

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.