



Central Depository Systems (Pvt) Ltd.

Rules

December 2000

Amended January 2009

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RULE 1 **DEFINITIONS**

1.1 **Board of Directors**

The body duly elected under the Articles of Association to administer the affairs of CDS.

1.2 **Broker**

A firm licensed under the Securities and Exchange Commission of Sri Lanka (SEC) Act No: 36 of 1987 to operate as a stock broker and a member of the Colombo Stock Exchange (CSE).

1.3 **CDS**

Central Depository Systems (Pvt.) Limited

1.4 **CSE**

Colombo Stock Exchange.

1.5 **Custodian Bank**

A Commercial Bank licensed under the Banking Act No: 30 of 1988 and providing safe custody and clearing services for clients in CDS eligible securities.

1.6 **Contract Note**

A legally binding confirmation of a purchase or sale of securities through a licensed broker and prepared on its behalf by CDS.

1.7 **Dealer**

A firm licensed under the Securities and Exchange Commission of Sri Lanka (SEC) Act No.36 of 1987 to operate as a dealer and a member of the Colombo Stock Exchange (CSE).

1.8 **Foreign**

An unique identifier assigned by CDS to an investor utilizing the facilities of CDS who is classified as a non-resident, non-citizen of Sri Lanka for the purposes of securities market participation under various guidelines and directives as may be made from time to time by the Government of Sri Lanka.

1.9 **Institutional Trade**

A purchase or sale transaction in an eligible security involving at least one recognized domestic or foreign institutional investor who utilizes the custodial and clearing facilities of a custodian bank.

1.10 **Listed Entity**

An entity which is listed on the Colombo Stock Exchange.

1.11 **Market Day**

A day where the Exchange Trading Floor is open for business.

1.12 **National Identity Card Number (NIC)**

The number which appears on the National Identity Card issued by the Commissioner of Registration of Persons.

1.13 **Participants**

Member Organizations approved by the Board of Directors of CDS to directly utilize the facilities and services as may be offered by CDS.

1.14 **Quoted Security**

A security which has obtained a quotation from the CSE.

1.15 **Securities**

Securities means debentures, stocks, shares, warrants, convertible debentures or any such other securities in a public company or corporation, bills or bonds of any government or of any body corporate or unincorporate, including any right or option in respect thereof or any other certificate or interest bought or sold on a stock exchange.

1.16 **SEC**

Securities and Exchange Commission of Sri Lanka Incorporated under Act No. 36 of 1987.

1.17 **Security Identification Number (SIN)**

A unique number to be assigned by CDS in accordance with standards for securities identification established by the International standards Organization. ISO 3166 and ISO 6166.

1.18 **Stamp Duty**

A fee which may be charged under the Stamp Duty Act No.43 of 1982 for securities transactions.

1.19 **Settlement**

The exchange of securities and money in completion of trades in securities through the facilities of CDS in accordance with the CDS rules.

1.20 **Trade**

A purchase and sale transaction of an eligible security effected on the Colombo Stock Exchange (CSE).

RULE 2 PARTICIPANTS

The CDS shall act for those organizations, entities or persons who qualify as participants under these rules and who apply to CDS to act for them, whose applications are approved by the Board of Directors of CDS. An organization, entity or person shall be qualified to become a Participant if it could satisfy at least one of the following Criteria:

1. It is a licensed stock broker under the Securities and Exchange Commission of Sri Lanka Act No: 36 of 1987 and a member of the Colombo Stock Exchange.
2. It is a licensed stock dealer under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and a member of the Colombo Stock Exchange.
3. It is a bank, licensed under the Banking Act No. 30 of 1988.

An organization, entity or a person, which in the opinion of the Board of Directors of CDS is suitable to be given participatory status, may be given such status even if such organization, entity or person does not qualify under the above criteria.

RULE 3 ELIGIBLE SECURITIES FOR PROCESSING

- 3.1 The following categories of securities will be eligible for processing by participants through CDS's clearance, settlement and depository facilities.
 - 3.1-1 All securities quoted on the CSE.
 - 3.1-2 All unquoted securities admitted by the CSE including securities registered with the over the counter board of the CSE.
 - 3.1-3 Any security quoted under 3.1-1 if de-listed or any security registered under 3.1-2 if de-registered until such time all formalities have been completed with regard to such de-listing/de-registration and securities certificates in the names of beneficial owners registered through the CDS have been issued.

- 3.2 CDS shall maintain a list of securities subject to processing through its facilities and shall assign a unique Security Identification Number (SIN) to each individual security eligible for processing through CDS's facilities. The SIN will conform to international standards for such numbering schemes as stipulated by the International Standards Organization (ISO # 6166).

RULE 4 SECURITIES ACCOUNTS

- 4.1 To open a Securities Account, a Participant shall furnish the CDS with the following particulars of the client in the account opening form (CDS Form 1 or 2 as the case may be).

Full name, address and National Identity Card Number (NIC) in respect of individuals, and the name, address and the Company registration number in respect of institutions (identity of Custodian Bank as appropriate).

