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SECURITIES & COMMODITIES AUTHORITY



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The questions contained in this workbook are designed as an aid to revision of different areas of the syllabus and to help you consolidate your learning chapter by chapter.

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Changes in industry practice, economic conditions, legislation/regulations, technology and various other factors mean that practitioners must ensure that their knowledge is up to date.

At the time of publication, the content of this workbook is approved as suitable for examinations taken during the period specified. However, changes affecting the industry may either prompt or postpone the publication of an updated version.

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Foreword

On January 29, 2000 HH UAE President issued a federal decree to set up a jurisdictional authority in the UAE's capital, which was called 'Securities & Commodities Authority' (SCA). The Authority enjoys a legal entity, financial and administrative independence with the control and executive powers necessary for it to discharge its tasks in line with the provisions of the SCA 2000 law and the regulations issued in implementation thereof, noting that the authority reports to the minister of Economy.

SCA's mission is to ensure compliance with the best international practices and standards in order to protect investment in the capital markets and consolidate the stability of the national economy. By continuously upgrading the supervisory legislation to be implemented in an integrated framework, SCA ensures transparency, integrity and justice in the operation of the markets, as well as the development of investor awareness in the UAE.

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This official learning manual ensures that candidates gain a comprehensive understanding of the assigned examination content. The material is written and updated by industry specialists and reviewed by senior figures in the financial services industry, whilst quality is assured through a rigorous editorial system of practitioner panels and boards.

The SCA is delighted to have an Agreement on Training and Qualification Services with the CISI to deliver a series of prescribed examinations to appropriate market practitioners.

This learning manual not only provides a thorough preparation for the appropriate examination, but is also a valuable desktop reference point.

Dr. Maryam Buti Al Suwaidi

Chief Executive Officer

Securities & Commodities Authority

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It is estimated that this workbook will require approximately 100 hours of study time.

Chapter One

The Regulatory Infrastructure

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This syllabus area will provide approximately 11 of the 100 examination questions



Introduction

This chapter introduces the regulatory infrastructure established by Federal Law No. 4 that created the **Securities & Commodities Authority (SCA)**. It then covers the SCA's functions and powers, including the requirements relating to membership and the need for securities and **commodities** markets in the United Arab Emirates (UAE) to be licensed by the SCA. After briefly considering **corporate governance** and the Chartered Institute for Securities & Investment's (CISI's) Code of Conduct, the chapter concludes with considerations of the various categories of licence provided to firms by the SCA.

1. Federal Law of No. 4 of 2000

1.1 The Securities & Commodities Authority (SCA)

Learning Objective

- 1.1.1 Understand the functions of the Securities & Commodities Authority (SCA) (Federal Law No. 4 of 2000 Part 1, Chapter 1–3, Articles 1–19): incorporation of SCA; organs of the SCA and its membership; SCA's financial affairs

The SCA of the UAE was established by Federal Law No. 4 of 2000. It was incorporated as a public authority in Abu Dhabi, the State's capital. The SCA is a separate legal personality with financial and administrative independence, which has the supervisory and executive powers necessary to perform its functions. It reports to the Cabinet of Ministers.

The SCA's purpose is based on achieving the following objectives:

1. To provide the opportunity to invest savings and funds in **securities** and commodities in a manner that:
 - ensures the interest of the national economy, secures the integrity and accuracy of transactions

- ensures prices are determined by means of supply and demand, and
 - protects investors by establishing the bases for sound and just dealings between **market** participants.
2. To develop investment awareness by conducting research and reporting the findings and recommendations.
 3. To ensure financial and economic stability.

The SCA is not permitted to:

- enter into commercial activities
- have private interests of its own in any undertaking, or
- own or issue securities.

The SCA may establish branches or offices to carry out the functions of supervision and control over the securities and commodities markets licensed in the UAE.

Under Article 4 of Federal Law No. 4 of 2000, the SCA has been given the following powers to enable it to meet its objectives:

1. To propose regulations concerning:
 - a. functioning of the SCA
 - b. licensing and monitoring of the markets, and
 - c. acceptance, **listing**, and cancelling or suspending the listing of any securities or commodities from being traded in the markets.

All these regulations are to be issued by resolution of the Cabinet of Ministers.
2. In consultation and coordination with the markets licensed in the State, create regulations concerning:
 - a. functioning of the market
 - b. brokers and the regulating of their functions
 - c. trading, clearance, settlement, transfer of ownership and custody of securities
 - d. membership of the market
 - e. disclosure and transparency, and
 - f. arbitration in disputes arising from trading in securities and commodities.
3. To form specialist technical committees, and to specify the scope of their work and their remuneration.
4. To maintain contact with international markets in order to obtain and exchange information and know-how, and to join relevant Arab and international organisations and federations.
5. To perform all other acts which assist in achieving the Authority's objectives or the exercise of its powers in accordance with the law.

1.1.1 The Organs of the SCA and their Competencies

The SCA is managed by a board of directors, and the board is based on a resolution from the Cabinet of Ministers. The resolution of the Cabinet of Ministers determines the chairman of the board, the remunerations of the board members, the mechanism for holding meetings and taking decisions.

- **The period in office** – with the exception of the chief executive, SCA board members are appointed for four years, renewable once. In the event of a member stepping down prior to the end of that member's term, a successor will be appointed for the remaining period of the original term.

- **Ownership of securities** – upon joining the board, every member has to declare to the SCA the securities owned by themselves, their spouse and minor children as well as any holdings with any **broker**. In addition, any changes in these holdings during their period in office need to be declared within one week after they are made aware of the change. All declarations need to be made in writing.
- **Immediate termination of membership** – members have to forfeit their membership in the following events:
 - Conviction of an offence of dishonour or breach of trust.
 - Bankruptcy.
 - Failure to attend three consecutive meetings without an acceptable excuse.
- **Validity of board meetings** – board meetings are deemed valid if they are attended by the majority of the members. The chairman, or their deputy has to be in attendance.
- **Resolutions** – passed by a majority of the votes of the members present at the meeting. In the event the vote is undecided (ie, for and against have the same number of votes), the person chairing the meeting has the deciding vote.

1.1.2 Responsibilities of the Board of Directors

1. Ensure that the regulations of Article 4 of Federal Law No. 4 of 2000 and subsequent amendments are applied.
2. Collect notifications and complaints relating to the activities of the markets or brokers and take appropriate action within the provisions of the Law and the regulations issued.
3. Ensure markets and brokers submit balance sheets, profit and loss accounts, and annual financial statements audited by an accredited auditor, within one month following the end of the financial year.
4. Ensure markets have adequate disclosure rules in place related to any substantial developments that occur in relation to the companies listed on that market and that these rules are adhered to.
5. Ensure transparency and disclosure as prescribed in the Law and the resolutions implementing it.
6. Issue and maintain resolutions concerning membership of the markets as well as concerning trading in securities and commodities in accordance with the provisions of the Law and the regulations issued pursuant thereto.
7. Undertake all other acts which assist the board in achieving the objectives of the SCA.

On a six-monthly basis, the board reports on the markets' activities to the Cabinet of Ministers.

The SCA is supported by the necessary administrative functions headed up by a full-time chief executive with the rank of undersecretary and a deputy with the rank of assistant under secretary. Both are appointed pursuant to a federal decree upon the proposal of the board. All regulations applicable to SCA employees equally apply to the chief executive and their deputy.



1.1.3 The SCA's Financial Affairs

The chief executive prepares the annual budget which is approved by the board. The fiscal year runs from the first of January until the end of December each year.

The SCA's sources of income consist of the following:

1. Annual funds allotted by the federal government.
2. Income which accrues under the regulations from the following:
 - a. Listing fees and annual fees levied on the companies and the brokers in the markets.
 - b. Fees levied on trading, and fees for the services rendered by the markets.
 - c. Fines levied on brokers and companies whose securities are listed for trading, and any other fines.

The SCA is required to keep regular books of account in order to monitor its operations and reflect its true financial position in accordance with the accounting rules and regulations of the State.

The SCA has one or more auditors from among the statutory accountants entered on the roll of practising auditors. An annual board resolution is passed for the appointment of the auditors, and the determination of their fees.

1.2 The Markets

Learning Objective

1.1.2 Understand the establishment and administration of the securities and commodities market

Federal Law No.4 of 2000 enabled the establishment of markets for trading in securities and commodities in the UAE. Each market has to take the form of a local public establishment or a public joint-stock company licensed by the SCA. Markets have to be reciprocally and electronically linked at State level.

Markets in the form of local public establishments, have to be administered by a board of directors, which is constituted in accordance with a resolution by the local competent authority. None of the members of the market's board may be on the board of directors of a public joint-stock company or a financial broker. In addition, like the SCA members of the board, any member of the board of a market must step down in the event of:

- conviction of:
 - offence of dishonour, and
 - breach of trust
- declared bankrupt, or
- failure to attend three consecutive meetings without an acceptable excuse.

For markets in the form of a public joint-stock company, the board of directors has to be elected in accordance with the provisions of the Commercial Companies Law and its internal regulations.

Ownership of securities – the market's chairman, board members, general manager and deputy must declare the securities owned by themselves, their spouses and minor children as well as any holdings with any broker. In addition, any changes in these holdings during the period in office need to be declared within one week after the individual is made aware of the change. All declarations need to be made in writing.

The market's board of directors is responsible for, and has to be sufficiently competent, to the following:

1. Appoint the market's general manager and deputy.
2. Establish the organisational structure and annexes, the internal regulations and all administrative rules and instructions.
3. Monitor the trading transactions in securities and commodities on a daily basis to ensure justice between transacting parties.
4. Present reports and data to the SCA and issue the necessary press releases to ensure transparency of information and disclosure.

Like the SCA, the markets are financed from the following sources:

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

The markets are required to keep records of all transactions in securities listed on the market. Any transactions in listed securities outside the market need to be reported to the market by the company in accordance with the rules in force issued by the board of that market. Transactions in securities listed on the market not recorded according to these provisions and the regulations and resolutions issued are null and void.

1.3 Clearing, Settlement, Transfer of Ownership and Custody

Learning Objective

- 1.1.3 Understand the application of Federal Law No. 4 of 2000 (Part 2, Chapter 3–4, Articles 30–32) to: clearing; settlement; transfer of ownership; custody

Federal Law No. 4 also includes a number of further provisions under the headings of ‘Clearing, Settlement, Transfer of Ownership and Custody’ and ‘Supervision and Inspection Procedures’. These are as follows:

- **Securities Price Information** – all securities and commodities prices need to be displayed in accordance with the market’s regulations.
- **Ownership transfer** – transfer of ownership of securities, the registration thereof and custody agreements have to be in accordance with the market’s regulations. The issuer of securities is required to carry out its part of the procedures for transfer of ownership without delay.
- **Suspending of trading** – the market’s board may resolve to temporarily suspend all trading in the market, the trading in shares of a company, or transactions in any securities. In order to suspend trading, the majority of the members of the board must be present. The board can decide to suspend trading in exceptional circumstances or when circumstances arise that threaten the proper and regular working of the market.
- **Suspending or reinstating rules or regulations** – the market’s board may resolve to freeze, suspend or bring back into force any rules or regulations relating to the market or any of its operations. In order to do so, the majority of the board must be present.
- **Sanctions** – the SCA board has the right to impose sanctions on a market when it fails to pay any amounts due to the SCA. The sanctions are ranked in the following order:
 1. **Warning** – a warning can be given to the market explicitly stating which financial requirement has been violated.
 2. **Notice to rectify** – the SCA can serve a notice to the market to rectify the cause of the violation within 30 days of the date of the notice.
 3. **Penalty** – the SCA can levy a penalty for delay of payment and when determining the penalty, a part-month shall be considered as a full month.
 4. **Suspension** – the SCA may temporarily suspend a market from operation in the event until the fees are paid. Alternatively, the matter may be brought before the board to decide on any other course of action.

1.4 Disclosure and Transparency

Learning Objective

- 1.1.4 Understand the application of Federal Law No. 4 of 2000 (Part 2, Chapter 5, Articles 33–39) to Disclosure and Transparency: board’s powers; price sensitive information; dealings by the chairman, directors and staff; inside information

The board may require any person, natural or juristic, that has a connection with activities in securities, to publicly or privately disclose these activities, and to submit any information related to their activity.

As part of its duties, the board may order any necessary investigation to be conducted associated with the implementation of the law and the subsequent resolutions thereto.

Companies whose securities are listed need to immediately make any price sensitive information available to the market. The board of directors of the market has the right to publish the information provided in the local press and other media as appropriate.

In order to ensure transaction integrity and investor confidence, listed companies need to provide any explanatory information relating to their activities and circumstances on request.

Falsifying information in order to manipulate the market value of securities and the investor’s decision making process is not permitted. Equally not permitted is the use of insider information in purchase and sale transactions for personal gain.

Any transactions executed that are in breach with these provisions are null and void.

Any employee of a listed company, including the chairman, members of the board and the general manager are allowed to buy or sell shares in the company either direct or via a broker, under the following conditions:

- Approval of the transaction by the board of directors.
- Disclosure of the transaction, including details of the quantity, price and other details required to the market.

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

In addition, the spreading of rumours related to the purchase and sale of transactions is not permitted, and transactions associated with this are null and void.

2. Securities & Commodities Authority (SCA)

2.1 The Functioning of the Securities & Commodities Authority

Learning Objective

- 1.2.1 Understand the regulations as to the functioning of the Securities & Commodities Authority (Cabinet of Ministers Resolution 2000–13 dated 3 July 2000): public authority; objectives and powers; organs of SCA and their competencies; administration; and finances

2.1.1 Public Authority, Objectives and Powers

As seen in section 1, the SCA is a public authority with a separate legal personality, financial and administrative independence, and the supervisory and executive powers necessary to perform its functions.

Its objectives have already been outlined and include the requirement to provide a suitable climate for the investment of savings and funds in securities and commodities in a manner that serves the interest of the national economy, secures integrity of transactions and protects investors.

On its website, the SCA lays out its mission:

'To safeguard the rights of investors, promote sound practices, and create an environment attractive to capital, using innovative systems.'

It also articulates its five strategic goals:

1. To enhance the legislative framework necessary for the development of UAE-based capital markets.
2. To safeguard the rights of financial market investors.
3. To promote transparency and corporate governance practices.
4. To ensure the provision of all administrative services in line with the transparency, efficiency and quality standards.
5. To foster a culture of innovation in an institutional workplace.

In achieving its objectives, the SCA has a range of powers, including defining regulations, supervising and monitoring of the markets, the licensing of markets and brokers, and authorising securities and commodities to be listed for trading in the market. In addition, the SCA has the power to remove brokers from the registers of licensed brokers.

2.1.2 Organs of the SCA and their Competencies

The organisational structure of the SCA is composed of:

1. a board of directors, and
2. an administrative system.

To perform its duties, the SCA may seek the assistance from suitable third parties.

The SCA's affairs and conduct of business are governed by its board in accordance with the provisions of the Law and regulations. In particular, the board is required to:

1. Collect information and complaints relating to the market or brokers and take the appropriate decisions based on the information received. This includes initiating investigations and imposing penalties in accordance with the provisions of the Law and the regulations.
2. Approve the SCA's annual budget.
3. Appoint one or more auditors for the SCA and determine their fees. The auditors have to be chosen from the statutory auditors listed as practising auditors.
4. Temporarily suspend trading in the securities market, in the shares of any of the listed companies, or in any other securities, upon the occurrence of exceptional circumstances or circumstances threatening the proper and regular working of the market.
5. Freeze, suspend or reinstate rules and regulations relating to the market and its operations.
6. Ensure that any natural or juristic persons that has a connection with activities in securities, publicly discloses information related to their activities.
7. Set and amend scales for salaries, increments, allowances, bonuses, privileges and any other entitlements of employees in the SCA.
8. Define regulations for the SCA's employees.
9. Issue resolutions required for the implementation of the Law.

2.1.3 Administration

The chairman of the board is the head of the SCA. The chairman, or their deputy, represents the SCA to third parties and before the courts. The chairman, or their deputy, invites the board to meet, presides over the meetings, directs the discussion, and issues the resolutions appointing experts, consultants and office holders of the special and the first grades, terminating their services with **the Authority** and all other matters in connection with them.

The board delegates any of its competences to its chairman, and the chairman of the board may delegate any of their competences to their deputy or to any member of the board or to the chief executive, provided that the delegation is specific and in writing.

The deputy chairman shall, as a matter of course, take the place of the chairman in their absence, when they are unable to perform their duties or when their post becomes vacant.

The board shall convene, at least once every two months, or more often when required, on the chairman's invitation. The invitation shall be sent to the members, in writing, in sufficient time prior to the date of the meeting, accompanied by the agenda.

The board shall also meet upon request by at least four members.

In case of an emergency, the invitation may be sent by any means of communication.

A meeting of the board is valid if attended by the majority of its members, including the chairman or their deputy. Resolutions are passed by a majority of the votes of those present. In the event the vote is equal, the chairman or their deputy has the deciding vote. Voting by proxy or by letter is not permitted.

The chairman directs the proceedings, maintains order, oversees the process of voting when resolutions are being passed, and announces the results thereof. The deputy shall take the place of the chairman in their absence.

In exceptional cases where quick decisions need to be taken, and it is impossible to hold a meeting of the board, the chairman may take the requisite decision. They will need to present their decision to the board at the earliest opportunity for a final resolution. The board may affirm, amend or revoke the decision.

The board may form permanent or interim committees and determine their competencies. The committee is formed from members of the board. The board and its committees may invite any expert outside party to attend a meeting on a specific issue. They are invited for their experience and knowledge, but they do not have a vote in the deliberations.

The board may form advisory and other committees as required and in particular in the following areas:

1. Proposing of ways and means to develop the working of the market.
2. Evolving and determining of the regulations necessary to combat fraud, deception and influence on the working of the market.
3. Determining of all requirements relating to publication, disclosure and transparency.

The board specifies how committees are created and how they exercise their competencies.

The minutes of each board meeting are approved by the board and signed by the chairman and the minute taker. The resolutions passed and the names of those present and those absent with and without excuse are recorded in the minutes. They shall be entered in a special register for that particular purpose.



The SCA is supported by an administrative function headed by a chief executive appointed by the board.

The chief executive reports to the chairman of the board. They, or anyone acting on their behalf in their absence, is responsible for the appointment, termination, promotion of employees of the second grade and below as well as the awarding of bonuses and all other matters in connection with personnel issues.

The SCA's employees are subject to their own regulations, issued by the board, in which their salaries, increments, allowances, bonuses, privileges and any other entitlements are specified.

The chairman of the board defines the SCA's organisational structure and internal regulations, including the competencies of the departments and the sections therein.

The administrative system comprises a number of departments, under the direction of a manager appointed by the board on the nomination of its chairman. Among such departments are:

- Technical Office
- Strategy & Future Department
- Legal Affairs Department
- Government Communications & International Affairs Department
- Enforcement Department
- IT Department
- Financial & Administrative Affairs Department
- Human Resources, and

for Market Operations:

- Licensing Department
- Issuance and Registration Department
- Market Supervision Department, and
- Supervision & Compliance Department.

2.1.4 Finances

The SCA's fiscal year commences on 1 January and runs until the end of December each year. It is the responsibility of the chief executive to prepare the draft budget and submit it to the board for approval at least one month before the commencement of the new fiscal year. The approved budget is then issued as an annex to the general budget of the State.

The chief executive is also required to prepare the SCA's final accounts, within the 90 days following the end of the fiscal year, and present them to the board, supported by the auditor's report.

The auditor may, at any time, have sight of the SCA's records and financial documents. The auditor may request any information deemed necessary to ascertain the SCA's assets and liabilities. If the auditor is prevented from performing their duties, or is not able to carry them out fully, this will be documented in a report to be submitted to the board.

The SCA is required to keep regular books of account in order to monitor its operations and reflect its true financial position in accordance with the bases of accounting employed in the State.

2.2 Market Licensing and Supervision

Learning Objective

- 1.2.2 Understand the regulations as to market licensing and supervision (Cabinet of Ministers Resolution 2000–11 dated 3 July 2000): conditions; applications; board's powers

No market may undertake the activity of trading in securities and commodities in the State unless licensed by the SCA.

2.2.1 Conditions

For the granting of a licence in any market, the following conditions need to be met:

1. It is in the form of a public institution or a public company.
2. It occupies an appropriate building fitted out with the technical equipment necessary to conduct its activity electronically.
3. It is electronically linked with the State's other markets so as to give effect to a common trading system between the markets.

2.2.2 Applications

Market licence applications shall be submitted to the Authority in the prescribed format, supported by the following documents:

- The local resolution establishing the market.
- A statement of the names of the members of the market's board of directors, with, from each of them, the following information:
 1. An acknowledgment, signed by the member stating therein that they are not a member of the board of directors of a public joint-stock company, and that they are not a partner in, or a representative of, a financial brokerage company.
 2. A written declaration made by them to the SCA as to the securities owned by them or by their spouse and minor children, and also the holdings of their spouse and minor children with any broker.
 3. An undertaking by them to declare, in writing, to the SCA any change occurring in what they have previously declared regarding securities owned by them or by their spouse and minor children or via a broker within one week, at most, from the date they become aware of the change.
- A statement in the name of the market's director general and their deputy, with accompanying submission from both of them, of the following:
 1. A written declaration made by them to the SCA as to the securities owned by them or by their spouse and minor children and also their holdings and the holdings of their spouse and minor children with any broker.
 2. An undertaking by them to declare, in writing, to the SCA any change occurring in what they have previously declared as to the securities owned by them or by their spouse and minor children, and also as to their holdings and the holdings of their spouse and minor children with any broker, within one week, at most, from the date they become aware of the change.

- The organisational structure of the market and a statement of its specialist technical and administrative organs.
- The internal regulations of the market which indicate the manner of appointing its director general and their powers, the procedure for calling meetings of the board of directors of the market, the place, quorum and validity of meetings and passing of resolutions.
- The electronic registration system for trading, deposit, clearing, and settlement operations and the capacity for electronic linking with the other markets in the State.

The SCA will examine the licence application within a period not exceeding 15 days from the date of submission of the application. If the application is complete, a recommendation shall be made as to the placing of it before the board to take a decision thereon; if not, the concerned parties shall be notified of the necessity of completing the application within a period not exceeding 15 days from the date of notification.

2.2.3 Board's Powers

The board shall take a decision on the application within a period not exceeding 30 days from the date the complete application was placed before it.

The board may, before determining the application, request any particulars it deems necessary in order to make its decision. The concerned parties will then be notified of the board's decision within a period not exceeding one week from the date it was issued.

If the decision of the SCA is to reject a licence application, it must state reasons. The applicant for the licence shall have the right to re-submit the application when the reasons no longer exist.

The SCA may, in coordination with the markets, conduct inspections and investigations necessary to ensure that the legal regulations are being applied. It will first define the scope of the investigation, and designate the person to conduct it on its behalf.

The SCA may also receive information and complaints made relating to either a market or broker activity, conduct the necessary investigation, require any person to submit a written statement as to the circumstances and factors relating to the contravention which is the subject of the information or complaint, and take appropriate decisions.

The inspection team appointed by the SCA may enter the market and brokers' offices during working hours, have sight of records and documents, and require that it be provided with any document or information it deems necessary to perform its task.

During the course of investigation, the SCA may order the party under investigation not to dispose of the securities in their possession and to refrain from withdrawing any funds or securities deposited with another party. Investigation and inspection are confidential.

The market shall provide balance sheet, profit and loss account and annual financial statements certified by an auditor entered on the roll of practising auditors within one month from the end of its financial year. These reports, and any other information, will be provided to the SCA as it requests them.

The SCA may adjudicate upon appeals submitted to it against decisions of the board of directors of the market relating to the imposing of penalties by way of warning and monetary fine.

The board may resolve, by a majority of its members present, temporarily to halt trading in the securities market, or the shares of any company, or transactions in any securities, upon the occurrence of exceptional circumstances or that which threatens the proper and regular working of that market.

The board may also resolve, by a majority of its members present, to freeze, suspend or bring back into force any rules or regulations relating to the market or any of its operations.

3. SCA Resolutions

3.1 Regulations for Securities and Commodities Markets

Learning Objective

- 1.3.1 Know the regulations that apply to a securities and commodities market licensed in the UAE (Regulations as to the functioning of the market SCA regulation 2001–3 dated 29 April 2001): general provisions; establishment and management; membership; trading; finances

3.1.1 General Provisions

No market is permitted to conduct the activity of trading in the State unless licensed by the SCA. Each market is required to be established by a resolution by the competent local authority, and to be managed by a board of directors constituted by resolution of such authority, provided that none of its members is a member of the board of directors of a public joint-stock company or of a broker.

Each market must have a director general and a deputy to the director general, assisted by a sufficient number of officers and administrative staff.

Before granting a licence to any market, the following conditions must be satisfied:

1. It is in the form of a public institution or a public company.
2. It occupies an appropriate building equipped with the technology necessary for its activity to be conducted electronically.
3. The market applying for the licence has its system linked electronically with the other markets in the State, so that there is set in place a common trading system among the markets.

The market is required to make the arrangements necessary to secure the proper performance of the electronic data processing system and the system for recovery of the data saved in it in case of system failure.

Each market operates under the supervision and control of the SCA. The SCA may, in coordination with the markets where required, conduct inspections and investigations necessary to ascertain the application of the Law and regulations, provided that the scope of any investigation is specified and the person conducting it is designated by the SCA.

Markets are required to enter in their records all transactions effected in listed securities. Any transaction in securities listed in the market is null and void unless entered in accordance with the provisions of the Law and the regulations.

Unless proved to the contrary, entries registered in the market's records, whether entered manually or electronically, and any documents issued by the market, are deemed legal evidence of the trading in, and ownership of, the securities on the date of such records or documents.

In the event of a dispute between transacting parties in the market in the field of securities and commodities, the parties can choose to enter into arbitration. If this route is chosen, then the arbitration regulations issued by the SCA are applied.

3.1.2 Establishment and Management

The members of the market's board of directors, its director general and their deputy are subject to the constraints and conditions stated in the provisions of the law and related regulations.

The market's internal regulations are required to specify the procedure for calling its board of directors to meet, the place of the meeting, the quorum for the validity of the meeting, the passing of resolutions and the remuneration of the members.

The market's board of directors must be sufficiently competent to deal with the market's affairs and to take, within the limits of general policy, the steps necessary to achieve the objectives for which it has been established. In particular, the board of directors must have the competence to:

1. appoint the market's director general and his deputy, and to determine their powers
2. establish the market's organisational structure, the internal regulations and all administrative rules and instructions
3. draw up the necessary proposals in relation to the amending of the regulations issued pursuant to the provisions of the Law, and to present them to the SCA
4. monitor trading transactions in securities and commodities, so as to ensure justice between transacting parties
5. present reports and data to the SCA and to issue the press releases necessary to secure transparency and disclosure
6. approve the annual balance sheet of the market's income and expenditure
7. levy penalties on brokers pursuant to the provisions of the law, and to recommend to the SCA the removal of them from the register of licensed brokers
8. consult with the SCA in respect of the fees charged in implementing the provisions of the Law and related regulations
9. handle applications for the entering of brokers and the listing of securities in the market, and
10. deal with any other matters to ensure the proper and regular working of the market.

The market's board of directors may delegate some of its powers to the market's director general or their deputy.

To achieve the objectives of the market, the board of directors may exercise the following powers:

- a. To establish specialist technical organs for the market to perform its tasks, including:
 - i. trading, clearing and settlement
 - ii. monitoring of prices
 - iii. monitoring and investigation
 - iv. research and studies
 - v. financial and administrative organs.
- b. To work to develop, train and render qualified the necessary cadres in accordance with the most modern technical and administrative methods.
- c. To form permanent or interim specialist committees.

3.1.3 Membership

Membership of the market is obligatory for the following entities:

1. Brokers licensed in accordance with the law.
2. Joint-stock companies whose securities are listed in the market.
3. Any other entity whose securities are listed in the market.

Each market is required to prepare a membership register in which members are entered. The SCA requires to be notified within one week of a member being entered on the market's register.

Members of the market are subject to the instructions of the market, the provisions of the Law and the related regulations.



The members of the market who have paid the registration and renewal fees constitute its **General Assembly**. Each member has one vote in the meetings of this assembly. Its meetings will be attended by a representative of the SCA as an observer.

The General Assembly is required to be competent to monitor general conditions in the market, and to suggest ways to enhance efficiency therein or eliminate impediments to its working. Its views on these matters are submitted to the SCA through the market's board of directors.

The market's board of directors, in coordination with the SCA, lay down the rules and procedures as to how notice is given of meetings of the General Assembly and how resolutions are passed, as to the powers given to it and the duties placed upon it, and as to all administrative and financial matters relating to the General Assembly.

The market's board of directors is required to, with the approval of the SCA, lay down a code of professional conduct which shall be applied to brokers, and provisions for monitoring them. The brokers must be subject to a regime of inspection on a periodical basis or upon request by a concerned party. The inspection shall be conducted in coordination with the management of the market as appropriate.

3.1.4 Trading

Trading in securities must be carried out on the floor of the market at least five working days in the week, excluding official holidays. Trading must be carried out for at least two hours in the day. Each market must advise the SCA of the days and hours of work it approves. The markets may, after obtaining the Authority's consent, vary such days and hours.

The market must provide an electronic trading system which ensures the following:

1. The automatic stopping of purchase orders which exceed the limits of the broker's bank guarantee or reach the limit of a special order referred to below.
2. The enabling of all companies and entities whose securities are listed in the market, and their registrars, to view the register of their own shares.

With the exception of trading relating to special orders, trading in the market must be carried out through an electronic trading system made available by the market and in accordance with the provisions as to trading in the Law and its regulations and instructions.

A special order is defined as any order approved in advance by the market for a securities transaction in excess of 80% of the amount of the broker's bank guarantee.

The market defines the opening hours for the trading floor and the clearing operations, the rules as to admittance, and the instructions to be observed by those present.

The market is required to allocate a single number to each investor, and also assign one trading account with any broker account. A trading account may, however, be opened in the names of two or more investors. Furthermore, with the approval of the SCA, the market may assign more than one number to an investor where required and trade through an 'omnibus' account that includes more than one investor.

Clearing and settlement operations in the market must be carried out on the basis of delivery against payment of the price. The market's board of directors may specify the interval between the effecting of a trading transaction and the completion of settlement, provided that this will not be more than two working days after the trade date.

The director general of the market may cancel an executed transaction after a written request from the two brokers to the transaction is submitted to them. His consent to such cancellation will be conditional upon there being serious reasons justifying the cancellation and on the feasibility to reverse the transaction.

3.1.5 Finances

Each market is financed from the following sources:

1. Listing fees and annual fees levied on listed companies and on entities whose securities are listed, or on brokers.
2. Fees levied on trading, and fees for the services rendered by the market.
3. Any fines levied on brokers, or on companies or entities whose securities are listed for trading.

The market's fiscal year shall commence on the first of January and run until the last day of December of the same year. The market is required to provide the SCA with the balance sheet, the income and expenditure account, and the annual financial statements audited by an accredited auditor, within one month from the end of its financial year.

4. Corporate Governance

Corporate governance is all about the way corporate entities are run. Broadly, it is the set of regulations, criteria and procedures that ensure discipline in managing companies. This is achieved by determining responsibilities and obligations of the directors and executive management of a company, taking into consideration the protection of shareholders' rights and other stakeholders' interests.

The OECD Principles of Corporate Governance define it as:

'a set of relationships between management, board, shareholders and stakeholders providing structure through which the objectives of the company are set'.

In early 2020, the chairman of the Securities and Commodities Authority issued Board Resolution No. 03 of 2020 which adopted the Corporate Governance Guide for Public Joint-Stock Companies. This resolution introduced new corporate governance rules for public joint-stock companies in line with international best practice with the aim of promoting accountability, fairness and transparency.

4.1 The Corporate Governance Guide for Joint-Stock Companies

Learning Objective

- 1.4.1 Know the terms of the joint-stock companies governance guide: the main pillars (introduction), guide principles and objectives (Article 2); responsibilities (Article 4)

4.1.1 The Pillars of the Guide

The Corporate Governance Guide provides the framework necessary for regulating the affairs of public joint-stock companies. The Securities and Commodities Authority supervises the guide in its capacity as the regulator of listed companies.

The guide is formulated in a simple and clear way, focused on guiding companies by providing a set of controls and rules that ensure institutional discipline in company relations and management. The main pillars of corporate governance according to the guide are accountability, fairness, disclosure, transparency and responsibility.

The guide's framework complies with the international best practice in terms of defining the responsibilities and duties of the members of the board of directors and executive management. It also serves to protect the rights of shareholders and other stakeholders, and it should contribute towards improving corporate sustainability.

Guide Principles and Objectives

The guide is based on the following principles of corporate governance:

- **Accountability** towards all shareholders and stakeholders, directing the board to develop strategy, supervise, guide and control the way the company operates.
- **Equity** – ensuring fair treatment for all shareholders, including minority shareholders, and protecting their rights.
- **Transparency and disclosure** – the company must ensure that accurate and timely disclosures are made of all material matters, including its financial affairs, performance, ownership of its shares and governance in an accessible manner to all interested parties.
- **Responsibility** – the company must recognise the rights of other stakeholders in accordance with laws and regulations, and encourage cooperation between the company and stakeholders in establishing sustainable and solvent companies.

The objective of the guide is to develop an effective legal and regulatory framework to regulate the company affairs, and aims in particular to achieve the following:

- Develop a framework to address and protect rights of all stakeholders.
- Determine the responsibilities of the board and the executives administering the company.
- Strengthen the role of the board and its committees and developing their capabilities to enhance company decision-making.
- Ensure transparency, neutrality and **equity** in the capital market, its transactions and working environment, and enhance its disclosure.

- Provide effective and balanced processes and procedures for dealing with conflicts of interests.
- Strengthen mechanisms of accountability and control for the administration of the company and its employees.
- Ensure the application of effective mechanisms for risk management, internal controls and procedures of the company.
- Support the efficiency of the audit of the company and its instruments.
- Raise the awareness of companies in relation to the concept of professional behaviour and encourage ethical behaviour.
- Ensure that the company applies an investor relations policy that supports regular, effective and fair communication with shareholders.

4.1.2 Responsibilities for Implementation

Article (4) of the Corporate Governance Guide makes it clear that the board of directors takes the primary responsibility for the implementation of the guide. It states that the board is responsible for the implementation of the principles and rules of corporate governance, monitoring the company's adherence to those principles and rules and making any necessary amendments.

The company must maintain the documents which will evidence the way the company is governed, including all minutes, documents, reports and other papers as necessary. These should be held at the company's headquarters for a period not less than ten years, including minutes of the general assemblies, board meetings and those of its committees. In the case of a judicial lawsuit (filed or to be filed against the company) or a continuous claim or investigation related to these minutes, documents, reports and other papers, the company must maintain such documents until the end of the lawsuit, claim or continuing investigation.

4.2 Gifts, Conflicts and Related Party Transactions

Learning Objective

- 1.4.2 Know the regulations regarding: gifts (Article 30); conflicts of interest (Articles 32 & 33); related parties (Articles 34–39)

In order to avoid even the appearance of a conflict of interest between a board member and the company, the Corporate Governance Guide includes provisions in relation to gifts, conflicts of interests generally and transactions with related parties. The rationale and requirements are detailed below.

4.2.1 Gifts

A board member accepting gifts from persons or authorities may lead to a conflict of interest or the impression of a conflict. So, where the party giving the gift does so in circumstances where it may be concluded that it was intended to influence, or may influence the board member in the performance of tasks on behalf of the company, the Corporate Governance Guide says it should not be accepted. This does not prevent accepting objects of symbolic or real value of AED 500 or less, or entertainment of symbolic or simple value which is not related to any special transaction or activity of the company.

