



Central Depository Systems (Pvt) Ltd.

Rules

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CONTENTS	Page
Introduction	03
Section 1 - Definitions	04
Section 2 - Participants	08
Section 3 - Securities	10
Section 4 - Client Accounts	11
Section 5 - Recording Purchases and Sales	16
Section 6 - Facilitation of Settlement of Funds	18
Section 7 - Dematerialization of Securities	21
Section 8 - Rematerialization of Securities	23
Section 9 - Transfer of Securities in CDS	24
Section 10 - Entitlements	26
Section 11 - CDS Account Statements	28
Section 12 - Rules Governing the Inter Participant Settlement Failure	31
Section 13 - General	33
Section 14 - Financial Responsibility and Operational Capability of Participants	35
Section 15 - Restrictions on Access to Services	36
Section 16 - Disciplinary Proceedings	37
Section 17 - Rules on the Procedure to be Followed Consequent to a Direction Received by CSE from SEC in Terms of Section 23 of SEC Act as Amended	38
Section 18 - Rules pertaining to Debt Securities	40

INTRODUCTION

CENTRAL DEPOSITORY SYSTEMS (PVT.) LTD.

The Central Depository Systems (Pvt.) Ltd. (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 settlement of Securities so traded.

The Rules relating to depository functions offered by the CDS to Participants are set out in these Rules.

All Participants of the CDS shall comply with these Rules. Any breach of the 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.

SECTION 1

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.

Balance Free

means the portfolio of Securities held in a Client Account on which trading is carried out.

Board of Directors

means Board of Directors of CDS.

CDS

means Central Depository Systems (Pvt.) Limited.

Client Account

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

CSE

means Colombo Stock Exchange.

Company Secretary

means the Company Secretary of a Listed Entity duly appointed under the Companies Act, No 07 of 2007.

Custodian Bank / Custodian Participant

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.

Freeze Balance

means a portfolio of Securities deposited in a Client Account through an Initial Public Offering on which trading is restricted on the instructions of the issuer of the relevant Security.

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 2 of these Rules as a Participant.

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.

SEC

means the Securities and Exchange Commission of Sri Lanka incorporated under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987, as amended.

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.

Settlement

means the settlement of funds in accordance with Section 6 of these Rules.

Settlement Failure

means failure to settle funds by a Participant on the inter-participant settlement date as determined by the CDS from time to time.

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 effected through the Automated Trading System of the CSE.

Unlisted Security

means Securities which are not listed on the CSE.

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

2. INTERPRETATION OF RULES

Unless expressly provided to the contrary, the interpretation of these Rules shall be in conformity with the interpretations 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 Securities and Exchange Commission of Sri Lanka and such appeal shall be made within 7 days.

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

SECTION 2

PARTICIPANTS

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

2.1 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 Board of Directors at its sole discretion.

2.2 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.

2.3 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.

2.4 Operational guidelines and procedures

For administrative purposes, CDS may issue, from time to time, operational guidelines and procedures in the form of letters or circulars to Participants.

2.5 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.

2.6 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.

2.7 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.

2.8 Bank Guarantee

- a) Each Participant may be required by the Board of Directors to furnish a Bank guarantee in a format acceptable to CDS, and such bank guarantee to be held by CDS to be applied as provided in this rule. The amount of the bank guarantee required by each Participant shall be fixed by CDS in a manner as may be determined by the Board of Directors of CDS from time to time. This bank guarantee shall be obtained from any institution duly licensed under the provisions of the Banking Act No.30 of 1988 as amended.
- b) The use of a bank guarantee furnished by a participant shall be limited to the following situations:
 - I. For the satisfaction of losses or liabilities of CDS.
 - II. For the satisfaction of losses or liabilities of CDS incident to the operation of the business of the CDS.

SECTION 3

SECURITIES

3.1 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.

