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25th January 2018

**To: Chief Executive Officers
Member Firms/Trading Members**

CIRCULAR NO: 09 - 01 - 2018

Dear Sir/Madam,

RULES ON ALL OR NONE (AON) BLOCKS

By way of letter dated 24th January 2018, the Securities and Exchange Commission of Sri Lanka (SEC) has approved the Automated Trading System (ATS) Rules of the CSE relating to the trading of All or None (AON) Blocks and the related amendments to the CDS Rules. The ATS Rules pertaining to AON Blocks and the amendments to CDS Rules have been uploaded to the CSE website (www.cse.lk).

A copy of the relevant CSE and CDS Rules are attached.

The Trading of AON Blocks on the ATS will be effective from **12th February 2018**.

Yours faithfully,



**Renuke Wijayawardhane
Chief Regulatory Officer**

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7. ALL OR NONE (AON) BLOCKS

- 7.1 An AON block may be entered by a Stockbroker for a specific security on the ATS. The minimum number of securities required for an AON block shall be atleast 10% of the number of securities issued.
- 7.2 Once an AON block has been introduced for a specific security, Blocks containing any other quantities in respect of the same security shall not be accepted until the AON Block introduced first is concluded for that security.
- 7.3 A Stockbroker who wishes to place the first order (Initial Order) for an AON Block shall, prior to placing such Initial Order, inform the following, in writing, to the CSE:
- Security
 - Whether the transaction is a buy or sell
 - Name and CDS Account Number of the buyer or seller (in the event it is a consortium, the names and CDS Account Numbers of the members of that consortium – such consortium not exceeding 10 members)
 - Number of Securities
 - Maximum purchase price (for buy orders) or minimum sell price (for sell orders)
 - The date on which the order will be placed and the expected AON Auction Execution date

The Initial Order placed by the Stock Broker for the AON Block shall comply with the information set out in Rule 7.3.

- 7.4 Upon receipt of information set out in Rule 7.3 above, and the entry of the Initial Order on the ATS for the AON Block by the relevant Stock Broker, the CSE shall make an announcement regarding the AON Block. Such announcement shall contain the information set out in Rule 7.3 above. The name of the Stock Broker and the name and CDS Account Number of the buyer/seller shall not be announced by the CSE.
- 7.5 A Stock Broker who wishes to place either an Initial Order or a contra order shall ensure that prior written authority has been obtained from the buyer, seller, or authorized representative thereof. The Stockbroker shall be responsible to demonstrate the due discharge of this obligation in the event it is requested to do so by the CSE.
- 7.6 In instances where the Government of Sri Lanka holds shares of a Listed Entity through multiple entities/agencies and wishes to submit a single sell order as a consortium using the AON Block facility on the ATS through a Stock Broker, the shares held by such entities/agencies in their respective CDS Accounts shall first be credited to a Special CDS Account opened by a Stock Broker or Custodian Bank for this purpose.

Prior to such credit, the Stock Broker or Custodian Bank for the consortium of sellers shall obtain a declaration in writing signed by the authorized signatories of such entities/agencies, stating that due authority has been obtained from such entities/agencies of the consortium for the credit of securities to a Special CDS Account to facilitate the sell order.

The Initial order shall be placed by the Stock Broker for the consortium using the said CDS Account.

The facility to sell shares as a consortium shall only be made available to entities/agencies owned by the Government of Sri Lanka.

7.7

(A) A Stock Broker who submits a contra bid (in response to an initial order) on behalf of a consortium of investors using a Special CDS Account opened to facilitate the purchase of an AON Block, shall provide to the CSE the following information prior to placing such bid on the ATS:

- Name and CDS Account Numbers of the members of the consortium (the consortium shall not exceed ten (10) investors)
- Number of securities to be transferred to the CDS Accounts of each member of the consortium upon the execution of the AON Block
- A written and signed declaration obtained from each member of the consortium to the effect that due authority/instructions have been obtained from each member to place a contra bid/ask for the AON Block to execute the transaction.

(B) Upon the execution of the AON Block, if the successful bidder is a consortium of investors using a Special CDS Account opened for this purpose, the CSE shall instruct the CDS to transfer the securities from the Special CDS Account to the respective investors' CDS Accounts in accordance with the information given in (A) above.

(C) The information submitted by the Stock Broker to the CSE as set out in (A) above shall not be changed subsequent to the execution of the AON Block.

7.8 All orders subsequent to the Initial Order for the AON Block shall be for the contra side of such Initial Order placed at a price equal to or better than that of the Initial Order.

