



سوق أبوظبي للأوراق المالية
Abu Dhabi Securities Exchange

Operational Procedures for DVP Model

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1. Introduction

- 1.1.** The Abu Dhabi Securities Exchange is changing its operational procedures for Delivery Versus Payment (DVP) to accommodate for the announcement made by the Emirates Securities and Commodities Authority (ESCA) to enhance DVP model. The enhancement will permit Local Custodian to reject buy and/or sell trades for settlement where it has not received settlement confirmation from its client or there is a mismatch in the settlement confirmation.
- 1.2.** The following existing key features will remain:
 - 1.2.1.** Settlement of securities is on T+2.
 - 1.2.2.** Pre-validation of sell orders will be maintained. This means that the seller must have available securities in the trading account with the BCM or in the account with the Local Custodian prior to accepting the sell order in the trading system.
- 1.3.** The existing securities and cash settlement timings will be changed to accommodate handling of rejected trades
- 1.4.** The enhancements to the DVP model applies only to settlement of trades by Local Custodian clients and do not apply to clients settling trades through direct trading accounts.
- 1.5.** Broker Clearing Members (BCMs) who are not trading for clients using Local Custodians for settlement will not be affected by the enhancement except for the Buy-In process which is optional (1.6.5).
- 1.6.** The main operational changes are summarized below:
 - 1.6.1.** Permitting Local Custodian the ability to reject sell and/or buy trades for settlement if settlement/matched settlement instructions are not received from its client whereby rejected sell and/or buy trade cash and securities settlement obligations will be passed back to the selling and/or buying BCM for settlement. This is to ensure that Local Custodians have better control of the securities thus making it unnecessary to operate dual accounts.
 - 1.6.2.** Introduction of a House rejection buy account and a House rejection sell account for settlement of rejected trades under the Broker NIN in addition to the existing House account. The new accounts will be used only for the purpose of accepting obligations arising from buy or sell rejections and are under the control of the Broker.

- 1.6.3. Introduction of a late confirmation period of two business days from T+2 to confirm buy/sell trades. This means that a rejected trade may be accepted for settlement by the Local Custodian due to receipt of settlement or matched settlement instructions by Local Custodian. Therefore, Local Custodian clients may, subject to agreement by local BCM, have an opportunity to provide matched instructions and complete settlement during this late confirmation period which will begin on T+2 and end at 14:00 on the T+4.
- 1.6.4. Introduction of a buy-in mechanism for purchasing securities to settle the rejected sell trades.
- 1.6.5. Introduction of a new functionality for any BCM to sell securities to the ADX buy-in board for buy-in bids posted by a selling BCM with a negative balance client rejection account.

2. Details of Operational Enhancements

2.1. Rejecting settlement of purchase trades

[These operational enhancements are NOT applicable to Broker Clearing Members (BCMs) which do not have clients using a Local Custodian for settlement]

- 2.1.1. Local Custodian can reject settlement of purchase trades before the Clearing Settlement and Depository (CSD) cutoff time at 23:00 on T+1 by writing to the CSD if there are no settlement instructions from client.
- 2.1.2. If a buy trade is rejected by a Local Custodian for settlement, the cash and securities settlement obligations will be on the buying BCM and the Local Custodian will not be responsible for paying for a buy trade and receiving securities.
- 2.1.3. An adjusted cash settlement obligation report will be sent by ADX to the Settlement Bank before 8:00 on T+2 if the Local Custodian is a clearing member.
- 2.1.4. The purchased securities will then be placed under the control of the buying BCM in the House rejection buy account.
- 2.1.5. The detailed processes of how a Local Custodian rejects a buy transaction are explained below:
 - 2.1.5.1. Local Custodian will submit rejection request using CSD form for rejection of buy trades for settlement by 23:00 on T+1.
 - 2.1.5.2. A copy of the rejection request must be forwarded by the Local Custodian to the buying BCM.
 - 2.1.5.3. The CSD will process the buy rejection by 7:00 on T+2.
 - 2.1.5.4. If the Local Custodian is a clearing member, the cash settlement obligations will be transferred from the Local Custodian to the buying BCM. At the same time, an adjusted cash settlement report will be sent by CSD to the Settlement Bank before 8:00 on T+2.
 - 2.1.5.5. The Settlement Bank will complete cash settlement of the adjusted cash obligations arising from the rejection at 9:45 on T+2. The cash settlement obligation for the rejected buy trade will be settled by the buying BCM.
 - 2.1.5.6. Settlement of securities will commence at 10:00 on T+2. The buying BCM's Settlement Account will be credited.

