



Regulated Short Selling (RSS) Regulations

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Recitals

The Board of Directors of Dubai Financial Market,

Having reviewed the Federal Law No. (4) of 2000 concerning Emirates Securities and Commodities Authority and Market, as amended;

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

The AUTHORITY'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;

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

The AUTHORITY's Board of Directors Decision No. (48) Of 2012 concerning the Regulations as to Short Selling of Securities;

The AUTHORITY's Board of Directors Decision No. No. (27) of 2014 concerning Brokerage in Securities, as amended;

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

The DFM's Administrative Circular No. 33 of 2017 Regarding the Changes in the Rules and Procedures for Securities Lending and Borrowing (SLB) in the Dubai Financial Market; and

The Regulations, Resolutions and Rules issued by the DFM's Board of Directors;

IT IS HEREBY RESOLVED as follows:

Article (1) Definitions

For the purpose of these Regulations, the following terms and expressions shall have the meaning assigned thereto, unless the context indicates otherwise:

Authority	The Securities and Commodities Authority in the United Arab Emirates.
Market	Dubai Financial Market.
Clearing House	An entity which conducts clearing and settlement operations for all orders executed in the Market in accordance with the regulatory rules 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 Firm	A brokerage firm licensed by the authority to carry out the financial brokerage activities and which obtained the Market's approval to carry out the RSS activities.
Regulated Short Selling (RSS)	The sale by a customer of borrowed securities or securities confirmed to be lent in accordance with the provisions of these Regulations.
Lending Agent	A person holding the Market's approval to carry out securities lending transactions from its own account or its customers according to these Regulations and clearing procedures.
Lender	A clearing entity or any investor having an investor number in the Market, who is willing to lend their securities to the Borrower according to these Regulations and clearing procedures.
Customer	A person having an investor number in the Market and wishes to execute a RSS transaction in accordance with the provisions of these Regulations.
Qualified Investor	The Federal Government, the Local Governments, governmental agencies and authorities, companies wholly owned by any of them, or international agencies and organizations, or a person licensed to carry out commercial activities, provided that investment shall be one of those activities.
Collateral	Cash amounts or securities deposited by the Customer in the RSS Account maintained with the Brokerage Firm according to the determined percentage of the market value of the securities intended for RSS trading in accordance with the provisions of these Regulations.
Total Collateral	The Collateral amount plus the value received from selling securities short, in the RSS Account.
Maintenance Margin	The Customer's minimum contribution that must be maintained in a RSS account as to the market value of a security at any time after the date of sale.
Uptick Rule	The RSS order price shall increase one unit than the current best offer price.



Article (2)

Preface

1. These Regulations describe the operational model and procedures to be followed in the conduct of RSS transactions in the market. Such operations may not be carried out outside the scope of these Regulations.
2. The Market Maker shall be exempted from these Regulations.
3. No RSS process shall be implemented except in accordance with the provisions of these Regulations.

Article (3)

Conditions for the Brokerage Firm to obtain the approval to use RSS mechanism

In order for a Brokerage Firm to obtain the Market's approval, it shall:

1. Be licensed by the authority.
2. Holding an approval from the Market to carry out the margin trading activities.
3. Has the technical and administrative capabilities and competence required to conduct the RSS process and manage the concerned accounts.
4. Has the necessary financial solvency to conduct the RSS transactions in accordance with the relevant standards issued by the authority.
5. Has not committed any material violations of the financial solvency criteria or the rules concerning the separation of accounts approved by the authority within the six months preceding the date of submitting the application form for approval.

Article (4)

Application form for Approval

The Brokerage Firm, which wishes to exercise RSS mechanism, shall submit 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. A report describing the technical system used to manage RSS accounts.
2. Holding an Order Management System (OMS) to distinguish the RSS orders from other orders, and send a message to the Customer of the content of the issued order.
3. An undertaking and report, audited and signed by the Brokerage Firm's manager, the internal auditor, and the IT officer, showing that the order Management System OMS meets the Uptick rule requirements.
4. A report showing the system of keeping documents related to RSS transactions.