4.2.2 Conflict of Interests Management

If a board member has a joint interest or a conflict of interest with the company in a deal or transaction submitted to the board for a resolution, that board member must inform the board and record the same in the minutes. Furthermore, the board member should not participate in the voting on the decision relating to the deal or transaction.

If a board member fails to inform the board in accordance with the above, the company or any of its shareholders may resort to the competent court to invalidate the contract or order the member who acted in contravention of these provisions to return to the company any profit or benefit obtained as a result of entering into this contract.

If it is not entirely clear that there is a conflict of interest, the board member who is the subject of the potential conflict, should disclose these circumstances to the chairman or designee, who decides whether or not there is a conflict of interest.

The company must maintain a register of conflicts of interests in which the cases are recorded together with the measures taken.

The board secretary should record the conflict of interest in the related board minutes.

In conflict cases, the remaining board members must consider whether it is appropriate for the board member involved in the conflict issue to participate in discussing that item or not. If they decide that it is not appropriate for the member to participate, they may ask the board member to leave the meeting room during the discussions. The board member is not allowed to use personal influence on the issue whether in or outside the meeting. The board member should not vote on the decision.

4.2.3 Insiders Register

In a similar way to conflicts management, the company's board is expected to issue written rules regarding the transactions of the board members and its employees, collectively referred to as 'insiders', in securities issued by the company, the parent company, its subsidiaries or related companies. They are also expected to assign a department of the company, an internal committee, a special committee, or whoever the company deems it suitable to:

1. Prepare a special and complete register for all insiders, including persons who may be considered as temporary insiders who have the right to access the company's internal information prior to publication. The register must also include prior and subsequent disclosures of insiders.
2. Manage, follow up and supervise the transactions of the insiders and maintain details in the register.
3. Notify the SCA and the market of an updated list of insiders at the beginning of each fiscal year and any amendments thereto during the fiscal year.
4. Submit a copy of the Insiders Register to the SCA on request.
5. Comply with any other requirements specified by the SCA.



4.2.4 Transactions with Related Parties

The Corporate Governance Guide defines a 'related party' as the chairman and other members of the company board, plus members of the senior executive management of the company, employees of the company, and the companies in which any of these persons holds 30% or more of its capital, as well as subsidiaries or sister companies or affiliate companies.

Deals done between a company and related parties (**related party transactions**) need to be handled carefully to ensure nothing untoward occurs.

So, the Corporate Governance Guide specifies that a company must not enter into transactions with related parties without the consent of the board – in cases where the value of the transaction does not exceed 5% of the company's capital – and also without the approval of the general assembly where the 5% percentage threshold is met or exceeded. Furthermore, for larger transactions that exceed 5% of the issued capital, the transaction must be evaluated by an assessor accredited by the SCA.

Unsurprisingly, the related party who has an interest in the transaction must not participate in voting on the terms of the decision taken by the board or the general assembly in respect of that transaction.

In the event of any significant change to the terms of the transaction after approval, another approval must be obtained from the board or the general assembly, as the case may be. Again, where the transaction exceeds 5% of the issued capital, it must be evaluated again and its conditions reviewed before its conclusion by an assessor accredited by the SCA at the company's expense.

The related party and complicit board members may be liable for damages to the company if transactions with the related parties are concluded in contravention of these requirements, or is otherwise proven to be unfair or involves a conflict of interests and incurs damages to the shareholders.

Transactions that fall under the company's normal business and do not grant a board member any preferential conditions are not considered transactions with related parties. However, the board member involved in the transaction should disclose such transactions to the board, and the remaining board members should review whether it is appropriate for the board member involved in the transaction to participate in the discussion of the item in the board meeting.

4.2.5 Related Parties Record

The company must maintain a register for related parties where the names of such parties shall be recorded together with their transactions, the details and actions taken in relation thereto.

The company must provide documents of the transactions with related parties and the nature of those transactions, volume, and details of each transaction, and inform the shareholders of such transactions in the general assembly.

4.2.6 Company Disclosure of Related Parties' Transactions

In cases of entering into transactions with related parties, the chairman must provide the SCA with a notice which includes the data and information of the related party, the details of the deal or transaction, the nature and the benefit of the involvement of the related party in the deal, together with a written confirmation that the terms of the transaction or the deal with the related party are fair, reasonable, and in favour of the company's shareholders.

4.2.7 Related Party Disclosures

Before entering into a transaction between a related party and the company, the parent company, or an affiliate company, the related party must disclose, in a written letter addressed to the board, the nature of the transaction, conditions and all substantial information about the related party's share or its stake in the two contracting companies and the related party's interest or benefit, which the board is required to immediately disclose to the SCA and the market.

The details of the transaction must also be listed in the annual financial statements submitted to the general assembly, and published on the website of the market and the company.

4.2.8 Access to Transactions Concluded with Related Parties

If a company enters into transactions with related parties, a shareholder who owns 5% or more of the company's shares is entitled to the following:

1. Review the company records and any documents relating to those transactions.
2. File a lawsuit before the competent court regarding the transactions concluded with related parties to compel the parties of the transaction to provide all information and documents relating to those transactions, whether directly to prove the facts set out in the case or relevant to it or to lead to the discovery of information that will help in the detection of the facts.
3. If it is proven to the competent civil court that the transaction is unfair or involves a conflict of interests and causes harm to the rest of the shareholders, the court may cancel the transaction and oblige the related party to render the profit or benefit gained to the company, in addition to compensation if harm is proven against the company.

5. Codes of Conduct

Learning Objective

1.5.1 Know the CISI Code of Conduct

The Chartered Institute for Securities & Investment (CISI) has its own code of conduct. Membership of the CISI requires members to meet the standards set out within the Institute's principles.

These words are from the introduction:

'Professionals within the securities and investment industry owe important duties to their clients, the market, the industry and society at large. Where these duties are set out in law, or in regulation, the professional must always comply with the requirements in an open and transparent manner.'

'Membership of the Chartered Institute for Securities & Investment requires members to meet the standards set out within the Institute's Principles. These Principles impose an obligation on members to act in a way beyond mere compliance.'

They set out clearly the expectations upon members of the industry *'to act in a way beyond mere compliance'*. In other words, members of the CISI must understand the obligation upon them to act with integrity in all aspects of their work and their professional relationships.

So, where these duties are set out in law or regulation, members of the CISI should comply with the requirements in both letter and spirit.

Members of CISI are also required to meet the standards set out within the CISI's Principles, which impose an obligation on members to act at all times not only in compliance with the rules, but also to support the underlying purpose and values of the Institute.

Each Principle specifies the duties owed by members to one or more stakeholders who may be impacted by their actions.

There may be situations where professionals are faced with making a decision where the correct course of action is not immediately obvious. In addition to referring to the Code, consideration of the following could help to decide the right course of action.

- **Clear & Honest** – have I told no lies or 'half-truths' to any party involved in my reaching my decision?
- **Impartial & Open** – is everyone affected by my action or decision aware of the consequences?
- **Straightforward & Transparent** – have I made sure that my action or decision will not result in any party being unknowingly disadvantaged or unduly advantaged?
- **Informed & Fair** – have I considered the interests of my potential stakeholders and not been misleading when making my decision?

	Principles	Stakeholders
1.	Personal Accountability – to strive to uphold the highest levels of personal and professional standards at all times, acting with integrity, honesty, due skill, care and diligence to avoid any acts, either in person, in a remote working environment or digitally which may damage the reputation of your organisation, your professional body or the financial services profession.	Self, Clients, Regulators, Colleagues, Market Participants, Firm, Profession, Society
2.	Client Focus – to strive to uphold the highest levels of personal and professional standards at all times, acting with integrity, honesty, due skill, care and diligence to avoid any acts, either in person, in a remote working environment or digitally which may damage the reputation of your organisation, your professional body or the financial services profession.	Clients
3.	Conflict of Interest – being alert to and actively manage fairly and effectively any personal or other conflicts of interest, obeying legislation and complying with regulations to the best of your ability, ensuring you are open and cooperative with all your regulators, challenging and reporting unlawful or unethical behaviour.	Clients, Market Participants, Regulators
4.	Respect for Market Partners – to treat all counterparties and business partners with respect, to observe proper standards of market integrity, good practice, conduct and confidentiality required to maintain the highest level of mutual trust.	Clients, Market Participants
5.	Professional Development – to strive continually for professional excellence, committing to Continuous Professional Development (CPD) and promoting and supporting the development of others.	Profession, Clients, Colleagues
6.	Aware of Capabilities – to decline to act on any matter about which you are not competent or qualified unless you have access to such advice or assistance to carry out the work in a professional manner, taking into account the nature of the individual mandates given by your customers and counterparties.	Clients, Profession, Market Participants
7.	Respect Others and the Environment – to treat everyone fairly and with respect, supporting opportunity for all, embracing diversity and inclusion and ensuring that the environmental impact of your work is considered.	Society, Colleagues, Clients, Regulators, Market Participants, Profession, Professional Body
8.	Speak Up & Listen Up – to be active in speaking up and encouraging others to do so by listening up, promoting a safe environment for all and recognising the responsibilities you have to the communities in which you operate.	Society, Colleagues

It is useful to note that the SCA lists its values on its website, and that these values express similar expectations of conduct to the CISI:

SCA Values

1. Fairness and Integrity
2. Partnerships and Cooperation
3. Transparency
4. Creativity

6. Licence Categories and Requirements

The SCA issued Decision No 13 in 2021 which defined various categories of financial activities which required a licence, alongside related requirements for each. This section provides details of the five categories introduced, the key functions for each and certain additional details. As well as the firms requiring an SCA licence to operate, regulatory approval from the SCA is necessary for certain roles within the firms, as detailed in the following subsections. The specified financial activities can only be practised after obtaining a licence and none of the main functions or approved jobs can be undertaken without the prior approval of the SCA.

6.1 Category 1 – Dealing in Securities

Learning Objective

- 1.6.1 Know the licensing requirements for dealing in securities: capital requirements (Annex 1), main functions of the licence category (Annex 1), financial activities with the category (Annex 1), approved jobs for each activity (Annex 1)

The first category is **dealing in securities**, and firms must be either legal persons incorporated within the State, or branches of a foreign company. In either case the firm must satisfy a capital requirement of not less than AED 30 million in paid up capital.

The main functions (professional roles) the SCA expects within the firms are:

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

The financial activities included within 'dealing in securities' and the related approved jobs are:

Financial Activities	Approved jobs for the activity/activities
Trading and clearing broker	Trading manager Operations manager Broker representative
Trading broker in global markets	
Broker for trading non-exchange traded derivative contracts and currencies in the spot market	
Trading broker	Broker representative
Securities dealer	Trading manager

6.2 Category 2 – Dealing in Investment

Learning Objective

- 1.6.2 Know licensing requirements for dealing in investment: capital requirements (Annex 1), main functions of the licence category (Annex 1), financial activities with the category (Annex 1), approved jobs for each activity (Annex 1)

The second category is **dealing in investment**, and firms must either be legal persons incorporated within the State, or a branch of a foreign company, with the exception of the investment management activity of an investment fund and the management of securities portfolios. For the latter, the legal firm is required to be a joint-stock company established within the State. The paid-up capital for firms in this second category must not be less than AED 50 million.

The main functions (professional roles) the SCA expects for the second category are as follows:

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

The financial activities included within 'dealing in investment' and the related approved jobs are:

Financial Activities	Approved jobs for the activity/activities
Managing investment funds' investments	Fund Investment Manager or Portfolio Manager Principal Financial Analyst Financial Analyst
Managing securities portfolios	
Administrative services for investment funds	N/A

6.3 Category 3 – Custody, Clearing and Recording

Learning Objective

- 1.6.3 Know licensing requirements for custody, clearing and recording: capital requirements (Annex 1), main functions of the licence category (Annex 1), financial activities with the category (Annex 1)

The third category is **custody, clearing and recording**, and firms must be joint stock companies established within the State operating in the field of securities, or banks or branches of foreign banks licensed by the UAE Central Bank. The legal form for the public clearing activity may also be a brokerage firm – a trading and clearing member – or a foreign clearing member licensed at its headquarters to practise public clearing, provided that it is subject to a regulatory authority similar to the Authority and has obtained the approval of the relevant authority in accordance with the Commercial Companies Law. The activity of acting as a depository bank or depository bank agent is limited to banks or foreign bank branches licensed by the UAE Central Bank. Any capital market institution can practice the activity of registrar of private joint-stock companies. The paid-up capital for the third category is not less than AED 50 million.

The main functions (professional roles) the SCA expects for the third category are:

1. Category Manager or Official
2. Compliance Officer
3. Risk Management Officer
4. Operations Manager (not required for firms only acting as registrar of private joint-stock companies)

The financial activities included within 'custody, clearing and recording' are:

Financial Activities
Safe custody
General clearing
Covered warrants issuer
Depository bank for depository receipts
Depository bank agent for depository receipts
Registrar of private joint stock companies

6.4 Category 4 – Credit Rating Agencies

Learning Objective

- 1.6.4 Know licensing requirements for credit rating agencies: capital requirements (Annex 1), main functions of the licence category (Annex 1)

The fourth category is **credit rating agencies**, and firms must either be:

- a legal person incorporated within the State or branch of a foreign company in accordance with the Commercial Companies Law, or
- a body licensed to work in one of the financial free zones in the State, provided that it adheres to the following:
 1. Provisions of the Companies Law related to the conduct of business by free-zone companies within the State.
 2. Carries out the activity through its headquarters in the financial free zone or within the state.
 3. Submits proof of agreement with the regulatory authority in the financial free zone on the following:
 - a. The implementation of the legislations issued by the Authority when practising credit rating activity in the State.
 - b. Restricting the legal jurisdiction related to any dispute that arises based on the licence issued by the Authority to the courts of the State, excluding the courts of the financial free zone, provided that its agreements with its clients shall include evidence to this effect.
 - c. The approval of the regulatory authority in the financial free zone to enable the Authority to carry out its regulatory and supervisory role without any restriction or condition on business related to the licence issued by the Authority.

The paid-up capital requirement for the fourth category is not less than AED 5 million.

The main functions (professional roles) the SCA expects for the fourth category are as follows:

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

Note that the credit rating analyst and the credit rating analysis official may be accredited by the Authority, or registered and approved by a regulatory authority similar to the Authority.

6.5 Category 5 – Ranking and Advice

Learning Objective

- 1.6.5 Know licensing requirements for ranking and advice: main functions of the licence category (Annex 1), financial activities with the category (Annex 1), approved jobs for each activity (Annex 1)

The fifth category is **ranking and advice**, and can be performed by a body licensed by the Authority for another category, or a branch of a foreign company licensed by a regulatory authority similar to the Authority, or a bank or foreign bank branch licensed by the Central Bank of the UAE. There is no capital requirement for ranking and advice.

The main functions (professional roles) the SCA expects within the firms providing 'ranking and advice' are:

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

The financial activities included within 'ranking and advice' and the related approved jobs are:

Financial Activities	Approved jobs for the activity/activities
Financial Consulting	Financial Analyst
Financial Consultant (Issue Manager)	Financial Analyst
Listing Consultant	Financial Analyst
Definition	N/A
Promotion	Promotion Manager

7. Accounting System Controls

Learning Objective

1.7.1 Know the obligations of licensed bodies regarding accounting system controls (Annex 2)

Firms licensed for the first category – dealing in securities - must provide an electronic accounting system for managing the accounts of both the licensed firm and its clients. This electronic accounting system is referred to as a ‘Unified Centralised Back Office System’.

The system must meet - at a minimum - the following technical conditions:

1. A password and separate powers that suit the functional tasks of each user of the system.
2. An Archive Audit Trail Log feature for the following:
 - a. Entries movements and financial movements.
 - b. Powers movements.
 - c. Traffic monitoring of entry and exit processes from the system.
3. Separation of the tasks of entering and posting.
4. Setting times of the server device for the back office system according to the local time of the country.
5. Maintaining back-up copies of the back office system on a daily basis (‘incremental back-up’) and on a monthly basis (‘full back-up’) on storage media away from the back office system server kept for at least ten years.
6. Creating an automatic serial number (‘auto generated number’) when registering the entry that is not adjustable, and includes automatically recording the date and local time that can only be modified in exceptional cases.
7. Printing reports that include the entries for which the date or time has been modified, indicating the automatic date and time of those entries.
8. The ability to print daily reports, and convert those reports into PDF and Excel format, in particular the following reports:
 - a. A statement of each of the clients’ securities balances.
 - b. The client’s account statement including all the movements that take place on the account with the company in terms of buying, selling, receiving, disbursing, registering, transferring ownership and other movements.
 - c. The multi-level trial balance.
 - d. Analytical data for the items of the trial balance, in particular bank statements of accounts, and a statement of the client’s debit and credit balances.
 - e. A statement of the clients’ zero balances.
 - f. Cheque movement statement (collected, cancelled, and bounced).
 - g. A statement of the terms of receivables related to clients in compliance with the minimum requirements of the Authority.
 - h. Financial position.
 - i. Income statement.
9. The possibility of implementing the following requirements, at a minimum:
 - a. Posting the entries at the end of the day, preventing the amendment of the entries after posting.
 - b. Show the commission separately in the client’s account statement.

- c. Uploading the data of transactions executed in the markets in real time to the accounting system, in order to control clients' cash and paper balances through real-time settlement by linking the accounting system to the client's order management system (OMS).

The licensed body that uses the accounting system must do the following:

1. Keep an updated copy of the User Manual for the accounting system.
2. Provide continuous technical support for the accounting system to ensure that all technical problems that may occur are addressed.
3. Notify the Authority immediately in the event of any sudden malfunctions in the accounting system, indicating the expected period of its continuation, and provide the Authority with a technical report from the system manufacturer, stating the reasons for the malfunction.
4. Notify the Authority in the event of a change in the accounting system used, with an accompanying explanation of the reasons for the change.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What are the objectives of the SCA?

Answer reference: Section 1.1

2. With exception of the chief executive, how long is the period that SCA board members hold the role when appointed?

Answer reference: Section 1.1.1

3. How often should the board of directors report on the markets' activities to the Cabinet of Ministers?

Answer reference: Section 1.1.2

4. Where does the funding for the SCA come from?

Answer reference: Section 1.1.3

5. What is the aim of the disclosure and transparency rules?

Answer reference: Section 1.4

6. What are the powers of the SCA?

Answer reference: Section 2.1.1

7. What documents need to accompany an application from a market?

Answer reference: Section 2.2.2

8. How quickly does the board decide on an application from a market?

Answer reference: Section 2.2.3

9. What conditions must be satisfied before a market is granted a licence by the SCA?

Answer reference: Section 3.1.1

10. How is a special order defined in terms of trading?

Answer reference: Section 3.1.4

11. List four of the aims of the Corporate Governance Guide.

Answer reference: Section 4.1.1

12. Who has the responsibility of ensuring the implementation of the Corporate Governance Guide?

Answer reference: Section 4.1.2

13. What should the Insiders Register include in relation to temporary insiders?

Answer reference: Section 4.2.3

14. What is the obligation imposed on members of the CISI to uphold alongside the rules in relation to compliance?

Answer reference: Section 5

15. Name the stakeholders under Principle 7 - Respect Others and the Environment?

Answer reference: Section 5

16. List the five SCA licence categories.

Answer reference: Section 6

17. How do the capital adequacy requirements differ between the five licence categories?

Answer reference: Section 6

18. What are the two functions that are required in all of the five licence categories?

Answer reference: Section 6

19. What are the main functions that are expected in a firm provided with a first category licence 'dealing in securities'?

Answer reference: Section 6.1

20. What is the term used for the accounting system that must be in place for firms providing licence category 1 services (dealing in securities).

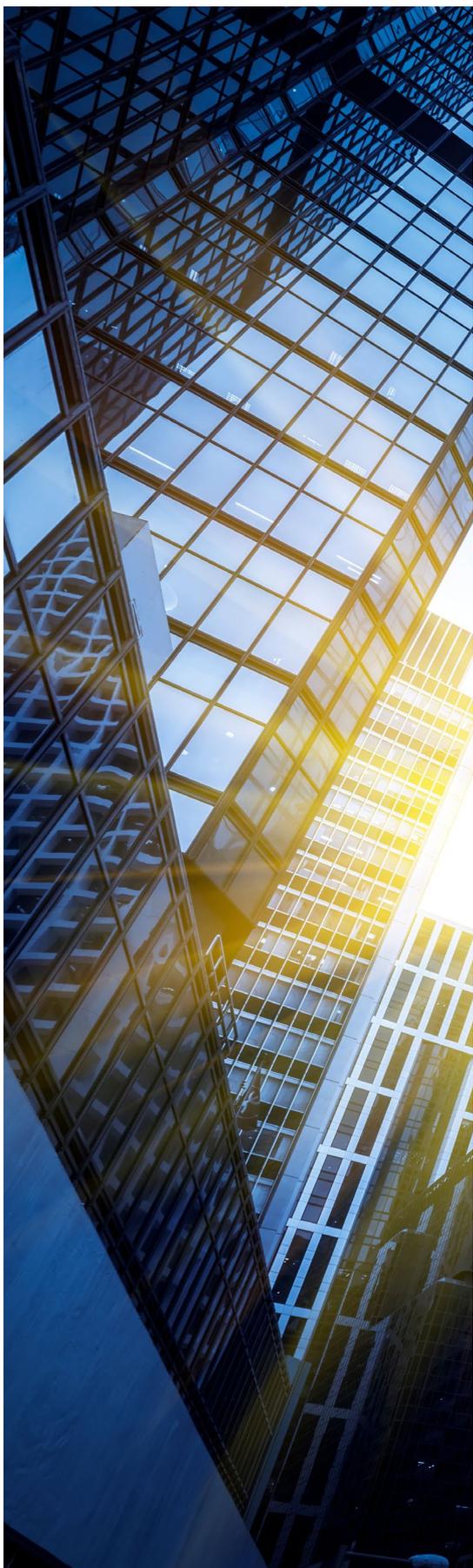
Answer reference: Section 7

Chapter Two

Licensed Bodies

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2. Licensing Financial Activities	44
3. Further Licence Applicant Requirements	47

This syllabus area will provide approximately 14 of the 100 examination questions



Introduction

This chapter draws on the Securities and Commodities Authority (the SCA or the Authority) Decision No. 13 of 2021 titled 'Regulations Manual of the Financial Activities and Status Regularisation Mechanisms'. This decision lays down various obligations and expectations for firms applying to be licensed bodies – to gain a licence from the Authority to perform one or more of the financial activities that were detailed at the conclusion of Chapter 1.

1. General Provisions

1.1 Legal Status, Place of Business and Close Ties

Learning Objective

- 2.1.1 Know the obligations of licensed bodies in relation to: disclosure of legal status (Article 8); state of emergency (Article 9); place of business (Article 10); close ties (Article 11)

The disclosure of a licensed body's legal status, including the fact that it is licensed by the Authority, is important. It enables those that might suffer from perceived or actual misbehaviour at the hands of a licensed firm to raise their concerns with the regulator.

The decision's requirements include that each licensed body discloses its legal status by adhering to the following:

1. Disclosing to third parties that it is licensed by the Authority and is subject to the Authority's control and supervision, alongside the licence category and the financial activity it conducts.
2. Including a letterhead in all its documents and work papers to the effect that it is a body licensed by the Authority, along with its licence number and addresses. This must be included whether it is delivered by hand, fax or email, or published or delivered by any other electronic means (such as on the firm's website). This requirement applies to any communications with the Authority or clients, including client agreements and other documents.

3. Refraining from setting any condition that exempts or limits the responsibilities arising from practising its financial activity. Any condition, including an exemption or limitation from responsibility, will be null and void unless there is a *force majeure* or a state of emergency.
4. Refraining from using, utilising, or copying the Authority's logo for any reason. If there is a desire to use the Authority's logo for a specific reason, written permission is required.

Article 9 of the decision provides some common-sense provisions to cover emergencies such as fire, electricity interruption, or loss of connections. The decision specifies that, in the case of an emergency that is out of the licensed firm's control and cannot be avoided after taking reasonable steps and procedures, the firm is not required to adhere to the normal disclosure of legal status. However, the licensed body must notify the Authority immediately after knowing about any case of emergency and indicate its expected effects and the procedures that have been taken or suggested to be taken to deal with this case, and the way to manage or treat this as soon as possible in order to mitigate the probable losses for the body and its clients.

The SCA's decision also puts requirements on a licensed firm's place of business.

The head office of the licensed body must be within the geographic boundaries of the State, unless the firm has obtained the approval of the Authority (and any other concerned authorities) to practise its financial activity within another geographic boundary. The head office of the licensed body means the place in which it conducts supervision, regulation, management, control, and takes decisions on its operations (including its employees) to practice its financial activity inside the State. The head office is also required to be the address of the licensed body inside the State to communicate with the Authority or third parties.

The licensed body may also establish one or more branches to practise the financial activity, after obtaining the Authority's approval. In circumstances where a transaction relates to the financial activity that is conducted by the branch, communication may take place between the branch and the Authority.

The head office and any branch of the licensed body must be actual, physical offices, and the Authority has the right to inspect either in order to check the licensed body's readiness to practise the financial activity.

The Authority also uses the decision to make sure that any close ties between the licensed firm and others do not make effective supervision difficult or impossible. It requires a licensed body to notify the Authority of any close ties and make sure that these ties will not impede the Authority's supervision and control, and that the person intended to be tied with has fulfilled the standards of efficiency and appropriateness required of the Authority. The licensed body must also be ready to provide the Authority with the required documents and information related to these ties upon request.

The Authority may, under the efficiency and appropriateness procedures, the licence requirements, and the **capital market institutions'** requirements demand to end or amend close ties if it sees that they are not consistent with the required conditions or may impede the Authority's supervision and control. The Authority may take what it deems as appropriate actions and apply sanctions for any failures to comply, which can include the cancellation of the licence.



1.2 Inspections and Investigations

Learning Objective

- 2.1.2 Know the obligations of licensed bodies in relation to: control and investigation (Article 12); contact with the authority (Article 13); providing information to the Authority and the capital market institutions (Article 14)

The Authority may control and inspect the licensed body to confirm the extent to which it has complied with applicable laws and regulations. It may investigate any violations detected during inspections or included in the complaints or the reports received by the Authority.

Licensed bodies are also required to reply to enquiries from the Authority, within the time determined by the Authority, and licensed bodies must enable their employees to attend investigations or meetings required by the Authority.

Furthermore, the Authority may request any information, documents, or records from the licensed body or its employees, for control and inspection purposes from the electronic and non-electronic records, the computer data and systems, and other technical systems, or electronic means as long as they relate to financial paper transactions or to practising the licensed financial activity. The licensed body must then provide the Authority with what it demands, in a timely manner, along with enabling it to access, review and obtain a copy at the licensed body's head office at its own expense. The Authority may oblige the licensed body to make and utilise an electronic link with the Authority or any of the capital market institutions.

In addition to investigating violations of the applicable legislations with the licensed firm, the Authority may investigate with members of the board of directors and/or the partners and/or its senior management and/or the employees of the licensed body and/or any of the investors or third parties. This may include requests for information or documents related to the investigation.

Contact between the licensed body and the Authority may be in Arabic or English, but documents must be submitted in Arabic. However, the Authority may accept documents in English at its discretion, but in cases of contradiction, the Arabic language will supersede.

Contact with the Authority must be through the permitted contact persons with both the necessary capacity and competence. Any application, complaint, or grievance submitted by incompetent or unauthorised persons will not be accepted. Moreover, it is the licensed body that remains responsible for any contact with the Authority using the licensed body's papers, documents, emails, or any other means of contact of the licensed body by persons who have no competence, capacity, or authorisation from that licensed body.

Article 14 covers the Authority's expectations in respect of information provided to it and to the capital market institutions. 'Information' means any notices, notifications, disclosures, reports, correspondence sent to the Authority, as well as replies or answers to its requests or enquiries. The licensed body must do the following:

1. Make sure that all information and documents required to practise the financial activity or required by the Authority or any of the capital market institutions are submitted in a timely manner, along with ensuring that all of them are true, accurate, complete and well-founded.
2. Provide the Authority or any of the capital market institutions with the mentioned information and documents through the electronic systems specified for the same. In case of failing to submit using this method, they must be submitted according to the following:
 - a. In written form.
 - b. Detailing the name of the person who submits the documents or information, their job description and capacity to submit the same, as well as their contact number.
 - c. The documents or information must be forwarded to the concerned department at the Authority, any of the capital market institutions, or to the office of the CEO of any of these authorities in case of failing to know the concerned department.
 - d. The documents or information can be delivered by registered mail, by hand, or by email.
3. Notify the concerned entity at the Authority or any of the capital market institutions immediately after the licensed body discovers that any of the submitted documents or information are incorrect, misleading, incomplete, inaccurate, not updated, or have been changed. If this is the case, the relevant information and documents should be identified, showing the reasons behind the issues.
4. Maintain sufficient evidence to prove the delivery and submission of the information and documents upon request.

1.3 Sanctions Available to the Authority

Learning Objective

- 2.1.3 Know the sanctions available to the Authority in the event of a violation of its provisions (Article 17)

Without prejudice to the fines mentioned in the companies' law or any related laws, the Authority may, in case of violating its provisions, place any of the administrative sanctions declared below:

1. Serve a notice.
2. Impose a financial fine of not more than AED 100,000.
3. Suspend the licensed body from practising the financial activity for a period of not more than one year.
4. Suspend any financial activity practised without a licence, and prevent any normal person from carrying out any tasks or works related thereto without obtaining an approval. The Authority may seek the assistance of the concerned authorities to execute its decision or close the violated head office.

The Authority may cancel the licence of the licensed body or cancel the approval to practise the financial activity in any of the following cases:

1. Failing to meet one of the licence conditions or the conditions of practising the financial activity.
2. Severe violation of any of the duties or obligations.
3. Submitting data or documents that are incorrect, misleading, or forged to the Authority.
4. Failing to pay the annual fee prescribed to renew the financial activity, or failure to pay any of the fines prescribed by the Authority.
5. Where a final judicial judgment has been issued declaring bankruptcy, or where there are significant risks that will lead to bankruptcy.
6. If the licensed body is a party in a lawsuit which would adversely affect its ability to practise the financial activity.
7. If the licensed body is dissolved or liquidated.
8. If the licensed body, for a period of six months from the date of obtaining the category licence, did not practice a single financial activity as a minimum stated within the licence.

The reasons behind the decision to cancel the licence or the financial activity will determine the way of disposing of the guarantee deposited at the Authority, or any of the capital market institutions, or keeping the same until settling all the obligations of the licensed body against its clients or any of the capital market institutions or the Authority

The cancellation decision will be published at the expense of the licensed body in two daily newspapers issued in the State, one of which is in Arabic. The Authority may oblige the previously licensed body to transfer the records and the data of the contracted bodies, the clients, their accounts, and their securities to another licensed body or to any of the capital market institutions.

The Authority may, if the licensed body's authorised employees commit any violation, impose any of the following administrative sanctions:

1. Serve a notice.
2. Suspension from practising their profession for a period of not more than two months.
3. Cancel the approval.
4. Impose a financial fine of not more than AED 100,000.

The board of the Authority may publish the names of the violators of the law provisions or the decisions issued, and publish the fines and sanctions, in any way it determines is appropriate. The Authority also has the right to refer the violator to public prosecution.

2. Licensing Financial Activities

This section details the provisions related to licensing categories and practising financial activities, along with regulatory approval of professional jobs in order to be able to practise any of those financial activities legally and appropriately. It also outlines some of the obligations related to the licensed body and the members of its board of directors, partners, senior management or employees.

2.1 Licensed Financial Activities and Categories

Learning Objective

- 2.2.1 Know the types of licensed financial activities (Chapter 2, Article 1); licence categories (Chapter 2, Article 2)

As already encountered in Chapter 1 of this workbook, the Authority can license the following financial activities:

1. Trading broker.
2. Trading and clearing broker.
3. Trading broker in the international markets.
4. Trading broker of OTC derivatives and currencies in the spot market.
5. Securities dealer.
6. Financial consultations.
7. Financial adviser (issuance manager).
8. Listing adviser.
9. Promotion.
10. Definition.
11. General clearing.
12. Securities portfolios management.
13. Investment funds foundation and management (the management company).
14. Management of investment funds' investments.
15. Administrative services of investment funds.
16. Safe custody.

17. Registrar of private joint stock companies.
18. Issuer of covered warrants.
19. Deposit bank.
20. Deposit bank's agent.
21. Credit rating.

Furthermore, the financial activities licence is divided into five categories:

- First category – Dealing in securities.
- Second category – Dealing in investment.
- Third category – Keeping, clearing and registration.
- Fourth category – Credit rating agencies.
- Fifth category – Arrangement and advice.

2.2 Initial Approval Conditions

Learning Objective

- 2.2.2 Know the requirements for meeting initial approval conditions: financial eligibility (Chapter 2, section 3, Article 2); experience and efficiency (Chapter 2, section 3, Article 2); honesty and integrity (Chapter 2, section 3, Article 2); compliance (Chapter 2, section 3, Article 2); professional record (dismissal, sanction or licence cancellation) (Chapter 2, section 3, Article 2); feasibility study & work plan (Chapter 2, section 3, Article 2); resources (Chapter 2, section 3, Article 2); appropriateness of the company, its board and senior management (Chapter 2, section 3, Article 2)

An applicant for a licence from the Authority must meet several conditions to gain initial approval including the following:

1. **Financial eligibility** – Not having refrained from paying commercial debts even if this is not accompanied by a bankruptcy declaration, rehabilitation in the event of a bankruptcy declaration, complying with the payment of banking loans for commercial purposes and the financial obligations resulting from a judicial decision or judgment, not having repeatedly had returned cheques because of commercial works and clarifying the extent of financial capability to meet incidental and future obligations.
2. **Experience and efficiency** – Availability of the required experience, establishment of previous experience and clarifying the extent of the experience in the same field, along with clarifying the ability to practise the financial activity and managing risks effectively.
3. **Honesty and integrity** – Provision of valid and complete information and documents. Moreover, the relevant records shall not include any matters that may cause prejudice or damage to the safety or reputation of the Authority or the State. There shall not be any judicial lawsuit, reports or investigations into prosecution concerning honesty and integrity, either inside or outside the State. Furthermore, there must not be a judgment or decision issued by courts or prosecutions over any breach of honesty, fraud or deception.
4. **Compliance** – Clarifying the extent of compliance with legislations whether the legislations related to practising the financial activity or the relevant applicable legislations. Furthermore, the professional record issued by the Authority or any other controlling or regulating authority inside or outside the State shall not include any administrative sanctions.

The name of the entity must not be listed in the sanctions lists issued by the UN and the other foreign organisations, particularly those who are concerned with encountering **money laundering**, terrorism financing and illegal organisations. Moreover, the licensed body, its partners or the members of its board of directors shall not have committed any crime or serious violation inside or outside the State within the five years before the filing request, not have committed any moderate violation inside or outside the State within two years before filing the request, and not be subject to any administrative or criminal investigations inside or outside the State while the request is being filed or studied.

5. **Professional record** – There shall not be dismissal or sanction of licence cancellation by other supervisory authorities or governmental institutions whether local or foreign. This shall be ensured by obtaining a copy of the professional record or by direct communication with those authorities.
6. **Feasibility study and work plan** – Submission of a realistic and logical study and work plan for practising the financial activity. This shall be evaluated by analysis of the logic of the bases, assumptions and plans that are relied upon in comparison with the same sector.
7. **Availability of sufficient resources** – The financial allocation according to the feasibility study and the work plan related to the potential or future obligations shall be sufficient and the required means shall be available for management of the risks related to financial activity practice.
8. **Appropriateness of the company, the members of the board of directors and the senior management** – Meeting the Authority's efficiency and appropriateness standards.



