



**Saudi Stock Exchange (Tadawul)**

## **The Exchange and Centre Procedures**

*Approved by the Board of (Tadawul) Pursuant to its Resolution*

*Number (1-2-2017) Dated 24/6/1438H corresponding to 23/3/2017G*

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**Arabic is the official language of the Saudi Stock Exchange**

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## Definitions:

*Expressions and terms in these Procedures have the meanings which they bear in the “Glossary of Defined Terms Used in the Exchange Rules”, and for the purpose of implementing these Procedures, the following expressions and terms shall have the meaning they bear as follows, unless the contrary intention appears:*

- ❖ **Access Account:** A client’s Centre account opened through an ICM to enable other Exchange Members to execute trades on behalf of that client.
- ❖ **Delivery Versus Payment (DvP):** (DvP) is a securities settlement model that links securities and funds transfer mechanisms in a way to ensure that delivery of securities occurs only if the corresponding payment occurs.
- ❖ **General Assembly (GA):** The general assembly held with the attendance of the shareholders of the company pursuant to the provisions of the company’s bylaws and the Companies Law.
- ❖ **Independent Custody Member (ICM):** A custody member providing services in respect of transactions in deposited securities which are executed on behalf of the client by another Exchange Member.
- ❖ **Loan return:** A return of a borrowed security from the borrower to the lender.
- ❖ **Recall:** A request by the lender to the borrower, through lending and borrowing agent, to return the loaned securities before the loan period end date.
- ❖ **Securities Inventory:** The settled securities balance of a Centre account free of restrictions.
- ❖ **Securities Settlement Cycle (T+X):** The period that starts when the transaction is executed (T), and ends when the settlement of that transaction is completed (X).

- ❖ **Tadawulaty:** is a suite of services offered by the Securities Depository Centre Company in cooperation with its members. It holds a bundle of new financial services targeted at investors and issuers.

## Introduction

- This document aims to specify the Exchange and the Centre procedures which shall be followed to comply with the provisions of the relevant Exchange Rules, which includes the following:
  - Securities Depository Centre Rules;
  - Short Selling Regulations;
  - Securities Borrowing and Lending Regulations;
  - Trading Procedures; and
  - Glossary of Defined Terms Used in the Exchange Rules.
  
- The Exchange or the Centre (as applicable) may, after obtaining the Authority's approval, waive any requirement in these Procedures either based on a request from the relevant person or on their own initiative.
  
- Without prejudice to the provisions of the Capital Market Law and its implementing regulations, the Exchange and the Centre shall not be held liable for any losses, damages or claims resulting from any procedure, order and transaction that is subject to these Procedures.
  
- These Procedures shall be effective as per its approval resolution.

# 1. T+0 Trading Day Activities

## 1.1 Sell Orders:

*The below steps are applicable on sell orders (on-exchange or OTC) of any deposited securities.*

1.1.1 The Exchange Member checks the order's quantity against the quantity of securities available at its client's Centre account level, as per the provisions of the Trading Procedures.

1.1.2 Available securities are defined as follows:

***Available Securities = Securities Inventory + Securities Pending-in – Securities Pending-out – Securities blocked for active sell orders – Securities blocked for failed chains***

*Where:*

- **Securities Inventory** – the settled securities balance of a Centre account free of restrictions;
- **Securities Pending-in** - securities bought but not settled yet;
- **Securities Pending-out** - securities sold but not settled yet;
- **Securities blocked for active sell orders** – securities blocked for active sell orders, which are not matched or executed yet;
- **Securities blocked for a failed chain**– securities blocked for a failed chain as per paragraph (3.3) of these Procedures.

1.1.3 Available securities are checked on the Centre account level and recalculated after any action affecting one of the components stipulated in paragraph (1.1.2) of these Procedures.

- 1.1.4 As a result of placing a sell order, the amount of available securities of the relevant seller will be reduced by the sell order volume and securities will be placed under “pending-out” status until settlement.
- 1.1.5 If the sell order is matched with a buy order, the trade will be executed immediately.
- 1.1.6 The Custody member’s ASL will be increased by the sell trade’s value, in accordance with paragraph (1.2.2) of these Procedures.
- 1.1.7 Securities will remain reserved as “Pending-out” until settlement. Therefore, the securities cannot be sold again.
- 1.1.8 Settlement will take place on a DvP basis on T+2, in accordance with paragraph (3.1) of these Procedures.
- 1.1.9 An ICM can reject the trade in accordance with the Securities Depository Centre Rules. Moreover, where the settlement of such trade fails to occur on the intended settlement date, it will be subject to section (4) of these Procedures.

## 1.2 Buy Orders:

*The below steps are applicable on buy orders (on-exchange or OTC) of any deposited securities.*

- 1.2.1 The Exchange Member checks the order amount against its ASL as a Custody member.
- 1.2.2 ASL is a rolling limit which is recalculated after every settlement run to exclude the value of settled trades. The mentioned recalculation is conducted after trading times as follows:

***ASL= Cash Settlement Limit + Funds Pending-in - Funds Pending-out – Funds blocked for active buy orders – Funds blocked for rejected sell trades***

Where:

- **Cash Settlement Limit** – a cash limit as determined by the relevant settlement member for the Exchange Member (as Custody Member).
- **Funds Pending-in** – value of unsettled sell trades, excluding 1) rejected sell trades on-exchange and OTC trades. 2) sell trades for an ICM clients.
- **Funds Pending-out** – value of unsettled buy trades (on-exchange or OTC) and value of unsettled tradable right subscriptions.
- **Funds blocked for active buy orders** – value of active buy orders.
- **Funds blocked for rejected sell trades** – value of rejected sell trades (for an Exchange Member which executes a transaction for an ICM client).

1.2.3 If the value of the buy order is less than or equal to the ASL, it will be deducted from the relevant Exchange Member's ASL, and the order will be accepted.

