

## **SECTION 2**

### **CLEARING AND SETTLEMENT FACILITIES**

#### **2.1 Use of Clearing or Settlement Facilities**

The Clearing or Settlement facilities offered by the Clearing House shall only extend to settlement of Market Contracts by Clearing Members appointed by the Clearing House in terms of these Rules.

#### **2.2 Appointment of Settlement Bank/s**

- (i) In order to facilitate the settlement of funds in relation to Market Contracts on each Settlement Date, the Clearing House 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.
- (ii) A Clearing Member shall open only one account with any one of such settlement banks appointed by the Clearing House for the purpose of facilitating the settlement of funds.

#### **2.3 Types of Securities for Clearing and Settlement**

- 2.3.1 All Securities listed and/or traded on the CSE, which are denominated in Sri Lankan Rupees (LKR) or Designated Foreign Currency/ies shall be eligible Securities for Clearing or Settlement in terms of these Rules.
- 2.3.2 All Trades, other than the Non-CCP Settled Trades identified below, shall be cleared and settled by the Clearing House as and in the capacity of a Central Counterparty in terms of these Rules:
  - (i) Market Contracts relating to Securities denominated in Designated Foreign Currencies;
  - (ii) Market Contracts relating to Securities traded on the Debt Market of the CSE.
- 2.3.3 Further, a Trade carried out as an Excluded Crossing shall not be cleared and settled by the Clearing House as and in the capacity of a Central Counterparty.
- 2.3.4 The Clearing House, by acting as Central Counterparty in respect of CCP Settled Trades, guarantees the clearing and settlement of CCP Settled Trades in terms of these Rules.

Part B of these Rules set forth the rules applicable to the clearing and settlement of the CCP Settled Trades.

Part C of these Rules set forth the rules applicable to the clearing and settlement of the Non-CCP Settled Trades.

## **2.4 Types of Clearing Members**

A Clearing Member may be a;

- (i) Self Clearing Member;
- (ii) Professional Clearing Member; or
- (iii) Limited Clearing Member

A Clearing Member Agreement entered by a Clearing Member with the Clearing House shall specify whether the Clearing Member is (a) a Self Clearing Member or a Professional Clearing Member and/or (b) Limited Clearing Member. For the avoidance of doubt, a Clearing Member that is admitted as a Self Clearing Member or a Professional Clearing Member in respect of CCP Settled Trades may also be admitted as a Limited Clearing Member in respect of Non-CCP Settled Trades.

## **2.5 Availability of Facilities for Foreign Currency Settlements**

Market Contracts in Securities Designated in Foreign Currency/ies shall be cleared and settled in terms of these Rules only by Custodian Bank Clearing Members as defined herein.

## **2.6 Delivery Vs Payment Settlement Mechanism**

Settlement of all Market Contracts shall be performed by the Clearing House on a delivery vs payment basis in terms of these Rules.

## **2.7 Recording of Trades and Settlement Instructions**

- 2.7.1 The Clearing House shall, upon the receipt of information from the CSE with regard to a Trade executed on the CSE, record the Trade on the settlement system of the Clearing House. The settlement order shall be final and irrevocable upon the entry thereof on the settlement system of the Clearing House. The entry of the settlement order on the settlement system shall be deemed to constitute an acceptance by the Clearing House of the obligation to clear and settle the Trade in accordance with these Rules.
- 2.7.2 Settlement of Market Contracts under these Rules shall be carried out in accordance with the settlement instructions issued by the Clearing House to Clearing Members.
- 2.7.3 Settlement instructions referred to in Rule 2.7.2 shall reflect the debits and credits that have been entered into the Clearing Member's account and the net amount to be settled by each Clearing Member on a given Settlement Date.

2.7.4 The Clearing House shall communicate settlement instructions to all Clearing Members and appointed settlement banks by way of Settlement Schedules issued on each Trade Day.

For the avoidance of doubt;

(i) all Excluded Crossings shall be reflected in a separate Settlement Schedule issued by the Clearing House, setting forth the gross amount to be settled by the Clearing Members under each Excluded Crossing.

(ii) all Market Contracts carried out on the CSE using the All-Or-None (AON) Block facility shall be reflected in the Settlement Schedule issued by the Clearing House.

2.7.4 The Clearing House may subsequently amend or cancel any settlement instructions to effect any settlement of Market Contracts in terms of these Rules by way of issuing an amended Settlement Schedule to the Clearing Members and appointed settlement banks of the Clearing House by T+1.

