Settlement Procedures for Exchange Traded Funds (ETFs) Basket Shares and Application for DVP Trading Account for Settlement of ETF Fund Manager Rebalancing Trades

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Dubai Clear

دبي للمقاصة

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1. Document History

No.	Date	Description of Changes
1.	06/02/2017	First draft by Patrick Kong.
2.	20/02/2017	Updated by Patrick Kong to clarify obligations of ETF Trading Member in providing the correct trade settlement details to the ETF custodian.
3.	22/02/2017	Updated based on feedback by Afkar.
4.	21/03/2017	Updated the following: a. Version date b. Appendix 1 c. Appendix 4 d. Appendix 5
5.	12/06/2017	Updated Appendix 3 to add column for Trading Member Name to identify where the trading account for crediting or debiting the ETF units is. Created new Section 6.6 to clarify cash settlement obligations between Lead AP and Other Participants.
6.	27/05/2020	a. Segregated procedures for Dubai Clear and Dubai CSD. b. Removed Appendices 3, 4 and 5 as not applicable to Dubai Clear.
7.	08/07/2020	Updated for escalation contact details.
8.	13/07/2020	Updated escalation contact email.
9.	03/08/2020	Updated: a. section 4 – Process for Onboarding of APs; and b. updated Appendix 1 format.
10.	30/09/2020	Updated for extension in trading hours by 1 hour at the end of the trading session from 2.00PM UAE time to 3.00PM UAE time.

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2. Overview

The scope of this document is to explain to each type of market participants the:

2.1. on-boarding and settlement operational processes and requirements;

2.2. relevant prescribed service request formats; and

2.3. prescribed fees for each service.

3. Terminologies used in this document

3.1. AP means Authorized Participant of the ETF for creation and redemption.

3.2. Basket shares means the shares underlying the ETF.

3.3. DFM means Dubai Financial Market.

3.4. Dubai Clear means the clearing house of DFM.

3.5. DFM CSD means the central securities depository of DFM.

3.6. DVP investor means an investor client holding an investor number through a Dubai CSD custodian and uses a Dubai Clear Settlement Agent for settlement of trades.

3.7. ETF means exchange traded fund.

3.8. ETF basket shares means the ETF underlying shares.

3.9. ETF custodian means the Settlement Agent of the ETF basket shares.

3.10. ETF shares means the ETF units listed on DFM.

3.11. ETF TA means transfer agent of the ETF.

3.12. ETF Trading Member means the Trading Member trading for the fund manager not in the capacity of an AP.

3.13. Exchange means DFM as a stock exchange.

3.14. Lead AP means the AP responsible for aggregating creation/redemption requests from Other Participants.

3.15. Market participant means the ETF fund manager, the ETF TA, the AP, the local custodian of the ETF and the Trading Member of the ETF fund manager.

3.16. Other Participants means APs and/or Trading Members who have requested a Lead AP to create or redeem ETFs in a wholesale aggregation process.

3.17. Trading Member means a member of the Exchange.

3.18. SD means Settlement Date.

4. Onboarding of Clearing Members for APs Conducting Rebalancing DVP Trades for ETF Fund Manager

APs conducting DVP rebalancing trades for the ETF Fund Manager must follow the following procedures:

4.1. Re-balancing trades for the ETF fund manager are different from trades for creation and redemption of ETF basket shares because rebalancing trades are settled on a DVP basis.

4.2. The Clearing Member of the AP must apply to Dubai Clear to setup a designated DVP Trading Account by completing the format attached herewith as Appendix 1.

4.3. The Clearing Member must wait for written confirmation of DVP trading account setup from Dubai Clear before starting trading for rebalancing activities.

4.4. The ETF custodian will settle cash for trades confirmed by the ETF Fund Manager for settlement. The DVP late confirmation procedures will apply to rebalancing trades.

4.5. The Clearing Member will be margined accordingly for trades by the AP for the ETF fund manager.

4.5.1.   The Clearing Member for the AP must ensure that the AP has controls in place to ensure:

4.5.1.1.   the DVP trading account assigned for executing rebalancing trades for the ETF fund manager, and

4.5.1.2.   the FOP trading account assigned for executing trades as an AP for creation and redemption of the same ETF.

are used correctly for the correct transactions.