3.2 Security ID

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

3.3 International Security Identification Number (ISIN)

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

3.4 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 4

CLIENT ACCOUNTS

4.1 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. 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.

4.2 Applications for opening Client Accounts

Applicants shall provide information as required in the form of application and CDS operational guidelines and procedures (which shall be issued in the form of letters or circulars to Participants) 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.

4.3 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, when opening such accounts, recognize notice of any trust, expressed, implied or constructive and the CDS shall for all purposes consider that the name appearing first in the account title, as the registered owner of such account.

4.4 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.

4.5 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 Section 5.
- b) Dematerialization/deposit of Securities into a Client Account as per Section 7.
- c) Direct deposit of Securities by a Listed Entity on behalf of an Account Holder pursuant to new issues, rights issues, issue of shares credited as fully paid up by way of capitalization of reserves or any other additional issues, as per Section 10 or pursuant to a sub-division of shares by a Listed Entity.
- d) Transfer of Securities into a Client Account as per Section 9.

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

- a) Sale of Securities from a Client Account as per Section 5.
- b) Rematerialisation/withdrawal of Securities from a Client Account as per Section 8.
- c) Transfer of Securities from one Client Account to another Client Account as per Section 9.
- d) Upon being notified by a Listed Entity of the following instances:
 - a repurchase of shares under the Companies Act No. 07 of 2007 (the Act),
 - a minority buy-out by the Listed Entity under the Act,
 - a redemption of shares under the Act.
- e) Direct deposit of Securities by a Listed Entity on behalf of an Account Holder pursuant to a consolidation of shares by a Listed Entity.

4.6 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 11.2 of these Rules.

b) **Closing a Client Account**

The CDS shall close a Client Account;

- if instructed to do so by the Account Holder, through the Participant (after obtaining due clarifications which may be necessary), or,
- in terms of Rule 4.7 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.

4.7 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 through 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. 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.
- iii. 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.
- iv. The CDS shall not send any notices/statements to the Account Holders of Non-Operative Client Accounts.
- v. 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 through the relevant Participant and conform to Know Your Client (KYC) requirements of the Financial Intelligence Unit of the Central Bank of Sri Lanka.

SECTION 5

RECORDING OF PURCHASES AND SALES

5.1 Purchase/Sale of Securities

Client Accounts shall be debited or credited with Securities pursuant to the trades carried out by Participants through the Automated Trading System of the CSE.

All Securities debited/credited, solely resulting from trades carried out as aforesaid shall be valid. The CDS shall rely solely on the information provided by the CSE in respect of such trades.

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.

5.2 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—

- a) shall be deemed to be a shareholder in such 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 No. 7 of 2007, as if his name had been entered in the share register as the holder of those shares.

5.3 Purchase of shares of and over the value of Rs. 20 Mn.

- a) In the event the aggregate value of all the purchases executed by any participant (other than the custodian Banks) on behalf of a particular client in relation to a particular security during a particular market day equals or exceeds Rs. 20 Mn., such participant shall provide a minimum margin of 15% of the aggregate value of the securities so purchased in the form of 'cleared funds' to the CDS or a bank guarantee in favor of the CDS, by 09.00 hours on Trade Day +1 (T +1).
- b) Participants shall deposit such margins into a separate account maintained by the CDS in a settlement Bank and titled 'Margin Deposit A/C'. The CDS shall utilize such cash margin only for the purpose of facilitating settlement in conformity with the instructions of the Participant. In the event of a Settlement Failure, the CDS shall utilize the cash margin to facilitate settlement.

- c) Alternatively, Participants may furnish a bank guarantee, in a format acceptable to the CDS, obtained by the Account Holder in favour of the CDS. The CDS shall enforce the bank guarantee only in the event of a Settlement Failure.
- d) In the event the Participant fails to provide the requisite margin, the CDS shall be entitled to take action as it may consider necessary in consultation with the SEC. No such action shall absolve the Participant of its liability in terms of the Rules of the CDS and CSE.
- e) In the event a trade is not affirmed by a Custodian Bank, the Participant shall be required to submit the margin by 09.00 hours on T+2.

