



DFM Margin Trading Regulations

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Introduction

Dubai Financial Market's Board of Directors;

Having reviewed the Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities "ESCA" Authority and Market, and its amendments;

The SCA's Board of Directors Decision No. (2/R) of 2000 concerning the Regulations on the Market Membership;

SCA's Board of Directors Decision No. (2) of 2001 concerning the Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Custody of Securities, as amended;

SCA's Board of Directors Decision No. (3/R) of 2001 concerning the Regulations as to the Functioning of the Market, as amended;

SCA's Board of Directors Decision No. (27) of 2014 concerning the Brokerage in Securities and its amendments;

Resolution of the Chairman of the SCA's Board of Directors No. (26/R.M) of 2016 Regulating some Financial Services Activities and the Trading Process; the Regulations, Decisions and Instructions issued by DFM's Board of Directors;

The Emirate of Dubai Decree No. (14) of 2000 concerning the Establishment of the Dubai Financial Market, as amended; and

The Regulations, Resolutions and Rules issued by the DFM;

IT IS HEREBY RESOLVED as follows:

Article (1) Definitions

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

The State United Arab Emirates

The Authority: Securities and Commodities Authority (SCA).

The Market: Dubai Financial Market



Clearing House:	The entity conducting clearing and settlement operations for all orders executed in the Market in accordance with the relevant regulations and decisions.
Securities:	Shares, bonds and notes issued by joint stock companies, bonds and notes issued by the Federal Government or Local Governments, public authorities and public institutions in the State, and any other domestic or non-domestic financial instruments accepted by the Authority.
Brokerage Company:	A brokerage company licensed by the Authority to carry out the financial brokerage activities.
Cash Trading Account:	The client's account with the Brokerage Company in which the client base the trades full value before the purchasing order for the of a certain security is settled.
Margin Trading Account:	The Client's account with the clearinghouse, through which dealings in securities financed on margin are executed.
Margin Trading:	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:	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 market for the contribution of the client to the market value of securities in a Margin Trading Account at any time after the date of purchase.

Article (2)

Approval to provide the Margin Trading service

The Brokerage Company may not provide the Margin Trading service unless it obtains the market approval in accordance with the terms and conditions, provisions and procedures stipulated in these Regulations and the technical requirements set by the market.



Article (3)

Approval Terms and Conditions

To get the approval of providing Margin Trading service the brokerage Company should fulfil the following requirements:

1. Payment of fees due to market.
2. The Brokerage Company shall have the necessary technical and administrative capabilities and resources to provide r the Margin Trading service and manage the accounts thereof.
3. Obtaining the Market's prior approval on the Margin Trading Account opening form and the Margin Trading Agreement Form. Which shall specifically contain the information and data stated below, as well as the data contained in Article (9) herein. The market may, as it deems appropriate, require any amendments to these forms:
 - a. Identifying the concept of the Margin Trading service and the risks to which the Client may be exposed as a consequence thereof;
 - b. Determination of the Initial Margin and Maintenance Margin according to the prescribed ratios;
 - c. Determination of 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's powers in case the Client fails to meet any of his obligations, particularly in relation to disposing securities available in the margin trading account; 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;
 - 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. Determination of the methods for notifying the Client when the percentage of his ownership falls below the Maintenance Margin.
 - i. Determination of the conditions of termination of agreement or the duration of the financing, or termination thereof on the basis of the desire of either party, as well as stating the mechanism for settlement of rights and obligations arising therefrom, particularly in relation to disposing securities financed on margin, without prejudice to the applicable laws of the State.



