

## Clearing and Settlement Rules

August 2012

### Introduction

These rules govern operations of clearing and settlement functions at Maldives Securities Depository Company Pvt. Ltd. (MSDC) for settlement of payments and securities, in relation to Securities transactions concluded at Maldives Stock Exchange.

In these rules

"Clearing Member" shall mean any Dealing Company licensed by the CMDA, and who enters into this agreement for use of payment clearing facility.

"MSE" means Maldives Stock Exchange

"MSD" refers to securities depository system operated by MSDC

"MSDC" means Maldives Securities Depository Company Pvt. Ltd.

"Payment obligations" refers to obligations of the Dealing Company to pay funds for settlement of securities transactions concluded at Maldives Stock Exchange

"Trading Rules" refers to the Trading Rules or rules describing the procedures and processes for conduct of Trades at MSE, regardless of the name attached to it.

"Settlement instructions" refers to instructions and confirmation from Clearing Members for transfer of funds and/(or) securities.

"Agreement" refers to the Clearing Agreement between MSD and Clearing Members.

"Trading Member" means a Trading Member under the Trading Membership rules of the Maldives Stock Exchange;

"Announcements" refers to a publicly notice in newspapers, gazette or published in its website.



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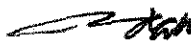
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## Membership

1. A Trading Member of the MSE is eligible to be a Clearing Member of MSDC.
2. Clearing Members are required to:
  - a) Open a depository account in the MSD;
  - b) Follow the announcements regarding rules, regulations and procedures of operations;
  - c) Pay fees and other charges as prescribed by the MSD;
  - d) Abide by all contractual and procedural requirements for payment clearing through MSDC for securities transactions
3. Clearing Members are required to enter into an agreement with the MSDC for access to payment clearing arrangements. The Agreement is considered as part of these rules.
4. At the time of clearing the Transaction, the Clearing Member:
  - a) Must have established a Clearing Account with MSDC;
  - b) Must have established a Clearing Shortage account with the MSDC;
  - c) Must have appointed Authorized Contact Person(s), and
  - d) Must be in compliance with the Trading Rules of MSE
5. The Contact Person(s) (if any) appointed to Maldives Stock Exchange for matters related to trading of securities, must be appointed to the MSDC for communications in relation to clearance of Transactions and associated issues.
6. Each Clearing Member must ensure that each individual whom it designates as its Contact Person who is duly authorized to give instructions (settlement schedules), to correct errors and to perform such other duties as may be required under these rules and to transact all requisite business in connection with the operations of the Clearing arrangements. The Clearing Member may designate different Contact Person(s) for different purposes. A Clearing Member shall also ensure that each individual who it designates as its representative shall be capable of taking such action in a manner consistent with the daily time schedules and other requirements established by or pursuant to these Rules.

## Clearing Accounts and Clearing Shortage Accounts

7. MSDC Shall open an Account in a licensed bank in the Maldives in the name of each Clearing Member, for the purpose of settling the payment obligations (referred as Clearing Account). Any prefix or suffix which relates the account to the Clearing Member is considered sufficient for this purpose.
8. MSDC shall also open an account for each Clearing Member in a licensed bank in the Maldives, for the purpose of meeting any shortage in the Clearing Account in settling payment obligations (referred as Clearing Shortage Account). Any prefix or suffix which relates the account to the Clearing Member is considered sufficient for this purpose.



9. Any funds held or attributed to the Clearing Account or Clearing Shortage Account, whether deposited by the Clearing Member or any other person shall be held on trust for the benefit of the Clearing Member, in settling obligations arising from securities transactions.
10. While the Clearing Member remains as a Trading Member of the MSE, the use of funds in the account of the Clearing Member is limited to the rights and obligations arising out of securities transactions. Any order, instructions, advice etc. which does not relate to the Clearing Member's rights and obligations arising on securities transactions is void.
11. The Clearing Members shall maintain a minimum balance of MVR25,000 in its Clearing Account, and a balance of MVR50,000 in the Clearing Shortage Account.
12. Any funds in excess of MVR25,000/- in its Clearing Account can be withdrawn by the Clearing Member by giving an instruction by the Authorized person(s) identified as per clause 4 (b).
13. Notwithstanding any provision in any rules to the contrary, any charge and fees applicable to the Clearing Account or Clearing Shortage Account by the bank, is considered as the responsibility of the Clearing Member, and does not create any obligation for MSDC in relation to reimburse such fees and charges to the Clearing Member.
14. The beneficial rights of the accounts shall belong to the Clearing Members, subject to the terms of the Agreement between Clearing Members and MSDC, and the procedures of operations of the accounts.
15. No Clearing Member shall give any instruction for any deposit, withdraw or transfer of funds from the Clearing Account or Clearing Shortage account except as provided in these Rules, the Agreement and procedures of operations.
16. Clearing Members shall abide by applicable Laws and Regulations on prevention of money laundering and terrorism financing, in the operations of Clearing Accounts and Clearing Shortage Account.
17. Clearing Accounts and Clearing Shortage Accounts shall be operated pursuant to these Rules, Clearing Agreements, and operational procedures.