- 4.2 Securities accounts of individuals shall bear the national Identity Card Number (NIC), name of the account holder and an Account Code Number. Securities accounts of institutions shall bear the Company registration number, name of the institution and the Account Code Number. An account holder shall operate the account through the same Participant.
- 4.3 Participants shall take all possible precautions to establish the genuineness of the client by examining the NIC. In instances where the NIC is not available the passport shall be used as a form of identity. The Participant shall retain a copy of either the NIC or the relevant pages of the passport as may be appropriate.
- 4.4 All CDS account opening applications (CDS Form 1 or 2) shall accompany a certified photo copy of the NIC or passport as appropriate. All applications submitted to open client accounts using the Passport Number shall be accompanied by certified photocopies of the relevant pages giving particulars of the passport holder and validity of the Passport. Certification has to be made by an authorized officer of the Participant to the effect that the original document was seen.
- 4.5 All account opening forms (CDS Form 1 or 2) shall be forwarded along with the acknowledgement slip (CDS Form 13) duly completed. Once the registration process is completed the acknowledgement slip would be handed over to the Participant confirming the account opening. Participants shall collect the acknowledgement slips the same day and shall forward them to the clients concerned before the expiry of three market days from the date of opening the account.
- 4.6 Any account opening application not conforming with the above rules shall not be entertained by CDS.
- 4.7 The deposited securities held in a Securities Account shall be held by CDS in trust for the account holder. CDS shall not mortgage, charge, hypothecate, pledge, deposit as collateral or in any way deal with the deposited securities, unless instructed to do so in writing by the account holder, through the participant.

- 4.8 Participants shall ensure that the information in the client's Securities Account is kept confidential at all times.
- 4.9 Multiple Securities Accounts may be maintained by investors identified separately for each participant of CDS. Investors may transfer security positions between Securities Accounts.
- 4.10 Any corporate body is permitted to open and operate designated accounts through any Participant.
- 4.11 At the time of opening such designated account with CDS, the account should be designated as follows:-
- ABC Bank No. 1 Account
or,
ABC Bank Account "A"
- 4.12 Letters of Allotment for rights, bonuses, dividend warrants and certificates against withdrawals shall be issued by the companies in the manner indicated in 4.11 in order to facilitate the allocation of rights, bonuses and dividends to the relevant designated accounts.
- 4.13 Participant custodian banks are permitted to open and operate securities custody accounts for their clients having the name codes of the registered owner, global custodian and the beneficial owner.
- 4.14 The CDS shall have the absolute right to suspend dealings on any securities account if the CDS is of the opinion that there is an irregularity in operation of the account, until such time all clarifications are made. The CDS will carry out suspensions on any securities account if instructed to do so by the CSE or the SEC.
- 4.15 The CDS may suspend dealings on a securities account on receipt of confirmation of the death of an account holder until such time as the grant of letters of representation or such other process as may be determined by Law.

RULE 5 OPERATION OF SECURITIES ACCOUNTS

- 5.1 All instructions to be given by the account holder to CDS in relation to the Securities Account shall be given through the Participant.
- 5.2 Any request for change of client master file information by Participants shall be directed to the CDS for processing only after checking the validity and authenticity of such communication. The account name and the CDS securities account number shall be indicated in all such requests. The respective Participant shall be held liable for directing any incorrect or false information regarding changes to client master file information.
- 5.3 The Securities Account shall be credited with any securities
- a. purchased by the Participant on behalf of an account holder and paid for by such account holder.
 - b. deposited by the account holder with CDS through a Participant under Rule 9.
 - c. received by CDS from a Company Secretary / Registrar on account of the account holder, any securities in respect of new issues, rights issues or bonus issues.
 - d. transferred into the securities account by the account holder under Rule 11.
- 5.4 The Securities Account shall be debited with any securities
- a. sold by a Participant on behalf of the account holder.
 - b. withdrawn by the account holder from CDS under Rule 10.
 - c. transferred out to any other securities account by the account holder under Rule 11.
- 5.5 All transaction reports shall contain all data necessary for the efficient clearance of transactions by CDS and as may be required under CDS's Rules and Procedures.
- 5.6 CDS shall not effect clearance unless matching reports from both, the Participant effecting the purchase and the Participant effecting the sale transaction have been received. A transaction shall be held in suspense if the report of the other party has not reached CDS. Such transactions held in suspense shall be finalized by representatives of Brokers in consultation with the CSE, before leaving the Trading Floor.

- 5.7 No Participant shall effect a sale transaction on behalf of an account holder if there is no sufficient balance in respect of that security in the securities account.
- 5.8 CDS shall not permit any Participant to have a short position in a security.

RULE 6 TRADE RECORDING

- 6.1 All trades in quoted securities, as stipulated in Rule 3, completed on the Colombo Stock Exchange shall be recorded in the CDS's system.
- 6.2 All recorded trades shall be valid unless cancelled by the Colombo Stock Exchange. Any request for a cancellation must be received by the CDS prior to close of processing for that trade day.
- 6.3 Details of transactions effected by Participants shall be disclosed immediately to the CDS through the Colombo Stock Exchange.
- 6.4 Participants shall disclose to CDS the names of ultimate buyers in respect of all buying contracts and shall not conclude an order "on account". CDS shall deem such names disclosed at the time of concluding a buying order to be the name of transferees when registering securities transfers.
- 6.5 CDS shall prepare and issue contract notes (CDS Form 10 or 11) each day on behalf of Participants in respect of all transactions concluded on the Trading Floor of the CSE.
- 6.6 The contract note shall contain among other information the full name of buyer/seller, address, stock, unit price, brokerage, CDS Fees, CSE fees, SEC Cess, stamp duty in respect of buying contracts, total value, trade and settlement date and the name and address of the Broker.
- 6.7 Representatives of Participants shall collect all contract notes for transactions concluded by them before leaving the Trading Floor.
- 6.8 Contract notes will be issued by the CDS at the end of each trading session. The participant brokers are required to despatch such contract notes to their clients. The participant brokers are not required to place their signatures on such contract notes. The stamp duty payable will be compounded in terms of section 13 of the stamp duty act.
- 6.9 All contract notes issued by CDS at the end of one trading session, shall be posted to the clients before commencement of the next trading session.

