

SECTION 16

STOCK BORROWING AND LENDING

DEFINITIONS

Borrower:	shall mean an Account Holder of the CDS, who has entered into an SBL Agreement with a Borrowing Clearing Member and pursuant thereto, enters into an SBL Transaction, to borrow Eligible Securities in accordance with these Rules.
Borrowed Securities:	shall, in respect of a particular SBL Transaction, mean the Eligible Securities borrowed under such SBL Transaction.
Borrowing Account:	shall, in respect of a particular SBL Transaction, mean the Client Account of the Borrower or the Designated Securities Account of the Borrowing Clearing Member, as the case may be, to which the Borrowed Securities shall be credited and from which the Settlement Securities shall be debited in settlement of such SBL Transaction.
Borrowing Clearing Member:	shall mean a Clearing Member of the Clearing House who wishes to or has entered into an SBL Transaction pursuant to having been authorised to do so under and in terms of an SBL Agreement with a Borrower in terms of these Rules.
Cleared Funds:	shall mean funds that are realized and available for drawing in the respective settlement bank.
Collateral Securities:	shall mean the securities eligible to be provided as collateral for the purposes of these Rules, as determined by the Clearing House and communicated to the Clearing Members from time to time.
Designated Securities Account:	shall mean the account opened and maintained with the CDS by a Borrowing Clearing Member or Lending Clearing Member for the specific purpose of facilitating pooled borrowing orders or pooled lending orders as identified in these Rules.
Eligible Security/Securities	shall have the meaning set out in Rule 16.2.
Income:	shall mean any interest, dividends or other distributions of any kind whatsoever that enures to or accrues with respect to any Borrowed Securities.

Lender:	shall mean an Account Holder of the CDS, who has entered into an SBL Agreement with a Lending Clearing Member and pursuant thereto enters into an SBL Transaction, to lend Eligible Securities in accordance with these Rules.
Lending Account:	shall, in respect of a particular SBL Transaction, mean the Client Account of the Lender or the Designated Securities Account of the Lending Clearing Member, as the case may be, from which the Borrowed Securities shall be debited and to which the Settlement Securities shall be credited in settlement of such SBL Transaction.
Lending Clearing Member:	shall mean a Clearing Member of the Clearing House who wishes to or has entered into an SBL Transaction having been authorized to do so under and in terms of an SBL Agreement with a Lender in terms of these Rules.
Lending Fee:	shall mean the fee payable by the Borrower to the Lender in respect of the SBL Transaction in the manner set out in Rule 16.9.3, calculated based on a formula approved by the board of directors of the Clearing House and published on the website of the Clearing House.
Return Date:	shall mean the date on which the Settlement Securities are to be returned by the Borrower to the Lender in accordance with the terms and conditions of the SBL Transaction.
SBL Agreement:	<p>shall mean an agreement, entered into between;</p> <ul style="list-style-type: none"> (i) a Borrower and a Borrowing Clearing Member authorizing the Borrowing Clearing Member to enter into one or more SBL Transactions on behalf of the Borrower and setting forth the terms and conditions subject to which the Borrowing Clearing Member shall enter into such SBL Transactions; or (ii) a Lender and a Lender Clearing Member authorizing the Lender Clearing Member to enter into one or more SBL Transactions on behalf of the Lender and setting forth the terms and conditions subject to which the Lending Clearing member shall enter into such SBL Transactions, <p>based on the standard form Securities Lending and Borrowing Agreement prescribed by the Clearing House in terms of these Rules,</p>

SBL Module:	shall mean the Stock Borrowing and Lending Module operated by the Clearing House for facilitating and enabling SBL Transactions in Eligible Securities in terms of these Rules.
SBL Transaction:	shall mean a transaction for the lending and borrowing of Eligible Securities of a particular Listed Entity in accordance with these Rules, effected by way of a transfer by the Lender of such Eligible Securities to the Borrower subject to a simultaneous agreement by the Borrower to transfer to the Lender on an agreed date, Settlement Securities.
Settlement Date:	shall mean the Market Day immediately following the Return Date.
Settlement Securities:	shall, in respect of a particular SBL Transaction, mean the Eligible Securities to be transferred by the Borrower to the Lender on the Return Date in settlement of such SBL Transaction, which shall (i) have been issued by the same Listed Entity that has issued the Borrowed Securities, (ii) be of the same class as the Borrowed Securities, and (iii) be equivalent in number to the Borrowed Securities, provided however that, if the Borrowed Securities have been subdivided into a greater number of Securities in any one or more instances or consolidated into a lesser number of Securities in any one or more instances, subsequent to the execution of the SBL Transaction, the Settlement Securities shall be equivalent to the greater number of Securities that the Borrowed Securities were subdivided to or the lesser number of Securities that the Borrowed Securities were consolidated to, as the case may be.

16.1 GENERAL

16.1.1 The Rules set out in this section shall be applicable to all Clearing Members in relation to SBL Transactions executed on the SBL Module of the Clearing House.

16.1.2 Clearing Members shall carry out SBL Transactions on the SBL Module in compliance with these Rules and any procedures and circulars issued by the Clearing House from time to time.

16.1.3 Clearing Members intending to carry out SBL Transactions shall:

- (i) enter into an SBL Agreement with the Borrower/Lender, as the case may be, in the format specified by the Clearing House and published on its website, prior to entering into an SBL Transaction in the SBL Module.

