

Bahrain Stock Exchange

**RESOLUTION NO. (4) OF 2000
WITH RESPECT TO THE ESTABLISHMENT OF A
GUARANTEE CONTRIBUTION FUND AT THE BAHRAIN STOCK EXCHANGE**

The Chairman of the Board of Directors:

After perusal of Amiri Decree No. (4) of 1987 pertaining to the establishment and organization of the Bahrain Stock Exchange;

And the Internal Regulations of the Bahrain Stock Exchange, issued by the Minister of Commerce and Agriculture's Resolution No. (13) of 1988;

And the Chairman of the Bahrain Stock Exchange's Resolution No. (3) of 2000, pertaining to the Clearing, Settlement, Depository and Registry Rules;

And upon the proposal of the Director of the Bahrain Stock Exchange;

Have resolved as follows:

ARTICLE (1)

The provisions of this Resolution shall be applied temporarily during the testing period of the application of the CSDR System at the BSE. The BSE's Management shall develop such provisions during the said period and propose its issuance in a final form after ascertaining its compliance with the CSDR.

ARTICLE (2)

Notwithstanding the provisions of Article (1) above, the Director of the BSE may issue the necessary resolutions and procedures for the implementation of the provisions of this Resolution, and must inform the Chairman of the BSE's Board of Directors therewith from time-to-time. The Chairman may cancel or suspend the implementation of such resolutions or procedures.

ARTICLE (3)

The Director of the BSE shall implement the provisions of this Resolution, effective from the date of its signature.

Ali Saleh Al Saleh
Minister of Commerce
Chairman of the Bahrain Stock Exchange
Board of Directors

Issued on 2nd Ramadan 1421 H
Corresponding to 28th November 2000

ARTICLE (1)

Definitions

For all purposes of this Resolution, the following definitions shall apply, as stated below:

The BSE:	shall mean the Bahrain Stock Exchange.
BATS:	shall mean the BSE's Automated Trading System.
The CSU:	shall mean the BSE's Clearing and Settlement Unit.
The Guarantee Fund:	shall mean the Guarantee Contribution Fund established under this Resolution.
The CSDR System:	shall mean the BSE's Clearing, Settlement, Depository and Registry System.
The Settlement Bank:	shall mean the regulated bank which provides the BSE and its Participants with the necessary facilities to effect payments relating to the settlement of securities transactions executed on the BSE, in accordance with this Resolution.
The Contribution:	shall mean the amount that a Participant pays into the Guarantee Fund account upon admission into the BSE's Clearing and Settlement System.
Purchased Securities:	shall mean securities where the value has not been paid in full on the Settlement Day.
The Committee:	shall mean the Guarantee Fund's Management Committee.
Participant:	shall mean the BSE's member who is accepted and permitted by the BSE to effect transfer of securities and other entries in relation to securities traded on the BSE by means of the CSDR system.
Participants' Accounts:	shall mean the Participants' clearing and operating accounts with the Settlement Bank
Settlement Day:	shall mean the designated day for settlement of obligations resulting from trades on the BSE.

ARTICLE (2)

Establishment of the Guarantee Fund

- 2.1 The BSE's Board of Directors shall establish a Guarantee Contribution Fund, which shall be managed and utilized by the BSE, at its discretion, to satisfy any liability caused by a Participant's failure to fulfil his obligation to pay the net to pay balance on the Settlement Day (T+2).

ARTICLE (3)

Membership

- 3.1 The Guarantee Fund membership shall be open to Participants who contribute to the Guarantee Fund account, in accordance with the provisions of this Resolution.

- 3.2 All contributing Participants shall be wholly and individually liable for the fulfillment of their obligations arising from securities transactions for which the BSE has carried out clearing and settlement, in accordance with the BSE's CSDR Rules and Procedures.
- 3.3 The subject of joint and individual liability referred to above shall not include the obligations of the Participants to pay fees for services rendered, or the payment of any fines or charges imposed.

ARTICLE (4)
CSDR System Membership Agreement

- 4.1 The BSE shall conclude CSDR System Membership Agreements with the Participants, specifying their mutual rights and obligations towards the Guarantee Fund and the effects of their failure to discharge their obligations towards the settlement of their transactions, and any other issues relating to clearing and settlement.