RULE 7 INSTITUTIONAL TRADE MATCHING

- 7.1 Institutional trade matching will be initiated when a trade has been completed on the Colombo Stock Exchange, for a client with an institutional securities account that is administered by a Participant as a Custodian Bank. The CDS will initiate a trade confirmation identifying the institutional securities account holder and the Participant Custodian Bank. The trade confirmation shall be returned with a positive acknowledgement (affirmation) by the Participant Custodian Bank by 1430 hours on Trade Day plus 1 (T+1), to enable the institutional transaction to settle on Trade Day plus 3 (T+3).
- 7.2 A rejection of a transaction on trade day plus 1 (T + 1) by the custodian bank will empower CDS to substitute the participant broker for the participant custodian bank for settlement of the transaction. In such event the participant broker so substituted shall settle the transaction.
- 7.3 The settlement liability of all affirmed trades would be the sole responsibility of the participant custodian bank.
- 7.4 The settlement liability of unaffirmed (rejected) trades by custodian banks would be the sole responsibility of the participant broker.

RULE 8 **CDS ACCOUNT STATEMENTS**

- 8.1 CDS shall forward to the account holder a monthly statement if such account was active during a particular month (monthly statement).
- 8.2 CDS shall forward to the account holder a quarterly statement if such account was active during the preceding three months (quarterly statement).
- 8.3 An 'Active account' shall be an account with at least one transaction (purchase/sale/deposit/withdrawal/transfer) during the period/s referred to above.
- 8.4 CDS shall forward a statement annually as at 31st December to inactive account holders (accounts with no transactions for a period of 12 months) having credit balances.
- 8.5 The monthly/quarterly/annual statements shall be forwarded to the account holder directly by the CDS. However CDS reserves the right to require the participant through whom the securities account is registered to forward the above statements to the account holder.
- 8.6 CDS/Participants shall use sealed envelopes whether window type or otherwise when posting statements of accounts in order to maintain confidentiality
- 8.7 If an account holder wishes at any time to obtain a statement of his account from the CDS he may either call over personally at the office of the CDS and obtain a copy of statement by producing his National Identity Card (NIC) or request in writing from the CDS for such statement. The CDS will send such statement only to the address registered in the system.
- 8.8 In the event a statement forwarded as aforesaid to the address registered with the CDS is returned to the CDS, CDS shall re-send the statement to the same address via registered post. If it is returned for the second time, the CDS shall require the relevant Participant to obtain in writing an alternate address from the account holder to which the statement should be forwarded. In the event that the Participant does not furnish an alternate address to the CDS as set out herein within two weeks of such request, the CDS shall suspend dealings of the relevant CDS account. CDS shall not thereafter forward the statements of account to the registered address of the account holder, until such time the account holder informs the CDS of an alternate address in writing which address shall be considered thereafter as the registered address of the account holder. Upon the account holder informing an address where the statements can be forwarded, the CDS shall remove the suspension on dealing of the relevant CDS account

RULE 9 DEPOSIT OF SECURITIES

- 9.1 All deposits of securities in CDS shall be made through a Participant and any subsequent sales or withdrawals shall be made through the same Participant. The Participant shall give a copy of the deposit slip (CDS Form 5) as evidence of deposit to the client.
- 9.2 All securities shall be of good delivery and shall be accompanied by duly signed transfer (CDS form 3 or 4) in favour of the CDS. A payment shall be made in respect of each transfer lodged with the CDS for any applicable Stamp Duty and other charges, if any, levied for the transfer of securities in favour of the CDS.
- 9.3 The Participant depositing securities on behalf of its clients shall ensure the genuineness of the Securities Certificate/s. All liabilities arising out of invalid deposits with CDS shall be borne by the Participant.
- 9.4 Participants should ensure that the NIC number or the Passport number denoted on the Securities Certificate is identical to the CDS securities account number of the client when depositing the certificates with the CDS.
- 9.5 If there is a difference between the NIC number or the passport number denoted on the Securities Certificate and the CDS securities account number of the client, the certificate shall be returned to the Participant by the CDS without lodgment.
- 9.6 If there is any trace of suspicion about the genuineness of the Securities Certificate, the Participant shall liaise with the secretary/registrar of the Listed Entity concerned and verify whether the Securities Certificate is genuine. These precautions shall be taken prior to the Securities Certificates being lodged with the CDS. In the case of debt securities same day credit will be given to the investor's securities account, only if the respective documents are certified by the relevant company secretary/registrar confirming that the transfer of such securities could be effected in the name of CDS. All deposits of debt securities forwarded without such certification will be credited to the investor's securities account only after the expiry of three (3) clear market days from the date of such deposit.
- 9.7 All Sold Transfer forms (CDS Form 3 or 4) should be completed clearly, preferably in block capitals. Any alterations to the particulars given, if any, shall be certified correct by the client or such Participant.
- 9.8 All Letters of Allotment deposited with the CDS shall bear the rubber stamp and authorised signature of an officer of the Participant confirming the validity and the authenticity of the document.
- 9.9 All deposits handed over for lodgment should contain a duly completed

Deposit Slip (CDS Form 5). The duplicate of the slip will be issued to the Participant as confirmation of receipt of such deposits duly acknowledged by way of franking.

