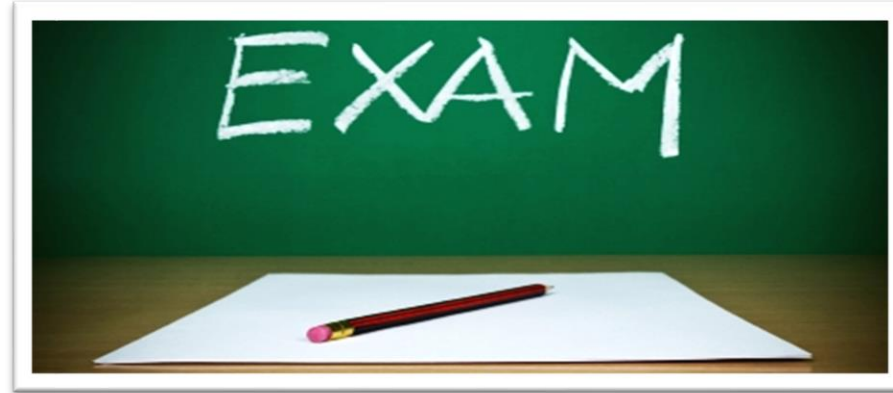


CISI UAE Financial Rules & Regulations





Duration = 1 Hour

100 Multiple Choice Questions

The Pass Mark = 70%

Pass Rate ~ 46%



Course Outline & Exam Analytics

Element		No of Qs
1	The Regulatory Infrastructure	11
2	Licensed Bodies	14
3	Investment Funds	15
4	Markets	14
5	Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organisations (Federal Law No. 20 of 2018)	14
6	Client Protection	10
7	Trading	11
8	Dubai Financial Market (DFM)	11
Total Questions		100





Chapter 1 – The Regulatory Infrastructure

11 Questions



The Securities & Commodities Authority (SCA)

About SCA

Established by **Federal Law No. 4 of 2000**

Incorporated as a **Public Authority in Abu Dhabi**

Separate Legal Personality with Financial & Administrative Independence

Reports to **The Cabinet of Ministers**



1. **Provide an opportunity to invest savings and funds** in securities and commodities in a manner that:
 - Ensures the **interest of the national economy, secures the integrity and accuracy of transactions**
 - Ensures **prices are determined by means of supply and demand**
 - **Protect investors** by establishing the bases for sound and just dealings between market participants
2. **Develop investment awareness** by conducting research and reporting the findings and recommendations
3. **Ensure financial and economic stability**

Article 4 of
Federal Law
No. 4 of 2000



Restrictions & Powers Given to SCA

RESTRICTIONS & POWERS OF SCA

Restrictions for SCA

- Enter into commercial activities;
- Have private interests of its own in any undertaking; or
- Own or issue securities.

Powers given to SCA

- **Propose regulations;**
- **Create regulations**, in consultation & co-ordination with the markets licensed in the State;
- **Form specialist technical committees**, and specify the scope of their work and their remuneration;
- **Maintain contact with international markets** to obtain and exchange information and know-how, and join relevant Arab and international organisations and federations;
- Perform all other acts which **assist in achieving the Authority's objectives** or the exercise of its powers in accordance with the law.





هيئة الأوراق المالية والسلع
SECURITIES & COMMODITIES AUTHORITY

The Organs of SCA

Chairman – H.E. the Minister of Economy

Members – a total of **nine members** representing different institutions including

- **Chief Executive**
- **Five persons** nominated by the Chairman and the chief executive



SCA – Further Requirements

Remuneration of Board Members - determined by the Council of Ministers

Period in office - **four years**, renewable once, with the exception of the Chief Executive of the Authority.

Ownership of securities - upon joining the board, every member **must declare** securities owned by himself, his spouse and minor children as well as any holdings with any broker to SCA

Immediate termination of membership members have to forfeit their membership in the following events:

- Conviction of an offence of dishonour or breach of trust
- Bankruptcy; or
- Failure to attend **3 consecutive meetings** without an acceptable excuse



SCA - Further Requirements

Frequency of Board meetings - At least **once every 2 months** OR as required by the chairman's invitation.

Validity of Board meetings - valid if attended by the majority of the members including the chairman (or his deputy)



Resolutions - passed by a **majority of the votes** of the members present at the meeting. In the event the vote is undecided **the chair has the deciding vote**



Which of the following does the Securities and Commodity Authority report to?