5. A report showing the RSS internal control and auditing regulations and controls.
6. Customer Agreement Form, including the following minimum information:
 - a. Statement of the RSS service concept, and the risks that the Customer may bear as a result thereof.
 - b. Determination of the Collateral ratio and Maintenance Margin.
 - c. A detailed description of the rights and obligations of both the Customer and the Brokerage Firm.
 - d. Determination of the method by which the Customer is to be notified in case the Collateral value becomes less than the Maintenance Margin.
 - e. An undertaking from the Customer to feed the RSS Account in case the Collateral value becomes less than the minimum Maintenance Margin after being notified by the Brokerage Firm.
 - f. The Customer's express consent to the fact that Brokerage Firm shall retain the Collateral, in order to secure the repurchase of the shares short sold.
7. The Market may request any other clarifications, information, or documents as it may deem necessary.

Article (5)

The Market shall make its decision whether to approve or reject the application within thirty days from the date on which the application compliant with the conditions hereof, is made.

Article (6) **Obligations of the Brokerage Firm**

The Brokerage Firm shall:

1. Maintain its financial solvency according to the financial solvency criteria issued by the authority.
2. Make sure that each Customer is financially solvent before executing the sell order.
3. Limit the RSS transactions to RSS Eligible Securities in accordance with the provisions of these Regulations.
4. Conclude a RSS Agreement with each Customer wishing to use such mechanism.
5. Open a RSS/SLB Account with the Clearing House for the Customer in order execute the RSS transactions.
6. Separate the RSS Account from any other account of the Customer.
7. Ensure that there are borrowed securities in the Customer's account before executing the RSS order, with exception of DVP customers for whom it is sufficient to have an undertaking or a confirmation that the securities will be lent to them.



8. Receiving of a collateral from the Customer with a value of no less than 50% of the market value of the RSS designated security, prior to the sale of the security, and retain the Collateral plus the sale proceeds of that security (Total Collateral) until the Customer's financial position is closed through repurchasing the securities regulated short sold.
9. The Brokerage firm, if it lent its Customer from its own account, or in its capacity as a Lending Agent, shall have the right to acquire the collateral specified in clause (8) of this Article, or the Collateral specified pursuant to the SLB Regulations issued by the Market, as it deems fit.
10. Enter and execute RSS orders according to the Uptick Rule.
11. Evaluate the securities regulated short sold at the market closing price by the end of each working day, and inform the Customer immediately if his contribution falls below 25% (Maintenance Margin ratio), by applying the following formula: $(\text{value of the total Collateral} - \text{market value of the securities short sold}) \div (\text{market value of the securities short sold})$, in order for the Customer to cover the shortage by increasing his contribution to more than Maintenance Margin ratio, not later than the next working day from the date of being notified of the same.
12. Allow the customer to withdraw the excess funds if his contribution exceeds 50% according to the formula referred to in Clause (11) of this Article.
13. Settle all RSS transactions, without changing the specified settlement cap during the specified settlement date in the market (T+2).
14. Buy the same number, type and quantity of the securities short sold, and close the Customer's financial position, if the Customer fails to cover the shortfall referred to in Clause (13) of this Article.
15. Do not transfer any securities from the RSS Account to any other account, except in the case of returning the borrowed securities to the Lender.
16. Provide the Customer with a detailed monthly statement showing the movements in the RSS Account, including changes in the Collateral value.



Article (7)

Additional Obligations towards delivery versus payment DVP Customers

The Brokerage Firm shall:

1. Ensure of the existence of an undertaking or confirmation from the Lender to lend the securities the subject matter of the RSS Securities to the Customer, and ensure the Customer's ability to deliver those securities on the settlement day before executing the sell order.
2. Maintain a locate confirmation record to keep the pledges or confirmations made by the Lender to lend its RSS Securities to the Customer. The locate confirmation record must contain the following details:
 - a. Date and time of confirmation.
 - b. Quantity of securities
 - c. Name and type of securities.
 - d. Name or Identifier Code of Lending Agent.
 - e. Name or Identifier Code of Borrower.
 - f. Evidence of Lending Agent's confirmation to hold the quantity and type of securities, subject matter of the RSS, or SLHK Bloomberg.
3. Follow the delivery versus payment (DVP) procedures in case the Customer fails to deliver the securities sold on his RSS/SLB account maintained with the Brokerage Firm on the T+2 settlement date.

