

MMA Market Operations Manual

Section 5

Rules for the Operation of the MMA Book-Entry System

5 September 2006

- 1. Application.-** These regulations apply to all securities issued by the Maldives Monetary Authority (the MMA) or the Government of the Republic of Maldives (the Government) and which are maintained in the Book-Entry System (BES) of the Maldives Monetary Authority. A security is held in the BES if it is credited to a book-entry account within the BES maintained by an authorized entity of the BES. Such accounts may contain securities held on behalf of others; however, the MMA does not recognize the latter's interests except in accordance with these provisions.
- 2. Subscriptions and tenders.-** Securities subject to these regulations are issued from time to time pursuant to rules or documents issued by the MMA or by the Government for their own securities, or by the MMA in its capacity as issuing and paying agent for the Ministry of Finance and Treasury .
- 3. Transactions after issue.-** The MMA is charged with matters relating to transactions in securities governed by this regulation.
- 4. Definitions.-**

Book-entry accounts are the records of security ownership maintained within the BES.

Book-entry custodian is a person other than the MMA, that in the ordinary course of its business maintains book-entry securities accounts for other persons. A book-entry custodian may have a security interest in securities held for another person and also may hold securities for its own account.

Book-entry System (BES) is a system of book-entry accounts maintained by the MMA.

Clearing bank means a depository institution, as defined below, which has a book-entry securities account and a funds account at the MMA through which it provides clearing services.

Clearing lien means a security interest granted to a clearing bank or the MMA, pursuant to a written agreement, to secure credit extended in providing clearing services.

Clearing services means delivering and receiving securities and payments for securities on behalf of other persons.

Owner means the person in whose name a security is registered. If a security is registered in more than one name, the term “owner” includes all those whose names appear on the registration and are authorized by these regulations to request a transfer of security held in the BES.

Person means and includes an individual, corporation, company, governmental entity, association, firm, partnership and any other similar organization, including a book-entry custodian and clearing bank.

Pledge form means the MMA form used for the registration and release of a pledge against a security.

Primary issue means the offering for sale by the Government or the MMA, as the case may be, of a marketable security and its credit to book-entry accounts maintained in the BES.

Redemption means payment of a security at maturity, or pursuant to a call for redemption in accordance with the terms of a security.

Secured party is a person in whose favour there is a security interest.

Security means a certificate of deposit, or bond, note or bill and any other obligation issued by the Government of the Republic of Maldives or the MMA that, by the terms of the applicable offering circular, document or announcement, is made subject to these regulations.

Security agreement means an agreement that creates a security interest.

Security interest and pledge mean an interest in a security, which interest is acquired by a secured party to secure payment or performance of an obligation and is created by a security agreement between the person having such obligation and the secured party.

Securities Transfer Form means the MMA form used by securities owners for the transfer of securities to another person.

Transferee means a person who takes by sale, discount, negotiation, pledge, lien, gift or any other voluntary transaction creating an interest in a security.

5. Payment of interest and principal.- (a) Payment of interest on securities, where applicable, maintained in the BES shall be made by way of direct credit to a Funds Account maintained at the MMA or at a commercial bank by the entity in whose account such securities are being maintained.

(b) Securities maintained in the BES shall be redeemed in accordance with the terms of the issuing rules or document, by the MMA by withdrawing the securities in BES and by crediting the amount of the redemption proceeds, including both principal and interest, where applicable, to a funds account at the MMA of the entity

in whose account at the BES the securities were maintained, or to an account held at a commercial bank.

- (c) The obligation of the MMA or the Government, as the case may be, to make payments of interest and principal on securities held in the BES is discharged at the time payment in the appropriate amount is credited to an account at the MMA or to an account at a commercial bank in accordance with paragraphs (a) or (b) of this section.
- (d) Subject to any rights it may have as a secured party under a written security agreement, a book-entry custodian that is maintaining securities on behalf of another person shall, upon receipt of any payment relating to such securities from the MMA in accordance with paragraphs (a) or (b) of this section or from any other book entry custodian, make such payment available for withdrawal or use by such other person at the earliest possible time on such date of receipt and in any event not later than the opening of business on the date following the date of receipt.

6. Transfer instructions.- (1) Upon presentation of a Securities Transfer Form or a Pledge Form from an appropriate person and within the times and at the place as specified by the MMA, the MMA shall register the transfer, pledge or release of the security, as the case may be.

(2) For purposes of this section, an appropriate person means,

(A) for an instruction to transfer or pledge a security which is not at the time the request is received, subject to a registered pledge, the registered owner; or

(B) for an instruction to transfer or release a security which is then subject to a registered pledge, the registered pledgee.