- A. Central Bank
- B. The Cabinet of Ministers
- C. The Financial Services Authority
- D. The Ministry of Finance

EXAM FOCUS



Which of the following is FALSE regarding the Securities & Commodity Authority?

- A. Board meetings are held at least once every 2 months
- B. Board members have a 3 year period in office
- C. The chairman has the deciding vote in the meeting
- D. Upon joining SCA every board member has to declare their ownership of securities

EXAM FOCUS



Responsibilities of the Board of Directors

Responsibilities

Ensure that the regulations of Article 4 of Federal Law No. 4 of 2000 and subsequent amendments are applied.

Collect notifications and complaints relating to the activities of the markets or brokers and take appropriate actions.

Ensure markets and brokers submit annual audited financial statements, **within one month** following the end of the financial year.

Ensure markets have **adequate disclosure rules** in place related to any substantial developments regarding the companies listed on that market.

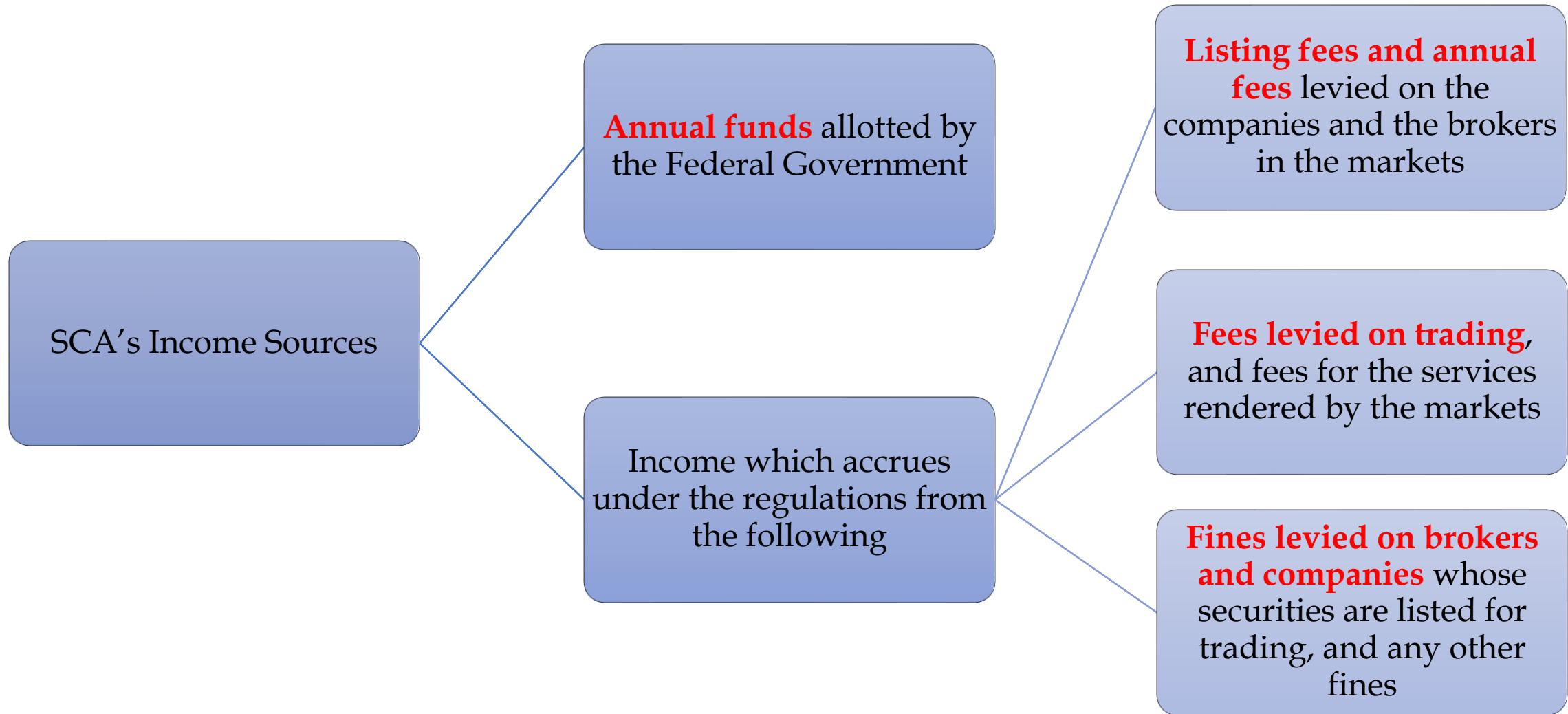
Ensure **transparency and disclosure** as prescribed in the Law and the resolutions implementing it.