ARTICLE (5)
Management of the Guarantee Fund

- 5.1 The Guarantee Fund shall be managed by a three-member special Committee, to be appointed by the Chairman of the BSE's Board of Directors. The Committee shall be responsible for setting the overall policies of the Guarantee Fund and exercising the general supervision of its performance.
- 5.2 The BSE shall be assigned the day-to-day management of the Guarantee Fund through its Operations Department.
- 5.3 The constitution of the Committee shall be as follows:
- 5.3.1 One member representing the BSE, who shall be the Chairman.
 - 5.3.2 One member representing the brokerage companies, to be nominated by the BSE's members.
 - 5.3.3 One member representing the Settlement Bank.
- 5.4 The term of the Committee membership shall be three years renewable for a similar term or terms.
- 5.5 Members of the Committee shall discharge their responsibilities in accordance with the provisions of this Resolution, without remuneration.

ARTICLE (6)
Management Fee

- 6.1 For managing the Guarantee Fund, the BSE shall charge the Guarantee Fund a management fee calculated at the rate of 0.25% of the Guarantee Fund's amount per annum. The BSE shall have the right to review the above management fee, subject to its

sole discretion.

ARTICLE (7)
Participants Contribution

- 7.1 Upon admission to the CSDR System, the Participant shall pay a fixed minimum contribution to the Guarantee Fund account opened with the designated Settlement Bank.
- 7.2 Contributions to the Guarantee Fund account must be segregated from the BSE's assets, however they need not be segregated from the other Participants assets.
- 7.3 Each Participant, for the duration of his membership, shall contribute a fixed amount to the Guarantee Fund account, which at present shall be as follows:
- 7.3.1 A minimum of BD50,000 (Bahraini Dinars fifty thousand) for Participants who are Class (A) brokers (incorporated in accordance with the Chairman of the BSE's Board Resolution No. 2/95).
- 7.3.2 A minimum of BD25,000 (Bahraini Dinars twenty five thousand) for the Participants other than Class (A) brokers (incorporated in accordance with Article (16) of the BSE's Internal Regulations).

ARTICLE (8)
Review of Contributions

- 8.1 The BSE shall have the right to review the Participants contributions from time-to-time, subject to its sole discretion, or if a higher Trading Cap Limit is requested. If the new amount of the contribution is higher than the previous one, Participants are required to pay into the Guarantee Fund account the difference between the previous contribution and the new one.
- 8.2 The BSE may also require the Participants to make additional contributions to the Guarantee Fund account, based upon anticipated average trading volume, or current (net or gross) settlement obligations.
- 8.3 All Participants must maintain the fixed minimum contribution established by the BSE at all times.
- 8.4 Any increase of the minimum fixed contribution amount or any additional contribution amount shall be paid within five (5) days after receipt of the CSU's written request to pay such contributions.

ARTICLE (9)
Guarantee Fund Account

The BSE shall place the individual contribution amounts on deposit with the designated Settlement Bank, in an independent account in the name of the BSE. Any interest received from such deposits of cash contributed which are in excess of the minimum cash contribution (less the BSE's maintenance fees) shall be accrued to the Participants not in default of their obligations under the CSDR Rules.

ARTICLE (10)
Allocation of Interest

- 10.1 The Settlement Bank shall calculate the portion of interest earned on the Guarantee Fund's investments or deposits, according to the terms agreed with the BSE. Such interest shall accrue to Participants at least annually and in proportion to the amount and time that such Participant's contribution has been deposited with the Guarantee Fund account.
- 10.2 Charges and fees arising from the Guarantee Fund's management shall be allocated by the Settlement Bank to individual Participants upon the CSU's instructions, in proportion to the amount of a Participant's contributions to the Guarantee Fund account, and shall be compensated with the interest earned.
- 10.3 The CSU shall promptly notify the Participants in respect of any interest on funds invested and charges of the costs of managing the Guarantee Fund, and in respect of payment or accrual of such amounts respectively.

