

## **SECTION 9**

### **CLEARING AND SETTLEMENT OF CCP SETTLED TRADES**

***For the avoidance of doubt, this Section 9 shall only apply to CCP Settled Trades and the reference to the term “Securities” in this section of the Rules shall only be a reference to Securities of CCP Settled Trades.***

#### **PART I: MARGIN REQUIREMENTS AND MARKET COLLATERAL**

##### **9.1 Margin Requirements**

- (i) The Clearing House shall impose the margin requirements set out in this Section on all Clearing Members of the Clearing House in respect of all CCP Settled Trades carried out on each Trade Day, other than the following:***
  - (a) A Market Contract for sale of Securities which does not result in a Short Position; and***
  - (b) A Market Contract carried out on the Buy-in Board of the CSE.***
- (ii)** The total margin requirement applicable for each Clearing Member shall comprise of the following:
  - (a)** Base margin requirement; and
  - (b)** Additional margin requirements (where applicable).

##### **9.1.1 Base Margin Requirement**

- (i)** Each Clearing Member shall at all times maintain collateral to satisfy the base margin requirement determined by the Clearing House from time to time as morefully set out in Rule 9.2. The base margin requirement shall be computed based on the average daily purchase turnover of all Trades settled by the Clearing Member ]
- (ii)** The base margin requirement applicable to each Clearing Member shall be reviewed by the Clearing House on a quarterly basis on the first (1<sup>st</sup>) Market Day of each calendar quarter, based on the average daily purchase turnover of all Trades settled by such Clearing Member in the preceding calendar quarter. Any increase or decrease in the base margin requirement applicable to a Clearing Member shall be notified, in writing, to such Clearing Member by the Clearing House.
- (iii)** If there is an increase in the base margin requirement applicable to a Clearing Member, such Clearing Member shall comply with such increased margin requirement in accordance with Rule 9.2.
- (iv)** If there is a decrease in the base margin requirement applicable to a Clearing Member, the excess collateral maintained by such Clearing Member with the Clearing House shall be refunded to the Clearing Member in accordance with Rule 9.2.

### 9.1.2 Additional Margin Requirements

- (i) If the base margin requirement set out in Rule 9.1.1 is insufficient to satisfy the total margin requirement of such Clearing Member in respect of Trades carried out on a particular Trade Day, the Clearing House shall impose additional margin requirements on Clearing Members as set out in Rule 9.1.2.
- (ii) The additional margin requirements shall comprise of the:
  - (a) Initial margin requirement; and,
  - (b) Variation margin requirement;

which shall be computed based on the methodology determined by the Clearing House from time to time and notified to the Clearing Members.
- (iii) The additional margin requirement (if any) shall be communicated to the relevant Clearing Members by the Clearing House at the end of each Trade Day (T).
- (iv) The Clearing Member shall take necessary steps to comply with such additional margin requirement in accordance with Rule 9.2.

## 9.2 Market Collateral

### 9.2.1. General

- (i) Clearing Members shall, at all times, ensure compliance with the margin requirements set out in Rule 9.1 by maintaining sufficient collateral with the Clearing House in accordance with this Rule 9.2.
- (ii) Clearing Members may obtain collateral from the relevant Client/s of the Clearing Members, to the extent of the margin requirements arising from the Trades carried out by such Clients, in satisfying the total margin requirements applicable to such Clearing Member.

### 9.2.2 Form of Collateral

- (i) Clearing Members shall furnish collateral to the Clearing House in the form of cash and/or an irrevocable and unconditional bank ***guarantee in favour of the Clearing House*** obtained from a commercial bank licensed by the CBSL, acceptable to the Clearing House.
- (ii) The Clearing House may, from time to time, by written notification issued to Clearing Members, permit Clearing Members to provide margin in the form of

Government Securities and listed shares in such ratio and percentage as may be determined by the Clearing House.

- (iii) The collateral for the base margin requirement stipulated in Rule 9.1.1 shall be furnished only in the form of cash and/or an irrevocable and unconditional bank guarantee.
- (iv) At least fifty per centum (50%) of the collateral to be provided to satisfy the additional margin requirement stipulated in Rule 9.1.2 shall be in the form of cash or an irrevocable and unconditional bank guarantee. The collateral furnished in the form of Government Securities and/or listed shares, if and when permitted by the Clearing House, shall be limited to and not be more than fifty per centum (50%) in value of the collateral provided to satisfy the additional margin requirements.
- (v) The value of any Government Securities and listed shares provided as collateral in terms of Rule 9.2.2 (iii) above shall also be marked to market and be adjusted daily to reflect the marked to market value of such securities so as to ascertain the value of the margin provided by the Clearing Member.

