



Chapter 7 – Trading

11 Questions



Abu Dhabi Securities Market (ADX)



- The Abu Dhabi Securities Exchange (ADX) is a **market for trading securities**.
- Includes **shares** issued by **public joint-stock companies**, **debt instruments** issued by governments or corporations, **exchange traded funds**, and other financial instruments approved by SCA.



'E-Trading' is the system used by the brokerage company that **enables the customer to enter orders directly** over the internet.

The system **verifies the possibility of implementation** and automatically sends it to the electronic trading system.

The regulations in relation to E-Trading are aimed at ensuring the brokerage company has the **technical capability, systems and controls surrounding** the E-Trading service sufficient to protect clients and maintain the integrity of orders reaching the ADX's trading system

The regulations state the E-Trading **service can only be provided through a brokerage company, after ADX's approval.**



Approval Conditions

In order to gain approval, brokerage company must:



1. **Pay the required fee** to the ADX.



2. Have the **technical and administrative capabilities** necessary to provide the E-Trading service.



3. Have **qualified technical personnel** in operating systems and networks, database systems and information protection systems.



Approval Conditions

Obtaining the ADX's prior approval of the E-Trading agreement must include the following information and the Exchange may request any amendments it may consider appropriate:

- a. Identifying the concept of E-Trading service, indicating the **high knowledge level in the field of securities trading** that is necessary to benefit from the service.
- b. The **charges incurred** by the customer for use of the service.
- c. A **statement of the rights and obligations** of the client and the brokerage company, and **the duration of the agreement**
- d. The responsibility of the customer to **maintain the user number, password and details of the orders** executed through the service.



Approval Conditions



e. The **means of communication** with the client.



f. The **nature of the work** of the client to indicate the client's knowledge in the field of securities trading.



g. The **fact that the client bears the responsibilities** resulting from his activities undertaken through the E-Trading system. .



Approval Conditions

h. The **client understands the risks and losses** that may impact his investments in securities through E-Trading and in particular the following:

- ✓ The **processing of orders entered may not take place immediately**, and will follow the regulatory procedures established by the ADX
- ✓ the **seriousness of processing orders** through the internet due to the speed of change in prices that are driven by supply and demand
- ✓ that some orders **may not be executed, may be delayed** in execution, **or cancelled** due to market movements
- ✓ the **possibility of incurring losses due to delays** in the execution of orders or non-execution for any technical reason, unless due to mistake or negligence of the brokerage company.



Applications

The **application submitted** to the ADX must include

Supporting information such as **reports clarifying the technical system**

Devices used to provide the electronic link between the brokerage company and the Exchange.

In **response** to the application

ADX can **request any clarifications**, information, or other documents it deems necessary.

The decision to approve or reject the application will be given **within 30 days of the date of submission**

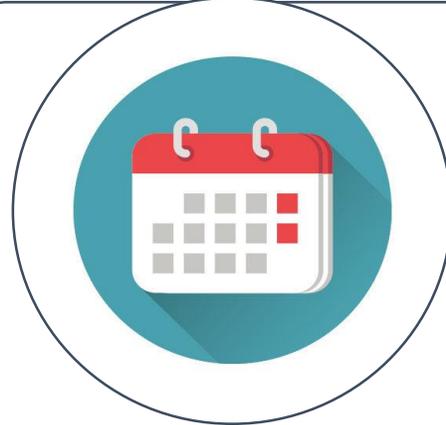
The brokerage company must then register the approval with SCA within a **period not exceeding five working days from the date of approval**



Applications



The approval period is **one year, expiring** at the **end of December** each year.



The duration of the first approval period **starts on the date such approval is granted** and runs until the end of December of the same year.



Renewal of approval is by application to the ADX submitted at least **one month before its expiry**, together with the payment of the **renewal fee.**



The Brokerage Company's E-Trading Obligations

When providing E-Trading services, the brokerage company is obliged to undertake the following:

- 1. **Obtain a special username** for the service assigned by the Exchange.
- 2. Provide the clients with detailed **monthly statements** showing the securities trading carried out through the E-Trading service and the **cash balance in their accounts**.
- 3. **Enable the ADX to access all data** and documents relating to E-Trading orders.
- 4. Provide the ADX with a **report issued by an external auditor** assessing the information security and programs at the brokerage company.
- 5. Ensure that any modification or update to electronic software is in **compliance** with the requirements of the E-Trading regulations.
- 6. **Retain backup copies** of all the data and documents relating to the provision of this service for ten years.
- 7. **Appoint a compliance officer** to deal with any client complaints.



Operational Requirements

The brokerage company must provide a **technical system** with the following operational **characteristics and requirements:**



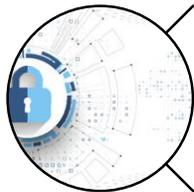
1. The system should **allow obtaining the IP address** for all orders automatically



2. **Failover solutions** must be available in the required systems and applications to deal with defect in operation that may result from a single point of failure



3. **Secure encryption** to transfer all data between the client and the brokerage company's system through a secured unified protocol and mutual authentication.



4. **Sufficient security features** to ensure that it is not subject to **internal or external attacks.**



Operational Requirements



5. An **alternative communication channel** with sufficient capabilities to identify and authenticate the client in the event of failure of E-Trading.



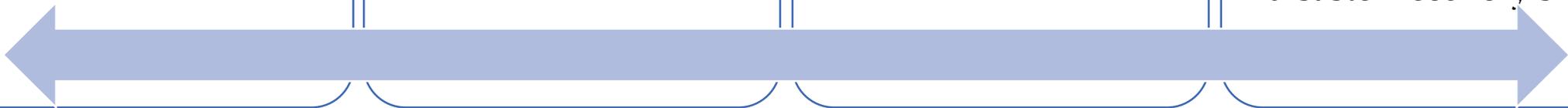
6. **Implementation of a second factor of authentication** for the login session of all orders issued using the internet protocol.



7. The ability to **automatically terminate the trading session** in the event the client does not perform any activity.



8. **Backup and storage systems** sufficient to provide sustainable performance and on-site and **remote backup capabilities** including providing another disaster recovery site



Suspension or Cancellation of the E-Trading Service

The ADX has the **right to suspend or cancel** the E-Trading service in any of the following events:

Technical defect in the trading system on the Exchange or the brokerage company's electronic systems.

If the ADX finds that any of the investors have **violated** the applicable legislation.

If the **brokerage company submitted a request to cancel** or suspend the service provided to its clients due to violation of the applicable legislation



Remote Access by Foreign Brokerage Companies

The **considerations and conditions** for ADX to allow remote access by foreign brokerage companies are detailed in the **Foreign Brokerage Companies Remote Access Regulations**.

1. The **central requirement** is that **remote access may only be conducted through a foreign brokerage company** after first obtaining ADX approval. The conditions that need to be met are as follows:

The foreign brokerage company must **be licensed in its home country by a regulator similar to SCA**.

That regulator must be a **member** of the International Organization of Securities Commissions (**IOSCO**)



Remote Access by Foreign Brokerage Companies

Must **apply regulations and procedures** at least similar to that applied in the UAE regarding

Know your customer (**KYC**)

Customer due diligence (**CDD**)

Anti-money laundering (**AML**)

Countering terrorist financing (**CFT**)

Meeting **requirements under the UAE Commercial Companies Law.**



Remote Access by Foreign Brokerage Companies

2. The **counterpart regulator** in the home country must **act reciprocally** in its treatment of financial brokerage companies licensed in the UAE.

3. The foreign brokerage company must **provide ADX with collateral** in accordance with its established conditions and procedures.

