

SETTLEMENT PROCEDURES FOR SECURITIES MARKET

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SETTLEMENT PROCEDURES FOR SECURITIES MARKET

1. Overview

This document explains the settlement procedures that must be complied with by a Clearing Member and/or a Settlement Agent.

2. Definitions

Business Day	A day that is not a weekend day of Friday and Saturday <u>and Sunday</u> or is not declared as a holiday by the Clearing House.
Clearing Member or CM	The entities which are members in the CCP as per its membership conditions and includes TCMs and GCMs.
Clearing House	Dubai Clear LLC, the licensed CCP clearing house or any other name as may be updated for Dubai Clear LLC.
Custodian	A legal person licensed by SCA to practice the custody of securities and refers to custody clients approved by Dubai CSD.
DVP	Delivery Versus Payment where the Late Confirmation Period is applicable.
Exchange	Dubai Financial Market or any other stock exchange.
General Clearing Member or GCM	A CM other than a TCM and clears and settle trades for TMs and/or for the GCM's clients.
Late Confirmation Period	The 2 Business Days after T+2 for SAs to confirm trades for settlement.
T+0	The Business Day in which a trade is executed.
T+2	The Settlement Day for T+0 trades which is 2 Business Days from T+0.
Trading Member	A broker licensed to conduct the purchase and/or sell of securities <u>but not</u> licensed to conduct clearing and settlement operations for itself.
Trading Clearing Member	means a TM licensed to conduct clearing and settlement operations for trades executed by the TM but not for trades executed by other TMs.

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RSS	Regulated Short Sell.
Settlement Agent or SA	A Custodian licensed by the Authority and approved by the CCP to perform cash and securities settlement activities in favour of the CCP - on behalf of and under authorization from the CM.
Settlement Bank	A bank designated by the Clearing House as the bank for funds settlement.
Settlement Day or SD	T+2, the day in which a T+0 trade must be settled.
UAE	The United Arab Emirates.

3. Settlement of Trades

3.1. CMs and SAs must ensure that all trades executed on T+0 are settled on Settlement Day (T+2) at the following timings:

3.1.1. Funds Settlement:

- 3.1.1.1. Freely available funds must be in the designated bank account of a CM and/or SA with the Settlement Bank by 9.30AM UAE time to enable the Settlement Bank to debit the To Pay funds settlement obligations of a CM and/or SA's.
- 3.1.1.2. The Clearing House will pay all To Receive funds settlement obligations to the designated settlement bank account of a CM and/or SA with the Settlement Bank by 10.00AM UAE time.
- 3.1.1.3. Where an SA has insufficient funds for settlement, the responsible CM will be debited with any SA shortfalls.
- 3.1.1.4. Failure to ensure sufficient funds for settlement by 9.30AM UAE time shall be deemed as a breach of Chapter 4 Rule 19 of the Dubai Clear General Rules.

3.1.2. Securities Settlement:

3.1.2.1. Non DVP trades including RSS trades:

- 3.1.2.1.1. Owned securities balances must be available by the first securities settlement run on T+2 starting at

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10.15am UAE time. Failure to ensure sufficient securities balances for settlement by this time will be deemed as a breach of Chapter 4 Rule 21 of the Dubai Clear General Rules.

3.1.2.1.2. Penalties may be imposed for failure to ensure sufficient securities balances for successful settlement by the last securities settlement run on T+2.

3.1.2.2. DVP trades:

3.1.2.2.1. Owned securities balances must be available by the 3rd Securities Settlement run commencing 2.00PM UAE time.

3.1.2.2.2. For sell trades which are not confirmed for settlement by T+4, the selling CM must ensure that securities balances are available by the 3rd Securities Settlement run commencing 2.00PM UAE time on T+4.

4. Corporate Actions(CAs) Arising from Failed Securities Deliveries

The Clearing House may impose penalties and recover costs and any corporate action proceeds for non compliance with securities delivery timings resulting in failed securities deliveries:

4.1. Cash Type of CAs:

4.1.1. Clearing Members which failed to deliver securities on T+2 for successful securities settlement are responsible for any Corporate Action (CA) claims.