ARTICLE (11)
Trading Cap Limits

- 11.1 The BSE shall set a cap on the multilateral net debit position of each Participant, to be calculated in accordance with the following formula:

$$\text{Cap Limit} = \frac{\text{Collateral} + (\text{Capital} \times \text{Risk Factor})}{(\text{Number of Settlement Days} + \text{Reserve Settlement Days}) \times \text{Maximum Risk}}$$

- 11.2 The 'Risk Factor' referred to in sub-Article (11.1) above shall be 1/3, 'Settlement Days' shall be 3 working days, 'Reserve Settlement Days' shall be 3 working days, and the 'Maximum Risk' shall be 10% per day.
- 11.3 The BSE may increase or decrease the Participant's Trading Cap Limit, or ask the Participant to pay the trading amount allowed over and above the Trading Cap Limit subject to this Article in full, in accordance with the prescribed procedure. In taking the above action, the BSE shall give special consideration to the relevant factors, i.e. the Participant's frequency and volume of his trading activities, his financial position, solvency, ability to increase his contribution to the Guarantee Fund, his past experience in the settlement of transactions executed under Article (20) hereof, the client's financial position, liquidity of securities and volume of the transactions intended to be executed.

ARTICLE (12)
Utilization of the Funds

- 12.1 The BSE shall use the assets of the Guarantee Fund contribution as collateral for the credit facility to be provided by the Settlement Bank, for the settlement of the net to pay

obligations arising from securities transactions concluded on the BSE for individual Participants who fail to settle their obligations, or if the funds of the Liquidity Reserve, in accordance with Article (20) hereof, do not suffice for the fulfillment of obligations pertaining to the concluded transactions on the BSE.

- 12.2 If a Participant fails to pay his net to pay balance not later than 09:30 hours on Settlement Day (T+2), the amount of deficiency shall be debited from the Guarantee Fund account and credited to the BSE's clearing account.

ARTICLE (13)
Insufficiency of the Guarantee Fund's Amount

- 13.1 If the Guarantee Fund's amount is not sufficient for the settlement of the Participant's money obligations, the following shall apply:

13.1.1 In the case where the Settlement Bank informs the CSU on Settlement Day (T+2) not later than 09:45 hours that the total amount of cleared funds received into the BSE's clearing account is lower than the total amount of net to pay balances of all Participants, the CSU shall immediately instruct the Settlement Bank to activate the Guarantee Fund account.

In such case, the Settlement Bank shall also inform the CSU which Participant(s) have failed to credit the net to pay amount into the BSE's clearing account.

13.1.2 In the case of activation of the Guarantee Fund account, the CSU shall immediately instruct the Settlement Bank:

- 13.1.2.1 To debit the Guarantee Fund account for the amount of the deficiency;
- 13.1.2.2 To credit the BSE's clearing account for the amount of the deficiency;
- 13.1.2.3 To send the CSU an invoice specifying all related expenses, interest and fees for effecting the Guarantee Fund account after full payment has been made by the defaulting Participant.

- 13.2 In the case referred to in sub-Article (13.1.2) above, the CSU shall immediately on Settlement Day (T+2) not later than 09:50 hours:

- 13.2.1 Suspend the defaulting Participant from the services and activities related to trading, clearing and settlement functions;
- 13.2.2 Disable the defaulting Participant's employees from using the CSDR's log-on identification code;
- 13.2.3 Send the defaulting Participant a message through the CSDR system regarding the suspension of the services and amounts due to be paid by him;
- 13.2.4 Send the defaulting Participant a written notice, including information regarding:
 - 13.2.4.1 The amount of deficiency;
 - 13.2.4.2 Settlement Bank expenses and interest for activating the Guarantee Fund account;
 - 13.2.4.3 BSE expenses for activating the Guarantee Fund account;
 - 13.2.4.4 The amount of surcharge on a Participant for the violation of the BSE's regulations;

- 13.3 For the purpose of suspending the defaulting Participant from the BSE's trading activities, the CSU shall immediately inform the Trading and Members Affairs Unit by telephone call and through the BSE's internal electronic mail system thereafter, to disable the defaulting Participant's employees from using the BATS log-on identification code, before the trading starts (09:50 hours).
- 13.4 The CSU shall order the defaulting Participant to replenish the deficiency in the Guarantee Fund's account. The defaulting Participant shall instruct the Settlement Bank to credit the Guarantee Fund account with the total amount due to pay, as per the notice from the CSU.
- 13.5 After receiving the confirmation from the Settlement Bank that the total amount due for payment is credited to the Guarantee Fund account, the BSE shall reinstate the trading, clearing and settlement services to the defaulting Participant. For that purpose, the CSU shall enable the defaulting Participant's employees to use the CSDR System log-on identification code, and inform (in writing) the BSE's Trading and Members Affairs Unit, to enable them to access the system once more.