Issue and maintain resolutions concerning membership of the markets as well as concerning trading in securities and commodities

Undertake all other acts which assist the board in achieving the objectives of SCA.

Report on the markets' activities to the Cabinet of Ministers on a **semi-annual basis**.







Each market has to take the form of a **local public establishment** or a public joint stock company licensed by SCA



Local public establishments have to be **administered by the Board of Directors**. None of the members of the market's board may be on the board of directors of a public joint-stock company or a financial broker.



Member of the Board of a market **must step down** in the event of:

- Conviction of offence of dishonour, breach of trust
- Declared bankrupt
- Failure to attend **three consecutive meetings** without an acceptable excuse

Article 4 of
Federal Law
No. 4 of 2000



Ownership of Securities

- The market's chairman, board members, general manager and his deputy **MUST declare the securities owned** by:
 - Himself,
 - His spouse, &
 - Minor children as well as any holdings with any broker

Responsibilities of Board of Directors

- Appoint the market's **general manager & his deputy**
- Establish the **organisational structure, annexes, internal regulations & administrative rules**
- Monitor the trading transactions in securities and commodities on a **daily basis**
- Present **reports and data to SCA** and issue the necessary press releases



The Markets – Continued

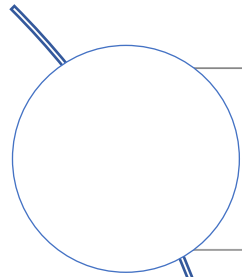


Market's Sources of Income

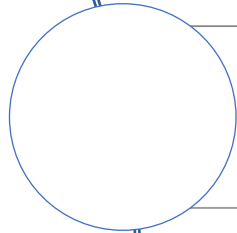
- **Listing fees and annual fees** levied on companies and brokers in the market
- **Fees levied on trading** and for the services rendered by the market
- **Any fines levied on brokers** or companies whose securities are listed for trading



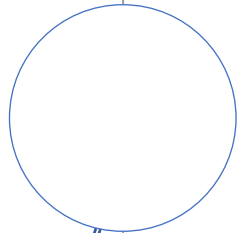
Clearing, Settlement, Transfer of Ownership & Custody



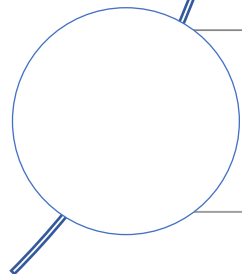
Securities Price Information - prices need to be displayed **in accordance with the market's regulations**.



Ownership transfer - transfer of ownership of securities, registration and custody agreements have to be **in accordance with the market's regulations**, and without delay.



Suspending of trading - the market's board **may temporarily suspend all trading**. A **majority of board members** must be present to suspend trading.



Suspending or reinstating rules or regulations - the market's board may **freeze, suspend or bring back into force** any rules or regulations. The majority of the board must be present.



Clearing, Settlement, Transfer of Ownership & Custody – Continued

Sanctions – SCA board has the right to impose sanctions on a market when it fails to pay any due amounts. The sanctions are ranked in the following order:



Warning: a warning can be given to the market explicitly stating which financial requirement has been violated.



Notice to rectify – SCA can serve a notice to the market to rectify the cause of the violation **within 30 (thirty) days** of the date of the notice.



Penalty – SCA can levy a penalty for delay of payment, a **part-month shall be considered a full month.**



Suspension – SCA may **temporarily suspend** a market from operation in the event fees are **unpaid**. Alternatively, the matter may be brought before the board.



The board of directors must ensure markets and brokers submit annual audited financial statements, within

- A. One month following the end of the financial year.
- B. Three months following the end of the financial year.
- C. Four months following the end of the financial year.
- D. Five months following the end of the financial year.

EXAM FOCUS



Disclosure & Transparency

Any person having a connection with activities in securities **may be required to disclose and submit information** related to these activities.

The board may **order investigations** to be conducted in relation to implementation of the law and its subsequent resolutions.

Companies need to **disclose any price sensitive information** to the market.

Market manipulation and insider trading is **NOT** permitted



Disclosure & Transparency – Continued

Any employee of a listed company **can buy or sell** shares in the company, directly or via a broker, under these conditions:

Approval of the transaction by the board of directors; and

Disclosure of the transaction, including **quantity, price and other details** required to the market.

Any transaction by employees not approved or disclosed are null and void.