7. Registration of Pledge.- A security interest in a security maintained in the BES may be evidenced by the registration of a pledge to the secured party or a person designated by him. There can be no more than one registered pledge of a security at any time. The registered owner of a security is the person in whose name the security is registered, even if the security is subject to a registered pledge. The rights of a registered pledgee of a security maintained in the BES are terminated by the registration of a release.

8. Warranty of initiator of transfer.- A person who initiates a transfer request under paragraph 8 warrants to the MMA that

(A) he is an appropriate person to originate the instruction, and

(B) at the time the transfer request is presented to the MMA he is entitled to registration of the transfer.

9. Rights of MMA with respect to transfers.- (1) Except as otherwise provided in these regulations, the MMA shall be entitled to treat the entity in whose account a

security is credited on the books of the BES as the entity exclusively entitled to effect transfers of such security, receive interest and other payments with respect to such security and otherwise exercise control over the security, notwithstanding any information or notice to the contrary. Where the MMA has transferred a security according to the instruction of an appropriate person as defined in paragraph 6, the MMA shall not be liable for conversion or participation in breach of fiduciary duty even though the instructing entity had no right to issue the instruction. The MMA shall be fully discharged by completing the order of the instructing entity.

(2) Notwithstanding paragraph (1),

- (A) the registered owner of a security that is subject to a registered pledge is not entitled to registration of transfer prior to the due presentment of a release instruction from the pledgee, and
- (B) if an uncertificated security is subject to a registered pledge, any money paid in redemption of all or part of the security shall be paid to the registered pledgee.

10. Transfers.- (a) Transfer of a security or a limited interest (including a security interest) in a security to a transferee occurs only:

- (1) At the time an entry is made on the books of the MMA BES registering the transfer, pledge or release of a security to a securities account maintained for the transferee or a person designated by him;
- (2) With respect to the transfer or release of a limited interest in favour of the MMA or the Government in accordance with these regulations, at the time an entry is made on the books of the BES identifying such limited interest in favour of the transferee or a person designated by him;
- (3) At the time an entry is made on the books of a book-entry custodian that credits such security to a securities account maintained for the transferee or a person designated by him, or that otherwise permits identification of the transferee or the person designated by him and the security transferred;
- (4) With respect to the transfer of a limited interest, other than a transfer of a security interest to a book entry custodian in accordance with paragraph (a)(5) of this section, at the time an entry is made on the books of the book-entry custodian on whose books the interest of the transferor appears identifying such limited interest in favour of the transferee; or
- (5) With respect to a transfer of a security interest where the secured party is the MMA or book-entry custodian on whose books the interest of the transferor of the security interest appears, when both
 - (i) the security has been transferred to the transferor of the security interest in accordance with this section, and

- (ii) the transferor has executed a written security agreement with the MMA or book-entry custodian granting such entity such security interest.

(b) By written agreement, a transferor and a transferee of a limited interest under paragraph (a)(4) or a security interest under paragraph (a)(5) of this section may place additional conditions on the transfer of such limited interest that delay the effectiveness of such transfer until such time as the specified conditions have been fulfilled. Notwithstanding any such conditions that may be agreed to as described in the preceding sentence, the book entry custodian effecting a transfer under paragraph (a)(4) shall be entitled to treat the transfer as effective as to both the transferor and the transferee, unless the book-entry custodian is party to such agreement.

(c) For the purposes of this section, an entry is made if it is

- (1) in writing on tangible media,
- (2) displayable in writing (such as on a video screen) from data contained in, or retrievable by electronic or other data processing equipment, or
- (3) recorded in any other form and is convertible into a form described in paragraph (c)(1) or paragraph (c)(2) within a reasonable time without undue delay or unreasonable expense.

11. Rights acquired upon transfer.- (a) Upon transfer of a security in accordance with section 10, the transferee acquires the rights in the security that the transferor had or had actual authority to convey.

(b) A transferee of a limited interest (including a security interest) in a security acquires the rights in a security only to the extent of the interest transferred and to the extent described in section 12. The creation of a security interest as described in paragraph 12(a) or the termination of a security interest as described in paragraph 12(c) constitutes a transfer of a security interest for purposes of this paragraph.

12. Enforceability, perfection and termination of security interests.-

(a)(1) A security interest is enforceable between the grantor of the security interest and the secured party, only if:

- (i) the security interest has been granted pursuant to a written security agreement between the grantor of the security interest and the secured party;
- (ii) the grantor of the security interest has rights in the security; and
- (iii) the secured party has given value.

(2) The interest acquired by a secured party may be granted by the person who owes payment or other performance of the obligations secured, or by another person with rights in a security.

(b) A security interest becomes perfected at the time at which the requirements of paragraph (a) of this section have been met and the security or security interest has been transferred to the secured party pursuant to section 7 of these regulations.