4. The foreign brokerage company **must have a contract with a clearing member of the Exchange** to undertake the operations of clearing and settlement of trading transactions if the company wishes to obtain approval to act as a brokerage company (a trading member).



Remote Access by Foreign Brokerage Companies

5. The foreign brokerage company **must not have had a licence denied** by any controlling regulatory authority similar to SCA.

6. The foreign brokerage company's professional record with its regulators must not, **within the six months preceding the date of application, include decisions to suspend its operation**, serious violations such as violations of the financial creditworthiness criteria, or separation of accounts.

7. The **provision** by the brokerage of **necessary electronic software and technical systems** in accordance with the requirements determined by ADX.

8. The **payment of the approval fee** determined by ADX.



Remote Access by Foreign Brokerage Companies

To gain and retain approval, the foreign brokerage company must accept certain obligations that include **providing the ADX with the following reports:**

SCA is entitled to **supervise and inspect** any transactions, records, information or documents of the foreign brokerage company concerning its trading or activity on the ADX in order to ensure its **compliance** with SCA law, regulations and decisions

Annual compliance report prepared by the **internal auditor within 90 days of the end of the fiscal year** showing the extent of compliance and the effectiveness of the company's internal control system.

Quarterly reports within 45 days and an annual report within 90 days of the end of the fiscal year.

Any other financial statements or reports as may be required by SCA or the ADX



Remote Access by Foreign Brokerage Companies

If a foreign brokerage company **fails to comply** with the above regulations the **ADX** may take any of the following **measures**:

Issue a **warning**

Liquidate or use the collateral, wholly or partially for its intended purpose

Suspend the foreign brokerage company from remote access trading for a **period of no more than one year**.

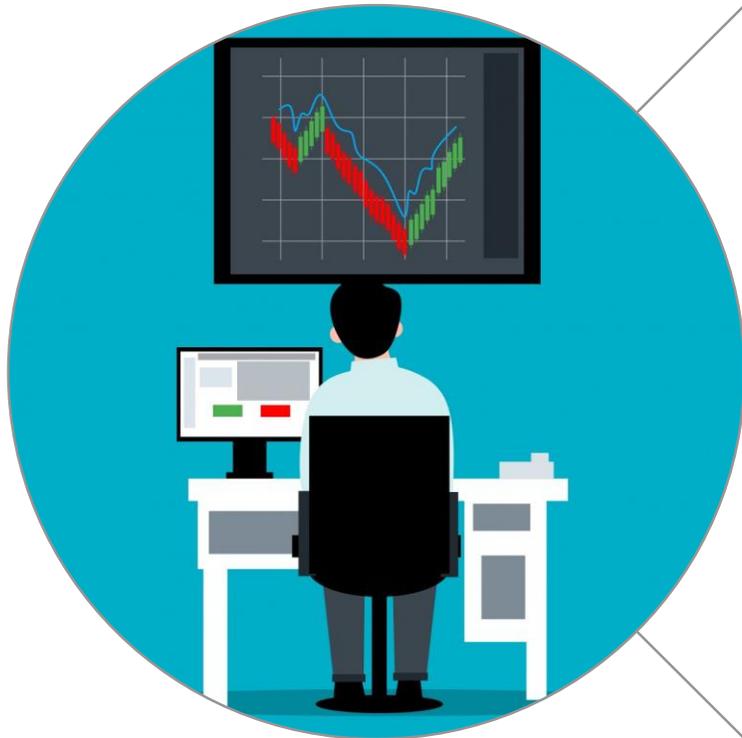
Impose financial **penalties**

Cancel the approval

Refer any violator to SCA to consider the violation and **decide on the appropriate penalty**.



Broker and Trading Rules of the ADX



The ADX has numerous **regulations applicable to brokerage firms** arranging trades on the Exchange. Many of these are contained within the ADX's '**Broker and Trading Rules**'



Reporting Requirements

Brokers operating on the ADX must provide the Exchange - **reports, documents and information**.
These include the following:



Audited **quarterly reports** within **45 days** of the end of the specified fiscal period.



Audited **annual financial statements** within **90 days** of the end of the specified fiscal period.

Know brokerage companies reporting requirements for the ADX (Article 11)

Any **financial data or reports** required by the ADX, also for the purposes of **surveillance of trading, investigation of violations or complaints & management of transactions**.



Reporting Requirements

Approvals issued by SCA or any other competent authority with regard to :

Adding a new activity
to the commercial
license

**Omitting or
modifying** an activity

Practice **activities**
related to financial
services

Amending the
brokerage firm's
articles of association
or memorandum of
association

**Increasing or
decreasing** the
brokerage firm's
capital

Making **mergers or**
acquisitions

Changing address of
the brokerage firm

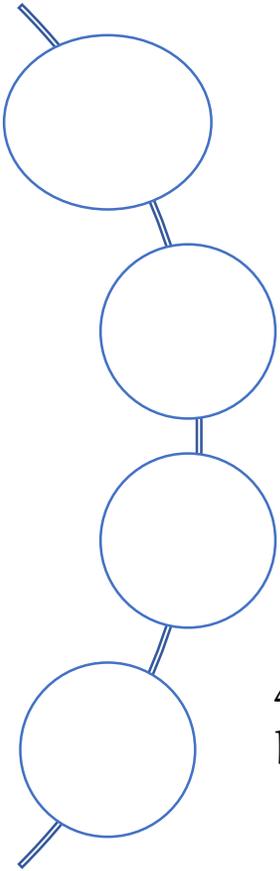
Changing partners or
modifying
ownership of the
brokerage firm.



Client Orders

Brokers have several obligations in relation to client orders :

Know obligations of
brokers towards
client orders (Articles
17-19)

- 
1. **Disclosing conflicts** - If a **transaction executed** leads to a conflict of interest, **appropriate procedures** must be taken to ensure **fair treatment** to the client.
 2. **Orders that breach the law or regulations** - The ADX can order the broker to **resell or repurchase the securities** to return to the previous situation before executing the breach. **Loss is incurred by broker** if that breach was not caused by the client.
 3. **Sell orders** - If the transaction **does not meet SCA's regulations**, the broker must ensure that the **client owns the securities** before entering a **sell order & pay** the client the **value of the sold securities**.
 4. **Buy orders** - Unless the order is subject to SCA's **margin trading regulations**, the **buying client** must pay the **value of the securities**



ADX Debt Instruments Rules

Debt instruments on the ADX are **traded through brokers**.

It is an instrument based on its **nominal value in each issue**

Each deal will be for one or more unit. **Prices** are shown on the **E-Trading system**.

Buyers will **pay the value of the units** purchased at their ADX price **plus the accumulated interest until settlement date**.