## **2.8 Netting Arrangements for Fund Settlements**

2.8.1 A Clearing Member's obligation on any Settlement Date to make payment in respect of Market Contracts to be cleared or settled by such Clearing Member shall, except in the case of an Excluded Crossing referred in Rule 2.8.2, be set off against such Clearing Member's entitlement to receive funds on such Settlement Date for Market Contracts cleared or settled by such Clearing Member. If the amount of funds that the Clearing Member is entitled to receive is greater than the amount of funds that the Clearing Member is obliged to pay on a Settlement Date, the Clearing Member shall be entitled to receive the net amount remaining after the set off from the Clearing House on the Settlement Date. If the amount of funds that the Clearing Member is entitled to receive is less than the amount of funds that the Clearing Member is obliged to pay on a Settlement Date, the Clearing Member shall pay the net amount remaining after the set off to the Clearing House on the Settlement Date.

2.8.2 In the case of any Trade in Securities on the Equity Market of the CSE with a value of over Rupees One Hundred Million (Rs.100,000,000) executed by way of a crossing in terms of the Automated Trading System of the CSE, the Clearing Members in relation to the Trade may agree and request the Clearing House, by end of trading on the Trade Day, that payment in respect of such transaction be excluded from the set off of payment obligations referred to Rule 2.8.1 above ("Excluded Crossings").

The Clearing Members shall make such request to the Clearing House in the format prescribed by the Clearing House for such purpose. The request by the Clearing Members shall not be approved by the Clearing House unless required number of Securities to fully settle the Trade are available as cleared balance in the seller's Client Account in the form of Cleared Balance at the point of making the request to the Clearing House.

Upon approval of such request by the Clearing House, all payment obligations relating to such Excluded Crossings shall be settled on a gross basis by the Clearing Member.

## **2.9 Finality of Settlement of Market Contracts**

- 2.9.1 The payment obligations of a Clearing Member for a given Settlement Date, as set out in the Settlement Schedule issued by the Clearing House, is discharged by and shall be final and irrevocable upon the debiting of the relevant settlement bank account of such Clearing Member maintained at the appointed settlement bank and the settlement of a Clearing Member's entitlement to receive funds on a given Settlement Date pursuant to the Settlement Schedule and shall be final and irrevocable upon the crediting of the settlement bank account of such Clearing Member maintained at the appointed settlement bank.
- 2.9.2 The delivery of Securities under a Market Contract is effected by and shall be final and irrevocable upon the debiting of the required number of relevant Securities from the seller's Client Account and the receipt of such Securities by the buyer is effected by and shall be final and irrevocable upon the crediting of such Securities into the buyer's Client Account.

## **2.10 Novation of Market Contracts related to CCP Settled Trades**

- 2.10.1 When a CCP Settled Trade is recorded in the Clearing House for settlement in terms of Rule 2.7.1 above, the contractual rights and obligations of the selling Clearing Member and the buying Clearing Member, vis a vis each other with regard to the settlement of the Trade shall be deemed to have at the point of recording, ipso facto, been novated to the Clearing House.
- 2.10.2 The novation referred to in Rule 2.10.1 results in the Clearing House interposing itself between the selling Clearing Member and the buying Clearing Member thereby extinguishing the contractual relationship between the selling Clearing Member and the buying Clearing Member and replacing the same by the following two contractual relationships:
- (i) a contract between the Clearing House and the selling Clearing Member in terms of which the Clearing House is entitled to receive the securities from the selling Clearing Member and is subject to the obligation to settle funds to the selling Clearing Member under the Trade; and
  - (ii) a contract between the Clearing House and the buying Clearing Member in terms of which the Clearing House is entitled to receive funds from the buying Clearing Member and is subject to the obligation to deliver securities to the buying Clearing Member under the Trade.

In the case of a sell Trade carried out by a Limited Clearing Member Client, the contract referred to in (i) above shall be between the Clearing House and the Professional Clearing Member engaged by such Limited Clearing Member Client and the term 'selling Clearing Member' in (i) above shall be a reference to the Professional Clearing Member engaged by the Limited Clearing Member Client which carried out the sell Trade.

In the case of a buy Trade carried out by a Limited Clearing Member Client, the contract referred to in (ii) above shall be between the Clearing House and the Professional Clearing Member engaged by such Limited Clearing Member Client and the term 'buying Clearing Member' in (ii) above shall be a reference to the Professional Clearing Member engaged by the Limited Clearing Member Client which carried out the buy Trade.