- 9.10 The CDS has the right to reject any certificates, scrip certificates, letters of allotment or any other similar documents submitted for depositing which do not conform to the aforesaid requirements.
- 9.11 CDS shall forward all deposits received on a market day to the Listed Entity's designated secretary or Registrar by the next market day for transfer and credit to the account of CDS.
- 9.12 If for any reason a transfer cannot be registered, notice shall be given to CDS by the secretary/registrar of the Listed Entity within two (02) market days from the date of receipt with reasons for such refusal. On receipt of such notification from the secretary/registrar, CDS shall be entitled to take appropriate steps to rectify any anomaly. Participants shall be liable for such invalid deposits as set out in 9.3 above.
- 9.13 If such notification is not received by CDS before the expiry of the above stipulated period, CDS shall be deemed to have considered that the transfers are in order.

RULE 10 WITHDRAWAL OF SECURITIES

- 10.1 An account holder who wishes to request for the securities certificates in respect of securities purchased and credited to a Securities Account shall forward a duly signed Withdrawal Form (CDS Form 9) together with a Transfer Form (CDS Form 7 or 8) through the Participant under whom the Securities Account is registered.
- 10.2 An account holder who wishes to request for the securities certificates in respect of securities deposited in a Securities Account, but not traded shall forward a duly signed Withdrawal Form (CDS Form 9) together with a Transfer Form (CDS form 7 or 8) through the same Participant through whom the securities were deposited. A payment of any applicable Stamp Duty and or any CDS handling fees shall be made with each such withdrawal request.
- 10.3 Withdrawal of securities in the case of accounts having more than one name code are only permitted in the name of the beneficial ownership described in the account name.
- 10.4 CDS shall forward all withdrawal requests received on a market day to the Listed Entity's designated secretary or registrar by the next market day for transfer and debit the CDS account and to issue securities certificates.
- 10.5 The Company Secretary /Registrar of the Listed Entity is required to submit to CDS securities certificates against CDS withdrawals before the expiry of seven (07) market days of lodging a valid transfer with them.

RULE 11 TRANSFER OF SECURITIES

- 11.1 When a Participant receives a request for an intra-account transfer (CDS

Form 6) the genuineness of the transfer request shall be ensured by both connected Participants.

- 11.2 Participants shall not delay or refuse to effect intra-account transfers unless there are outstanding due from such clients or control weaknesses are suspected. If the amount of the outstanding are in dispute the Participant shall then inform the other Participant requesting the transfer, that the intra-account transfer is being delayed due to that reason.
- 11.3 If for any reason the transfer cannot be approved by the present Participant and returned, the Participant requesting the transfer should be informed of their inability to do so by the 3rd market day from the date of receipt of such request.
- 11.4 If the Participant requesting the transfer is dissatisfied with the reply it may be brought to the notice of the CDS by that Participant. The CDS shall then consider if the other Participant has a valid reason to refuse the transfer.
- 11.5 Transfers may be affected freely between accounts in the system for transactions concluded by foreign clients operating from time zones different to that of Sri Lanka up to two (02) market days from the date of conclusion of the trade (T+2). It must be ensured that there is no change in the funds settlement source indicated at the time of the trade as a result of the subsequent transfer (CDS Form 15 to be utilised).
- 11.6 CDS shall transfer securities bought by a Participant on behalf of a buyer on the "All or None" (AON) screen on the Automated Trading System (ATS) of the CSE from the buyer's account back to the sellers "Locked Account" in CDS, upon notification by CSE.
 - (a) Upon receipt of written confirmation from the seller's Participant of settlement of payment to the seller, the CDS shall transfer such securities to the buyer's account. Written confirmation by the seller's Participant shall include a receipt issued by the seller confirming receipt of payment or a statement by the seller's Participant of having made payment to the seller, setting out the payment details, i.e. name of bank, cheque no, amount and date of issue of cheque and date of delivery.
 - (b) The seller shall continue to be the registered holder of such securities transacted under the AON screen of the ATS of the CSE until such time the securities are transferred to the buyer as per rule 11.6 (b) above.
 - (c) In the event of a failed trade due to settlement failure, the CDS shall transfer securities in the seller's "Locked Account" to the seller's account.

(d) For the purpose of the Rule 11, “Locked Account” means a special account opened in the name of the seller in CDS, where securities transferred from the buyer’s account are held until settlement. Trading is suspended on this account

11.7 (a) Subject to the provisions of Rule 11.6, prior written approval of the SEC shall be obtained by all participants whenever the beneficial interest in shares held by an account holder in CDS, is required to be transferred outside the trading procedure of the CSE. All such transfer application forms shall be submitted to the CDS together with the original letter of approval received from the SEC.