Article (4)

Application for Approval

First: Without prejudice to any other obligations set out in the law, regulations or decisions of the authority, Providing of Margin Trading service by the brokerage Company shall be dependent on submitting an application to the market as per the form designated for this purpose, together with the information, details and supporting documents, particularly the following:

1. Copy of the valid license issued by the authority for brokerage activity.
2. 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.
3. 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.
4. A report describing the system used by the Brokerage Company to maintain Margin Trading records.
5. A report describing the systems and bases of internal controls and financial audit in the Brokerage Company.
6. Margin Trading Account Opening Form and Margin Trading Agreement Form, both of which shall include all of the information and data contained in Article (3) of this regulation.
7. Copy of all the control screens.
8. Copy of the guide of the brokerage Company's strategy for the backup plan.
9. A letter from the authority indicating that the Company has not committed any material violations 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 approval.
10. A letter from the authority indicating that the brokerage Company has the financial solvency necessary to conduct Margin Trading activities, in accordance with the criteria issued in that regard.

Second: the market may request such clarifications, information, or other documents as it may deem necessary.



Article (5)

The Market's Decision

The Market shall make its decision towards approving or rejecting the application within thirty days from the date of submitting the application, which fulfils the conditions, requirements and technical standards set by the market.

The Brokerage Company shall register the approval issued by the market with the authority within a period of no more than (5) working days from the date of issue.

Article (6)

Duration and Renewal of the Approval

1. The approval period shall be one year ending on the last day of December of each year. Duration of the first approval shall commence on the date on which such approval is granted until the last day of December of the same year. The fee due on such approval shall be charged as a proportion of the annual fees, noting that any part of a month shall be calculated as a full month.
2. The approval shall be renewed upon an application, which is to be submitted to the market at least one month before expiry of its term,, together with payment of the renewal fees due to the market , The renewal shall be registered with the Authority within a period not exceeding (5) working days from the date of renewal of approval in the Market.
3. DFM General Manager shall have the right to cancel the approval granted to the Brokerage Company if a complete renewal application is not made within the specified time limit.



Article (7) Obligations of the Brokerage Company

Without prejudice to any other obligations set out in the law, regulations or decisions of the authority, the Brokerage Company licensed to provide Margin Trading services shall comply with the following:

1. Open an account with the clearing house designated (Margin Trading Account) for the Client who wishes to use such service. Transactions in the Margin Trading Account shall be limited to the purchase and sale of securities financed on margin and securities deposited in that account as a guarantee.
2. Ensuring the legal capacity and financial solvency of each Client.
3. Separating 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.
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 (5/e) of Article (3) of this Decision.
6. Provide the Client with a detailed monthly statement of account showing the trading movement of the securities financed 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 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. Selling all or some of the securities available in the Margin Trading Account immediately upon the end of the period specified for the Client 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 Maintenance Margin as per the market value of such securities on the date of sale.
9. In case the relevant security is suspended from trading, the grace period mentioned in Clause 7 of this article shall be discontinued, along with the brokerage company's adherence to the determined notification; provided that such period shall be completed after the end of suspension. This provision shall not apply if there are more than one security in the Margin Trading Account, where Clauses (7) and (8) shall apply.
10. Obtain the market's prior approval 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 service.
11. Keep backup copies, for a period of ten (10) years, of all the data and documents relevant to margin trading activities in order to safeguard the Clients' data and transactions and prevent them from being exposed to any cause of damage.



Article (8) **Ongoing obligations**

The Brokerage Company licensed to conduct Margin Trading shall- continuously- comply with the following:

1. Maintain financial solvency in accordance with the criteria for financial solvency issued by the authority.
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.
3. Financing amounts extended to any single client for margin trading may not exceed 10% of the total funds allocated to Margin Trading by the Brokerage Company defined in Clause (2) of this Article.
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. Enable the Market to examine all the data and documents relating to Margin Trading orders.
7. Maintain independent accounts for Margin Trading services.
8. Provide the market with all agreements between the Brokerage Company and banks related to margin trading services.
9. Provide the market with the reports, data and documents relating to Margin Trading service that the Market requests for the purposes of supervising and overseeing the Brokerage Company.

