

THE AUTHORITY'S BOARD OF DIRECTORS' DECISION NO. (25/R) OF 2008 CONCERNING MARGIN TRADING

The Chairman of the Board of Directors of the Securities and Commodities Authority,

Having considered Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market, as amended,
Federal Decree No. (23) of 2008 concerning the Composition of the Council of Ministers of the State of the United Arab Emirates,
Council of Ministers Decision No. (194/15) of 2006 issued on 26/6/2006 concerning the Composition of the Board of Directors of the Securities and Commodities Authority,

Council of Ministers Decision No. (13) of 2000 concerning the Internal By-Law of the Securities and Commodities Authority, as amended,

The Authority's Board of Directors Decision No. (1) of 2000 concerning the Regulation for Brokers, as amended,

The Authority's Board of Directors Decision No. (2) of 2001 concerning the Regulation for Trading, Clearing, Settlement, Transfer of Ownership and Safekeeping of Securities, as amended,

The approval of the Authority's Board of Directors at its ninth meeting of the third term, term convened on 15/5/2008,

After consultation and co-ordination with the Markets and the Central Bank,

And as required for the interest of investors,

Has decided as follows concerning Margin Trading.

Definitions

Article (1)

The following words and expressions shall have the meanings stated opposite each of them, unless the context of the provision otherwise requires:

Law: Federal Law No. (4) of 2000 concerning the Emirates Securities and

Commodities Authority and Market, as amended.

Authority: The Emirates Securities and Commodities Authority.

Board of Directors: The Authority's board of directors.

Market: A securities and commodities market licensed in the State by the Authority.

Brokerage Company:

A juristic person authorised pursuant to the provisions of the Law and the regulations and decisions issued pursuant thereto, to operate a brokerage business in the Market.

Cash Trading Account:^[1] The account which the client pays to the Brokerage Company the trades full value before the order for the purchase of a certain security is settled.

Margin trading account ^[2]: The client account with the clearing house, through which dealings in securities financed on margin are executed.

Margin Trading^[3] : The financing made by the Brokerage Company of a proportion of the market value of the securities financed on margin, and secured as collateral by the securities available in the Margin Trading Account or any other collateral in the cases exclusively stated in this Regulation.

Initial Margin^[4]: The amount of money or securities deposited by the client with the Brokerage Company for the Margin Trading Account in accordance with the prescribed ratio of the market value of the securities to be traded on margin prior to executing the purchase order.

Maintenance Margin : The minimum set by the Commission for the contribution of the client in the market value of securities in a margin trading account at any time after the date of purchase.

Conduct of Margin Trading

Article (2)

In order to conduct Margin Trading a Brokerage Company shall obtain a licence from the Authority, in accordance with the conditions, requirements, procedures and provisions of this Decision.

Licence Conditions

Article (3)

First: For a Brokerage Company to be licensed to conduct Margin Trading, the following shall be required:

1. The Brokerage Company shall have the technical and administrative capabilities and resources to conduct Margin Trading and manage the accounts thereof.
2. The Brokerage Company shall have the financial solvency necessary in order to conduct Margin Trading, in accordance with the criteria issued by the Board in that regard.
3. The Brokerage Company has not committed any material contravention of the criteria for financial solvency or the rules concerning the separation of accounts approved by the Authority within the six months preceding the date of submitting the application for a licence.
4. The Authority's prior approval has been obtained on the Margin Trading Account opening form and the Margin Trading agreement form. The Margin Trading agreement form shall specifically contain the information and data stated below, as well as the data contained in Article (9) herein. The Authority may, as it deems appropriate, require any amendments to these forms: ^[5]
 - a. The definition of the concept of the Margin Trading service and the risks to which the client may be exposed as a consequence thereof;
 - b. The Initial Margin and Maintenance Margin according to the prescribed ratios;
 - c. The amount of the commissions, expenses and charges payable by the client in return for such service;
 - d. A detailed statement of the rights and obligations assumed by the client and the Brokerage Company;
 - e. A detailed statement of the Brokerage Company powers in case the client fails to meet his obligations, particularly in relation to disposing securities financed on margin; and adding the shares issued to raise the capital and which the client subscribes in to the Margin Trading Account if the Brokerage Company finances such subscription according to the mutual agreement of the two parties within the Initial Margin limits;^[6]
 - f. Confirmation of the client's right to pay the balance of the price of the securities in the Margin Trading Account at any time;
 - g. An undertaking by the client to replenish the Margin Trading Account if the percentage of his ownership falls below the Maintenance Margin, after being notified by the Brokerage Company.
 - h. The methods for notifying the client when the percentage of his ownership falls below the Maintenance Margin.