ARTICLE (14)

Replenishment of the Guarantee Fund by a Defaulting Participant

- 14.1 A Participant who fails to settle his net to pay amount on the Settlement Day (T+2) not later than 09:30 hours, causing the BSE to settle its payment obligations to other Participants from the Guarantee Fund account, shall be obliged to replenish the Guarantee Fund account with the value of the amount previously withdrawn by the BSE.
- 14.2 If the BSE established one day after the Settlement Day (T+3) not later than 09:30 hours that the Participant has failed to pay the amount withdrawn by the BSE from the Guarantee Fund account to settle his net to pay amount, the BSE shall impose on the defaulting Participant a delay charge, in accordance with Article (21.1) hereof, and shall instruct him in utmost confidentiality to sell the purchased securities through another Participant.
- 14.3 If the Participant fails to sell the purchased securities through the authorized Participant on T+3, the BSE may give him an additional day to effect the selling on T+4.
- 14.4 If the Participant fails to sell the purchased securities through the authorized Participant on T+4, the BSE shall on T+5 instruct the Trading and Members Affairs Unit to sell the said securities by auction.
- 14.5 If by 09:00 hours on T+6 the CSU established that the proceeds of sold securities, in accordance with Article (14) hereof, are not sufficient for reimbursement of the required amount to the Guarantee Fund account, the Participant shall be obliged to pay the difference. The surplus, if any, shall be paid to the concerned investor after deducting all the charges and expenses due from the Participant.

ARTICLE (15)

Replenishment of the Guarantee Fund by other Participants

- 15.1 If by 09:00 hours on T+7 the CSU has established that the Participant failed to pay the difference referred to in sub-Article (14.5) above, and ascertained the exhaustion of the Guarantee Fund amount, the BSE shall immediately request all Participants to replenish the Guarantee Fund account and instruct the Settlement Bank to credit the Guarantee Fund account for such amounts.
- 15.2 The CSU shall determine the amount of the individual Participant's remittance referred to in sub-Article (15.1) hereof, in accordance with the following formula:
- $$\frac{\text{Net total (remaining) value}}{\text{Number of Participants} - \text{Number of failed Participants}}$$
- 15.3 Immediately after the calculation of the amounts of remittance, the CSU shall send to all Participants a written notice specifying the individual amount of payment and the method of calculation. Participants shall instruct the Settlement Bank to credit the Guarantee Fund account with such amounts not less than the next business day after the receipt of such notice.

ARTICLE (16)

Suspension of BSE Services to a Defaulting Participant

- 16.1 If a Participant fails to pay the net to pay amount on T+2 no later than 09:30 hours, the BSE shall, and until the amount is honoured as per Article (13) hereof, suspend the defaulting Participant from:
- 16.1.1 Any trading service provided by the BSE, with respect to securities transactions generally.
- 16.1.2 All services and activities in relation to the clearing and settlement operations of a Participant, except services in relation to any pending settlement obligations the defaulting Participant may have.
- 16.2 When a Participant settles his net to pay amount, the BSE may resume rendering the services referred to in sub-Article (16.1) above, and shall immediately notify the concerned parties therewith.
- 16.3 The BSE may, subject to its sole discretion, invoke the provisions of Article (26) of the CSDR Rules on the Participant, if such Participant fails to settle his net to pay amount more than twice a year.

ARTICLE (17)

Disposition of Participants' Purchased Securities in Favour of the BSE

- 17.1 To secure due payment of net to pay amounts due from a Participant to the BSE, the BSE shall have the right to dispose of all or any securities purchased in favour of the failing

Participant, provided that the right of disposition shall subsist until such time as the failing Participant's obligations have been fulfilled.

- 17.2 The proceeds of resale of the purchased securities shall be transferred to the BSE's operating account. The CSU shall immediately upon receipt of such amounts instruct the Settlement Bank to debit the BSE's operating account and credit the Guarantee Fund account for the amount of such proceeds of sale of mortgaged securities, net of any commission, costs, fees and expenses.

ARTICLE (18)
Termination of BSE Services

- 18.1 The BSE may terminate forthwith its trading, clearing and settlement services to individual Participants, if the Participant:
- 18.1.1 By 09:30 hours on Settlement Day (T+2) fails to pay the required amount of his net to pay amount to the BSE's clearing account with the Settlement Bank.
 - 18.1.2 Fails to pay his basic contribution and additional contribution to the Guarantee Fund account within five (5) days after receipt of the BSE's request through the CSU.
 - 18.1.3 Fails to remit the outstanding amount for replenishment of the Guarantee Fund account, pursuant to Article (14) of this Resolution.
- 18.2 In the event that the BSE terminates its services to a Participant according to sub-Article (18.1) above, the CSU shall return to the Participant his contribution to the Guarantee Fund and any accrued interest on his contribution within fifteen (15) days from the date of termination of the BSE's services to the Participant, provided that such a Participant has satisfied all his obligations to the BSE and the Settlement Bank.