(c) A security interest in a security is terminated unless otherwise agreed by the secured party and the grantor of the security interest by

(1) transfer of the security, by or with the agreement of the secured party, to the grantor of the security interest, a designee of the grantor, or any successor in interest of the grantor, or

(2) written release of the security interest signed by the secured party,

13. Clearing liens to have priority.- (a) A clearing lien in a security has priority over all other claims of third parties to that security including claims of a transferee that qualifies as a good faith transferee except that a clearing lien asserted by a clearing bank is subordinate to a clearing lien of the MMA in the same security.

(b) A clearing lien qualifies for the priority provided under this section only to the extent of credit actually extended in performing clearing services and only if there has been a transfer to the secured party of the security interest or the security subject to the lien pursuant to these regulations.

14. Good faith transferees.- (a) A good faith transferee is a transferee who takes a security or a limited interest in a security for value, in good faith, and without notice of any adverse claim, and to whom an appropriate entry of transfer is made under these regulations.

(b) Except as provided in section 10, a good faith transferee, in addition to acquiring rights in a security in accordance with section 8, acquires its interest in the security free of any adverse claim which arose prior to the transfer of such interest to such transferee.

(c) An “adverse claim” includes a claim that a transfer was or would be wrongful or that a particular adverse person is the owner of or has an interest in the security.

(d) Among transferees whose interests in securities have been entered on the books of the same book-entry custodian, the interests of the good faith transferees shall have priority over the interests of those who do not qualify as good faith transferees. Notwithstanding paragraph (b) of this section, in the event that the claims to securities of the same issue of those who qualify as good faith transferees exceed the aggregate amount of such securities available to satisfy their claims, the good faith transferees shall share ratably in the available securities of that issue.

(e) Notwithstanding section 8, the transferee of a security or a limited interest that has been a party to any fraud or illegality affecting the security, or that as a prior transferee of the security had notice of an adverse claim, cannot improve its position by taking from a good faith transferee.

15. Priority of interests of the MMA.- A limited interest in securities transferred to the MMA shall be superior to any other interest created in such securities, whenever created. A security interest transferred to the MMA shall be free of any adverse claims, whenever created, unless the security was acquired in a transaction in which the MMA was acting in a proprietary capacity. For purposes of this section a security or a limited interest in a security is transferred to the MMA if an entry is made in accordance with these regulations identifying the MMA as the transferee.

16. Duties of book entry custodians.- (a) A book-entry custodian shall send to its customer a confirmation of a transfer of a security to such customer under these regulations no later than the close of business on the next business day after the day on which the entry is made.

(b) A book-entry custodian, upon receipt of an adequate request for a statement of account by a customer, shall provide a statement to such customer or a designee of such customer, of:

(1) the interest in any security of such customer and any other customer in that same security, as such interests appear on the books of the book-entry custodian as of the date the request is received; and

(2) any limited interest in favour of the book-entry custodian, or granted by the book-entry custodian to a third party, as of the date the request is received.

For purposes of this paragraph, an adequate request is a request in writing, that provides the name and address to which a response is to be sent, and which is received at the office of the book-entry custodian that is responsible for maintaining the records of book-entry securities.

For purposes of this paragraph, a customer of a book-entry custodian is any person whose interest in a security, including a limited interest, is recorded on the books of the book-entry custodian.

(c) Within seven days of the end of each month, all book-entry custodians and all clearing banks must file with the MMA a reconciliation of the records maintained by the institution in respect of those securities which it holds on behalf of others with the records provided to the institution by the MMA reflecting the holdings in the institutions client subaccount as recorded in the books of the BES.

(d) Any confirmation or statement issued pursuant to this section must be delivered in writing or in such other form as the client may agree.

(e) The right to receive a confirmation or statement required under this section may not be waived by the person entitled to receive it.

17. Additional requirements, bonds of indemnity, etc.- In any case arising under these regulations, the MMA may require such additional evidence and a bond of indemnity, with or without surety, as may in the judgment of the General Manager be necessary for the protection of the interests of the MMA or the government.

- 18. Waiver of regulations.-** The MMA reserves the right, in the discretion of the Vice-Governor, to waive any provisions(s) of these regulations in any case for the convenience of the MMA or the Government or in order to relieve any person(s) of unnecessary hardship, if such action is not inconsistent with law, does not impair any existing rights, and the Vice-Governor is satisfied that such action will not subject the MMA or the government to any substantial expense or liability.
- 19. Supplements, amendments or revisions.-** The Vice-Governor may, at any time, prescribe additional supplemental, amendatory or revised regulations with respect to securities, including charges and fees for the maintenance and servicing of securities in book-entry form.