The Functioning of the Securities & Commodities Authority

Covered
Previously

Public Authority

Organs of SCA & their Competencies

Administration

- **Chairman of the board** is the **head of SCA**
- He, or his **deputy**, represents SCA to third parties and before the courts
- The chairman or his deputy:
 - **Invites** the board to meet
 - **Presides over meetings**
 - **Issues resolutions**
 - **Appoint experts, consultants and office-holders** of the special and the first grades



The Functioning of the Securities & Commodities Authority – Continued

- Delegation:
 - The chairman **may delegate** any of their competences to their **deputy** or **any board members**, or the **chief executive**
 - Delegation **MUST** be **specific and in writing**.
- The **deputy chairman shall take the place** of the chairman in his absence
- The board shall meet upon request by **at least four members**
- An emergency invitation may be sent by **any means** of communication.
- A meeting of the board is valid if attended by a **majority** of its members, **including the chairman or his deputy**
- Voting by proxy or by letter is **NOT** permitted
- In cases where the board cannot meet, **the chairman** may take the requisite decision.
- The board, after the chairman's presentation, may **affirm, amend or revoke** the decision.



The Functioning of the Securities & Commodities Authority – Continued

The board may form advisory (and other) committees in the following:

Proposition of **ways and means to develop** the working of the market.

Determination of the regulations necessary to **combat fraud, deception and influence** on the working of the market.

Determination of **all requirements** relating to publication, disclosure and transparency.

Departments appointed by the board on the nomination of the chairman:

Licensing and Disclosure Department

Follow-up and Inspection Department

Systems and Information Department

Administrative and Financial Affairs Department

Legal Affairs Office



Finances

- SCA's fiscal year is **1 January** until **31 December**.
- The chief executive must submit the draft budget to the board for approval **at least one month** before the new fiscal year.
- The chief executive must prepare SCA's final accounts, within **90 days** following the end of the fiscal year and present to the board **with auditor's report**.
- The auditor may have sight of SCA's records and financial documents.
- If he is prevented from performing his duties, or is unable to carry them out fully, he shall **document this in a report and submit to the board**.
- SCA is required to keep **regular books of account**.



Market Licensing and Supervision



Conditions

- It is in the form of a **public institution or a public company**.
- It occupies an appropriate building fitted out with the technical equipment.
- It is **electronically linked** with the State's other markets.



Market Licensing and Supervision – Continued

Submitted applications must be supported by:

The **local resolution** establishing the market

A statement of the **names of the members of the market's board of directors** including specific information

A statement in the name of the **market's director general and his deputy** including specific information

The **organisational structure of the market** and a statement of its specialist technical and administrative organs

The **internal regulations** of the market

The electronic registration system for trading, deposit, clearing, and settlement operations and the capacity for electronic linking with the other markets

SCA will examine the license application **within 15 days** from the date of the application



Market Licensing and Supervision – Continued

Board's Powers

- The board shall take a decision on the application within **30 days** from the date the complete application was placed before it.
- The concerned parties will be notified of the board's decision within **one week** from the date it was issued.
- SCA must **state its reasons** if it rejects an application.
- SCA may conduct **inspections and investigations** necessary to ensure that the legal regulations are being applied.
- SCA may order the party under investigation not to dispose of the securities in their possession.
- Investigation and inspection are **confidential**.



The chief executive is also required to prepare SCA's final accounts within:

- A. 60 days following the end of the fiscal year.
- B. 90 days following the end of the fiscal year.
- C. 120 days following the end of the fiscal year.
- D. 180 days following the end of the fiscal year.

EXAM FOCUS



Regulations for Securities and Commodities Markets

The board of directors must have competence to:

Appoint the **market's director general and his deputy**, and determine their powers

Establish the **market's organisational structure**, and the internal regulations

Draw up the **necessary proposals** to amend the regulations issued and present them

Monitor trading transactions in securities and commodities

Present reports and data to SCA and to issue the necessary press releases

Approve the annual balance sheet of the market's income and expenditure

Levy penalties on brokers and recommend the removal of them to SCA

Consult with SCA in respect of the fees charged in implementing the law

Handle applications for entering of brokers and the listing of securities

Deal with any other matters to ensure the **proper & regular working** of the market



Establishment and Management

- The board of directors may exercise the following powers:
 - Establish specialist **technical organs** for the market to perform its tasks, including an organ for:
 - **trading, clearing and settlement**
 - the **monitoring of prices**
 - **monitoring and investigation**
 - **research and studies**
 - And **financial & administrative** organs
 - Work to **develop, train and render** qualified necessary cadres in line with modern methods
 - Form **permanent or interim** specialist committees