- (ii) open a Designated Securities Account in the CDS, in the manner specified by the CDS, to facilitate SBL Transactions in the form of a pooled borrowing order and/or pooled lending order, for the purposes identified in these Rules.
- (iii) comply with the minimum margin requirement in terms of Rule 16.5.1 below, and
- (iv) any other requirement as may be specified by the Clearing House from time to time.

16.2 ELIGIBLE SECURITIES

- 16.2.1 Securities eligible for an SBL Transaction (hereinafter referred to as 'Eligible Securities') shall be specified by the Clearing House in terms of this section and published on its website from time to time.
- 16.2.2 Eligible Securities shall comprise of the Securities of Entities listed on the CSE which satisfy the criteria determined by the Board of Directors of the Clearing House, from time to time.
- 16.2.3 Eligible Securities shall be held by the Lender or by the Lending Clearing Member in the CDS at the time of entering into the transaction.

16.3 LIMITATIONS APPLICABLE FOR SBL

The quantum of Eligible Securities of a particular Listed Company that may be subject to outstanding SBL transactions in terms of these Rules at any given time, shall be limited to a maximum of five per centum (5%) of the total number of such Eligible Securities that are in issue in such Listed Company.

16.4 TYPES OF SBL TRANSACTIONS

- 16.4.1 The following types of SBL Transactions shall be permitted to be carried out by a Clearing Member on the SBL Module:
 - (i) A transaction where the borrowing of Eligible Securities is carried out by a Borrowing Clearing Member on behalf of a Borrower/s through a Designated Securities Account pursuant to a pooled borrowing order and the lending of Eligible Securities is carried out by a Lending Clearing Member on behalf of a Lender/s through a Designated Securities Account pursuant to a pooled lending order.
 - (ii) A transaction where borrowing and lending of Eligible Securities are carried out by the Borrower and the Lender directly from their respective Client Accounts in the CDS.
 - (iii) A transaction where the borrowing of Eligible Securities is carried out by a Borrowing Clearing Member on behalf of Borrower/s through a Designated Securities Account pursuant to a pooled borrowing order and the lending of Eligible

Securities is carried out by the Lender directly from his Client Account in the CDS.

- (iv) A transaction where the borrowing of Eligible Securities is carried out by the Borrower directly from his Client Account in the CDS and the lending of Eligible Securities is carried out by a Lending Clearing Member on behalf of Lenders through a Designated Securities Account pursuant to a pooled lending order.

16.4.2 Any Eligible Securities deposited in the Designated Securities Account of a Lending Clearing Member for the time being, in pursuance of a pooled lending order made by the Lending Clearing Member on behalf of a particular Lender, shall be deemed to be held in trust by such Lending Clearing Member for the benefit of such Lender.

16.4.3 Any Eligible Securities deposited in the Designated Securities Account of a Borrowing Clearing Member for the time being, in pursuance of a pooled borrowing order made by the Borrowing Clearing Member on behalf a particular Borrower, shall be deemed to be held in trust by such Borrowing Clearing Member for the benefit of such Borrower.

16.5 MARGIN REQUIREMENTS

- (i) The Clearing House shall impose margin requirements as set out in this Rule on all Borrowing Clearing Members who intend to carry out SBL Transactions in terms of these Rules.
- (ii) The applicable margin requirement for each SBL Transaction shall be computed based on the formula determined by the Clearing House and published on the website of the Clearing House from time to time.
- (iii) The total margin requirement applicable to each Borrowing Clearing Member in respect of SBL Transactions shall comprise of the following:
 - (a) Minimum margin requirement,
 - (b) Additional margin requirement (where applicable), and
 - (c) Daily margin requirement (where applicable).

16.5.1 Minimum Margin Requirement

Each Borrowing Clearing Member shall, at all times, maintain adequate collateral to satisfy the minimum margin requirement determined by the Clearing House from time to time and published on the website of the Clearing House.

16.5.2 Additional Margin Requirement

- (i) In the event the collateral maintained by the Borrowing Clearing Member in terms of Rule 16.5.1 above is insufficient to satisfy the total margin requirement in respect of a borrowing order entered to the SBL Module to initiate an SBL Transaction, the Clearing House shall impose additional margin requirements on the Borrowing Clearing Member.
- (ii) The additional margin requirement referred to in Rule 16.5.2(i) above shall be calculated by the Clearing House based on the formula determined by the Clearing House and published on the website of the Clearing House from time to time.

- (iii) The additional margin requirement shall be communicated by the Clearing House to the relevant Borrowing Clearing Member in the circumstances set out in Rule 16.5.2(i) above, and the Borrowing Clearing Member shall take necessary steps to comply with such additional margin requirement based on the instructions provided by the Clearing House. The Borrowing Clearing Member shall not be permitted to carry out the requested SBL Transaction, unless such Borrowing Clearing Member complies with the additional margin requirement.

