

SECTION 12

MINIMUM STANDARDS APPLICABLE TO A LIMITED CLEARING MEMBER

The minimum standards set out below shall be complied with by all Limited Clearing Members on an ongoing basis, upon admission in terms of these Rules.

12.1. Capital Requirements

12.1.1 (a) Minimum Capital Requirements applicable to Limited Clearing Members:

Limited Clearing Members shall maintain the minimum capital requirements as set out below:

- (i) If a Trading Participant of the CSE; a minimum liquid capital of Rs. 35 million and a minimum shareholders' equity of Rs. 100 million or [50% of the stated capital whichever is higher.*
- (ii) If a Custodian Bank; a minimum total shareholders' equity of Rs. 500 million .*

For the purposes of this Rule 12.1.1 (a);

'liquid capital' shall have the same meaning as defined in Annexure 2 of the Trading Participant Rules of the CSE.

'total shareholders' equity' shall be calculated in accordance with the applicable Sri Lanka Accounting Standard.

(b) Periodic Updates on the compliance with the capital requirements

Limited Clearing Members who are Trading Participants of the CSE shall submit to the Clearing House on a quarterly basis, together with the Quarterly Statements as required in terms of Rule 12.1.2 (i) (a), a written confirmation confirming that it is in compliance with the relevant capital requirements specified in Rule 12.1.1 (a) (i) above.

(c) Non-compliance with Rule 12.1.1 (a)

- (i) In the event a Limited Clearing Member fails to meet the capital requirements set out in Rules 12.1.1 (a) (as applicable), such Limited Clearing Member shall immediately notify the Clearing House, in writing, and take necessary steps to comply with the applicable minimum capital requirement/s within a period of thirty (30) calendar days from the date of non-compliance.*

(ii) *In the event a Clearing Member fails to meet the applicable capital requirement/s for a Limited Clearing Member within the period referred to in Rule 12.1.1 (c) (i) above, the Limited Clearing Member shall comply with the following requirements with regard to its Clients:*

(aa) *The Limited Clearing Member shall, on the date of expiration of the thirty (30) calendar day period referred to in Rule 12.1.1(c)(i) above, issue a written notice to all its Clients, with a copy to the Clearing House, notifying them of the non-compliance and providing such Clients of a period of up to thirty (30) calendar days from the date of such written notice to engage a Trading Participant or a Depository Participant that has an appropriate arrangement for the clearing and settlement of Trades ;*

(bb) *The Limited Clearing Member shall continue to and be obliged to clear and settle any Trades executed by such Limited Clearing Member on behalf of its Clients on or before the thirtieth (30th) calendar day from the from the date of such written notice.*

On the expiration of the said thirty (30) calendar day period referred to in items (aa) and (bb) above, if the Limited Clearing Member has not rectified the non- compliance, the Clearing House shall prohibit such Limited Clearing Member from carrying out the clearing functions through the Clearing House in relation to any Trades and a notice will be simultaneously published by the CSE Clear on its website setting out the non-compliance with applicable minimum capital requirements upon the Limited Clearing Member being informed of the same by CSE Clear.

(iii) *The prohibition imposed on the Limited Clearing Member shall be lifted upon such Limited Clearing Member meeting the applicable minimum capital requirement/s.*

(iv) *In the event the Limited Clearing Member fails to rectify the non-compliance within three (3) months from the date of prohibition referred to in Rule 12.1.1 (c) (ii) above, the Clearing House shall terminate the Limited Clearing Member status of such Clearing Member.*

(v) *The Clearing House shall publish a notice on its website stating the non-compliance with the applicable Rules and the enforcement action initiated by the Clearing House in respect of the Clearing Member concerned.*

(vi) *The Clearing House shall notify the CSE, CDS and the SEC regarding the enforcement action initiated against the Clearing Member.*

12.1.2 Financial Statements of Limited Clearing Members:

(i) *The Limited Clearing Members shall submit to the Clearing House, certified copies of the following:*

a) *quarterly financial statements of the Clearing Member within two (02) months from the end of the respective quarter, provided however that where the Clearing Member publishes its annual audited financial statements within*

three (03) months from the end of the financial year, such Clearing Member shall be exempt from publishing its quarterly financial statement for the fourth quarter of the respective year; and,

- b) *audited financial statements of the Clearing Member within five (05) months from the end of the financial year.***

Provided however, this Rule 12.1.2 (i) shall not be applicable to Clearing Members that have its Securities listed on the CSE and have published its financial statements in accordance with the Listing Rules of the CSE.