For the purposes of these Rules:

'Cleared Funds' shall mean funds that are realized and available for drawing.

'Trade affirmation' shall mean an acceptance by a Custodian Bank of a trade executed by a Stockbroker Participant, on behalf of a client registered through such Custodian Bank by 14.30 hours on T+1.

SECTION 6

FACILITATION OF SETTLEMENT OF FUNDS

6.1 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 for the purpose of facilitating the inter-participant settlement of funds

6.2 Inter-participant Settlement

- a) The inter-participant settlement of funds for Securities traded on the CSE shall take place by 10.30 hours on the third Market Day after the Trade day (T +3), referred to herein as settlement date, through the 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.
- 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 buyer shall ensure that 'Cleared Funds' are made available to the buying Stockbroker Participant/Custodian Bank by 09.00 hours on the settlement date, for the purchase of Securities.
- e) 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.
- f) 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.

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

6.3. Trade affirmations/rejections by Custodian Banks

Trades carried out on behalf of Account Holders registered through a Custodian Bank in CDS shall be affirmed or rejected by the respective Custodian Bank by 14.30 hours on Trade day plus 1 (T+1), in the format prescribed by the CDS from time to time.

In the event the Custodian Bank fails to affirm a Trade carried out by a Stockbroker Participant prior to the stipulated 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.

In the event of a rejection of a Trade on Trade day plus 1 (T + 1) by a Custodian Bank, the CDS shall substitute such Custodian Bank with the Stockbroker Participant who carried out the Trade for purposes of settlement of funds. The Stockbroker Participant, who carried out such Trade, shall be responsible to settle such Trade.

6.4 Buyer in Default of Payment

a) Sale of Securities in respect of which Payment is in Default

Where the buyer fails to make payment on or before the settlement date the buying Stockbroker Participant may, at its absolute discretion, sell the Securities in respect of which the payment is in default on any day after the settlement date, which is T +3.

However, in the event the buyer in default of payment is registered through a Custodian Bank and the Custodian Bank has affirmed the trade in terms of Rule 6.3 of these Rules, the Stockbroker Participant shall sell such Securities only upon the receipt of instructions to sell from the relevant Custodian Bank.

b) Transfer of Securities in relation to a buyer in default in order to meet the settlement obligations of the buying Stockbroker Participant on the Settlement Date (T+3)

In the event the buying Stockbroker Participant requires to obtain an immediate credit facility from a commercial bank, licensed under the Banking Act No. 30 of 1988 (as amended), in order to meet the settlement obligations of the buying Stockbroker Participant on the Settlement Date:

- i. The buying Stockbroker Participant shall inform the CDS of the default by the buyer by 09.00 hours on the settlement date and request the CDS to transfer the Securities in respect of which the payment is in default from the buyer's Client Account to a designated CDS Account of the buying Stockbroker Participant, by submitting the relevant CDS form/s.

- ii. The CDS will thereafter transfer the Securities in respect of which the payment is in default:
 - from the buyer's Client Account to a designated CDS Account of the buying Stockbroker Participant, and,
 - from the designated CDS Account of the buying Stockbroker Participant to a designated CDS Account of the commercial bank to enable the Stockbroker Participant to obtain an immediate credit facility.

- c) ***If the credit extended by the Bank is insufficient to cover the full value of the trade, the buying Stockbroker Participant shall pledge other shares which have been paid for and which belong to the same defaulting client provided that;***
 - (i) a written agreement has been entered into between the buying Stockbroker Participant and the buyer to that effect which enables the buying Stockbroker Participant to pledge other shares which have been paid for and which belong to the same defaulting client***
 - (ii) the pledging of such shares is done only in consultation with the defaulting client.***
 - (iii) the buying Stockbroker Participant shall exercise due care and diligence and shall always act in the best interests of the client.***
 - (iv) the pledging shall be done in the manner specified in Rule 6.5 (b).***

- d) The buying Stockbroker Participant shall use the Securities transferred to the designated CDS account of the buying Stockbroker Participant in Rule 6.5 (b) and 6.5 (c) above solely for the purpose of pledging such Securities with a commercial bank, licensed under the Banking Act No. 30 of 1988 (as amended).