2.10.3 Each contract referred to in items (i) and (ii) of Rule 2.10.2, being a Market Contract, shall have force and effect, ipso facto, upon the recording of the Trade on the clearing and settlement system of the Clearing House in terms of Rule 2.7.1 above. This is the time at and from which the Clearing House assumes the role of and as Central Counterparty.

2.10.4 Each Clearing Member that is party to a Market Contract in terms of these Rules shall act as principal and not as agent, including in relation to its (end buyer or seller) Client. In performing its obligations and exercising its rights, the Clearing House shall treat the rights and obligations of the Clearing Member pursuant to Market Contracts to be a full legal and beneficial entitlement, and not subject to any encumbrance in favour of any third person other than the Clearing House according to these Rules if and as relevant.

## **2.11 Establishment of the Contributory Guarantee Fund**

2.11.1 The Clearing House shall establish a fund named the Contributory Guarantee Fund constituting of (i) cash contributed by the Clearing House, (ii) cash and bank guarantees contributed by the Clearing Members and (iii) all accumulations and accretions to the assets of the Contributory Guarantee Fund including accrued interest and other income arising from contributions referred to in (i) and (ii). The Clearing House shall have legal and beneficial ownership of the cash contributed to the Contributory Guarantee Fund.

2.11.2 The contribution by Clearing Members of cash and bank guarantees to the Contributory Guarantee Fund shall be in the manner specified by the Clearing House to Clearing Members from time to time by way of Circulars. The Clearing Members shall comply with the requirements stipulated in such Circulars including with regard to the value of the cash and bank guarantees to be contributed by each Clearing Member and the timing of the contribution.

2.11.3 The Clearing House shall be entitled to utilize the cash and bank guarantees available at any given point of time of the Contributory Guarantee Fund only for the purpose of ensuring settlement of CCP Settled Trades as set forth in these Rules. The Contributory Guarantee Fund shall be readily available and irrevocably applied to discharge any obligations of the Clearing House in respect of CCP Settled Trades, in the event of default of a Clearing Member

2.11.4 The Clearing House may invest the assets of the Contributory Guarantee Fund in such manner and in such investments as may be identified by the Clearing House, from time to time.

2.11.5 Interest or any other income accruing to the assets of the Contributory Guarantee Fund shall, unless otherwise provided in the Rules, be appropriated by the Clearing House to the Contributory Guarantee Fund and such interest and other income shall form part of the Contributory Guarantee Fund.

2.11.6 If a Clearing Member fails to comply with the requirement to make contributions to the Contributory Guarantee Fund as envisaged in Rule 2.11.2 above, the Clearing House shall initiate the following action against such Clearing Member:

(i) Imposition of fines

(a) The Clearing House shall impose fines as set out below:

Instance of Non-Compliance	Fine (Rs.)
On the first (1 <sup>st</sup> ) occurrence	The Clearing House shall charge a fine of Rupees One Hundred Thousand (Rs. 100,000/-).
On the second (2 <sup>nd</sup> ) occurrence within one (1) year from the date of the first (1 <sup>st</sup> ) occurrence	The Clearing House shall charge a fine of Rupees Two Hundred Thousand (Rs. 200,000/-).
On the third (3 <sup>rd</sup> ) occurrence, which is within one (1) year from the date of the first (1 <sup>st</sup> ) occurrence	The Clearing House shall charge a fine of Rupees Five Hundred Thousand (Rs. 500,000/-) and prohibit the Clearing Member from carrying out settlement of trades for three (3) Market Days.

(b) The fines shall be charged from the Clearing Members based on a schedule issued by the Clearing House as at end of the applicable month. The Clearing Member shall pay the relevant amount as indicated in the schedule to the Clearing House within Two (2) Market Days from the date of the issue of such schedule.

(c) Additionally, the Clearing House shall notify the CSE and the CDS regarding the enforcement action initiated against the Clearing Member in terms of Rule 9.3(i)(a) above, referring to the non-compliance and the

enforcement action taken by the Clearing House against the Clearing Member for such non-compliance.

(ii) Commencement of Disciplinary Proceedings

If a Clearing Member fails to comply with the requirements imposed by the Clearing House in accordance with above Rules on more than three (3) separate occasions within any given period of twelve (12) months, the Clearing House shall, in addition to the fines stipulated in this Rule 2.11, commence disciplinary proceedings against such Clearing Member in terms of Section 4 of these Rules.