- (ii) *If the Limited Clearing Member fails to submit certified copies of such financial statements within the respective timelines set out in Rule 12.1.2 (i) above, the Clearing House shall impose a fine of Rupees Twenty-Five Thousand (Rs. 25,000/) for every month of delay from the expiry of the stipulated time period.***
- (iii) *Additionally, the Clearing House shall have the right to suspend the Limited Clearing Member status of a Clearing Member for continuous non-submission of quarterly/audited financial statements. In such event, the Clearing House shall notify the SEC, CSE and the CDS of such suspension.***

12.2 Systems and Operations of a Clearing Member

A *Limited Clearing Member* shall ensure that:

- (i) *its systems and connectivity to the Clearing and Settlement system and facilities operate properly at all times and have adequate redundancy and scalable capacity to accommodate current and anticipated settlement volumes; and***
- (ii) *it complies with the terms and conditions in any agreement with, and any other requirements imposed by, the Clearing House for accessing the Clearing or Settlement system and facilities or in relation to settlement under these Rules.***
- (iii) *its back office systems operate smoothly and properly at all times and have adequate redundancy and scalable capacity to accommodate all current depository functions and future enhancements; and***
- (iv) *it complies with the terms and conditions in any agreement with, and any other requirements imposed by the CSE Clear in relation to systems and operations required to support and facilitate depository functions to the extent stipulated in these Rules.***
- (v) *A Limited Clearing Member shall maintain complete and accurate records, which enable it to identify at all times, specific amounts of such monies and assets deposited with it by each client in connection with such clients' trades which are or are to be, cleared or settled through CSE Clear.***

- (vi) *Limited Clearing Members shall maintain sufficient, qualified and competent employees at all times to perform business operations in terms of these Rules and applicable requirements.*
- (vii) *A Limited Clearing Member shall ensure segregation of key functions of the Clearing Members to minimize and manage conflict of interests among these functions.*

12.3 Business Continuity Requirements

- 12.3.1 The Limited Clearing Members shall, at all times, have in place, review and maintain disaster recovery and business continuity arrangements that are adequate to ensure the timely recovery of its usual operations having regard to the nature and extent of the business carried on by that Clearing Member and any matters as may be specified by the Clearing House from time to time.
- 12.3.2 The Clearing House may, at any time, require a Limited Clearing Member to undertake testing of its disaster recovery and business continuity arrangements at such times and in such manner as may be specified by the Clearing House.
- 12.3.3 *A Limited Clearing Member shall, at all times maintain adequate back up procedures to ensure the integrity and recoverability of its records and locate its disaster recovery hardware and related facilities off site.*

12.4 Other Risk Management Requirements

- 12.4.1 The Limited Clearing Members shall be responsible for the monitoring and management of risk, including determination of the nature and extent of the significant risks which the Clearing Member can reasonably undertake.
- 12.4.2 The management of the Limited Clearing Member shall oversee the Clearing Member's risk management framework and policies and ensure that the management maintains a sound system of risk management and internal controls including but not limited to maintaining adequate staff and facilities for monitoring its cash flows and funding requirements and maintaining sufficient liquidity for its day-to-day operations.
- 12.4.3 The Limited Clearing Member shall, upon the request of the Clearing House, make available details which include the following;
 - (a) Information needed by the Clearing House to make an informed assessment of the Clearing Member's risk management and internal control systems;
 - (b) a description of the principal risks (including liquidity, financial, operational, compliance, information technology, legal, environmental, social or political risk categories) applicable to the Clearing Member and the manner in which such risks are being managed or mitigated;
 - (c) an explanation of the Clearing Member 's approach towards identifying, measuring and monitoring its key and emerging risks, and an elaboration of its approach towards the governance and management of these risks; and,

- (d) an explanation of the manner in which the management of the Clearing Member has assessed the prospects of the company, together with the period under consideration and the justification/s for selection of such time period.

12.5 Internal Audit Requirements

A Limited Clearing Member shall cause its internal auditors to conduct an internal audit of its operations annually or at such times and within such scope as prescribed by the Clearing House and to submit a report of each internal audit conducted and the follow-up actions taken to the Clearing House by such time as may be specified by the Clearing House.

12.6 Submission of Compliance Report

A Limited Clearing Member shall submit a compliance report annually to the Clearing House setting out in detail, the manner in which the Clearing Member has complied with or the steps taken by the Clearing Member to comply with these Rules.