- 2.1.5.7. If the buying BCM does not make full payment by 9:45, the buying BCM will be suspended from buying in the market.
- 2.1.5.8. ADX may levy penalties on the investor for late confirmation and collect the relevant penalties through the Local Custodian of the client which the trade was executed for subject to the Penalties List.
- 2.1.5.9. The late confirmation period for purchase trades is from T+2 after completion of securities settlement up to 14:00 on T+4.
- 2.1.6. If the buy trade remains unconfirmed after the late confirmation deadline, the buying BCM must transfer the buy position to the Broker's existing proprietary house account.
- 2.1.7. If the buying BCM would like to sell the purchased securities, the buying BCM must transfer the securities to the house trading account of the buying BCM before executing the sell trade from the House rejection buy account.
- 2.1.8. Any gains arising from the sale shall be paid to ADX. Gains shall include any cash or securities corporate actions.

2.2. Rejecting settlement of sell trades

[These operational enhancements are NOT applicable to Broker Clearing Members (BCMs) which do not have clients using a Local Custodian for settlement]

- 2.2.1. Local Custodian can reject settlement of sell trades before the CSD cutoff time at 23:00 on T+1 by writing to the CSD and using CSD form if there are no settlement instructions from client.
- 2.2.2. If a sell trade is rejected by a Local Custodian for settlement, the securities settlement obligations of the rejected sell trade will be transferred from the Local Custodian to the selling BCM immediately upon the execution of the rejected trade by CSD on T+2 at 7:00. The Local Custodian will not be responsible for settlement of the sell trade on T+2.
- 2.2.3. The rejected sold securities will show as a negative in the House rejection sell account under the control of the selling BCM.
- 2.2.4. An adjusted cash settlement report will be sent by CSD to the Settlement Bank before 8:00 on T+2. The proceeds from the rejected sell trade will be withheld by ADX and remains in ADX settlement account.

- 2.2.5. The detailed processes for a Local Custodian to reject a sell trade for settlement are as follows:
- 2.2.5.1. Securities balances in the Local Custodian's agent client trading account will be placed under "Pending" status once the sell order has been matched on T day.
 - 2.2.5.2. Local Custodian will submit rejection request using CSD form for rejection of sell trades for settlement.
 - 2.2.5.3. A copy of the rejection request must be forwarded by the Local Custodian to the selling BCM.
 - 2.2.5.4. The CSD will process the sell rejection by 7:00 T+2.
 - 2.2.5.5. If the Local Custodian is a clearing member, the cash proceeds from the rejected sell trade will be withheld by ADX and an adjusted cash settlement report will be sent by ADX to the Settlement Bank before 8:00 on T+2. The trading cap limit will be adjusted accordingly.
 - 2.2.5.6. Rejected securities held in Local Custodian agent client trading account will retain the "Pending" status flag until final resolution of the rejected trade. The 'Pending' status means that the Local Custodian's client will not be entitled to corporate actions and cannot re-sell the securities.
 - 2.2.5.7. A negative available balance equal to the rejected sell trade will be created in the House rejection sell account.
 - 2.2.5.8. The Settlement Bank will complete cash settlement based on the adjusted cash settlement report. The cash settlement obligations due to the selling BCM will be withheld by the CSD if the selling BCM has insufficient securities for settlement by 9:45 on T+2.
 - 2.2.5.9. The selling BCM may transfer securities in full or in part from the Broker's proprietary house trading account to the selling BCM House rejection sell account to offset the negative balance.
 - 2.2.5.10. Settlement of securities will commence at 10:00 on T+2. The selling BCM House rejection sell account will be debited irrespective of whether there are sufficient securities or not. The counterparty buying BCM will be credited with securities balances. The owned balance of the Local Custodian agent client trading account will be debited.