- e) The CDS shall report all transfers referred to in this Rule to the SEC on an immediate basis.

- f) Any loss which may arise from the subsequent sale of Securities and all costs and expenses which may incur in terms of these Rules shall be borne by the buyer in default.

For the purposes of this Rule 'a default by the buyer' shall mean, where the buyer fails to make available 'Cleared Funds' to the buying Stockbroker Participant/Custodian Bank in terms of Rule 6.2 of these Rules, for the purchase of Securities.

6.5 Settlement Failure

Rules governing the Settlement Failure are set out in Section 12 of the Rules.

SECTION 7

DEMATERIALIZATION OF SECURITIES (DEPOSIT OF SECURITIES)

7.1 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 or evidence of title into their Client Accounts. Such deposits shall be made through the relevant Participant.

Participants shall ensure that the securities certificates or evidence of title 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 or evidence of title 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 or evidence of title forwarded for deposit shall be deposited to the relevant Client Account by CDS, subject to these Rules.
- e) Upon such quantity of Securities being deposited to the Client Account in the CDS, the CDS shall on the date of deposit, inform the relevant Company Secretary of the Listed Entity regarding such deposit of Securities, for the purpose of registering such Securities in the name of the CDS in the share register of the company. It shall be the responsibility of the Company Secretary to make arrangements for collection of the relevant documents from the CDS.
- f) If the Listed Entity is of the opinion that a securities certificate/evidence of title is not genuine, due notice shall be given to the CDS by the Company Secretary of the Listed Entity within two (2) Market Days from the date of deposit of relevant documents with reasons for such refusal. On receipt of such notification from the Company Secretary, the CDS shall be entitled to take appropriate steps to rectify any anomaly. The Participants shall be bound to comply with any instructions given by the CDS in this regard.

- g) If such notification is not received by the CDS from the Company Secretary of the Listed Entity before the expiry of the above stipulated period, the CDS shall consider that the transfers are in order.
- 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/evidence of title, when a Listed Entity discovers a forgery in a securities certificate/evidence of title or when a securities certificate/evidence of title has been invalidated by the Company Secretary. Such notice to the CDS shall set out the details pertaining to the securities certificate/evidence of title 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.

7.2 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 or evidence of title 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 or evidence of title, the Participant shall liaise with the Company Secretary of the Listed Entity and verify whether the securities certificate or evidence of title is genuine. These precautions shall be taken prior to handing over securities certificate or evidence of title to CDS.

7.3 Direct deposit of Securities issued pursuant to new issues or further issues (Rights Issues, Issue of shares credited as fully paid up by way of capitalization of Reserves etc.)

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 8

REMATERIALISATION OF SECURITIES (WITHDRAWAL OF SECURITIES)

- 8.1** 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.
- 8.2** 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.
- 8.3** All liabilities arising out of invalid withdrawal of Securities shall be borne by the Participant.
- 8.4** 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.
- 8.5** 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 9

TRANSFER OF SECURITIES IN CDS

9.1 Change of Participant pertaining to a Client Account

a) Procedure

- i. Subject to the provisions of these Rules, an Account Holder may, by completing the prescribed form, instruct the Participant with whom his/her Client Account is maintained in the CDS (the existing Participant) to credit the Securities held in such Client Account to another Client Account of the same Account Holder maintained with another Participant.
- ii. The existing Participant shall not delay or refuse to carry out instructions 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.
- iii. If instructions to change the Participant cannot be carried out by the existing Participant, the nominated Participant should be informed on or before the second Market Day from the date of receipt of such instructions.
- iv. If the nominated Participant is not satisfied with the reasons attributed for the delay/refusal it shall be brought to the notice of the CDS. The CDS shall consider the reasons for such delay/refusal and take appropriate action.

b) Verification

It shall be the responsibility of the Participants, in carrying out instructions of an Account Holder, to check and ensure the authenticity/genuineness of the request.