(b) Subject to the provisions of Rule 11.6, prior written approval of the CDS shall be obtained by all participants whenever the beneficial interest in securities, other than shares, held by an account holder in CDS, is required to be transferred outside the trading procedure of the CSE.

Such approval shall be granted by the CDS in the following instances:

- (i) Where the transfer is to a relation of an account holder in CDS. “Relation of an account holder in CDS” means a parent, spouse or child of such account holder or the spouse of a child of such account holder.
- (ii) Where the transfer is to the legal representatives of such account holder, on the death of such account holder.
- (iii) In such circumstances that are considered appropriate which shall be determined at the sole discretion of the CDS.

RULE 12 RETURNED DOCUMENTATION

When documents are returned by the CDS back to Participants without lodgment due to discrepancies, such documents shall be returned under cover

of a "returned document advice" (CDS Form 14) stating the reasons for returning. Participants shall takeover such documents after due acknowledgement.

RULE 13 **ENTITLEMENT OF ACCOUNT HOLDERS**

13.1 The Company Secretary or Registrar of the Listed Entity shall co-ordinate

with CDS to process all registrations and entitlements for such listed entity.

- 13.2 An account holder's entitlement to a dividend payment, bonus or rights issue or any other distribution or ownership issue of the same nature shall be determined on the basis of the amount of securities held in the Securities Account as at the date of entitlement.
- 13.3 Entitlements for Accounts having more than one name code will be allocated to the first name given in the securities account.

RULE 14 DIVIDENDS

- 14.1 In the event of a Listed Entity declaring a Dividend payment, CDS shall

furnish the Listed Entity or its Secretary/Registrar a list of CDS account holders with their respective holdings with regard to that security as at the date of entitlement.

- 14.2 The Listed Entity shall prepare Dividend payments on the basis of the list provided by CDS and post cheques and tax certificates if any, direct to the respective account holders (securities holders).

RULE 15 **BONUS SHARES**

- 15.1 In the event of a Listed Entity issuing Bonus shares, CDS shall furnish the

Listed Entity or its Secretary/Registrar a list of CDS account holders with their respective holdings with regard to that security as at the date of entitlement.

- 15.2 The Listed Entity shall post the letters of allotment direct to the respective shareholders. Shareholders may deposit such letters of allotment with the CDS.
- 15.3 Trading on allotment letters in the market shall be done through a participant and shall be after prior deposit of the letter of allotment with CDS.

RULE 16 RIGHTS ALLOTMENTS

- 16.1 In the event of a Listed Entity having a rights issue, CDS shall furnish the

Listed Entity or its Secretary/Registrar a list of CDS account holders with their respective holdings with regard to that security as at the date of entitlement.

- 16.2 The Listed Entity shall post the letters of allotment direct to the respective security holders. Security holders may deposit such letters of allotment with the CDS.
- 16.3 Trading on allotment letters in the market shall be done through a Participant and shall be after prior deposit of the letter of allotment with CDS.
- 16.4 Cheques in respect of rights purchased shall be sent to CDS through the Participant through whom the rights were purchased and shall be drawn as specified by the Company.

RULE 17 **BANK GUARANTEE**

- 17.1 Each Participant may be required by the Board of Directors to furnish a Bank

guarantee in a format acceptable to CDS, and such bank guarantee to be held by CDS to be applied as provided in this rule. The amount of the bank guarantee required by each Participant shall be fixed by CDS in a manner as may be determined by the Board of Directors of CDS from time to time. This bank guarantee shall be obtained from any institution duly licensed under the provisions of the Banking Act No.30 of 1988.

17.2 The use of a bank guarantee furnished by a participant shall be limited to the following situations:

17.2-1 For the satisfaction of losses or liabilities of CDS.

17.2-2 For the satisfaction of losses or liabilities of CDS incident to the operation of the business of the CDS.

RULE 18 PURCHASE OF SECURITIES OF AND OVER THE VALUE OF RS. 20 MN.

- 18.1 All Participants, other than the Custodian Banks, shall provide a minimum margin of 15% on any purchase of securities of the value of Rs. 20Mn and above, in the form of “cleared funds” to the CDS or a bank guarantee in favor of the CDS, by 09.30 hours on T+1.
- 18.2 Participants shall deposit such cash margins into a separate account maintained by the CDS in a Settlement Bank and titled ‘Margin Deposit A/C’. The CDS shall utilize such cash deposit only for purpose of facilitating settlement in conformity with the instructions of the Member Firm Participant. In the event of a settlement failure the CDS shall utilize the cash deposit to facilitate settlement.
- 18.3 Alternatively, Participants may furnish a Bank Guarantee, in a format acceptable to the CDS, obtained by the client in favor of the CDS. The CDS shall enforce the Bank Guarantee only in the event of a settlement failure.
- 18.4 In the event the Participant fails to provide the requisite margin the CDS shall be entitled to take action as it may consider necessary in consultation with the SEC. No such action shall absolve the Participant of its liability in terms of the Rules of the CDS and CSE.
- 18.5 In the event a trade is not affirmed by a Custodian Bank, the Participant shall be required to submit the margin by 09.30 hours on T+2.