3. Further Licence Applicant Requirements

Learning Objective

- 2.3.1 Know requirements for licence applicants in relation to: governance (Chapter 4, Article 2, point 6); administration (Chapter 4, Article 2, point 7); employees (Chapter 4, Article 2, point 8); behaviour (Chapter 4, Article 2, point 9); bonuses (Chapter 4, Article 2, point 10); technical systems (Chapter 4, Article 2, point 12)

Further licensing conditions and requirements include the following:

3.1 Governance, Administration, Employees, and Technical Systems

3.1.1 Governance Regulation

Licence applicants must provide governance guides that shall include the following:

- a. The number of the members of the board of directors or the board of managers and the senior management, provided that they shall be formed of sufficient number of members who shall have knowledge, skill, and various experiences to perform their tasks effectively.
- b. Clear duties and responsibilities of the members of the board of directors including application of governance and according to the nature and volume of works.
- c. The commercial targets of the licence applicant that are previously specified and the strategies for achieving such targets along with effective supervision or management thereof.
- d. The framework according to the best standards, and as suitable to the nature and volume of the financial activity, and as sufficient to enhance sound and wise management, and to protect the interests of clients and stakeholders.

The licence applicant must also obtain an acknowledgment from the members of the board of directors, or the board of managers and the senior management upon appointment, that they have knowledge and full awareness of the limits of their duties and responsibilities.

3.1.2 Administration Regulation

Licence applicants must provide a regulatory structure and a management work regulatory guide including the following:

1. The administrative hierarchy among the members of the senior management board and the main and approved jobs, including clear specification of the persons responsible for works.
2. The mechanism of separating between tasks and approved jobs in order to avoid conflicts of interest.
3. Specifying and clarifying the senior management's responsibility for managing the licence applicant's daily works according to the commercial targets and strategies approved by the board of directors, along with observing the employees' works and supervising them effectively.

4. Specifying the senior officer who represents the senior management and who bears responsibility for mistakes resulting from practising the following:
 - a. Distribution of tasks and responsibilities among employees.
 - b. Supervising works and tasks and the extent of complying with them.
 - c. Observing the work of the employees and workers of the licensed body and supervising them appropriately.

3.1.3 Employees Regulation

Licence applicants must provide a guide for the required rules and regulations for ensuring that all its employees meet the efficiency and appropriateness standards expected of the Authority. These rules and regulations should apply to those employed and those assisting for a limited term to perform specific tasks, and natural persons to whom tasks have been outsourced. The rules and regulations must include the following:

1. A mechanism of revising and updating the rules and regulations related to the employees.
2. A mechanism of keeping the employees' data in a record that will be continuously updated and certified on the website that includes the tasks and responsibilities of every one of them and the date of practising the tasks.
3. Keeping the employees' data for a period of ten years from the date of the last update.

There must also be behaviour regulation, including a professional code of ethics, that prohibits committing, participating in, or contributing to any behaviour that may represent any of the following:

- a. A financial crime under the applicable legislations.
- b. Wrong practices and violations of the applicable legislations.
- c. Practices or rumours that affect the reputation of the Authority or any of the capital market institutions.

Licence applicants must also provide evidence clarifying any bonus mechanism according to the work goals, the strategies, the specified risk factors, the nature of jobs and roles and the results thereof and the long-term interests according to the nature of the financial activity.

3.1.4 Technical Systems

The licence applicant must have the technical systems and technical and electronic programs required to practise the financial activity, along with clarifying the mechanism of updating them continuously, including an information safety and protection system for encountering and managing cyber risks, along with provision of a guide including the following:

1. The mechanism of encountering cyber risks and the method of dealing with them and managing them.
2. The procedures to immediately notify the Authority and the entities concerned with cyber security in the State after any hack or breach of cyber security.

3.2 Risk Management, Compliance and Internal Audit

Learning Objective

- 2.3.2 Know requirements for licence applicants in relation to: risk management (Chapter 4, Article 2, point 13); compliance (Chapter 4, Article 2, point 14); internal audit (Chapter 4, Article 2, point 15)

3.2.1 Risk Management

Each licence applicant must submit a risk management guide that includes the following:

- a. Development and implementation of policies and procedures for managing risks encountered by the firm or its clients so that the risks officer becomes able to provide advice to the board of directors and senior management concerning those risks.
- b. Clarifying, evaluating, managing, observing and controlling risks along with counting and defining potential risks that may be encountered, and the method of dealing with them. Specifically, controlling and reporting on them should be sufficient to enable the continuing practice of the firm's financial activity.

The licence applicant must acknowledge that it has the knowledge and awareness of the risks and likely resultant effects.

3.2.2 Compliance

Licence applicants must provide a compliance regulation guide that includes the policies and procedures that clarify programs, mechanisms, procedures, and periodicity of ensuring compliance with all relevant applicable legislations, namely the following:

- a. The procedures and mechanisms required to enable the compliance officer to have access to sufficient resources in order to perform the tasks and works independently, including the provision of a sufficient number of qualified employees under supervision.
- b. The procedures and mechanisms that ensure that the compliance officer shall have access to all records and to the board of directors and the senior management without any restrictions.
- c. The procedures of immediate reporting on compliance violations and the proposed mechanisms for rectifying them.

3.2.3 Internal Audit

Each licence applicant must provide a guide regulating the internal audit processes in order to observe the extent of appropriateness and efficiency of the rules, procedures and bylaws. It must include the following:

1. The procedures and mechanisms required to enable the internal auditor to act independently, and not face interference nor merge the job with any other.

2. The procedures followed to ensure that the internal auditor shall, at all times, have access to the relevant records and information and to produce photocopies thereon, moreover, if required, to resort to the board of directors, the senior officer or the relevant committee formed by its board of directors for this purpose.
3. The mechanism of informing the financial auditor immediately of any matter that may affect the financial position of the licensed body.
4. Documentation of the structure, responsibilities and procedures of the internal auditor position.

3.3 Information Confidentiality and Reporting Breaches

Learning Objective

- 2.3.3 Know requirements for licence applicants in relation to: information confidentiality (Chapter 4, Article 2, point 17); reporting violations and legal breaches (Chapter 4, Article 2, point 19)

3.3.1 Information Confidentiality

Applicants for a financial activities licence must provide a guide clarifying the mechanism it uses to protect the confidentiality of information and to ensure it is not inappropriately leaked or disclosed. Such disclosure should only be made in the following circumstances:

1. If disclosure is required under applicable legislation in the State.
2. If the client agrees to disclose.
3. If disclosure is reasonably necessary to perform a particular financial service for the client.
4. If the information is no longer confidential.
5. If the disclosure is made upon request of judicial or supervisory entities in the State, such as the Authority or the capital market institutions.

3.3.2 Reporting Breaches

Licence applicants must also provide a guide clarifying their policies in relation to 'whistleblowing' – encouraging employees to inform senior management and the Authority about any essential violations they come across while performing their job tasks. The whistleblowing policies should include a mechanism for protecting the reporting employee (the 'whistleblower') from any unfair prejudice by keeping their identity confidential whilst the reported violation is investigated. Furthermore, the Authority should be informed of any violation of the relevant legislations as well as other reports on any violation or breach of the rules, regulations, technical rules or the used technique.

3.4 Complaints Handling

Learning Objective

- 2.3.4 Know requirements for licence applicants in relation to complaints (Chapter 4, Article 2, point 20)

The licence applicants must clarify the policies and procedures for dealing with, and investigating any complaints filed by clients. Such complaints must be dealt with justly, orderly and immediately. The policies and procedures must include the following:

1. Recording any complaint immediately after receiving it along with providing the complainant with the contact details and name of the employee in charge, the procedures of complaints handling services, the durations and the mechanism of keeping all its details, documents and correspondences, along with the procedures taken concerning it according to the legal periods.
2. Notifying the complainant periodically of the procedures taken to handle the complaint.
3. Notifying the complainant by letter on the date of the decision made in the complaint.
4. Other settlement mechanisms for handling any complaint that the complainant who filed it was not satisfied with the settlement, and the mechanism of providing suitable contact details upon request.
5. Providing a copy of the complaints handling procedures for free to any client upon request.
6. Ensuring that the employee that is the subject of the complaint does not participate in managing and providing the financial services concerning which the complaint was filed.
7. Ensuring that the employee to whom the complaint was referred has sufficient powers to settle the complaint or is able to communicate with the decision maker.
8. Referring the complaint to another body where necessary:
 - a. Notifying the complainant that the complaint will be referred to another body in a dated letter.
 - b. In the event that the complainant agrees, the complaint shall be immediately referred along with notifying the complainant in writing of the complaint referral date, the person responsible for the complaint in the body to which the complaint was referred and the contact and communication details.
 - c. Continue handling any part of the complaint that was not referred.
 - d. In the event that the complainant refuses referral or does not respond within a period of not more than ten business days, the complaint shall be considered within the limits of the available documents and information or returned to the complainant, along with provision of evidence proving the same in order to file the complaint to the relevant or competent body.

3.5 Outsourcing and Cloud Computing

Learning Objective

- 2.3.5 Know requirements for licence applicants in relation to: general outsourcing (Chapter 4, Article 2, point 21, First); cloud computing (Chapter 4, Article 2, point 21, Second); outsourcing to an out-of-state party (Chapter 4, Article 2, point 29, Third)

There are further expectations placed on licence applicants in respect of outsourcing. Licence applicants must provide an outsourcing guide that includes the mechanism for outsourcing tasks to a specialised legal personality (the outsourced party) inside or outside the State as the case may be, taking care to not assign any approved job or tasks unless expressly allowed. The guide must include the following:

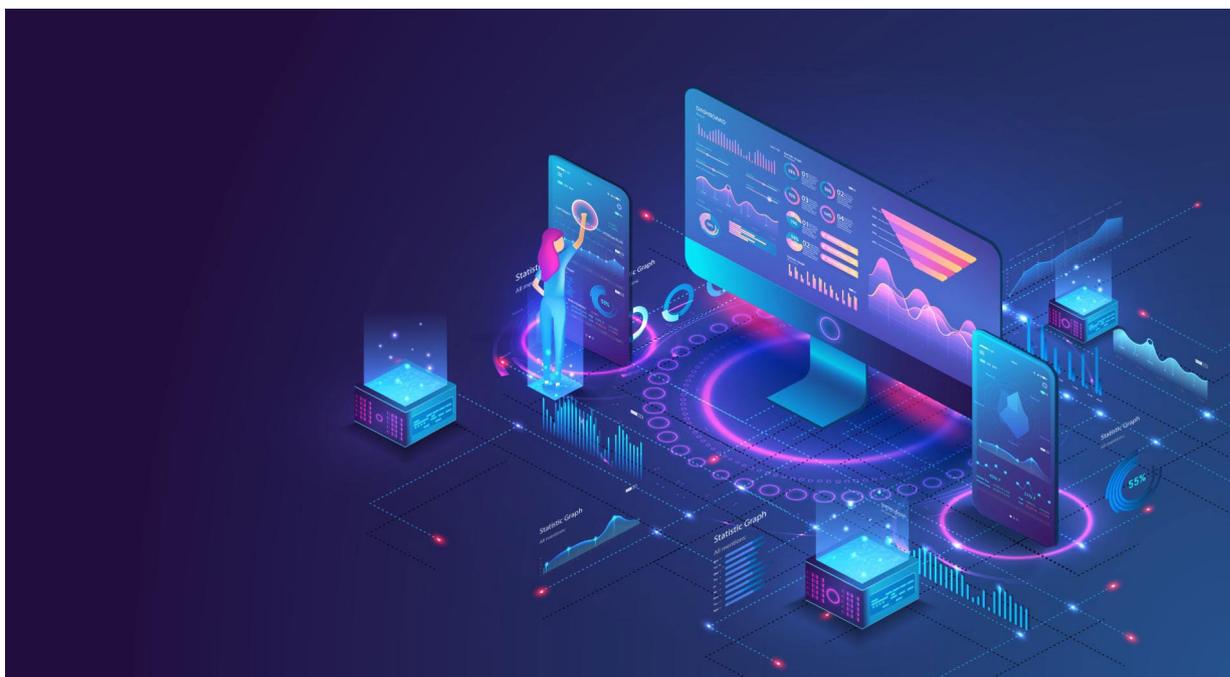
Firstly, certain **general outsourcing provisions**:

1. Procedures to ensure due diligence in choosing the appropriate outsourced party.
2. Procedures for effective supervision of outsourced jobs and tasks and to ensure that the outsourced party will maintain the outsourcing conditions, along with effective handling of any failure by it, default or breach of relevant applicable legislations.
3. Procedures followed for outsourcing jobs or tasks, along with ensuring that there are plans of emergency and management of outsourcing risks according to the Emergency Crisis and Disasters Management Authority.
4. Procedures for ensuring that the outsourcing arrangements will not adversely affect meeting the obligations towards the clients and the Authority and will not impede supervision and control.
5. Ensuring that the outsourced party maintains confidentiality of data and information.
6. There must not be outsourcing of all the main tasks of the license applicant entity to other parties resulting in the entity remaining without any essential tasks.
7. Documents establishing compliance with the following:
 - a. Entering into a written outsourcing contract with the outsourced party and providing the Authority with a copy immediately after entering into the contract, and with any subsequent amendment or change. The contract must include a provision that grants the Authority the right to enter the headquarters of the outsourced party, if required, concerning the financial activity, to review the relevant documents and date and to take any of them.
 - b. Providing the Authority with the required information and documents upon request and immediately.
 - c. Full cooperation and coordination with the Authority whether by the outsourced party or the licensed body.
 - d. Bearing full responsibility for any failure in performing the tasks or responsibilities or any breach of the obligations or violation of the relevant applicable legislations.
 - e. Ensuring that the outsourced party has no outsourcing agreement terminated with any other licensed body for reasons related to a breach of its obligations or violation by it of the applicable legislations in the year before the outsourcing.
 - f. Ensuring that the outsourced party obtained the Authority's approval according to its conditions in the event that it desires to provide its services for more than one licensed body.

Secondly, certain additional provisions on **outsourcing using cloud computing**:

For licence applicants using cloud computing for providing or giving computer services and resources via the internet (such as servers, databases, programs, networks, storage spaces, applications, etc), the following are required:

1. Confirmation of the licence applicant's clear understanding of the risks arising from cloud computing.
2. Ensuring that the servers for the cloud computing of the outsourced party and all other servers and computer resources are inside the State.
3. Ensuring that the outsourced party will not review the information and data and will keep such information confidential.
4. Ensuring that the outsourced party will provide an audit report from an external auditor on data and information security annually, sending a copy to the Authority and a copy to the capital market institutions (if the licence applicant is a member of any of them).
5. Ensuring that the outsourced party is able to keep and not lose or miss the data and information ('zero data loss') and protect them from any violation for ten years, along with keeping back-up copies of the data and information during that period.
6. Ensuring that the outsourced party is able to meet any additional requirements specified by the capital market institutions if the licensed body is a member of any of them.
7. Providing an exit strategy plan to handle cases of contract termination with the outsourced party in order to ensure maintenance of all data and information and valid transfer without missing data or infringing laws and regulations.



Thirdly, some additional provisions when **outsourcing to a party outside the State**:

Licence applicants must comply with the following if outsourcing to a party outside the State (cross border):

1. Not outsourcing any approved jobs, tasks or services to any abroad entity unless expressly allowed, provided that the economic or legislative conditions of the State in which the outsourcing entity works does not prevent the outsourced party from performing its obligations towards the licensed body.
2. Informing the Authority and the capital market institutions – in the event that the licensed body is a member – if the supervisory authority, to which the outsourced party is subject, requests to review the data of the licensed body.

3.6 Record Keeping Requirements

Learning Objective

2.3.6 Know record keeping requirements for licence applicants (Chapter 4, Article 2, point 22)

Licence applicants must have procedures for keeping all electronic and non-electronic records related to the licensed body, the required technical guides and regulations, the practice of works, the clients' transactions and data, the account opening agreements made with them, and everything related to practising the works and practising the financial activity.

The mechanisms and procedures must enable the licensed body to recover any of those records or data from the archive within a period not exceeding three business days.

The procedures must include the following:

1. The powers to review the records (according to the competence, responsibilities and legal duties of the role).
2. Clarification of the mechanism of keeping the records in a safe place for a period of not less than ten years, keeping back-up copies thereof for the same period, and protecting them from being exposed to any damage.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. **Why is disclosure of legal status, including the licence, required for licensed bodies?**
Answer reference: Section 1.1
2. **What provisions exist in the event of a licensed firm facing an emergency, such as an electricity interruption?**
Answer reference: Section 1.1
3. **Where does a licensed firm's head office have to be?**
Answer reference: Section 1.1
4. **What is required before a licensed firm sets up a branch?**
Answer reference: Section 1.1
5. **What is the perceived danger of a licensed body having 'close ties'?**
Answer reference: Section 1.1
6. **What is expected of a licensed body that receives enquiries from the Authority?**
Answer reference: Section 1.2
7. **What language must be used for submitting documents to the Authority?**
Answer reference: Section 1.2
8. **What is the maximum fine that the Authority can impose as an administrative sanction?**
Answer reference: Section 1.3
9. **How long can a firm be suspended under the administrative sanctions?**
Answer reference: Section 1.3
10. **How many different types of financial activities can the Authority license?**
Answer reference: Section 2.1
11. **What are the five categories of licence that are granted by the Authority?**
Answer reference: Section 2.1
12. **Initial approval conditions include 'honesty and integrity' which includes considerations of what?**
Answer reference: Section 2.2
13. **How do previous serious violations impact initial approval?**
Answer reference: Section 2.2
14. **What areas are considered to be 'further licence applicant requirements'?**
Answer reference: Section 3

15. Are bonus schemes allowed at licensed bodies?

Answer reference: Section 3.1.3

16. What is expected of a licensed applicant in relation to risk management?

Answer reference: Section 3.2.1

17. What is expected of a licensed applicant in relation to internal audit?

Answer reference: Section 3.2.3

18. What is expected of a licensed applicant in relation to 'whistleblowing'?

Answer reference: Section 3.3.2

19. Are there any restrictions on a licensed body outsourcing to others?

Answer reference: Section 3.5

20. How long do records need to be kept?

Answer reference: Section 3.6

Chapter Three

Investment Funds

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This syllabus area will provide approximately 15 of the 100 examination questions



1. Local Funds

1.1 Establishing a Local Fund

Learning Objective

- 3.1.1 Know who can establish local funds (Article 4, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)

The Securities and Commodities Authority issued a Resolution (No. 01/Chairman) in early 2023 titled '*Concerning the Regulation of Investment Funds*'. Article (4) of the resolution details the persons involved in establishing a **local fund**.

A local fund can be established by one of the following persons:

1. An entity licensed by the Authority to carry on the activity of management of Investment Fund investments.
2. An entity licensed by the Authority to conduct the activity of family investment management in relation to a family fund, provided that the units of the fund shall be 100% owned by one or more members of the family, whether such member is a natural person and/or corporate person which is wholly owned by them, and provided that the unit holder is the beneficial owner. It is the Authority that specifies the definition of family in relation to this type of fund.
3. Two or more natural and/or corporate persons in relation to a self-managed fund provided that the following conditions are met:
 - a. The natural person must meet the conditions and standards of qualification and fitness related to approved employees' fit and proper requirements as laid down in the Authority's Financial Activities Rulebook, excluding passing of the professional licensing tests and continuous professional development.
 - b. The corporate person must be established in the UAE and conduct a financial, banking or insurance activity. The corporate person

may also conduct other activities provided that their main activity is that conducted by the investment fund through its investment policy. The corporate person must also fulfil the following conditions:

- Capital of not less than 20 million Dirhams.
 - To have been carrying on their main activity and realised net profits during the two financial years preceding the application to establish the fund.
 - To meet the initial approval conditions and the assessment requirements as stated in the Authority's Financial Activities Rulebook
- c. The founders must subscribe at least 5 million dirhams into the fund.
- d. The founders must not dispose of the investment units owned by them for a period of at least 6 months from the date of foundation.
- e. The founders must pay a self-management fee for a self-managed fund as specified by the Authority, and the fund will be liable to settle all fees once it is licensed and established.

A self-managed fund, through its founders, its board of directors, the executive body, and the investment committee – each within their respective responsibilities – must comply with the duties of the entity licensed to carry out the activity of management of the investment funds investments as stated in the Authority's Financial Activities Rulebook.

1.2 Approval and Documents

Learning Objective

- 3.1.2 Know the requirement for initial approval from the Authority, the need to publish both an offering document and KIID and the process of final approval (Articles 6, 7 & 12, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)

1.2.1 Initial Approval

Establishing a local fund requires the approval of the Authority. An application must be submitted to gain initial approval, which the Authority will either grant, or reject within ten working days for a public fund and within five working days for a private fund, from the date of receipt of the application.

The Authority may issue its approval on conditions or restrictions it considers necessary and may subsequently reject an application despite fulfilment of its conditions. The grounds for rejection are where the Authority judges approval is not in the best interests of the public, where it considers that the investment is not suitable for the investment environment in the UAE, or where it considers that the application does not represent the interest/s of the investors. The Authority must notify the applicant of its rejection and state the grounds of rejection.

The Authority's initial approval does not license the local fund to conduct its activity. Any act or procedure relating to carrying on the local fund's activity based only on the initial approval are considered null and void.

An initially approved fund is prohibited from making any announcements or initial procedures for establishing or licensing the local fund, subscribing in its units, promoting thereof, distributing any promotional materials or announcing any information until the Authority's final approval has been obtained.

Furthermore, the founders of a self-managed fund must ensure that the fund meets the conditions of licensing the activity of managing the investments of investment funds in Section 2 of the Authority's Financial Activities Rulebook during the initial approval period and before commencement of the offering procedures.

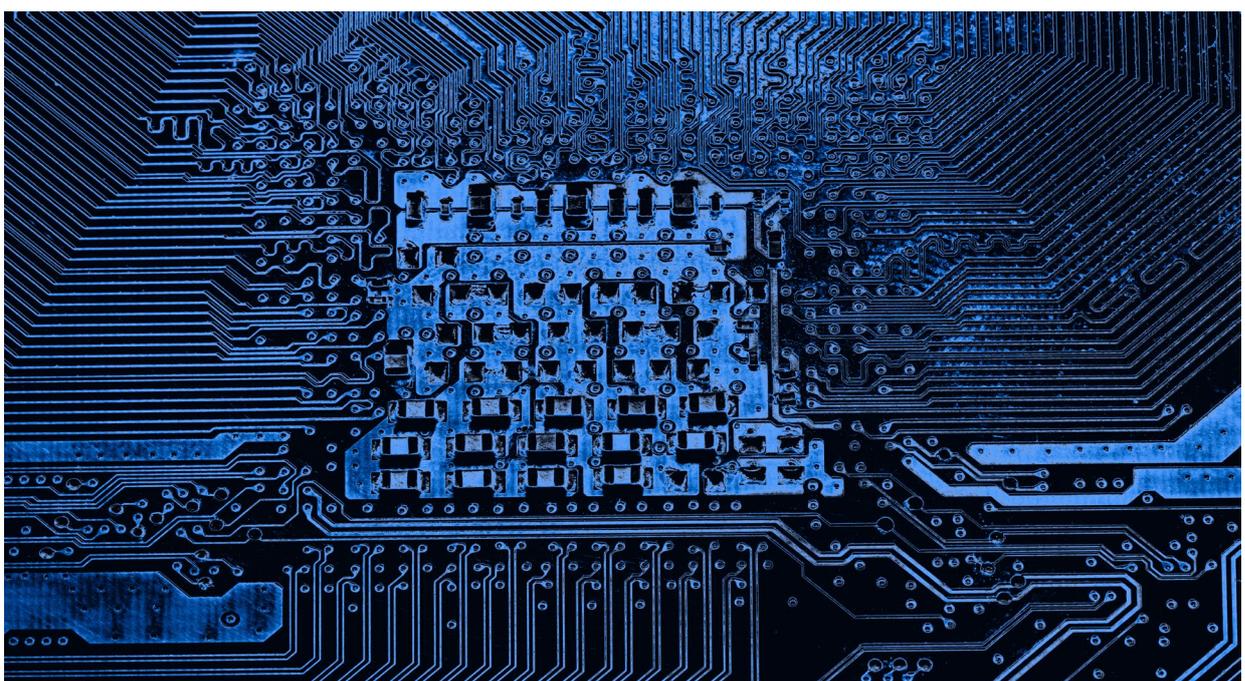
A local fund is permitted to have a corporate identity throughout the period of its establishment and licensing to the extent necessary for it to fulfil its licensing conditions and enable it to carry out necessary procedures such as acquisition of premises or lease, opening bank accounts, appointing approved employees and any other acts as may be allowed by law to be carried out by companies under incorporation.

1.2.2 Offering Documents

The fund manager and the founders of a self-managed fund must prepare the local fund's offering document (alternatively referred to as the prospectus) and the offering document information summary (alternatively referred to as the **Key Investor Information Document or KIID**) in Arabic or English. Both documents must not contain any promises, guarantees or incorrect or misleading information.

The prospectus must include full disclosures of any shares in kind provided and the units to be issued against them, specifically:

- a. Full information on every share in-kind, its owners and value, and the number of units to be issued against every share.
- b. Summary of the evaluation report of the shares in-kind.
- c. Explanation of the extent to which the shares in-kind can be disposed of after establishing the fund pursuant to investment resolutions taken.
- d. Explanation of the extent to which the values of the shares in-kind will vary after establishing the fund according to the market circumstances and evaluation reports.



Attached to the prospectus there must be a copy of the subscription form that includes information on the local fund's name, investment strategy, capital and the conditions of subscription, along with the subscriber's name, address in the State, profession or activity, nationality, number of the investment units desired and an undertaking to accept the fund offering document's provisions and the summary thereof.

The fund manager and the founders of a self-managed fund must sign the offering document and its summary (KIID) and be responsible for validity of the data and information contained therein.

Thereafter, the website of the fund manager and the self-managed fund must make available to the unit holders on a constant basis, and update on a regular basis, the prospectus and the KIID alongside the historical performance of the local fund. These must be made available to the unit holders without consideration. Note that family funds are excluded from the need for publication on the website.

1.2.3 Final Approval

The fund manager and the founders of the self-managed fund must submit the following items to the Authority within no more than 30 days of the date of closing subscriptions. Failure to do so will deem the establishment procedures non-existent and require the return of the amounts subscribed.

- a. Certificate from the auditor of the local fund stating that subscription to capital has been completed.
- b. Submitting evidence proving that the natural and corporate persons who subscribed in a family fund are all family members and are 100% beneficial owners.

The Authority will issue a certificate for establishing and licensing of the local fund to commence conducting its activities within 5 days from the date of submission of the auditor's certificate and ownership evidence in relation to the family fund and on payment by the fund manager of the prescribed licensing fee.

The term of the license of the local fund shall be one year commencing from the date of issuance of the first license. Thereafter, the fund manager and the executive body of the self-managed fund must submit an application for renewal of the license annually not less than one month prior to its expiry date, upon payment of the annual license renewal fee prescribed by the Authority from the fund.

All the legalities performed by the fund manager or the founders of the self-managed fund in the incorporation and licensing process must be transferred to the local fund. The fund shall then bear all of the associated expenses except the expenses of offering and promoting the public fund units and the expenses of preparation of the offering document and other associated documents as required by the Authority. These expenses must be borne by the fund manager or the founders of the self-managed fund from their own resources.

The local fund will have full corporate identity and independent financial accounts as of the date of issuance of the certificate of establishing which authorises it to carry out all the legal acts a company can carry out such as acquisition, lease, opening bank accounts, appointment of approved employees and others.

The local fund must begin to exercise its investment policy within a period not exceeding 12 months from the date of being licensed.

1.3 Reporting Requirements

Learning Objective

- 3.1.3 Know the reporting requirements for local investment funds (Articles 14 & 15, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)

Every local fund must specify a financial year in the offering document and the first financial year of the local fund must not exceed 18 months in length, nor be shorter than 6 months from the licensing date of the fund.

The subsequent financial years will be consecutive periods running for 12 months after the end of the precedent financial year.

The administrator of a local fund must maintain the fund's accounts and prepare the financial reports. The reports must be prepared in accordance with International Financial Reporting Standards (IFRS) and if required, they must also include the opinion of the Sharia's Supervision Committee. The reports should consist of:

1. **Semi-annual financial reports** audited by an external independent auditor within a period of no longer than 45 days from the end of the semi-annual period.
2. **Annual financial reports** audited by an external independent auditor within a period of no longer than three months from the end of the local fund's financial year.

In addition to the financial reports, the fund manager and the self-managed fund's board of directors must, in coordination with the investment fund's administrator, prepare the following:

1. **Semi-annual report** on the public fund's performance no later than 45 days from end of the semi-annual period. This should reflect the material changes in the public fund including the changes in the fund's asset values and the changes made to the fund's investment policy during the report's period (if any).
2. **Annual report** on the local fund's performance no later than three months from the date of end of the local fund's financial year. This report must include the material changes, the fund's related party transactions on the fund units, any investment restriction violations and the corrective procedures and their effects, and the level of performance of the fund service providers.

The fund manager and the self-managed fund's board of directors must publish all of the required reports in Arabic and English languages. It may also prepare additional copies in other languages and provide them to the unit holders on the website of the fund manager or the website of the self-managed fund or by any mean as agreed in the offering document, the subscription form, free of charges.

Note that the reports related to any family fund will be limited to the unit holders as agreed upon under the offering document.

In all cases, the Authority must be provided with copies of the reports, and the market must be provided with copies if the units are listed.

1.4 Private Funds

Learning Objective

- 3.1.4 Know the additional restrictions for private funds in relation to advertising and promotion and transfer of units (Articles 31 & 32, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)

1.4.1 Promoting Private Funds

All advertisements and promotional materials for private funds distributed to the unit holders must be copied to the Authority and must clarify the private fund's specific nature and include the required disclaimer laid down by the Authority.

Private funds must refrain from using public advertisement media of all types, including audio, video and read media.

1.4.2 Restrictions on Transfer of Title to the Private Fund Units

Transferring title of a private fund's units are limited to the following:

- Transfer to existing unit holders.
- Transfer to professional investors or counterparty, provided that the minimum nominal value of the transferred units is not less than 180 thousand Dirhams or the equivalent amount in other currencies.
- Transfer to any family member or corporate person 100% owned by a family member in a family fund.

Furthermore, investment units of a family fund must not be sold or pledged to any third party who is not a family member or to a corporate person 100% owned by any such party.

2. Provisions Specific to Certain Public Investment Funds

Learning Objective

- 3.2.1 Know regulations relating to: private equity funds (Decision No. (2/R.T) of 2017); venture capital funds (Decision No. (3/R.T) of 2017); general and limited partnership funds (Decision No. (32/R.M) of 2017)

A series of decisions have been made by the Authority in relation to certain types of public investment funds and placed particular requirements on those funds. Those within the syllabus are detailed in this subsection.

2.1 Private Equity Funds

A private equity fund consists of a founder referred to as the general partner (or just the GP). The GP holds shares in the fund and typically manages the fund, although this could be outsourced to another licensed investment manager. In addition to the GP, there will also be other limited partners (LPs) who hold shares in the funds but have no role in the management.

When a private equity fund is incorporated, the incorporation agreement must, as a minimum, include the following:

1. The fund's size and period for accumulation of contributions.
2. The fund's intended investments.
3. A statement as to whether the investment management will be outsourced.
4. The remuneration of the general partner, or of the investment manager if outsourced, and any additional incentives.
5. The borrowing limits of the fund for investment purposes.
6. The fund's term, dividend distribution dates, and withdrawal procedures.
7. The mechanism to liquidate the fund's assets upon the lapse of its term.

Private equity funds are required to invest most of their assets in shares. These shares will typically be in limited liability companies, partnerships, limited partnerships, or private shareholding companies. However, private equity funds are also permitted to buy securities of public shareholding companies that have started the process of converting to private shareholding companies or are about to commence a liquidation process.

The general partner of the private equity fund takes on a series of obligations, including:

- Calculating the net asset value and the price of its units at the end of every three months. The assets should be valued in accordance with the international standards and at fair value.
- Performing a more detailed valuation of the fund's assets at least once a year based on the audited annual financial reports of the companies where the fund places its investments.
- Determining the borrowing percentage is in compliance with the fund's investment policy.
- Assuming full responsibility for the management, projects, investment decisions, and assets of the fund reflecting the fund's objectives and investment policies and ensuring full co-operation among the related parties.

2.2 Venture Capital Funds

A venture capital fund is a private investment fund that invests in high-risk assets such as new projects, modern technologies, distressed projects, or companies with new or creative ideas, in technology or otherwise, within the business sector.

In addition to the investment funds regulations, the following conditions must be satisfied by a venture capital fund:

- The fund must invest at least 70% of its assets in one or more of the following investments:
 - Units of other venture capital funds, provided that the investments of such funds are not more than 10% of their assets in other venture capital funds.

- Equity instruments issued by companies not listed in the regulated primary market or other instruments issued by such companies or their affiliates, which will result in an equity stake.
- Lending money to unlisted companies, provided that such lending is not more than 30% of the fund's assets, and provided that the fund is an investor in the company which issues such instruments.
- Lending money to the new or distressed projects, provided that such lending is not more than 30% of the fund's assets, or the fund may become a partner in such projects.

The venture capital fund's investments which would be permitted for a public investment fund must not exceed 30% of its assets.

There are additional requirements based on the total value of the assets held by the venture capital fund:

- For venture capital funds with managed assets that are valued at AED 180 million or more, the fund must:
 - prepare an annual report in accordance with the International Financial Reporting Standards (IFRS)
 - appoint a Risk Management Officer, and
 - not exceed its net asset value in its total exposure to risks.
- For venture capital funds with managed assets that are valued at less than AED 180 million, the fund must:
 - prepare a summary of the annual report in accordance with IFRS, and
 - not exceed its net asset value in its total exposure to risks.

2.3 General and Limited Partnership Funds

A general and limited partnership fund (GP/LP) is an investment fund with a fixed capital, formed in the UAE by one or more general partners, and one or more limited partners, and governed by a partnership agreement agreed between them.

- The general partner must be a firm licensed by the Authority to manage investment funds.
- The limited partners can be natural or corporate persons capable of the management, follow-up, and protection of their own investments, which includes the following:
 - The federal government and local governments, government institutions and agencies, or companies fully owned by any of them.
 - General pension funds, corporate pension funds, insurance companies, sovereign funds, endowments, and family companies.
 - International agencies and organisations.
 - Persons licensed to exercise a commercial business in the UAE, provided that the purposes of the business include investment.
 - Natural persons with financial solvency and that declare that their annual income is not less than AED 3 million, or that their net equity rights, except for their main residence, is equal to AED 7 million. The natural persons must also declare that they have sufficient knowledge and experience, whether on their own or by using a financial adviser.
 - A person who is represented by an investment manager licensed by the Authority or by a similar supervisory entity.



The general partner is fully liable for the fund's obligations. If there are multiple general partners, they are jointly liable. The limited partners are only liable to the extent of their respective share in the capital of the fund.

The Authority has the right to perform control and inspection, as well as enforce penalties on the general partner for any failures to meet the regulatory obligations.

The licensing application of the fund is submitted to the Authority by the general partner, or their representative, excluding any limited partner, on the designated form, enclosing the supporting documents and data, including the following as a minimum:

- a. The trade name, date of incorporation, and headquarters of each general partner.
- b. The full or trade name, nationality, date of birth or incorporation, residence address or headquarters of each limited partner.
- c. The name of the fund with the addition of the phrase 'GP/LP Fund' at the end of its name.
- d. The place and address of the fund and contact information.
- e. A true copy of the partnership agreement signed between the general partner and limited partner(s), duly notarised.
- f. A declaration signed by the general partner confirming the payment of the required capital.
- g. Any other data or information required by the Authority.