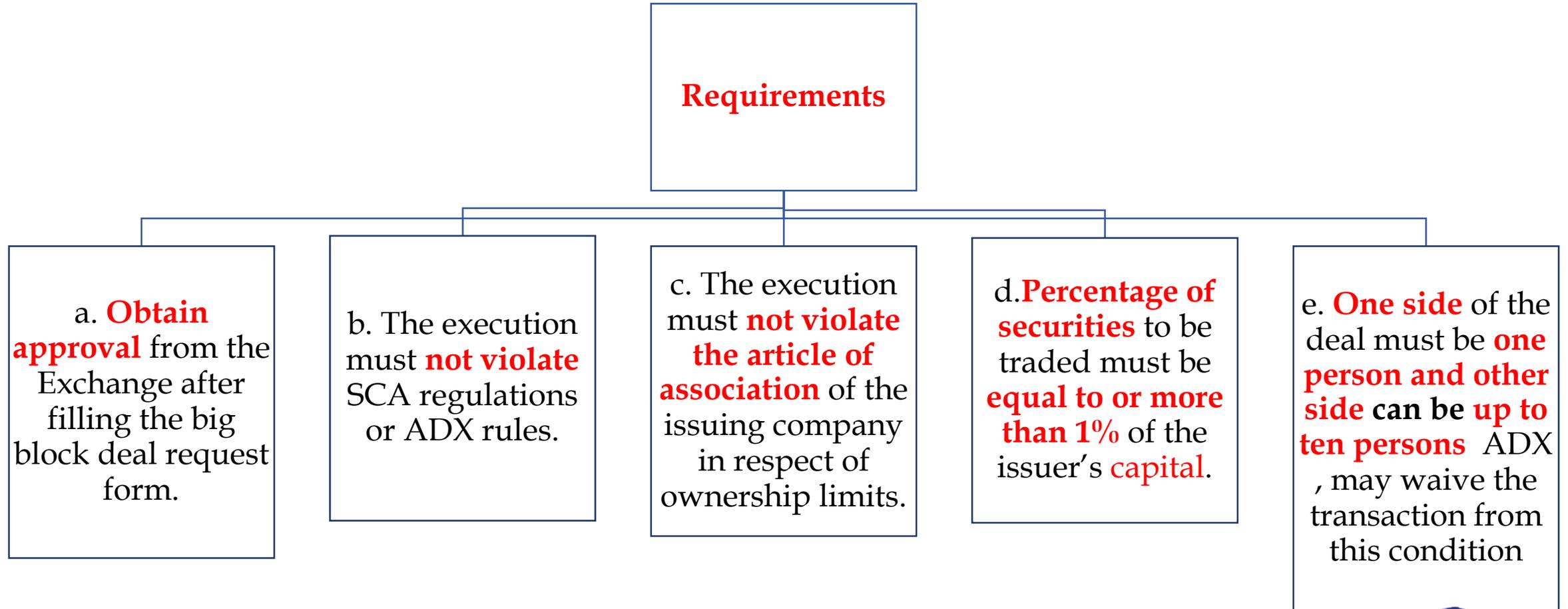
This is the '**dirty**' price. The system calculates the accumulated interest on the debt instruments until settlement date.

Public auction procedures are used to **fix debt instrument prices** in accordance with supply and demand, within the applicable price ranges.



ADX Big Block Deals

Brokers are permitted to execute deals through the window allocated in the E-Trading system for **'big block' deals**



ADX Big Block Deals

Requirements

f. The deal execution must be at a **price within 25%** of the closing price from the previous trading session.

g. **Trading commissions** are calculated based on execution price or on the company's stock closing price from the previous trading

h. The deals **do not affect** the **closing price** of the price index. They **do not affect** the **highest & lowest prices** executed during the trading session

i. Deals are subject to **disclosure procedures** adopted by the ADX and executed deals need to be **notified to the Exchange.**

j. ADX can **waive the transaction** from the limits in **d, e and f**, to preserve the interests of trading & parties to the transaction



Question Time

If the price of a security is at least 25% higher or lower than the closing price from the previous trading session, execution of what type of deal through its allocated window in the E-Trading system is not permitted?

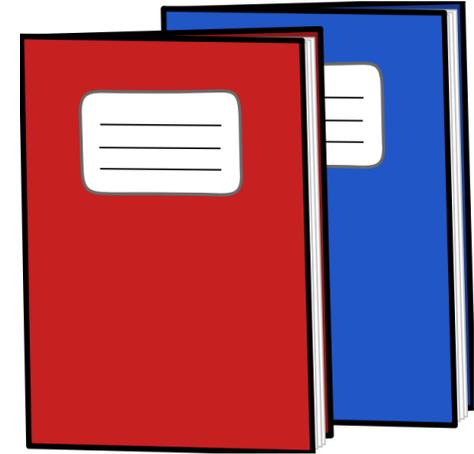
- A. Minimum block
- B. Minimum fill
- C. Fill or kill
- D. Big block

EXAM FOCUS



Clearing, Depository and Registry Rules

- The **CSD** Department operates the electronic systems to facilitate the **clearing and settlement of trades**
- The system **issues payment and receipt orders** to the settlement banks
- The **book entry system** that updates the **register of ownership** for purchases and sales
- The systems **interact with 'clearing members'** of the Exchange
- **Keeps data** pertaining to the **transfer of ownership**, as well as their relevant documents and records, for a **period of 15 years** minimum.



Clearing, Depository and Registry Rules

CSD Department **maintains confidentiality** of the information it holds in relation to the entities, issuers and investors and may only disclose this information in the following cases:

On approval of the concerned party for whom the information is kept confidential, unless it contravenes any laws

If **requested by**

- **SCA**
- **Judicial bodies,**
- **Government entity,**
- Authorities inside the state **responsible for money laundering** and the **financing of terrorism**
- Market or other entity that is concerned with **clearing, settlement and central depository services.**



Clearing, Depository and Registry Rules

The **following entities must register** with the CSD Department and provide it with all the information and documents it may require:

- ✓ Brokerage firms
- ✓ Issuers of securities listed on the ADX
- ✓ Custodians
- ✓ Market makers
- ✓ Entities pledging securities
- ✓ Any such other entity accepted by ADX



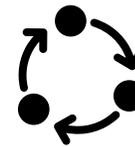
Regulations Relating to the Register

Know regulations relating to the register deposit (Articles 11 & 12)

To list securities on ADX, or deposit the register, one must provide the register of its shareholders, with all **relevant information**



The **issuer** is **responsible** for the **validity, accuracy and completeness** of the contents of the shareholders' register provided to the CSD Department.



The **issuing company** must update and provide a **copy of the register** within a period of **five working days** from the date of approval on the listing of its stocks on ADX.



Regulations Relating to the Register

Know regulations relating to the register deposit (Articles 11 & 12)

After uploading the shareholders' register onto the ADX's electronic systems, the CSD Department will send a copy of the e-register to the issuer of the securities for reconciliation purposes.

The issuing company or its registrar must keep all documents pertaining to ownership limitations on securities not deposited with the CDS Department.



Who is responsible for the validity, accuracy and completeness of the contents of the shareholders' register provided to the CSD Department.

- A. The issuer
- B. The Securities & Commodities Authority
- C. The Ministry of Finance
- D. The Ministry of Economy

EXAM FOCUS



Investor Numbers and Accounts

Know regulations concerning investor numbers and accounts (Articles 13–20)

Investor number is required to open a trading account with any broker and trade in securities listed on ADX .