16.5.3 Daily Margin Requirement

- (i) All ongoing SBL Transactions of a Borrowing Clearing Member shall be marked to market based on the closing price of the Borrowed Securities and the margin requirements referred to in Rules 16.5.1 and 16.5.2 shall be adjusted daily by the Clearing House to reflect the marked to market value of the SBL Transactions of the Borrowing Clearing Member (hereinafter referred to as the 'daily margin requirement').
- (ii) Upon such adjustment, the Clearing House shall, at the end of each Market Day, notify the relevant Borrowing Clearing Member of the daily margin requirement to be satisfied by the Borrowing Clearing Member for the SBL Transactions of such Borrowing Clearing Member.
- (iii) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is more than the margin already provided, the Borrowing Clearing Member shall take necessary steps to comply with the daily margin requirement by 9.30 hours on the Market Day immediately following the date of notification by the Clearing House.
- (iv) In the event the daily margin requirement to be satisfied by the Borrowing Clearing Member is less than the margin already provided, the Clearing House shall, upon request by the Borrowing Clearing Member, take necessary steps to return the excess margin to the Borrowing Clearing Member by 9.30 hours on the Market Day immediately following the date of notification by the Clearing House.

16.5.4 Collateral for Stock Borrowing and Lending

(A) General

- (i) The Borrowing Clearing Members shall, at all times, ensure compliance with the margin requirements for SBL Transactions set out in this Rule 16.5 by maintaining sufficient collateral in the manner and form specified by the Clearing House in this Rule 16.5.4.
- (ii) In order to satisfy the total margin requirements imposed on a Borrowing Clearing Member in terms of this Rule 16.5, the Borrowing Clearing Member may obtain collateral from each of the Borrowers under SBL Transactions up to the extent required to fulfil the margin requirement arising from the SBL Transactions executed on behalf of each such Borrower.

(B) Form of Collateral

- (i) Subject to Rule 16.5.4(B)(ii) and (iii) below, the Borrowing Clearing Members shall furnish collateral to the Clearing House in fulfillment of the margin requirements set out in Rule 16.5 above, in one or more form set out below:
 - (a) cash
 - (b) an irrevocable and unconditional bank guarantee obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the Clearing House;
 - (c) Collateral Securities owned by a Borrower or the Borrowing Clearing Member, as determined by the Clearing House and communicated to the Clearing Members from time to time.
- (ii) The collateral for the minimum margin requirement stipulated in Rule 16.5.1 shall be furnished only in the form of cash or an irrevocable and unconditional bank guarantee.
- (iii) At least fifty per centum (50%) of the collateral to be provided to satisfy the additional margin requirement and daily margin requirement stipulated in Rules 16.5.2 and 16.5.3 respectively shall be in the form of cash or an irrevocable and unconditional bank guarantee and any Collateral Securities shall be limited to and not be more than fifty per centum (50%) in value of the collateral provided to satisfy the said margin requirements.
- (iv) The value of any Collateral Securities provided in terms of Rule 16.5.4 (B) (iii) above shall also be marked to market and be adjusted daily to reflect the marked to market value of such Collateral Securities so as to ascertain the value of the margin provided by the Borrowing Clearing Member.

(C) Manner of Furnishing Collateral

A Borrowing Clearing Member shall furnish collateral to satisfy the margin requirements applicable to such Borrowing Clearing Member in the manner set out below:

- (i) Any cash provided as collateral shall be deposited by a Borrowing Clearing Member into an account maintained by the Clearing House in a settlement bank for the specific purpose of margin utilization for SBL Transactions, by the CDS.
- (ii) The bank guarantee shall be an irrevocable and unconditional guarantee in favour of the Clearing House and obtained from a commercial bank licensed by the Central Bank of Sri Lanka, acceptable to the Clearing House.
- (iii) Any Collateral Securities shall be held in the collateral locked balance of the Client Account of the Borrower maintained with the CDS and such collateral shall not be available for trading. The SBL Agreement entered into by the Borrower and the Borrowing Clearing Member shall contain an undertaking and agreement by the Borrower to

(a) the Collateral Securities being held in the collateral locked balance of the Client Account of the Borrower and (b) the sale and utilization of the proceeds of the sale of the Collateral Securities to settle the payments identified in Rule 16.5.5(i) below, in the form specified by the Clearing House.

The Clearing House shall notify the CDS to transfer the Collateral Securities for an SBL Transaction to the collateral locked balance of the Client Account of the Borrower maintained with the CDS, prior to the execution of the SBL Transaction on the SBL Module.

16.5.5 Rights and obligations of the Clearing House in relation to the Collateral furnished by a Borrowing Clearing Member

- (i) The Clearing House shall have a first and paramount lien and charge over the cash collateral delivered to the Clearing House by a Borrowing Clearing Member and shall be entitled to use all collateral delivered to the Clearing House to ensure due settlement of the following obligations of such Borrowing Clearing Member in terms of this section:
 - (a) any sum payable by the Borrowing Clearing Member to the Lending Clearing Member;
 - (b) any sum payable by the Borrower/s who have executed SBL Transactions through the Borrowing Clearing Member such as compensation for failed SBL Transactions; and/or
 - (c) any and all sums payable by such Borrowing Clearing Member to the Clearing House, CDS, CSE and SEC including penalties, fees, commissions, charges and/or dues payable by such Borrowing Clearing Member as applicable.
- (ii) To ensure the due settlement of the obligations referred to in Rule 16.5.5 (i) above, the Clearing House shall be entitled to and shall require the Borrowing Clearing Member to sell such Collateral Securities in full or in part and the Borrowing Clearing Member shall forthwith comply with such requirement. The Borrowing Clearing Member shall ensure that the sales proceeds are made available to the Clearing House on the Settlement Date of such sale transaction, to be utilized for the purposes set out in Rule 16.5.5 (i) above.
- (iii) In the event the Borrowing Clearing Member fails to sell the Collateral Securities as required in terms of Rule 16.5.5 (ii) above, the Clearing House shall be entitled to take any and all necessary action to ensure the discharge of its obligations under the SEC Act and the rules of the Clearing House, including without limitation, requiring the CSE to effect a sale of the Collateral Securities on behalf of the Clearing House.
- (iv) Notwithstanding any provision to the contrary contained in these Rules, the Clearing House shall be entitled to retain and/or cause the retention of the proceeds of sale of the Collateral Securities in terms of Rules 16.5.5(ii) and (iii) above, to

ensure utilization of such proceeds to settle the obligations referred to in (a) to (c) in Rule 16.5.5 (i) above.