As with other types of funds, the Authority will issue a decision approving the licensing application, or rejecting it due to the application being incomplete, incorrect, or to otherwise in the public interest, within a period of no longer than 30 business days from the date of submitting the complete application.

If accepted, the Authority will issue a licence certificate including the fund's name, registration number and date, annotated with the phrase 'GP/LP Fund'. The fund will have an independent legal personality.

The fund's licence term will be one year expiring on 31 December every year. The term of the first licence commences from the date of issue until the end of December of the same year. The licence will be renewed upon the request of the general partner or their representative, submitted to the Authority at least one month prior to the expiration of the licence as long as the requisite fee is paid and the fund continues to meet the regulatory conditions.

The general partner must also notify the Authority within seven days of any change to the following:

- a. Main locations of practising the business.
- b. The name of any general partner or any limited partner.
- c. Any general partner who becomes a limited partner or any limited partner who becomes a general partner, along with the obligations of each partner after the change.

The general partner is also required to keep the documents, instruments, records, and accounting books related to the fund's operations for a period of not less than ten years, and maintain back-up copies of the same for the same period, and protect the same from damage, especially in relation to the following:

- a. The name, address, and details of each partner in the fund.
- b. The date of entry and exit of each partner in the fund.
- c. The date and amount of each limited partner's share, and the date and amount of any payment that represents a return or a portion of their share.

3. Cash Investment Funds

Learning Objective

3.3.1 Know regulations regarding cash investment funds (Decision No. (52/R.T) of 2016)

Cash investment funds are similar to what are called money market funds in other jurisdictions. They are defined in the Authority Decision No. 52 of 2016 as 'public investment funds whose investment policy requires investments to be placed in instruments with maturity dates extending 397 days or two years, as the case may be, including treasury notes, commercial papers, deposit certificates, bank acceptances and medium-term bonds'.

The more detailed requirements that the cash investment fund must meet are as follows:

- Investing a minimum proportion of 90% of its assets in cash instruments with high liquidity.
- The maximum weighted average of the fund's investment maturity may not be more than 120 days.
- If a market price is not available, the fund's assets must be evaluated according to the fair value principle.
- The credit rating of the debt instruments where the fund places investments may not be less than BBB+ or equivalent by one of the recognised rating agencies.
- The fund must not borrow or engage in operations entailing liabilities, with the exception of borrowing to cover redemption requests subject to a maximum limit of 10% of its net asset value.
- The fund's investments in debt instruments of one issuer may not exceed 10% of the fund's net assets.

4. Exchange-Traded Funds (ETFs)

Learning Objective

3.4.1 Know regulations relating to exchange-traded funds (Decision No. (49/R.T) of 2016)

The Authority's Administrative Decision No. 49 of 2016 concerns exchange-traded funds (ETFs). An ETF is an open-ended investment fund that invests its assets in the components of an index determined by its investment policy.

The name of the ETF must not cause any confusion or misguidance and the ETF's units must be listed in one or more markets in the UAE. It may only offer its units in the State after first obtaining the approval of the Authority, meeting the listing controls and rules set by the market and approved by the Authority. Some or all of the ETF's units may be listed on a foreign market subject to the Authority's approval.

4.1 The Index

The index used by an ETF can be made up of any investment components with specific investment proportions whether prepared in advance or newly introduced. The ETF will be an index fund with a portfolio constructed to match or track the components of the index, such as the Standard & Poor's 500 Index (S&P 500). Common arguments in favour of index tracking funds are that they typically provide broad market exposure, low operating expenses and low portfolio turnover.

The index tracked by the ETF must have a known and clearly defined target and must reasonably reflect the market or the sector it represents. The index must also reflect the movements of prices and the changes in its components or its relative weights, and its components must have adequate liquidity.

The ETF can choose to fully represent the index it tracks in terms of all components and its relative weights, or the ETF may represent the index through a selected sample that reflects it using a specific correlation coefficient.

4.2 The Prospectus of the ETF

The ETF prospectus and the prospectus data summary must include the following:

- details of the index tracked by the ETF
- mechanism of investment in and divestment from the ETF
- mechanism for issuance and redemption of the ETF's units
- the market(s) where the ETF's units will be listed
- the name of the authorised agent
- the spread between offer and bid prices, which will be provided by the authorised agent in the market and will depend on the net value of the assets of the unit which must be continuously available
- the maximum deviation from the index tracked by the ETF.

4.3 Participants

Participants to an ETF include the management company/investment manager, an administrative services company, an authorised agent (referred to above), and a safe custodian. The obligations and expectations placed on each is detailed below:

4.3.1 The Management Company/Investment Manager

The management company or investment manager issues new units of the ETF and cancels units submitted by the authorised agent for redemption in accordance with the rules and regulatory procedures stated in the Prospectus as approved by the Authority.

The management company or investment manager also must follow up on the performance of the ETF to ensure:

- a. The implementation of the ETF's investment policy and ensure that the authorised agent performs all tasks required.
- b. Achievement of the correlation between the value of ETF's units and the value of the index tracked by the ETF when it is established so that the correlation coefficient is not less than the value set in the investment policy and announced in the prospectus.
- c. Availability of the required liquidity on the ETF's units in the secondary market and availability of permanent bids and offers on such units by the authorised agent of the ETF.
- d. The prices of orders issued through the authorised agent of the ETF are correlated with the net value of the unit's assets, which is announced on a daily basis or with the indicative value of the net value of the unit's assets, which is announced during trading, provided it may not be greater than the agreed margin as announced in the prospectus.

The management company or investment manager must also coordinate the various parties to the ETF to accomplish the ETF's operations, review and audit functions, as well as exchange information and reports related to the ETF.

4.3.2 Administrative Services Company

The administrative services company for the ETF is required to review the daily evaluation of the net value of the unit's assets at the end of the day and the indicative value of the unit during the day as per the principles, timings and rules contained in the Prospectus and subject to the rules set by the concerned market in this regard.

Furthermore, the administrative services company must:

1. announce the net value of the unit's assets on a daily basis and provide the Authority and the concerned market with any statements as required
2. regularly announce the indicative value of the net value of the ETF's assets set during the daily trading to the market, related parties and the authorised agent
3. publish the components of the ETF's index on a regular basis as stated in the prospectus
4. perform any other tasks as stated in the contract signed with the ETF.

5. Real Estate Funds

Learning Objective

3.5.1 Know regulations relating to real estate funds (Decision No. (6/RT) of 2019)

A real estate investment fund is a public or private investment fund established to invest at least 75% of its assets in real estate assets for construction, development or refitting in preparation for sale, management, leasing or disposal. A real estate investment fund may establish or own one or more real estate services, provided that its investment in the ownership of such company and its subsidiaries shall not be more than 20% of the fund's total assets.

The real estate assets of the fund must be proven under an ownership right or usufructuary right based on official contracts or by possession in any company having any of these rights. These rights must not be charged with any restrictions or obligations, and the remaining period of the usufructuary right shall not be less than seven years.

At least 75% of the real estate assets held must produce the revenues, and the revenue generated from real estate must not be less than 90% of the total revenues of the fund. Furthermore, the percentage of investment in usufructuary rights – for which the remaining period is less than 30 years – must not exceed 25% of the net assets of the fund upon listing its units in the market or upon transferring the usufructuary right to it.

5.1 Valuation and Borrowing

Evaluation of the fund's real estate assets must be at least every six months based on the nature of such assets, based on the evaluation reports prepared by the Real Estate Appraiser of the Fund. However, the management company or board of directors of the fund may, for acceptable reasons after notifying the SCA, postpone the date of assets evaluation.

The real estate investment fund may borrow amounts of no more than 50% of its total assets value, provided that the lender is authorised by the competent authority in the UAE to do so. Any relationship between the lender and the real estate investment fund or any of the related parties to the fund must be disclosed, and conflicts of interest appropriately managed.

5.2 Distributions of Dividends from a Public Real Estate Investment Fund

A public real estate investment fund must distribute at least 80% of the achieved net profits every year to the holders of its units, with the possibility of making more than one distribution during the year.

5.3 Obligations of the Real Estate Fund's Management Company or Board of Directors

The management company of the real estate investment fund and its board of directors must:

- Value any real estate assets before buying or selling them, using the services of a contracted real estate appraiser.
- Enable the real estate appraiser to perform its tasks including the provision of access to the documents and information required to complete the evaluation.
- Not rely on any report dating back more than three months when dealing in a real estate asset of the fund.
- Assume full responsibility for the fund's management, projects, investment decisions and assets, and insure the assets against any risks.
- Include all of the fund's investments and their market value, nature, type and location of real estate assets and investments in the biannual financial reports, along with the credit rating of any bond investments.
- Include the details of all of the fund's assets and any material legal disposals of such assets made during the period in the annual report.
- Sign a contract with a legal adviser to prepare and review all contracts, obligations, legal dealings of the fund and its real estate assets, to ensure the legality of its actions and that there are no restrictions on its ownership.
- Sign a contract with a real estate appraiser who has the required experience in the real estate field in order to evaluate the real estate assets of the fund.
- Sign contracts with the other parties associated with its activity to implement the business plan of the fund, such as the real estate developer, real estate management company, real estate distributor and promoter, and real estate service company.

5.4 Obligations of the Real Estate Appraiser

The real estate appraiser of the fund must evaluate the real estate assets including the following items in the evaluation report:

- a. The evaluation approach, method and assumptions based on which the evaluation was made.
- b. Analysis of the variables related to the real estate market such as offer and demand, property particulars and description.
- c. The risks related to the property under evaluation.
- d. Disclosure of any violations or risks related to the assets under evaluation and the proposed or implemented remedial mechanisms.

The evaluation reports must be made available to the fund's management company or board of directors, investment manager, administrative services company, and auditor. The reports must also be provided to the SCA as requested.

The real estate appraiser must also maintain independence from the fund and any related party to the fund.

6. Evaluation of In-Kind Shares for Investment Funds

6.1 General Requirements

Learning Objective

- 3.6.1 Know in-kind share requirements (Article 1); evaluation requirements (Article 2); evaluator requirements (Article 3)

Certain provisions are laid down in the Authority's Decision No. 63 of 2019 for instances where fund units are exchanged for assets other than cash. This is described as an 'in-kind' transfer and the assets exchanged must meet certain requirements.

If the assets are shares provided by the investor to subscribe for the units of an investment fund, then these shares must be consistent with the fund prospectus and its investment policy. The shares must also be able to be liquidated, not be subject to any legal dispute and not be charged with any rights or guarantees in favour of third parties.

The in-kind shares must also be valued by two evaluators at fair value, taking into account the lower value for each evaluated asset. If the in-kind shares are in companies that are not listed on the main market, if there haven't been any announced market prices at the time of evaluation, if three months have elapsed after the last announced price, or if trading is limited and inactive, both of the evaluation parties must be financial advisers licensed by the Authority.

More generally, an evaluator of in-kind shares must have obtained a licence or approval from the competent authority in the state for evaluation and have experience of no less than five years in evaluation field and no less than three years in the field of evaluation of an asset provided as an in-kind share. The evaluator must also be completely independent and have no joint interests with the fund founders or any relevant parties. An auditor or financial adviser to a fund cannot evaluate the in-kind shares provided to the same fund.

6.2 The Evaluator's Obligations

Learning Objective

- 3.6.2 Know the obligations of the evaluator (Article 4)

The obligations placed on an in-kind shares evaluator include:

- Preparation of an in-kind shares evaluation report according to the international standards.
- Validly and accurately evaluating using sufficient and complete data and information.
- Clarifying whether the in-kind shares provided for the funds are able to be liquidated or not.
- Analysing all risks related to the evaluated asset and conducting the analysis to ensure the inclusion of their impact on the future expectations and assumptions on which the evaluation report is based.

- Managing the conflict of interests between their tasks and any other financial activities practised by them, and disclosing them.
- Working with due diligence according to the provisions of the law, and in accordance with the principles of honesty, justice, and equality in collecting information and data from official authorities. Moreover, taking all procedures and making examinations or required auditing to make sure of the accuracy and completeness of data and information of the evaluation report and to make sure that they cover all aspects to reach the fair value of the estimated asset.

6.3 Report Contents

Learning Objective

3.6.3 Know the required content of the in-kind shares evaluation report (Article 5)

An in-kind shares evaluator, when completing a report, must disclose any securities related to the evaluation report owned prior to the preparation of the report and refrain from trading in securities associated with the evaluation subject (including financial derivatives) within a period between 15 days before issuing the evaluation report and five days after issuing the report.

The evaluation report should be based on valid, clear, not misleading, and updated data of a period not exceeding three months before the evaluation date. Furthermore, the evaluator must not object to the evaluation report being published in full and/or summary form in the fund prospectus and on the website of the management company or the investment manager and the market where the funds units are listed (if any).



The evaluation report and a complete summary must be provided to the Authority before disclosure to third parties, no later than three months after evaluation report's date. Submission of a copy of the report to the management company or the investment manager must be after receipt by the Authority.

The summary of the evaluation report must include the most important evaluation data including the following:

- The fair value of the evaluated asset.
- Confirmation that there are no obligations, debts, mortgages, rights, or other guarantees charged on the asset in favour of third parties, with the ability to rely on a special report issued by the fund's legal counsel in this regard.
- The different evaluation methods used by the evaluator to specify the fair value of the evaluated asset according to the professionally followed and recognised principles in accordance with the nature of the asset.

The Authority reserves the right to discuss the evaluation reports with the in-kind shares' evaluator or any of the relevant parties and choose to appoint another in-kind shares' evaluator at the expense of the management company or the investment fund if it deems this necessary.

6.4 Other Obligations

Learning Objective

- 3.6.4 Know obligations of the management company (Article 6); self-fund founders (Article 6); investment manager (Article 6)

For in-kind share transactions, the management company, self-fund founders or the investment manager (as appropriate) also take on certain obligations that include:

- Ensuring the feasibility of accepting the provided in-kind shares and the extent of their appropriateness to the nature and investment policy of the fund.
- Making sure that the value of the units allocated to the investor do not exceed, upon the allocation, the value of the in-kind share provided.
- Maintaining the evaluation report and all information, documents, and records related to the evaluation process for a period of no less than ten years.
- Disclosing in the fund prospectus the provided in-kind shares and the units that will be issued against them, especially as follows:
 - sufficient information about each one of the in-kind shares, their owners and their value, and the number of the units that will be issued against each share
 - summary of the in-kind shares evaluation report, as well as attaching the evaluation report and its complete summary to the prospectus
 - the possibility of disposing of the in-kind shares after founding the fund
 - the possibility of fluctuation in the values of the in-kind shares after founding of the fund.

6.5 Other Requirements

Learning Objective

- 3.6.5 Know requirements relating to the expenses of in-kind shares evaluation and transfer of their ownership or usufructuary (Article 7)
-

If in-kind shares are provided when the fund is founded, the management company or the self-fund founders must initially bear the expenses of the in-kind shares' evaluation and the transfer expenses of the ownership or usufructuary. These expenses can then be recovered once the fund is set up as 'foundation expenses' or as the fund's auditor deems appropriate.

If the subscription fails then, unless it is agreed with the in-kind shares providers to bear all or any of these expenses, these expenses will fall to the management company or the self-fund founders.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

- 1. Who can establish a local fund?**
Answer reference: Section 1.1
- 2. Who approves a local fund?**
Answer reference: Section 1.2
- 3. What is expected of a prospectus for a local fund?**
Answer reference: Section 1.2.2
- 4. What is a KIID?**
Answer reference: Section 1.2.2
- 5. How does final approval differ from initial approval of a local fund?**
Answer reference: Section 1.2.1 & 1.2.3
- 6. What are the restrictions for the length of the first financial year of a local fund?**
Answer reference: Section 1.3
- 7. How often are financial reports required for local funds?**
Answer reference: Section 1.3
- 8. What restrictions apply to private fund advertisements and promotions?**
Answer reference: Section 1.4.1
- 9. What restrictions apply to private equity funds?**
Answer reference: Section 2.1
- 10. What restrictions apply to venture capital funds?**
Answer reference: Section 2.2
- 11. What restrictions apply to general and limited partnership funds?**
Answer reference: Section 2.3
- 12. What restrictions apply to cash investment funds?**
Answer reference: Section 3
- 13. What is an exchange-traded fund?**
Answer reference: Section 4
- 14. What restrictions apply to exchange traded funds (ETFs)?**
Answer reference: Section 4
- 15. What must an administrative services company for an ETF announce to the Authority?**
Answer reference: Section 4.3.2

16. What restrictions apply to real estate funds?

Answer reference: Section 5

17. How must the real estate assets of real estate funds be proven?

Answer reference: Section 5

18. What is expected to enable in-kind shares to be used to buy units in local funds?

Answer reference: Section 6

19. List two obligations placed on an in-kind shares evaluator.

Answer reference: Section 6.2

20. What are the time periods related to refraining from trading in securities by an in-kind shares evaluator?

Answer reference: Section 6.3

21. Detail what should be disclosed in the fund prospectus regarding in-kind shares transactions.

Answer reference: Section 6.4

Chapter Four

Markets

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This syllabus area will provide approximately 14 of the 100 examination questions



1. The Central Depository

1.1 Functions of the Depository Centre

Learning Objective

4.1.1 Know the functions of the Depository Centre (Article 8)

The **Depository Centre**, alternatively referred to as the Central Depository, facilitates the successful completion of trades undertaken on exchanges, such as the **Dubai Financial Market (DFM)** and the Abu Dhabi Exchange (ADX). It is useful to appreciate that the Central Depository, alongside the exchanges and the clearing system are often described collectively as the capital market institutions. In simple terms, the Depository Centre enables the seller of securities to deposit the securities agreed to be sold and only transfers these to the buyer when it is certain that the cash to settle the transaction is flowing in the other direction, from buyer to seller.

The functions undertaken by the Depository Centre are laid down in the Securities and Commodities Authority's Decision No. 19 of 2018, and include the following:

- Opening accounts for the investors to deposit their securities that will enable the settlement of trades on receipt of the appropriate instructions.
- Keeping a register of all transactions in securities listed on the market. Any transaction in listed securities that is not registered is deemed to be 'null and void'.
- Keeping the documents and records which prove the ownership of the securities of each investor and registering any pledges or liens on the ownership of those securities.
- Ensuring that the final settlement is performed in accordance with the law, the Authority's regulations and any regulations of the market.
- Maintaining the details of the bank accounts of the investors that will facilitate the distribution of any cash dividends.



1.2 Obligations of the Depository Centre

Learning Objective

4.1.2 Know the obligations of the Depository Centre (Article 10)

To ensure that their functions are exercised appropriately, the Depository Centre is faced with a series of obligations that are detailed in Article 10 of the Authority's Decision 19. These include:

- Setting the rules and procedures for the members of the depository – the members are predominantly the brokers on the market.
- Enabling the investors to have access to their accounts that detail their ownership of securities. This includes issuing statements of account to the investors upon their request at any time for a fee to be determined by the Depository Centre. The Depository Centre must also enable all entities listed on the market (and their registrars) to access the register of securities holders.
- Regularly reviewing and continuously updating the internal auditing system and the risk management operational guide in accordance with the market developments and norms. The reviews should be forwarded to the board of directors or the relevant director, as appropriate, and also be made available to the Authority.
- Developing a Professional Code of Conduct for staff, supervising the staff, and organising and monitoring any personal transactions of members of staff in the market. No member of the Depository Centre's board of directors or executive management is permitted to be a partner or a member of the board of directors, management board, executive management, employee, or a representative of another entity licensed by the Authority.
- Immediately notifying the Authority if any members of its board of directors serves as a member of the board of any public joint-stock company; or of any other potential conflict of interest.

- Not removing the internal auditor without a decision of the board of directors or the relevant director. In the event of a removal, the Authority and internal auditor must be notified at least 30 days in advance, and the notice must state the reasons and justifications of the removal.
- Providing the Authority with the following reports:
 - interim financial reports (quarterly reports) reviewed by the external auditor within 45 days of the end of the quarter
 - an annual financial report audited by the external auditor within three months of the end of the fiscal year
 - a periodical and updated report on the equity percentages of the shareholders who hold more than 5% of the capital of the Depository Centre.
- Obtaining the prior approval of the Authority before taking any of the following actions:
 - amending the Memorandum or articles of association of the company, or selling a share to a strategic partner
 - adding an activity to the trade licence, or removing or amending an activity
 - increasing or decreasing the capital of the company
 - effecting any mergers or acquisitions
 - changing the partners or founders or amending of their equity percentages.
- Immediately notifying the Authority of the following:
 - any cases or procedures that result in considering a Depository Member in default of its obligations
 - any material changes or developments, or any deficit that affects its financial position
 - any change in the information or data provided when the application for licence was submitted
 - any change to the members of the board of directors
 - any lien or pledge on its assets, and any lawsuits to which the Depository Centre is a party, as well as any judgments issued on such lawsuits which would influence the Depository Centre's financial position
 - any violations committed by its approved employees of laws, regulations, by-laws or decisions of the Authority and/or the market.
- Keeping and maintaining all books and records, documents and financial and technical statements throughout the licence term, keeping backups and ensuring that none of them are exposed to damage. The Authority must be able to receive a copy of such documentation and access to all related materials upon request.
- Exercising the licensed business with due diligence as per the provisions of the law and its implementing regulations as well as the principles of honesty, integrity, justice, equality, confidentiality of data and information, preventing conflicts of interest and illegal exploitation of the business, directly or indirectly.

1.3 General Provisions

Learning Objective

4.1.3 Know general provisions relating to the Depository Centre (Articles 11 & 12)

Articles 11 and 12 of the Authority's Decision No. 19 detail some general provisions that relate to the Depository Centre.

Article 11 requires the market (and any central counterparty it might utilise) to provide the Depository Centre with all the data and information required to exercise its business. It also specifies that the records of the Depository Centre are legal evidence of ownership of securities – giving the holder the right to vote at annual general assemblies and the right to receive dividends and any bonus shares.

For cash dividends, the issuing company must deposit the dividends in the bank account of the Depository Centre. The Depository Centre must then deposit the cash profits in the bank accounts of the shareholders.

Article 12 requires the issuer of securities, within one week of the listing on the market being approved, to deliver an up-to-date copy of its register of shareholders to the Depository Centre. Thereafter, the issuer should update the register whenever it is necessary and provide the Depository Centre with such update. The update will be facilitated by the Depository Centre installing a terminal device for the registrar of the listed entity to be able to make the required updates and to undertake any inquiries. The Depository Centre must, within one week from the approval of the listing of any security on the market, install a terminal device for the registrar of the listing entity to enable it to access the register for inquiries and to make the required updates.

2. Issuing and Offering Shares in Public Joint-Stock Companies

2.1 Regulations

Learning Objective

4.2.1 Know regulations for the issuing and offering of shares of public joint-stock companies (SCA resolution 11/R.M dated 6 June 2016): applications (Article 3); preliminary valuation (Article 4); meetings (Article 5); prospectus and offer (Article 6); receiving subscriptions and building the order book (Article 7); pricing and allotment (Article 8); general provisions (Article 9)

Public joint-stock companies wishing to issue and offer shares in the UAE must abide by the Authority Resolution 11 of 2016.

2.1.1 Newly Incorporated Companies

The resolution first deals with newly incorporated companies and the conditions that need to be met. These include the following:

- Legal approval to incorporate as a public joint-stock company.
- Unless the company is a bank, a finance corporation or an insurance company, the subscribers to the shares must be '**qualified investors**'. A qualified investor is broadly an investor that is suitably experienced in investments and the related risk and meets certain minimum wealth requirements.
- A minimum subscription of AED5 million.
- The company's senior management must have the adequate qualifications and expertise to manage the business.
- The appointment of advisers, including a listing adviser to ensure the company meets the requirements for listing for a period of two years from the listing date.
- The publication of a prospectus setting out the details, terms and conditions of the offering.
- Sufficient working capital for a period of 12 months.

Newly incorporated companies may price the shares being issued using a book building process.

2.1.2 Existing Companies Offering Shares After Conversion

For companies already in existence that want to offer shares after conversion into public joint-stock companies, the resolution requires the following:

- A special resolution to convert the company into a public joint-stock company.
- Legal approval to incorporate as a public joint-stock company.
- The shares already issued must have been paid in full.
- The company must have released its audited financial statements for two fiscal years preceding the request to offer shares and provide up-to-date financial statements no later than three months prior to the publication of the prospectus.
- The company must have achieved a net operating profit of no less than 10% of its capital during the previous two financial years preceding the approval of its conversion.
- The senior management of the company must have the adequate qualifications and expertise to manage the business.
- A subscription receiving body – a firm tasked with receiving the subscription funds – must have been appointed.
- A prospectus must be prepared.

Like a newly incorporated company, the shares may be priced using a book building process.

2.1.3 Capital Increases

An existing public joint-stock company can issue further shares in a capital increase as long as it meets certain requirements laid down in the Authority's resolution. These include the following:

- A special resolution from the company and the Authority's approval of the capital increase.
- The company's existing issued capital must have been paid in full.

- The appointment of the appropriate parties to the offering, that might include an appraiser of any in-kind contributions.
- A prospectus must be prepared.

The issuing company wishing to offer shares to increase capital may use any of the following mechanisms:

- Increasing the authorised capital (after securing the Authority's approval).
- Increasing the issued capital up to the authorised capital previously approved by the shareholders.
- Increasing the issued capital through a special resolution in the absence of any authorised capital. However a resolution to increase the authorised share capital must take place within a year.
- Increasing the issued share capital through a programme of a series of offerings deemed as a single offering within a period of two years.

2.1.4 Share Premium and/or Discount

A company increasing its share capital must issue the shares at a nominal value equivalent to the nominal value of the existing shares. However, the company may, under a special resolution and after obtaining the Authority's approval, do the following:

- Add share premium to the nominal value of the share. This should be calculated based on the average market value of the share during the six months preceding the date of issue. The company may deduct a percentage of no more than 25% of the calculated share premium.
- Exceptionally, a public joint-stock company may issue capital increase shares with a share discount. This is only in cases accepted by the Cabinet in accordance with the provisions of the Commercial Companies Law. This discount shall be calculated according to the mechanism established by the company and approved by the Authority.



2.1.5 Rights Offerings

An existing company could issue further shares in the form of a rights issue. This involves new shares being issued to the existing shareholders in proportion to their holdings. The new shares are initially offered to the existing shareholders in the form of a transferable right to subscribe.

The company announces the rights issue at least twenty business days before the start date of subscription. The announcement will include the following details:

- The amount and percentage of the capital increase.
- The exercise price of the rights issue – the amount to be paid to subscribe to the new shares being offered.
- The start and end dates for the trading of the rights.
- The start and end dates for the subscription to the shares of the capital increase by the holders of the rights.

The shareholders registered at the end of the day which precedes the start date of subscription by ten days will be entitled to subscribe to the rights issue. These holders of rights may sell or use the rights to subscribe and the trading period for the rights will not be less than ten business days.

The holders of the rights are those registered at the end of the clearing and settlement period for the trading of such rights and the rights are registered with the clearinghouse in the names of their holders, separate from the original shares. The rights are traded separately from the original shares and the listing of the rights will end on the expiry of the rights trading period.

2.2 Buy Backs

Learning Objective

- 4.2.2 Know controls and procedures relating to a company buying back its shares with a view to resell them (Decision No. (40) of 2015)

The SCA's Decision No. 40 of 2015 details certain requirements that need to be met in order for a company to buy back its own shares with a view to selling them.

At least two financial years must have elapsed since the company has been listed and the company must have issued two audited balance sheets approved by its General Assembly. Furthermore, at least one year must have elapsed since the last selling transaction of shares previously bought back, if any.

The buy-back must have been approved by special resolution of the General Assembly of the company, allowing the board of directors to execute the buy-back transaction and to reduce the share capital of the company in the event that the bought back shares are not sold within the period laid down by the Authority. The reduction involves cancelling the bought-back shares and amending the capital of the company in the articles of association.

Any buy-back may not exceed 10% of the issued and paid-up share capital, and the company may not execute a buy-back transaction within six months of the last issuance of any securities in a public offer.

Any buy-back must be made on the basis of approval from the Authority. The company must apply to the Authority using the approved application and enclosing an undertaking that the company will fulfil its obligations (detailed in the following paragraphs), and any other documents required by the Authority. The Authority will issue its decision to approve or reject the application within 15 working days of the date of submitting the complete application.

The obligations of the company referred to above are to announce to the public the buy-back transaction in two widely circulated local daily newspapers, at least one issued in Arabic language, at least 14 days before the date of the actual buy-back.

The buy-back transaction must then be executed within a period no longer than one year from the date of obtaining the approval of the Authority. Furthermore, the company must not buy-back its own shares within 15 days before and three days after the disclosure of its financial statements or any other material information that may affect the share price upward or downward.

The company must not execute any sale transaction while performing the announced buy-back transactions, and the bought-back shares must not be sold until one year has elapsed after the date of obtaining the Authority's approval of the buy-back transaction. The bought-back shares must be sold within a period of no longer than two years of the date of the last buy-back transaction, otherwise the buy-back transaction will be considered as a capital reduction that requires the bought-back shares to be written off. The company must not issue any new shares arising from a public offer, or any debt instruments convertible to shares before the completion of the sale transaction of the bought-back shares.

No member of the company's board of directors or executive management is permitted to be a party to the buy-back or sale transactions and a subsidiary company must not buy the shares of the parent company.

3. Troubled Public Joint-Stock Companies

3.1 The First and Second Categories of Listing

Learning Objective

4.3.1 Know the conditions for classifying a company within the first category (Article 2)

The SCA's Decision No. 13 of 2020 concerns listed companies that are facing certain difficulties and are therefore moved from the so-called first category of listing, to a second category. Listed companies are initially allocated to the first category. Falling from the first category to the second category occurs when either the company concerned has its shares suspended for six months or more, or faces accumulated losses of 50% or more of capital.

Put another way, to be classified as a **first category listed company** requires the following:

1. The company shares' listing is not suspended for six months or more.
2. The company did not incur accumulated losses of 50% or more of the capital according to the last audited annual financial statements.

3.2 Transferring Between Categories

Learning Objective

4.3.2 Know the procedures for transferring a listed company between the two categories (Article 3)

It is the market that transfers a company's shares between the first and second category. The market will transfer the listing of a company's shares from the first to the second category or from the second to the first category once a year after the company provides the market with its audited financial statements as at the end of its fiscal year. This is based on the extent of the company's reported losses compared to the company's capital.

The market will also transfer the listing of a company's shares from the first to the second category if they are suspended for six months or more.

Furthermore, following the Authority approval, the market may choose not to transfer the listing of the company shares from the second to the first category if the company concerned failed to comply with the regulations of the the Authority or the market.

Transfers of listed companies between the two categories are announced on the market's website.

3.3 Trading of Second Category Shares

Learning Objective

4.3.3 Know trading procedure for shares classified in the second category (Article 4)

The shares of a company suspended from listed for six months or more can be re-traded on being transferred from the first category to the second category. The trading or re-trading of the shares of a company whose listing has been transferred to the second category involves the market providing a screen dedicated to the trading of the shares of companies classified within the second category and including the data relating to those companies. This will have the name of the listed company written next to its listing category (second category).

The trading or re-trading, as the case may be, will be announced and the announcement will include a brief description of trading within the second category, the **watch list** requirements (see below), as well as the company's current status, financial position, the risks associated with investing in the company and any other details the market deems necessary to protect investors.



3.4 The Watch List

Learning Objective

- 4.3.4 Know about the watch list: purpose (Article 1); monitoring (Article 5); commitments of companies placed on the watch list (Article 6)

The watch list is a list of the companies that have been transferred from the first category to the second category due to failing to meet one of the two conditions detailed in section 3.1 above.

A joint committee established by the Authority monitors companies placed on the watch list assessing their compliance with the disclosure and listing requirements. This is initially for a one-year period, extendable to three years. The committee makes recommendations to the Authority and the market as to whether the monitored company should be transferred to the first category.

Where a company being monitored does not gain the committee's recommendation to be transferred to the first category, the committee will make one of two recommendations:

1. to keep the company listed within the second category and continuing trading of its shares, or
2. to cancel the listing of the company's shares.

Companies placed on the watch list must provide the committee with an action plan for regularising their status and therefore, becoming eligible for the first category listing. The plan must be approved by the board of the company and by an entity with financial and technical expertise approved by the Authority. Details of the implementation and success of the plan must then be disclosed to the committee every three months or on request.

3.5 Delisting of Shares

Learning Objective

4.3.5 Know procedures relating to the delisting of shares (Articles 7 & 8)

In cases where the Authority, after consulting with the market, decides to delist a company's shares, the following procedures will be taken:

- The Authority will notify the company of its shares delisting within a period of 30 days of the date of decision being made and issued.
- The concerned market will post an announcement on its website of the decision to delist the shares of the company within 30 days of the decision, including the fact that transferring the company's shares after the delisting will be done away from the market's systems ('over-the-counter').

4. Conciliation

4.1 Conciliation Procedure

Learning Objective

4.4.1 Know the controls and procedures of conciliation in offences relating to public shareholding companies (Decision No. (42) of 2015)

Conciliation is where the Authority can suspend the procedures to initiate a criminal prosecution for certain specified offences and instead decide that the offender should pay the prescribed amount for such offences.

The offences are detailed in an annex to SCA Decision No. 42 of 2015 and include a breach of governance rules, a breach of the requirements to invite shareholders to the **annual general assembly**, a refusal to co-operate with auditors and many others.

The starting point for conciliation is that the violator submits an application for conciliation to the Authority before a criminal case is referred to the court. This is done using the form designated by the Authority and must include the required data, information and documents.

A committee at the Authority will then make a decision, by majority, on the conciliation application. The committee considers and decides on the conciliation application within 15 working days of the date of receipt of the completed application. The committee has the power to approve or reject the conciliation application based on the public interest.

The procedures to initiate a criminal case will be suspended when a conciliation application is submitted to the Authority until the committee decides on the application.

In cases where the Authority has already submitted a request to the Public Prosecution to initiate a criminal case, the Public Prosecution will be notified of the committee decision approving or rejecting the conciliation application.

If the committee's decision is to approve the conciliation application and the violator commits to pay the prescribed amount then no criminal case will be initiated, and the violator will waive any legal rights, claims or warranties.

If the committee decides to reject the conciliation application or the violator fails to pay the prescribed amount for the conciliation within the specified period of time detailed in the decision, then the Authority may proceed with the procedures to initiate a criminal case.

5. Debt Securities

5.1 Qualified Investors

Learning Objective

4.5.1 Know the regulations regarding qualified investors (Article 1)

Certain investments and investment products can only be promoted to so-called 'qualified investors'. The definition of a qualified investor is provided in Article 1 of the Authority's Decision No. 17 of 2014 concerning the Regulations of Debt Securities. A qualified investor is a natural or legal person capable of managing its own investments and includes:

1. A corporate person that meets any of the following conditions:
 - The federal government, local governments and governmental entities, institutions and authorities, or the companies fully owned by any of the aforementioned.
 - Foreign governments, and its entities, institutions and authorities or companies fully owned by any of them.
 - International bodies and organisations.
 - Entities licensed by the Authority or by a similar regulatory authority.
 - A corporate person who meets, at the date of its last financial statements, at least two of the following requirements:
 - its total budget of AED 75 million
 - has net annual return of AED 150 million
 - has funds or paid up capital of AED 7 million.
2. A natural person accredited by the Authority or by a similar regulatory authority to perform any of the functions related to financial activities or services.
3. A natural person who meets the following conditions:
 - net equity, with the exception of the person's main house, is valued at AED 4 million
 - annual income is not less than AED 1 million annually
 - declaring to have adequate knowledge and experience in the field of investment and its risks, or represented by an entity licensed by the Authority.