1.2.4 If the order value is larger than the ASL, the order will be rejected.

1.2.5 Bought securities will be added to the available securities (securities are placed under "pending-in" status until settlement).

1.2.6 For all trades, settlement will take place on a delivery versus payment basis on T+2, in accordance with paragraph (3.1) of these Procedures.

1.2.7 ASL could become negative due to the following reasons:

- After settlement (since settled trades are excluded from ASL calculation).
- Upon rejection of the sell order from the ICM.

1.2.7.1 The negative ASL could be resolved by either of following:

- Executing sell trades.
- Increasing the Cash Settlement Limit by Settlement Member which can be done anytime intra-day.

1.2.8 Settlement member can set, for the Exchange Member, a Cash Settlement Limit for ICM clients' transactions, in addition to a Cash Settlement Limit for its clients' transactions (as Custody Member).



1.2.9 Exchange Members can (as Custody Members) view their expected ASL at a specified date through the Depository and Settlement System.

## 2. Custody Controls

### 2.1 Overview:

- 2.1.1 An ICM can maintain several access accounts for each client, and may restrict trading on such accounts to specific Exchange Members (as per the client's request) who can execute trades on behalf of the client.
- 2.1.2 An ICM can reject the settlement of a transaction from executing that transaction and until the rejection cut-off time [T+2 at 11:00 am].

### 2.2 Trade Rejections:

#### 2.2.1 General Provisions:

- 2.2.1.1 An Exchange Member which executes a transaction for an ICM client must open a rejection account as a pre-requisite.
- 2.2.1.2 A rejection cannot be canceled after submitting it.
- 2.2.1.3 The settlement of the rejected trade is the responsibility of the Exchange Member who executed the transaction on behalf of the ICM client.
- 2.2.1.4 All rejected trades are transferred and settled on the corresponding Exchange Member's rejection account. This account cannot be used for other than fails management activities, as specified in section (4) of these Procedures.
- 2.2.1.5 Once the rejection is submitted, it will be executed after at least 30 minutes of submitting it by the Custody Member. Rejections are executed in batches which run every 30 minutes during trading times, and include all submitted rejections, as per the below schedule:

<b>Day</b>	<b>Rejection Window</b>
T+0	Trade time to 16:00
T+1	08:00 to 16:00
T+2	08:00 to 11:00

<b>ICM Trade Rejection Time</b>		<b>Rejection Execution</b>
Including previous day	8:45	9:15
8:45	9:15	9:45
9:15	10:00	10:30
10:00	10:30	11:00
10:30	11:00	11:30
11:00	11:30	12:00
11:30	12:00	12:30
12:00	12:30	13:00
12:30	13:00	13:30
13:00	13:30	14:00
13:30	14:00	14:30
14:00	Until end of day	9:15 (Next day)

## 2.2.2 Sell Trade Rejection:

2.2.2.1 Where an Exchange Member executes a sell transaction for a client which is allocated to an ICM for settlement, the ICM can reject the transaction in accordance with the Securities Depository Centre Rules by submitting the rejection via the Depository and Settlement System prior to the rejection cut-off time.

2.2.2.2 The relevant Exchange Member shall be notified immediately of the rejection.

- 2.2.2.3 Settlement of the rejected sell trade will be transferred from the ICM to the Exchange Member's rejection account upon executing a rejection in accordance with paragraph (2.2.1.5) of these Procedures.
- 2.2.2.4 The rejected trade is included in the Exchange Member's Funds blocked for rejected sell trades, which will decrease the Exchange Member's ASL.
- 2.2.2.5 If the Exchange Member has sufficient balance of securities in its rejection account to cover the transaction, the Centre will debit the available balance, and that Exchange Member will settle the rejected sell trade on T+2.
- 2.2.2.6 If the Exchange Member does not have sufficient balance of securities in its rejection account to cover the transaction, the Centre will use the Securities Inventory in the Exchange Member's rejection account to settle the trade partially on T+2.
- 2.2.2.7 Once the rejected trade is settled on T+2, either partially or fully, the ASL will be increased for the value of the settled Securities.
- 2.2.2.8 If the Exchange Member, responsible for the settlement of the sell trade, does not have sufficient balance of securities in its rejection account to cover settlement obligations of the trade, the settlement of the failed part of the trade will be subject to section (4) of these Procedures.
- 2.2.2.9 Exchange Member must provide securities for settlement during the pre-settlement as specified in paragraph (3.2.1) of these Procedures. Moreover, Exchange Member can resolve the sell rejection if it does not have sufficient balance in its rejection account by either of the following:

#### 2.2.2.9.1 Buy on open market:

Allowed from the time of receiving the rejection, in accordance with paragraph (2.2.2.2) of these Procedures, until T+2; Exchange Member can buy needed securities on the market.

#### 2.2.2.9.2 Transfer securities from Exchange Member's Centre account:

In order to cover shortage of securities, Exchange Member can transfer such securities from its Centre account to its rejection account from the time of receiving the rejection, in accordance with paragraph (2.2.2.2) of these Procedures, until T+4.

#### 2.2.2.9.3 Optional Buy-in:

Allowed from receiving the rejection, in accordance with paragraph (2.2.2.2) of these Procedures, until 13:00 on T+4.

Settlement date for the Optional Buy-in trade is set by the Exchange Member performing the Optional Buy-in as follows:

- If the Exchange member is performing the Optional Buy-in trade on T+1 or T+2 before 13:00, the settlement date should be set to be on T+2 (intended settlement date of the rejected trade).
- If Exchange member is performing the Optional Buy-in trade on T+2 after 13:00 or T+3 after 13:00, the settlement date should be set to be next business day.
- If Exchange member is performing the Optional Buy-in trade on T+3 before 13:00 or on T+4 before 13:00 the settlement date should be set to be same day.