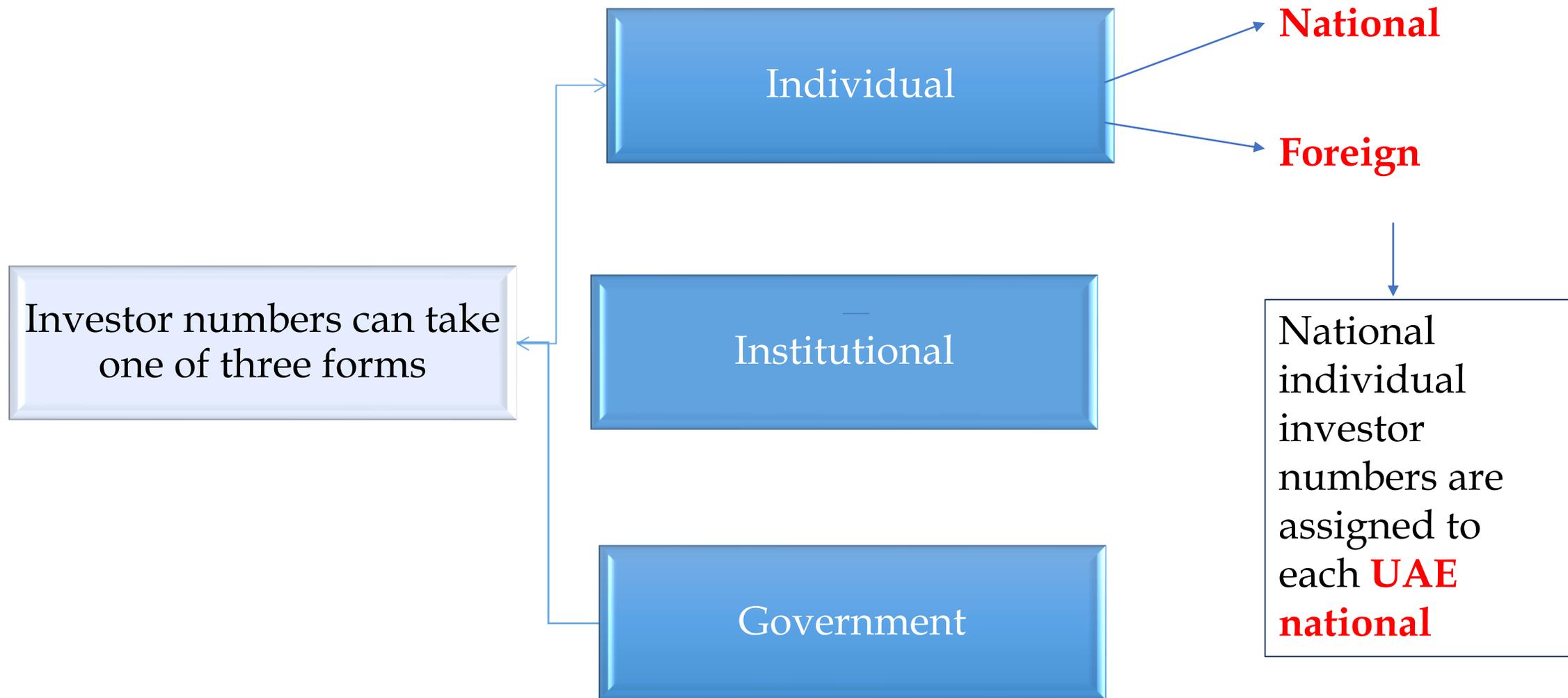
Only one investor number is assigned to each investor, **except for** -

An investor number is assigned to **an investor-owned individual institution**. The CSD will link the person's accounts to its owned individual institution account.

An investor number will be assigned to each **sub-fund of the parent investment fund**.



Investor Numbers and Accounts



Government investor numbers can be '**national**' where they are assigned to

- UAE federal government
- Local government, ministries
- Public institutions and bodies

Foreign government investment numbers are assigned to

- Foreign governments
- Foreign departments & public institutions
- Other subsidiary entity



A trading account may **only be opened** for a person that has **obtained an investor number**

There **are restrictions** on who can receive applications for the issuance of investor numbers or applications for the amendment of investors' data.

- Most **notable** amongst these are **brokers, custodians, issuing companies and their registrars**

The **recipient** of the application must keep **copies of all documents** submitted by the investor and **stamp documents** to prove they are true copies.



The recipient of the application is **responsible for the accuracy** of the information and data submitted with respect to its customer.



The **investor number captures all significant information** pertaining to the investor

- The **full name** as per the ID card or passport with respect to national investors/ foreign investors, and the organisational documents with respect to institutional or government investors.
- Nationality.
- ID number ; Passport number.
- Date of birth.
- Type of investor number (individual, institutional or government).
- Legal capacity
- Gender
- Mailing address; Phone numbers, fax, e-mail.
- Statement of the **IBAN or the equivalent**, which will be transferred to, also any transfer made by the CSD to the investor account, which must be signed by the investor for acceptance.
- The **authorized signatories** on behalf of the institutional or government investment, along with a copy of the **organizational documents and internal decisions** of the juristic person



Investor Numbers and Accounts

CSD amendments
the investor data



Investor to request on the form prepared for this purpose, along with supporting documents.

Investors to notify
CSD of any
changes



To their personal data

The heirs or legal
person must
notify CSD



Of the investor's death or loss of capacity to prevent any transaction in the account.



A natural person's investor number will always capture what information about this individual?

- A. Father's Name
- B. Nationality
- C. Employment Status
- D. Marital Status

EXAM FOCUS



Securities Certificates and Allotment Letters

The owners of the securities may not trade unless the relevant certificates have been deposited in the CSD

Securities certificates are deposited according to the following procedures:

The **owner** of the securities certificates or their **legal representative** must submit the request to deposit such certificates, with the **full data and documents**.

The **issuing company or its registrar** must **verify the validity and ownership** of the securities and the identity and capacity of the person requesting the deposit.

The **issuing company or its registrar** after verifying the validity of securities, **dematerialise** the certificates and notify the CSD Department.

CSD must deposit the dematerialised securities in the investor's deposit account at the CSD Department through **electronic book entry**.



Securities Certificates and Allotment Letters

Know regulations concerning: the deposit of securities certificates (Articles 21-24); allotment letters (Article 25)

The issuing company or its registrar must adhere to the procedures for **issuing security certificates** in case any certificate is lost or damaged before depositing them with the CSD.

If the ADX listed securities has issued **allotment letters** regarding such securities, the owner may **not trade until** the original allotment letter or security certificate has been deposited with the CSD and registered under the relevant investor number. The **same procedure as mentioned for certificates is followed.**



Deposit Accounts at the CSD

The owner of securities held by a broker or custodian can transfer the securities to a deposit account at the CSD Department by:

Submitting a request form to the broker or custodian to transfer a specific number of securities owned to the deposit account at the CSD.

The broker or custodian must enter the **data of the transfer** request to the ADX **electronic system** and perform transfer before the opening of the trading session on the next working day.

Only for **legal reasons**, can the broker or the custodian **abstain from transferring** the securities owned by the investor to the deposit account at the CSD Department.

The broker or custodian will be responsible for any **delay in making the transfer**.



Deposit Accounts at the CSD

- If the **registration is cancelled** of the clearing member at the CSD or the activity suspended, the CSD will **transfer the securities** owned by the investors to the deposit account, either as requested by the investors or by order of SCA.
- If an issuer provides **its shareholders with bonus shares**, then the CSD will **deposit the bonus share** issued in the account, in the appropriate proportion.
- The CSD Department will **register bonus shares** in a whole, round number to the deposit account if the investor is entitled to one or more shares.
- The CSD will **not add fractions of shares** to the shareholder's account. **Total fractions of bonus shares are registered** in the issuing company's account & they must **sell** the fractions of shares in the market within **30 days from registration**.



Question Time

A bonus share allocation added to shares deposited in an account with the CSD Department includes a half share. How will this half share be dealt with?

- A. It will be added to the deposited shares
- B. It will be re-designated and sent to the underlying investor
- C. It will be registered in the issuing company's account and sold
- D. It will be cancelled and written off

EXAM FOCUS



Settlement Collateral

To **reduce the risk of settlement failure**, clearing members must provide required levels of collateral to the ADX.

This **collateral includes a guarantee**, in the form of a bank guarantee, a cash guarantee or a combination.