Second: The Authority may impose further requirements, conditions or rules, in accordance with the public interest requirements.

Licence Application

Article (4) [7]

First: An application for a license to conduct Margin Trading shall be submitted to the Authority pursuant to the prescribed form enclosing the information, data and documents supporting the application, particularly the following:

1. Financial statements for the financial quarter preceding the date of submitting the application, signed by the chairman of the board of directors of the company, or whoever is authorized thereby, and the internal controller, in addition to the external auditor's report in this regard.

2. A report describing the technical system for the processing of the Margin Trading Accounts data, as well as proof of co-ordination with the Market as regards the readiness of such system in a manner which enables monitoring and inspection.

3. A report describing the system used by the Brokerage Company to maintain Margin Trading records.

4. A report describing the systems and bases of internal controls and financial audit in the Brokerage Company.

5. Templates for opening a Margin Trading Account and an agreement for Margin Trading, both of which shall include all of the information and data contained in Article (3) of this Decision.

Second: The Authority may request any other clarifications, information or documents it deems necessary.

Article (5)

The Authority shall issue its decision approving or rejecting the application within a period of thirty days from the date of submitting an application duly compliant with the conditions and requirements stated in this Decision and duly compliant with the technical requirements which the Markets set for the conduct of Margin Trading.

Obligations of the Brokerage Company

Article (6)

A Brokerage Company licensed to conduct Margin Trading shall:

1. Open an account with the clearing house designated (Margin Trading Account) for the client who wishes to use such service.
2. Establish the legal capacity and financial solvency of each client.
3. Keep separate the same client's Cash Trading Account from that client's Margin Trading Account.
4. Ensure that the client has deposited the Initial Margin in his account with the Brokerage Company in accordance with the specified percentage, prior to the purchase of any securities financed on margin.^[8]
5. Register the securities financed on margin with the clearing house in the name of the client, and in the event of a distribution of bonus shares or shares issued as a result of a capital increase produced by the securities financed on margin, such shares shall be added to the client's Margin Trading Account with the Brokerage Company in accordance with clause (First / 4 / e) of Article (3) of this Regulation.^[9]
6. Provide the client with a detailed monthly statement of account showing the trading movement of the securities funded on margin and the percentage of his ownership in the account.
7. Review the Margin Trading Account of each client at the end of each business day and to notify the client immediately when the percentage of the client's ownership in that account falls below the Maintenance Margin, so that he can cover the shortfall in the account within a period not exceeding two working days from the date of him being notified.
8. Sell all or some of the securities available in the Margin Trading Account if the client fails to cover the shortfall indicated in clause (7) of this Article to the extent required to restore the client's percentage of ownership to the Initial Margin as per the market value of such securities on the date of sale.^[10]
9. Obtain the prior approval of the Authority on any subsequent amendment to the accounting system, and provide a technical report confirming that the system after amendment has fulfilled the requirements of Margin Trading business and the requirements of the Authority.^[11]

On-going obligations

Article (7)

A Brokerage Company licensed to conduct Margin Trading shall, on an on-going basis:

1. Maintain financial solvency in accordance with the criteria for financial solvency issued by the Board.
2. Ensure that the aggregate funds allocated to Margin Trading by the Brokerage Company shall not exceed (300%) of the total of the principle capital (Tier 1) and the additional capital (Tier 2) in accordance with the criteria of financial solvency approved by the Authority.^[12]
3. Amounts of margin funding given to one client may not exceed 10% of funds allocated to Margin Trading by the Brokerage Company defined in Clause 2 of this Article.^[13]
4. The Initial Margin shall not be less than (50%) of the market value of the securities to be traded on margin.
5. The Maintenance Margin shall not be less than (25%) of the market value of the securities in the Margin Trading Account at any time after the date of purchase.
6. Allow the Authority and the Market to examine all the data and documents relating to Margin Trading orders.
7. Organise independent accounts for the offering of the Margin Trading service.
8. Provide the Authority with all facility agreements between the Brokerage Company and banks.
9. Provide the Authority with the reports, data and documents relating to Margin Trading service which the Authority requests for the purposes of supervising and overseeing the Brokerage Company.