#### 2.2.2.9.4 **Securities Borrowing and Lending:**

Allowed from receiving the rejection, in accordance with paragraph (2.2.2.2) of these Procedures, until T+4.

2.2.2.10 If the Exchange Member is unable to resolve the settlement failure until T+4, the Centre will conduct a Mandatory Buy-in for the Exchange Member on T+5, in accordance with paragraph (4.4) of these Procedures.

2.2.2.11 If the Mandatory Buy-in has not resolved the settlement failure, cash substitution process will take place in accordance with paragraph (4.5) of these Procedures.

#### 2.2.3 **Buy Trade Rejection:**

2.2.3.1 Where an Exchange Member executes a buy transaction for a client which is allocated to an ICM for settlement, the ICM can reject the transaction in accordance with the Securities Depository Centre Rules by submitting the rejection via the Depository and Settlement System prior to the rejection cut-off time.

2.2.3.2 The Settlement Member must notify the relevant ICM that there is insufficient cash to settle the amounts resulting from a single or multiple buy transactions no later than 9:00 on T+2.

2.2.3.3 Where an Exchange Member executes a buy transaction for a client which is allocated to an ICM for settlement, the Centre can reject the transaction in accordance with the Securities Depository Centre Rules, subject to receiving a notification from the relevant Settlement Member, in accordance with the form specified by the Centre, from 9:00 on T+2 to 10:00 on T+2.

- 2.2.3.4 Fees for rejection, in accordance with paragraph (2.2.3.3) of these procedure, are imposed on the relevant ICM.
- 2.2.3.5 The relevant Exchange Member shall be notified immediately of the rejection mentioned in paragraphs (2.2.3.1) and (2.2.3.3).
- 2.2.3.6 Settlement of the rejected buy trade will be transferred from the ICM to the Exchange Member's rejection account upon executing a rejection in accordance with paragraph (2.2.1.5) of these Procedures.
- 2.2.3.7 Cash settlement obligations of the Exchange Member will include the value of the rejected buy trade.
- 2.2.3.8 For buy trade rejections, the Centre will not force the Exchange Member to sell-out the bought securities which are now settled in its rejection account.
- 2.2.3.9 The Centre can transfer the deposited Securities from the Exchange Member's rejection account to the Settlement Member's Centre account in accordance with the Securities Depository Centre Rules, subject to receiving a notification from the relevant Settlement Member once the rejected trade is settled.

## 3. Settlement

### 3.1 Delivery Versus Payment (DvP):

**3.1.1** The DvP settlement is conducted via gross settlement of securities and net settlement of funds. Gross settlement of securities is conducted on trade-by-trade basis between Centre accounts. Net settlement of funds is conducted as cash transfers between Settlement Members and the Centre's Cash account in SAMA. Such cash transfer is netted for each Settlement Member (cash settlement of all trades of Custody Member(s) that uses this Settlement Member, is netted into a single debit or credit).

### 3.2 T+2 Settlement Day Activities:

In order to ensure that there is no securities shortages, settlement is preceded by pre-settlement.

**3.2.1** Before processing the settlement; the Centre conducts a pre-settlement run, whereby it identifies trades which will fail to settle at upcoming settlement run due to the shortage of securities (rejected sell trades or due to the failure of settlement of the preceding trade). During the pre-settlement, only trades with intended settlement date of current day or earlier are considered (at 13:00).

**3.2.2** Along with identifying the failed chain during the pre-settlement check, the Centre will:

**3.2.2.1** Identify the Securities Inventory of each link of the failed chain and block it for partial settlement of the failed chain at the upcoming settlement run.

**3.2.2.2** Roll over the remaining of the failed chain to the next settlement day which will be subject to fails management process in accordance with section (4) of these Procedures.



- 3.2.3 The Centre completes the calculation of the net cash obligations (debits/credits) for all settlement members (at 14:00).
- 3.2.4 The Centre sends instructions through Payment System to debit accounts of corresponding settlement members (net buyers' accounts) and credit the Centre's cash account in SAMA (at 14:00).
- 3.2.5 The Centre initiates securities settlement, whereby securities will be settled on the gross basis (trade-by-trade from/to the beneficial owner accounts at 14:15).
- 3.2.6 The Centre sends instructions through Payment System to debit the Centre's net cash account and credit corresponding Settlement Members' (sellers) accounts in SAMA (at 14:15).

### 3.3 Failed Trade Chains:

- 3.3.1 At the end of the trading day, the Centre identifies trades that will fail as a result of the failure of previous trades.
- 3.3.2 Those trades will be added to the failed trade chain and the failed trade chain will be considered as complete.
- 3.3.3 Failed trade chain has the following links:
  - 3.3.3.1 **First link:** rejection account of the Exchange Member from which settlement of the original trade has failed.
  - 3.3.3.2 **Intermediate links (if any)** – accounts from which settlement has failed as a result of a failed settlement of a preceding trade.
  - 3.3.3.3 **Last links: end-buyer(s)** – accounts on which securities have not been settled and have not been further traded.
- 3.3.4 As soon as the full chain is identified, end-buyer(s) (Last link) will be restricted from selling securities expected to be received from the failed

trade, as these securities will be blocked, until the failed trade chain is resolved. This is done in order to prevent the failed trade chain to grow.

### **3.4 Quasi Pre-settlement:**

The Centre daily performs a quasi pre-settlement at 11:30 a.m., whereby securities shortages are identified as well as corresponding trades that will potentially fail to settle (first links). Those trades will be enabled for buy-in, in accordance with section (4) of these Procedures.

## 4. Fails Management

### 4.1 Overview:

4.1.1 Settlement failure occurs if the Exchange Member was unable to provide the securities needed to settle the trade before pre-settlement (at 13:00 on T+2).

