

## **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.