Bangladesh Securities and Exchange Commission
Securities Commission Bhaban
E-6/C Agargaon
Shere-e-Bangla Nagar Administrative Area
Dhaka-1207, Bangladesh

Draft Rules

In exercise of the power conferred by section 33(1) of the Securities and Exchange Ordinance, 1969 (Ordinance XVII of 1969), the Bangladesh Securities and Exchange Commission makes, with prior circulation, the following rules, namely:-

1. Short title and applicability. – (1) These rules may be called the Bangladesh Securities and Exchange Commission (Exchange Traded Derivatives) Rules, 2019.

(2) These rules shall apply to derivatives traded on the exchange authorised and regulated by the Commission, and exclude commodity derivatives.

2. Definitions. – (1) In these rules, unless there is anything repugnant in the subject or context,-

(a) "call option" means a contract that gives the buyer the right but not the obligation to buy a given quantity of the underlying asset for a given price on or before a given future date;

(b) "commodity derivative" means a derivative instrument based on a commodity such as gold, silver, base metals, or agriculture products;

(c) "derivative" means,

(i) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument, or contract for differences, or any other form of security;

(ii) the contract which derives its value from the prices, or index of prices, of underlying securities;

(d) "exchange traded derivative" means a derivative that is, or to be, listed and traded on the exchange;

(e) "futures" means an agreement between two parties to buy or sell an asset on a specified date in the future against a specified price, futures contracts are a special category of forward contracts in that they are standardised and exchange traded;

(f) "OTC derivative" means a derivative transacted directly between two parties, "over the counter" and includes:

(i) "forward" means customised contract between two parties to buy or sell an asset at a specified price on a future date;

(ii) "swap" means a derivative contract to exchange the cash flows or liabilities from two different financial instruments;

(g) "market participant" means a party approved to undertake derivative trading and related functions as approved by the Commission;

(h) "price" means the price of the derivative as listed on the exchange;

(i) "put option" means a contract that gives the buyer the right but not the obligation to sell a given quantity of the underlying asset for a given price on or before a given future date.

(2) Words and expressions used herein and not defined, but defined in the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Bangladesh Securities and Exchange Commission Act (Act No. 15 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.

3. Application for Trading a Derivatives Product.-

(1) The exchange, prior to allowing a derivative product to be traded on the applicable platform, shall apply to the Commission for permission by providing the information specified in rule 4 and rule 5 of these rules.

(2) The Commission shall review the information provided and shall approve or reject within 30 calendar days.

(3) The exchange shall publish each derivative product on its own website.

4. Product design.-The product design of a derivative contract shall address the following elements:

(a) eligibility criteria of underlying assets;
(b) trading hours;
(c) size of contract;
(d) margin requirements in accordance with rule 11 of these rules;
(e) quotation;
(f) tenor of the contract;
(g) available contracts;
(h) settlement mechanism;
(i) settlement price;
(j) final settlement day;
(k) eligibility criteria for traders; and
(l) any other elements as determined by the Commission from time to time.

5. Contract specification.-

(1) Any derivative contracts shall contain standard contract specifications as specified by the exchange.

(2) The standard contracts shall contain at least the following information:

(a) name of the exchange of trading;
(b) security description;
(c) contract size;
(d) margin requirements;
(e) price increments;
(f) price bands;

(g) trading cycle;
(h) expiry date;
(i) settlement basis;
(j) settlement price;
(k) any other elements as determined by the Commission from time to time.

6. Eligibility Criteria of Market Participants.-

(1) Any derivatives trade shall be undertaken by market participants authorised by the exchange on the basis of eligibility criteria approved by the Commission.

(2) The exchange shall prepare the eligibility criteria considering at least the following elements:

(a) capital and margin adequacy must be commensurate to the level of their intended trading activity;
(b) risk management processes and procedures need to adequately cover derivatives trading and the specific risks associated with these transactions;
(c) sufficiently qualified staff;
(d) adequate resources;
(e) adequate internal control and risk management systems, processes and procedures;
(f) past performance; and
(g) any other requirement that may be determined from time to time by the Commission.

(3) The exchange shall publish the list of selected market participants on their website.

7. Reporting on non-compliance.-

(1) The exchange shall ensure the compliance of these rules by the market participants and shall report immediately to the Commission in the event of any non-compliance as being noticed.

(2) The exchange shall report to the Commission a summary of the non-compliance and respective corrective action taken by the exchange within 3 (three) working days of the non-compliance occurring.

8. Risk Management.-

(1) The exchange or the central counterparty (CCP), as appropriate, shall adopt an adequate risk management framework to manage the risk associated with exchange traded derivatives covering at least the following:

(a) margin requirements, liquid net worth, position limits;
(b) daily marking to market;
(c) portfolio based approach to risk management at the level of client, derivative type, underlying;
(d) concentration risk;
(e) managing of potential conflicts of interest, market abuse, and market manipulation at all appropriate levels.

(2) The risk management framework shall be reviewed by the CCP to ensure it is adequate.

9. Continuing Education.-

(1) The exchange or CCP, as appropriate, shall conduct continuing education programmes for market participants.

(2) Market participants shall have an appropriate level of staff with knowledge of derivatives.

10. Position limits.-

(1) The exchange or CCP, as appropriate, shall propose position limits to monitor the concentration of positions.

(2) Position limits shall be reviewed at least annually and at any other interval as appropriate.

11. Margin Requirements.-

(a) Initial margin - when a trader buys derivatives transaction on margin, he shall deposit an initial margin as determined by the exchange or the CCP, as appropriate, from time to time;

(b) Variation margin - after the purchase and until the sale or maturity of the derivative, additional margin shall be deposited when there is an adverse movement in the price of the underlying security. The variation margin shall be determined by the Exchange or the CCP, as appropriate, from time to time;

(c) Margins are paid to the exchange or CCP, as appropriate, who will maintain segregated accounts for safe keeping.

12. Custody.-All derivative contracts shall be maintained in dematerialized format as approved by the Commission.

13. Derivative Register.-

(1) The exchange will maintain a public register containing the derivatives that may be traded.

(2) The register will contain:

(a) description of the contract;

(b) date from which trading has been approved;

(c) specific limitations (if any);

(d) date from which the clearing obligation will take effect.

14. Data Feeds.-The exchange will be responsible for providing appropriate data feeds on a non-discriminatory and transparent basis to any market participant authorised to trade or clear derivatives contracts on the exchange.

15. Reporting.-The exchange or CCP, as appropriate, shall determine the reporting requirements with prior approval of the Commission.