

CSDs: DFM (United Arab Emirates)

Date: 28 May 2008

SMI Markets: United Arab Emirates

CMIRR Markets: United Arab Emirates

DFM to Implement DVP Settlement and Fails Management Arrangements

Following some recommendations by the Boston Consultancy Group (BCG), the Dubai Financial Market (DFM) has established a project to enhance its practices and bring them in line with international standards.

The changes which are likely to be implemented are as follow:

DVP Settlement:

DFM is planning to implement a settlement model where cash and stock would move simultaneously on settlement date. Currently, stocks move to the trading account on trade date (TD) and the cash is received only on settlement date (T+2).

Fails Market:

DFM is also considering implementing the proposal that it operates a fails market whereby trades would only be settled on the availability of cash. However, no details have been provided on fails penalties or charges.

DFM is also to introduce a new trading software, OMX Xtreme, by September 2008, and it is likely that the above changes will not be implemented before this date.

CSD Risk Impact

DFM (United Arab Emirates)

Impacted Risk Type: Asset Commitment Risk

Current Rating = A-

Flash Impact = Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A

Flash Impact = Positive

The introduction of DVP settlement would considerably reduce the asset commitment period and the time that the counterparties are exposed to each other. Furthermore, the improvements in respect of fails management would encourage brokers to settle their trades which would improve liquidity. All these changes would have a positive impact on the asset commitment, liquidity and counterparty risks.

Market Information Impact

United Arab Emirates

This information affects the data contained in the Settlement and Stock Market sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

United Arab Emirates

Market Rating: BBB

Market Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = A-

Flash Impact = Positive

Impacted Risk Type: Liquidity Risk

Current Rating = BBB

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = A-

Flash Impact = Positive

The introduction of DVP settlement at DFM would considerably reduce the asset commitment period and the time that the counterparties are exposed to each other for the settlement of securities held with the DFM depository. Furthermore, the improvements in respect of fails management would encourage brokers to settle their trades which would improve liquidity. All these changes would have a positive impact on the asset commitment, liquidity and counterparty risks for the market.

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