### **9.2.3 Manner of Furnishing Collateral**

- (i) Subject to Rule 9.2.3 (iii), Clearing Members shall furnish the required collateral to the Clearing House in fulfilment of margin requirements set out in Rule 9.1 in the following manner:
  - (a) The base margin requirement shall be initially fulfilled by the Clearing Member by furnishing the collateral by 14:30 hours on the second (2<sup>nd</sup>) Market Day immediately following the date of notification by the Clearing House requesting for the furnishing of such collateral.
  - (b) In respect of any increase to the base margin requirement, the Clearing Member shall furnish the collateral by 14:30 hours on the second (2<sup>nd</sup>) Market Day immediately following the date of notification by the Clearing House of the increase to the base margin requirement.
  - (c) In respect of any additional margin requirement, the Clearing Member shall furnish the collateral by 9:30 hours on the Market Day immediately following the date of notification by the Clearing House of the additional margin requirement.
- (ii) Any cash collateral furnished by a Clearing Member in fulfilment of margin requirements set out in these Rules shall be deposited into an account maintained by the Clearing House in a settlement bank for the specific purpose of margin utilization.
- (iii) The manner in which a Clearing Member may provide Government Securities and listed shares as collateral to the Clearing House shall be specified in the

written notification to be issued by the Clearing House to Clearing Members in terms of Rule 9.2.2(ii) above.

- (iv) In the event of Custodian Trades, the required collateral shall be furnished to the Clearing House in the manner set out below:
  - (a) in the event of Trades affirmed by ***the relevant Custodian Bank Clearing Member, such Custodian Bank*** Clearing Member shall furnish the collateral to the Clearing House by 9.30 hours on T+2.
  - (b) ***In the event of a rejection of a buy Trade by the relevant Custodian Bank Clearing Member in terms of Rule 9.4.3, the required collateral shall be furnished to the Clearing House by the Stock Broker Clearing Member which carried out the buy Trade in the capacity of a Trading Participant, provided however that in the event the Stock Broker Clearing Member which carried out the buy Trade is a Limited Clearing Member Client which has engaged the services of a Professional Clearing Member, then the collateral shall be furnished by such Professional Clearing Member. The required collateral referred to in this Rule 9.2.3 (iv)(b) shall be furnished to the Clearing House by 9.30 hours on T+2.***

#### **9.2.4 Requirement to Replenish Collateral**

If the Clearing House utilizes, in full or in part, any collateral furnished by a Clearing Member for a settlement failure, such Clearing Member shall replenish the collateral utilized by the Clearing House forthwith, upon same being notified to the Clearing Member by the Clearing House.

#### **9.2.5 Returning of Excess Collateral and Interest**

- (i) Any cash collateral furnished by a Clearing Member in respect of a Trade, to the extent not utilized for the purpose of settling all payment obligations of the Clearing Member and/or its client in respect of such Trade (excess cash collateral), shall be returned by the Clearing House upon a written request being made by the Clearing Member, provided however that if the Clearing Member has not provided adequate collateral in respect of its other Trades, the Clearing House may retain, from such excess cash collateral, any amount as is necessary for the fulfilment of the outstanding margin requirement of the Clearing Member.
- (ii) Any interest accruing on excess cash collateral shall also be paid to the Clearing Member with the return of the collateral, upon deducting an administration fee by

the Clearing House which shall be determined by the Clearing House from time to time.

- (iii) Any Government Securities and/or listed shares provided by a Clearing Member as collateral in respect of a Trade, to the extent not utilized for the purpose of settling all payment obligations of the Clearing Member and/or its Client in respect of such Trade, shall be returned or otherwise made available to the Clearing Member in the manner specified in the written notification to be issued by the Clearing House to Clearing Members in terms of Rule 9.2.2(ii) above.

#### **9.2.6 Rights of the Clearing House in relation to the Collateral Deposited with the Clearing House**

- (i) The Clearing House shall have a first and paramount lien and charge over the collateral deposited with or otherwise furnished to the Clearing House by a Clearing Member for the due settlement of the following payment obligations of the Clearing Member under these Rules;
  - (a) any sums due and payable by such Clearing Member and/or the Clients of the Clearing Member under and in respect of any Trade, including compensation for settlement failures; and/or
  - (b) any and all sums payable by such Clearing Member to the Clearing House, CDS, CSE and SEC including fees, commissions, charges and/or dues payable by such Clearing Member.
- (ii) The Clearing House shall be entitled to use such collateral deposited or otherwise furnished by a Clearing Member to defray the payments identified in Rule 9.2.6 (i).

