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Thai depository improves rules on clearing and settlement default

To further bolster the market's reliability, Thailand Securities Depository Co., Ltd. (TSD) will apply new rates for defaults caused by member companies' operational errors, starting July 1, 2006. The new buy-in requirement for default settlement will be in effect from Oct. 2, 2006. Furthermore, the collateral requirement for fractional settlement default will be rounded up to a board lot.

TSD President, Ms. Nongram Wongwanich, disclosed that the TSD Board of Directors resolved on May 22, 2006 to improve regulations and charges concerning clearing & settlement, in line with international standards.

The board resolutions concerned the following issues:

1) Charges against clearing default caused by operational errors of a member company:

A company's late clearance should not affect other companies. For first-time defaulters, the charge will no longer be waived, but will be THB5,000. Repeat defaulters will be charged THB10,000 on the second occasion and THB50,000 each time thereafter. Currently, repeat defaulters are charged THB2,000 and THB5,000. Defaults will be tallied on a calendar year basis, starting July 1, 2006.

"Increasing clearing default charges emphasizes to members the importance of being more disciplined and executing timely clearances. If members establish preventative measures, the market becomes more reliable," TSD President said.

2) Collateral requirement for settlement default in fractions of shares to be rounded up to board lots:

This is to ensure that TSD has sufficient collateral to execute clearances with sellers of securities on the settlement due date. A defaulting member company will have to buy-in and settle the securities on the 4th day after the transaction date for equity, and on the 3rd day after the transaction date for debt instruments. This will be effective from October 2, 2006.

The change in collateral requirement is consistent with TSD's "Next day buy-in, same day settlement" scheme, which requires TSD members to undertake the 'forced-buy right', and to clear and settle on the day following the due date. TSD's Clearing Division will insist on this arrangement from October 2, 2006. SET member companies were notified of this at their general meeting on April 27, 2006.

"Applying the "Next day buy-in, same day settlement" scheme conforms to international standards. Furthermore, the scheme prepares the Thai clearing & settlement system for the International Organization of Securities Commissions (IOSCO)'s Financial Sector Assessment Program. Achieving this benchmark will validate the credibility of the Thai market, while boosting its competitive advantage," Ms. Nongram concluded.

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