16.5.6 Requirement to Replenish Collateral

If the Clearing House utilizes, in full or in part, any collateral furnished by a Borrowing Clearing Member in terms of Rule 16.5.5 (i) above, such Clearing Member shall replenish the collateral utilized by the Clearing House forthwith, upon same being notified to the Clearing Member by the Clearing House.

16.5.7 Returning of Collateral and Interest

- (i) Any cash collateral furnished by a Borrowing Clearing Member in respect of a particular SBL Transaction shall be returned by the Clearing House to the said Borrowing Clearing Member upon the settlement of such SBL Transaction in terms of Rule 16.8 of these Rules.
- (ii) Any Collateral Securities provided in respect of a particular SBL Transaction and placed in the collateral locked balance of the Client Account of the Borrower maintained with the CDS referred to in Rule 16.5.4 (C) (iii) shall be unlocked and made available in the trading balance of such Client Account upon the settlement of such SBL Transaction.
- (iii) Any cash collateral furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be returned by the Clearing House to the said Borrowing Clearing Member upon a written request being made by the Borrowing Clearing Member. Provided however, if such Borrowing Clearing Member has not furnished adequate collateral in respect of other SBL transactions carried out by such Borrowing Clearing Member, the Clearing House may retain, from such excess collateral, any amount as is necessary for the fulfilment of the outstanding total margin requirements of the said Borrowing Clearing Member.
- (iv) Any Collateral Securities furnished by a Borrowing Clearing Member for the purpose of carrying out a particular SBL Transaction in excess of such Clearing Member's total margin requirement shall be unlocked and made available in the trading balance of such Client Account, upon a written request being made by the Borrowing Clearing Member for same.
- (v) Any interest accruing on excess cash collateral shall also be paid to the Borrowing Clearing Member with the return of the collateral by the Clearing House from time to time.

16.5.8 Substitution of Collateral Securities

- (i) Collateral Securities provided in terms of Rule 16.5.4 (C)(iii) above may be substituted by a Borrowing Clearing Member with any other collateral of the same value in accordance with this Rule.

- (ii) A Borrowing Clearing Member that intends to substitute the Collateral Securities provided to the Clearing House shall submit a written request to the Clearing House in the format specified by the Clearing House.
- (iii) Upon receiving a request as referred to in Rule 16.5.8 (ii) above, the Clearing House shall;
 - (a) instruct the CDS to replace the existing Collateral Securities with the new Collateral Securities by effecting the respective transfer of securities to and from the collateral locked balance of the Client Account of the Borrower maintained with the CDS; and
 - (b) notify the substitution of collateral to the respective Borrowing Clearing Member upon completion of same.

16.6 SBL PROCEDURE

16.6.1 Entering Transaction Details to the SBL Module

- (i) Clearing Members shall ensure that the information relating to the SBL Transactions are entered to the SBL Module only by persons duly authorized by the Clearing Members.
- (ii) The Clearing Member carrying out an SBL Transaction shall be responsible for the information entered to the SBL Module relating to such SBL Transaction.
- (iii) The information entered to the SBL Module relating to the SBL Transaction shall contain, at a minimum, the following information and any other information as prescribed by the Clearing House from time to time via its Circulars:
 - Client Account used for purposes of the SBL Transaction
 - Eligible Security
 - Quantity
 - Borrowing Period /Lending Period (as applicable)
 - Borrowing Rate or Lending Rate (as applicable)

16.6.2 The Borrowing Clearing Member shall ensure adequate collateral to support the margin requirements for the SBL Transactions in compliance with the margin requirements stipulated by the Clearing House in terms of Rule 16.5 of these Rules.

16.6.3 The Lending Clearing Member shall ensure that the quantum of Eligible Securities to be transferred under the SBL Transaction are available for delivery at the time of entering the lending order in the SBL Module.

16.6.4 Matching and Recording of SBL Transactions

- (i) The SBL Transactions carried out on the SBL Module shall be matched based on and recorded by the Clearing House based on the transaction details entered to the SBL Module by the respective Clearing Members.