#### **9.3 Non-Compliance with Rules 9.1 and 9.2**

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House in accordance with Rules 9.1 and 9.2, the Clearing House shall initiate the following action against such Clearing Member:

- (i) Imposition of fines
  - (a) The Clearing House shall impose fines as set out below:

| <b>Instance of Non-Compliance</b>                                                                                        | <b>Fine (Rs.)</b>                                                                          |
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| On the first (1 <sup>st</sup> ) occurrence                                                                               | The Clearing House shall charge a fine of Rupees One Hundred Thousand (Rs. 100,000/-).     |
| On the second (2 <sup>nd</sup> ) occurrence within one (1) year from the date of the first (1 <sup>st</sup> ) occurrence | The Clearing House shall charge a fine of Rupees Two Hundred Thousand (Rs. 200,000/-).     |
| On the third (3 <sup>rd</sup> ) occurrence, which is within                                                              | The Clearing House shall charge a fine of Rupees Five Hundred Thousand (Rs. 500,000/-) and |

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| one (1) year from the date of the first (1 <sup>st</sup> ) occurrence | prohibit the Clearing Member from carrying out settlement of trades for three (3) Market Days. |
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- (b) The fines shall be charged from the Clearing Members based on a schedule issued by the Clearing House as at end of the applicable month. The Clearing Member shall pay the relevant amount as indicated in the schedule to the Clearing House within Two (2) Market Days from the date of the issue of such schedule.
  - (c) Additionally, the Clearing House shall notify the CSE and the CDS regarding the enforcement action initiated against the Clearing Member in terms of Rule 9.3(i)(a) above, referring to the non-compliance and the enforcement action taken by the Clearing House against the Clearing Member for such non-compliance.
- (ii) Commencement of Disciplinary Proceedings

If a Clearing Member fails to comply with the margin requirements imposed by the Clearing House 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 Clearing House shall, in addition to the fines stipulated in Rule 9.4(i)(a), commence disciplinary proceedings against such Clearing Member in terms of Section 4 of these Rules.

## PART II: SETTLEMENT OF CCP CLEARED TRADES

The integrity and stability of the Securities market is dependent on the due settlement of all Market Contracts executed on the Securities Market. Defaults in settlement of Market Contracts will result in loss of public trust and confidence in the credibility of the market. Accordingly, a Clearing Member has the obligation and responsibility to ensure that each Market Contract is duly settled on the Settlement Date. This fundamental premise with regard to settlement of Market Contracts will accordingly form the basis for the provisions of Sections 9.4 and 10.

### 9.4 Settlement of Funds and Securities

#### 9.4.1 Settlement of Funds

- (i) The settlement of funds for Trades shall take place by 10.30 hours on the Settlement Date, i.e. second (2<sup>nd</sup>) Market Day after the Trade Day (T+2), through the appointed settlement bank/s as per the Settlement Schedules issued by the Clearing House. ***The Clearing Member shall be obliged to instruct the settlement bank/s to execute the payment order as per the relevant Settlement Schedules.***

Provided however that, in respect of Securities traded on the Buy-in Board of the CSE, the settlement of funds shall take place by 10.30 hours on the first (1<sup>st</sup>) Market Day after the Trade day ("Buy-In Board Settlement Date").

- (ii) A Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Settlement Date to settle payment obligations arising out of Trades to be cleared and settled by such Clearing Member based on the Settlement Schedule issued by the Clearing House.

Provided however, in respect of Securities traded on the Buy-in Board of the CSE, the relevant Clearing Member shall ensure that sufficient Cleared Funds are available in the settlement bank account by 09.30 hours on the Buy-In Board Settlement Date to settle payment obligations arising out of the said Trades on the Buy-in Board to be cleared and settled by such Clearing Member.

- (iv) The Clearing House shall debit or credit itself and the Clearing Members with the amounts payable and receivable in accordance with these Rules ***by making an order to its settlement bank/s. An order by the Clearing House to debit or credit itself and the Clearing Members shall be final and irrevocable at the time when the settlement bank/s confirms that such payment will be made.***

- (v) Selling Clearing Member :

- (a) shall ensure that Cleared Funds are made available to its Client or as directed by its Client in writing on the Settlement Date of the Trade, unless the Client has requested the Clearing Member, in writing, to retain the sale proceeds.

- (b) can make settlements to or as directed by the Client either by cheques or electronic fund transfers to the Client's bank account. If payment is made to the Client or as directed by the Client by way of cheques they shall be duly crossed as 'Account Payee'. If the Client requests that the crossing be cancelled, the Clearing Member shall obtain a written request from the Client and such request must be authorized by the Chief Executive Officer of such Clearing Member.

