities based on the instructions received by the CDS from the CSE through the OTC Platform or any matters connected thereto.

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

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

#### **13.2.4 Substitution of Purchased Securities**

Upon receiving a request for substitution of Purchased Securities in a Repurchase Transaction on Debt Securities from the CSE via the OTC Platform, the CDS shall replace the existing Purchased Securities with the new Purchased Securities by effecting the respective transfers of securities to and from the respective Client Accounts based on the information received from the CSE and confirm the completion of same to the respective CDS Participants.

#### **13.2.5 Payment of Coupons**

- (1) The CDS shall not be responsible to handle any coupon payments relating to the Debt Securities placed as Purchased Securities in a Repurchase Transaction.
- (2) All coupon payments relating to Debt Securities placed as Purchased Securities in a Repurchase Transaction shall be handled by the respective CDS Participants in accordance with the terms and conditions contained in the Master Repurchase Agreement.

#### **13.2.6 Default of a Repurchase Transaction**

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

##### Purchase Date of the Repurchase Transaction

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

##### Repurchase Date of the Repurchase Transaction

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



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

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

### **13.2.7 Roll Over of Repurchase Transactions**

- (1) Based on the notification received from the CSE regarding a Roll Over of a Repurchase Transaction, the CDS shall carry out the necessary transfers of Purchased Securities to and from the Borrower's and Lender's Client Accounts in the CDS, on the Repurchase Date of the Repurchase Transaction.
- (2) The relevant CDS Participants shall be informed by the CDS upon the completion of the transfers of the Purchased Securities relating to the Rolled Over Repurchase Transactions.
- (3) The CDS shall maintain a log of every Rolled Over Repurchase Transaction notified to the CDS by the CSE.

### **13.2.8 Dispute Resolution**

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