For the purposes of these Rules:

“Cleared Funds” shall mean funds that are realized and available for drawing.

“Trade affirmation” shall mean an acceptance by a Custodian Bank of a trade executed by a Member Firm or a Trading Member of the CSE, on behalf of a client registered through a Custodian Bank by 14.30 hours on T+1.

RULE 19 SETTLEMENT

- 19.1 Settlement of money payments between CDS and Participants, arising out of transactions or matters covered by Rules 5,6,7,10, 16 and 19 shall be

made as provided in this rule. CDS shall debit or credit itself and Participants with the amounts payable and receivable in accordance with the provisions of such Rules. Subject to Rule 18.4, the inter-participant settlement of funds for Trades on Securities shall take place at three Market Days after Trade day (T +3) through the settlement bank of CDS. Participants shall ensure that 'Cleared Funds' are made available at 0900 hours on the settlement date, which is T+3.

For purposes of this Section 'Cleared Funds' shall mean funds that are realized and available for drawing in the payee's bank account.

- 19.2 CDS shall produce, each market day, a preliminary settlement statement which will reflect the debits and credits which have been entered into the Participant's account and shall reflect a net amount payable to or payable by CDS. CDS shall also produce each market day a final settlement statement which shall reflect the information contained in the preliminary settlement, any adjustments to these amounts and any payments made to or from CDS that morning.
- 19.3 A Participant shall pay CDS or such agent as it shall designate the whole or any part of the amount he owes CDS at any time on its demand.
- 19.4 In the case of "All or None" (AON) transactions referred to in rule 11.6 inter participatory settlements for such transactions may take place prior to the settlement date and such settlements shall be excluded from the CDS settlement system. In the event of such prior settlement, CSE& CDS fees and SEC cess shall be payable by the respective participants directly to the CSE on the date of such settlement.

RULE 20 RULES GOVERNING THE SETTLEMENT FAILURE OF A PARTICIPANT

- (A) Procedure to be adopted in the event of a settlement failure of a**

Stockbroker Participant:

1. In the event of a failure in settlement by a Stockbroker Participant on the inter participant settlement date, such Participant shall be immediately suspended from making further purchases on behalf of its clients.
2. The CDS will publish a notice in the newspapers in all 3 languages informing the settlement failure of the Stockbroker Participant in making settlement and detailing the action that should be taken by Account Holders who maintain their Securities in the CDS through such Participant.
3. Subject to the strict supervision and control of the CDS and on the written approval of the CDS, the Stockbroker Participant in default may be permitted to continue to carry out sale of Securities on behalf of its clients until the 15th Market Day from the date of such suspension of purchases only in the following instances:
 - (A) Sale of Securities on the instruction of the client.
 - (B) Sale of Securities for which payment has not been received by such Participant on the purchase settlement date.
4. If the Stockbroker Participant fails to meet all outstanding settlement obligations by the expiry of the 15th Market Day from the date of suspension from carrying out purchases, such Participant will also be suspended from carrying out sales on behalf of its clients.
5. Notwithstanding the suspensions referred to herein, the Stockbroker Participant in default shall continue to honour its obligations with regard to fund settlement to other parties.
6. All sales proceeds received by a Stockbroker Participant subsequent to the settlement failure date shall be used to make payment to the respective sellers under the strict control and supervision of the CDS, provided that payment has been made by the seller in respect of such Securities.
7. Account Holders who hold Securities with a Participant in default may transfer such Securities from the Participant in default to any other Participant of their choice. The Account Holders may do so only after the settlement of any outstanding encumbrances attached to the Securities, i.e., any outstanding settlements due to the Participant pertaining to the Securities to be transferred, any margin trading/lending agreement pledging such Securities etc. Transfer of securities in CDS will be carried out by way of intra-account transfers.
8. In the case of purchase of Securities where settlement is due or where there

are encumbrances, the Account Holder shall be permitted to transfer the Securities to any other Participant only if and when such obligations are duly settled, subject however to any restrictions imposed by an order of Court.

9. In the event the Stockbroker Participant in default obtains funding from the Settlement Guarantee Fund (SGF) to meet settlement obligations, such Participant shall be treated as a 'Participant in default' until the funds borrowed from the SGF is settled in full.

10. These Rules will in no way prevent the CDS/CSE taking punitive action against the Stockbroker Participant in default.

(B) Procedure to be adopted in the event of a settlement failure of a Custodian Participant:

1. In the event of a settlement failure of a Custodian Participant, such Participant will be immediately suspended from carrying out any CDS functions.

2. The CDS will publish a notice in the newspapers in all 3 languages informing the settlement failure of the Custodian Participant and detailing the action that should be taken by Account Holders who maintain their Securities in CDS through such Participant.

3. Notwithstanding the suspension referred in (B) 1 above, the Custodian Participant shall continue to honour its obligations with regard to fund settlement to other parties.

4. Account Holders who hold Securities with a Custodian Participant in default may transfer such Securities from the Participant in default to any other Participant of their choice. The Account Holders may do so only after the settlement of any outstanding encumbrances attached to the Securities, i.e. any outstanding settlements to the Participant pertaining to the Securities to be transferred, any margin trading/lending agreement pledging such Securities etc. Transfer of Securities in CDS will be carried out by way of intra-account transfers.