- (ii) Once the SBL Transaction is matched, the Clearing House shall notify the CDS to immediately transfer the Borrowed Securities from the Lending Account to the Borrowing Account based on the information provided by the Clearing House.
- (iii) The delivery of the Borrowed Securities from the Lending Account to the Borrowing Account is effected by and shall be completed upon the debiting of the required number of the relevant Eligible Securities from the Lending Account and the crediting of such Securities into the Borrowing Account.
- (iv) If the SBL Transaction is carried out pursuant to a pooled lending order made by the Lending Clearing Member on behalf of two or more Lenders and the Lending Account is a Designated Securities Account of the Lending Clearing Member, CDS shall effect the delivery of the relevant Eligible Securities from the Client Accounts of the Lenders to the Designated Securities Account of the Lending Clearing Member prior to the execution of the SBL Transaction, upon a request being made therefor by the Lending Clearing Member, in the manner specified by the Clearing House.
- (v) If the SBL Transaction is carried out pursuant to a pooled borrowing order made by the Borrowing Clearing Member on behalf of two or more Borrowers and the Borrowing Account is a Designated Securities Account of the Borrowing Clearing Member, CDS shall effect delivery of the Borrowed Securities from the Designated Securities Account to the Client Accounts of the Borrowers, upon a request being made therefor by the Borrowing Clearing Member, in the manner specified by the Clearing House.

16.6.5 Notifications to Clients

- (i) Once the SBL Transaction is carried out in terms of these Rules;
 - (a) the Clearing House shall notify the Borrowing Clearing Member and the Lending Clearing Member of the execution of the SBL Transaction; and,
 - (b) the Borrowing Clearing Member and the Lending Clearing Member shall notify the Borrower and Lender, respectively, of the execution of such SBL Transaction in conformity with Rule 16.6.5 (ii) below.
- (ii) The notification to the Borrower and Lender referred to in Rule 16.6.5 (i)(b) above shall, at a minimum, the following;
 - (a) Client Account
 - (b) Eligible Security
 - (c) Quantity
 - (d) Lending/Borrowing rate
 - (e) Return date

16.7 TRANSFER OF THE SECURITIES

- 16.7.1** The Borrowed Securities shall be deemed to be transferred on delivery of the Borrowed Securities to the Borrower's account or to the Designated Securities Account of the Borrowing Clearing Member, as the case may be, in terms of these Rules.

16.7.2 The Settlement Securities shall be deemed to be transferred on delivery of the Settlement Securities to the Lender's account or to the Designated Securities Account of the Lending Clearing Member, as the case may be, in terms of these Rules.

16.8 SETTLEMENT OF SBL TRANSACTIONS

An SBL Transaction shall be settled by (i) the delivery and transfer of the Settlement Securities from the Borrowing Account to the Lending Account and (ii) the payment of the Lending Fee by the Borrower to the Lender.

16.8.1 Delivery of the Settlement Securities

- (i) The Borrowing Clearing Member shall ensure that the required number of Settlement Securities are made available in the Borrowing Account by 10.30 hours on the Return Date.
- (ii) The Clearing House shall notify the CDS to deliver and transfer the Settlement Securities from the Borrowing Account to the Lending Account by 10.30 hours on the Settlement Date, based on the information provided by the Clearing House.
- (iii) The delivery of Settlement Securities from the Borrowing Account to the Lending Account is effected by and shall be final upon the debiting of the required number of the relevant Eligible Securities from the Borrowing Account and the crediting of such Securities into the Lending Account.
- (iv) If the SBL Transaction settled is in respect of a pooled borrowing order made by the Borrowing Clearing Member on behalf two or more Borrowers and the Borrowing Account is a Designated Securities Account of the Borrowing Clearing Member, CDS shall effect the delivery of the relevant Eligible Securities from the Client Accounts of the Borrowers to the Designated Securities Account of the Borrowing Clearing Member by 10.30 hours on the Return Date, upon a request being made therefor by the Borrowing Clearing Member in the manner specified by the Clearing House.
- (v) If the SBL Transaction settled is in respect of a pooled lending order made by the Lending Clearing Member on behalf two or more Lenders and the Lending Account is a Designated Securities Account of the Lending Clearing Member, CDS shall effect the delivery of the Settlement Securities from the Designated Securities Account of the Lending Clearing Member to the Client Accounts of the Lenders, upon a request being made therefor by the Lending Clearing Member in the manner specified by the Clearing House.

16.8.2. In the event the Borrowing Account, does not have, in the Cleared Balance, the required number of Settlement Securities in terms of Rule 16.8.1 (i) above on the Return Date, such SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.

16.8.3 Payment of Lending Fee

The Lending Fee payable by the Borrower to the Lender in respect of an SBL Confidential Transaction shall accrue daily for the period commencing on and inclusive of the first Market Date on which the SBL Transaction was executed and ending on but

excluding the Settlement Date and shall be payable on the Settlement Date through the appointed settlement banks.

- (ii) The Borrowing Clearing Member shall ensure that the Lending Fee for each SBL Transaction is made available in Cleared Funds in the settlement bank account of the Clearing House by 10:30 hours on the Settlement Date based on instructions that may be provided by the Clearing House, from time to time.
- (iii) The Clearing House shall debit itself and credit the settlement bank account of the Lending Clearing Members with the Lending Fee receivable by the Lenders on the Settlement Date in accordance with these Rules.
- (iv) The obligation of a Borrowing Clearing Member to make available the Lending Fee is discharged by and shall be final upon the debiting of the settlement bank account of the Borrowing Clearing Member and the settlement of a Lender's entitlement to receive the Lending Fee on the Settlement Date is effected by and shall be final upon the crediting of the settlement bank account of the relevant Lending Clearing Member.
- (v) The Borrower shall make available, and the Borrowing Clearing Member shall ensure that such Borrower makes available the Lending Fee in respect of a particular SBL Transaction to enable the Borrowing Clearing Member to meet its obligations as set out in Rule 16.8.3 (ii) above.
- (vi) In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the Lending Fee referred to in Rule 16.8.3 (i) above, the Clearing House shall utilize the collateral in terms of Rule 16.6.5 above to ensure due settlement of the Lending Fee in full.
- (vi) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of Rule 16.8.3 (ii) above, the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

For the purposes of this Rule, 'Cleared Funds' shall mean funds that are realized and available for drawing in the respective settlement bank.

