

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.