

SMI Markets: Bangladesh

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CMIRR Markets: Bangladesh

CSDs: CDBL (Bangladesh)

## Settlement Guarantee Fund Regulations Published by DSE and CSE

The Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE) have published their respective settlement guarantee fund regulations. The guarantee funds are aimed at reducing the settlement risk and ensure settlement of the trades in the manner prescribed by the relevant regulations and the DSE (Settlement of Transactions) Regulations, 2013 and CSE (Settlement of Transactions) Regulations, 2013, respectively.

The contributions to the DSE settlement guarantee fund are described below:

- The fund shall comprise of contributions from the following sources:
  - Initial contribution: the initial contribution shall comprise of contributions from the exchanges and trading rights entitlement certificate (TREC) holders as follows:
    - BDT 1 billion from DSE;
    - BDT 500,000 per TREC holders as subscription in the fund, out of which BDT 250,000 only will be collected on call made by the management, and the rest BDT 250,000 only will be collected between second and third years of formation of the fund.
  - Regular contributions:
    - 5% of annual net profit of the exchanges will be transferred to the fund as a regular contribution on annual basis.
    - Any income generated from of the fund shall be attributable to this fund.
  - Extraordinary guarantee calls: extraordinary guarantee call shall mean a contribution that a TREC holder must transfer into the account of the fund following the approval of the board.
  - Penalties collected from TREC holders: all amount received as penalties under regulation 18 of settlement regulations.
  - Default interest: The default interest paid by a TREC holder under regulation 15 of settlement regulations.
- Each TREC holder shall be liable to make the payment of contribution to the fund within 10 working days of receipt of request for contribution.
- Without prejudice to the sources of contribution, the fund may receive contribution from any other sources as may be approved by the board from time to time.

Any delay in payment of contribution following the receipt of a call shall be subject to default interest at a daily rate of 0.10% on the amount from the due date. A TREC holder may also be suspended in case:

- The TREC holder fails to deposit the contributions specified in the regulation 5 within 30 working days of the receipt of a call and further fails to pay default interest, the exchanges shall have the power to suspend the TREC holder's right to trade on the exchanges in accordance with regulation 8 of the DSE (Trading Right Entitlement Certificate) Regulations, 2013.
- Any amount from the fund is utilised to meet unsettled exposure under regulation 4 of the settlement regulations and the relevant TREC holder fails to reimburse the fund at least equal to the unsettled amount with penalties on or before the relevant clearing date as defined in the settlement regulations the exchanges shall have the power to suspend trading of the respective TREC holder under Regulation 8 of the DSE (Trading Right Entitlement Certificate) Regulations, 2013.

The fund may be utilised for the purposes as may be prescribed by the management committee including for the purpose of settlement of any unsettled exposure and any losses incurred thereof for a TREC holder. Any amount lying in the account of the fund may be invested in such a manner as may be determined by the exchange management committees.

Furthermore, in case the fund is liquidated, the balance in the fund shall be returned to the exchanges and to the respective TREC holders to the proportion of each party's contribution on a pro-rata basis, provided that any amount collected as penalty of default interest shall vest in the exchanges in case of liquidation of fund without any pro-rata entitlement of the TREC holders.

For the CSE Settlement Guarantee Fund, similar rules apply with the necessary modifications: the initial contribution of the CSE is BDT 500 million and the CSE (Trading Right Entitlement Certificate) Regulations, 2013 will be applicable.

The guarantee fund regulations came into effect on demutualisation date of the exchanges in November 2013. The CSE (Settlement Guarantee Fund) Regulations, 2013 is expected to be gazetted shortly.

## Market Information Impact

### Bangladesh

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

## Infrastructure Risk Ratings Impact

### Bangladesh

Market Rating: BBB

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BB

Flash Impact = Positive

The settlement guarantee funds could be used to complete settlement in the event of default or a settlement shortfall of a TREC holder.

## CSD Risk Impact

### CDBL (Bangladesh)

CSD Rating: BBB

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = BBB

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BBB

Flash Impact = Positive

The settlement guarantee funds could be used to complete settlement in the event of default or a settlement shortfall of a TREC holder.

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