



Bahrain Market Developments

The delivery-versus-payment (DVP) model is expected to enhance the Bahrain capital market infrastructure and offer better protection of client assets, investor protection, settlement and disclosure enhancements.

Bahrain Bourse is taking a series of steps to enhance securities settlement, investor protection, sustainability and disclosure on its journey to further develop the country's capital markets, boost liquidity and new listings as it looks to an upgrade to the MSCI Emerging Markets Index.

HSBC invited top officials from Bahrain Bourse and Bahrain Clear to share the latest developments on the kingdom's capital market developments as part of its Navigating Business Series.

Aiming to increase protection of client assets, Bahrain Bourse plans to launch its enhanced delivery-versus payment (DVP) model for settling transactions of securities in the fourth quarter of this year, subject to the final regulatory sign-off.

"The enhanced DVP Model aims to activate the custody model in the market by combining pre-settlement controls through a custodian trade confirmation or rejection practice, with an automated solution to custodian-broker settlement," said Abdulla Abdin, Senior Director of Operations at Bahrain Clear, a fully owned subsidiary of Bahrain Bourse licensed by the Central Bank of Bahrain as a 'Clearing House and Central Depository'.

"Hence, the suggested framework will permit local custodians to reject buy and or sell trades for settlement where it has not received settlement confirmation from its client, or there is a mismatch in the settlement confirmation," he said.

The authority aims to eliminate completely any physical instructions sent from a local custodian to the broker. In case of a buy transaction, the assets are moved instantly from the account that has been executed by the broker to the local custodian and opposite happens for sell trades.

The most important element of the proposed DVP Model is the information period of two business days, which will be allowed to confirm buy and sell trades. A dual account structure, where custody and trading accounts co-exist, will be kept as an option in line with the regional practice.

DIGITAL ACCELERATION

The COVID-19 pandemic has fast tracked Bahrain Bourse's digitization drive with Bahrain Clear already offering various digital solutions to listed companies such as virtual Annual General Meeting (eAGM) management services.

Bahrain Clear is finalizing engagement with a third-party provider to enhance a number of services, which will include eAGMs (management and voting), dividend payments, as well as digital client onboarding.

In another initiative, Bahrain Trade, an innovative online trading platform, allows clients of participating commercial banks to trade on Bahrain Bourse without having to open accounts with the exchange or Bahrain Clear.

DIVIDEND TRANSFERS

Looking to further increase investor protection and transparency, Bahrain Bourse appointed Bahrain Clear, its fully-owned subsidiary, to manage unclaimed dividend payments by listed companies and as a custodian for all historically unclaimed dividends since the establishment of the exchange. The program aims to ensure adequate provision for the treatment of unclaimed dividends.

"The roll-out of the Amanat' Investor Protection Funds Program is a nationwide ethical initiative and part of our broader strategic plans to ensure investor protection and an up-to-date and comprehensive investors register in order to enable swift cash dividends transfer in the future," said Narjes Jamal, Chief Operating Officer at Bahrain Bourse.

Establishing two separate accounts deposited with the Central Bank of Bahrain, one for ongoing dividends and another for unpaid dividends, will ensure total dependency of the accounts while avoiding any conflicts of interest as some of listed companies on Bahrain Bourse are financial institutions.

In the event of unclaimed dividends for a duration of six months from the payment date, the unclaimed dividends will be transferred to the unpaid dividend account at the Central Bank of Bahrain.

At the same time, reaching out to investors will be an ongoing exercise for Bahrain Clear as the unpaid dividend fund has grown to around 50 million Bahraini dinars (US\$132 million) so far.

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ABDULLA ABDIN, SENIOR DIRECTOR OF OPERATIONS AT BAHRAIN CLEAR

CORPORATE ACTION

Earlier this year, in the effort to enhance the Capital Markets in the Kingdom, Bahrain Bourse announced a specific timeline in relation to dividend announcements and payments along with the release of new listing rules of Bahrain Bourse. It has enhanced the current practices and improved transparency by eliminating potential ambiguity and allowing investors more time to take decisions.

"The enhanced corporate action timeline aims to provide shareholders with additional timeframe and flexibility in conducting their trading transactions and more time to take decisions as well as clarity for issuers in terms of timeframe, disclosures and dividends payment mechanism," said Shaikha AlZayani, Director of Listing & Disclosures at Bahrain Bourse.

According to the updated rules, issuers have to ensure that any declaration of dividend must be made at least five market days before the record date excluding the declaration date and record date. The entitlements shall be at least one market day excluding the general meeting date, while all dividend payments must be made within 10 market days from the record date excluding this date.

If the company is cross-listed, it has to announce two ex-dividend dates reflecting each market settlement cycle.

At the moment, a potential disciplinary action is restricted to trading suspension, but Bahrain Bourse is in discussions with the regulator to revise the module and to financial penalties.

ESG DRIVE

Sustainability has been another focus of Bahrain Bourse, which has issued the Environmental, Social and Governance (ESG) reporting guidelines for listed companies, recommending a set of 32 Key Performance Indicators (KPIs) in line with Bahrain Vision 2030 and international benchmarks.

"Bahrain Bourse has embarked on its sustainability journey with formal commitment towards the Sustainable Stock Exchanges (SSE) initiative," said Marwa AlMaskati, Director of Marketing & Business Development at Bahrain Bourse.

"Building upon this initiative, we have issued our first Sustainability Reporting, followed by the ESG reporting guidance, to encourage and assist listed companies in disclosing ESG information that investors can utilize to make informed and responsible investment decisions," she said.