Membership

Membership is obligatory for the following:

- Licensed brokers
- Joint-stock companies
- Any other entity whose securities are listed in the market
- *Note: SCA requires to be notified within one week of a member being entered on the market's register.*



Regulations for Securities and Commodities Markets – Continued

Trading:

- Trading must take place **five days** a week, **at least two hours** a day
- The market must provide an electronic trading system which ensures:
 - **Automatic stoppage** of orders which exceed the limits of the broker's guarantee.
 - Enabling all companies and entities to **view the register** of their own shares.
- A **special order** is any order approved in advance by the market in excess of **80%** of the broker's bank guarantee.
- The market is required to allocate a **single number** to each investor
- A trading account may be opened in the names of **two or more investors**.
- Clearing and settlement operations must be carried out based on **delivery against payment** of the price.
- A trading transaction should be settled within **two working days** of the trade date.



The Corporate Governance Guide for Joint Stock Companies

Corporate Governance

- Corporate Governance is the set of **regulations, criteria and procedures** that ensure discipline in managing companies.

The Pillars of the Guide

- **Accountability** – towards all **shareholders and stakeholders**, directing the board to develop strategy, supervise, guide and control the way the company operates.
- **Equity** – ensuring **fair treatment for all shareholders**, including minority shareholders, and protecting their rights.
- **Transparency and disclosure** – the company must ensure that **accurate and timely disclosures** are made of all material matters.
- **Responsibility** – the company **must recognise the rights of other stakeholders** and encourage cooperation between the company and stakeholders.



The Corporate Governance Guide for Joint Stock Companies

The pillars of the guide aims to achieve:

Develop a framework to address and protect rights of **all stakeholders**.

Determine the **responsibilities** of the board and the executives.

Strengthen the role of the **board** and its **committees** and develop their capabilities.

Ensure **transparency, neutrality and equity** in the capital market.

Provide effective, **balanced processes & procedures** for dealing with conflicts of interests.

Strengthen mechanisms of **accountability and control**.

Ensure the application of effective mechanisms for **risk management, internal controls and procedures** of the company.

Support the **efficiency** of the audit of the company and its instruments.

Raise awareness in relation to the concept of **professional behaviour**.

Ensure **regular, effective and fair** communication with shareholders.



Responsibilities for Implementation

- The **board of directors** takes responsibility for the implementation of the guide
- The company must maintain **all documents** that evidence the way it is governed
- The documents must be held at the company headquarters for at least **10 years**



Gifts, Conflicts & Related Party Transactions

In order to prevent conflicts of interest between a board member and the company, the following **must be avoided**:

Gifts

- Gifts offered **to influence board members** to perform certain tasks on behalf of the company

Conflicts of Interests Management

- A board member **must inform the board of any joint interests** they may have with a company that is submitted to the board for a resolution

Insiders Register

- The company's board is expected to have **written rules** addressed to any board members or employees that have securities issued from the company



Insiders Register

- The board can also assign a special committee it deems suitable to:
 - Prepare a special and complete register for all **insiders**, including **prior and subsequent disclosures of insiders**.
 - **Manage, follow up and supervise** the transactions of the insiders.
 - Notify SCA and the market of an updated list of insiders at the **beginning of each fiscal year**.
 - Submit a copy of the **Insiders Register** to SCA on request.
 - Comply with any **other requirements** specified by SCA.



Transactions with Related Parties

- A **related party** is:
 - **Chairman and other members** of the board
 - Members of the **senior executive management**
 - **Employees**
 - Shareholder who owns **30% or more** stake in the company
 - **Subsidiaries**, sister / affiliate companies



Gifts, Conflicts & Related Party Transactions – Continued

For **transactions < 5%** of the company's capital – board consent

For **transactions \geq 5%** threshold - approval of the general assembly

Transactions > 5% of the issued capital, SCA accredited assessor

Transactions involving related parties – related party is **NOT** allowed to vote

Normal business transactions are **NOT** considered transactions with related parties.