5. In the case of Securities purchased where settlement is due or where there are encumbrances the Account Holder shall be permitted to transfer the Securities to any other Participant only if and when such obligations are duly settled, subject however to any restrictions imposed by an order of Court.

6. These Rules will in no way prevent the CDS taking punitive action against the Custodian Participant in default.

RULE 21 FEES FOR SERVICES RENDERED

Participants shall pay such fees and charges to CDS as specified by CDS in

the Rules or Procedures and approved by the Board of Directors on a reasonable and non-discriminatory basis. A Participant may be charged for any unusual expenses caused directly or indirectly by such Participant, including and without limitation, the cost of producing records pursuant to a court order or other legal process in any litigation or other legal proceeding to which such Participant is a party or in which such records relating to such Participant are so required to be produced, whether such production is required at the instance of such Participant, or of any other party other than CDS. Participants shall be authorized to pass such CDS fees on to their clients as may be approved from time to time by the CDS.

RULE 22 **FINANCIAL RESPONSIBILITY AND OPERATIONAL CAPABILITY OF PARTICIPANTS**

22.1 CDS may establish, as it deems necessary or appropriate, standards of

financial responsibility, operational capability, experience and competence for Participants. CDS may also establish guidelines for Participants, for being accepted as Participants. CDS shall have the authority to examine the financial responsibility and operational capability of any Participant, or applicant to become a Participant. In conducting such examinations, CDS may require a Participant or Applicant to furnish such information, to make its books and records available and to provide sworn or unsworn testimony, as will be sufficient in the opinion of CDS, to demonstrate the financial responsibility and operational capability of the Participant or Applicant.

- 22.2 On admission Participants shall submit to CDS quarterly financial statements before the expiry of twenty (20) days from the end of each quarter and audited financial statements within six (06) months from the end of the financial year. Failure to submit such statements on or before the due date may result in the CDS suspending the Participant until such reports are filed.
- 22.3 The Board of Directors of CDS shall have the right of suspending a Participant from using the services and facilities offered by CDS if such participant is found to be financially instable.
- 22.4 The CDS may withdraw participatory status from a participant if such participant had not been actively engaged in business with CDS for a continues period, the duration of which may be determined by the Board of Directors.

RULE 23

RULES ON THE PROCEDURE TO BE FOLLOWED CONSEQUENT TO A DIRECTION RECEIVED BY CSE FROM SEC IN TERMS OF SECTION 23 OF THE SEC ACT, AS AMENDED

- 23.1 If the CSE is directed by the SEC, in terms of Section 23 of the SEC Act No.36 of 1987, as amended, to arrange for a Stockbroker/Stock Dealer Participant to take over the outstanding contracts relating to transactions in Securities of another Stockbroker/Stock Dealer Participant, the following procedure shall be followed by the CDS, upon been directed to do so by the CSE.
- 23.2 The CDS will publish a notice in the newspapers in all 3 languages informing the settlement failure of the Stockbroker/Stock Dealer Participant, the direction issued by the SEC and the action that should be taken by Account Holders who maintain their Securities in CDS through such Stockbroker/Stock Dealer Participant.
- 23.3 The Account Holders who hold Securities with the Stockbroker/Stock Dealer Participant in default will be given the opportunity of transferring their Securities from such Stockbroker/Stock Dealer Participant to any other Participant of their choice within 30 Market Days of the publication of the notice referred to in Rule 2 above, provided that there are no encumbrances and outstanding payments to the Stockbroker/Stock Dealer Participant on the Securities concerned.
- 23.4 In the case of Securities purchased where settlement is due or where there are encumbrances, the Account Holder will be permitted to transfer the Securities to an alternative Participant only if and when such obligations are duly settled, subject however to any restrictions imposed by an order of Court.
- 23.5 The CDS would provide details of Securities not transferred by Account Holders within 30 Markets Days of the publication of the notice to the Stockbroker/Stock Dealer Participant concerned and request confirmation from such Stockbroker/Stock Dealer Participant within 7 Market Days as to whether such Securities can be transferred, and if not, the reasons for same and details of any encumbrances attached to such Securities. In the event information is not received within 7 Market Days after such request, it will be presumed that the Securities can be transferred and that there are no encumbrances attached to such Securities, subject however to any restrictions imposed by an order of Court.
- 23.6 Based on the information provided by the Stockbroker Participant/Stock Dealer Participant, the CDS may take one of the following steps with regard to the Securities that are not encumbered, as declared by the Stockbroker/Stock Dealer Participant or deemed not encumbered in terms of Rule 5:
- (i) Initiate action to transfer such Securities to another Participant/s appointed by the CDS in the following manner.