4.1.2 In order to resolve the expected settlement failure, the Exchange Member can conduct the following actions:

#### 4.1.2.1 Pre-fail management (From rejection time until pre-settlement time starts):

The Exchange Member could conduct a number of activities before a rejected sell trade would fail to settle. These activities include: transferring from its account, buying on open market (on T+0), borrowing via SBL, or conducting Optional Buy-in.

4.1.3 Exchange Member or the Centre could/will (as applicable) conduct fails management activities to resolve the securities shortage, as per the following:

#### 4.1.3.1 Optional Fails Management (From T+3 until T+4):

After the trade settlement has failed, the Exchange Member can conduct the following activities: Transfer from its Centre account, Buy-on open market, Borrow via SBL, or Optional Buy-in.

#### 4.1.3.2 Mandatory Fails Management (From T+5 until T+6):

Activities conducted by the Centre to ensure settlement of failed trades. These activities include: Mandatory Buy-in, and cash substitution.

4.1.4 The Centre will debit the Securities Inventory resulting from the fails management activities stipulated in this section to partially or fully settle the failed trade from T+3 until T+6.

## 4.2 Optional Buy-in:

The Exchange provides a special functionality in Tadawulaty system, which allows the failing Exchange Member to indicate an interest for an Optional Buy-in to the other Exchange Members. However, usage of this system is optional, as the failing Exchange Member may choose to find counterparties by itself.

Optional Buy-in procedure is as follows:

4.2.1 The Centre looks for shortage of securities every day at 11:30 am and identifies potentially failing trades (first links) and enables such trades for Optional Buy-in.

4.2.1.1 Optional Buy-in window is open during the below time frames:

On T+1 – T+3: From 11:30 – 16:00

On T+4: From 11:30 – 13:00

4.2.2 Failing Exchange Member will be enabled to initiate an Optional Buy-in trade.

4.2.2.1 The buy side Centre account could only be an Exchange Member's rejection account with (potential) shortage of securities.

4.2.3 The Selling Exchange Member must ensure that the following conditions are met:

4.2.3.1 The seller must not be an ICM client.

4.2.3.2 The seller must have available inventory greater than or equal to the amount of the Optional Buy-in trade.

4.2.4 Available inventory is defined as follows:

***Available Inventory = Securities Inventory – Securities Pending-out – Securities blocked for active sell orders***

Where:

- **Securities Inventory** – the settled securities balance of a Centre account free of restrictions;
- **Securities Pending-out** - securities sold but not settled yet;
- **Securities blocked for active sell orders** – securities blocked for active sell orders, which are not matched or executed yet.

4.2.5 The price of an Optional Buy-in between the buyer and the seller is agreed on bilaterally (outside the Depository and Settlement System).

4.2.6 Optional Buy-in trades are not subject to common ex-day rules, in accordance with section (7) of these Procedures.

4.2.7 Optional Buy-in trade should be input by the failing Exchange Member in the Depository and Settlement System during the Depository and Settlement System working hours only.

4.2.8 The counterparty of the Optional Buy-in trade (the seller) should approve the trade on the Depository and Settlement System.

4.2.9 The value of the Optional Buy-in trade will decrease the buyer's (Exchange Member) ASL for the Optional Buy-in trade's value. Moreover, it will cover the rejected sell trade or the remaining of the rejected sell trade (which has been subtracted from the ASL).

4.2.9.1 The effect of Optional Buy-in trade on the ASL is positive (unless the price of the Optional Buy-in is more than twice higher than the price of the rejected trade). The effect is:

**Change of ASL = + 2 x Value of rejected trade – Value of Optional Buy-in trade**

4.2.10 The quantity of securities for Optional Buy-in trades must not exceed the shortage of these securities on the rejection account.

4.2.11 Optional Buy-in transactions are reflected in the Depository and Settlement System and included in the end of day transactions reports that are sent to concerned participants.

4.2.12 Late settlement and trade fees will apply.

### **4.3 Late Confirmation Transfer:**

In case a client provides a late confirmation for a rejected trade, the rejected trade may be rectified through a transfer between the Exchange Member and the client, through its ICM, only if such late confirmation is provided as per the following:

4.3.1 An ICM should have an agreement in place with its client whereby they accept to carry-out late confirmation transfers.

4.3.2 The client provides a late confirmation to the ICM on an already rejected trade.

4.3.3 ICM agrees with the Exchange Member to transfer the relevant securities.

4.3.4 The Exchange Member (in a buy trade rejection) or the ICM (in a sell trade rejection) must complete a Late Confirmation Transfer Form, as specified by the Centre, and send to the Centre.

4.3.5 The value of the transaction must include the fees specified in the transfer form.

- 4.3.6 The transfer should only be conducted between the client's Centre account from which the rejected trade has been executed and the Exchange Member's Rejection account.
- 4.3.7 Cash transfer must be conducted bilaterally outside of the Depository and Settlement System.
- 4.3.8 Transfer fees are charged on transferor of the securities (sell trades rejections on the client of the ICM, and the Buy trades rejections on the Exchange Member).
- 4.3.9 The number of securities in the late confirmation transfer should be equal to the number of securities in the rejected trade. In case of a Corporate Action, the number of securities should be adjusted accordingly.
- 4.3.10 The form should be submitted to the Centre as per the below schedule:

Date	Time of Submission	Comments
T+0 – T+1	Anytime	
T+2 –T+4	Before 11:00 am	Any form submitted after the cut-off time, will be performed next day. Therefore, will be subject to late settlement fee.
T+4	After end of trading session	Late confirmation transfers are not permitted.

#### 4.4 Mandatory Buy-in:

If the Exchange Member was not able to settle the rejected trade by T+4, the Centre performs a Mandatory Buy-in through an auction conducted by the Centre

on behalf of the failing Exchange Member at T+5 via “Tadawulaty” for all outstanding amounts of failed settlement, taking into account the trades that will be settled next business day.