4.5.2.   The Clearing member for the AP must also ensure that trades for creation and redemption of ETF and trades for rebalancing activities by the ETF fund manager are alleged to the ETF custodian in an accurate and timely manner to ensure settlement.

4.5.3.   Failure to:

4.5.3.1.   issue accurate and timely trade settlement instructions, or

4.5.3.2.   ensure correct use of trading accounts,

may result in disciplinary action against the Clearing Member of the AP.

4.6.   Settlement of Trades in relation to Creation and Redemption of ETF:

4.6.1.   Trading and settlement days for AED shares are from Sunday to Thursday.

4.6.2.   Sunday is a non-USD cash settlement day. Sunday's USD cash settlement is settled on Monday or next settlement day.

4.6.3.   Sunday is not a settlement day for the TA and therefore there will be no instructions from or to the TA for Sundays and any TA bank holidays. However, this will not impact Dubai Clear settlement - Dubai Clear will still settle trades of basket shares as per normal.

4.6.4.　　AED cash settlement by Dubai Clear is by 10.00am UAE time.

4.6.5.　　Securities settlement is from 10.15am UAE time for DFM market.

4.6.6.　　Basket shares will be credited to designated ETF NIN with local custodian of the ETF custodian.

4.6.7.　　ETF symbol will have no individual or foreign ownership limits ie. foreign investors can own 100% of the ETF symbol.

4.6.8.　　Ownership limits for basket shares will be as per normal; no exceptions, no changes.

5.　Process of Settlement of Trades for Creation and Redemption of ETF

5.1.　Sell Rejection of basket shares by the ETF custodian:

5.1.1.　　For sells of basket shares, the ETF custodian will reject all sell trades using Option P rejection.

5.1.2.　　The ETF custodian will reject trades for basket shares in accordance with agreed spreadsheet format and submit by email.

5.1.3.　　For Sell Rejection Reversals, use the agreed spreadsheet format and submit by email.

5.1.4.　　Submissions shall be to: clearing &settlement@dubaiclear.ae

5.2.　The ETF custodian MUST not reject settlement of buy trades. The relevant APs is setup to be responsible for the cash settlement.

5.3.　Please refer to Appendix 2 for the operational processes and cut-off times for the relevant market participants in the settlement of trades for the creation and redemption of ETFs.

6. Penalties

6.1. Penalties for late confirmation regarding creation and redemption and rebalancing for the ETF NIN will also be waived until further notice.

7. Escalation Contacts

The following are the contact points:

	Primary	**Secondary**
Name	Khulood Mutawa Deputy General Manager-Head of Operations	Fatma Ali Qedad General Manager
Email	kalmutawa@dubaiclear.ae copy: clearing&settlement@dubaiclear.ae	fbinqadadd@dubaiclear.ae copy: clearing&settlement@dubaiclear.ae
Contact Number	+971 4 305 5153	+971 4 305 5148

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Appendix 1 – Application for Trading Account for Executing Rebalancing Trades

Application by Clearing Member(CM) for Trading Account for Executing Rebalancing Trades by Authorized Participant(AP) of ETF

Request Date:

Name of Clearing Member:

1. **Particulars of Authorized Participant(AP):**

DFM Trading Member Code	Full Name of AP

2. **Full Name of ETF:**

3. **NIN of ETF:**

3. **Declaration and Undertaking**

   I/We:-
   a) declare that all information given in this application is true and correct.
   b) agree, upon approval of this application, to at all times comply with all requirements prescribed by Dubai Clear as contained in the Rules of Dubai Clear and/or its procedures;
   c) have received approval from the ETF fund manager to act as AP to trade on the ETF's behalf and have attached a copy of the said approval.

Signature of applicant's authorized signatory:

Name of authorized signatory: (Company Stamp)

Note: Please submit copy of ETF fund manager's approval given to applicant's AP.