The ADX management that determines the **maximum/minimum value** for the settlement collateral submitted by the clearing member to ADX.

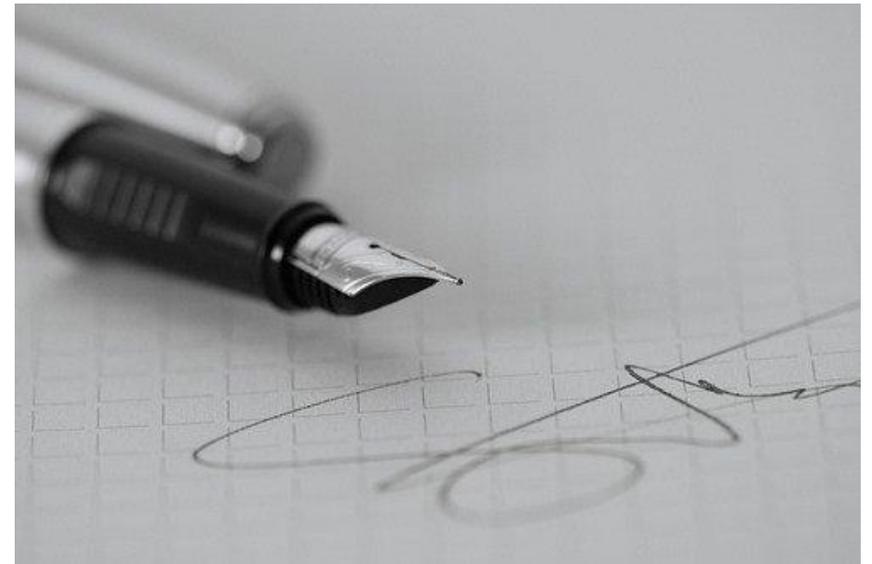
Know regulations concerning settlement collateral (Articles 31-34)



Settlement Collateral

The clearing member may choose to **increase its permitted trading ceiling** using one of the following **methods**:

- a. **Increasing the value of bank guarantee** or submitting an **additional** bank guarantee.



Settlement Collateral

b. Pledging securities as
guarantee,
provided that:

- The securities **presented as guarantee** satisfy any criteria established by the CSD in terms of **required liquidity ratio** or turnover ratio
- The **value of the securities** is calculated at a **maximum of 50% of market value**
- The clearing member pledges the **securities in favour of ADX** and **authorises** ADX to **sell such securities** in whole or in part at the market price, to cover any **claims or financial liabilities** on the part of the clearing member
- **Other conditions**, as may be established by **ADX management**.



Settlement Collateral

c. Depositing the cash money

belonging to a specific customer in the bank account designated by the CSD, to enable the clearing member **to conduct trading operations** in favour of such customer.



The **ADX management**, subject to SCA's approval, **decides on the permitted trading ceiling** of the clearing member, in proportion to the value of guarantee deposited.



Clearing and Settlement Regulations



Clearing members must open '**Clearing Member's Settlement Accounts**' at a licensed bank in the UAE, in accordance with the conditions and instructions of the CSD. The Clearing Member's Settlement Account may not be changed, **unless after having first obtained the CSD Department's approval.**



The ADX enters into an agreement with the settlement bank to **define the cash settlement procedures** and the obligations of the ADX and the settlement bank, as well as the **procedures and controls to be observed** by the clearing members.



The net value of security transactions is received and paid from and to the clearing members through **their settlement account**. The ADX reviews the Clearing Member's Settlement Account and obtain a statement of the transactions. The **settlement bank and the clearing member must authorise** the ADX to do this.



Question Time

If an Abu Dhabi Securities Exchange clearing member pledges securities as guarantee in order to increase its trading ceiling, how will their value be calculated?

- A. 50% of market value
- B. 75% of market value
- C. 85% of market value
- D. 90% of market value

EXAM FOCUS



On The Trading Day

The CSD **calculates the net daily amount** and **dues payable** by and to the clearing member for each trading day.

Calculated by subtracting the total value of the security purchases by the clearing member per trading day from the total value of security sales during the same day, in addition to the commission payable by the clearing member to the ADX and SCA.

The CSD, at the end of each trading day, **electronically provides the net amount payable** to or by each clearing member, so that each clearing member may review the relevant information. The amounts are considered approved and accepted by the clearing member, if there is **no objection by 3pm on the trading day**.



On The Settlement Day



- The CSD sends **a settlement report** to the bank latest **by 8:00 am** on the settlement day. The report shows the amount payable to or by each clearing member. The clearing member, on the settlement date, **must settle the amount mentioned in the settlement report for the day**, undertaking to settle the purchase transactions performed by and through that clearing member.
- The clearing member must provide, in the settlement account, **the amount payable by 9:00 am** at the latest on the settlement day. The clearing member **verifies that the cash balance** in its Clearing Member's Settlement Account is sufficient and for the settlement of any amounts payable.



On The Settlement Day



- The clearing member **must arrange an overdraft** and authorise the settlement bank to use the overdraft facility if the cash balance in its Settlement Account is insufficient.
- The settlement bank must transfer the amounts from the Clearing Members' Settlement Accounts to ADX settlement account and vice versa **by 9:30 am at the latest on the settlement day.**
- If a **clearing member fails to provide the amount** payable in the settlement account by the deadline, the settlement bank will utilise the overdraft facility on that Clearing Member's Settlement Account. The settlement bank (or the CSD Department) will then request the clearing member to **settle the amount payable, in addition to the interest and fees of the settlement bank, by 9:00 am** at the latest on the day following the settlement day



On The Settlement Day

The CSD will take the following **measures to collect the amount payable**, in addition to the interest and fees payable by the clearing member:

First, using the **cash guarantee** submitted by the clearing member, if any.

Second, if necessary, **liquidating the bank guarantee** submitted by the clearing member.

Finally, if necessary, **selling the securities pledged** by the CSD Department and submitted by the clearing member as guarantee.



On The Settlement Day



ADX may **suspend** the clearing member from **trading for failing to settle the amount** payable for settlement by the deadline

ADX may **take any legal measures** required to claim from the clearing member any amounts paid by the ADX or the settlement bank on behalf of the clearing member due to member's **failure to fulfill its settlement obligations**.

The clearing member keeps **the minimum guarantee** required by the CSD Department always. If the guarantee falls **below the minimum amount required**, the ADX may **suspend** the clearing member from **purchases until the guarantee required is presented** to the CSD Department.



Question Time

In line with standard procedures, The settlement bank must transfer the amounts from the Clearing Members' Settlement Accounts to ADX settlement account latest by what time?

- A. 8.00 am
- B. 9.30 am
- C. 1.30 pm
- D. 3.00 pm

EXAM FOCUS



Pledging Securities

Securities can be pledged in a **'mortgage contract'** between **the creditor** (the lender that may want to take control of the pledged securities in the event of non-payment) and **the debtor** (the owner of the pledged securities).

Department makes a **book entry of the rights** connected with the pledging of securities **owned by the debtor** on mortgage in **favour of the creditor** on mortgage, as follows:

1. The **securities deposited** with the CSD Department are the only securities capable of being **subject to a pledge**.
2. The CSD Department puts the **pledge on securities** upon the request submitted by **the owner of securities** (debtor on mortgage).



Pledging Securities

3. The CSD Department may put the **pledge upon the request submitted by the creditor on mortgage**, in the following cases:
- If the **creditor** on mortgage was **a bank** and **submitted evidence** of the **approval** of the owner of securities (debtor on mortgage)
 - If it has been **established** that it has **the legal capacity** to do so by virtue of a power of attorney **granted by the debtor** on mortgage.



