

GUIDELINES FOR SECURITIES BORROWING AND LENDING FOR SHORT-SELLING OF SECURITIES LISTED ON THE CHITTAGONG STOCK EXCHANGE

The party or parties associated with the short selling of securities listed on the Chittagong Stock Exchange shall adhere to the following: -

- The securities that could be short sold must be approved securities i.e. securities that are issued by the "A" category company as is defined in the Settlement of Stock Exchange Transactions Regulations, 2005 or the category prescribed by the Exchange with the prior approval of the Commission.
- For short selling a security the broker who shall execute the short-sale order must obtain a margin cover of 20% of the value of the trade from the client before placing short-sell order and whenever market price of short-sold security rises in excess of 10% of the contract price the client must provide additional margin cover of 100% to the broker.
- Short selling shall not be permitted by the Exchange if:
 - the security is under an offer of takeover;
 - the security is not a designated approved security for short selling;
 - no more than 10% of the securities on issue may be short –sold.
- All stock brokers must report their net short-sold positions to the Exchanges at the end of each trading day.
- The securities broker who shall execute the short –sale of securities on behalf of its/his customer must have net worth of Tk. 10 million as per the latest completed audited financial statements subject to the condition that at a particular point in time total guarantee by the broker shall not exceed Tk. 7.5 million i.e. Tk. 10 million minus capital adequacy requirement as per securities and Exchange Commission (Stock Dealer, Stock Broker and Authorised Representative) Rules, 2000.
- The borrower shall borrow the security under an agreement prescribed by the Exchange for a specified period with the condition that the borrower shall return equivalent securities of the same type or class at the end of the specified period along with the corporate benefits accruing on the securities borrowed since the beneficial interest of the securities borrowed shall continue to remain with the lender and all the corporate benefits shall accrue to the lender.
- The lender shall deposit the securities under the securities borrowing and lending agreement to the broker/dealer who shall execute the short selling order on behalf of the securities borrower.
- The lending of securities and the return of the equivalent securities of the same type and class by the borrower shall not be treated as disposal of the securities.
- The broker /dealer shall unless otherwise provided in the agreement with the lender, guarantee the return of the equivalent securities of the same type and class to the lender along with the corporate benefits accrued on them during the tenure of the borrowing. Even in case of failure of the borrower to return the securities or corporate benefits the broker /dealer shall be liable for making good the loss caused to the lender.
- The said borrowing and lending agreement shall also provide for the following terms and conditions: -
 - the period of depositing /lending of securities,
 - charges or fees for depositing /lending and borrowing,
 - collateral securities for borrowing,
 - provisions for the return including premature return of the securities deposited or lent,
 - mechanism for resolutions of the disputes through arbitration.

- The borrower shall not be entitled to discharge his liabilities of returning the equivalent securities through payment in cash or kind.
- The broker/dealer shall be entitled to receive from the borrower collateral security and fees for assuming the obligation to return the securities to the lender in the event of default of the borrower to return the securities to the lender.
- The broker/dealer shall issue a receipt acknowledging the deposit of the securities to the lender, and shall also obtain a receipt from the lender upon return of the securities lent by the lender. Both the receipt shall include the complete details of securities deposited such as name of security, quantity, face value, certificate number and folio number (in respect of securities that are not yet dematerialized).
- The broker/dealer shall maintain a complete record of the securities received from the lender and securities returned to the lender by them (brokers.) The said records shall be open for inspection by the Exchange and the Commission or any other person authorized by it for this purpose.
- The broker/dealer shall maintain and make available to the Exchange and the Commission such information, documents, return and reports as may be specified time to time by the Commission.

By Order of the Board

Abu Bakar Siddique

Chief Executive Officer