Section for Dubai Clear use:

DVP Trading Account Number for rebalancing activity:

Created by:
Approved by:
Date:

Appendix 2 – Operational Processes for Creation and Redemption of ETFs

Dubai Clear and Dubai CSD Process Note for Trade Settlement of Basket Shares, Creation and Redemption of ETFs [updated for extension of trading hours effective trades of 03 October 2021]

1. Pre-Go Live Setup

	Authorized Participant(AP)		Local Custodian		TA		Dubai Clear		Dubai CSD	
Ref	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time
A.	a. Sign AP agreement with DFM.	Before go-live	a. Submit application for ETF NIN to Dubai CSD. ETF NIN must be issued with prefix "ETF" after custodian code eg. "HSBCETFXXX".	Before go-live	a. Submit appointment of TA letter to Dubai CSD.	Before go-live			a. Receive TA appointment letter from Fund Manager.	Before go-live
	b. AP will be the Clearing Member for trades on the ETF NIN. c. Daily Operations Limit(DOL) of AP will be used for trade validation. d. AP will settle cash for trades on the ETF NIN. d. For buy trades(creation), no rejection by HSBC so AP must pay DFM for the buy trades. e. For sell trades(redemption), HSBC will always reject sell trade pending confirmation from ETF custodian to release basket shares on T+2.				b. FM/TA to submit contact details of TA to Dubai CSD as per Appendix of Appointment Letter.				b. Receive ETF Custodian NIN application request from HSBC.	Before go-live
									c. Setup of ETF NIN ETF NIN is setup with account override ie. Specify only the Agent Account and not the Clearing Member.	Before go-live
									d. Setup dedicated email address for TA and AP to send creation/redemption requests.	Before go-live

2. Creation of ETFs Shares

	Authorized Participant(AP)		Local Custodian		TA		Dubai Clear		Dubai CSD	
Ref	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time
A.	T+0: 1. Purchase basket shares using the ETF NIN.	NA	T+0: 3. Receive Trade Report from Dubai Clear (BAU process)	~~3.00pm~~ 4.00pm			T+0: 2. Send local custodian trade report.	~~3.00pm~~ 4.00pm		
B.	T+2: 4. AP pay for buy trades of basket shares.	By 10.00am	T+2: 6. Receive basket shares into ETF NIN via the DFM securities sett run.	By 11.00am (DFM) By 12.30pm (ND)			T+2: 5. Completes securities sett run of basket shares.	By 11.00am(DFM) By 12.30pm(ND)		
C.	~~T+2~~ T+1: 8. AP/Other Participants must ensure that investor list is provided to Dubai CSD by using the prescribed format.	By ~~12.00pm~~ 7.00pm	T+2: 7. Send confirmation of receipt of basket shares to TA.	Internal timings between local custodian and TA	T+2: 9. Send Dubai CSD instruction to create ETF shares by using the prescribed format.	Latest by ~~1.00pm~~ 3.00pm			T+2: 10. Reconcile totals in TA's instructions against investor list from AP/Other Participants: a. name of AP/Other Participants; b. total quantity of ETF shares to credit must match. If totals unmatched, do nothing and inform TA of imbalance between TA file and AP file. 11. If totals matched, credit ETF shares to investor accounts.	Latest by ~~2.45pm~~ 3.45pm
										3.45pm