- 2.2.6. If the Local Custodian subsequently accepts the sell trade before the selling BCM settles the rejected trade in full or in partial and before the late confirmation cutoff time, the selling BCM must request CSD to reverse the rejection.
- 2.2.7. The late confirmation period for sell trades is from T+2 after completion of securities settlement up to 14:00 on T+4.
- 2.2.8. ADX may levy penalties on the investor for late confirmation and collect the relevant penalties through the Local Custodian of the client which the trade was executed for subject to the Penalties List.
- 2.2.9. The Local Custodian client cannot do late confirmation of the rejected sell trade if the selling BCM settled the rejected trade.

2.3. Resolving rejections of sell trades

Rejection of sell trades by Local Custodian will result in a negative balance in the selling BCM House rejection sell account. The following mechanisms are ways to resolve the negative balance under the House rejection sell account:

2.3.1. Transfer of Securities

- 2.3.1.1. The selling BCM may transfer securities in full or in part from the Broker's proprietary house trading account to the selling BCM House rejection sell account to offset the negative balance.

2.3.2. Purchase of securities from the market

- 2.3.2.1. If the selling BCM opt to settle the negative balance in the House rejection sell account, the selling BCM can purchase the securities directly from the market on T+2 only to ensure settlement on T+4. In such a case, the rejected sell trade will settle and ADX will pay the selling BCM the sales proceeds withheld by ADX. The settlement report will be adjusted accordingly by ADX.

2.3.3. Purchase of securities via buy-in process

A buy-in mechanism will be available via the Equator system to the selling BCM which acknowledged the Local Custodian's sell rejection and has insufficient securities (herein referred to as the short BCM).

- 2.3.3.1. The selling BCM may opt to buy the securities through buy-in mechanism on T+2 and T+3 from 15:45 until 16:00.

- 2.3.3.2. The special electronic buy-in auction shall be regulated according to the buy-in procedures.
- 2.3.3.3. The price and volumes of successful buy-in transactions shall not form part of the daily market price nor the daily market volume, and will not be eligible for the computation of any indices.
- 2.3.3.4. All outstanding negative balances in the client rejection account which are not settled by the late confirmation cutoff time (14:00 on T+4) will be posted by ADX to the buy-in board for mandatory buy-in.
- 2.3.3.5. The mandatory buy-in will commence on T+4 at 15:45 until 16:00.
- 2.3.3.6. If the mandatory buy-in is successful either partially or in full, the negative balance in the client rejection account and the Pending status in the Local Custodian client agent account will be settled based on the quantity of the successful buy-in.

2.3.4. Placing offers in the buy-in board

[Applicable to ALL Broker Clearing Members]

- 2.3.4.1. All BCMs excluding the selling BCM will be permitted to participate in the buy-in and offer their clients' securities to the buy-in by quoting the relevant NIN number.
- 2.3.4.2. The selling BCM will only be permitted to participate in the buy-in and offer clients' securities.
- 2.3.4.3. The Local Custodian client who rejected the sell trade cannot offer the securities under 'Pending' status to the buy-in.
- 2.3.4.4. Offers in the buy-in board can only be placed between the times of 15:45 and 16:00 daily against any buy-in bids with an open status.
- 2.3.4.5. The maximum buy-in price permitted will be the daily closing price (duly adjusted for any relevant corporate actions) plus fifteen percent.
- 2.3.4.6. The quantity offered can either be equal to or less than the buy-in bid quantity.
- 2.3.4.7. The buy-in matching process will commence at 15:45.

- 2.3.4.8. Offers to the buy-in will be matched based on best price offered, quantity and time of offer placement.
- 2.3.4.9. All sell trades to the buy-in process shall be good for settlement and cannot be rejected for settlement.
- 2.3.4.10. Partial completion of buy-ins will be allowed. Buy-ins will be matched according to ticket numbers of an order. There will be no matching of partial ticket numbers.
- 2.3.4.11. If the buy-in is successful, ADX will proceed to settle the new sell trades to the buy-in bid and no rejections to settlement of any new sell trades to the buy-in are permitted.
- 2.3.4.12. The securities settlement of buy-ins will settle on the same day of the buy-in by 16:00. Cash settlement will be on the next settlement day following the successful buy-in by 9:45. For the short BCM, the cash obligations will be recomputed to include the difference between the original sell proceeds and the total cost arising from the buy-in trades.
- 2.3.4.13. If the price of the securities bought through the buy-in is higher than the original sell price, the short BCM will be responsible for the shortfall to be collected on the next settlement day.
- 2.3.4.14. If the price of the securities bought through the buy-in is lower than the original sell price, the gains will be maintained by ADX.
- 2.3.4.15. A buy-in trade file will be generated by ADX and emailed to all the successful new selling BCMs to the buy-in process.