- (a) request Participants who are interested in taking over the Securities Accounts of the Stockbroker/Stock Dealer Participant in default to write to CDS expressing their interest which shall not be subject to any condition.
 - (b) if more than one Participant expresses interest the CDS will decide on what basis the outstanding Securities Accounts are to be distributed amongst the Participants who have expressed interest.
- (ii) If no Participant has expressed interest in taking over the Securities Accounts of the Stockbroker/Stock Dealer Participant in default the CDS shall take the following steps:
- (a) suspend such accounts.
 - or
 - (b) make arrangements with the relevant Listed Companies to issue Securities certificates in the names of the respective Account Holders, according to their holdings deposited with the Stockbroker/Stock Dealer Participant, and dispatch such certificates to the Account Holder.
- 23.7 Securities that are encumbered, as declared by the Stockbroker/Stock Dealer Participant in terms of Rule 5, shall be suspended by the CDS.
- 23.8 Account Holders who subsequently settle outstanding payments and encumbrances shall obtain a certificate to that effect from the Stockbroker/Stock Dealer Participant and request for a transfer of Securities to another Participant or request for a Securities certificate.
- 23.9 Securities remaining suspended subsequent to the application of the above procedure may be transferred to any other party with the approval of the SEC.

RULE 24 ACTION BY THE CORPORATION

Except where action of the Board of Directors is specifically required by the Rules, the Chairman of the Board or the Manager of the CDS or any other person designated by the Board of Directors from time to time shall act on behalf of the CDS.

RULE 25 ADMISSION TO PREMISES OF CDS

No person shall be permitted to enter the premises of CDS without the prior written approval of the Manager or in his absence the officer designated to act for him.

RULE 26 FORMS

In connection with any transaction or matter handled through, with or by CDS under or pursuant to the Rules, such forms of slips, lists, notices and other documents shall be used as CDS may from time to time prescribe and additions to, changes in, and elimination of any such forms may be made by CDS at any time in its discretion (specimens of all CDS forms are provided as Annexure). In addition, any information required to be delivered to CDS by use of any such forms may be delivered by the use of any media, such as magnetic tapes, discs, diskettes or paper, as shall be prescribed in the Rules or Procedures or by CDS from time to time.

RULE 27 PROCEDURES

The Board of Directors may, pursuant to these Rules, prescribe from time to time Systems and Procedures in respect of the business of CDS. The Board of Directors may, by resolution, delegate to the Chairman of the Board or the Chief Executive, the power to prescribe Procedures and regulations. Each Participant shall be bound by such Systems and Procedures and regulations and any amendment thereto in the same manner as it is bound by the provisions of these Rules. Participants shall be given a minimum of five (05) market days notice of any proposed amendment to the Procedures. However the Board of Directors reserve the right of implementation of new rules and procedures at short notice.

RULE 28 RESTRICTIONS ON ACCESS TO SERVICES

- 28.1 The Board of Directors of CDS or such committee as the Board may designate may suspend a participant or prohibit or limit such Participant with respect to access to services offered by CDS in the event that
- 28.2 2such Participant has been and is expelled or suspended from any regulatory or self-regulatory organization, or
- 28.3 such Participant is in default of any delivery of funds or securities to CDS,
- 28.4 such Participant is in such financial or operating difficulty, as CDS determined, in its discretion that such actions are deemed to be necessary for the protection of CDS, Participants, creditors, or investors.

RULE 29 **INTERPRETATION OF RULES**

The Board of Directors of CDS or any Committee thereof, or their designee(s) shall have authority to interpret the Rules of the CDS. Interpretations of the Board of Directors or any Committee thereof, or their designee(s) shall be final and binding subject to an appeal to the Securities and Exchange Commission of Sri Lanka and such appeal shall be made within 7 days.

RULE 30 **DISCIPLINARY PROCEEDINGS**

- 30.1 CDS may discipline any Participant for a violation of any provision of the Rules or the Procedures of CDS, such Participant's agreements with CDS, or for any error, delay or other conduct detrimental to the operations of CDS, or for not providing adequate facilities for such Participant's, business with CDS, by expulsion, suspension, limitation of or restriction of activities, functions and operations, fine or censure of any other action that may be deemed to be necessary, provided, however, that the fine for any single offence shall not exceed the sum of Rupees 5,000,000/=.
- 30.2 Before imposing any disciplinary sanction on a Participant pursuant to this Rule, CDS shall notify such Participant of the charges against such Participant and its right to a hearing. If the Participant is aggrieved by such decision he shall have the right of appeal to the Securities and Exchange Commission of Sri Lanka.

RULE 31 FINES FOR VIOLATION OR NON-COMPLIANCE OF RULES

CDS may impose fines for violation or non-compliance of these Rules by the Listed Entities. The amount of such fines may be determined by the Board of Directors of the CDS from time to time.

RULE 32 RELEASE OF CLEARING AND DEPOSITORY DATA

- 32.1 Subject to any legal impediments as provided in paragraphs 29.2 or 29.3 hereof, CDS will only release Clearing and Depository Data relating to transactions of a particular Participant to such Participant upon his written request.
- 32.2 CDS in its sole discretion, may release Clearing and Depository Data relating to transactions of Participants to regulatory organizations and self-regulatory organizations, as required by relevant laws, provided, however, that nothing in this Rule shall prevent the CDS from releasing Clearing and Depository Data to others, provided that such data shall be in a form as that would prevent them from being identified as data relating to a Participant or a Securities account holder of the CDS.
- 32.3 With respect to the foregoing, the release of any Clearing and Depository Data shall be conditioned upon either
- a. a written request, or
 - b. the execution of a written agreement with CDS, whichever is appropriate in CDS's discretion and CDS in its discretion, may establish the condition under which such data shall be released and the fees, if any, to be paid for such data.