4.4.1 The price of the Mandatory Buy-in is 110% of last day’s reference price (which will be adjusted for Corporate Actions if applicable).

4.4.2 Mandatory Buy-in trades are not subject to common ex-day rules, in accordance with section (7) of these Procedures, therefore the reference price is adjusted as the following:

4.4.2.1 If the Mandatory Buy-in is conducted at the ex-day:

**Adjusted reference price = Last reference price (without any adjustments)**

4.4.2.2 If the Mandatory Buy-in is conducted at the record date and the Corporate Action is not tradable rights issuance:

**Adjusted reference price =  $\frac{\text{Last Day Ref.Price}}{\text{adjustment factor}} + \text{Dividend per share}$**

Where:

- **Adjustment factor** – a multiplier applied by the Saudi Stock Exchange for adjustment of the price in the Trading System at ex-day for securities Corporate Actions such as: splits, bonus shares, rights etc.;
- **Dividend per share** – value of the cash dividend per share; zero if no cash dividends.

4.4.2.3 If the Mandatory Buy-in is conducted at the record date and Corporate Action is a tradable rights issuance:

**Adjusted reference price =  $\frac{\text{Last Day Referece Price}*(OS+NS)-O\text{Price}*NS}{OS}$**

Where:



- **Reference Price** – a closing price of the securities calculated in accordance with The Exchange’s methodology: Volume Weighted Average Price;
- **OS** – a number of shares outstanding before the tradable rights issuance;
- **NS** – a number of new shares issued due to the tradable rights;
- **OPrice** – tradable rights offering price.

4.4.3 Selling Exchange Member must ensure that the following conditions are met:

4.4.3.1 The seller must not be an ICM client.

4.4.3.2 The seller must have available inventory, in accordance with paragraph (4.2.4) of these Procedures, greater than or equal to the amount of the Mandatory Buy-in trade.

4.4.4 In order to participate in the Mandatory Buy-in, Exchange Members need to send their offers to the Centre on a designated email address as specified by the Centre.

4.4.5 Only Exchange Members are allowed to submit offers (Whether as principal or agent).

4.4.6 The deadline for receiving bids/offers for Mandatory Buy-in is 10:00 am on T+5.

4.4.7 The Centre conducts the auction with a fixed price where offers are prioritized by the highest volume to minimize the number of Mandatory Buy-in trades. If two offers have the same volume, they are prioritized by time of receipt (First In – First Fulfilled). Offer with a volume larger than requested in Mandatory Buy-in request is assumed to have the requested Mandatory Buy-in volume.

4.4.8 Mandatory Buy-in trades will be settled on T+5.

4.4.9 Mandatory Buy-in transactions are reflected in the Depository and Settlement System and will include Mandatory Buy-in trades in the end of day transactions reports that are sent to concerned participants.

4.4.10 A fee is charged to the failed Exchange Member to facilitate Mandatory Buy-in.

4.4.11 Special cases of Tradable Rights:

- For tradable rights (if earlier than two business days after the end of tradable rights trading period, as specified by the Exchange):

**Mandatory Buy-in price = last day reference price of the tradable right plus 10% of the last day reference price of the underlying security.**

- For tradable rights (if on the second business day after the end of tradable rights trading period, as specified by the Exchange):

**Mandatory Buy-in price = max (last day reference price of the underlying security – tradable right offering price; 0) + 10% of the last day reference price of the underlying security.**

## 4.5 Cash Substitution:

Cash substitution is a process where the Exchange Member settles the failed trade by paying a cash amount to the buyer. This process is conducted by the Centre in case the settlement failure was not resolved by Mandatory Buy-in.

4.5.1 Cash substitution process starts before the beginning of T+6, and is settled at T+6.

4.5.2 Cash substitution process starts with partial settlement, whereby securities inventory which are found in Centre accounts within the failed trade chain, but not allocated for other transactions, will be used to partially settle the failed trades.

4.5.3 The remaining unsettled part of the failed trade will be cash substituted.

4.5.4 Cash substitution is defined by the Centre, as per the following:

$$P_{\text{cash substitution}} = \text{MAX}\{P_{\text{Sell}}^i; P_{\text{Buy}}^j * (1 + TF); HP'_{T+3}; HP'_{T+4}; HP'_{T+5}; 110\% * CP'_{T+5}\}$$

Where:

- $P_{\text{Sell}}^i$  – price(s) of failed seller(s) trade(s) [first links of the failed trade chains].
- $P_{\text{Buy}}^j$  – price(s) of end-buyer(s) trade(s) [last links of the failed trade chains].
- $TF$  – transaction fees, set at 15.5 bps as the maximum transaction fee which could be charged from the client.
- $HP'_{T+x}$  – highest price of T+x trading day, adjusted for the Corporate Actions.
- $CP'_{T+5}$  – reference price of T+5 trading day, adjusted for the Corporate Actions.

4.5.5 Price is adjusted for the Corporate Actions in the following way:

4.5.5.1 When the Corporate Action is not tradable rights issuance:

4.5.5.1.1 If T+5 is a record date then for  $P_{\text{Sell}}^i$ ,  $P_{\text{Buy}}^j$  and  $HP'_{T+3}$

$$P'_{T+x} = P_{T+x} * \text{adjustment factor} - \text{Dividend per share}$$

4.5.5.1.2 If T+5 is an ex-day then for  $HP'_{T+5}$  and  $CP'_{T+5}$

$$P'_{T+x} = \frac{P_{T+x}}{\text{adjustment factor}} + \text{Dividend per share}$$