4.1.2. The Clearing House shall be entitled to debit the Clearing Member for any CA amounts claimed by the buying Clearing Member or Settlement Agent whose clients failed to receive securities on T+2 to be entitled for the CA event.

4.1.3. The Clearing House also reserves the right to retain the equivalent CA sum from any monies due to the Clearing Member which failed to deliver securities for settlement by T+2.

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- 4.1.4. The CA sum to be retained or debited by the Clearing House shall be calculated based on the CA rate including any charges as may be claimed by the buying Clearing Member or Settlement Agent.
- 4.1.5. Failure by the Clearing Member to settle such claims shall be subjected to penalties by the Clearing House.

4.2. Mandatory Securities Type of CA

- 4.2.1. The Clearing House will compensate a Clearing Member the cash equivalent of a mandatory securities type of CA.
- 4.2.2. Clearing Members must submit a claim for any mandatory securities type of CA event in the prescribed manner as may be informed by the Clearing House from time to time.
- 4.2.3. The Clearing House will also claim the cash equivalent of a mandatory securities type of CA against the Clearing Member that caused the claim and compensation by failing to meet its T+2 securities delivery obligations.

5. Penalties – failure to meet funds settlement obligations and/or any payments due to the Clearing House.

- 5.1. The Clearing House may impose any of the following penalties for non-compliance with funds settlement timings:
 - 5.1.1. Suspension of a CM. This means that any Trading Member using the services of the suspended CM will also be suspended from trading activities;
 - 5.1.1.1. If the CM fails to ensure sufficient funds in the designated settlement bank account with the Settlement Bank for the Settlement Bank to successfully debit the amount due, the CM will be suspended at 10:00 am;
 - 5.1.1.2. The Clearing House may consider not to suspend the CM if the unsettled funds obligation is 20% or less from the total amount and the funds settlement obligation for the following Business Day is in a To Collect position exceeding the outstanding amount. Therefore, on T+3 the remaining amount due will be deducted from the CM's settlement bank account and transferred to Clearing House's bank account.

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5.1.1.3. The Clearing House may also declare an Event of Default pursuant to Rule 3 of the Default Rules for such instances of non settlement of funds settlement obligations which will allow the Clearing House to, among other actions, liquidate collateral of the Defaulting CM and/or sell unpaid securities.

5.1.1.4. Suspension is uplifted latest by the next Business Day when the CM has settled the outstanding funds settlement obligations.

5.1.2. Financial penalties are as follows:

Value of Unsettled Funds Obligations (AED)	Penalty Amount (AED)
(1 - 20,000,000)	10,000
(20,000,001 - 40,000,000)	20,000
(40,000,001 - 60,000,000)	30,000
(60,000,001 - 80,000,000)	40,000
(80,000,001 - 100,000,000)	50,000

6. Penalties – failure to meet securities delivery obligations.

The Clearing House may also impose the following penalties on a CM for the failure to meet securities delivery obligations:

6.1. Suspension of a CM: This means that any Trading Member using the services of the suspended CM will also be suspended from trading activities;

6.2. Financial penalties as follows:

No.	Settlement Day	Penalty
1	T+2	No penalties if a failed delivery of securities is settled by the end of T+2.

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No.	Settlement Day	Penalty
2	T+3	A fine of AED1000 or 0.1% of the unsettled trade value, whichever is the higher, if a failed sell trade is settled on T+3.
3	T+4	<p>a. A fine of AED3000 or 0.5% of the unsettled trade value if a failed sell trade is settled on T+4.</p> <p>b. A fine of AED5000 or 1% of the unsettled trade value, whichever is the higher, if a failed sell trade is settled by way of a buyer cash compensation, in addition to the buyer cash compensation amount payable by the selling broker.</p>

6.3. Securities delivery obligations can only be discharged with Owned balances. A buy back trade shall not be considered as good delivery of securities because there is no Owned balances until the buy trade is successfully settled.

6.4. Penalties will not be charged until further notice from Dubai Clear.

7. Breach of Daily Operational Limit (DOL)

In addition to automatic suspension, the CM may also be penalized AED5,000.00 for every full calendar day the DOL remains in the negative.

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