16.9 Changes to the Borrowing/Lending Period of an SBL Transaction

16.9.1 Early Recall by the Lender

- (i) Subject to the terms and conditions set out in the SBL Agreement and in the manner prescribed by the Clearing House, the Lender shall have the right to require, in writing, that the Settlement Securities be delivered to the Lender on a date prior to the Return Date executed on the SBL Module (hereinafter referred to as Early Recall) in the following instances in order to be eligible to;
 - 1. a Corporate Action
 - 2. vote at a shareholders' meeting

For the avoidance of doubt, the exercise by the Lender of the right to require early delivery of an SBL Transaction shall be in respect of all of the Settlement Securities and the Borrower shall not be entitled to early settle an SBL Transaction in respect of part of the Settlement Securities.

- (ii) The right to require early delivery of the Settlement Securities shall be exercised by the Lender by providing the Borrower with a minimum of three (03) Market Days (excluding the date of notification), prior written notification. Such notification shall specify the date for early delivery of

Settlement Securities under the SBL Transaction and the number of Settlement Securities to be delivered on such date.

- (iii) The notification of early recall shall be made by the Lender through the Lending Clearing Member to the Clearing House and the Clearing House shall forthwith notify same to the Borrower through the Borrowing Clearing Member and amend the Return Date of the SBL Transaction.
- (iv) The early recall of Eligible Securities shall be carried out by the Lender in accordance with this Rule 16.9.1 and any other conditions stipulated in the SBL Agreement.
- (v) Subject to the provisions of Rule 16.10.1(iv) below, on the date notified for early delivery of the Settlement Securities (which shall be the Return Date in respect of such early delivery to the Lender and the Settlement Date shall be the Market Day immediately following such date), the delivery of the Settlement Securities to the Lender shall take place in terms of the procedure provided in Rule 8.8.1 above.
- (vi) In the event of an early delivery of the Settlement Securities to the Lender pursuant to this Rule 16.9.1, the Lending Fee payable by the Borrower to the Lender in respect of the Settlement Securities to be delivered early shall be payable on the Settlement Date in respect of such early delivery to the Lender in the manner set forth in Rule 16.8.3 above.
- (vii) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities to be delivered early to the Lender, in terms of Rule 16.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (viii) In the event the Lending Fee is not made available by the Borrowing Clearing Member in respect of Settlement Securities to be delivered early to the Lender in terms of this Rule 16.9.1, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.2 Early settlement by the Borrower

- (i) The Borrower shall have the right, at any time, subject to the terms and conditions in the SBL Agreement, to settle an SBL Transaction by the delivery of the Settlement Securities to the Lender on a date prior to the Return Date executed in the SBL Module, by providing the Lender with a minimum of one
 - (1) Market Day, excluding the date of notification, prior written notification. Such notification shall specify the date for early settlement of the SBL Transaction. For the avoidance of doubt, the exercise by the Borrower of the option to early settle an SBL Transaction shall be in respect of all of the Settlement Securities and the Borrower shall not be entitled to early settle an SBL Transaction in respect of part of the Settlement Securities.
- (ii) The notification of the early settlement of the SBL Transaction shall be made by the Borrower through the Borrowing Clearing Member to the Clearing House and the Clearing House shall forthwith notify same to the Lender through the Lending Clearing Member and amend the Return Date of the SBL Transaction.
- (iii) On the date notified for early settlement of the SBL Transaction (which shall be the Return Date in respect of such early delivery and the Settlement Date shall be the Market Day immediately following such date), the settlement of the SBL Transaction shall take place by the delivery of the Settlement Securities to the Lender in terms of the procedure provided in Rule 16.8.1 above.

- (iv) The early settlement of Eligible Securities shall be carried out by the Borrower in accordance with this section and any other conditions stipulated in the SBL Agreement.
- (v) In the event of an early settlement of an SBL Transaction pursuant to this Rule 16.9.2, the Lending Fee payable by the Borrower to the Lender shall be payable on the Settlement Date in respect of such early settlement in the manner set forth in Rule 16.8.3 above.
- (vi) In the event the Borrowing Account, does not have, in the Cleared Balance, Eligible Securities equivalent to the Settlement Securities, in terms of Rule 16.8.1 (i) above, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (vii) In the event the Lending Fee is not made available by the Borrowing Clearing Member for the early settlement of the SBL Transaction in terms of this Rule 16.9.2, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.3 Foreclosure of an SBL Transaction

- (a) An SBL Transaction shall be foreclosed by the Clearing House in the instances specified by the Clearing House and made available on the website of the Clearing House.
- (b) Where an SBL Transaction is foreclosed by the Clearing House in terms of Rule 16.9.3(a) above, the settlement of the SBL Transaction shall take place by the delivery of all of the Settlement Securities to the Lender and the payment of the Lending Fee, in terms of the procedure provided in Rule 16.8 above, on the date specified by the Clearing House.
- (c) In the event the Borrowing Account, does not have, as a Cleared Balance, Eligible Securities equivalent to the Settlement Securities as of 10.30 hours Market Day immediately preceding the date of settlement as referred to in Rule 16.9.3(b) above, the Borrowing Clearing Member is deemed to not have a sufficient number of Eligible Securities to settle the SBL Transaction through the delivery of the Settlement Securities to the Lender and in such an event, the Borrowing Clearing Member shall settle the SBL Transaction by paying the Lender through the Lender Clearing Member, a sum of cash equal to the Market Value of the Settlement Securities calculated as of the Market Day immediately preceding the date of settlement referred to in Rule 16.9.3(b) above.