4.5.5.2 When the Corporate Action is tradable rights issuance:

4.5.5.2.1 If T+5 is a record date then for  $P_{Sell}^i$ ,  $P_{Buy}^j$  and  $HP'_{T+3}$ :

$$P'_{T+x} = \frac{P_{T+x} * OS + OPrice * NS}{OS + NS}$$

4.5.5.2.2 If T+5 is an ex-day for  $HP'_{T+5}$  and  $CP'_{T+5}$ :

$$P'_{T+x} = \frac{P_{T+x} * (OS + NS) - OPrice * NS}{OS}$$

4.5.5.3 Special Case of Tradable Rights:

Price of Cash Substitution for tradable rights is defined based on the following formula:

$P_{cash\ substitution}$

$$= \text{MAX}\{P_{Sell}^i; P_{Buy}^j * (1 + TF); HP'_{T+3}; HP'_{T+4}; HP'_{T+5}; CP'_{T+5} + 10\% * CP_{underlying\ T+5}\}$$

Where:

$P_{Sell}^i$  – price(s) of failed seller(s) trade(s) [first links of the failed trade chains];

$P_{Buy}^j$  – price(s) of end-buyer(s) trade(s) plus transaction fees [last links of the failed trade chains];

$TF$  – transaction fees, set at 15.5 bps as the maximum transaction fee which could be charged from the client;

$CP_{underlying\ T+5}$  – reference price of the underlying security at T+5 trading day.

If T+x is within the trading period for the tradable right:

$HP'_{T+x}$  – highest price of T+x trading day, adjusted for the Corporate Actions;

If T+x is outside of the trading period for the tradable right:

$$HP'_{T+x} = \text{max}(HP_{undelying\ T+x} - OPrice; 0);$$

If T+5 is within the trading period for the tradable right:

$CP'_{T+5}$  – reference price of the tradable right at T+5 trading day;

If T+x is outside of the trading period for the tradable right:

$$CP'_{T+5} = \max(CP^{undelying}_{T+5} - OPrice; 0);$$

$HP^{undelying}_{T+5}$  – highest price of the underlying security at T+5 trading day;

$CP^{undelying}_{T+5}$  – reference price of the underlying security at T+5 trading day.

## 4.6 Late Settlement Fee:

- 4.6.1 If the settlement failed, the Centre charges a Late Settlement Fee for every day of delay, starting from the intended settlement date until the settlement or T+5, whichever comes first.
- 4.6.2 For each failed trade chain the failed seller (the first link of the chain) is charged the Late Settlement Fee and this fee is redistributed to the end-buyers (the last link of the chain).
- 4.6.3 The fee is based on the failed trade value and redistribution is made pro-rata by the quantity of the securities of end-buyers' trades.
- 4.6.4 Late settlement fee is paid by Exchange members based on the invoice received from the Centre.
- 4.6.5 Upon receiving the late settlement fee, The Centre will re-distribute the amount to the end buyers' Custody Members, and will provide them with reports that show the due amount for each client/account.

## **5 Securities Borrowing and Lending (SBL)**

A securities lending agreement is an agreement under which the lender temporarily transfers the ownership of the securities to the borrower.

### **5.1 Roles of Participants:**

#### **5.1.1 Securities Depository Centre:**

Matches and settles all SBL transactions by only moving securities between lenders and borrowers.

#### **5.1.2 Lenders:**

**5.1.2.1** Instruct lending agents to execute the loan request details on the Depository and Settlement System for the desired loaned securities to be moved from the lender to the borrower.

#### **5.1.3 Borrowers:**

**5.1.3.1** Instruct borrowing agents to input the borrow request details on the Depository and Settlement System and approve or reject received loans requests from Lending agents.

#### **5.1.4 Lending and Borrowing Agents:**

**5.1.4.1** To interface with the Centre on behalf of lenders and borrowers to submit loan requests to enable movement of loaned securities either from lender to borrower at initiation or from borrower to lender for recall or return of loaned securities. In addition, the Agent will be the main contact point of lenders/borrowers for the Centre.

## 5.2 Eligible Securities for SBL:

An SBL transaction may only be entered into in respect of listed securities which the Centre specifies.

## 5.3 Accounts Configuration for SBL:

Lending and borrowing agents must ensure that their clients enter into SBL transaction only through Centre accounts that are configured for SBL.

**5.3.1** To conduct short selling activities, Borrowing Agent must ensure that such activity is done through a short selling designated Centre account for the client, which must be flagged with “allowed to borrow” only.

**5.3.2** To cover a failed trade settlement through borrowing, the Exchange Member should borrow a security through its rejection account. This account should be flagged with “allowed to borrow” only.

**5.3.3** To participate in re-lending activities, the agent must ensure that such transactions are placed from a Centre account that is dedicated for re-lending activities, which must be flagged with “allowed to borrow” and “allowed to lend”.

**5.3.4** For issuing ETF units, the Centre account used for such purpose should be flagged with “allowed to borrow” and “allowed to lend”.

**5.3.5** To participate in lending activities, the agent must guarantee that the transactions are executed through a Centre account configured for relending activities, which must be flagged with “allowed to lend”.

## 5.4 SBL Initiation:

5.4.1 SBL transaction negotiation takes place bilaterally between borrower and lender (off the market). At this stage, the below requirements should be satisfied:

5.4.1.1 The parties of an SBL transaction must enter into a binding written SBL agreement which, as a minimum, contains requirements which are specified in the Securities Borrowing and Lending Regulations.

5.4.1.1.1 The maximum duration of the SBL transactions is twelve months. Once that period is elapsed, the securities must be returned and the parties may agree on a new loan request for the same securities.

5.4.1.1.2 Borrowers and lenders could have multiple loans to be entered into under a single SBL agreement.

5.4.1.2 Lenders and borrowers will communicate with their respective Agents with regards to movement of loaned securities.

5.4.2 Lender and borrower (through their Agents) must make necessary collateral arrangements. In case the agreed form of collateral between borrowers and lenders was securities through transfers, participants may complete the SBL Collateral Transfer Form, as specified by the Centre, and send it to the Centre prior to completing the SBL transaction.