5.2 Issuing Debt Securities

Learning Objective

- 4.5.2 Know the terms regarding the issuing of debt securities: application (Articles 8 & 9); listing conditions – issuer (Articles 4 & 6); listing conditions – debt securities (Article 5); continuing obligations (Articles 19 & 20); suspension and cancellation (Articles 21, 22, 23, 24, 25)

5.2.1 Application

An issuer seeking to issue, offer and conduct a primary listing of debt securities in a market must submit an application to the Authority. The application must be submitted on the Authority's required form together with supporting information, data and documents, in particular:

- A draft prospectus.
- Statements confirming the disclosure in the prospectus, signed by the issuer.
- A resolution of the issuer's general assembly/board of directors/relevant body approving the issuance and listing of the debt securities.
- The most recent audited financial statements of the issuer.
- If the debt securities are guaranteed by any other company, the most recent audited financial statements of the guarantor.
- If the debt securities are guaranteed by the government, a copy of the law, regulation, resolution or document allowing the governmental entity to provide such guarantee must be submitted together with the guarantee document for the debt securities to be issued and listed.
- Payment of the fees.
- Any other documents, requirements, conditions or controls specified by the Authority.

A foreign issuer or an issuer incorporated in a financial free zone, wishing to conduct a dual listing for debt securities in a market, must submit a similar application that will also include the preliminary or final approval from the other supervisory authority which carries out similar functions to those of the Authority.

5.2.2 Listing Conditions – Issuer

Issuing debt securities must not conflict with the issuer's constitutional documents and those documents must not contain any restrictions which may prevent the issuer from fulfilling the obligations and provisions concerning the issuance and listing of debt securities in accordance with the provisions of the Authority's regulations.

Furthermore, when the issuer is a joint-stock company issuing debt securities into the primary market, the issuer must be incorporated in the State and outside a financial free zone.

The conditions that need to be satisfied for a primary listing of debt securities are as follows:

- If the Issuer is a joint-stock company, to obtain the approval of its general assembly.
- To prepare and submit a prospectus to be approved by the Authority.

- If the debt securities are convertible, the prospectus must include details of the conversion procedure and terms.
- The issuance, listing and offering of the debt securities may be done according to a debt securities issuance programme approved by the Authority.
- Appointing a paying agent in the State.
- If the issuer is a joint-stock company, an agreement must be signed with an independent representative to represent the debt securities holders and protect their rights and interests. This may be the trustee for secured debt securities, or the paying agent.

5.2.3 Listing Conditions – Debt Securities

To be listed, debt securities must satisfy the following conditions:

- To comply with the provisions of the Commercial Companies Law and with the issuer's constitutional documents.
- Unless the Authority decides otherwise, the aggregate value of all debt securities to be listed must be at least AED 10 million or the equivalent in a foreign currency that is acceptable to both the Authority and the market.
- Where the debt securities to be listed are secured, a trustee must be appointed to represent the interests of the holders and that trustee must have the right of access to any information relating to the assets.

5.2.4 Continuing Obligations

There are further obligations that need to be complied with for debt securities offered through a public subscription. These include:

1. Immediately announcing the following through the means determined by the Authority:
 - any issuance of any block of shares or new program by the issuer
 - any change in the terms and conditions of the debt securities
 - any redemption or cancellation of the debt securities
 - any appointment or replacement of the trustee or paying agent as applicable
 - any event of default concerning the conditions of issuing and listing debt securities
 - any event requiring the immediate notification of the trustee by virtue of the trust agreement.
2. Sending to the Authority and the market a copy of all correspondence sent by the issuer to the holders of the debt securities, as well as any other information or documentation regarding the meetings of holders of debt securities at the time of their issue.
3. Notifying the Authority and the market of any of the following events, information or matters as soon as they come to the issuer's attention. The issuer must also publish the same on its website upon the approval of its board of directors/managers:
 - any decision not to pay any interest payment on any of the issuer's debt securities
 - any proposal to issue new securities by the issuer, as well as any guarantee or warranty that relates to this new issuance
 - any amendments to the issuer's constitutional documents which may materially affect the debt securities holders
 - any proposed changes to the structure of the issuer's capital which may materially affect the debt securities holders

- any decision to change the nature of the issuer's activities or business if such change negatively and materially affects the debt securities holders
 - any change to the composition of the issuer's board of directors or to its managers
 - the termination of any period of time which cause the winding-up of the issuer, its holding company or any of its subsidiaries
 - the entry into possession of or the sale by any mortgagee of a portion of the issuer's assets which in aggregate value represents an amount in excess of 10% of the book value of such assets
 - the making of any judgment, or order by any court of competent jurisdiction, which may adversely affect the issuer's enjoyment of any portion of its assets which in aggregate value represents an amount in excess of 10% of the book value of such assets
 - passing of any law, decree or government decision by any competent entity to wind up or dissolve the issuer.
4. Any purchase, redemption or cancellation by the issuer, or any member of its group, of its debt securities or **Sukuk** must be disclosed to the Authority and the market, as soon as possible after such purchase, redemption or cancellation and such operation must be published on the issuer's website. The announcement should also state the amount of the relevant debt securities or *Sukuk* outstanding after such operations.
5. If the debt securities are traded outside the market, the issuer must immediately disclose, through the means determined by the Authority, any information that may materially affect the following:
- the price and value of the debt securities
 - the investor's decision to invest in the debt securities or otherwise.



A foreign issuer and an issuer incorporated in a financial free zone in the State with debt securities listed on the market must comply with the following continuing obligations:

- In the event of a conflict between the provisions of the Authority's regulations and those of a foreign market or a financial free zone market, the issuer must immediately notify the Authority of the conflict to enable it to take any appropriate decisions or steps as it deems fit.
- Provide the Authority and the market, through electronic means and in a form suitable for publishing by the Authority and the market as well as on the issuer's website, all information and documents notified to or documents filed with the relevant foreign market or financial free zone market.
- Immediately notify the Authority and the market of any change in any law, legislation or regulation in the state of the foreign issuer or at the financial free zone or any other state which may affect the transferability or price of the debt securities issued by the foreign issuer or the issuer incorporated in a financial free zone including any change or amendment in any tax legislation.
- The foreign issuer or the issuer incorporated in a financial free zone must inform the Authority immediately if its debt securities cease to be listed, or if the issuer is subject to disciplinary action by the foreign market, a financial free zone market or any other securities regulatory body (whether equity securities, debt securities or *Sukuk*).
- Sending to the Authority its annual financial statements and interim financial reports filed with the foreign market or the financial free zone market, as necessary, along with any circulars or notices sent to holders of the listed debt securities as soon as any circulars or notices are issued.

5.2.5 Suspension and Cancellations

The Authority reserves the right, after deliberation with the market, to suspend the listing and trading of debt securities or cancel their listing if exceptional circumstances arise, or if an event occurs that may threaten the maintenance of an orderly market. The Authority may also suspend or cancel, if it considers it necessary for the protection of investors and normal market activities, if it sees a violation of the debt securities holders' right or if the issuer fails to comply with the provisions of the Authority's regulations, undertakings, requests and documents it has signed.

The Authority may also suspend the listing and trading of any listed debt securities in any of the following events:

- If the issuer ceases to comply with any of the listing conditions or violates any of the conditions stated in the Authority's regulations.
- If the specified listing fees or fines have not been paid.

Furthermore, a temporary suspension of trading may be requested by an issuer upon the occurrence of a material event that requires immediate disclosure under the Authority's regulations, provided that an announcement of the material information is made as soon as practicable following the suspension.

The Authority may also cancel the listing of any listed debt securities in any of the following circumstances:

- If a decision is made to dissolve or wind up the issuer.
- If the suspension of listing continues for more than six months.
- If the relevant debt securities are completely redeemed.

Trading in suspended or cancelled debt securities is prohibited and neither the Authority nor the market will be responsible for indemnifying any person or entity for any loss which occurs as a result of the suspension or cancellation of the listing of the debt securities.

The issuer may voluntarily cancel the listing of its debt securities by submitting a request to the Authority in accordance with the terms of the prospectus and provided the following conditions are met:

- The issuer obtains the approval of its general assembly/board of directors/relevant body in accordance with the requirements of its constitutional documents.
- Notifying the relevant debt securities holders, the Authority and the market in writing at least 90 days in advance. The notification must include a comprehensive and sufficient clarification of the issuer's decision to cancel the listing, as well as the Authority's approval.

6. Islamic Securities

6.1 Offering Islamic Securities

Learning Objective

- 4.6.1 Know regulation regarding the listing and offer of Islamic securities (Decision No. (20 /R.M) of 2018)

Decision No. 20 of 2018 applies to an issuer which issues, or wishes to offer or issue, an Islamic security inside or outside the UAE, and to a foreign issuer that offers or wishes to offer an Islamic security in the UAE.

It requires the following data and documents, as a minimum, to be provided in the offering document or prospectus:

1. The names, qualifications and expertise of the members of the Shariah Supervisory Committee.
2. Mechanism for organising the membership and functions of the Shariah Supervisory Committee and remuneration of the members thereof.
3. All details of the Islamic security and the issuer, including the mechanism of structuring and issuing of the Islamic security and the contracts and documents thereof, as well as methods for its evaluation and assets, and the risks of ownership of such assets to the holders of the Islamic security.
4. Mechanism for re-allocating the resources, and the disposal proceeds if the Islamic security or the issuer ceases to be compatible with the principles of Islamic Shariah.
5. The Shariah controls governing the trading of the Islamic security and the necessary action when violated.
6. Mechanism for addressing the cases of conflict of interests among the functions assigned to the members of the Shariah Supervisory Committee and their personal interests, and how they are managed.
7. Methods of resolution of disputes relating to the Islamic security or the issuer.
8. The mechanisms of disclosure and how they are applied.

In addition, a foreign issuer wishing to offer **Islamic securities** within the UAE must provide the Authority with the following statements:

1. A statement of any conflict between the laws applicable in the country of issue of the security and the laws applicable in the UAE, and any discrepancies in the Shariah principles in force between the two countries.
2. A statement of any differences in taxation on the Islamic security.
3. A statement of any conflict between the International Financial Reporting Standards (IFRS) and the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in cases where the foreign issuer pledges to abide by these standards in accordance with the laws of the country of issue.

6.2 Listing Islamic Bonds

Learning Objective

- 4.6.2 Understand the terms concerning the listing of Islamic bonds (Decision No. (16) of 2014); application (Articles 2 & 7); listing conditions – companies (Articles 4 & 6); listing conditions – Islamic bonds (Article 5); advertisements (Article 12); continuing obligations (Articles 17 & 18); suspension and cancellation (Articles 19–23)

6.2.1 Application

The Authority's Decision No. 16 of 2014 concerning the regulation of *Sukuk* (or Islamic bonds) applies to *Sukuk* being issued in the UAE or listed on a market in the UAE. It excludes government *Sukuk*.

An entity (the obligor) wishing to issue, offer and conduct a primary listing of *Sukuk* in the market must submit an application to the Authority. The application must include:

- a draft prospectus
- statements confirming the disclosure in the prospectus, signed by the obligor
- a resolution of the obligor's general assembly/board of directors/relevant body approving the issuance and listing of the *Sukuk* in accordance with the constitutional documents and detailing whether the *Sukuk* are convertible to shares or otherwise
- the most recent audited financial statements of the obligor
- if the *Sukuk* are guaranteed by any other company, the most recent audited financial statements of the guarantor
- if the *Sukuk* are guaranteed by the government, a copy of the law, regulation, resolution or document allowing that governmental entity to provide such guarantee must be submitted together with a guarantee document for the *Sukuk* to be issued and listed
- payment of the fees specified by the Authority, and
- any other documents, requirements, conditions or controls specified by the Authority.

6.2.2 Listing Conditions – Companies

Corporate obligors' constitutional documents must not contain any restrictions which prevent acting as an obligor in respect of the issuance and listing of *Sukuk*. Furthermore, where the primary listing will be for retail *Sukuk*, the obligor must be incorporated in the UAE and outside of a financial free zone.

To obtain approval for the issuance and primary listing of *Sukuk* in the market, the obligor must:

- Prepare and submit a prospectus.
- If the *Sukuk* are convertible, the prospectus must include details of the convertible *Sukuk* and the conversion procedure.
- The issuance, listing and offering of the *Sukuk* may be done according to a *Sukuk* issuance programme to be approved by the Authority and in accordance with the procedures and documents it may request.
- Entering into a trust agreement which must include a confirmation of the trustee's right to obtain any information regarding the *Sukuk* as well as the trustee's obligations to protect the rights and interests of the *Sukuk* holders.
- Appoint one of the licensed banks in the UAE to act as a paying agent in the UAE.

6.2.3 Listing Conditions – Islamic Bonds

Listed *Sukuk* must be approved by the Shariah Committee at the obligor. If the obligor does not have a Shariah Committee, the *Sukuk* must be approved by a Shariah Committee approved by the arranger of the issue.

Unless the Authority decides otherwise, the total nominal value of *Sukuk* to be issued and listed must not be less than AED 10 million or its equivalent in any foreign currency accepted by the Authority and the market.



6.2.4 Advertisements

With the exception of government entities, any advertisement which is to be issued in the UAE and which is to be issued by or on behalf of an obligor or an issuer of *Sukuk* admitted to listing must be authorised by the Authority before publication.

6.2.5 Continuing Obligations

An obligor must, with respect to primary listing of *Sukuk*, comply with the following continuing obligations:

- Immediately notify the Authority and the market of any new developments or information which are not public knowledge and which may be expected to materially affect market activity in or the price of the listed *Sukuk* or the ability of the obligor or the issuer to meet their commitments. The obligor must, immediately after obtaining the approval of the Authority, publish such new developments on its website in the Arabic and English languages.
- Continuously maintain a paying agent in the UAE until the *Sukuk* are finally redeemed. The obligor must also notify the Authority and the market of any change of paying agent.
- Inform the Authority and the market of any of the following events as soon as they come to the attention of the obligor and publish the details on its website:
 - the presentation of any winding-up petition, or the appointment of a provisional liquidator in respect of the issuer, the obligor, the obligor's holding company or any of its subsidiaries
 - the passing of any resolution by the issuer, the obligor, the obligor's holding company or any of its major subsidiaries that it will be wound up or dissolved
 - the termination or suspension of activities for any period of time which may cause the winding up of the issuer, the obligor, the obligor's holding company or any of its subsidiaries.
- Submit to the Authority and the market the audited annual financial statements within 180 days of the end of the fiscal year. The financial statements must be prepared according to international auditing standards.
- Pay the specified annual fees to the Authority and to the market.
- Provide the Authority with all of the information which it deems necessary for the protection of investors and any other information that it may request from time to time to ensure compliance with the provisions of its regulations.

In addition to the obligations above, there are further continuing obligations in relation to listed retail *Sukuk* that include the following:

- Immediately announcing any of the following:
 - Issuance of any block of shares or new program by the obligor.
 - Any changes in the terms and conditions of the retail *Sukuk*.
 - Any redemption or cancellation of the retail *Sukuk*.
 - Any appointment or replacement of the trustee or paying agent as applicable.
 - Any event of default concerning the conditions of issuing and listing the retail *Sukuk*.
 - Any event requiring the immediate notification of the trustee by virtue of the trust agreement.
- Sending to the Authority and the market a copy of all correspondence sent by the obligor or the issuer to the retail *Sukuk* holders as well as any other information or documentation regarding the meetings of retail *Sukuk* holders as soon as such information or documentations are issued.

- Notifying the Authority and the market of any of the following events, information or matters as soon as they come to the obligor's attention. The obligor must also publish the same on its website upon the approval of its board of directors/managers:
 - Any decision not to pay any profit payment for any of the obligor's retail *Sukuk*.
 - Any proposal to issue new securities by the obligor, as well as any guarantee or warranty which relates to this new issuance.
 - Any amendments to the obligor's constitutional documents which may materially affect the retail *Sukuk* holders.
 - Any proposed changes to the structure of the obligor's share capital which may materially affect the retail *Sukuk* holders.
 - Any decision to change the nature of the obligor's activities or business if such change may negatively and materially affect the retail *Sukuk* holders.
 - Any change to the composition of the obligor's board of directors or to its managers.
 - The termination of any period of time which causes the winding up of the issuer, obligor, obligor's holding company or any of its subsidiaries.
 - Taking a possession or the sale by any mortgagee of a portion of the issuer or obligor's assets which in aggregate value represents an amount in excess of 10% of the book value of such assets.
 - The issuance of any judgment, or order by any court of competent jurisdiction, which may adversely affect the issuer or the obligor's enjoyment of any portion of its assets which in aggregate value represents an amount in excess of 10% of the book value of such assets.
 - Passing of any law, decree or government decision by any competent party to wind up or dissolve the issuer or the obligor.
- Any purchase, redemption or cancellation by the issuer or the obligor, or any member of its group, of its debt securities or *Sukuk* must be disclosed to the Authority and the market, as soon as possible after such purchase, redemption or cancellation and such operation must be published on the obligor's website. The announcement should also state the amount of the relevant debt securities or *Sukuk* outstanding after such operations.
- If the retail *Sukuk* are traded outside the market, the obligor must immediately disclose, through the means determined by the Authority, any information that may materially affect the following:
 - The price and value of the retail *Sukuk*.
 - The investor's decision to invest in the retail *Sukuk* or otherwise.

6.2.6 Suspension and Cancellation

The Authority may, after deliberating with the market, suspend the listing and trading of any *Sukuk* or cancel their listing if exceptional circumstances arise or if an event occurs that may threaten the maintenance of an orderly market. The Authority may also do so if it considers it necessary for the protection of investors and normal market activities, if it sees a violation of the *Sukuk* holders' rights or if the obligor fails to comply with the provisions of the Authority's regulations, undertakings, requests and documents it has signed.

The Authority may also suspend the listing and trading of any listed *Sukuk* in any of the following events:

- If the obligor ceases to comply with any of the listing conditions or violates any of the conditions stated in the Authority's regulations.
- If the specified listing fees or fines have not been paid.

A temporary suspension of trading may be requested by an obligor upon the occurrence of a material event that requires immediate disclosure under the Authority's regulations, provided that an announcement of the material information is made as soon as practicable following the suspension. The Authority may accept or reject the request for suspension.

The Authority may decide to cancel the suspension of trading of any *Sukuk* upon the obligor's request and where the reasons for the suspension cease.

The Authority may also cancel the listing of any listed *Sukuk* in any of the following circumstances:

- If a decision is made to dissolve or wind up the issuer or the obligor.
- If the suspension of listing continues for more than six months.
- If the relevant *Sukuk* are completely redeemed.

Trading in suspended or cancelled *Sukuk* is prohibited and neither the Authority nor the market are responsible for indemnifying any person or entity for any loss which occurs to such person as a result of the suspension or cancellation of the listing of any *Sukuk*.

The obligor may submit a voluntary request to the Authority to cancel the listing of its *Sukuk* in accordance with the terms of the prospectus provided the following conditions are met:

- The obligor must obtain the approval of its general assembly/board of directors/relevant body in accordance with the requirements of its constitutional documents.
- Notifying the relevant *Sukuk* holders, the Authority and the market in writing at least 90 days in advance. The notification must include a comprehensive and sufficient clarification of the obligor's decision to cancel the listing, as well as the Authority's approval.

7. Derivatives

7.1 Derivative Contracts

Learning Objective

4.7.1 Know regulations concerning derivatives contracts (Decision No. (22/R.M) of 2018)

The Authority's Decision No. 22 of 2018 lays down certain regulations in respect of derivatives contracts. The decision mainly concerns exchange-traded derivatives which could be based on local securities or indexes, or foreign securities.

The listing and trading of exchange-traded derivatives must be in accordance with the rules issued by the market and approved by the Authority.

The market is obliged to continuously disclose and update details regarding the underlying securities of the exchange-traded derivatives traded on that market. It should also refrain from deregistering any underlying securities, in case there are pending unsettled exchange-traded derivatives in the market based on those underlying securities.

In relation to its exchange-traded derivatives the market is also required to:

- specify the number of structured financial derivatives in the series of contracts
- specify the underlying securities, the month of contract settlement, month of contracting, and the effective date of the contract
- specify the initial margin
- announce the working days, trading hours, opening and closing times
- set the rules and conditions for listing and trading, and
- settle all transactions through the central counterparty (CCP).

The market may also enforce limits on its exchange-traded derivatives.

The Authority or the market, with the approval of the Authority, may temporarily or permanently suspend or delist any exchange-traded derivatives in the event of extraordinary circumstances or an event that undermines the proper working, or if it deems that the trading of such contracts will not serve the public interest or would prejudice or violate the shareholders' rights.

8. Crypto Assets

Introduction – What are Crypto Assets?

Here is a brief explanation from a very credible and reliable source, the Bank of England:

'There are thousands of different types of cryptoassets out there – or as you might know them, cryptocurrencies. You've probably heard of a few – Bitcoin, Ripple, Litecoin and Ethereum have all been mentioned in the news recently. But what exactly is it?

*Well, let's start by breaking down the word **'cryptocurrency'**. The first part of the word, 'crypto', means 'hidden' or 'secret' reflecting the secure technology used to record who owns what, and for making payments between users.*

The second part of the word, 'currency,' tells us the reason cryptocurrencies were designed in the first place: a type of electronic cash.

But cryptocurrencies aren't like the cash we carry. They exist electronically and use a peer-to-peer system. There is no central bank or government to manage the system or step in if something goes wrong.

Some people find this appealing because they think they have more control over their funds but in reality, there are significant risks. With no banks or central authority protecting you, if your funds are stolen, no one is responsible for helping you get your money back.'

Source: Bank of England Knowledge Bank

In the UAE, the Authority has provided a technical definition of a **crypto asset** as:

'A record within an electronic network or distribution database functioning as a medium for exchange, storage of value, unit of account, representation of ownership, economic rights, or right of access or utility of any kind, when capable of being transferred electronically from one holder to another through the operation of computer software or an algorithm governing its use.'

This definition is drawn from the Authority's Decision No. 23 of 2020 Concerning Crypto Assets Activities Regulation that regulates crypto assets, exchanges, and custodial services within the UAE. The following sections provide more detail from this regulation.

It is important to distinguish between the two major types of crypto asset that are defined in the regulations, security tokens and commodity tokens:

- A **security token** is a crypto asset that takes a form similar to a financial instrument like a share or a bond. It may make the holder of the token a part owner of a venture and provide an entitlement to share in future profits (like a share), or give the holder the right to be repaid a specific sum of money (like a bond).
- A **commodity token** is a crypto asset that is not a security token. As detailed in section 8.2 below, some commodity tokens are regulated by the Authority and referred to as regulated commodity tokens, others are not.

8.1 General Obligations

Learning Objective

- 4.8.1 Know general obligations in respect of: offering crypto assets (Article 6); offering security tokens (Article 7); listing crypto assets on a crypto asset exchange (Article 8)

Chapter 2 of Decision No. 23 of 2020 provides some general obligations in respect of crypto assets in respect of those offering, promoting or listing crypto assets in the UAE.

8.1.1 Offering of Crypto Assets in the State

All offer documentation in respect of crypto assets offered or promoted in the UAE must:

- be clear, fair, accurate and not misleading
- not contain any incorrect statement or omit any statement necessary to prevent the data contained in the offer documentation being misleading.

Where a crypto asset has been approved by the Authority for offering in the UAE, or for listing on a crypto asset exchange, the offering person must also ensure that:

- all rights and features of the crypto assets described in the offer documentation are properly recorded in the operations of the computer software, protocol or other technology supporting the crypto asset

- in situations where funds are collected for the development of a project or to be otherwise used before the relevant crypto assets are issued, the necessary measures are adopted to prevent any misuse of the collected funds until the crypto assets are issued
- investors are provided with reasonably regular information about the progress to achieving any project milestones for development of technology or other matters funded by the offering, and disclose in the offer documentation the periods during which such information will be provided
- in circumstances where the obligation stipulated in the offer documentation related to the development of technology or other matters funded by the offering is not met, this will be stated in a notification to persons who have accepted the relevant offer, together with an explanation of the relevant matter
- those who have accepted the offer are promptly notified in advance of material changes in the nature of the relevant software relevant to their rights in respect of the crypto assets
- where the crypto asset does not provide for a right for holders to a claim against an offering person in respect of a default in the performance of benefits provided to holders of the crypto assets (as described in the offer documentation), the offer documentation clearly discloses this fact.

Any person promoting or offering crypto assets in the UAE must take reasonable steps to monitor the developments in the nature, transferability and technology underpinning such crypto assets and, promptly upon becoming aware, notify the Authority in the event that a crypto asset changes to, or from, being a regulated commodity token or security token.

8.1.2 Offering Security Tokens in the State

Crypto assets in the form of security tokens may only be offered for subscription and/or issued in the UAE by an offering person incorporated in the UAE or in a financial free zone within the UAE.

The following are also required:

- Submitting the offer documentation to the Authority where the offering is limited to qualified investors.
- Prior approval of the Authority if the offering includes persons other than qualified investors.

In order to obtain the Authority's approval for the offering and issuance of security tokens, the offering person must:

- identify the security on the basis of which the security token will be classified
- provide the Authority with copies of the required offer documentation
- provide the Authority with details of its technology development in respect of the security tokens, external audits and details of its senior employees who are responsible for technology development and supervise it
- submit any other application documentation in accordance with the regulation.

The Authority will:

- request the offering person to maintain the final register of ownership of the securities related to the security tokens by way of an electronic or digital network or database
- request the offering person not to issue physical certificates in respect of the securities related to security tokens unless otherwise prescribed in the constitutional documents of the offering person or the terms of issuance
- request the offering person not to conduct transfers of the security tokens by way of a written document.

The Authority reserves the right to subject the security tokens to restrictions on trading for such period as it feels necessary.

8.1.3 Crypto Assets Listing on a Crypto Asset Exchange

A crypto asset exchange is essentially a platform or facility for the trading, conversion and/or exchange of crypto assets.

The regulations state that no crypto asset can be listed and made available for trading on a crypto asset exchange licensed by the Authority unless either:

- the offer documentation for the crypto asset has been submitted to the Authority where the offering is limited to qualified investors
- prior approval of the Authority for the offering of the crypto asset has been obtained where the offering includes persons other than qualified investors.

If commodity tokens are listed and made available for trading, they are immediately categorised as regulated commodity tokens.

In addition to the offer documentation, to obtain the Authority's approval for listing a crypto asset and making it available for trading on a crypto asset exchange, the offering person must also:

- appoint a custodian for the crypto assets, a 'crypto asset custodian', unless the Authority decides that custody arrangements in respect of the relevant crypto asset are not required based on a justified request by the offering person
- disclose to investors all fees and commissions related to listing of the crypto assets on the crypto asset exchange.

A crypto asset may be listed and available for trading on more than a single crypto asset exchange licensed by the Authority in the UAE.



8.2 Disclosure Requirements

Learning Objective

- 4.8.2 Know the disclosure requirements for: crypto assets (Article 9); security tokens (Article 10); commodity tokens (Article 11)

8.2.1 Disclosure Requirements for Crypto Assets

The following disclosure requirements apply to crypto assets when they are offered or issued to investors generally (including investors that are not qualified investors), and when the crypto assets are approved for listing on a crypto asset exchange:

- In the event that the funds are kept with the offering person (or the person acting on its behalf, including any crypto fundraising platform) until the crypto assets are issued, a statement clarifying whether the crypto assets will be immediately issued to the subscribers after reaching the required funding amount, or will be issued after a period, plus details of the arrangements for keeping the funds with an incorporated institution and the rights that the subscribers have in relation to the issuance of future crypto assets and the extent at which these rights represent crypto assets.
- Details of all material risks relevant to the investment as a result of the technology adopted by the offering person or embedded within the crypto asset or system in which the crypto asset is recorded.
- A statement clarifying the computer software and protocols used or relied upon for the operation of the crypto assets, and the extent of engagement of third-party software developers or providers and any rights of the offering person against them. The statement should clarify the extent to which the offering person controls such software, along with the implications for investors in respect of possible future changes to the software, protocols, functionality and operations of the crypto assets and the rights of investors. The statement must include all material features of the computer

software related to the exercise by holders of the crypto assets of their rights and performance of any obligations. Any instances where such holders may be deprived of their rights (or have their rights diluted) by way of the operation of the software must be clearly demonstrated. If such software is based on an open-source, a link to the source code repository or equivalent should be provided.

- Clarifying the related milestones or dependencies behind the development of the crypto assets or the funded project in respect of the crypto assets and the implications for investors as a result of the failure to reach such milestones, including any refund arrangements.
- Details of the time schedule for achievement of stated goals of any relevant project and commitments and incentives for those persons managing the relevant project.
- Financial information related to the assets, liabilities, financial position, profits and losses of the offering person or the relevant business or operations to which the crypto assets relate for the last three fiscal years before offering.
- Details of the applicable custody arrangements (or to be applied) for the crypto assets and the ability of, and procedures required for, investors to access, hold, transfer and control the crypto assets or their electronic representations (including any requirement to maintain an electronic portfolio, or, if such portfolio is maintained on the investor's behalf by a third party, the terms of such arrangements). Where applicable, this would include details of how cryptographic keys (or equivalent) are generated and stored in respect of the crypto assets or investor responsibility for arranging this, procedures with respect to erroneous or fraudulent transfers, lost keys, and other material items.
- Details of technology or software requirements that investors must manage and/or operate in order to exercise their rights in respect of the crypto assets.
- Specific notice clarifying whether investors participating in the relevant crypto asset offering have the right to have their contribution refunded if any funding requirement is not met at the end of the offering and a description of the refund mechanism, including the expected schedule of when such refund will be completed.
- Details of any disaster recovery, back-up and/or insurance/guarantee arrangements applicable in the event of a failure, or confirmation if no such arrangements are in place.
- Details of the intellectual property in respect of the relevant project, including software, any patent, copyright and/or trademark ownership, and identification of whether the intellectual property is issued on an open-source basis.
- Details of existing business operations of the team involved in the project to identify a personal record over the last five years and any competing or related projects.
- The offering person's identity, headquarters of business (and its jurisdiction area, if different from its headquarters of business), including place where it can be notified with legal process; and, if the offering entity is different from the offering person, (1) the identities of the principal management or key contributors who participate in the governance and management of the crypto asset, and (2) the headquarters of business of the offering entity and address where the offering entity can be notified with legal process.
- Details of prior obligations of investors in respect of the relevant project.
- Details of the outstanding token provision, any token burning schemes or other measures that could result in a contraction of token supply, and token release and reserve requirements, including a breakdown of tokens held by different classes or groups of investors and the basis for any tokens to be retained by management or otherwise in treasury, along with the rationale, basis and process for release of additional tokens. An explanation of third-party audits in relation to the software developed for the relevant project and related security procedures.

- Details of any fees, incentives, or other compensations to be paid to management, officials, or developers of the crypto asset, or contributors to its development or in respect of any exchange, fundraising platform or trading venue of any nature.
- An explanation of liability and risk allocation between the offering person and the service provider for issues relating to the software, as well as disclosure of risks related to any possible disruption or termination of the relationship between the offering person and the service provider.

The offer documentation must also include a 'key investor information' document or Section, written in a concise manner and in non-technical language, that highlights the essential characteristics of the crypto assets and is submitted to investors so that they are reasonably able to understand the nature and the risks of the crypto asset that is being offered to them.

8.2.2 Disclosure Requirements for Security Tokens

In addition to the offer documentation required for the offering and issuing of crypto assets detailed above, further disclosure is required for crypto assets offered in the UAE that are security tokens:

- Describing how the relevant crypto asset represents a legal right to interests in the relevant security and any rights or interests of any other party in respect of the security, or underlying assets, represented by that crypto asset.
- Describing how an investor may exercise its rights in respect of the investment (or underlying security) in the event of a failure or insolvency of any operator of software or technology connected to the security tokens.
- Detailing the type of security represented by, or created by, the security token.

8.2.3 Disclosure Requirements for Commodity Tokens

In addition to the offer documentation required and detailed in section 8.2.1 above, all regulated commodity tokens offered or issued in the UAE must include the following information and disclaimer:

- The crypto assets are not considered securities under the laws applicable in the UAE and are not afforded any protections under such laws.
- The crypto assets are not legal tender in any state and are not backed by any government.
- In the event that the Authority does not approve the listing of the crypto assets on a crypto asset exchange in the UAE, that the crypto assets are not tradable and/or subject to restrictions on their resale in the UAE.
- Prospective purchasers of the offered crypto assets should conduct their own due diligence before investing and consult a certified financial adviser if any terms of the offer of promotion documentation are not fully understood.
- The nature of crypto assets may lead to an increased risk of fraud or cybercrimes.
- Transactions related to crypto assets may be irreversible, and, accordingly, losses resulting from fraudulent or accidental transactions may not be recoverable.
- The volatility and unpredictability of the price of the crypto asset may result in significant loss over a short period.
- Investors must be willing to lose the entirety of their invested capital and accept that they may have no recourse in the event that purported rights or benefits of the crypto assets are not received, any relevant project does not proceed, or other investors in the market become unwilling to exchange a fiat currency (such as the Dirham or US Dollar) for such crypto asset.

The Authority may, paying due regard to the public interest and in consideration of the purposes of the regulations, issue an approval or no objection for the offering or issuing of commodity tokens in the UAE upon application by a prospective offering person or its related party. In granting such approval or no objection, the Authority may, at its discretion, require the application of the certain parts of the disclosures detailed above, such as the disclaimers.

8.3 Crypto Asset Custodians

Learning Objective

4.8.3 Know the duties and obligations of crypto asset custodians (Article 13)

As expected, a crypto asset custodian is expected to keep the crypto assets under its custody safe and secure. In order to do so, a crypto asset custodian must satisfy the following regulatory requirements:

- Create a separate account or portfolio for each client so that it contains the details of its ownership of crypto assets and transactions conducted on its account.
- Keep crypto assets belonging to the client segregated from the crypto asset custodian's own assets and property.
- At all times, to hold amounts of crypto assets equal to the aggregate amounts to which the crypto asset custodian is obligated to all clients, in each case in the form of the same crypto asset.
- Not transfer, hypothecate, grant a security interest in or a lien over, loan to a third party, or otherwise allow adverse claims to arise in, crypto assets belonging to client.
- Only transfer crypto assets out of a client's account upon the client's express instruction, and not on its own initiative or discretion, unless all circumstances under which the custodian may exercise its own initiative or discretion are disclosed in advance to, and consented to by the client.
- Store cryptographic keys, equivalent electronic data comprising user rights in respect of crypto assets or user access log-ins, outside of a network subject to online attack.
- Ensure that no single individual person within its custody, who has the rights to operate such cryptographic keys, is able to completely authorise actions in respect of the crypto assets or transactions of associated fiat currencies held for clients.
- Create and maintain a log of all movements of crypto assets and related fiat currencies held in custody, changes in respect of related cryptographic keys and individual persons authorising such actions.
- Set policies and procedures that provide actions to be taken by the crypto asset custodian, whether individually or across the firm, to mitigate loss caused to clients in the event any crypto assets or associated cryptographic keys become compromised, along with arrangements for stopping transactions until the relevant problem is resolved.
- Not aggregate ownerships of crypto assets between clients in a manner that may compromise the ability of the crypto asset custodian to identify and maintain each client's crypto asset.
- Adopt procedures that identify and prevent the execution of multiple instructions in respect of the same transaction approved by its client.
- Avoid conflicts of interests between its functions as a crypto asset custodian and any other activities it, or its related party, conducts. To the extent such conflicts cannot be avoided, the crypto asset custodian must notify the Authority of the conflict and its relevant systems and controls in place to mitigate the issue, and ensure that disclosure of the conflict is provided to all relevant clients.

The crypto asset custodian must enter into a signed written agreement with all holders of crypto assets in its custody that specifies the above duties.