9.2 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.

9.3 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.

9.4 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 his/her 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.

SECTION 10

ENTITLEMENTS

10.1 Entitlements to Client Accounts

- a) The Company Secretary of the Listed Entity shall process entitlements of CDS Account Holders based on information provided by the CDS, subject to Rule 10.6 below.
- 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 amount of Securities held in his/her Client Account as at the date of entitlement.

10.2 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 date of entitlement.
- b) In the event of a cash dividend, the Listed Entity shall dispatch the dividend payments directly to the respective Account Holders.
- 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.

10.3 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 date of entitlement/allotment.

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

10.4 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 date of entitlement.
- 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 10.6 below.

- 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. 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.

10.5 In the event Rights or dividends accrue to an Account Holder between the trade day and the settlement date and such Account Holder defaults payment on the Securities purchased, the Participant shall be entitled to the following:

- a) Prior to the date of dispatching the letter of provisional allotment, which shall not exceed five (5) Market Days from and excluding the date of provisional allotment (in the event of a Rights issue) or the date of payment (in the event of a dividend), request the CDS, in writing, to transfer such entitlement in favour of the Participant.
- b) On receipt of such request the CDS shall inform the relevant Listed Entity to issue the entitlement (Rights or dividend) in favour of the Participant.

10.6 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 of 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.

SECTION 11

CDS ACCOUNT STATEMENTS

11.1 Periodic CDS Account Statements

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

- a) all listed Securities held by the Account Holder and,
- b) the quantity of such listed Securities in such Client Account.

The CDS account statement will be forwarded to the Account Holder directly by the CDS. Where the Client Account is maintained through a Custodian Bank, the statement will be forwarded to the Account Holder through the relevant Custodian Bank, through whom the Client Account is maintained on behalf of the CDS.

The CDS account statements may be sent in electronic form to an email address provided by the Account Holder through the relevant Participant. The Participants shall ensure that the email addresses provided to the CDS have been obtained from the relevant CDS Account Holders.

In the event an Account Holder requests in writing through the relevant Participant, the CDS shall forward the CDS statements in printed form to such Account Holder.

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

- a) The CDS shall forward to the Account Holder a monthly statement if such account was active during a particular month (monthly statement).
- b) The CDS shall forward to the Account Holder a quarterly statement if such account was active during the preceding three months (quarterly statement).

For the purposes of rule (a) and (b) above, an 'Active account' shall be an account with at least one transaction (purchase / sale / deposit / withdrawal / transfer) during the period/s referred to above.

- c) The CDS shall forward a statement annually as at 31st March to inactive account holders (accounts with no transactions for a period of 12 months) having credit balances.

11.2 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 that the Participant does not furnish an alternate address to the CDS as set out herein within two 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).

11.3 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 12

RULES GOVERNING THE INTER PARTICIPANT SETTLEMENT FAILURE

12.1 Settlement Failure of a Stockbroker Participant

The CDS shall adopt the following procedure with regard to a Settlement Failure of a Stockbroker Participant:

- i. In the event of a Settlement Failure by a Stockbroker Participant, such Participant shall be immediately suspended from making further purchases on behalf of its clients.
- ii. The CDS shall publish a notice in English, Sinhala and Tamil in a newspaper circulating in Sri Lanka of the Settlement Failure of the Stockbroker Participant.
- iii. The Stockbroker Participant in default may be permitted to continue to carry out sale of Securities on behalf of its clients until the 15th Market Day from the date of such suspension.
- iv. If the Stockbroker Participant fails to meet all outstanding settlement obligations by the expiry of the 15th Market Day from the date of suspension from carrying out purchases, such Participant will also be suspended from carrying out sales on behalf of its clients, with effect from the expiry of 15 Market Days as aforesaid.
- v. Notwithstanding the suspensions referred to herein, the Stockbroker Participant in default shall continue to honour its obligations with regard to fund settlement to other Participants.
- vi. The Stockbroker Participant in default shall ensure that all sales proceeds received by such Participant shall be used to make payments to the respective sellers.
- vii. Account Holders who hold Securities with a Stockbroker Participant in default may change from such Participant in default to any other Participant of their choice. The Account Holders may do so only after the settlement of any outstanding obligations. Change of Participant in CDS will be carried out in terms of Rule 9.1 of the Rules.
- viii. The Stockbroker Participant in default may obtain funding from the Settlement Guarantee Fund (SGF) to meet settlement obligations, subject to the conditions stipulated by the SGF.

12.2 Settlement Failure of a Custodian Bank

The CDS shall adopt the following procedure with regard to a Settlement Failure of a Custodian Bank:

- a) In the event of a Settlement Failure of a Custodian Participant, such Participant will be immediately suspended from carrying out any CDS functions.
- b) The CDS shall publish a notice in English, Sinhala and Tamil in a newspaper circulating in Sri Lanka of the Settlement Failure of the Custodian Bank.
- c) Notwithstanding the suspension referred to herein, the Custodian Bank shall continue to honour its obligations with regard to fund settlement to other Participants.
- d) Account Holders who hold Securities with a Custodian Bank in default may change from Custodian Bank in default to any other Participant of their choice. The Account Holders may do so only after the settlement of any outstanding obligations. Change of Participant in CDS will be carried out in terms of Rule 9.1 of the Rules.

SECTION 13

GENERAL

13.1 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 6 of these Rules.

13.2 Action by the CDS

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

13.3 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;

- (i) any member of the Board of Directors of CDS, or any member of any committee established by any such Board'
- (ii) any officer assigned to carry out functions of the CDS, and
- (iii) any agent of, or any person acting under the direction of the CDS,

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

13.4 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.

13.5 Amendments to these Rules

Subject to the approval of the SEC, the CDS may, from time to time, amend the provisions of these Rules. Such amendments may be made with immediate effect or otherwise, as the CDS shall determine. The CDS shall notify the Participants, in writing of such amendments.

13.6 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.

13.7 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.

13.8 Admission to Premises of CDS

No person shall be permitted to enter the premises of CDS without the prior written approval of the Manager or in his absence the officer designated to act for him.

SECTION 14

FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY OF PARTICIPANTS

- 14.1** 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.
- 14.2** 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.
- 14.3** The Board of Directors of 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.
- 14.4** 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 Board of Directors.

SECTION 15

RESTRICTIONS ON ACCESS TO SERVICES

The Board of Directors of CDS or such committee as the Board may designate may suspend a participant or prohibit or limit such Participant with respect to access to services offered by CDS in the event that;

- a) Such Participant has been and is expelled or suspended from any regulatory or self-regulatory organization, or
- b) Such Participant is in default of any delivery of funds or securities to CDS,
- c) Such Participant is in such financial or operating difficulty, as CDS determines, in its discretion that such actions are deemed to be necessary for the protection of CDS, Participants, creditors, or investors.

SECTION 16

16.1 DISCIPLINARY PROCEEDINGS

- a) CDS may discipline any Participant for a violation of any provision of the Rules or the Procedures of CDS, such Participant's agreements with CDS, or for any error, delay or other conduct detrimental to the operations of CDS, or for not providing adequate facilities for such Participant's, business with CDS, by expulsion, suspension, limitation of or restriction of activities, functions and operations, fine or censure of any other action that may be deemed to be necessary, provided, however, that the fine for any single offence shall not exceed the sum of Rupees 5,000,000/=.
- b) Before imposing any disciplinary sanction on a Participant pursuant to this Rule, CDS shall notify such Participant of the charges against such Participant and its right to a hearing. If the Participant is aggrieved by such decision he shall have the right of appeal to the Securities and Exchange Commission of Sri Lanka under section 46 of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 as amended with in fourteen days being informed of the said decision.