5.4.3 Borrowing Agent enters the borrow requests in the Depository and Settlement System whereby their borrowing requests will appear to other Lending Agents under “Borrowing Availability” screen on the system.

5.4.4 Based on the lender’s instruction, the Lending Agent will select the suitable borrow request, and posts the SBL transaction on the Depository and Settlement System.



- 5.4.5 Lending Agent must ensure that lender's available inventory, in accordance with paragraph (4.2.4) of these Procedures, is greater than or equal to the amount of securities in the borrow request before posting the SBL transaction on the Depository and Settlement System.
- 5.4.6 If the borrower's ownership limit (individual and group) would be breached as a result of executing the SBL transaction, such transaction will be rejected.
- 5.4.7 Transaction will be routed to the Borrowing Agent for approval if loan details match the instructions and agreement of the borrower. However, such transaction must be rejected by the borrowing agent if the loan details do not match the instructions and agreement of the borrower. If the borrower rejects the Loan request, the loan will fail and the lender's securities being on-hold (blocked) will be released.
- 5.4.8 Upon approval by the borrower, the Depository and Settlement System will transfer lent securities from the lender's account to the borrower's account.
- 5.4.9 Throughout the loan duration, the borrowed securities will be included in the lender's ownership limit (individual and group).
- 5.4.10 The borrowed securities are included in the borrower's ownership limit.
- 5.4.11 Initiation fees are imposed on the borrower.

## 5.5 Loan Return:

Lent Securities will be returned at the SBL transaction end date or at the request of the borrower/lender, as agreed in their SBL agreement. The borrowing agent is obliged to initiate the securities loan return process (the Centre will not conduct an automatic loan return process).

The process of returning the loan is as the following:

- 5.5.1 Lender returns the collateral back to the borrower (timing and process of collateral return should be agreed by the Borrowing and Lending agents bilaterally).
- 5.5.2 Borrowing Agent inputs the loan return request into the Depository and Settlement System.
- 5.5.3 Borrower's securities inventory will be checked by the Depository and Settlement System for the availability of securities and blocks it. If there are no enough securities available, the Depository and Settlement System will reject the return.
- 5.5.4 The request will be routed to the Lending Agent for approval. If the lender rejects the return request, the blocked securities (for the return request) will be released.
- 5.5.5 If the lender approves the return request, the Depository and Settlement System will transfer the requested securities from the borrower's account to the lender's account.

## **5.6 Termination (Without Return):**

- 5.6.1 Failure to return securities is handled completely bilaterally between borrower and lender through their Agents.
- 5.6.2 Where there has been a failure to return borrowed securities in accordance with the terms of the SBL agreement, the lending agent shall notify the Centre by submitting a request (outside of the Depository and Settlement System) through completing an SBL Termination Form, as specified by the Centre, and send it via email.
- 5.6.3 Once the Centre receives the notification, mentioned in paragraph (5.6.2) of these Procedures, it will terminate the SBL transaction in the Depository and Settlement System.

5.6.4 Termination fees are charged on the failing party.

## 5.7 SBL Collateral and Fails Management:

5.7.1 Without prejudice to the requirements of relevant Implementing Regulations (such as: Authorized Persons Regulations), collateral management activities are conducted bilaterally.

## 5.8 Corporate Actions' Impact on SBL Transactions:

5.8.1 As a result of Corporate Actions, a loan amount (quantity of securities) will be adjusted by the Centre accordingly as per the following:

5.8.1.1 For Bonus Shares, stock splits: an increase in the number of securities under the loan resulting from Corporate Actions.

5.8.1.2 For capital reduction and consolidations (reverse-splits): a decrease in the number of securities under the loan resulting from Corporate Actions.

5.8.2 If any of the cases mentioned in (5.8.1) occurs, the loan amount (quantity of securities) specified in the relevant SBL agreement must be amended accordingly.

5.8.3 Transfer of securities resulting from Corporate Actions (other than those specified in paragraph (5.8.1) of these Procedures) could be done by submitting a form, as specified by the Centre. Such form should be submitted by the Borrowing Agent.

## **5.9 Disclosure and Reporting:**

- 5.9.1** Upon request from the Centre, both the lender and borrower must submit to the Centre an SBL Disclosure Form, as specified by the Centre, for all open loans.

## 6 Short Selling

6.1 Short selling account can only be used for short selling activities, those are:

- 6.1.1 Borrowing securities,
- 6.1.2 Short selling,
- 6.1.3 Buy Trades (buying back shorted securities) and
- 6.1.4 Return of the borrowed securities.

6.2 Permitted Securities for short selling:

A short selling transaction may only be entered into in respect of listed securities which the Exchange specifies.

6.3 Disclosure and Reporting:

- 6.3.1 An Exchange Member who has entered into a short selling transaction as an agent or principle must report complete and accurate details of such transactions to the Exchange, as prescribed by the Exchange from time to time.

6.4 Investment Limits:

- 6.4.1 The total of short positions must not exceed 10% of the issued securities of any issuer.
- 6.4.2 The Exchange will publish a daily report for total short positions after the trading session.

6.4.3 The Exchange Member must ensure that the total short position open throughout current trading session by all its clients does not exceed the difference between the limit mentioned in (6.4.1) in number of securities and amount of total short positions published by Exchange after the end of the last trading session in accordance with paragraph (6.4.2).

## 7 Corporate Actions

Corporate Action activities are conducted as per the following:

### 7.1 Corporate Actions Activities and Dates:

#### 7.1.1 Eligibility for attending GA and voting: [On GA]

The day of which Investors who are registered in the issuer's Securities Ownership Register are eligible to attend GA and vote on its decisions.