8.4 Fundraising for Crypto Assets

Learning Objective

4.8.4 Know the fundraising standards for crypto assets: standards (Article 14); platforms (Article 15)

8.4.1 Fundraising Requirements

Unless it is restricted to the more knowledgeable and capable qualified investors, raising funds in the UAE to subscribe to an offer of crypto assets has to meet certain requirements.

- The fundraising must be conducted by a person holding a licence issued by the Authority to conduct such activity in respect of crypto assets in the UAE. The licence must include approval for operating a crypto fundraising platform detailed in section 8.4.2.
- No client can be permitted to invest more than AED 350,000, or its equivalent. The Authority may amend this amount from time to time.
- The only funds and crypto assets that may be accepted in fundraising shall be those that can be subject to appropriate controls over combating money laundering and terrorism financing crimes.
- The person licensed to fundraise must comply with the disclosure requirements, detailed in section 8.2.
- The fundraising person may not conduct any trading or exchange of the issued crypto assets, unless approved to do so by the Authority.

8.4.2 Licensing Crypto Fundraising Platforms

The Authority will only grant a licence to operate a crypto fundraising platform in the UAE if the following conditions are met:

- The applicant for a licence is a legal person in one of the following forms:
 - an exchange licensed by the Authority in the UAE
 - a company incorporated according to the Commercial Companies Law
 - a person authorised to operate a crypto asset exchange.
- Policies and procedures consistent with the technological standards of the regulations that are outlined in section 8.10.
- Any additional conditions, requirements or directions specified by the Authority to meet the public interest and its objectives under the crypto asset regulations.

The Authority may specify additional financial resources or guarantees to be provided by operators of crypto fundraising platforms as it considers necessary to cover any risk exposed to clients and in the event that such requirements cannot adequately be covered due to the lack of available market providers.

The operator of the crypto fundraising platform must also apply the appropriate controls against money laundering and terrorism financing crimes to persons wanting to invest through the platform.

The crypto fundraising platform may not hold crypto assets or money or conduct any activities in respect of which a licence as a custodian or a crypto asset custodian is required, without obtaining the appropriate licence.

If the operator of a crypto fundraising platform seeks to conduct financial services activities other than fundraising, such activities shall be identified in its licensing application, along with details of the systems and controls to ensure independence of its fundraising functions and the compliance with the requirements related to fundraising, as well as the applicable requirements in relation to the other financial services.

8.5 Crypto Asset Exchanges

Learning Objective

4.8.5 Know requirements for licensing a crypto asset exchange (Article 16)

Operating a crypto asset exchange in the UAE requires a licence from the Authority. The grant of a licence requires meeting the following requirements on an ongoing basis:

- Provide the necessary technological systems and controls that facilitate the process of recording and reporting trading and transactions taking place on the platform, so that the authority can supervise and control the platform and receive prompt and accurate information regarding the trading and transactions.
- Provide effective market surveillance programs, which are subject to regular review and development, to control and monitor trading and transactions in the market, and to detect and prevent conduct amounting to **market abuse**.
- Establish appropriate controls to combat money laundering and terrorism financing crimes.
- Restrict those permitted to trade on the crypto asset exchange to the following:
 - persons able to demonstrate a record of regularly investing in securities, commodities and/or crypto assets or having appropriate and adequate knowledge and expertise required to invest in securities, commodities and/or crypto assets
 - persons who only aim to acquire or sell crypto assets solely in relation to exercising the relevant utility provided by the crypto assets, without having an investment purpose or achieving future revenues.
- Provide users with a risk statement prepared in line with the disclosure requirements detailed earlier in relation to the crypto assets.
- The exchange's operator must establish the necessary rules, controls and procedures to operate the crypto asset exchange, such as:
 - fair, transparent and objective rules for accessing the services provided by the crypto asset exchange
 - permitted order types
 - prohibited acts and procedures to ensure compliance
 - available dispute settlement mechanisms

- procedures to ensure fair and orderly trading to avoid giving priority to or preferring the execution of trades of some users over others
- disclosing the commissions and fees for trading on the crypto asset exchange clearly to users, in advance of their submission
- adopting mechanisms to ensure the resilience, integrity and reliability of critical systems in line with industry best internationally accepted practices, including a disaster recovery or back-up arrangements in place, in order to protect the users' crypto assets and mitigate, to the extent practicable, disruption.

8.6 Crypto Assets Listings

Learning Objective

- 4.8.6 Know requirements relating to the licensing of crypto assets on a crypto asset exchange (Article 17)

To list a crypto asset on a crypto asset exchange, a listing application must be submitted to the Authority, accompanied by the following information and data:

- initial and on-going criteria for selection of the crypto asset for listing and trading on its platform
- the type and details of the relevant distributed ledger technology and/or protocol used
- any fees or other compensation paid by the issuer, promoter, or sponsor of the crypto asset or any third party to the crypto asset exchange operator in exchange for such listing
- any hacking vulnerabilities of the technology underlying the crypto assets, and
- the traceability of the crypto assets and the ability to apply the controls over combating money laundering and terrorism financing crimes.

The Authority may impose restrictions on trading of the crypto asset for a limited period, as the Authority deems appropriate.

8.7 Related Financial Activities

Learning Objective

- 4.8.7 Know requirements for financial activities related to crypto assets (Article 18)

No financial activities may be conducted in the UAE in respect of security tokens and regulated commodity tokens without obtaining a licence or approval from the Authority, and the Authority reserves the right to prescribe directions from time to time in relation to financial activities that may be licensed in respect of regulated commodity tokens.

The person applying for the licence must identify the financial activities related to regulated commodity tokens that it intends to conduct in the UAE in its licensing application. The Authority will then decide on the applicability of its regulations and decision to such financial activities related to the regulated commodity tokens.

Brokerage activity in relation to the crypto asset is not limited to the brokerage activities conducted by the members of the exchange. The provision of exchange services into, or from, fiat currency and other crypto assets and receipt for transmission and transmission of crypto assets are also considered as brokerage activities regulated by the Authority, unless the relevant person is registered as a crypto asset exchange operator or a crypto asset fundraising platform operator.

If any licensed person is responsible for maintaining the record of ownership or transactions in crypto assets, including by having unilateral rights to control a distributed electronic network or database acting as such record, the licensed person must consult with the Authority on its systems to ensure that it is accurately maintaining records related to all units of such related crypto asset. The Authority may prescribe additional requirements and directions depending on the nature of the crypto assets.

A person seeking to obtain a licence or approval from the Authority to practise financial activities in the UAE in relation to security tokens and regulated commodity tokens must meet the following conditions and requirements:

- Consider the suitability of the crypto asset for the investor when such person is not a qualified investor. When such investor does not have a record of regular investing in crypto assets for the past two years or is not able to demonstrate knowledge and expertise investing in crypto assets in a reasonable manner, the licensed person must be satisfied that the investor is ready to lose all of the invested funds and has the financial resources to bear this loss.
- Provide the necessary technical staff to practise the activities in relation to the crypto assets according to directions prescribed by the Authority.
- Comply with the technical requirements detailed in section 8.10.
- If the licensed person is required to provide an insurance, a bank guarantee or other such financial guarantees, the Authority may request additional financial resources to be retained.

8.8 Qualified Investors

Learning Objective

4.8.8 Know the document submission requirements for qualified investors (Article 19)

A qualified investor is essentially a natural or legal person who is sufficiently knowledgeable to manage its own investments. For individuals to meet this requirement, three conditions must be satisfied:

1. Net equity, excluding the main residence, amounting to AED 4 million.
2. Annual income not less than AED 1 million.
3. The individual declares that they have adequate knowledge and experience in the field of investment to be practised and its risks, or they are represented by an entity licensed by the Authority, in a manner that does not conflict with the terms of its licence.

The Authority provides, on its website, an electronic form for submitting documents related to the qualified investors when required.

8.9 Exchange Crimes

Learning Objective

- 4.8.9 Know the scope of provisions relating to exchange crimes in relation to crypto assets (Article 20)

As with securities like shares and bonds, exchange crime prohibitions exist for crypto assets made available for trading on a crypto asset exchange licensed in the UAE.

Specifically, if the operations of an offering person in respect of crypto assets include arranging for issuance and subscription of crypto assets following a subscription of funds by investors, controls must be adopted to avoid the issuance of crypto assets at prices determined by the offering person at their own discretion.

8.10 Financial Crime and Technological Standards

Learning Objective

- 4.8.10 Know the required controls for combating money laundering and terrorism financing in relation to crypto assets (Article 21); the applicable technological standards for crypto assets (Article 22)

8.10.1 Financial Crime Controls

To combat money laundering and the financing of terrorism, certain additional controls are required of firms involved in crypto assets:

- Adopt tracing measures in respect of all crypto assets brokered, exchanged and/or transferred into portfolios or otherwise used to fund purchases of other crypto assets, which demonstrate a legitimate transaction history in respect of each such crypto asset.
- Not allow the use of crypto assets that do not permit to adopt such tracing measures in order to fund accounts or make transactions.
- Treat clients as high risk, for the purposes of client due diligence, to the extent that such clients transact in crypto assets.
- Obtain sufficient contact information regarding their clients and suspend or terminate the account of any client who provides incomplete or suspicious contact information.
- Conduct all deposits and withdrawals of funds for a client's account only through a designated bank account opened in the name of the client with an authorised financial institution in the UAE or in other jurisdiction acceptable to the Authority.
- Establish and maintain adequate and effective regulations and measures to monitor transactions related to crypto assets and to conduct appropriate enquiries and evaluate potentially suspicious transactions.

- Update business risk assessments and compliance frameworks in line with risks of money laundering and terrorism financing crimes related to crypto assets, taking into account directions and recommendations issued by the Financial Action Task Force (FATF).
- Regularly review the effectiveness of regulations and measures to combat money laundering and terrorism financing crimes using crypto assets and their development when necessary.
- If a licensed person outsources the work of compliance with the controls of combating money laundering and terrorism financing crimes to a third party service provider, the licensed person must conduct adequate due diligence in selecting the service provider and monitoring its ongoing performance and notify the Authority of material outsourcings of functions.

8.10.2 Technological Standards

Licensed persons must ensure that the technology surrounding crypto assets must be capable of satisfying certain standards, including the following:

- In respect of new issues and the recording of ownership of crypto assets, be able to provide the Authority, on request, with the real-time information related to ownership and trading in the crypto assets. This can be outsourced to a third party.
- Adopt the best international standards regarding the technology applied in the crypto assets generally, including the cyber security, data protection, software development and oversight and encryption.
- Develop systems and software to carry out regular internal and external tests and implement any required updates.
- Promptly and upon request, provide the Authority with all audits and reviews conducted by a third party for the licensed person.
- Adopt cyber security measures and notify the Authority of any material breaches of cyber security or data loss or other events when the technology of the licensed person is compromised in respect of its holding, storage or management of crypto assets.
- Appoint a technology officer with sufficient skills and experience to ensure compliance with these requirements and to provide the Authority with reports where required.

Where a licensed person outsources to a third-party service provider tasks and works in respect of technology systems and oversight, it will continue to bear the full responsibility for any matters that may arise from the outsourcing, including the failure of any third party to meet the above obligations.

8.11 The Authority's Powers

Learning Objective

4.8.11 Know the Authority's powers to control, inspect and penalise (Article 23)

The Authority can take all the actions necessary to supervise, control and inspect the offering persons, responsible parties in respect of an offering and licensed persons to ensure compliance with the regulations and legislation on crypto assets. It may also investigate any violations discovered through its inspection or included in any complaints it has received.

It is within the Authority's powers to inspect or access computer systems, computer data, computer data traffic or equipment where the data of an offering person, responsible party in respect of an offering and licensed person are stored.

8.12 Data Requests, Complaints and Grievances

Learning Objective

4.8.12 Know the requirements relating to: data and information requests (Article 24); complaints and grievances (Article 25)

8.12.1 Requests for Data and Information

Among the Authority's powers is the ability to request data and other information. The Authority can request any additional clarifications, information, documents or data, which it deems necessary for the purposes of control and investigation. This could be required from offering persons, other responsible parties in respect of an offering, licensed persons and their employees, members and clients.

8.12.2 Complaints and Grievances

The Authority has jurisdiction to consider any complaints or grievances related to the provisions of the regulations on crypto assets.

8.13 Penalties for Violations

Learning Objective

4.8.13 Know the range of penalties for violations: administrative measures (Article 26); penalties (Article 27); publications (Article 28)

Violations of the regulations in respect of crypto assets could result in administrative measures being taken, penalties for the violators and publication of the decisions taken.

8.13.1 Administrative Measures

A violation of the regulations relating to crypto assets could see the Authority take any of the following administrative measures:

- Suspend any offering, issuance or subscription.
- Terminate the investors' subscriptions and oblige the concerned authorities to return the amounts paid by the subscribers and their revenues.
- Suspend the operation of any technology in respect of crypto assets and require:
 - adopting alternative means for managing the relevant securities
 - returning the subscription funds to investors in commodity tokens.
- Block the operation of any website in the UAE by communicating with the relevant governmental authorities.



8.13.2 Penalties

The Authority, in the event of a breach of the crypto asset regulations or related decisions and circulars, may impose any of the following penalties on the firm:

- address a notice
- impose a financial penalty (not exceeding the maximum stipulated in the law or regulations)
- suspend the licensed person from practising the activity for a period not exceeding a year
- cancel the relevant licence or approval.

Another entity will be identified to assume the tasks of the licensed person whose licence or approval was cancelled, according to the conditions and requirements that the Authority deems appropriate.

Individuals, including members of the board, the CEO or employees approved by the accredited person, can also face penalties from the Authority. It may:

- issue a notice
- suspend the individual from practising the work for a period not exceeding two months
- cancel the approval issued for the appointment or accreditation, as the case may be.

8.13.3 Publication of the Names of Violators

The Authority can choose to publish the names of violators of the crypto asset regulations, including details of their violations and any penalties imposed.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

- 1. What are the functions of the Depository Centre?**
Answer reference: Section 1.1
- 2. Name the three types of reports which must be provided to the Authority.**
Answer reference: Section 1.2
- 3. What general provision is described in Article 11 of the Authority's Decision No. 19?**
Answer reference: Section 1.3
- 4. What does the legal evidence of ownership of securities mean?**
Answer reference: Section 1.3
- 5. What is required of newly incorporated companies wishing to issue and offer shares in the UAE?**
Answer reference: Section 2.1.1
- 6. What is required of an existing company converting to a public joint stock company and wishing to issue and offer shares in the UAE?**
Answer reference: Section 2.1.2
- 7. Capital increases by an existing public joint stock company must meet what requirements?**
Answer reference: Section 2.1.3
- 8. What can a company increasing its share capital do under a special resolution?**
Answer reference: Section 2.1.4
- 9. Under what circumstances will a buy-back transaction be considered as a capital reduction?**
Answer reference: Section 2.2
- 10. List the requirements to be classified as a first category listed company.**
Answer reference: Section 3.1
- 11. How are second category shares traded?**
Answer reference: Section 3.3
- 12. What procedures are implemented when a company is delisted?**
Answer reference: Section 3.5
- 13. What is conciliation?**
Answer reference: Section 4.1
- 14. List the conditions a corporate person must meet to be described as a qualified investor.**
Answer reference: Section 5.1
- 15. List the conditions that need to be satisfied for a primary listing of a debt security.**
Answer reference: Section 5.2.2

16. What statements must a foreign issuer provide to the Authority when wishing to offer Islamic securities within the UAE?

Answer reference: Section 6.1

17. Explain what an obligor must do when entering into a trust agreement.

Answer reference: Section 6.2.2

18. Why should a market refrain from deregistering any underlying securities?

Answer reference: Section 7.1

19. Describe the two crypto asset tokens.

Answer reference: Section 8

20. What are the requirements of trading on a crypto asset exchange?

Answer reference: Section 8.1.3

Chapter Five

Anti-Money Laundering and Combating the Financing of Terrorism

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This syllabus area will provide approximately 14 of the 100 examination questions



Introduction

This chapter introduces the legal framework in the UAE aimed at combating money laundering and the financing of terrorism and other illegal organisations. It draws heavily on Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organisations.

1. Offences

Learning Objective

- 5.1.1 Know acts considered to constitute the crime of money laundering (Articles 2 & 4)
- 5.1.2 Know acts considered to constitute the crime of financing terrorism (Articles 3 & 4)

Under the legislation, specifically Federal Law No. 20 of 2018, the offences of both money laundering and the financing of terrorism are laid down in Articles 2 to 4.

Money laundering involves funds that are criminally derived – the proceeds of a felony or a misdemeanour according to the law. The criminal offence from which the proceeds were derived is typically referred to as the ‘predicate offence’. Any person who has knowledge of this and wilfully commits any of the following acts is guilty of money laundering:

- transferring or moving proceeds or conducting any transaction with the aim of concealing or disguising their illegal source
- concealing or disguising the true nature, source or location of the proceeds as well as the method involving their disposition, movement, ownership of or rights with respect to those proceeds
- acquiring, possessing or using proceeds upon receipt, or
- assisting the perpetrator of the predicate offence to escape punishment.

It is important to appreciate that the crime of money laundering is considered as an independent crime. In other words, the punishment of the perpetrator for the predicate offence is not required and does not prevent punishment for the crime of money laundering the criminally derived proceeds.

In a similar fashion, a person doing any of the above with knowledge that the funds are wholly, or even partly, owned by a terrorist organisation, or intended to finance a terrorist organisation, a terrorist person or a terrorist act is guilty of the crime of financing terrorism. This is the case even if it were without the intention to conceal or disguise the fund's illicit origin.

Furthermore, providing, collecting, preparing or obtaining funds (or facilitating this) with the intent to use them for terrorist purposes, or while knowing that such proceeds will be used in whole or in part for the commitment of a terrorist offence is the crime of financing terrorism. That is also the case if a person has committed such acts on behalf of a terrorist organisation or a terrorist person while aware of the true background or purpose.

Article 4 of the law specifies that the legal person is criminally responsible for the money laundering or financing terrorism crime if it is committed in their name or for its account intentionally.

2. The Role of the Financial Services Sector

2.1 Obligations

Learning Objective

5.2.1 Know relevant obligations placed upon financial institutions and designated non-financial business (Articles 15, 16 & 17)

Financial institutions, such as banks, designated non-financial businesses, such as brokers, real estate agents and dealers in precious metals, and designated non-financial professions, such as lawyers and accountants, are all required to report suspicions of money laundering and terrorist financing. If there is suspicion or if there are reasonable grounds to suspect money laundering or terrorist financing is happening or being attempted, a detailed report should be submitted to the UAE's **Financial Intelligence Unit (FIU)**, which is the financial intelligence department at the UAE Central Bank. These reports must include all of the data and information available regarding the transaction and the parties involved, and provide any additional information required by the FIU, with no right to object under confidentiality provisions. Lawyers, notaries, other legal professionals and independent legal auditors are exempted from this provision if the information related to the operation has been obtained subject to professional confidentiality.

To facilitate the suspicion reporting, financial institutions and designated non-financial businesses and professions are obliged to:

- Identify the crime risks faced and continuously assess, document, and update such assessments. This assessment and its supporting data should be available to the supervisory authorities on request.
- Take the necessary due diligence measures and procedures, taking into account the various risk factors and retain the records related to this process.

- Refrain from opening or conducting any financial or commercial transaction under an anonymous or fictitious name, or by pseudonym or number, and maintaining a relationship or providing any services to such clients.
- Develop internal policies, controls and procedures approved by senior management to enable the management of identified risks and their mitigation, and to review and update these continuously, as well as apply them to all subsidiaries and affiliates in which a majority stake is held.
- Promptly apply the directives issued by the competent authorities in the State for implementing the decisions issued by the UN Security Council under Chapter 7 of the UN Convention for the Prohibition and Suppression of the Financing of Terrorism and Proliferation of Weapons of Mass Destruction, and other related directives.
- Maintain all records, documents, and data for all transactions, whether local or international, and make this information available to the competent authorities promptly upon request.
- Comply with any other obligations stipulated in the implementing regulations of the law.

2.2 Customer Due Diligence (CDD)

Learning Objective

- 5.2.2 Know required customer due diligence (CDD) measures (Decision (No. 10/Chairman) of 2019): purpose (Article 5); application (Article 6); ongoing supervision (Articles 7 & 12); methods (Article 8); high risk countries (Article 22)

Customer due diligence (CDD) is a vital component in the prevention and detection of money laundering and terrorist financing. In simple terms, it is verifying whether customers are who they say they are, confirming they are not on any prohibited lists and assess their risk factors. In other words, CDD is the act of performing background checks on the customer to ensure that they are properly risk-assessed before being onboarded.

Article (6) of Decision No. 10 of 2019 requires financial institutions and **designated non-financial businesses and professions (DNFBPs)** to undertake CDD measures:

- when establishing a business relationship
- when carrying out occasional transactions in favour of a customer for amounts equal to or exceeding AED 55,000, whether the transaction is carried out in a single transaction or in several transactions that appear to be linked
- when carrying out occasional transactions in the form of wire transfers for amounts equal to or exceeding AED 3,500
- whenever there is a suspicion of crime
- where there are doubts about the veracity or adequacy of the identification data previously obtained for the customer.

The CDD measures require verification of the identity of the customer and the beneficial owner before or during the establishment of a business relationship, opening of an account, or before executing a transaction for a customer with whom there is no business relationship.

It is only in cases where there is a low crime risk that verification of customer identity is allowed to take place after the establishment of the business relationship, which must meet the following conditions:

- a. The verification will be conducted in a timely manner as of the commencement of business relationship or the implementation of the transaction.
- b. The delay is necessary in order not to obstruct the natural course of business.
- c. The implementation of appropriate and effective measures to control the risks of crime.

Importantly, financial Institutions and DNFBPs are always required to take measures to manage the risks in circumstances where customers are able to benefit from the business relationship prior to completion of the verification process.

Financial Institutions and DNFBPs should also undertake ongoing supervision of business relationships and CDD measures, including:

- Auditing transactions that are carried out throughout the period of the business relationship to ensure that the transactions conducted are consistent with the information they have about customer, their type of activity and the risks they pose, including, where necessary, the source of funds.
- Ensure that the documents, data or information obtained under the CDD measures are up to date and appropriate by reviewing the records, particularly those of high-risk customer categories.
- Applying the CDD measures to customers with ongoing business relationships prior to the implementation of this requirement (in 2019) within such times as deemed appropriate based on relative importance and risk priority, including ensuring the sufficiency of such verification data.

CDD should be done using documents, data or information from a reliable and independent source or any other source to verify the identity. This is required as follows:

- **For natural persons:**
 - The name, as in the identification card or travel document, nationality, address, place of birth, name and address of employer, attaching a copy of the original and valid identification card or travel document. Approval of senior management is also required where either the customer or the beneficial owner is a politically exposed person (PEP) (see section 4).
- **For legal persons and legal arrangements:**
 - The name, legal form and memorandum of association.
 - Headquarters office address or the principal place of business (if the legal person or arrangement is a foreigner, it must mention the name and address of its legal representative in the UAE and submit the necessary documents as a proof).
 - Articles of association or any similar documents, attested by the competent authority within the UAE.
 - Names of relevant persons holding senior management positions in the legal person or legal arrangement.

Financial institutions and DNFBPs are required to verify that any person purporting to act on behalf of the customer is so authorised, and verify the identity of that person.

Financial institutions and DNFBPs are also required to understand the intended purpose and nature of the business relationship, and obtain, when necessary, information related to this purpose. They are also required to understand the nature of the customer's business as well as the customer's ownership and control structure.

Where the natural or legal person is from a high risk country (in terms of money laundering and/or terrorist financing), financial institutions and DNFBPs must undertake enhanced CDD measures based on the level of risk that might arise from the business relationship.

2.3 Beneficial Ownership

Learning Objective

5.2.3 Know requirements regarding establishing beneficial ownership (Decision No. (10/Chairman) of 2019) (Articles 9,10 &11)

Financial institutions and DNFBPs are required to take reasonable measures to verify the identity of the beneficial owners of legal persons and legal arrangements. This should be done using information, data, or statistics acquired from a reliable source.

For customers that are legal persons, beneficial ownership verification involves:

- a. Obtaining and verifying the identity of the natural person, who alone or jointly with another person, has a controlling ownership interest in the legal person of 25% or more.
- b. In the event of failing to verify the identity of the natural person exercising control, or where the person(s) with the controlling ownership interest is not the beneficial owner, the identity shall be verified for the relevant natural person(s) holding the position of senior management officer, whether one or more persons.



For customers that are legal arrangements, beneficial ownership validation involves verifying the identity of the settlor, the trustee(s), or anyone holding a similar position, the identity of the beneficiaries or class of beneficiaries, the identity of any other natural person exercising ultimate effective control over the legal arrangement, and obtaining sufficient information regarding the beneficial owner to enable the verification of their identity at the time of payment, or at the time they intend to exercise their legally acquired rights.

There is an exemption from the requirement to identify and verify the identity of any shareholder, partner, or the beneficial owner, if reliable sources show that the customer or the owner holding the controlling interest is either a company listed on a regulated stock exchange or a subsidiary where the majority of the equity is held by a holding company.

In addition to the CDD measures required for the customer and the beneficial owner, financial institutions are required to conduct CDD measures and ongoing monitoring of the beneficiary of life insurance policies and other fund generating transactions, including life insurance products relating to investments and family takaful insurance. This should be performed as soon as the beneficiary is identified or designated and will involve the following:

- Where the beneficiary is identified by name, the name of the person, whether a natural person, legal person or legal arrangement, must be obtained.
- Where the beneficiary is designated by characteristics or by class – such as a family relation like parent or child, or by other means such as a will or estate – the financial institution is required to obtain sufficient information concerning the beneficiary to ensure that it will be able to establish the identity of the beneficiary at the time of the pay out.

In all cases financial institutions must verify the identity of the beneficiary at the time of the pay out of the insurance policy, or prior to exercising any rights related to the policy. If the financial institution identifies the beneficiary of the insurance policy to be a high-risk legal person or arrangement, then it should conduct enhanced CDD measures to identify the beneficial owner of that beneficiary.

3. Prohibitions

Learning Objective

- 5.3.1 Know the types of business that financial institutions and DNFBPs are prohibited from engaging with (Decision No. (10/Chairman) of 2019) (Articles 13 & 14)

Financial institutions and DNFBPs are prohibited from establishing or maintaining a business relationship or executing any transaction where they are unable to undertake CDD measures. In such circumstances, they should consider reporting a suspicious transaction to the FIU.

Furthermore, even where there is suspicion of a crime, financial institutions and DNFBPs should not apply CDD measures if they have reasonable grounds to believe that undertaking such measures would tip off the customer. They should, however, report a suspicious transaction to the FIU along with the reasons that prevented them from undertaking CDD measures.

Financial institutions and DNFBPs are also prohibited from dealing with shell banks, whether this involves opening bank accounts in their names, or accepting funds or deposits from them.

The final prohibition to consider is that financial institutions must not create or keep records of bank accounts using pseudonyms, fictitious names or numbered accounts without the account holder's name.

4. Politically Exposed Persons (PEPs)

Learning Objective

5.4.1 Know the definition of a PEP (Decision No. (10/Chairman) of 2019) (Article 1)

5.4.2 Know required measures for PEPs (Decision No. (10/Chairman) of 2019) (Article 15)

We saw in the section on CDD that, for natural persons, senior management approval is required where the customer or the beneficial owner is a PEP. A PEP is defined as a natural person that is or has been entrusted with a prominent public function in the UAE (domestic PEP) or any other foreign country (foreign PEP). Examples of prominent public functions include heads of state or government, senior politicians, senior government officials, judicial or military officials, senior executive managers of state-owned corporations, senior officials of political parties and persons who are, or have previously been, entrusted with the management of an international organisation or any prominent function within such an organisation. The definition also includes direct family members of a PEP, which includes the spouse, children, spouses of children and parents. Furthermore, associates known to be close to a PEP, are also within the definition, such as individuals having joint-ownership rights in a legal person or arrangement or any other close business relationship with a PEP, and individuals having individual ownership rights in a legal person or arrangement established in favour of a PEP.

For PEPs, in addition to undertaking CDD measures, financial institutions and DNFBPs must carry out the following:

- For **foreign PEPs**:
 - a. Put in place suitable risk management systems to determine whether a customer or the beneficial owner is considered a PEP.
 - b. Obtain senior management approval before establishing a business relationship, or continuing an existing one, with a PEP.
 - c. Take reasonable measures to establish the source of funds of customers and beneficial owners identified as PEPs.
 - d. Conduct enhanced ongoing monitoring over such relationship.
- For **domestic PEPs and individuals** previously entrusted with prominent functions at international organisations:
 - a. Take sufficient measures to identify whether the customer or the beneficial owner is considered one of those persons.
 - b. Take the same steps as for foreign PEPs listed as b, c and d above when there is a high-risk business relationship accompanying such persons.



We have also seen that financial institutions are required to take reasonable measures to determine the beneficiary or beneficial owner of life insurance policies and family takaful insurance. If this beneficiary or beneficial owner is identified as a PEP, then senior management should be informed before paying out on the policies. Additionally, the overall business relationship should be thoroughly examined and a suspicious transaction report to the FIU should be considered.

5. Suspicious Transaction Reports (STRs)

Learning Objective

5.5.1 Know requirements relating to STRs (Decision No. (10/Chairman) of 2019) (Articles 16, 17 &18)

If financial institutions and DNFBPs have reasonable grounds to suspect that a transaction, attempted transaction, or funds constitute proceeds of crime in whole or in part, or are related to a crime or intended to be used in such activity, regardless of the amount, they must submit a suspicious transaction report (STR) directly to the FIU without any delay. This should be done via the electronic system of the FIU or any other means approved by the FIU. The financial institution or DNFBP should then respond to all additional information requested by the FIU. Adherence to these requirements is not a breach of banking or contractual secrecy.

Financial institutions and DNFBPs must put indicators in place to identify suspicions, and update these indicators to reflect the development and diversity of the methods used for committing such crimes and in compliance with the instructions of the FIU and other supervisory authorities.

Lawyers, notary publics, other legal stakeholders and independent legal auditors are exempt from the STR requirements if obtaining information regarding transactions relates to the assessment of their customer's legal position, or defending or representing them before judiciary authorities or in arbitration or mediation, or providing legal opinion with regards to legal proceedings.

Financial institutions and DNFBPs, their board members, employees and authorised representatives are not subject to any administrative, civil or criminal liability for reporting suspicions when reporting to the FIU or providing information in good faith.

Financial institutions and DNFBPs, their managers, officials or staff, must not disclose, directly or indirectly, to the customer or any other person that they have reported, or are intending to report a suspicious transaction.

6. Practical Measures

Learning Objective

- 5.6.1 Know requirements for financial institutions and DNFBPs relying on third party service providers (Decision No. (10/Chairman) of 2019) (Article 19) and business development (Article 23)
- 5.6.2 Know internal supervision measures for financial institutions and DNFBPs and for those with foreign branches and subsidiaries (Decision No. (10/Chairman) of 2019) (Article 20)
- 5.6.3 Know required tasks undertaken by the compliance officer (Decision No. (10/Chairman) of 2019) (Article 21)

This section details some practical measures included within the anti-money laundering and counter terrorist financing requirements covering three particular areas:

- the use of third party service providers and new technologies
- how the requirements impact firms' internal supervision processes, and
- their foreign branches and subsidiaries, and the tasks required of the compliance officer.

6.1 Third Party Service Providers and New Technologies

Financial institutions and DNFBPs can utilise the services of a third party service provider to undertake the required CDD measures, but only with the following caveats, the financial institution or DNFBP must:

- remain responsible for the validity of the measures undertaken
- immediately obtain the identification data and other necessary information collected through the CDD measures and ensure that copies of the documents for such measures can be obtained without delay and upon request, and
- ensure that the third party is regulated and supervised, and that it adheres to the required CDD measures towards customers and record-keeping provisions.

Financial institutions and DNFBPs can rely on third parties that are part of the same group.

Where a financial institution or DNFBP is developing new products and practices, including the means by which new and existing products will be made available, it must identify and assess the risks of money laundering and terrorism financing that may arise and take appropriate measures to manage and mitigate such risks.

6.2 Internal Supervision and Foreign Branches and Subsidiaries

Financial institutions and DNFBPs should implement internal policies, procedures and controls for combating money laundering and the financing of terrorism that are commensurate with the risks, reflecting the nature and size of the business. These should be continuously updated, and apply to all the entity's branches and subsidiaries. These policies, procedures and controls must include the following:

1. CDD measures towards customers, including procedures for the risk management of business relationships prior to completing the verification process.
2. Procedures for the reporting of suspicious transactions.
3. Appropriate arrangements for managing compliance, including appointing a compliance officer.
4. Screening procedures to ensure the competence of new members of staff.
5. The provision of periodic programmes and workshops to build the capabilities of the compliance officer and other competent employees.
6. An independent audit function to test the effectiveness and adequacy of internal policies, controls and procedures.

6.3 Compliance Officer Tasks

The appointed compliance officer must have the appropriate competencies and experience to be responsible for performing the following tasks:

1. Detecting money laundering and terrorist financing transactions.
2. Receiving, reviewing and scrutinising data concerning potentially suspicious transactions, and taking decisions to notify the FIU whilst maintaining complete confidentiality.
3. Reviewing and assessing the internal rules and procedures and their consistency with the law and other regulatory requirements and decisions. Proposing updates where necessary and preparing and submitting semi-annual reports to senior management, copying the report to the relevant supervisory authority with senior management remarks and decisions.
4. Preparing, executing and documenting ongoing training and development programmes and plans for the institution's employees on money laundering and the financing of terrorism and illegal organisations, and the means to combat them.
5. Collaborating with the supervisory authority and the FIU, providing them with all requested data, and allowing their authorised employees to view the necessary records and documents that will allow them to perform their duties.

7. Record Keeping Requirements

Learning Objective

5.7.1 Know record keeping requirements (Decision No. (10/Chairman) of 2019) (Article 24)

Financial institutions and DNFBPs must retain all records, documents, data and statistics for all financial transactions and local or international commercial and cash transactions for a period of no less than five years from the date of completion of the transaction or termination of the business relationship with the customer.

These records and documents should include those obtained through CDD measures, ongoing monitoring, account files and business correspondence, and copies of personal identification documents, including STRs and the results of any analysis.

The records and documents must be organised so as to permit data analysis and tracking of financial transactions, and all customer information regarding CDD, ongoing monitoring and analysis, records, files, documents, correspondence and forms must be made available immediately to the competent authorities upon request.

8. Penalties

8.1 Administrative Penalties

Learning Objective

5.8.1 Know the range of administrative penalties for financial institutions and designated non-financial business that violate Federal Law No. 20 and its executive regulation (Article 14)

The following administrative penalties will be imposed on financial institutions and designated non-financial businesses and professions that violate the law and regulations in relation to money laundering and terrorism financing:

- Warnings.
- Administrative penalties of no less than AED 50,000 and no more than AED 5,000,000 for each violation.
- Banning the violator from working in the sector related to the violation for the period determined by the supervisory authority.
- Constraining the powers of the board members, supervisory or executive management members, managers or owners who are proven to be responsible for the violation including the appointment of temporary inspector.

- Arresting managers, board members and supervisory and executive management members who are proven to be responsible for the violation for a period to be determined by the supervisory authority, or request their removal.
- Arrest or restrict the activity or the profession for a period to be determined by the supervisory authority.
- Cancel the violator's licence.

The supervisory authority will, upon imposing administrative penalties, publish the penalties. The supervisory authority may also request regular reports on the measures taken to correct the violation.