In such event, the Borrowing Clearing Member shall ensure that payment as aforesaid is made available as Cleared Funds in the settlement bank account of the Clearing House by 10:30 hours on the date of settlement referred to in Rule 16.9.3(b) above based on any further instructions that may be provided by the Clearing House, from time to time.

- (d) In the event the SBL Transaction is not fully settled in terms of this Rule 16.9.3 by 10.30 hours on the date of settlement referred to in Rule 16.9.3(b) above by the delivery of all of the Settlement Securities to the Lender, the SBL Transaction shall be deemed a defaulted SBL Transaction and the default rules as set out in Rule 16.11 below shall apply.
- (e) In the event the Lending Fee is not made available by the Borrowing Clearing Member in terms of this Rule 16.9.3, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the Lending Fee in full and the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.9.4 Extension of the Return Date

- (i) In the event the Lender or Borrower intends to extend the lending period of an SBL Transaction by postponing the Return Date, the relevant Lending Clearing Member or Borrowing Clearing Member, as the case maybe, shall inform the Clearing House of the proposed Return Date.
- (ii) The Clearing House shall inform the respective contra Borrowing Clearing Member or Lending Clearing Member, as the case may be, of the intention of the other party to extend the lending period of an SBL Transaction by postponing the Return Date and the proposed Return Date.
- (iii) In the event the Borrowing Clearing Member or Lending Clearing Member, as the case may be, is agreeable to the proposed Return Date or if not agreeable, has discussed and agreed with the other Clearing Member on an alternative Return Date, the Clearing Members shall, jointly or individually, inform the Clearing House in writing of the revised Return Date and the Clearing House shall record the revised Return Date on the SBL Module.
- (iv) On the revised Settlement Date pursuant to the revision of the Return Date in terms of Rule 16.9.4(iii), the settlement of the SBL Transaction shall take place in terms of the procedure provided in Rule 16.8 above.

16.10 CORPORATE ACTIONS

16.10.1 Where the issuer of the Settlement Securities carries out any corporate action that is relevant to or affects the Settlement Securities under an SBL Transaction prior to the settlement of such SBL Transaction, the Borrower shall make available to the Lender any securities arising from such corporate action or provide sufficient cleared funds (as applicable) based on the instructions provided by the Clearing House from time to time.

16.10.2 The delivery of any securities and/or the provision of any funds by the Borrower to the Lender in terms of this Rule 16.10 shall be carried out on the date specified by the Clearing House, in the same manner specified in Rule 16.8 above as applicable to a delivery of securities and payment of the Lending Fee on the settlement of an SBL Transaction.

16.10.3 The Borrowing Clearing Member shall be responsible and liable to ensure compliance by the Borrower with the provisions of this Rule 16.10 and failure to do so shall result in enforcement action being taken against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.11 HANDLING OF DEFAULTS OF DELIVERY OF SECURITIES

16.11.1 A Borrower shall deliver all the Settlement Securities in order to settle a SBL Transaction and failure to deliver all the Settlement Securities (even where the failure of the Borrower to procure sufficient Eligible Securities was due to the unavailability of Eligible Securities for purchase on the market shall be liable to pay compensation to the Lender, which shall be computed based on a formula to be determined by the Clearing House and notified to the Clearing Members from time to time by Circulars..

16.11.2 A Borrower who has failed to deliver the Settlement Securities on the Settlement Date shall, in addition to the compensation referred to in Rule 16.11.1 above, be liable to compensate the Lender for entitlements accruing to those Securities from any corporate actions relating to such Securities that the Lender would have become entitled to and/or received but for the delivery failure. The method of computation of compensation payable in respect of each such corporate action shall be determined by the Clearing House and notified to the Clearing Members from time to time.

16.11.3 The compensation payable based on the said formula in terms of this Rule shall be deemed to be a genuine pre-estimate of the losses and damages of the Lender arising from the failure to deliver the Settlement Securities.

16.11.4 The compensation payable by the Borrower to the Lender in respect of a defaulted SBL Transaction in terms of Rule 16.11.1 above, shall be settled by the Borrowing Clearing Member to the Lending Clearing Member on the Settlement Date.

16.11.5 Upon receipt of the compensation in respect of a defaulted SBL Transaction from the Borrowing Clearing Member, the Lending Clearing Member shall ensure that such compensation payable to the Lender is credited to the bank account of the Lender on the Settlement Date.

16.11.6 The payment of compensation in full referred to in Rule 16.11 by the Borrower through the Borrowing Clearing Member to the Lender through the Lending Clearing Member shall be a full and complete discharge of the obligations of the Borrower in respect of the defaulted SBL Transaction.

16.11.7 In the event Borrowing Clearing Member fails to make available sufficient funds for the payment of the compensation referred to in Rule 16.11, the Clearing House shall utilize the collateral in terms of Rule 16.5.5 above to ensure due settlement of the said compensation.