Pledging Securities

Any pledge request must be submitted on the requisite form and contain the following information at least:

creditor on mortgage

debtor on mortgage (owner of securities)

securities, subject of the pledge (issuing company, quantity)

party entitled to profits.

To **accept the security pledge** request, the **creditor on mortgage will be registered** with the CSD Department as a pledging entity and **the owner of securities (debtor on mortgage)** must possess an investor number.



Pledging Securities

Know regulations governing the pledging of securities (Articles 49–56)



The CSD registers the pledge on **bonus shares on their record date**, unless the pledge request otherwise indicates.



If the nominal value of **pledged securities is split**, the CSD places a pledge sign on the securities resulting from the splitting process.



The pledging of Securities **deposited** with the CSD is **effective if it is registered** on the automated clearing system.



Pledging Securities



Any pledge will be **released** on a request submitted by the creditor on mortgage using the respective **form** or by **an order** of a **competent court**, due to the **termination of pledge** by the **settlement of the debt** secured by pledge, or for any such other reason **established by law**.



The CSD **cannot release a pledge** unless by a **request submitted** by the creditor on mortgage, provided that the creditor on mortgage **follows the correct legal procedures** - the debt secured by pledge if settled, the creditor on mortgage must request the CSD to release the pledge.



Pledging Securities

If a competent court issues a **writ of precautionary or executive seizure** and sale of securities that bear an indication of mortgage or freezing, the CSD Department will:

If the **claimant is the creditor mortgagee** or the party to whose benefit the **shares** have been **frozen**. → CSD will **execute the court order and notify** the court about the undertaken procedures.

If the **claimant is not the creditor mortgagee**. → CSD will **execute the precautionary or executive seizure** without selling the securities, then **notify the court in writing of the existence of the mortgage** over the securities and of the mortgage data.

If the **securities were frozen** upon the request of its owner and **to the owner's benefit**. → The **freezing is removed**, and **the court order on precautionary seizure or executive seizure and sale of securities** is executed.



When a pledge request relating to a mortgage is submitted to the Clearing, Settlement and Depository Department, the application form must include which of the following details??

- A. The name of the party entitled to profits
- B. The agreed action in the event of non-payment
- C. The proposed date for releasing the securities
- D. The name of the independent invigilating party

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Clearing in Commodities Markets

The clearing house is often referred to as the **central counterparty (CCP)** because of its role in **guaranteeing both sides** of the trades it clears

- **Clearing** in any market **involves a clearing house** that sits **between the two entities** that are involved in the transaction.
- The **role of the clearing house** can be summarised as ensuring that the **transaction goes smoothly** which involves **guaranteeing that both parties will receive what is due**.
- The clearing house is **put at risk** and is dealt with by making sure the **clearing house has financial capacity** and that the **participants' can meet their requirements**.
- The **participants** are required to deposit what is known as **'margin'** with the clearing house to act as a good faith deposit towards their obligations



Clearing Operations in Commodities Markets

Clearing activity can only be **practised** in a market after first obtaining a **licence from SCA**.

This involves meeting **certain conditions** that include the following

Know: the regulations of clearing operations in commodities markets (SCA Resolution No. (11) of 2015)

- a. The applicant must be a **joint-stock company incorporated within the UAE or a free zone** area company whose core business is to conduct clearing activities.
- b. The company's memorandum of association must be **authenticated by the official authorities**.
- c. The paid-up share capital and reserves **must not be less than AED 50 million**.



Clearing Operations in Commodities Markets

d. The **licence fee of AED 200,000** must be paid to SCA in advance

e. A commodities CCP must **ensure compliance** with the relevant **IOSCO's Principles** on Clearing. SCA will assess compliance on an annual basis and release the results.

f. The applicant must develop **corporate governance provisions approved by SCA** that include a defined organisational structure, operational procedures and policies for the board of directors, executive management, all staff.



Clearing Operations in Commodities Markets

g. One third of the **board of directors of the company**, subject **to a minimum of two members**, must **be independent**. All board members must be of **good repute and have adequate experience** in the fields of financial services, risk management and clearing services.

h. The **appointment** of the chairman, board members and the CEO, and their compensation must be **approved by SCA**.

i. **Technical and administrative staff** necessary for the conduct of the clearing activities must be duly appointed.



Clearing Operations in Commodities Markets

- j. **Headquarters** with the **software and technical systems and equipment** necessary to engage in the business are required.
 - k. **Approval by SCA** of the shareholders of a commodities CCP, full transparency and disclosure of the identity and ownership levels of those shareholders. **SCA has the discretion to refuse any transfer of ownership.**
 - l. **Voting rights of shareholders** must be commensurate with their respective ownership percentage.
 - m. **Additional requirements** as decided by SCA in accordance with the requirements of the public interest may apply.
- A commodities CCP must **always satisfy all of the licence conditions.**



Obligations of a Commodities CCP

Under SCA regulations, a commodities **CCP has to take all administrative and technical procedures necessary** to initiate the licensed activity, including the following:

1. **Provide -**

A **system for internal control and periodic review**, applicable to its managers and employees, to ensure compliance with applicable law, regulations, decisions, circulars, legislations and the internal regulations of the company.

The **procedures for compliance with the laws**, regulations, decisions, circulars, by-laws and legislations in force in the UAE concerning anti-money laundering and financing of terrorism.

The system for internal control must be **subject to frequent and independent audits**. The results of such audits must be forwarded to the board of directors and must be made available to SCA.



Obligations of a Commodities CCP

2. Develop effective institutional and administrative **procedures** to identify and manage **potential conflicts of interest** between:

- The Exchange and the commodities CCP
- The commodities CCP (or any of its board members or employees) and its members and their clients and illustrate the adequate procedures to deal with such situations.

3. Set the **rules of professional conduct** for its employees regulate and control their personal dealings in securities to ensure their compliance with the provisions of law, regulations, decisions and instructions issued by SCA, **particularly those related to honesty, integrity and conflicts of interest.**



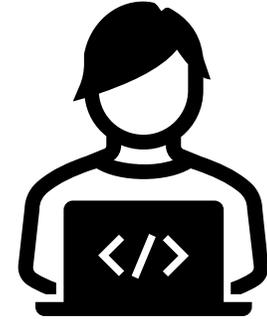
Obligations of a Commodities CCP

4. **Maintain, the capital adequacy** necessary to engage in the activity in order to secure its ability to meet its obligations.
5. **Provide adequate liquidity** necessary to meet its obligations on an ongoing basis.
6. A **permanent electronic programs, systems, technical devices and staff** to execute clearing transactions of the clearing members to determine the net rights and obligations on the same day as the transaction. The executed transactions should be **cleared with margin settlement and account reconciliation** to verify that the margin requirements are met on time.

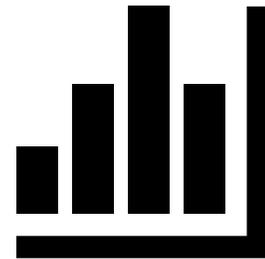


Obligations of a Commodities CCP

7. Ensure that the **clearing members meet their obligations** relating to the settlement of transactions. If the reason for **delaying the completion** of the settlement is **due to the seller**, the **arising rights and benefits** shall be **for the buyer** as of the date scheduled for settlement.



8. **Analyse and monitor** the performance and the extent of compliance with margin requirements through **periodic review**. It must review and ensure the correctness of its margin system on a periodic basis.



