

CSDs: ADX CSD (United Arab Emirates), DFM (United Arab Emirates)

Date: 14 Apr 2011

SMI Markets: United Arab Emirates

CMIRR Markets: United Arab Emirates

New DVP Model to Be Introduced at DFM and ADX

In an update to our previous newsflash, the Delivery Versus Payment (DVP) mechanism as proposed by the Dubai Financial Market (DFM) was approved by the Securities and Commodities Authority (SCA) in UAE. Both exchanges, DFM and ADX (Abu Dhabi Stock Exchange), are expected to introduce the new DVP mechanism from 28 April 2011.

The following are the main changes in the settlement procedures:

- Fail trades will happen only if the custodians reject the sell / buy order due to no confirmation from their client;
- Cash and securities settlement obligations will be passed on to the broker clearing member should the custodian's client not confirm the trade by the agreed cut-off time on T+1;
- All trade obligations that are moved on to the broker upon rejection will be managed via the "client rejection account", which will be created to manage unconfirmed / rejected trades.
- Introducing a new fails management procedure; if the custodian rejects a sell trade due to no confirmation from the client and the rejection was executed by DFM at 9.00am T+2, the securities are blocked at the custodian's client account and one of the following mechanisms will take place:
 1. After rejection on T+2, a late confirmation window will be open until 1.00pm T+4*, this is subject to the broker's approval;
 2. Upon rejection on T+2, the broker will source the securities from the market and meet the trade obligation by T+4*.
 3. Upon rejection on T+2, the broker can purchase the securities via the buy-in process from 2.15pm on T+2 and T+3.
 4. If the trade is not settled by T+4*, a mandatory buy-in will be imposed by DFM.
 5. If the trade has not settled by any of the above options by T+4* a cash close out will be imposed and the custodian client must sell the outstanding buy-in quantity to the short broker. (The custodian client can claim compensation from the broker if it was proven that he didn't place the sell trade order).

Notes:

* It is not confirmed that the last settlement day will be T+4 for both exchanges.

Market charges may apply to late settlement after T+2.

CSD Risk Impact

ADX CSD (United Arab Emirates)

CSD Rating: BBB

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BBB

Flash Impact = Positive

The implementation of a DVP settlement model by DFM and ADX is a major improvement in the market as the exposure to losing the principal amount in a transaction will be eliminated. This in turn positively impacts counterparty risk. In addition, the new fails management mechanisms will also impact upon the liquidity and should act as an effective tool to reduce fails and enforce settlement on or after the agreed date.

DFM (United Arab Emirates)

CSD Rating: A-
CSD 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 implementation of a DVP settlement model by DFM and ADX is a major improvement in the market as the exposure to losing the principal amount in a transaction will be eliminated. This in turn positively impacts counterparty risk. In addition, the new fails management mechanisms will also impact upon the liquidity and should act as an effective tool to reduce fails and enforce settlement on or after the agreed date.

Market Information Impact

United Arab Emirates

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

Infrastructure Risk Ratings Impact

United Arab Emirates

Market Rating: BBB
Market 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 implementation of a DVP settlement model by DFM and ADX is a major improvement in the market as the exposure to losing the principal amount in a transaction will be eliminated. This in turn positively impacts counterparty risk. In addition, the new fails management mechanisms will also impact upon the liquidity and should act as an effective tool to reduce fails and enforce settlement on or after the agreed date.

Related Flash: [DFM publishes Revised Settlement/ Fails Management Procedures, 16/03/2011 \(click to view\)](#)

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