2.3.5. Posting negative balances to the buy-in board

[These operational enhancements are NOT applicable to BCMs which do not have clients using a Local Custodian for settlement]

- 2.3.5.1. Only a short BCM (i.e. the BCM with a negative balance in the client rejection account) can access this function.
- 2.3.5.2. The buying-in will be conducted on a special auction board via a proposed Equator buying-in facility.
- 2.3.5.3. The buy-in auction board will select the sellers from the lowest to the highest price until the total buying-in securities quantity is fulfilled based on price, volume and time priority.

- 2.3.5.4. The quantity posted to the buy-in board can either be filled in full or partial.
- 2.3.5.5. Partial completion of buy-in will be allowed.
- 2.3.5.6. The parties involved in the buy-in process are; the short BCM and the new selling BCM or Local Custodian whereby securities will be debited from the new selling BCM or Local Custodian and credited to the short BCM.

2.3.6. Mandatory closeout

If the mandatory buy-in is partially successful or fails entirely, a mandatory closeout against the Local Custodian client will be invoked by ADX on the outstanding negative balance based on the original traded price. The Local Custodian client must sell to the selling BCM.

- 2.3.6.1. The Local Custodian client will receive the cash closeout sum calculated based on the Original Traded Price multiplied by the quantity of securities closed-out
- 2.3.6.2. The Local Custodian client shall be entitled to claim compensation from the selling BCM if it is ascertained that the Local Custodian client did not place the sell trade order.
- 2.3.6.3. Local Custodian client may file a complaint to ADX against the selling BCM using the existing procedures and channels.

2.3.7. Error Trades

- 2.3.7.1. ADX's existing error trade handling policies will apply.
- 2.3.7.2. Upon confirmation that a sell trade is an error trade, the local selling broker must replace the securities sold in error plus any relevant corporate action which the Local Custodian client may not have benefitted from.

2.3.8. Settlement of Trade Corrections

2.3.8.1. Settlement of buy correction trades:

2.3.8.1.1. Scenario A [Buy on T; correction sell on T]:

1. BCMs to execute the correction sell trade using the Client Trading Account.
2. BCM MUST inform ADX that the correction sell trade is to settle the buy trades latest by end of T+1 by using the Settlement of Trade Correction Request Letter.
3. Custodian Clearing Member[CCM] requests rejection of buy and sell trade on T+1 by 11:00 stating "ERROR Trade" as Reason of Rejection. On T+2 by 7:00, ADX to reject sell trade to Broker Error trades Account (BEtA) and then reject the buy trade to BEtA.
4. Client Agent Trading Account will show 'Negative Pending' status.
5. ADX settles cash obligations as follows: Buy trade on T+2; Sell trade on T+3.

2.3.8.1.2. Scenario B [Buy on T; correction sell on T+1 or T+2] (Note: this works only if the client owns an equal or greater than the Error Buy trade amount of scurrilities in the Agent Account):

1. BCM to execute the correction sell trade using the Client Trading Account.
2. BCM MUST inform ADX that the correction sell trade is to settle the buy trade latest by end of T+2 by using the Settlement of Trade Correction Request Letter.
3. CCM requests rejection of buy on T+1 by 11:00 stating "ERROR Trade" as Reason of Rejection. On T+2 by 9:00, ADX rejects buy trade to BEtA.
4. CCM requests for rejection of sell trade on T+1 of sell trade by 11:00 stating "ERROR Trade" as Reason of Rejection. On T+2 of sell trade by 7:00, ADX rejects sell trade to BEtA.
5. Client Agent Trading Account will show 'Negative Pending' status
6. ADX settles cash obligations settled as follows: Buy trade on T+2; sell trade on T+4 or T+5 depends on the sell trade.