8.2 Money Laundering

Learning Objective

- 5.8.2 Know the criminal penalties for any person considered to be a perpetrator of money laundering (Article 22)
- 5.8.3 Know the criminal penalties for perpetrators of money laundering that: abuse their influence (Article 22); does so through their employment or professional status (Article 22); commits the crime via a non-profit organisation (Article 22); is part of a criminal enterprise (Article 22); is a repeat offender (Article 22)

Any person who commits or attempts to commit the crime of money laundering will be sentenced to imprisonment for a period not exceeding ten years and to a fine of no less than AED 100,000 and no more than AED 5,000,000, or either one of these two penalties.

A temporary imprisonment and a fine of no less than AED 300,000 and no more than AED 10,000,000 will be applied if the perpetrator of a money laundering crime commits any of the following:

- abuses the influence or the power granted by the person's profession or professional activities
- commits the crime through a non-profit organisation
- commits the crime through an organised crime group
- is a repeat offender.

An attempt to commit a money laundering offence is punishable by the full penalty prescribed for perpetrating the same offence.

8.3 Financing Terrorism

Learning Objective

- 5.8.4 Know the criminal penalties for any person who launders money for the financing of: terrorism (Article 22); illegal organisations (Article 22)

Life imprisonment or temporary imprisonment of no less than ten years and penalty of no less than AED 300,000 and no more than AED 10,000,000 is applied to anyone using funds for terrorist financing.

Temporary imprisonment and a penalty of no less than AED 300,000 applies to anyone using funds to finance illegal organisations.

The court may choose to commute or exempt the offenders from a sentence if they provide the judicial or administrative authorities with information relating to the offence that leads to the disclosure, prosecution, or arrest of the perpetrators.

8.4 Penalties for Legal Persons

Learning Objective

- 5.8.5 Know the criminal penalties for any legal person considered to be a perpetrator of: money laundering (Article 23); financing terrorism (Article 23); financing illegal organisations (Article 23)

Legal persons, as opposed to natural persons, may face a penalty in the form of a fine of no less than AED 500,000 and no more than AED 50,000,000 where representatives or managers or agents commit the crimes of money laundering, financing terrorism or financing illegal organisations for its account or in its name.

Additionally, if the legal person is convicted of the crime of financing terrorism, the court will order its dissolution and closure of its offices where its activities are performed.

The court will also order the publishing of a summary of the judgment by the appropriate means at the expense of guilty party.



8.5 Failure to Report Suspicions

Learning Objective

- 5.8.6 Know the penalty for failing to comply with suspicious transaction reporting obligations (Article 24)

A failure to report suspicions, or gross negligence in implementing processes and procedures in relation to suspicions can result in imprisonment and/or a fine of no less than AED 100,000 and no more than AED 1,000,000.

8.6 Tipping Off

Learning Objective

- 5.8.7 Know the offence of tipping off (Article 25); the penalty for tipping off (Article 25)

Anyone who notifies or warns a person in relation to suspicions, or reveals any transaction under review in relation to suspicions, is guilty of 'tipping off'. The offence of tipping off leads to imprisonment for no less than six months and/or a penalty of no less than AED 100,000 and no more than AED 500,000.

9. Market Abuse Regulations in the UAE

Learning Objective

- 5.9.1 Understand the regulations in relation to market abuse in the UAE (Article 16 of the Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Custody of Securities, and Article 37 of the Regulations as to Disclosure and Transparency)

Rules relating to the prevention and penalties arising from market abuse in the UAE are derived from two sources:

- Article 16 (the Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Custody of Securities) says that any dealing in securities with the aim of deceiving other transacting parties will be null and void. Furthermore, resorting to a series of illusory transactions to delude others as to the existence of an active market in the securities traded is deemed to be a form of deception. Any act aimed at causing a rise or a fall in the price of any securities with the intention of encouraging other transacting parties to join in, whether as sellers or purchasers of the securities, will also be null and void.

- Article 37 (the Regulations as to Disclosure and Transparency) details the potential penalties. It states that any person will be liable to imprisonment for a period of not less than three months and not more than three years and a fine of not less than AED 100,000 and not more than AED 1 million, or either of these penalties, if they:
 - a. furnish any data, or proffer any declaration or information being untrue and such as to affect the market value of the securities and an investor's decision to invest or otherwise
 - b. deal in securities on the basis of unpublicised or undisclosed information they acquired by virtue of their position
 - c. spread tendentious rumours regarding the selling or buying of shares
 - d. exploit unpublicised information which could affect the prices of securities to achieve personal benefits.

Any dealing or transaction effected on the basis of the preceding shall be null and void.

The board of the Securities and Commodities Authority (SCA) or the Authority may, in the event of contravention of the provisions of its law and regulations, impose administrative sanctions by levying a monetary penalty and by barring any investor from trading, whether a natural or juristic person, for a period not exceeding one year from the date of the rendering of the decision to bar them, or either of these two sanctions.

10. Conflicts of Interest Accepted Practice in the UAE

10.1 Chinese Walls

Learning Objective

- 5.10.1 Understand the rules on Chinese walls: control of information; effect of the rules; attribution of knowledge

'**Chinese wall**' is the term given to arrangements made by a firm, such that information held by an employee in one part of the business must be withheld from (or, if this is not possible, at least not used by) the people with or for whom they act in another part of the business.

Accepted practice requires that where a firm establishes and maintains a Chinese wall, it must:

- withhold or not use the information held, and
- for that purpose, permit its employees in one part of the business to withhold the information from those employed in another part of the business.

But only to the extent that at least one of those parts of the business is carrying on regulated activities, or another activity carried on in connection with a regulated activity.

The requirement to maintain Chinese walls includes taking reasonable steps to ensure that these arrangements remain effective and are adequately monitored.

10.2 Investment Research

Learning Objective

5.10.2 Know the rules on managing conflicts of interest in connection with investment research and research recommendations: application; implementation; conditions; exemptions

In general, the conflicts management rules on the production and dissemination of investment research apply to all firms.

Where a firm produces investment research, it must implement measures for managing conflicts of interest in relation to the financial analysts involved in producing research, and other relevant persons, where their interests may conflict with those to whom it is disseminated.

Firms must also ensure that there are arrangements such that financial analysts and other relevant persons who know the likely timing/content of investment research which is not yet publicly available, or available to clients and which cannot be inferred from information that is available, cannot undertake personal transactions, or trade for others, until the recipient of the investment research has had a reasonable opportunity to act on it.

However, there are certain exceptions, such as the receipt of an instruction from an execution-only client or a market maker acting in good faith:

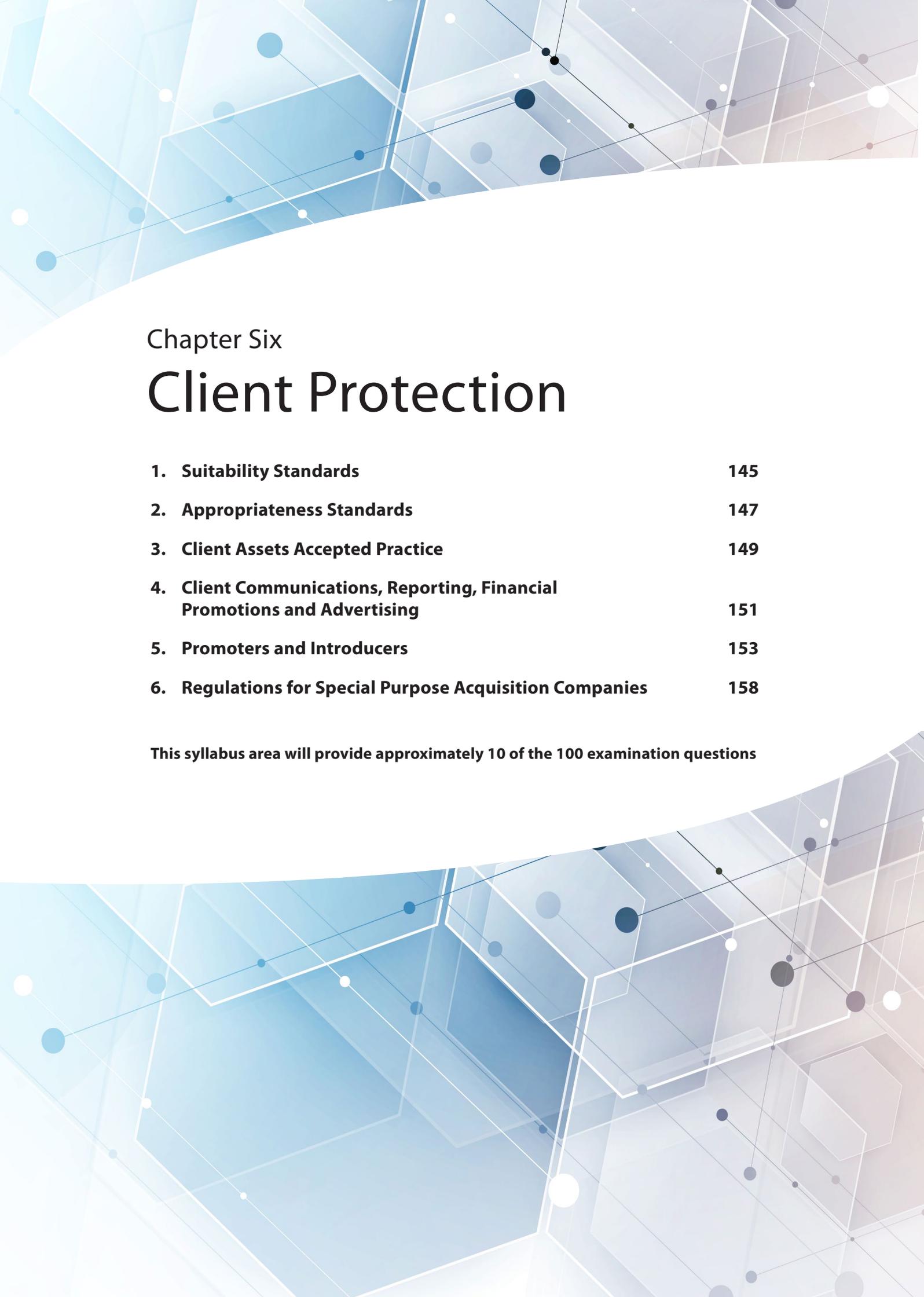
- in cases not covered by the above, they cannot undertake personal account transactions without prior approval from the firm's compliance or legal department and then only in exceptional circumstances
- the firm, and any person involved in the production of research, must not accept inducements from those with a material interest in the subject matter of the research
- they may not promise favourable research coverage to the issuers of the securities
- none of the issuers, relevant persons other than financial analysts, or anyone else may be allowed to review draft investment research which includes a recommendation or target price, other than to verify compliance with the firm's legal obligations.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. **What is predicate offence?**
Answer reference: Section 1
2. **Is money laundering an independent crime?**
Answer reference: Section 1
3. **What sort of businesses are required to report suspicions of money laundering and terrorist financing?**
Answer reference: Section 2.1
4. **What is CDD?**
Answer reference: Section 2.2
5. **When should the verification of the customer and beneficial owner take place?**
Answer reference: Section 2.2
6. **What is required to satisfy CDD for natural persons?**
Answer reference: Section 2.2
7. **What is required to satisfy CDD for legal persons and legal arrangements?**
Answer reference: Section 2.2
8. **What does verification of legal persons beneficial ownership include?**
Answer reference: Section 2.3
9. **Who should a financial institution report a suspicion of a crime to?**
Answer reference: Section 3
10. **What is a politically exposed person?**
Answer reference: Section 4
11. **When should a suspicious transaction report be submitted?**
Answer reference: Section 5
12. **List the caveats that financial institutions and DNFBPs must follow when enrolling a third party service provider.**
Answer reference: Section 6.1
13. **Name three tasks an appointed compliance officer should perform.**
Answer reference: Section 6.3
14. **How long should records be retained from the date of completion of a transaction or termination of a business relationship?**
Answer reference: Section 7

- 15. What administrative penalty fine can be imposed for violating the law?**
Answer reference: Section 8.1
- 16. What are the penalties if a money laundering crime is committed through a non-profit organisation?**
Answer reference: Section 8.2
- 17. What are the penalties a legal person can face if a crime is committed?**
Answer reference: Section 8.4
- 18. What are the penalties for dealing on the basis of unpublicised or undisclosed information?**
Answer reference: Section 9
- 19. What are Chinese walls?**
Answer reference: Section 10.1
- 20. List the investment research exceptions in relation to an execution-only client.**
Answer reference: Section 10.2



Chapter Six

Client Protection

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This syllabus area will provide approximately 10 of the 100 examination questions



1. Suitability Standards

1.1 Introduction

The rationale for categorising clients is so that those clients can be given the right level of protection under the law and regulations. A good example of this expectation is drawn from Decision 05 of 2020 of the Securities and Commodities Authority (SCA or the Authority) entitled Suitability and Appropriateness Standards. These standards relate to what are described as ‘complex’ financial products – in other words, financial products that have complications over and above those found in the usual shares, bonds or units in mutual funds. A reasonable example might be a bond with the right to convert into shares, or other characteristics that make them difficult to value, or include conditions or risks that might not be fully understood by the less sophisticated retail investor.

1.1.1 Suitability Standards

Learning Objective

6.1.1 Know the suitability standards (Article 3)

Article 3 of The SCA’s Decision No. 05 of 2020 requires licensed firms either recommending or executing transactions in a ‘financial complex product’, carefully considering the suitability in relation to the client using three parameters:

1. **The client’s experience** – this should be measured by assessing the types of financial services, activities or investments that the client has been involved in, the nature, size and frequency of transactions undertaken by the client and the client’s level of education and professional experience.
2. **The client’s financial circumstances** – for this, the firm is expected to look at the source and amount of the client’s regular income, their regular expenses and other financial obligations, and the client’s assets, properties and investments. Together this will enable the firm to assess the extent to which the client can bear losses and face risks.

3. **The client's investment objectives** – the firm must consider whether the product is of the type preferred by that client, and whether it meets the client's investment in terms of period and value.

1.2 Suitability Report

Learning Objective

6.1.2 Know the content required in a suitability report (Article 4)

The SCA requires full details to be recorded and maintained. Specifically, Article 4 of Decision No. 05 of 2020 requires the licensed entity to prepare a suitability report that must include the following:

1. Evidence of the client's knowledge plus the client's awareness of the need to provide the licensed entity with up-to-date, accurate and correct information. This information should be coordinated and arranged in a manner that guarantees its accuracy and correctness and ensures the understanding of the questions addressed to the client.
2. Evidence that a correct and reliable assessment of the client's knowledge, experience and ability to bear risks and losses has been performed.
3. Statement of the mechanisms and tools used in assessment and its suitability.
4. A detailed statement on the recommendation submitted to the client or the standards that the licensed entity depended on to consider the financial product that the client wanted was a complex product, indicating the nature, characteristics and risks of that financial product.
5. A statement of the reasons behind the suitability or non-suitability of the recommendation or the financial product transaction to the client, indicating the method of meeting the client's goals, the client's position towards the risks and the client's ability to bear the risks and losses.
6. Evidence of the periodical updating and revision of the standards relating to the suitability of the financially complex product to the client.



1.3 Obligations for Licensed Entities

Learning Objective

6.1.3 Know obligations for licensed entities (Article 5)

Article 5 of the SCA's Decision No. 5 of 2020 details and reinforces the obligations that are placed on licensed entities regarding suitability of financially complex products for retail customers.

It requires the licensed entities to:

1. Take the necessary procedures and measures to ensure that the information received from the client is correct, complete and updated, and that the recommendation or the financially complex product is suitable to the client and does not conflict with the result of the firm's suitability assessment.
2. Refrain from recommending or implementing deals in financially complex products to clients in the event of not receiving sufficient information to assess its suitability, and notifying the client.
3. Provide the client with sufficient information necessary to assess features, costs and risks of the financial product, and indicating any potential risks that its interests may face.
4. Notify the client regarding the suitability or non-suitability of investment using the financially complex product, including the extent of meeting the suitability standards. This notice must be retained.
5. Comply with the client's orders in the event of its insistence on the investment in the financially complex product despite notifying the client that it is not suitable. Evidence on the client insistence must be retained.
6. Obtain an annual undertaking from the client regarding data about them and updating any data that have changed. In all cases, the report must be updated every three years. All undertakings and updates must be retained.
7. Retain the suitability reports of the clients and provide the SCA with the reports on request.
8. Update the internal procedures to ensure compliance with suitability standards.

2. Appropriateness Standards

2.1 Appropriateness

Learning Objective

6.2.1 Know the appropriateness standards (Article 6)

When a licensed entity's role is limited to implementation of transactions (excluding the financially complex products) without providing recommendation to the client, they must meet certain appropriateness standards that are detailed in Article 6 of the SCA Decision No 05 of 2020. This type of business is often described as 'execution-only' business.

The appropriateness standards are similar to the suitability standards used to assess complex products. They consider the following factors:

- The client's knowledge and awareness of the financial services, activities and investments.
- The nature, size and frequency of client transactions in related financial services and investments.
- The client's level of education, current and previous profession.
- The appropriateness of the financial products for the client in light of the data obtained from the client.
- The appropriateness of the financial markets that the client is targeting investment in, again in the light of the data obtained from the client.

2.2 Appropriateness Reports

Learning Objective

6.2.2 Know the content required in an appropriateness report (Article 7)

As with suitability, an appropriateness assessment must be supported by, and documented in, an appropriateness report. These must be prepared by the licensed entity undertaking the execution only services and include:

- details of the financial products or services to be implemented for the client
- the result of the appropriateness assessment
- statement of the reason behind appropriateness (or non-appropriateness) of implementation for the client.

2.3 Appropriateness Obligations

Learning Objective

6.2.3 Know obligations for licensed entities (Article 8)

In relation to appropriateness, each licensed entity must satisfy the following obligations:

- To exercise due diligence in increasing the level of client understanding of the financial service, activity, or financial product by providing the necessary information to the client.
- To notify the client regarding the appropriateness (or non-appropriateness) of the requested implementation, along with the extent of meeting the appropriateness standards. This notice must be retained.
- To refrain from implementation for the client in the event of not receiving sufficient information to assess its appropriateness, and to notify the client.
- To comply with the client's orders in the event of its insistence on implementation in spite of notifying the client that it is not appropriate. Evidence of the client insistence to go ahead must be retained.
- To retain the appropriateness reports of clients and provide them to the SCA on request.
- To update the internal procedures to ensure compliance with appropriateness standards.

3. Client Assets Accepted Practice

3.1 Introduction

Learning Objective

- 6.3.1 Understand the purpose of the client money and custody rules including the requirement for segregation and that it is held in trust: holding client assets and client money; protection; organisational arrangements; registration and recording of legal title; statutory trust

Accepted practice is that financial services firms must, when holding money or other assets (such as investments) that belong to clients, make adequate organisational arrangements to protect and safeguard those assets. If it is client money, the adequate arrangements must prevent the firm from using the money for its own account, and minimise the risk of loss due to misuse, fraud, poor administration, inadequate record keeping or negligence. In terms of client money, the main objective is to ensure that it is segregated from the firm's own money. Usually this is done by ensuring that client money is placed promptly in a separately designated client money account with a bank, and ensuring that the bank treats the client money as separate from the firm's money.

If the clients' assets are not money, the adequate arrangements are typically referred to as custody rules and must safeguard clients' ownership rights, especially in the event of the firm's insolvency, and prevent the use of the clients' assets, except with the clients' express consent. For registered investment, the registered title is typically required to be either in the name of the client, or in the name of a nominee or trust company holding the investments for the benefit of the client.

3.2 Reconciliation Requirements

Learning Objective

- 6.3.2 Know the requirements for reconciling client assets and client money including the timing and identification of discrepancies: assets and money held by the firm; assets and money held by third parties; frequency; discrepancies; notification to the SCA

Firms must perform internal reconciliations of the financial instruments held for each client with the financial instruments held by the firm and those held with third parties.

Broadly, accepted practice is that reconciliations should be made as 'often as is necessary' to ensure the accuracy of a firm's records and accounts. Where possible, they should be done by someone who has not been involved in the production or maintenance of the records being reconciled.

If the reconciliation shows a discrepancy, the firm must make good (or provide the equivalent of) any shortfall for which it is responsible. Where another person is responsible, the firm should take reasonable steps to resolve the position with that person.

Firms must inform the regulator without delay of any failure to comply with the reconciliation requirements.

Accepted practice for the reconciliation of client money is that firms perform internal and external reconciliations.

3.2.1 Internal Reconciliations

Performing an internal reconciliation means cross-checking the records showing each client's entitlement to client money against the records of client money the firm holds in client bank accounts and client transaction accounts.

Firms can choose how often they perform internal reconciliations, subject to the requirement that they do so 'as often as is necessary' – and as soon as is reasonably practicable after the date to which the reconciliation relates.

Where a reconciliation shows a discrepancy, the firm must investigate to identify the reason for the discrepancy and ensure that either any shortfall is paid into the client bank account or any excess is withdrawn from the client bank account by close of business on the day the reconciliation is performed.

3.2.2 External Reconciliations

This means cross-checking the internal client money accounts against the records of third parties (banks) with whom client money is held. Firms must perform external reconciliations as often as is necessary and as soon as reasonably practicable after the date to which the reconciliation relates.

If there is a discrepancy, the firm must investigate and correct it as soon as possible. Where it cannot do so and the firm should be holding a greater amount of client money, it must pay its own money into the client bank account pending resolution of the discrepancy.

If a firm has not complied with these requirements, or is for some reason unable to comply in a material aspect with a particular requirement, it must inform the regulator in writing.

An adequate method of reconciling client money balances with external records is as follows:

- A **reconciliation of a client bank account** as recorded by the firm with the statement issued by the bank (or other form of confirmation issued by the bank).
- A **reconciliation of the balance on each client transaction account** as recorded by the firm, with the balance of that account as set out in the statement (or other form of confirmation) issued by the person with whom the account is held.

4. Client Communications, Reporting, Financial Promotions and Advertising

4.1 Introduction

Learning Objective

6.4.1 Understand the rules relating to communications with clients

It is accepted practice for developed markets to have rules in relation to the way firms communicate with clients regarding their investment business and communicating or approving **financial promotions**.

The majority of these rules do not apply when the client is an eligible counterparty.

4.2 Clear, Fair and Not Misleading

Learning Objective

6.4.2 Know the rules relating to fair, clear and not misleading communications and financial promotions

Generally, there is a requirement for firms to ensure that any communication with a client is fair, clear and not misleading. The fair, clear and not misleading rule applies in a way that is appropriate and proportionate, taking into account the means of communication and the information that the communication is intended to convey. So a communication addressed to a professional client may not need to include the same information, or be presented in the same way, as a communication addressed to a retail client.

Examples of communicating in a clear, fair and not misleading manner include:

- a promotion relating to a product or service that places a client's capital at risk makes this clear
- a promotion that quotes a yield figure gives a balanced impression of both the short- and long-term prospects for the investment.

4.3 Client Reporting Requirements

Learning Objective

6.4.3 Know the general client reporting and occasional reporting requirements

Generally, firms are required to ensure that clients receive adequate reports on the services they provide to them. These must include any associated costs.

Where a firm carries out an order for a client it must:

- provide them with the essential information on it, promptly and in a durable medium
- for retail clients, send a notice confirming the deal details as soon as possible (but no later than on the next business day). Where the confirmation is received from a third party, the firm must pass the details on no later than the business day following receipt
- provide clients with information about the status of their orders on request.

However, a firm need not provide transaction details if the same details are already being sent to the client by another person.

4.4 Periodic Reporting

Learning Objective

- 6.4.4 Know the rules on periodic reporting; the additional requirements regarding contingent liability transactions; the exceptions and record keeping requirements

Firms providing investment management services must also provide periodic statements, unless these are provided by another party. For retail clients, this must be at least six-monthly, with the following exceptions:

- the client may request statements three-monthly instead
- if they receive deal-by-deal confirmations, and certain higher-risk investments are excluded, the statement may be sent every 12 months, and
- where the client has authorised that their portfolio be leveraged, the statement must be provided monthly.

Firms must advise their retail clients of their right to request quarterly statements.

Where firms manage investments for clients, or operate certain types of account for them which include uncovered open positions, they must report any losses over a pre-agreed limit to the client. They must do so by the end of the business day on which the limit is breached (if this happens on a non-business day, by the end of the next business day).

4.5 Financial Promotion Rules

Learning Objective

- 6.4.5 Understand the purpose and application of the financial promotion rules

The purpose of the financial promotion rules is to ensure that such promotions are identified as such, and that they are fair, clear and not misleading.

The rules are consistent with the need for firms to pay due regard to the interests of its customers and treat them fairly and to pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.

4.6 Appointed Representatives and the Financial Promotion Rules

Learning Objective

- 6.4.6 Know the firm's responsibilities under the financial promotion rules regarding the use of appointed representatives

An appointed representative is a self-employed individual, or a firm, that is contracted to sell the products of a particular financial services firm. The representative is generally exempt from obtaining their own authorisation, and so the regulator's rules do not directly apply to them. However, there is typically a requirement that firms make sure their appointed representatives comply with the rules, particularly when they communicate financial promotions via their appointed representatives.

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5. Promoters and Introducers

5.1 Promoter Obligations

Learning Objective

- 6.5.1 Know obligations of the promoter relating to: financial product promotion (Article 9); promotion material (Article 10); ongoing-obligations (Article 11); promotion of foreign funds (Article 12)

SCA Decision No. 3 of 2017 is titled 'The Organization of Promotion and Introduction'. It puts regulations in place over the promotion of financial products, including funds as well as detailing the obligations faced by the introducers of financial products.

Chapter 3 details the obligations of promoters.

5.1.1 Notification Requirements

The promoter is required to:

- Notify the SCA in advance of the promotion of any financial product. The SCA may then, within ten days of the date of such notice, stop all promotion operations where it is in the public interest.
- For units in investment funds, the notification to the SCA is on an application form specifically designed for this purpose and the SCA may approve or reject the application within 15 days of the date of submitting the application.



- The notice or application submitted to the SCA must enclose all documents and data and these will include:
 - the type and quantity of financial products
 - whether the financial products to be promoted are registered with the SCA or not. If not registered, the promoter must register such products after paying the requisite registration fees to the SCA
 - a written approval from the peer regulator in the promoter's jurisdiction in the event that foreign securities are to be promoted in the UAE
 - a disclosure of the relationship between the promoter and the promoted products or their issuer during the 12 months preceding the promotion
 - a copy of the IPO prospectus, or prospectus of the issuer or foreign issuer, if any, and the investment policy for investment funds
 - a statement of the methods of promotion
 - a copy of the promotional material in a clear language that is understandable to the investors.

5.1.2 Promotional Materials

The promotional material referred to above must include the following:

1. The name, address and contact details of the promoter.
2. Type and place of issue of the financial products to be promoted, as well as the number of issued products, currency of issue and all related information.
3. A statement whether the promoted financial products are listed or not, and a list of the markets where they are listed.
4. Data contained in the prospectus or offer document and any amendments thereto.
5. Minimum limit for subscription or purchase, and any ban or restriction on the investor, its trading or subscription.
6. Mechanisms of dividends distribution and redemption as well as maturity dates.

7. Specifying the investor type that is eligible to invest, particular whether such investors are only required to be 'regular' rather than 'qualified'.
8. The investment risks associated with the financial products to be promoted.
9. A statement identifying the major shareholders of the issuer and/or the foreign issuer who own 10% or more of the shares.
10. The method of communication used by the entities concerned with the subscription, selling and purchasing of the promoted financial products.
11. Specify the Shariah Supervisory Board whose function is to ensure conformity of the promoted financial products with Shariah.
12. The mechanisms and means for disclosing data and information.

5.1.3 Promoter's Ongoing Obligations

Article 11 of SCA Decision No. 3 of 2017 also places certain ongoing obligations on the promoter. These specify that the promoter must:

1. Not also act as an agent or representative of a client in dealing with the issuer or foreign issuer.
2. Use easy, clear, honest, correct and non-misleading promotional materials written in a language easy to understand by the investors, and without using any fraudulent or deceptive means.
3. Not publish, promote or use any incorrect or misleading data or information on the financial products and the issuer, including the foreign issuer or the market where they are listed, if any.
4. Abstain from providing any financial consultations or analysis relating to the financial product subject of promotion, unless it is licensed to do so.
5. Alert the clients of the possibility that the exchange rate may influence the value of any promoted foreign financial securities.
6. Alert the clients that the past performance of the promoted financial products is not necessarily an indicator or proof of the future performance.
7. Withdraw promotional material immediately upon becoming aware that the issuer breaches any legislative provisions or regulatory procedures or conditions, or becoming aware of any potential damage that the investors may sustain.
8. Enable its clients to review the material disclosures and information, reports and approved financial statements and all relevant information on a timely basis.
9. Instantly disclose, through the mechanisms and means specified in the promotional materials, the prices of the promoted financial products and any risks or any related material information, as well as the sources relied on in preparing the comparisons, provided that such sources are correct, recent and reliable and do not include any projections of future prices, or selective information.
10. Abstain from owning any promoted financial products on behalf of clients, or receiving any funds from them in this regard except after obtaining the SCA's approval.
11. Abstain from promoting the shares of the foreign issuer intended to be offered in initial public offering (IPO) except after the issue of the SCA's approval of the offering.
12. In case of contracting with the issuer or foreign issuer, the following conditions must be observed:
 - show the type and number of financial products to be promoted
 - ensure that the signed agreement between the parties does not violate any legislation in force in the UAE and that it includes a statement of the rights, duties and responsibilities of each party, the mechanism for the termination, expiry or amendment of the agreement and the means of communication between the parties

- not to contract with an issuer or foreign issuer with whom a promotion agreement was terminated in the past for reasons related to violation of its obligations or breaching the legislation in force in the UAE, and
 - provide the SCA with a copy of the agreement (including any alteration or amendment, or subsequent termination).
13. Ensure the suitability of the financial product to be promoted for the risk level that the local investor may tolerate, after studying the investor's financial position and officially informing the investor of the outcome of the risk appetite study and specifying the types of financial products that suit that risk appetite.

5.1.4 Promoting Units in Foreign Funds

Article 12 of Decision No. 3 of 2017 adds some additional obligations for promoters of foreign funds in the UAE. When promoting foreign funds the promoter is required to:

1. Ensure that any foreign fund subject to a public offering meets the following conditions:
 - the fund must be subject to the supervision of a regulator similar to the SCA
 - the fund must be either incorporated outside the UAE, or incorporated in the UAE in a free zone or financial free zone.
 - the fund must be licensed in its jurisdiction for public offering.
2. In a private offering, the foreign fund promotion must be limited to qualified investors.
3. Ensure that any foreign fund subject to a private offering meets the following conditions:
 - the fund must be either incorporated outside the UAE, or incorporated in the UAE in a free zone or financial free zone
 - the fund must be and is subject to a regulator similar to the SCA
 - the fund must be licensed in its jurisdiction for the promotion of a public or private offering.
4. Ensure that the foreign fund is not exempted from any regulatory or supervision rules or the regulations for preparing and issuing periodic reports at its domicile of incorporation.
5. Ensure that all mechanisms that enable the foreign fund whose units are promoted to meet all functions and obligations towards the holders of the promoted units in the UAE, in accordance with the public offering document.
6. Exert the due diligence of the careful person when examining and selecting the foreign investment fund to be promoted in the UAE and in monitoring the performance of such fund after the promotion process in order to guarantee the protection of the investors' assets and ensure that the fund actually exists, and its legal position is sound at its domicile of incorporation.
7. Keep a register for the foreign fund units distributed through it. The register must include the following data:
 - for individuals – the names, addresses, ID card or passport numbers of the unit owners as well as the number of units owned by each
 - for companies – the names, address of the headquarters and commercial registration numbers and the number of units owned by each
 - the dates the individuals or companies were added to the register
 - any other data related to the unit owners.
8. Ensure that the investor in a foreign fund obtains a copy of the public offering document of the fund's units whether the offering is public or private, before the investor subscribes for the foreign fund units.
9. Ensure that a daily price of the fund's units is available, or as stipulated in the offering document, or each unit's net asset value and providing suitable access to the investors in the UAE.

10. Provide the subscribing clients with a proof of their subscriptions in the fund, the units allocated/purchased for them and the document that guarantees their exercise of all their rights as owners of such units.
11. Assume the duties of dividend distribution to the unit owners and/or redeem the units for the owners who so wish according to the announced price and in line with the foreign fund's offering document unless the foreign fund founder assigns these two functions to another entity in the UAE.
12. The promotion means for a foreign fund approved by the SCA for promotion in the UAE in a private offering must be limited to direct contact with previously specified persons.
13. The minimum limit for subscription by a single investor in a foreign fund approved by the SCA for promotion in the UAE in a public offering must be included in the offering document.
14. The minimum limit for subscription by a single investor in a foreign fund approved by the SCA for promotion in the UAE in a private offering is the limit detailed in the offering document provided that it may not be less than AED 500,000, with the exception of a fund incorporated outside the UAE in a free zone or financial free zone, in which case the minimum limit for subscription by a single investor will be the minimum limit detailed in the offering document provided that it may not be less than AED 1 million.

5.2 Introducer Obligations

Learning Objective

6.5.2 Know obligations of the introducer (Chapter IV)

Broadly speaking, an introducer is a corporate entity that has been given approval by the SCA to provide potential clients for financial services firms.

In order to gain the SCA's approval to act as an introducer, the following conditions must be met:

Firstly, the person must either be:

- licensed by the SCA to engage in financial activities or services
- licensed by a similar regulator engage in any financial activities or services, or
- be a licensed bank or insurance company (from within or outside the UAE).

Secondly, the SCA's application form must be submitted, including the required supporting documents, and specifying the type of financial activities or services to be introduced.

The SCA will issue its decision approving or rejecting the application within a period of no longer than 15 days from the date of submitting the complete application.

Once approved, the introducer has to comply with certain regulatory obligations. The six obligations are detailed in Article 14 of SCA Decision No. 3 of 2017:

1. The introduction must be related to financial activities and services intended to deal in financial products.
2. The introducer must disclose to the investor both the introduction procedures and any commissions to be received by the introducer.

3. The introducer must disclose to the parties to the introduction the relationship that links the introducer to each party.
4. The introducer must abstain from providing any financial consultation or financial analysis, unless licensed to do so.
5. The introducer is not permitted to receive any funds, assets, orders or requests from the client, directly or indirectly, except for the disclosed commissions.
6. To obtain the approval of the SCA to conduct any introduction business outside the UAE.

6. Regulations for Special Purpose Acquisition Companies

A **special purpose acquisition company (SPAC)** is alternatively referred to as a 'blank check company'. It is formed with the sole purpose of effecting a 'merger' - to raise money through an initial public offering (IPO) so that it can buy another company. At the initial public offering stage, SPACs do not have business operations or stated targets for acquisition. Subsequently, an existing operating company can merge with (be acquired by) the publicly traded SPAC and become a listed company. The SPAC essentially removes the need for the operating company to execute its own IPO.

Sponsors set up the SPAC and invest enough cash to cover the initial operating expenses. In return for the investment the sponsors get 'founder shares' which will often be around 20% of the SPAC. These sponsors will typically bring together a credible and experienced board of directors for the SPAC and the team assembled by the sponsors will raise capital from investors. The capital raised is usually in the form of shares with warrants. The warrants typically enable further shares to be purchased at a small premium to the share IPO price.

SPACs have a limited lifespan (typically two years) and if there is no merger consummated in the time span of the SPAC, this investment will be redeemed.

In early 2022, the Authority published regulations for Special Purpose Acquisition Companies (SPACs) in Resolution No 1/Chairman of 2022. These regulations are summarised in the subsections that follow.

6.1 Permitted Activities, Classification and Exemptions

Learning Objective

- 6.6.1 Know permitted activities for Special Purpose Acquisition Companies (Article 3); classification of Special Purpose Acquisition Companies (Article 4); exemptions to the commercial companies law (Article 5)

Under Article 3 of the Special Purpose Acquisition Company regulations, a SPAC is prohibited from practising any economic activity, except for the following:

- a. To offer, issue and list its shares and/or warrants.
- b. To search for a target entity to acquire/merge with.
- c. Other business related to achieving its objectives.