Article (9) **Margin Trading Agreement**

In addition to the data and information referred to in Clause (3) of Article (3) herein, the Margin Trading Agreement must include the following:

1. The Client's definite consent that the securities in their Margin Trading Account are considered as collateral for the outstanding amounts payable to the Brokerage Company as a result of the Margin trading service.
2. The Client's definite consent to grant the Brokerage Company the right to sell a percentage of the securities in their margin trading account, in accordance with the provisions set forth herein.
3. The Brokerage Company's consent to grant the Client the right to dispose of the securities financed on margin throughout the duration of the Margin Trading Agreement, according to the applicable procedures in the market.



Article (10) Procedures

- a. Purchase value of the securities financed on margin shall not exceed the maximum purchase limit (Total Initial Margin deposited by the Client, plus the financing amount extended by the brokerage company).
- b. In the event that the Client purchases the securities financed on margin with an amount that is below the maximum purchase limit, they may use the remaining amount to purchase other securities in the Margin Trading Account, provided that such purchase shall not affect the Maintenance Margin.
- c. The Client may withdraw cash from the Margin Trading Account, transfer amounts to the Cash Trading Account or use such amounts for a new margin financing transaction where the amounts exceed the Initial Margin.
- d. In agreement with the Brokerage Company, the Client may sell all or some of the securities in the margin trading account for the purpose of purchasing other securities financed on margin, provided that such transactions shall not affect the maintenance margin and the market value of the purchased securities shall not exceed the value of the sold securities. In case the Client wanted to buy securities in excess of the value of sold securities, they have to feed their margin trading account in so much as to maintain the financing percentage of the Brokerage Company.
- e. The securities financed on margin may be transferred from the Client's Margin Trading Account at the Brokerage Company to the Margin Trading Account at another Brokerage Company as per the following procedures:
 - a. Provide the market with a copy of the Margin Financing Transfer Agreement signed by the Client and the two concerned Brokerage Companies. The Agreement shall include a list of the securities financed on margin in the Client's account, and total amounts of the Client liability to the Brokerage Company.
 - b. The new Brokerage Company to which the Margin Trading Account will be transferred shall deposit the total amounts of the Client liability to the financing Brokerage Company in the Settlement and Clearing Account at the market.
 - c. The financing Brokerage Company keeping the securities financed on margin shall transfer the securities to the clearing house.
 - d. The clearing house shall transfer the securities to the Client's Margin Trading Account at the new Brokerage Company. At the same time, the clearing house shall transfer the amounts of receivable to the financing Brokerage Company.



Article (11)

Collateral in the Margin Trading Account

- a. It shall not be permissible to accept collateral in Margin Trading Accounts other than the securities listed on the market or any other market in the state.
- b. As an exemption from Clause (1) of this Article, a Brokerage Company may accept additional collateral in the Margin Trading Account in addition to the securities in the margin trading account, in the following cases:
 - 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.
- c. The additional collateral referred to in Clause (2) of this Article must be bank guarantees or any other collateral in an agreement between the brokerage company and the client.

Article (12)

Shari'a-Compliant Financing

Financing that complies with the provisions of the Islamic Shari'a shall be deemed acceptable insofar as consistent with the contents of this regulation.

Article (13)

Penalties

In the event of violation of these regulations, the market may take any of the following actions:

1. Serve a notice of warning.
2. Liquidating or using the collateral provided by the Brokerage Company, wholly or partially, for the intended purpose of the collateral, without the prejudice of the regulations or decisions issued by the authority.
3. Cancellation of the approval issued to the Brokerage Company for provision of Margin Trading service.
4. Imposition of a financial fine on the Brokerage Company, not exceeding the maximum limit stipulated in the authority's Law and the regulations issued pursuant thereto.
5. Suspension of the Brokerage Company for no more than one week. The market Board of Directors may recommend to the authority to suspend the Company for a longer period or to cancel its license.


Article (14)


Any decisions, circulars, regulations, or procedures issued by the market in contrary to the provisions of these Regulations shall be repealed.


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