

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.