Obligations of a Commodities CCP

Know:
obligations of the
commodities
CCP (Article 10)

9. Provide SCA with the following reports and documents:

- **Interim financial reports** (quarterly reports) reviewed by the external auditor **within 45 days** of the end of the quarter
- **Annual financial report** audited by the external auditor **within three months** of the end of the fiscal year
- **Minutes of meeting** of the board and its committees
- **Periodic and updated report** on the equity percentage of shareholders or clearing members who hold more than **10% of the capital** of the clearing company
- The details of any **reciprocal operating agreements** with other clearing organisations
- Any other **financial statements or reports** requested by SCA.



Obligations of a Commodities CCP

10. **Obtain prior approval** of SCA before taking any of the following actions:

- **Amending the company's memorandum** of association or articles of association or selling a stake to a strategic partner
- Adding, deleting or modifying an **activity in the trade licence**
- **Increasing or decreasing** the company's capital
- Carrying out **mergers or acquisitions**
- Changing the **partners** or amending their **shareholdings** in the CCP
- **Disclosing or exchanging** information with any other party.



Obligations of a Commodities CCP

11. Immediately notify SCA of the following:

- Intention to place a **clearing member in default**
- **Material changes or developments** in the company, or any **deficit** that affects its financial position
- Material **changes in the information or data** provided when applying for the licence
- Change in **the members of the board of directors** of the clearing company
- **Lien or mortgage on the assets** of the commodities CCP, and any **lawsuits** that the commodities CCP or one of its employees is a party to, and of any **potential judicial rulings** issued in such lawsuits, which may affect the financial position of the company
- **Violations by its employees of the laws**, regulations, by-laws or decisions issued by SCA.



Obligations of a Commodities CCP

12. Keep **records or use modern technology equipment** in accordance with the **international accounting standards** accepted by SCA and keep all records and **financial data relating to**

- a. clearing operations
- b. margin payments
- c. financial instruments
- d. clearing member
- e. market

where transaction are executed **date and time of the transaction, settlement, date of expiry of the contract.**

All **contracts** entered into by the commodities CCP or that it has been a party to and all information related to **practising its activities**, for a **minimum period of ten years**.

Backup copies of the data and documents must be maintained for the same period and must be **safeguarded against damage**.

SCA must be **allowed to access and review** everything related thereto upon request.



Obligations of a Commodities CCP

13. Observe the principles of **honesty, integrity and confidentiality of data** and information and avoid conflict of interest when practising the activity.



14. Practise the licensed activity with due diligence in accordance with the **provisions of the law, the regulations and the conditions and controls** on the basis of which the licence was issued subject to **commercial norms and the principles of honesty, fairness, and equality**.



Obligations of a Commodities CCP

15. Provide sufficient information **about non-confidential** matters to enable clearing members and their customers to **abide by the regulations of margin trading** (either using in-house systems or systems from external suppliers).
16. Be **transparent** to enable clearing members and their customers and related parties to **understand central clearing rules** and to **assess the liquidity** of the transactions including '**open interest**' and clearing volume and any other information provided by the clearing company.
17. Establish and administer a '**default fund**' which is used in the event of breach or default.
18. **Establish rules** in case of clearing member defaults against any of its liabilities. In the event of such a **breach or default** the following will be transferred to another clearing member chosen by the client.
19. **Segregation of accounts** should be clearly identified to enable clearing members and their customers to make their decisions about their transactions.



Obligations of a Commodities CCP

20. Instigate and enforce prudential requirements on its operations to hold the commodities CCP safe from any risks it encounters with clearing members and their clients, including the following:

a. At all times on real-time basis, **monitor the exposure** of the commodities CCP to its clearing members

b. Set margin requirements to the minimum level agreed to with SCA and sufficient to cover: – **99% confidence**

- closing of the clearing company's positions and those of its members within one day
- maximum risks that the clearing company was exposed to over the preceding three years (back tested)

c. Determine the **form and value** of the guarantee that the clearing member must provide according to the **category of its membership**



Obligations of a Commodities CCP

d. **Maintain a fully funded default fund** sufficient to cover any default of the two biggest clearing members, the contributions in the fund by the clearing members will be based upon the risk exposures that they maintain with the central clearing company by taking the following procedures:

i. The **adequacy of the default fund** shall be established through stress testing. Such testing shall be done at least daily

ii. **Separate default funds** may be maintained **for different asset classes** for which the commodities CCP provides clearing services. The asset classes are credit, equity, rates, fixed income, foreign exchange & commodities



Obligations of a Commodities CCP



e. To set procedures that clarifies the mechanism to finalise all **obligations arising** from **trading operations** in the market between the CCP company and its members

f. The commodities CCP must **assess its liquidity** requirements daily ensuring that it has **adequate liquidity**, covering both payments and receipts, and is **not subject to wrong way risk**



Obligations of a Commodities CCP

g. Covering of defaulting members **liabilities** must prioritise:

- the margins of the defaulting member
- the guarantee deposited at the CCP company by the defaulting member
- the default fund contributions to the obligations of the defaulting member
- the 'skin-in-the-game' of the commodities CCP (a minimum of AED 10 million)
- contributions by non-defaulting members with prior approval required from SCA



Obligations of a Commodities CCP

- h. **Margin and default fund** contributions must be collected by the commodities CCP in either cash or securities. **Bank guarantees are not acceptable**
- i. To **establish effective procedures** applicable to handling default cases against obligations by clearing members & must **clearly identify the responsibilities** of the CCP and the responsibilities of the CCP board of directors. These procedures must be **approved by the Authority**
- j. To establish **suitable procedures** for separating the accounts between clearing members and their customers to ease the transfer of the **financial positions and collaterals** from the defaulting member to another
- k. The commodities CCP must **perform stress tests** on both its margin requirements and default fund contributions. They should take the appropriate steps, as agreed in advance with SCA. Periodic back tests should be performed to ensure that the stress test scenarios are adequate.



Risk Management

- A Commodities CCP must **manage its risk** by:
 1. **Preparing an operational manual** for risk management that includes the **identification and definition of specific risks** that it may face and how to address them if materialized.

Effective measures must be developed to ensure that **current or potential risks** exposed to are identified, indicating how to **address, confront, report and monitor such risks.**



Risk Management

Such risks include:

- **credit risks**
- **counterparty risks**
- **market risks**
- **operational risks**
- **legal risks**
- **business risks** – arising from poor management or investment decisions, business continuity and disaster recovery issues. Any plans for continuity and recovery should be adequately tested and the results made public



Risk Management

- **liquidity risks** – a strong structure must be developed and must include mechanisms to identify, measure and monitor cash flows on continuous basis for settling the liabilities and payments in all currencies
- **concentration risks**
- **cases of liquidation or restructuring**
- Risk exposures of the clearing members and their customers
- Risk exposures of other entities, such as other CCPs with which the commodities CCP works under **interoperability agreements, the settlement systems, the payment systems, the settlement banks, the liquidity providers, and the securities depository systems, and the markets served** by the commodities CCP.



Risk Management

Establish adequate mechanisms for internal controls to monitor and evaluate the adequacy and effectiveness of **its risk management policies, procedures and systems**. Such mechanisms must include sound administrative and accounting procedures.

Establish a **surveillance program** to assess clearing members' compliance with the risk management requirements of the commodities CCP.

Establish **remedial procedures** in the event of default by clearing members towards risk management requirements, and the procedures that would be taken in case of a default by any member after coordination with SCA.

Continuous assessment of member contributions to the default fund and the risks it may pose according to the rules set by the CCP.