Article (8)

Obligations of Brokerage Firm towards the Market

The Brokerage Firm shall:

1. Provide a report to the Market if the Net RSS positions of 0.2% of total issued capital and above in Designated RSS Securities and every subsequent 0.1% change up or down in Net RSS position must be reported.
2. Provide the Market with any report as may be required in relation to conducting such transactions to ensure its control.
3. Obtain the Market's prior approval for any subsequent modification to the Order Management System and submit a technical report on the compliance of the modified OMS with the Market's requirements.



Article (9)

RSS Eligible Securities

First: A security will be eligible for RSS transactions in the following cases:

1. Securities listed in any UAE Index issued by a rating agency. Such eligibility shall be ceased on the effective date of its delisting from rating agency index.
2. Securities, which considered part of a DFM derivative program.
3. All Exchange Traded Funds (ETFs) upon listing.
4. Securities listed on the market and meeting all the following requirements:
 - a. Securities with market capitalization of not less than AED 1 billion and an turnover ratio during the preceding 12 months of not less than 50%.
 - b. Securities with value traded not less than AED 100 million during the preceding six months.
 - c. Securities with number of shares traded not less than 500,000 shares during the preceding six months.
 - d. Securities with number of transactions not less than 150 transactions during the preceding six months.
 - e. Securities traded on 50% of the total trade days during the preceding six months.
 - f. Securities with number of free float shares available for trading not less than 50% of the total number of company's listed shares.
 - g. Availability of at least five percentage of the ownership limit allowed for foreign investors.

Second: Subject to the approval of authority, the Market may exempt any security from meeting any of the requirements mentioned in Clause (First/4).

Third: Right issues and covered warrants are not subject to execute Regulated Short Selling thereon.

Fourth: List of eligible RSS securities will be reviewed every six calendar months or if there is a review by the rating agency. The Market shall publish an updated Eligible Securities list after closing the trading session of the last trading day in December and June, unless the market determent otherwise.

Fifth: RSS securities will cease to be eligible for RSS on the next trading day after notification by the Market of its incompetence and no new loans for RSS shall be permitted.

Article (10)

Actions taken in the event the price of the security subject to RSS decreases

1. If the price of any RSS Security decreases by 10% from the previous day's close price or goes limit down, RSS activity on that security will be suspended immediately for two trading days including the day of suspension.
2. RSS will resume on the 2nd trading day from suspension period if there is no further 10% decrease in price or limit down event. For example, if RSS is suspended for a security today (T+0), RSS will resume on T+2 provided there is no 10% fall or limit down on T+1.
3. If there is a further 10% fall in price or limit down on T+1, RSS for this security will remain suspended for two trading days, i.e. T+1 and T+2 and will only resume on the third day after suspension, i.e. T+3.
4. RSS will resume only when there is one clear trading day where there is no 10% fall in price or limit down of the RSS eligible security.



Article (11) Penalties

First: The Market may levy the following fines on the Brokerage Firm if it fails to deliver the RSS securities on the settlement day, as follows:

1. AED 1,000 or 0.01% of the RSS trade value whichever is the higher if the settlement is made on the day following the intended settlement day (i.e. T+3)
2. AED 3,000 or 0.05% of the RSS trade value whichever is the higher if the settlement is made after two days following the intended settlement day (i.e. T+4)
3. AED 5,000 or 0.1% of the RSS trade value whichever is the higher if the settlement failed to after two days from the intended settlement date and the settlement is done through the cash compensation of the buy. This fine shall be paid in addition to the buyer cash compensation.

In any case, the fine levied on the Brokerage Firm shall not exceed the maximum fine set out in the authority's Law and the regulations issued pursuant thereto.

Second: In case any of these Regulations are breached, the Market may:

1. Serve a notice of warning on the Brokerage Firm.
2. Suspend the RSS approval granted to the Brokerage Firm.
3. Cancel the RSS approval granted to the Brokerage Firm.
4. Impose a financial fine on the Brokerage Firm in an amount that may not exceed the maximum fine mentioned in the authority's law and the regulations issued pursuant thereto.
5. Levy such other penalties and fines pursuant to the regulations of the Market and to the extent it is not inconsistent with the law and regulations of the authority.
6. Refer any non-complaint person to the authority to consider its violation and decide on the appropriate penalty.


Article (12)


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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