16.2 FINES FOR VIOLATION OR NON-COMPLIANCE OF RULES

CDS may impose fines for violation or non-compliance of these Rules by the Listed Entities. The amount of such fines may be determined by the Board of Directors of the CDS from time to time.

SECTION 17

RULES ON THE PROCEDURE TO BE FOLLOWED CONSEQUENT TO A DIRECTION RECEIVED BY CSE FROM SEC IN TERMS OF SECTION 23 OF THE SEC ACT, AS AMENDED

- 17.1** If the CSE is directed by the SEC, in terms of Section 23 of the SEC Act No.36 of 1987, as amended, 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.
- 17.2** The CDS will publish a notice in the *newspapers in all 3 languages informing the settlement failure of the Stockbroker/Stock Dealer Participant, the direction issued by the SEC and the action that should be taken by Account Holders who maintain their Securities in CDS through such Stockbroker/Stock Dealer Participant.*
- 17.3** The Account Holders who hold Securities with 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 30 Market Days of the publication of the notice referred to in Rule 2 above, provided that there are no encumbrances and outstanding payments to the Stockbroker/Stock Dealer Participant on the Securities concerned.
- 17.4** In the case of Securities purchased where settlement is due or where there are encumbrances, 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.
- 17.5** The CDS would provide details of Securities not transferred by Account Holders within 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 7 Market Days as to whether such Securities 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 7 Market Days after such request, it will be presumed that the Securities can be transferred and that there are no encumbrances attached to such Securities, subject however to any restrictions imposed by an order of Court.
- 17.6** Based on the information provided by the Stockbroker Participant/Stock Dealer Participant, the CDS may take one of the following steps with regard to the Securities that are not encumbered, as declared by the Stockbroker/Stock Dealer Participant or deemed not encumbered in terms of Rule 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 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 Accounts are to be distributed amongst the Participants who have expressed interest.
- (ii) If no Participant has expressed interest in taking over the Securities Accounts of the Stockbroker/Stock Dealer Participant in default the CDS shall;
 - (a) suspend such accounts or
 - (b) make arrangements with the relevant Listed Companies 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.

17.7 Securities that are encumbered, as declared by the Stockbroker/Stock Dealer Participant in terms of Rule 5 shall be suspended by the CDS.

17.8 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.

17.9 Securities remaining suspended subsequent to the application of the above procedure may be transferred to any other party with the approval of the SEC.

SECTION 18

RULES PERTAINING TO DEBT SECURITIES

18.1 Definitions

Corporate Debt Securities

means debt securities issued by an Entity

Debt Securities

means Government Securities and Corporate Debt Securities.

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).

18.2 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.

18.3 Settlement of Debt Securities

Pursuant to a trade carried out through the Automated Trading System of 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.

18.4 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 buyer shall ensure that 'Cleared Funds' are made available to the buying Stockbroker Participant/Custodian Bank by 09.00 hours on the Settlement Date, for the purchase of Securities..
- (e) 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.
- (f) 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.

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

18.5 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 Board of Directors 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.

18.6 Provision of Collateral to the CDS

- (a) In the event a margin requirement is applicable as set out in Rule 18.5 (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 18.5 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, and/or
 - 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 18.6 (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 Board of Directors from time to time.

- (f) In the event a Participant fails to provide the requisite collateral to meet its margin requirement, trading on Debt Securities by such Participant shall be suspended.

18.7 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. .

18.8 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.

18.9 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. .

18.10 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.