For the purpose of clarity,

If the initial order is on the buy side placed at a price of Rs. 100, contra orders (sell orders) shall be placed at a price equal to or less than Rs. 100; and

If the initial order is on the sell side placed at a price of Rs. 50, contra order (buy order) shall be placed at a price equal to or more than Rs. 50.

The order on the contra side of the Initial Order may be replaced by a better priced contra order.

7.9 In the event the Initial Order has been placed by a Stockbroker for the sale of a stake owned by the Government, the placement of contra side buy orders for such parcel may be restricted to the Stockbroker/s who would place bids (contra side buy orders) on behalf of the investor/s who have been short-listed/authorized to bid for such parcel by the Government.

7.10 Upon the execution of an AON Block, the shares shall be transferred to the Locked Balance of the Buyer's/ Buyers' Account in the CDS on trade day (T), pending settlement of the trade. Such shares shall be transferred from the Buyer's/Buyers' Locked Balance to such Buyer's/Buyers' Trading Balance subsequent to the settlement of the transaction on T+3.

In the event the CDS, in consultation with the CSE, deems settlement to have failed, it shall transfer the shares from the Buyer's/Buyers' Locked Balance to the Sellers/ Sellers' Account in the CDS, subject to SEC approval.

7.11 The duration of the AON Auction shall be three (3) market days including the day on which the Initial Order for the AON Block was placed by the Stock Broker. The duration may be extended by up to one (1) additional market day if the CSE deems necessary.

7.12 Trading Sessions

(A) Order Entry

- (i) The Order Entry Session is the session during which orders are submitted to the AON Auction order book.
- (ii) A Stock Broker interested in the AON block shall submit a contra bid/offer (as applicable) prior to 12:00 hours on the day that the AON auction is scheduled to be concluded. Stock Brokers who have not submitted orders for the AON Block prior to the specified time shall not be permitted to submit bids/offers (as applicable) for the AON block thereafter.
- (iii) Any Stock Broker who has placed contra orders during the AON Auction may request the CSE to extend the Order Entry Session, up to a further 30 minutes. This request must be made to the CSE in writing prior to 13:00 hours on the day that the AON Auction is scheduled to be concluded.

(B) AON Auction Execution

- (i) The AON Auction Execution will be carried out at the close of market on the day that the AON Auction is concluded, unless the duration of the AON Auction or Order Entry Session is extended as per Rule 7.11 or 7.12 (as applicable)
- (ii) The AON Auction Execution will take place if the order book contains both buy and sell orders. In such an instance, the execution price shall be the best price of the order on the contra side of the Initial Order as determined in Rule 7.8.
- (iii) The execution will be reported on ATS.

9 If the order book contains only the Initial Order at the time of conclusion of the AON Auction, the AON block will be cancelled due to the absence of contra side interest.

7.13 Amendments

AON orders or trades shall not be cancelled or amended by Stock Brokers other than as provided for in Rule 7.8.

7.14 Statistics

AON trades shall be used to update only the turnover, number of trades, and the number of securities traded. Orders and trades on the AON order book shall not be used to update the Opening/Closing Price or Reference Price used for circuit breakers.

7.15 Visibility

Only the best bid and offer of the AON order book shall be visible to the market.

7.16 Waiver of Rules and/or Introduction of Additional Conditions

The CSE in consultation with the SEC may waive the application of any of these Rules and/or introduce additional conditions to facilitate the sale of a Government's stake through an AON Block.

1. **ADDITIONAL RULES FOR THE CLEARING AND SETTLEMENT OF TRADES CARRIED OUT AS ALL OR NONE (AON) BLOCKS ON THE AUTOMATED TRADING SYSTEM OF THE CSE (ATS)**

Amendments proposed under Section 19 of the CDS Rules as set out below, taking cognizance of the recommendations of the SEC, regarding the Clearing and Settlement of trades carried out as AON blocks on the ATS of the CSE:

AMENDED SECTION 19:

***Additional Rules for the Clearing and Settlement of Trades carried out as All or None (AON) Blocks on the Automated Trading System of the CSE (ATS)**

19.1 Transfer of Shares to the Buyer's/Buyers' Account Subsequent to the Execution of an AON Block

1. Upon the execution of an AON Block, the shares shall be transferred to the Locked Balance of the Buyer's/Buyers' Account in the CDS on the trade day (T), pending settlement of the trade. Such shares shall be transferred from the Buyer's/Buyers' Locked Balance to such Buyer's/Buyers' Trading Balance subsequent to the settlement of the transaction on T+3.
2. In the event the CDS, in consultation with the CSE, deems settlement to have failed, it shall transfer the shares from the Buyer's/Buyers' Locked Balance to the Seller's/Sellers' Account in the CDS, subject to SEC approval.