3. Redemption of ETF Shares

	Authorized Participant(AP)		Local Custodian		TA		Dubai Clear		Dubai CSD	
Ref	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time	Service Description	Cut-off Time
A.	T+0: 1. Sell basket shares using the ETF NIN like a DVP trade.	NA	T+0: 3. Receive Trade Report from Dubai Clear (BAU process)	~~3.00pm~~ 4.00pm			T+0: 2. Send local custodian trade report.	~~3.00pm~~ 6.00pm		
B.	T+1: 5. AP/Other Participants send investor list to Dubai CSD for debit of ETF shares by using the prescribed format.	Latest by 7.00pm	~~T+1~~T+2: 4. Submit sell rejection (Option P) of basket shares to Dubai Clear using spreadsheet only.	By ~~7.00pm~~ 8.00am	5a. T+1: Instruct Dubai CSD to cancel ETF shares by using the prescribed format.	Latest by 7.00pm			6.T+2: a. Reconcile totals in TA's instructions against investor list from AP/Other Participants: (i). name of AP/Other Participants; (ii). total quantity of ETF shares to debit must match .	By 8.30am
C.									7. T+1 and T+2: Debit ETF shares from investor accounts: Action by Dubai CSD to start immediately upon receipt of AP and TA's instructions subject to availability of ETF shares in investor accounts	By 11.00am (DFM) By 12.30pm (ND)
D.							T+2: 8. Process sell rejection request using Option P received from local custodian for basket shares using spreadsheet format.	Latest ~~by~~ 10.00am 9.45am		
E.	T+2: 10. AP will not receive cash proceeds for sell of basket shares because of rejection by local custodian. AP may need to fund the investor for at least 1 settlement day.	10.00am					T+2: 9. Completes securities settlement run.	By 11.00am (DFM) By 12.30pm (ND)		
F.					T+2: 12. Receive confirmation of ETF shares cancellation from Dubai CSD.	11.00am (DFM) 12.30pm (ND)			T+2: 11. Send cancellation of ETF shares confirmation to TA.	Latest by 11.00am (DFM) 12.30pm(ND)
G.			T+2: 14. Local custodian to request for reversal of sell rejection of basket shares upon receipt of confirmation from TA to release basket shares.	Latest by ~~2.00pm~~ 3.00pm	T+2: 13. Inform local custodian to release basket shares.	Internal local custodian/TA timing	T+2: 15. Process sell rejection reversals received from local custodian. Cash settlement for sell rejection reversal is as per normal ie. on a +1 basis.	Latest by ~~2.45pm~~ 3.45pm		
H.	T+3: 17. AP will receive sell proceeds of basket shares.	By 10.00am					T+3: 16. Complete cash settlement for reversal of sell rejection of basket shares.	10.00am		

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Dubai Clear Process Note for Creation and Redemption of ETFs

1. Creation of ETFs Shares

Ref	Authorized Participant(AP) Service Description	Cut-off Time	Local Custodian Service Description	Cut-off Time	TA Service Description	Cut-off Time	Dubai Clear Service Description
A.	T+0: 1. Purchase basket shares using the ETF NIN.	NA	3. T+0: Receive Trade Report from Dubai Clear (BAU process)	3.00pm			2. T+0: Send local custodian trade report.
B.	T+2: 4. AP pay for buy trades of basket shares.	By 10.00am	T+2: 6. Receive basket shares into ETF NIN via the DFM securities sett run.	By 11.00am (DFM) By 12.30pm (ND)			T+2: 5. Completes securities sett run of basket shares.

2. Redemption of ETF Shares

Ref	Authorized Participant(AP) Service Description	Cut-off Time	Local Custodian Service Description	Cut-off Time	TA Service Description	Cut-off Time	Dubai Clear Service Description
A.	T+0: 1. Sell basket shares using the ETF NIN like a DVP trade.	NA	3. Receive Trade Report from Dubai Clear (BAU process)	3.00pm			2. Send local custodian trade report.
B.			T+1: 4. Submit sell rejection (Option P) of basket shares to Dubai Clear using spreadsheet only.	By 7.00pm			
C.							T+2: 5. Process sell rejection request using Option P received from local custodian for basket shares.
D.	T+2: 7. AP will not receive cash proceeds for sell of basket shares because of rejection by local custodian. AP may need to fund the investor for at least 1 settlement day.	10.00am					T+2: 6. Completes securities settlement run.
E.			T+2: 9. Local custodian to request for reversal of sell rejection of basket shares upon receipt of confirmation from TA to release basket shares.	Latest by 2.00pm	T+2: 8. Inform local custodian to release basket shares.	Internal local custodian/TA timing	10. Process sell rejection reversals received from local custodian. a. Special format of sell rejection: only spreadsheet. b. Cash settlement for sell rejection reversal is as per normal ie. on a +1 basis.
F.	T+3: 12. AP will receive sell proceeds of basket shares.	By 10.00am					T+3: 11. Complete cash settlement for reversal of sell rejection of basket shares.