No cash cheques shall be issued to Clients or any other person as per the Client's directive as aforesaid.

#### **9.4.2 Settlement of Securities**

- (i) The selling Clearing Member shall ensure that a Market Contract for a Short Sale Transaction executed in terms of section 16 of the Trading Rules of the CSE does not result in a Short Position as at the end of the Trade Day on which such Market Contract is executed.
- (ii) The selling Clearing Member in respect of a Trade is obligated to ensure that the required number of Securities are made available in the Client Account of the seller by [14.00] hours on T+1 for delivery of such Securities to the Client Account of the buyer on the Settlement Date.

- (iii) *In the event the selling Clearing Member fails to discharge its obligation under Rule 9.4.2(ii) above and there is a shortfall in the required number of Securities in the seller's Client Account to fully settle the Trade by [14:00] hours on T+1, the Clearing House shall make a buy order on the Buy-In Board of the CSE on T+1 on behalf of the selling Clearing Member with a view to purchasing the required number of Securities to cover the shortfall and any Securities purchased by the Clearing House on behalf of the selling Clearing Member pursuant to such buy order shall be credited to the seller's Client Account by 15:00 hours on T+1.*
- (iv) *The settlement of Securities by delivery thereof, pursuant to a Trade, shall take place on the Settlement Date, only upon the receipt of confirmation of the settlement of funds from the appointed settlement bank. Upon the receipt of such confirmation, the Clearing House shall provide instructions to the CDS, to transfer the Securities from the Client Account of the seller to the Client Account of the buyer, which instructions to a Clearing Member shall be final, and irrevocable when the instructions are dispatched by the Clearing House.*

#### **9.4.3 Trade Affirmations/Rejections in respect of Custodian Trades**

- (i) Subject to Rule 9.4.3 (iii), Custodian Trades shall be affirmed or rejected by the Custodian Bank Clearing Member in respect of such Custodian Trade by 13.30 hours on T+1, in the format prescribed by the Clearing House from time to time. Provided however, that such affirmation or rejection of a Trade shall not be applicable in respect of Trades carried out on the Buy-In Board of the CSE.
- (ii) If the relevant Custodian Bank Clearing Member fails to affirm a Custodian Trade carried out by a Trading Participant prior to the stipulated time period referred to in this Rule for any reason whatsoever, such failure to affirm shall be considered as a rejection of the Trade by the Custodian Bank Clearing Member.
- (iii) In the event of a rejection of a Custodian Trade by the relevant Custodian Bank Clearing Member, the Clearing House shall issue a revised Settlement Schedule by T+1 and substitute the said Clearing Member (i) with the ***Stock Broker Clearing Member which carried out the buy Trade in the capacity of a Trading Participant or (ii) if the Stock Broker Clearing Member which carried out the buy Trade is a Limited Clearing Member Client which has engaged the services of a Professional Clearing Member, with such Professional Clearing Member,*** for the purpose of settlement of the Custodian Trade concerned on the Settlement Date.

#### **9.4.4 Additional Rules governing Clearing and Settlement of CCP Settled Trades relating to Securities traded using The AON Block Facility on the CSE**

- (i) The Clearing Members shall be responsible for the settlement of funds in relation to a Trade carried out using the AON Block facility of the CSE ("AON Market Contract") in terms of these Rules.
- (ii) If the AON Block is purchased by a consortium of investors operating through a Special Client Account in the CDS, the settlement obligations for the AON

Market Contract shall be borne by the Clearing Member which is also the Depository Participant through whom the Special Client Account was opened.

- (iii) The Clearing Member shall instruct its Client/s in respect of an AON Market Contract for the purchase of an AON Block into a Special Client Account, to ensure that Cleared Funds are made available in accordance with Part II of Section 9 of these Rules to settle the relevant AON Market Contract on the Settlement Date.
- (iv) If the AON Market Contract relates to a sale of Securities and such Securities are held by the Government of Sri Lanka through multiple entities/agencies using the AON Block facility, the Clearing Member which is also the Depository Participant, through whom the Special Client Account was opened in terms of the CDS Rules, shall ensure that sales proceeds are transferred to the respective entities/agencies on the Settlement Date.
- (v) The Clearing House, in consultation with the SEC, may waive the application of any of the Rules set out in this Rule 9.4.4 and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.

#### **9.4.5 Settlement Failure**

The Rules set out in Section 10 of these Rules shall be applicable to a settlement failure in contravention of these Rules.