Not to dismiss the internal auditor **except by a decision of the board of directors**, provided that both SCA and the internal auditor are notified **at least 30 days prior to dismissal explaining the reasons and justifications**



Dubai Gold & Commodities Exchange

- Dubai Gold & Commodities Exchange (DGCX) **commenced trading in November 2005** as the region's **first commodity derivatives exchange** and has become a leading derivatives exchange in the Middle East.
- DGCX's **range of futures contracts** offers participants of the physical commodities markets, such as producers, manufacturers and end users, with a sophisticated means of **hedging their price risk exposure**.



Delivery Months

In order to **provide hedging opportunities** to its customers, the DGCX provides a range of delivery dates for its contracts. Below are the delivery dates for selected derivatives available on the Exchange:

Contract	Delivery months
Gold futures	Every two months starting February each year, with six delivery months available for trading at all times.
India Gold Quanto Futures	Every two months starting February each year, with six delivery months available for trading at all times.
Shanghai Gold Futures	Every two months starting February each year, with six delivery months available for trading at all times.
Silver Futures	Every two months starting February each year, with five delivery months available for trading at all times.



Delivery Months

Contract	Delivery months
Crude Oil Futures – Brent Crude	Every month, with 18 delivery months available for trading.
Crude Oil Futures – West Texas Intermediate (WTI) Crude	Every month, with 18 delivery months and an additional ten semi-annual (June and December) delivery months available for trading.
Crude Oil Futures – WTI Mini Crude	Every month, with 12 delivery months available for trading.
Crude Oil Futures – Dubai India Quanto Crude Oil Futures	Every month, with two delivery months available for trading.
Equity Index Futures and Options – MSCI India Index Future	Monthly and quarterly with three delivery months and one quarterly delivery month available for trading.



Gold Futures

The contract specification for the Gold Futures contract is as follows:

- **The contract size** – 32 troy ounces of refined gold.
- **Minimum price movement** – US\$0.10.
- **Last trading day** – two business days prior to the last business day of the delivery month.
- **Final cash settlement price** – the daily settlement price on the last trading day
- **Cash settlement day** – the business day following the last trading day



India Gold Quanto Futures

The contract specification for the India Gold Quanto Futures contract is as follows:

- **The contract size** – one lot.
- **Minimum price movement** – US\$1.00.
- **Last trading day** – two business days prior to the last business day of the delivery month.
- **Final cash settlement price** – the Shanghai Gold Benchmark Price as published by the Shanghai Gold Exchange on the last trading day. If this price is not available, the Clearing Corporation will determine a final cash settlement price as it considers appropriate, at its absolute discretion.
- **Cash settlement day** – the business day following the last trading day



Shanghai Gold Futures

The contract specification for the Shanghai Gold Futures contract is as follows:

The contract size – 1,000 grammes (1 kg).

Minimum price movement – CNH 0.01.

Last trading day – 15th calendar day of the delivery month.

Final cash settlement price – the Shanghai Gold Benchmark Price as published by the Shanghai Gold Exchange on the last trading day. If this price is not available, the Clearing Corporation will determine a final cash settlement price as it considers appropriate, at its absolute discretion.

Cash settlement day – the business day following the last trading day.



Contract Specifications:

- **The contract size – 1,000 troy ounces** of refined silver (plus or minus 10%) of 0.999 fineness, cast in one bar by an approved silver refiner and located in an approved silver vault.
- **Minimum price movement – US\$ 0.005.**
- **Last trading day – two business days** prior to the business day of the delivery month.
- **Final cash settlement price** – the **benchmark reference silver futures price** that is made publicly available on the last trading day. If this price is not available, the Clearing Corporation will determine a final cash settlement price as it considers appropriate, at its absolute discretion.
- **Cash settlement day** – the business day following the last trading day.



The last trading day for which of the following commodities traded on the Dubai Gold & Commodities Exchange is two business days prior to the last business day of the delivery month??

- A. Shanghai Gold Futures
- B. Silver Futures
- C. Mini West Texas Intermediate Crude Oil Futures
- D. West Texas Intermediate Light Sweet Oil Future

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What is the standard contract size for Shanghai Gold Futures on the Dubai Gold & Commodities Exchange?

- A. 100 grammes
- B. 500 grammes
- C. 1000 grammes
- D. 2000 grammes

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Contract Specifications:



**The contract size
- 1,000 barrels.**



**Minimum price
movement - US\$
0.01.**



**Last trading day
- four business
days** prior to the
25th calendar day
of the month
preceding the
delivery month.



**Final cash
settlement price** -
futures price that is
publicly available
on the last trading
day.

If this price is not
available, they will
determine a final
cash settlement
price.



**Cash settlement
day** - the
business day
following the last
trading day



Brent Crude Oil Futures

- **The contract size** – 1,000 barrels.
- **Minimum price movement** – US\$ 0.01.
- **Last trading day** – the second last business day of the second month preceding the delivery month.
- **Final cash settlement price** – the relevant reference futures price that is made publicly available on the last trading day. In the event that this price is not available, the Clearing Corporation will determine such final cash settlement price as it considers appropriate, at its absolute discretion.
- **Cash settlement day** – the business day following the last trading day.



Mini WTI Crude Oil Futures

The contract specification for the Mini West Texas Intermediate Crude Oil Futures contract is as follows:

- **The contract size** – 100 barrels.
- **Minimum price movement** – US\$ 0.01.
- **Last trading day** – four business days prior to the 25th calendar day of the month preceding the delivery month.
- **Final cash settlement price** – the relevant futures price that is made publicly available on the last trading day. If this price is not available, they will determine such final cash settlement price as it considers appropriate, at its absolute discretion.
- **Cash settlement day** – the business day following the last trading.



Dubai India Quanto Crude Oil Futures

The contract specification for the Dubai India Quanto Crude Oil Futures contract is as follows:

- **The contract size** – three barrels.
- **Minimum price movement** – US\$ 1.
- **Last trading day** – four business days prior to the 25th calendar day of the month preceding the delivery month.
- **Final cash settlement price** – the final cash settlement price for the WTI Light Sweet Crude Oil Futures Contract converted using the official US Dollar reference rate issued by the Reserve Bank of India, or equivalent successor rate that is determined by the Exchange, on the last trading day.
- **Cash settlement day** – the business day following the last trading.



MSCI India Index Futures

Contract Specifications:

Contract Size: 25 index points x price

Minimum price Movement: 0.5 index points

Last Trading Day: the last Thursday of the delivery month, except where that day is not a business day, in which case the last trading day will be the preceding business day.



Errors in the Index

If **within 30 minutes** after the publication of the final cash settlement price for a particular delivery month, any member of the Exchange notifies the Exchange or otherwise comes to the attention of the Exchange, an apparent error in the closing price of the relevant equity index due to anything other than an error in the weighting of the price for any constituent stock, then the Exchange must **promptly request the index provider to investigate the error.**

If in the index provider's opinion **an error has been made**, the index provider must **correct the closing price** which is used to determine the final cash settlement price for that delivery month and the Exchange will **then re-determine the final cash settlement price** accordingly. **No correction** of the final cash settlement price will be made in respect of any error notified to the Exchange or coming to its attention **after the expiry of the 30-minute period.**

Neither the Exchange, nor its officers, employees, agents or representatives **accept any liability** in respect of a decision as to whether or not to correct the closing price or as to the amount of any correction, or as to whether or not to re-determine the final cash settlement price.



MSCI India Index Futures, contract specifies last trading day as :

- A. The last day of the delivery week
- B. The last weekend of the delivery month
- C. The last Thursday of the delivery month
- D. The first Thursday of the delivery month

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