2.3.8.1.3. Scenario C [Buy on T; no sell correction]:

1. Custodian Clearing Member [CCM] requests rejection of buy trade on T+1 by 11:00 stating "ERROR Trade" as Reason of Rejection. On T+2 by 7:00, ADX to reject buy trade to BEtA.
2. BCM request to transfer the sum of Buy rejected trades from BEtA to the House Proprietary Account after T+2 trading session.
3. BCM MUST sell the securities through the market within ONE month period. If sale value is higher than purchase value, difference proceeds goes to ADX.

2.3.8.2. Settlement of sell correction trades:

2.3.8.2.1. Scenario A [Sell on T; correction buy on T]

1. BCM to execute the correction buy trade using the Client Trading Account. Client Agent Trading Account will have Pending In securities balance from T.
2. BCM MUST inform ADX that correction buy trade is to settle the sell trades latest by end of T+1 by using the Settlement of Trade Correction Request Letter.
3. CCM requests rejection of buy and sell trade on T+1 by 11:00. On T+2 by 7:00, ADX to first reject sell trade to BEtA and then reject the buy trade also to BEtA.
4. ADX MUST use option 'A' to keep sell rejection securities as Available in the Client Agent Trading Account.
5. ADX settles cash obligations as follows: Sell trade on T+3; buy trade on T+2.

2.3.8.2.2. *Scenario B [Sell on T; correction buy on T+1 or T+2]*

1. BCM to execute the correction buy trade using the Client Trading Account. Client Agent Trading Account will have Pending In securities balance from T+1.
2. BCM MUST to inform ADX that the correction buy trade is to settle the sell trades latest by end of T+1 by using the Settlement of Trade Correction Request Letter.
3. CCM requests rejection of sell trade by T+1 by 11:00 on T+1. On T+2 by 7:00, ADX rejects sell trade to BEtA.
4. ADX MUST use option 'A' to keep sell rejection securities as Available in the Client Agent Trading Account.
5. On T+1 of buy trade by 11:00, CCM requests rejection of buy trade. On T+2 of buy trade by 7:00, ADX reject it to BEtA.
6. ADX settles cash obligations settled as follows: Buy trade on settlement date; sell trade on T+4 or T+5 i.e. one day after the settlement of the negative balance created from the sell rejection at BEtA.

2.3.8.2.3. *Scenario C [Sell on T; no buy correction]*

1. There is no special handling procedures. If the broker failed to buy the sold error securities, one of the following situation to take place:

- a. BCM post the negative balance in the Bid session and participate to close the negative balance, or
- b. BCM transfer equal balance from his Proprietary Account to BEtA to close the negative balance, or
- c. Sell CloseOut will take place on T+4 as per DvP process. Broker either compensate the client in cash or to keep trying purchase the same amount of securities after T+2.

A. Trade Correction/Amendment

All trade corrections/amendments to be handled similar to the current cases with regular clients according to MOS requirements on T date, only.

3. Commission and Penalties.

- 3.1 The operation procedures for DVP model are subject to the following commissions and Penalties.
- 3.1.1 The commission for the sell side of the Buying – in trades will be the same as the commission for regular trading.
- 3.1.2 The penalties for late confirmation will be as the below schedule starting on June 29,2011.
- 3.1.4 Penalties will be paid by local custodian.

#	Penalty	Penalty Value
1	Late confirmation on (T+2)	-
2	Late confirmation on (T+3)	(%0.75)from the total value, with Minimum of (1,000) AED and Maximum (20,000) AED
3	Late confirmation on (T+4)	(%0.75)from the total value, with Minimum of (2,000) AED and Maximum (30,000) AED
4	Transfer securities from rejected buy trades account to the broker trading account on T+5	(0.75%) from the trade value, with Minimum of (2,000) AED and Maximum (30,000) AED

4. Waiver from penalties

4.1.1 The trades of the ADX' listed ETF's fund managers are exempted from late confirmation penalties mentioned above for the following trades: -

4.1.1.1 All trades that takes place on Wednesday of every week.

4.1.1.2 All trades for which the settlement day is a public holiday in the country in which the global custodian appointed by the fund manager is registered.

*** END ***