Gifts, Conflicts & Related Party Transactions – Continued

A shareholder of **5% stake or more** is entitled to:

Review the company records and any documents relating to those transactions

File a lawsuit before the competent court regarding the transactions concluded with related parties

If the transaction is unfair or involves a **conflict of interest** and causes harm to the rest of the shareholders, the court may cancel the transaction



CISI Code of Conduct

Principles	Stakeholders
<u>Personal Accountability</u> – to strive to always uphold the highest levels of personal and professional standards.	Self, Clients, Regulators, Colleagues, Market Participants, Firm, Profession, Society
<u>Client Focus</u> – to put the interests of clients and customers first.	Clients
<u>Conflict of Interest</u> – being alert to and actively manage any personal or other conflicts of interest.	Clients, Market Participants, Regulators
<u>Respect for Market Participants</u> – to treat all counterparties and business partners with respect.	Clients, Market Participants



CISI Code of Conduct

Principles	Stakeholders
<u>Professional Development</u> – to strive continually for professional excellence, committing to Continuous Professional Development (CPD).	Profession, Clients, Colleagues
<u>Aware of Capabilities</u> – to decline to act on any matter about which you are not competent or qualified.	Profession, Clients, Market Participants
<u>Respect Others & the Environment</u> – to treat everyone fairly and with respect.	Society, Colleagues, Clients, Regulators, Market Participants, Profession, Professional Body
<u>Speak Up & Listen</u> – to be active in speaking up and encouraging others to do so by listening up.	Society, Colleagues



A related party is:

- A. A shareholder who owns 60% or more stake in the company.
- B. A shareholder who owns 10% or more stake in the company.
- C. A shareholder who owns 30% or more stake in the company.
- D. A shareholder who owns 20% or more stake in the company.

EXAM FOCUS



Licence Categories and Requirements

The SCA issued Decision No 13 in 2021 which defined various categories of financial activities which required a licence, alongside related requirements for each. Here are the five categories introduced:

Dealing in Securities

Dealing in Investment

Custody, Clearing and
Recording

Credit Rating Agencies

Ranking and Advice



Licence Categories and Requirements

Dealing in Securities

The paid-up capital is a **minimum of AED 30 million.**

Main functions:

1. Category Manager or Official
2. Compliance Officer
3. Risk Management Officer

Approved Jobs & their Financial Activities:

Trading Manager, Operations Manager, and Broker Representative →

1. Trading and clearing broker
2. Trading broker in global markets
3. Broker for trading non-exchange traded derivative contracts and currencies in the spot market

Broker Representative ONLY → **Trading broker**

Trading Manager ONLY → **Securities dealer**

Dealing in Investments

The paid-up capital is a **minimum of AED 50 million.**

Main functions:

1. Category Manager or Official
2. Compliance Officer
3. Risk Management Officer
4. **Investment Operations Manager**

Approved Jobs & their Financial Activities:

Fund Investment Manager or Portfolio Manager, Principal Financial Analyst, and Financial Analyst →

1. Managing investment funds' investments
2. Managing securities portfolio

*Administrative services for investment funds is a financial activity that is Not Applicable to an Approved Job.



Licence Categories and Requirements

Custody, Clearing and Recording

The paid-up capital is a **minimum of AED 50 million.**

Main functions:

1. Category Manager or Official
2. Compliance Officer
3. Risk Management Officer
4. **Operations Manager**

Financial Activities Under Custody, Clearing and Recording:

1. Safe custody
2. General clearing
3. Covered warrant issuer
4. Depository bank for depository receipts
5. Depository bank agent for depository receipts
6. Registrar of private joint stock companies

Credit Rating Agencies

The paid-up capital is a **minimum of AED 5 million.**

Main functions:

1. Category Manager or Official
2. Compliance Officer
3. **Credit Rating Analyst**
4. **Credit Rating Analysis Official**

Requirements for a body licensed to work in a financial free zone:

- **Provisions of the Companies Law** related to the conduct of business by free-zone companies within the State.
- Carries out the **activity through its headquarters** in the financial free zone or within the state.
- Submits **proofs of agreement** with the regulatory authority.



Licence Categories and Requirements

Ranking and Advice

No capital requirement.

Main functions:

1. Category Manager or Official
2. Compliance Officer
3. Risk Management Officer

Approved Jobs & their Financial Activities

Financial Analyst →

1. Financial Consulting
2. Financial Consultant (Line Manager)
3. Listing Consultant

Promotion Manager →

1. Promotion

*Definition is a financial activity that is Not Applicable to an Approved Job.



Accounting System Controls

Firms that are licensed for the 'Dealing in Securities' category are also mandated to provide an electronic accounting system to manage accounts. This is also known as a **'Unified Centralised Back Office System'** which must meet certain technical standards.