#### **Availability of Funds for Financial Obligations**

18. Clearing Members must ensure at all times that there are sufficient funds available for clearance of payment obligations for securities transactions.
19. Clearing is effectuated by MSDC entering into a transaction as the central counterparty and registering the Transaction on the Clearing Account of the Clearing Member, as set out in these Rules, Clearing Agreement and procedures.
20. Fines may be imposed for failures to ensure availability of funds in the accounts within the stipulated time period, depending on the seriousness of the failure.



### **Availability of Securities**

21. Clearing Members are required to take necessary measures to ensure that securities are available for clearance, prior to issuing any orders which would lead to a contractual obligation to settle the transactions.

### **Trading**

22. Clearing Members must abide by applicable rules on Trading at MSE, and ensure that all necessary documents which require approvals on the Clearing Member's behalf are provided as per the procedures of MSE, for settlement of transactions.
23. No instruction shall be placed for clearing and settlement unless it complies with the Rules on Trading and Regulations on Conduct of Securities Business for securities dealers.

### **Settlement of Trades**

24. Confirmation of Transactions from MSE would serve as a confirmation to clear Transactions for Clearing Members.
25. Along with Confirmation of Transactions, Clearing Members shall give instructions, either directly or through MSE, to MSDC on clearing and settlement (settlement instructions) with regards to payments and transfer of securities.
26. In settlement instructions, Clearing Members shall act in the best interest of the Clients, and in accordance with the Regulation on the Conduct of Securities Business, or any regulation which describes the conduct of securities business for the Dealing Companies, and shall not compromise any interest of the Clients with regard to delivery of securities.
27. Trades executed at MSE by a Clearing Member shall be settled on T+1 for clearance of payments and delivery of securities. However, if MSD is required to issue a cheque as a medium of payment, due to any reason outside the control of MSE, the settlement cycle may be extended by one day to T+2.
28. All transfers of securities would be carried out through MSD as per the operating rules of Maldives Securities Depository system.

### **Failure to abide by these rules**

29. If Clearing Members fail to abide by these rules, Agreement and procedures, the MSD may take one or more of the following series of actions and inform the MSE and the CMDA:
  - a) Issue a Warning;
  - b) Impose a Penalty of MVR 500;
  - c) Temporarily suspend services to the Clearing Member who has failed to abide by the regulations until the default event has been remedied or otherwise ceases to the reasonable satisfaction of the MSDC.



## Errors

30. Errors in clearing arising from errors in trading at MSE shall be reported to MSE to be handled as per the applicable Trading Rules. Any changes in a transaction made by MSE would trigger a corresponding change to the applicable clearing transaction.
31. Errors in Clearing Accounts not related to trading errors, shall be reported to MSDC immediately. MSDC shall deal with such errors as soon as possible.
32. Notwithstanding any provision to the contrary in these rules, MSDC may correct any errors involving clearing of transactions in the Clearing Accounts.
33. Any corrections made by the MSDC to the Clearing Accounts following any type of errors shall be binding on all Clearing Members.

## Defaults by a Clearing Member

- a) A "default event" means the Clearing Member fails to meet its financial obligations under these rules.

## Failure to meet financial obligation

34. If Clearing Members fail to meet financial obligations under these rules, Agreement and procedures, the MSD may take one or more of the following series of actions and inform the MSE and the CMDA
  - a) Issue a Warning;
  - b) Impose a Penalty of 5% of the transaction value;
  - c) Temporarily suspend services to the Clearing Member who has failed to abide by the regulations until the default event has been remedied or otherwise ceased to the reasonable satisfaction of the MSDC.

## Defaults by MSDC

35. Any event or action which constitutes a breach of the Clearing Agreement between the MSDC and the Clearing Member shall be considered as a default event on the part of MSDC.
36. MSDC shall be responsible for any financial loss caused to the Clearing Member or a Client of a Clearing Member arising from a default on the part of the MSDC in its operation of the MSD and shall fully compensate for such losses. Financial loss shall include loss of funds, securities, income to the Clearing Member, or a client of a Clearing Member, or expenses that have to be incurred by the Clearing member or its client directly arising from the default indemnity to MSDC.
37. The Clearing Member shall be responsible for the damage due to negligence default or misconduct in relation to any instruction provided to the MSDC with respect to settlement of payment obligations arising from securities transactions and shall indemnify the MSDC against any liability or loss arising from such negligence, default or misconduct.



**Finality of Settlement.**

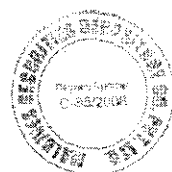
- 38. Notwithstanding any provision in any rules of the MSDC to the contrary, a Clearing Member may instruct MSDC to transfer securities to the MSD Account of the Clearing Member on T. Clearing Member cannot request to transfer partial trade.
- 39. Where the client settles his/her financial obligations to the Clearing Member, the Clearing Member must inform and instruct MSD to deliver the securities to the client immediately. However, such instructions are valid only within 10 working days (T+9) from the date of transaction (T). For the avoidance of doubts, such transfers and any subsequent transfers arising from such transactions, to and from the securities account of a Clearing Member is not considered as a private transfer of securities.

**Notifications**

- 40. A Clearing Member shall immediately notify MSDC in writing as soon as Clearing Member becomes aware of or finds it likely that any of the obligations required under these rules cannot be met.

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