



Operational Guidelines for “Technical” Short Selling

July 2024

Article 1

Definitions

The following terms and expressions used in this document shall have the same meanings as assigned to them below unless the context requires otherwise:

“Authorized entity”	The Member registered in BHB and holding BHB’s approval to use the mechanism of technical short selling.
“BHB”	Bahrain Bourse B.S.C (c)
“BHC”	Bahrain Clear B.S.C (c)
“CBB”	The Central Bank of Bahrain
“Collateral”	The value of the Initial Collateral plus the sale proceeds of the short sale
“Eligible Securities”	Securities which have been approved by Bahrain Bourse for short selling activities.
“Initial Collateral”	Initial value of no less than 50% of the market value of the short selling order (calculated by multiplying the last closing/reference price of the security to be short sold with the quantity to be short sold) to be deposited with the short selling member
“Member”	An entity that has been approved as a Member of BHB in accordance with BHB Market Rules i.e. brokers, Market Makers.
“Technical Short Selling”	A transaction by which the seller is not in possession of the Eligible Securities at the time of the sale.
“Securities”	As specified in the CBB Volume 6 and the BHB Market Rules

Article 2

The conditions to approve using the technical short selling transaction for the authorized entity

1. Having the technical and administrative capabilities and competence required to exercise the mechanism of technical short selling, manage the accounts, and provide the necessary collaterals.
2. Having never committed substantial violations of the creditworthiness standards, the rules for accounts' split-up, and the applicable trading and settlement procedures within the last six months prior to the date of application.
3. Having in place an agreement with a guarantor that has a sound financial standing and credibility. The guarantor shall provide assurance for the Member's ability to cover any short trades which the Member fails to cover by the settlement date and the guarantor accordingly must have the ability and commitment to satisfy the delivery of the securities to be short sold on the settlement date.
4. All requirements must be available on an ongoing basis.
5. Any other terms, conditions, or requirements BHC might consider essential.

Article 3

The agreement of the technical short selling

Where the short selling activities are conducted by a member in its capacity as an agent, the authorized entity is obliged to enter into an agreement with each client; where the full data and information indicated hereunder shall be demonstrated, besides any other information BHC might consider necessary:

- 1- The client's express written acknowledgement and acceptance of:
 - a. The right of the authorized entity to secure the outcome of the technical short selling and use it for settlement in case the client failed to provide the technically short sold financial Securities for settlement.
 - b. The right of the authorized entity to use the deposited collateral, to cover the shortage of the buying value in case of a client failed to provide the technically shorted Securities for settlement.
 - c. The right of the authorized entity to use the collateral in case the client fails, when the value of his contribution decreases, to respond within the specified period and increase its contribution accordingly.
- 2- Indication of the potential risks that might result from the technical short selling transactions.
- 3- The client's declare affirmation that he recognizes and perceives the implications of the Guidelines and his responsibilities, besides the risks related to the technical short selling.

Article 4

The conditions and available means to cover the technically short sold Securities

1. The authorized entity, after securing the client's approval, shall settle the technical short selling transaction on the next day of its execution; if there were any serious reasons that might so necessitate.
2. In case the client fails to settle the technical short selling transaction or the authorized entity in the case that it is acting as principal, it shall take the following measures; and in the following sequence:
 - a. Transfer the financial Securities from other accounts of the client with the authorized entity, after securing the client's approval,
 - b. During the T+2 period, and by using the collateral, the securities that were technically short sold are re-bought.
 - c. The technically short sold Securities are re-bought during the (Buy-In) session of the clearing system, which will commence on T+2 at 14:45 until 15:00.
 - d. Cash reparation to the buying party consisting of both a compensatory amount due to price differential and a compensatory amount for non-delivery of securities.
 - e. Exercising the commitment of the guarantor to cover the short sale as per the agreement outlined under Article 2 (3) of these Guidelines.

Article 5

Violations and penalties

In case the authorized entity violates these Guidelines, BHB shall apply any of the following penalties:

1. Suspension of the approval granted to the authorized entity for a period not exceeding three (3) months,
2. Revocation of the approval granted to the authorized entity,
3. Enforcement of penalties in compliance with BHB regulations, and without prejudice to the regulations of CBB.