16.11.8 If the Borrowing Clearing Member fails to comply with this Rule 16.11, the Clearing House shall take enforcement action against the Borrowing Clearing Member in terms of Rule 16.12 below.

16.12 ENFORCEMENT

The following enforcement actions shall be initiated by the Clearing House against a Borrowing Clearing Member in respect of the non-compliances set out below:

Type of Non-Compliance	Frequency of Occurrence	Enforcement
1. Default in Redelivery of Securities.	On the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees One Million (Rs.1,000,000/-).
	On the second (2nd)	The Clearing House shall charge a penalty of Rs.1,250,000/-).

<p>2. Default in payment of the monetary value of securities in respect of a cash settled SBL transaction (where securities are available in the market) in a foreclosure</p> <p>3. Default in relation to a Corporate Action in terms of Rule 16.11.</p> <p>4. Default in payment of Compensation arising from a default in redelivery of Securities</p>	<p>occurrence within one (1) year from the date of the first (1st) occurrence</p> <p>On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence</p>	<p>The Clearing House shall charge a penalty of Rupees Rs. 1,500,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of one (01) year from the date of the third (3rd) occurrence.</p>
<p>5. Default in payment of the Lending Fee.</p> <p>6. Default in delivery of securities in a foreclosure of an SBL transaction (where securities are not available in the market)</p>	<p>On the first (1st) occurrence</p> <p>On the second (2nd) occurrence within one (1) year from the date of the first (1st) occurrence</p> <p>On the third (3rd) occurrence within one (1) year from the date of the first (1st) occurrence</p>	<p>The Clearing House shall charge a penalty of Rupees Five Hundred Thousand (Rs. 500,000/-).</p> <p>The Clearing House shall charge a penalty of Rupees Rs. 625,000/-.</p> <p>The Clearing House shall charge a penalty of Rs. 750,000 and prohibit the Borrowing Clearing Member from entering into any new SBL Transactions for a period of six (6) months from the date of the third (3rd) occurrence.</p>
<p>7. Non-compliance with the Daily Margin Requirement</p>	<p>(i) The</p> <p>(ii)</p>	<p>The Clearing House shall prohibit the Borrowing Clearing Member from entering into any new SBL Transactions in the capacity of a Borrowing Clearing Member with immediate effect.</p> <p>The ability to enter into new SBL Transactions in the capacity of a Borrowing Clearing Member shall be permitted upon compliance with the Daily Margin Requirement by the Borrowing Clearing Member;</p> <p>and;</p> <p>The Clearing House shall charge penalties as set out below:</p>

		On the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Two Hundred and Fifty Thousand (Rs. 250,000/-).
		On the second (2 nd) occurrence within one (1) year from the date of the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Five Hundred Thousand (Rs. 500,000/-).
		On the third (3 rd) occurrence within one (1) year from the date of the first (1 st) occurrence	The Clearing House shall charge a penalty of Rupees Seven Hundred and Fifty Thousand (Rs. 750,000/-), and; notwithstanding anything to the contrary set out in this section, the Borrowing Clearing Member shall not be permitted to carry out any new SBL transactions for a period of six (6) months from the date of the third (3 rd) occurrence.

16.13 Liability

The Clearing House, being the operator of the SBL Module, shall not be liable to any person for any loss or damage that may be incurred or suffered by such person as a result of the exercise or intended exercise of any power or performance of any duty or function conferred or imposed on the Clearing House or omission of same in relation to SBL Transactions and exercised or omitted by the Clearing House in good faith.

16.14 Force Majeure

The Clearing House or its directors or employees shall not be liable for any losses or damages that may be incurred or suffered by a Clearing Member arising from or relating to an act or omission of the Clearing House in the execution of a SBL Transaction or the operation of the SBL Module for causes beyond the reasonable control of and without negligence of the Clearing House including, without limitation, acts of god or the public enemy, acts of a civil or military authority, natural disasters, embargoes, industrial action, fires, floods, mechanical breakdowns, computer or system failures or sabotage, delay or inability to act by any registrar, interruptions of power supplies or other utility or services, any law, regulation or order of any government, regulatory authority or any court or tribunal, war or terrorism.

In the event that the Clearing House is required to suspend the operation of the SBL Module and the provision of all ancillary services where for any reason, other than

the negligence of the Clearing House, and the records of the Clearing House, the CDS or the SBL Module are unavailable, inaccessible, delayed or hindered in any manner, the Clearing House shall not be liable for any losses or damages suffered by any person whomsoever from the failure, hindrance or delay in the provision of services or for the failure to give or the delay in giving effect to any notice or communication from or to a Clearing Member.

16.15 Indemnity by Clearing Members

The Clearing Members shall indemnify, defend and hold the Clearing House, its directors and employees harmless from and against all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries and deficiencies, including interest, penalties and attorneys' fees, (collectively, "Claims"), arising from or as a result of the SBL Transactions carried out on the SBL Module of the Clearing House on their behalf or on behalf of their clients."

16.16 Maintenance of Records pertaining to SBL transactions

The Borrowing and Lending Clearing Members shall maintain complete and accurate records relating to all SBL Transactions carried out on behalf of the Borrowers and Lenders, as applicable, for a period of six (06) years and all such records shall be made available to the Clearing House, upon request.