

CHITTAGONG STOCK EXCHANGE (SHORT - SALE) REGULATIONS, 2005

In exercise of the powers conferred by section 34 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969), the Chittagong Stock Exchange Ltd. makes, with the prior approval of the Securities and Exchange Commission the following regulations, namely:-

- **Short title:** These regulations may be called the Chittagong Stock Exchange (Short-Sale) Regulations, 2005.
- **Definition:** (1) In these regulations, unless the context otherwise requires-
 - "ledger" means a record containing the details of all short-selling activities by a stock dealer or stock broker for its own account or for the account of its clients as required under these regulations;
 - "stock exchange" means the Chittagong Stock Exchange Ltd.
 - "short-selling" means the sale of a security which –
 - the seller does not own, or
 - is consummated by the delivery of a security borrowed by or for the account of the seller;

(2) Words and expressions used herein and not defined, but defined in the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Securities and Exchange Commission Act, 1993 (XV of 1993), the Rules and Regulations made thereunder shall have the same meanings respectively assigned to them in the said Ordinance, Act, Rules and Regulations.

- **Owning security:** A person shall be deemed to own a security only if –
 - he has title to the security; or
 - he has purchased the security which is available in his own account (including his BO account); or
 - he has entered into an unconditional contract, as prescribed by the SEC legally binding on him to buy the security, even if the buyer does not yet have title to them; or
 - he has unconditional right or interest to or in the security; or
 - he owns a security convertible into or exchangeable for the relevant security and has tendered such security for conversion or exchange or has issued irrevocable instructions to convert or exchange such security; or
 - he has an option to acquire the security and has exercised such option; or
 - he has rights or warrants to subscribe to the security and has exercised such rights or warrants
- **Prohibition of short-selling:** (1) No stock dealer/stock broker can be engaged in short selling unless authorised by CSE.

No stock dealer or stock broker shall be allowed to engage in short-selling a security of a company that is not an eligible security for short sale as per the Guidelines for Securities Borrowing and Lending for Short-Selling of Securities Listed on the Chittagong Stock Exchange, and the said security which it does not own either for its own account or for the account of its client except as prescribed in these regulations.

Provided that a stock dealer or stock broker shall not short sell for its own account or the account of its clients unless the stock dealer or stock broker or the client, as the case may be, has a valid contract conforming the aspects/form that are included in the said Guidelines for Securities Borrowing and Lending to ensure delivery within the time stipulated by the clearing house of the stock exchange in terms of its Settlement of Stock Exchange Transactions Regulations, 2005:

Provided further that in the case of short-selling for the client's account, the relevant contract to borrow the security shall be countersigned by the stock dealer or stock broker dealing on behalf of the selling client to stand as guarantor for its client to ensure timely delivery of the security sold short:

Provided further that no person shall make a short-sale of a security on the stock exchange below the price of the last sale of the security in the stock exchange.

(2) The Chief Executive Officer of the stock exchange or any officer of the stock exchange authorised by him for the purpose may, by notice in writing, restrict or prohibit a stock dealer or stock broker from short-selling any security, if the circumstances so warrant.

(3) The notice of such restriction or prohibition to the stock dealer or stock broker as mentioned in sub-regulation (2) above shall take effect immediately upon communication to or service on such stock dealer or stock broker and shall remain effective and in force until it is revoked or modified by the chief executive officer or by the officer of the stock exchange authorised by him for the purpose.

- **Manner of short-selling:** (1) Subject to the provisions of regulations 3 and 4, a stock dealer or stock broker may short-sell a security –
 - for its own account; or
 - for the account of its clients provided it knows or is informed in writing that an order to sell is a short-sale, and shall, when placing a short-selling order, indicate in such manner as the stock exchange concerned shall, from time to time, determine that the order is a short-selling order.

On receipt of an order for the sale of a security, a stock dealer or stock broker shall enquire of the client whether at the time of placing the order such client owns the security offered for sale.

A stock dealer or stock broker shall take all reasonable steps to ensure that the client's disclosures pursuant to these regulations are accurate.

- **Maintenance of records, etc:** (1) A stock dealer or stock broker engaged in short-selling shall maintain a ledger as specified in Form-A, which shall be kept upto-date in respect of short selling activities carried out by it on its own account or for the account of its clients.

(2) No stock dealer or stock broker shall cause or allow an entry to be made in a ledger maintained under

sub-regulation (1) which it knows or has reasonable grounds to believe to be false or misleading in any material respect.

(3) A stock dealer or stock broker shall make the ledger maintained under sub-regulation (1) available for inspection to the stock exchange and the Commission upon the request of any of them and shall provide copies of such ledger, if requested by either of them.

(4) A stock dealer or stock broker is required to preserve the ledger maintained under sub-regulation (1) for a period of not less than five years after the date of execution of the short selling transactions to which they relate.

- **Contravention:** Contravention of any of the provisions of these regulations shall be punishable under the provision of the Securities and Exchange Ordinance, 1969 (XVII of 1969), Securities and Exchange Commission Act, 1993 (XV of 1993), the Rules and Regulations made thereunder, and the bye-laws of the stock exchange as well.
- **Power to impose restriction or grant exemption:** The Commission may, from time to time restrict or exempt any order or trade of any stock dealer or stock broker in respect of all or any of the provisions of these regulations.
- **Supersession of existing regulations:** These regulations supersede any other regulations relating to trading, clearance and settlement of transactions in force in the stock exchange, so far it relates to the short-sale of any listed security pursuant to these regulations:

Provided, however, that in case of short-sale of security which is under depository system, relevant provisions of the depository related laws, regulations and bye-laws shall be applicable.