19.2 Designated Account for Trades carried out by a Consortium of Investors

A *Participant* shall open a Special CDS Account to be used for the purpose of carrying out AON transactions by a consortium of investors *and* such consortium shall not exceed ten (10) investors.

In the event such Special CDS Account is opened through a Custodian Bank, at the time of opening the Special CDS Account, such Custodian Bank shall provide an Undertaking to the CDS, in the format prescribed by the CDS from time to time, that it would honour all settlement obligations arising from such Special CDS Account.

- 19.3 The facility to sell shares as a consortium shall only be made available to entities/agencies owned by the Government of Sri Lanka. The facility to buy shares as a consortium shall be available to all investors.

19.4 Share Transfers pertaining to Trades Carried out by a Consortium of Investors using the AON Block Facility

1. In the event a consortium of investors places a buy order using a Special CDS Account opened through a *Participant* in relation to an AON Block as set out in the ATS Rules and the AON Block is purchased through such Special CDS Account, the CDS shall transfer such shares in terms of Rule 19.1 *above*.
2. In instances where the Government of Sri Lanka holds shares of a Listed Entity through multiple entities/agencies and wishes to submit a single sell order as a consortium using the AON Block facility on the ATS through a *Participant*, the shares held by such entities/agencies in their respective CDS Accounts shall first be credited to a Special CDS Account opened by the *Participant* for this purpose.

19.5 Facilitation of Settlement of Funds

1. Upon completion of the trades, the CDS shall issue to the Buyer's/Buyers' *Participant*, settlement schedules which include the trades carried out using the AON Block facility. Such *Participant* shall be responsible for the settlement of funds in terms of Section 6 of these Rules.
2. In the event the AON Block is purchased by a consortium of investors operating through a Special CDS Account, the settlement obligations for the AON transaction shall be borne by the *Participant* through which the Special CDS Account was opened. The *Participant* shall instruct the respective investors for whose benefit such Special CDS Account was used, to ensure that cleared funds are made available to settle the relevant transaction on the settlement date.
3. In the event a sell transaction is executed on account of securities held by the Government of Sri Lanka through multiple entities/agencies using the AON Block facility, the sales proceeds of such transaction shall be transferred to the relevant *Participant*, through whom the Special CDS Account was opened in terms of Rule 19.4.2 *above*. The relevant *Participant* shall ensure that sales proceeds are transferred to the respective entities/agencies on the settlement date.

19.6 Waiver of Rules and/or Introduction of Additional Conditions

The CDS, in consultation with the SEC, may waive the application of any of these Rules and/or introduce additional conditions to facilitate the sale of a Government stake through the AON Block facility.”

2. **AMENDMENT TO Rule 6.3 – TRADE AFFIRMATIONS/REJECTIONS BY CUSTODIAN BANKS**

It is proposed to amend Rule 6.3 of the CDS Rules as set out below, in order to exclude transactions executed as AON Blocks from the application of the said Rule:

Present Rule 6.3

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

Proposed Rule 6.3

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

Provided however, the aforesaid requirement imposed on a Custodian Bank to affirm or reject a trade by 14.30 hours on T+1 shall not be applicable in respect of trades carried out on the ATS of the CSE using the AON Block facility.”

3. **AMENDMENT TO RULE 6.4 – BUYER IN DEFAULT OF PAYMENT**

In the event of a settlement failure of a trade executed as an AON Block on the ATS of the CSE, such failure shall be governed in terms of Rule 19.1 (2) of the CDS Rules, which is set out above.

In this context, it is proposed to introduce the following paragraph at the commencement of Rule 6.4 of the CDS Rules, in order to exclude trades executed as AON Blocks from the application of the said Rule:

“This Rule 6.4 shall not be applicable in respect of trades executed as an AON Block on the ATS of the CSE.”

4. AMENDMENT TO RULE 10.1 – ENTITLEMENTS TO CLIENT ACCOUNTS

It is proposed to amend Rule 10.1 of the CDS Rules as set out below, in order to address the mechanism to be adopted in the event of a default by the Buyer/s in respect of a trade carried out on the ATS using the AON Block facility, where corporate entitlements accrue to the Buyer's/Buyers' CDS Accounts during the period from T to T+3:

Present Rule 10.1

- 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.

Proposed Rule 10.1

- "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.
- c) *In the event of a default by the Buyer/Buyers in respect of a trade carried out on the ATS of the CSE using the AON Block facility, the Listed Entity shall process the corporate entitlements accruing to the Buyer's/Buyers' Account/s in the CDS pursuant to such AON trade, as advised by the CDS."*