ARTICLE (19)
Termination of Securities Settlement to all Participants

- 19.1 If the BSE establishes that, due to the outstanding net to pay amounts of one or more Participants, or due to the remittance of funds to credit the Guarantee Fund account, the total amount of the Guarantee Fund has been reduced by more than 50% of its original value, the BSE may terminate its trading, clearing and settlement services to all Participants.
- 19.2 Subject to sub-Article (19.1) above, the BSE shall request all Participants to contribute proportional amounts to the Guarantee Fund account and for that purpose credit the Guarantee Fund account with the Settlement Bank.
- 19.3 The BSE shall resume its services to those Participants who have paid the amounts for replenishment of the Guarantee Fund account, and the CSU shall immediately notify the Parties concerned.

ARTICLE (20)
Liquidity Reserve

- 20.1 The Liquidity Reserve account should be used when the value of the transaction exceeds the Participant's Trading Cap Limit, as prescribed in Article (11) hereof, provided that the value of the said transaction should not exceed the balance of the Guarantee Fund account at the time of application.
- 20.2 A Participant who wishes to exceed his Trading Cap Limit specified in Article (11) hereof, must file an application with the BSE's designated staff to that effect, and the BSE shall have the right to accept or reject such application, subject to the BSE's sole discretion.
- 20.3 In verifying the Participant's application, the BSE should accord special consideration to the factors prescribed in Article (11.3) hereof, and shall advise the Participant of the reasons for rejecting his application, if the BSE declines to accept such application.
- 20.4 Following the acceptance of his application, the Participant must deposit in the Liquidity Reserve account on T+1 no later than 09:30 hours, 30% of the value of the transaction. The remaining 70% shall be deposited in the Liquidity Reserve account on T+2 no later than 09:30 hours.
- 20.5 It shall be deemed that a Participant has failed to pay the 30% and the remaining 70% of the Liquidity Reserve amount by 09:30 hours on T+1 and T+2 respectively, if confirmation has not been received from the Settlement Bank that the Participant has submitted the appropriate payment to the Liquidity Reserve account in the time referred to in sub-Article (20.3) above.
- 20.6 The BSE may disable a particular Participant who has failed to pay the 30% of the Liquidity Reserve amount on T+1 no later than 09:30 hours from entering the Trading Floor, terminate its services of trading, clearing and settlement to him, and order the shares to be sold through another Participant on T+2.
- 20.7 In the event that a Participant fails to pay the remaining 70% of the Liquidity Reserve amount on T+2 no later than 09:30 hours, the BSE may disable the defaulting Participant from entering the Trading Floor, terminate its services of trading, clearing and settlement to him and order the shares to be sold through another Participant on T+3.
- 20.8 In executing the provisions of sub-Articles (20.6) and (20.7) hereof, the BSE shall apply the procedure prescribed in Article (14) hereof with respect to the selling of securities.

ARTICLE (21)
**Execution of Transactions Exceeding the Balance of
the Guarantee Fund's Account**

- 21.1 Notwithstanding the provisions of Article (20) hereof, the Participant must pay the value of

the transaction in cash, or provide any type of guarantee acceptable to the BSE, if the value of the transaction exceeds the balance of the Guarantee Fund at the time of application.

- 21.2 The guarantee referred to in sub-Article (21.1) above, must be provided prior to the execution of the transaction, and shall be deposited in the Liquidity Reserve account. The Participant shall have the right to cancel the said guarantee or amend it, if he re-sold the shares he bought at the same trading session.

ARTICLE (22)

Financial Record and Auditors

- 22.1 The Guarantee Fund shall have independent financial records to be audited, together with the annual financial statements, by an independent auditor who shall be appointed by the Chairman of the Board of Directors of the BSE. The auditing costs which are considered as part of the Guarantee Fund's administrative expenses, shall be paid by the BSE on behalf of the Fund and reimbursed thereafter from the Participants, in accordance with Article (10-2) hereof.