#### 7.1.2 Ex-Dividend day [One business day before record date]

The day of which the security starts trading with the adjusted price, however, without the Corporate Action's proceeds attached.

7.1.2.1 Security price is adjusted by the Exchange if the Corporate Actions resulted in (splits, bonus shares or rights issuance).

7.1.2.2 The Exchange does not adjust price in case of cash dividends.

#### 7.1.3 Record Date [Two business days after eligibility date]

The day of which Investors who are registered in the issuer's Securities Ownership Register are eligible to receive Corporate Actions proceeds.

#### 7.1.4 Payment Date of securities [one business day after the Record Date]

The day of which the Securities resulting from Corporate Actions are credited to the investors' Centre accounts. Securities are credited into Centre account before the start of trading session.

## **7.2 Capital Reductions:**

- 7.2.1 If the GA decided on a capital reduction, trading of the issuer's security will be suspended until the end of the second trading day after the GA's relevant decision.

## **7.3 Bonus Shares Issuance and Capital reductions:**

- 7.3.1 The Centre adjusts the Trade volume (number of securities) according to the Corporate Action.
- 7.3.2 The value of the Trade (cash amount) will not change; however, the price is adjusted in accordance to the adjusted volume.
- 7.3.3 If the trade adjustment resulted in fractions, the Centre handles the fractions in accordance with paragraph (7.4) of these Procedures.

## **7.4 Cash Dividends and Fractions for Failed Trades:**

- 7.4.1 For cash dividends and fractions, the Centre centrally settles market claims resulted from failed trades between Settlement Members.
- 7.4.2 One business day after record date, the Centre will generate a report to each settlement member showing amounts to be paid and to be received by each Custody Member, and a report to each Custody Member showing the same with more details related to failed trades' references and client account numbers.
- 7.4.3 For cash dividends, the Centre will send instructions through the Payment System to settle cash proceeds/cash dividend between settlement members one business day after payment day.
- 7.4.4 For fractions in securities, the Centre will send instructions through the payment system to settle compensation for fractions amounts between settlement members five business days after the record date. The compensation is calculated based on the adjusted trade price.



- 7.4.5 For fractions in tradable rights, the Centre will send instructions through the payment system to settle compensation for fractions amounts between settlement members one business day after the end of tradable rights trading period. The compensation is calculated based on the adjusted trade price.
- 7.4.6 With the use of the Corporate Actions reports generated by the Centre, as per paragraph (7.4.2) of these Procedures, Custody Members should be depositing/claiming amounts to/from their clients accordingly.

## **7.5 Tradable Rights:**

### **7.5.1 Tradable Rights Settlement:**

- 7.5.1.1 Settlement of tradable rights will be on T+2.
- 7.5.1.2 Tradable rights subscription is based on settled securities in the subscriber's Centre account. In case tradable rights are subscribed for, it will be on unavailable status (cannot be sold or transferred).
- 7.5.1.3 Subscription is irrevocable; however Custody Member can cancel the subscription's order within the day of subscription request submission.
- 7.5.1.4 Subscription amount (offering price) is to be settled on T+2.

### **7.5.2 Tradable Rights Fails Management:**

- 7.5.2.1 Fails management of tradable rights is performed in the same manner as securities fails management, specified in section (4) of these Procedures; however, all tradable rights that remain unsettled two business days after the end of the trading period will be cash substituted.

### **7.5.3 Tradable Rights Claims:**

- 7.5.3.1 The Centre will generate a market claim one business day after the record date for all failed trades if the Corporate Action is tradable rights.
- 7.5.3.1.1 Market claims are generated in a form of special reports which are sent to corresponding Custody Members.
- 7.5.3.2 Market claims between the intermediate links of the failed chain are settled by the Centre, and no transfer request is required.
- 7.5.3.3 Custody Member must ensure that the amount of tradable rights as specified in the market claim in accordance with section (7.5.3.1) of these Procedures is available at the investor's Centre account.
- 7.5.3.4 The Exchange Member responsible for the failed trade chain (the first link) must acquire that amount of tradable rights, as specified in the market claim in accordance with section (7.5.3.1) of these Procedures, on its rejection account and submit a Rights Transfer Form to the Centre no later than the fourth trading day of tradable rights trading period.
- 7.5.3.5 If the Exchange member does not complete the rights' transfer during the timeframe mentioned in paragraph (7.5.3.4) of these Procedures, the Centre will fulfill the claim by performing cash substitution.
- 7.5.3.5.1 The settlement of the rights' cash substitution is performed one business day after the end of tradable rights trading period in the same manner of fractions compensation settlement for failed trades, specified in paragraph (7.4.4) of these Procedures.
- 7.5.3.6 Market claims could be partially settled. The remaining unsettled part of the market claims will be cash substituted at the highest trading price during the trading period of the right, using the following formula:

$$P_{TRclaim\ cash\ substitution} = MAX\{HP_{TR1}; HP_{TR2}; HP_{TR3}; HP_{TR4}; HP_{TR5}; HP_{TR6}\}$$

Where:

- $HP_x$ : highest price of x trading day of the right
- $TR_x$ : the xth trading day of the tradable rights

If there was no trading activity on the right, the listing price of the right will be considered for the cash substitution.

## **8 Other Processes impacted by T+2 Settlement**

### **8.1 Pledge:**

8.1.1 Pledging of securities is only applicable on the available inventory, in accordance with paragraph (4.2.4) of these Procedures.

### **8.2 Transfers:**

8.2.1 Transfer of securities from one Centre account to another is only applicable on the available inventory, in accordance with paragraph (4.2.4) of these Procedures.

### **8.3 Murabaha Transfers:**

8.3.1 Murabaha transfers could only be made from special Murabaha accounts and only within Centre accounts of the same Custody Member.

8.3.2 When placing a Murabaha transfer, the Centre checks the member's available securities rather than securities inventory.