Periodic reports

Article (8)^[14]

To ensure supervision on Margin Trading, The Brokerage Company licensed to conduct Margin Trading shall provide the Markets with any required reports related to the conduct of Margin Trading.

Margin Trading Agreement

Article (9) ^[15]

In addition to the data and information referred to in clause (First/4) of Article (3) herein, the Margin Trading agreement must include the following:

1. The client's express consent to mortgage the securities financed on margin in favor of the Brokerage Company as collateral for the outstanding amounts payable to the Brokerage Company in the Margin Trading Account;
2. The client's express consent to grant the Brokerage Company the right to sell a percentage of the securities financed on margin in accordance with the conditions set forth in Article (6/8) of this Regulation.
3. The Brokerage Company's consent to grant the client the right to dispose of the securities financed on margin through the duration of the Margin Trading agreement according to the applicable procedures in the Market.

Collateral for the Margin Trading Account

Article (10)

1. It shall not be permissible to accept collateral in Margin Trading Accounts other than the securities financed on margin in that account.
2. As an exemption from clause (1) of this Article, a Brokerage Company may accept further collateral in the Margin Trading Account in addition to the securities financed on margin, in the following cases:^[16]
 - (a) Where there is a continuing fall in the market value of the security in the Margin Trading Account as a result of exceptional circumstances.
 - (b) Where trading in a security financed on margin is suspended or discontinued for more than seven working days.
3. The additional collateral referred to in clause (2) of this Article must be securities listed on a Market or bank guarantees.^[17]

Funding which accords with the Islamic Shari'a

Article (11)

Financing which complies with the provisions of the Islamic Shari'a shall be

deemed acceptable insofar as consistent with the contents of this Decision.

Contraventions and Penalties

Article (12)

The Authority may suspend a Brokerage Company from conducting Margin Trading in any of the following cases:

- 1-If it exceeds the percentages specified in this Decision.
- 2-If it commits a gross breach of the criteria for financial solvency issued by the Board.
- 3-If it fails to comply with any of the licensing conditions or requirements prescribed in this Decision.

Article (13)

Whoever contravenes the provisions of this Decision shall be liable to a penalty in accordance with the provisions of the Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority, as amended, regulations and decisions issued pursuant thereto.

Article (14)

This Decision shall be published in the Official Gazette, and shall come into effect after three months from the date of its publication.

Engineer Sultan bin Sa'id Al-Mansouri
Chairman of the Board of Directors

Issued in Abu Dhabi on 11/6/2008

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- [1] - Definition of (Cash Trading Account) has been amended pursuant to the Authority
 - [2] - Definition of (Margin Trading Account) included in Article (1) has been amended pursuant to Decision No. (5) of 2011
 - [3] - Definition of (Margin Trading) included in Article (1) has been amended

- according to Authority's Board of Directors Decision No. (50) of 2012.
- [4] - Definition of (Initial Margin) included in Article (1) has been amended according to Authority's Board of Directors Decision No. (50) of 2012.
 - [5] - Clause (4) of Article (3/First) has been amended according to the Authority
 - [6] - Clause (4/e) of Article (3/First) has been amended according to the Authority's Board of Directors
 - [7] - Article (4) has been amended according to the Authority's Board of Directors Decision No. (50) of 2012.
 - [8] - Clause No. (4) of Article (6) has been amended according to Decision No. (5) of 2011.
 - [9] - Clause No. (5) of Article (6) has been amended according to Decision No. (50) of 2012.
 - [10] - Clause No. (8) of Article (6) has been amended according to Decision No. (50) of 2012.
 - [11] - Clause No. (9) of Article (6) has been amended according to Decision No. (50) of 2012.
 - [12] - Clause No. (2) of Article (7) has been amended according to Decision No. (5) of 2011.
 - [13] - Clause No. (3) of Article (7) has been amended according to the Authority Board of Directors' Decision No. (3) of 2014
 - [14] - Article (8) has been amended according to the Authority's Board of Directors Decision No. (50) of 2012.
 - [15] - Article (9) has been amended according to Decision No. (5) of 2011.
 - [16] - Clause No. (2) of Article (10) has been amended according to the Authority's Board of Directors' Decision No. (50) of 2012, mentioned above.
 - [17] - Clause No. (3) of Article (10) has been added according to the Authority's Board of Directors' Decision No. (50) of 2012, mentioned above.