To be classified as a SPAC, the founder(s) must apply to the Authority on the required form. The Authority will then either accept the application and grant the classification, or reject the application. For acceptance the following conditions must be met:

- a. The issued capital of the proposed company, immediately after the public offering, shall not be less than AED 100 million.
- b. The founders must not have announced or disclosed any acquisition target entity or potential acquisition target entity to any person other than the sponsors.
- c. All proposed sponsors must meet the following requirements:
 1. The value of their assets (excluding the value of the main residence) exceeds their financial obligations, and that no decision has been issued against any of them to declare bankruptcy or insolvency anywhere in the world.
 2. They have sufficient experience to manage the SPAC, as determined by the Authority.
 3. None of them has been previously convicted of a penalty or a crime against honour, unless rehabilitated.
 4. No judicial judgment has been rendered against any of them for dismissal as a member of the board of directors of a joint stock company listed in the financial market.
 5. Their professional record is free from administrative penalties issued by the Authority.
 6. The absence of lawsuits, reports or investigations prosecuting any of them in relation to honesty and integrity.
- d. The objectives of the proposed company specified in the articles of association must not conflict with the objectives that the company is permitted to conduct.
- e. The articles of association of the proposed company must specify the initial issued capital of the SPAC, which represents the number of the sponsors' shares that the company will issue at the nominal value of each share determined by the articles of association. The issued capital upon incorporation may not be less than AED 100,000.
- f. Sponsors must have clear business goals that they will strive to achieve.
- g. The sponsors must be aware of the potential returns to the investors and the risks that investors may face if they purchase shares or warrants, and the sponsors must prepare proposals to reduce this risk.
- h. The managers must have sufficient experience to achieve the business objectives of the proposed company in accordance with the regulations issued by the Authority.

Companies classified as SPACs are exempt from many provisions of Commercial Companies Law including:

- The need to invite the public to subscription.
- The need to appoint an underwriter.
- Priority rights to subscribe for new shares.
- Restrictions on trading the founders' shares.

The SPAC can offer shares and warrants to the sponsors and investors without the need to comply with the usual listing requirements. This includes potentially issuing different classes of shares according to what is specified in its articles of association, including one class for the sponsors' shares and another class of subsequent investors' shares.

6.2 Public Subscription Procedures

Learning Objective

- 6.6.2 Know public subscription procedures for Special Purpose Acquisition Companies: public subscription procedures (Article 7); public subscription of the Special Purpose Acquisition Company (Article 8)

Article (7) of the Resolution details certain requirements that need to be fulfilled prior to making shares in the SPAC available to the public. These include:

1. The SPAC must submit a request for approval of the public subscription in shares and warrants that will be issued by the Authority.
2. The request must be submitted to the Authority no later than 30 business days from the date of issue of the company's commercial licence.
3. The request must be accompanied by a draft prospectus that includes:
 - a. Information on the shares and warrants that will be issued by the SPAC including the price of both of shares and warrants, the description of every class of shares issued by that company and the shareholders' rights associated with every one of the share classes.
 - b. The factors that make investment in the SPAC different from investment in other companies, and the particular risks associated with investment in the SPAC, including the limited usage of the public subscription proceeds and the investors' limited ability to recover those proceeds.
 - c. The recovery rights available for investors.
 - d. Any sectors or industries suggested by the SPAC as areas of focus for entities targeted by acquisition.
 - e. The time period during which the SPAC suggests to complete business consolidation, and any extension suggested by the company.
 - f. The previous experience of the sponsors and managers in companies similar to the SPAC, inside or outside the State.
 - g. The rights of sponsors and managers in managing the SPAC that exceed or may exceed the investors' rights, including particularly the extent of the power of sponsors and managers to specify the entity targeted by acquisition and approval on business consolidation.
 - h. Any potential conflict of interests among sponsors, managers and investors, including any conflict associated with other commercial activities and how to deal with any potential conflict, particularly concerning the following:
 - i. Any financial incentives for the sponsoring entities and managers.
 - ii. Any losses that may be incurred by the sponsoring entities in the event that the SPAC fails to complete business consolidation.
 - iii. Any plans for getting additional finance after listing and the extent of difference between the provisions of securities that are issued or that will be issued in the special offering and the securities issued in the public subscription.
 - iv. The conditions of any offer that includes post-dated purchase agreements that allow investors to invest in the SPAC upon completion of business consolidation.
4. The founders and the board of directors shall sign the request to the Authority and will be responsible for validity of the data included in that request.

5. The listing consultant licensed by the Authority and all the parties to the public subscription process or their representatives must provide due diligence.
6. The Authority must study the public subscription request, and it may request any documents, information, data or amendments and notify the founders thereof. The founders shall meet the requirements within five business days from the date of being notified.
7. The Authority will send a written notice to the SPAC approving or dismissing the request and the prospectus within ten business days from the date of submitting the request to the Authority.
8. If the Authority does not receive the request, or if the Authority dismisses the submitted request for any reason, or if the request is deemed as waived, the board of directors of the SPAC must within thirty business days from the date on which it is required to submit the request, or from the date on which the Authority issues its decision of dismissing the request, or on the date on which the request is considered as waived of, appoint one or more liquidators to liquidate the company voluntarily according to the provisions of the Commercial Companies Law.

Article (8) of the Resolution adds some further requirements, including:

- The unissued shares must be offered as follows:
 - a. For the sponsors, as additional shares to be issued concurrently with the public subscription, provided that the total shares of the sponsors shall not be less than 3% and shall not exceed 20% of the issued capital of the SPAC and any additional shares that will be issued via warrants in the public subscription.
 - b. For investors, as investor's shares in a public offering at a subscription price detailed in the prospectus.
- The SPAC must appoint a listing consultant and a financial consultant along with one or more entities to receive the public subscriptions.
- The SPAC must deposit the prospectus with the Authority and provide a copy thereof for free to the public, at least three business days before the subscription commences.
- The SPAC, within one business day of depositing the prospectus with the Authority, must publish the call for public subscription by announcement (including summary of the prospectus) in two daily local newspapers, and one of them shall be published in Arabic language.
- Shares and warrants shall be offered to the professional investors category or the retail investors category or to both of the categories. The prospectus shall specify the minimum and maximum limits that both of the categories may subscribe according to which in the public subscription.
- The investors must pay the full value of the shares and warrants upon subscription.
- Subscription must remain open for a period of not less than five business days and not more than thirty business days.
- If the subscription is not completely covered in the offered shares or warrants within the specified period, the SPAC must submit a request to the Authority to approve extending the subscription period for additional period not exceeding ten business days. If the additional period expires without covering all the shares offered for public subscription, the entire public subscription will be deemed as null, and the SPAC may not list its shares in the market.



6.3 Allotment, Issue, Registration and Listing

Learning Objective

6.6.3 Know requirements for: allotment (Article 9); certificate issue and registration (Article 10); listing (Article 11)

In an IPO of a SPAC, the shares and warrants must be allocated for investors according to the allocation mechanism specified in the prospectus. The allocation must take place within five business days from the day the subscription closed.

Following this, any excess paid by subscribers for which no shares or warrants were allocated, should be returned no later than five business days from the date of allocation.

Furthermore, the board of directors of the SPAC must, within five business days from the date of allocating the shares and warrants, submit a request to the Authority on the required form to issue a certificate registering the company. The request must be accompanied by the following:

- a. An audited balance sheet of the subscription accounts including the subscription by the sponsors.
- b. An acknowledgment signed by the founders of the completion of subscription on all offered shares and warrants, including the subscribers' names and nationalities and the number of shares and warrant allocated.
- c. An acknowledgment signed by the founders of the completion of issuance of the shares of the sponsors and that those shares represent a percentage of not less than 3% and not more than 20% of the issued capital of the SPAC and any additional shares that will be issued concerning the warrants.
- d. A statement evidencing depositing the proceeds of the public subscription.
- e. The names of the members of the board of directors of the SPAC.

After completing the above-mentioned procedures and payment of the registration fee, the Authority will issue the registration certificate of the SPAC.

Within three business days from the date of the registration certificate issued by the Authority, the SPAC must submit a request to the market to list the shares and warrants issued by it, according to the listing rules.

Immediately after being listed, the SPAC must comply with the Authority's governance regulations for listed public joint-stock companies.

6.4 Public Subscription Proceeds

Learning Objective

6.6.4 Know requirements for Special Purpose Acquisition Companies in relation to: public subscription proceeds (Article 12); offering shares and warrants after listing (Article 13)

The SPAC must deposit not less than 90% of the public subscription proceeds (or any higher percentage specified by the Authority) within two business days of receipt. The deposit must be into escrow or other suitable account that makes it possible to separate the proceeds from the other money of the SPAC, and the proceeds can only be used for one or more of the following purposes:

- a. To finance a business combination (merger).
- b. To meet recovery requests by the investors.
- c. To return the public subscription proceeds to the investors after a failure event (detailed in the following section).
- d. To pay any fees for maintaining the account or any other purposes associated with the A to C above.

After listing and obtaining the approval of the Authority and a majority of shareholders, the SPAC may perform any of the following actions:

- a. Receive money from any person against issuance of shares or warrants by special offer to complete the business combination. New shares may be issued with an issuance price less than the purchase price paid by the investors.
- b. Receive money from sponsors in a special offer against warrants issuance.

The money collected from A or B above will not be deemed to be included within the public subscription proceeds.

6.5 Business Consolidation and Redemption

Learning Objective

6.6.5 Know requirements for Special Purpose Acquisition Companies in relation to: business consolidation (Articles 14,15,17 and 18); redemption (Article 16)

A SPAC is normally obliged to complete a business combination/merger within the earlier of the time period proposed in its prospectus and two years from the date of listing. However, the SPAC may seek an extension which cannot go beyond three years from the date of listing. Any extension requires a majority vote from the shareholders and the approval of the Authority.

The SPAC cannot implement any business combination/merger until after providing the Authority and the shareholders with all of the related information (including, but not limited to: information about the acquisition target entity, its value, the consideration or price, the necessary amendments to the company's articles of association of the Special Purpose Acquisition Company and its capital structure after completing the business consolidation process) and submitting an application to the Authority to obtain its approval, and to obtain the approval of shareholders representing not less than 75% of the shares represented in the general assembly meeting of the SPAC.

The SPAC cannot complete any merger unless the fair market value of the acquisition target entity or entities have been determined by an independent adviser approved by the Authority, and this value as at the closing date is equal to or more than 80% of the value of the deposited funds in the account (minus the fees of the underwriters determined by the prospectus and the taxes payable on any interest that may accrue on the funds deposited in the account).

Furthermore, the SPAC cannot complete any merger unless it has funds enabling it to complete the business combination on the closing date and taking into account any refunds paid or scheduled to be paid before the closing date. The members of the SPAC board must notify the shareholders in a timely manner of the proposed business combination process at least 15 business days before the proposed closing date.

The SPAC must also adhere to certain post-business combination procedures. These include:

- The board of directors must invite the company's shareholders to meet in a general assembly to discuss and take appropriate decisions regarding the following issues:
 - Amending the company's articles of association to reflect that it will no longer be considered a SPAC and include its new purposes.
 - Amending any of the rights attached to the shares so that all the shares in the company are equal in rights and duties.
 - Electing a new board of directors for the company, and any of the current board members may be elected.
- The SPAC, as of the day following the closing date, will be subject to all of the provisions and requirements of the issuance regulation and the listing rules which apply to the public joint stock companies that are not classified as SPACs.
- The SPAC must notify the Authority and the market as soon as the business combination is completed.

In the event that a SPAC fails to complete a business combination, its board must:

- Notify the Authority and the market in writing of the failure on the date of the failure.
- Take the necessary measures to return the funds to the investors in proportion to their ownership within ten business days of the failure date.
- Appoint one or more liquidators under the provisions of the Commercial Companies Law to initiate the voluntary liquidation process, within thirty business days of the date of the failure. Sponsors must not participate in any distributions made during the liquidation process with respect to any sponsor shares, including any shares subject to warrants, that have been issued prior to the listing date.
- The relevant market will suspend all trading in shares and warrants as of the date of failure and commencement of the procedures for cancelling the listing of the shares and warrants of the SPAC.

Article 16 lays down expectations in terms of redeeming investors' shares. It specifies that any investor has the right to request the SPAC to redeem that investor's shares in the following cases:

- Where the general assembly decided to extend the time period during which the SPAC may complete a business combination and the investor did not agree on the decision of the General Assembly. The investor must notify the SPAC at least five business days prior to the date on which that investor wishes to redeem. The redemption will then take place on the date specified in the notice or the next business day.
- Where the general assembly of the SPAC decided to approve a merger. The investor must notify the SPAC immediately upon the issuance of the decision approving the business combination of the desire to redeem. Redemption will be made on the date specified in the notice or the next business day.

The amount paid on redemption will be calculated on a pro-rata basis from the proceeds of the public subscription deposited in the account, along with any interest or profits realised on this account.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. Name the three suitability parameters?

Answer reference: Section 1.1.1

2. Name three obligations which are placed on licensed entities?

Answer reference: Section 1.3

3. Describe an execution-only business.

Answer reference: Section 2.1

4. What should a licensed entity do if the client is being insistent?

Answer reference: Section 2.3

5. What is the main objective in relation to client money?

Answer reference: Section 3.1

6. Explain the method of reconciling client money balances with external records.

Answer reference: Section 3.2

7. What should be confirmed in a report to a retail client?

Answer reference: Section 4.3

8. List the exceptions for periodic reporting.

Answer reference: Section 4.4

9. What is the purpose of the financial promotion rules?

Answer reference: Section 4.5

10. What notification requirements are promoters required to submit in relation to documents and data?

Answer reference: Section 5.1.1

11. What should a promoter disclose as part of their ongoing obligations to their client?

Answer reference: Section 5.1.3

12. What should the register for foreign fund units include?

Answer reference: Section 5.1.4

13. What are the minimum limits for subscription in a private offering?

Answer reference: Section 5.1.4

14. List the six regulatory obligations an introducer must comply with.

Answer reference: Section 5.2

15. What conditions must be met to gain the SCA's approval to act as an introducer?

Answer reference: Section 5.2

16. What is a SPAC?

Answer reference: Section 6

17. What is a SPAC permitted to do and who must a proposed SPAC apply to?

Answer reference: Section 6.1

18. What is the minimum issued capital of a SPAC before and after its public offering?

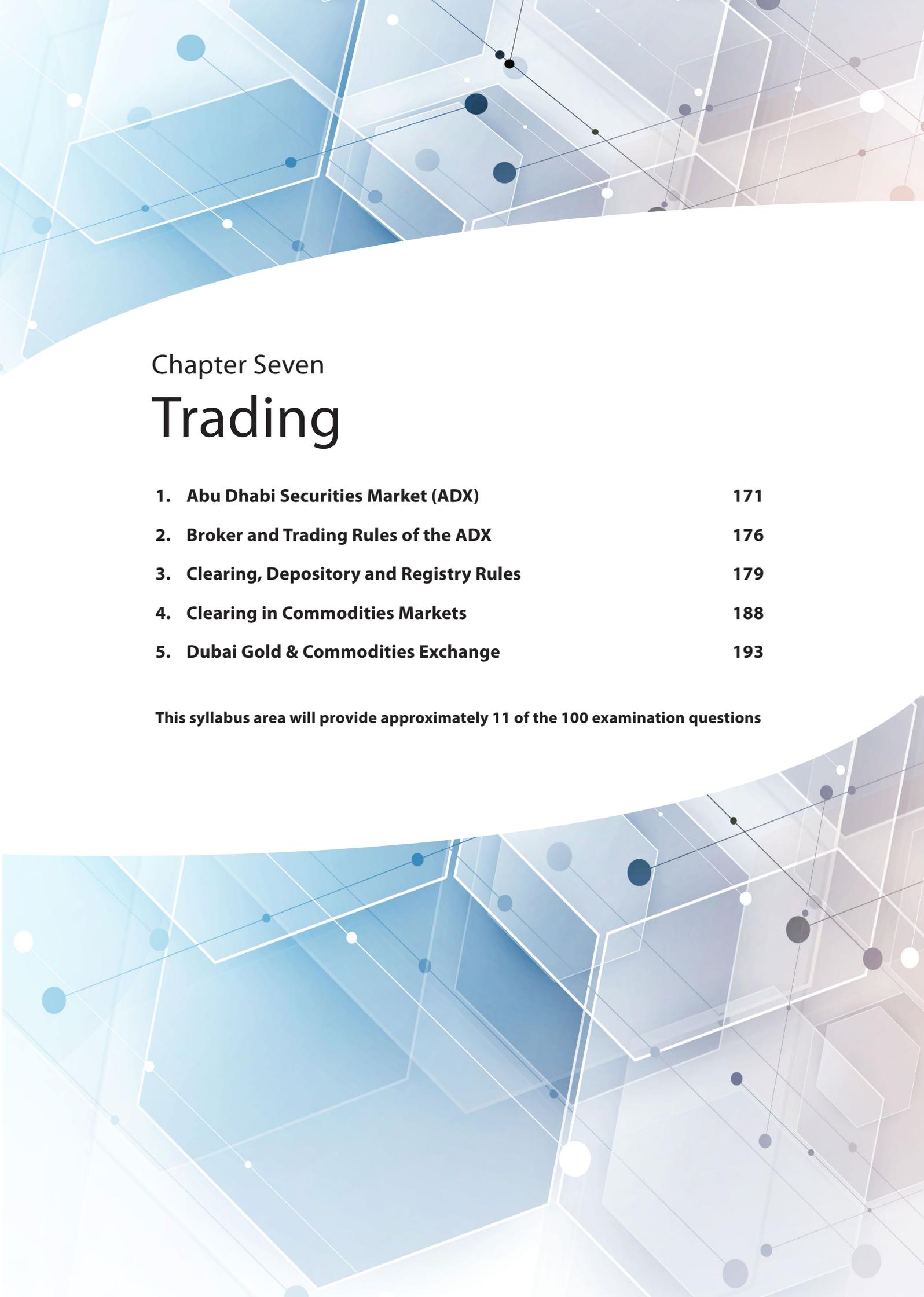
Answer reference: Section 6.1

19. What is the requirement relating to the percentage of total shares for the sponsors of a SPAC?

Answer reference: Section 6.2

20. At least what percentage of the public subscription proceeds must normally be deposited in an appropriate account or placed in escrow?

Answer reference: Section 6.4



Chapter Seven

Trading

1. Abu Dhabi Securities Market (ADX)	171
2. Broker and Trading Rules of the ADX	176
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5. Dubai Gold & Commodities Exchange	193

This syllabus area will provide approximately 11 of the 100 examination questions



This chapter covers the regulatory aspects of trading on the Abu Dhabi Securities Market (ADX) and the commodities markets in the UAE. The rules and regulations associated with the Dubai Financial Market (DFM) are covered in the following chapter.

1. Abu Dhabi Securities Market (ADX)

The **Abu Dhabi Securities Exchange (ADX)** is a market for trading securities. This includes shares issued by public joint-stock companies, debt instruments issued by governments or corporations, exchange traded funds, and other financial instruments approved by the UAE Securities and Commodities Authority (SCA or the Authority). Its stated mission is to be an innovative, attractive and transparent marketplace empowering UAE's economy.

1.1 E-Trading Regulations

Learning Objective

7.1.1 Know the E-Trading regulations (E-Trading Regulations)

1.1.1 Introduction

In the context of the Abu Dhabi Securities Exchange, 'E-Trading' is the system used by the brokerage company that enables the customer to enter orders for the purchase or sale of securities directly over the internet. Once the order is received, the system verifies the possibility of implementation and then automatically sends it to the electronic trading system of the ADX.

The regulations in relation to E-Trading were issued by the Exchange in December 2017. They 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 that the E-Trading service may only be provided through a brokerage company, and only after the brokerage has obtained the ADX's approval.

1.1.2 Approval Conditions

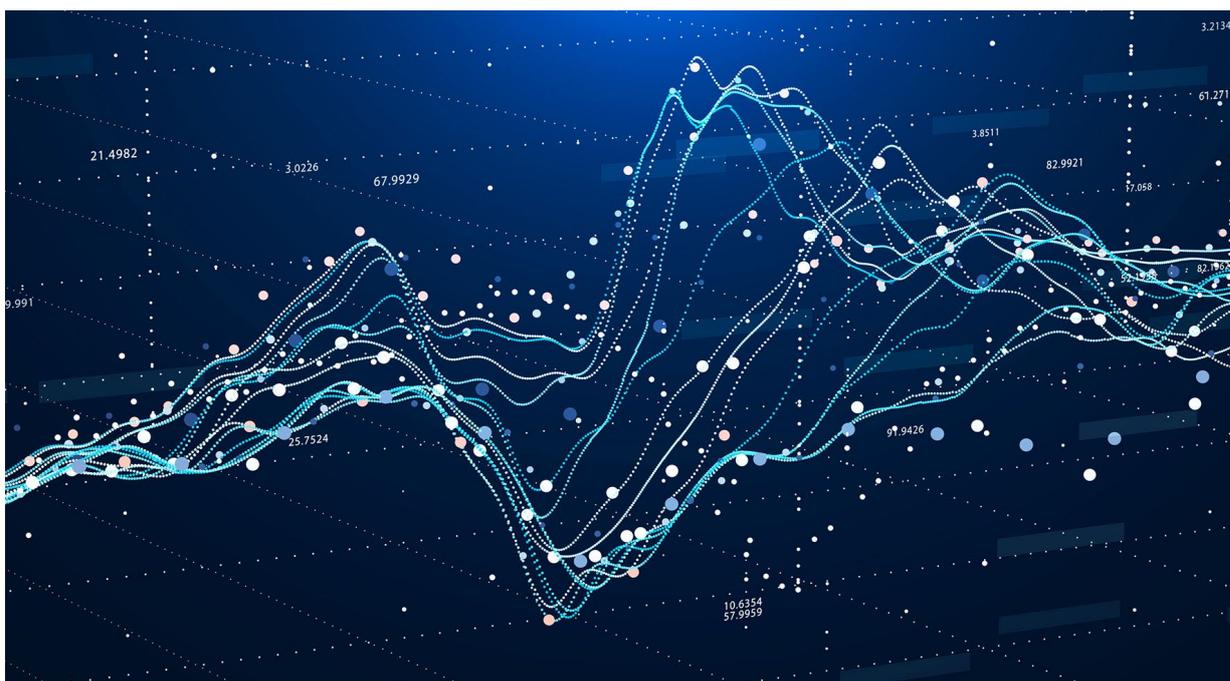
In order to gain approval to provide E-Trading services, the brokerage company must meet the following conditions:

1. Paying the required fee to the ADX.
2. Having the technical and administrative capabilities necessary to provide the E-Trading service.
3. Having qualified technical personnel in operating systems and networks, database systems and information protection systems.
4. Obtaining the ADX's prior approval of the form of the E-Trading agreement, which must include the information and data shown below, 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 detailed statement of the rights and obligations of both 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.
 - 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 alone bears the responsibilities resulting from their activities undertaken through the E-Trading system.
 - h. The fact that the client understands the risks and losses that may impact their investments in securities through E-Trading and in particular the following:
 - that 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.

1.1.3 Applications

The application submitted to the ADX by the brokerage company to enable it to supply E-Trading services must include supporting information such as reports clarifying the technical system and devices used to provide the electronic link between the brokerage company and the Exchange.

In response to the application, the 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 of the application, and the brokerage company must then register the approval with the Authority within a period not exceeding five working days from the date of approval.

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.

1.1.4 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 back-up 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.

1.1.5 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 any defect in operation that may result from a single point of failure.
3. Secure encryption from one side to another to transfer all data between the client and the brokerage company's system through a secured unified protocol, and mutual authentication between the client and the server of the brokerage company.
4. Sufficient security features to ensure that it is not subject to internal or external attacks.
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. Back-up and storage systems sufficient to provide sustainable performance and on-site and remote back-up 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:

1. Technical defect in the trading system on the Exchange or the brokerage company's electronic systems.
2. If the ADX finds that any of the investors have violated the applicable legislation.
3. If the brokerage company submitted a request to cancel or suspend the service provided to its clients due to violation of the applicable legislation.

1.2 Remote Access by Foreign Brokerage Companies

Learning Objective

- 7.1.2 Know regulations governing remote access to the Abu Dhabi Securities Exchange by foreign brokerage companies (Abu Dhabi Securities Exchange Foreign Brokerage Companies Remote Access Regulations)

The ADX will allow remote access by foreign brokerage companies where it is considered appropriate to do so. The considerations and conditions for this are detailed in the Foreign Brokerage Companies Remote Access Regulations.

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:

1. The foreign brokerage company must be licensed in its home country by a regulator similar to the Securities and Commodities Authority. That regulator must be a member of the International Organization of Securities Commissions (IOSCO), and 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 and countering the financing of terrorism (AML/CFT), as well as meeting any requirements under the UAE Commercial Companies Law.
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).
5. The foreign brokerage company must not have had a licence denied by any controlling regulatory authority similar to the Authority.
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.

The application for approval must be submitted to the ADX on the requisite form with the required supporting information and documents. This must include an undertaking to disclose to the Authority and the ADX upon request, any information about the company or its customers, any changes in the company's organisational or financial position, or which might have an effect on the conduct of its activity or any decisions taken against it in its home country or any other country where it operates.

The ADX will issue its decision whether to approve or reject the application within 30 days from the date of submission of the complete application. The applicant must then register the ADX approval with the Authority within no more than five working days of the date of issue.

The duration of the approval is for one year and expires at the end of December each year, with the duration of the first approval running from the date of approval until the end of December of the same year.

The approval is renewed by application to the ADX at least one month before its expiry, together with the payment of the renewal fees due to the ADX. As with approval, renewal must be registered with the Authority within no more than five working days of renewed approval by the ADX.

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

- a. 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.

- b. Quarterly reports within 45 days and an annual report within 90 days of the end of the fiscal year.
- c. Any other financial statements or reports as may be required by the Authority or the ADX.

The Authority 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 Authority law, regulations and decisions.

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

1. issue a warning
2. liquidate or use the collateral, wholly or partially for its intended purpose
3. suspend the foreign brokerage company from remote access trading for a period of no more than one year
4. impose financial penalties
5. cancel the approval, and
6. refer any violator to the Authority to consider the violation and decide on the appropriate penalty.

2. Broker and Trading Rules of the ADX

Unsurprisingly, 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' which were issued in 2016. This sub-section contains a number of the requirements laid down in those regulations.

2.1 Reporting Requirements

Learning Objective

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

Brokers operating on the ADX must provide the Exchange with certain 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.
- Any approvals issued by the Authority or any other competent authority with regard to:
 - adding a new activity to the commercial licence, omitting or modifying an activity or any other approval issued by the Authority to practise any activity 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 the address, headquarters or branch address of the brokerage firm
 - changing partners or modifying their ownership of the brokerage firm.
- Any other financial data or reports required by the ADX, plus any other information or documents required by the ADX for the purposes of surveillance of trading, investigation of violations or complaints, or management of transactions.



2.2 Client Orders

Learning Objective

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

Brokers have a number of obligations in relation to client orders, including the following:

1. **Disclosing conflicts** – if the broker has an interest in the transaction to be executed in favour of the client, or has any link to the transaction which may lead to a conflict of interest, the broker must take the appropriate procedures to ensure fair treatment to the client which will include informing the client of the broker's interest. The client then has the right to refuse the transaction.
2. **For orders that breach the law or regulations** – in such cases the ADX has the right to order the broker to resell or repurchase the securities to return to the previous situation before executing the breach. If a profit is made from the resale or repurchase transaction, the broker must transfer the profit to the ADX. If a loss is incurred, the broker will suffer the loss but may have recourse against the client, if it is proved that breach was caused by the client.
3. **Sell orders** – unless the transaction meets the Authority's regulations on short selling of securities, the broker must ensure that the client already owns the securities before entering a sell order. The broker must then pay to the client the value of the sold securities (less the commissions and fees due) within the period agreed between both parties.
4. **Buy orders** – unless the order is subject to the Authority's margin trading regulations, or the broker has assumed full responsibility, the buying client must pay the value of the securities to be purchased before the execution of the buy transaction. If the broker has assumed full responsibility and the client fails to pay the value of the purchased securities plus the accrued commissions during the settlement period, the broker may sell the securities within one business day of the settlement date, after gaining ADX approval. If a profit is made from the sell transaction, the broker must transfer the profit to the ADX, where the amount is allocated to the Investor Protection Fund. Any loss that is incurred is borne by the broker.

2.3 ADX Debt Instruments Rules

Learning Objective

7.2.3 Know rules concerning debt instruments (Article 47)

Debt instruments on the ADX are traded through brokers. The trading unit for debt instruments is one instrument based on its nominal value in each issue, and each deal will be for one or more unit.

Prices are shown on the E-Trading system as buy or sell orders at the unit price, without any accumulated interest. This is also referred to as the ADX price and the 'clean' price. Buyers will then pay the value of the units purchased at their ADX price plus the accumulated interest until settlement date. This is commonly referred to as the 'dirty' price. The E-Trading 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, and within the applicable price ranges.

2.4 ADX Big Block Deals

Learning Objective

7.2.4 Know requirements for big block deals (Article 48)

Brokers are permitted to execute deals through the window allocated in the E-Trading system for 'big block' deals, where the deals meet the following requirements:

- a. Obtaining approval from the Exchange after filling the big block deal request form.
- b. The execution of the deal must not violate the Authority regulations or ADX rules.
- c. The execution of the deal must not violate the article of association of the issuing company in respect of ownership limits.
- d. The percentage of securities to be traded must be equal to or more than 1% of the issuer's capital.
- e. One side of the deal must be one person while the other side can be up to a maximum of ten persons. ADX, in cases it deems necessary, may waive the transaction from this condition.
- f. The execution of the big block deal cannot be at a price higher or lower than 25% of the closing price from the previous trading session.
- g. Trading commissions on big block trades are calculated based on execution price or on the company's stock closing price from the previous trading session, whichever is higher.
- h. Big block deals do not affect the closing price of the listed company or the price index. Similarly, they do not affect the highest and lowest prices executed during the trading session or during the last 52 weeks.
- i. Big block deals are subject to disclosure procedures adopted by the ADX and executed deals need to be notified to the Exchange.
- j. ADX management reserves the right to waive the transaction from the limits mentioned in d, e and f above whenever it deems that necessary to preserve the interests of trading and the parties to the transaction.

3. Clearing, Depository and Registry Rules

This section explores the way that trades that are executed on the ADX are cleared and settled – the process that enables money to flow from the buyer to the seller and ownership of the securities to flow in the opposite direction, from seller to buyer.

3.1 The Clearing, Settlement and Depository Department

Learning Objective

7.3.1 Know the role of the Clearing, Settlement and Depository Department (CSD) (Articles 3–9)

The Clearing Settlement and Depository Department (the CSD Department) at the ADX operates a range of electronic systems to facilitate the clearing and settlement of trades. Among the more important of these are the system that issues payment and receipt orders to the settlement banks and the book entry system that updates the register of ownership for purchases and sales. It is important to appreciate that the systems of the CSD Department interact with ‘clearing members’ of the Exchange – if a broker is not itself a clearing member, then it will need to contract the services of a clearing member to clear and settle its trades on its behalf.

The CSD Department clears and settles security trading activities conducted in ADX for the clearing members, identifying the net rights and commitments of each and settling the positions arising out of the trading that includes the transfer of ownership, via electronic registration.

The CSD Department keeps data pertaining to the transfer of ownership, as well as their relevant documents and records, for a period not less than 15 years. It 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:

- a. subject to the approval of the concerned party for whom the information is kept confidential, unless it contravenes any applicable laws
- b. at the request of the Authority, judicial bodies, a competent government entity, any authority, body or entity inside the State engaged in combating money laundering and the financing of terrorism or a market or other entity that is concerned with clearing, settlement and central depository services.

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

- a. brokerage firms
- b. issuers of securities listed on the ADX
- c. custodians
- d. market makers
- e. entities pledging securities
- f. any such other entity accepted by ADX.

3.2 Regulations Relating to the Register

Learning Objective

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

Any issuer wishing to list securities on ADX, or deposit the register with ADX, must provide ADX with the register of its shareholders (the owners of securities), including the names of shareholders as well as their details, balances, ownership limitations on such balances and any other relevant information. 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. The issuer is responsible for the validity, accuracy and completeness of the contents of the shareholders' register provided to the CSD Department.

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 CSD Department.

3.3 Investor Numbers and Accounts

Learning Objective

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

No investor can open a trading account with any broker and trade in securities listed on ADX without having first obtaining an investor number. Usually only one investor number is assigned to each investor, except for the following:

- a. An investor number may be assigned to an investor-owned individual institution. The CSD Department will link the person's accounts to its owned individual institution account.
- b. An investor number will be assigned to each sub-fund of the parent investment fund.

Investor numbers can take one of three forms – individual, institutional or government.

Individual investor numbers are subdivided into 'national' and 'foreign'. National individual investor numbers are assigned to each UAE national natural person (holding an Emirati passport and family book), or considered a UAE national in accordance with the laws and royal decrees.

Foreign individual investor numbers are assigned to each natural person that does not hold Emirati citizenship.

Similarly, the institutional investor numbers are subdivided into 'national' institutional investor numbers which are assigned to each juristic person or legal entity registered in the UAE and having the UAE nationality, and 'foreign' institutional investor numbers assigned to each legal person or legal entity registered outside the UAE or in the UAE free zones.

Again, government investor numbers can be 'national' where they are assigned to the UAE federal government, any local government, ministries, departments, public institutions and bodies and any other related entity. Alternatively, they will be classed as 'foreign' government investment numbers if they are assigned to foreign governments, ministries, departments, and public institutions and bodies and any other subsidiary entity.

Any person wishing to trade in securities listed on ADX must open a trading account with a broker, and only one trading account may be opened for each investor with a single broker. Investors may open trading accounts with more than one broker, except where otherwise restricted by CSD Department procedures, the Authority's regulations or ADX rules. Examples include margin accounts and accounts pertaining to securities lending and borrowing.

A trading account may only be opened for a person that has obtained an investor number and there are restrictions as to 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 CSD Department has full authority to examine these applications and issue the investor number. The recipient of the application must undertake to keep copies of all documents submitted by the investor, and to stamp such documents to prove they are true copies. It is the recipient of the application that is deemed to be responsible for the accuracy of the information and data submitted with respect to its customer, in either electronic or paper format. This includes responsibility for the valid signature of its customer on the application for issuance of investor number, and for the verification of the customer's identity and capacity.

The investor number captures all significant information pertaining to the investor, including but not limited to:

- a. The full name as per the ID card or family book with respect to national investors, and as per the ID card or passport with respect to foreign investors, and as per the organisational documents with respect to institutional or government investors.
- b. Nationality.
- c. ID number, if any.
- d. Passport number.
- e. Date of birth.
- f. Type of investor number (individual, institutional or government).
- g. Legal capacity.
- h. Gender.
- i. Mailing address.
- j. Phone numbers, fax, email.
- k. Any statement of the IBAN or the equivalent thereof outside the UAE, which cash profits of securities will be transferred to, in addition to any other transfer made by the CSD Department to the investor account, which must be signed by the investor for acceptance.
- l. The authorised signatories authorised to sign on behalf of the institutional or government investment, along with a copy of the organisational documents and internal decisions of the juristic person.

The CSD Department will make amendments to the investor data, upon submission of a request by the investor on the form prepared for this purpose either personally or through a legal representative. The request must be accompanied by all of the required supporting documents.

Investors are responsible for notifying the CSD Department of any changes to their personal data, and the ADX assumes no responsibility for any delay by the investor. The heirs or any person enjoying legal capacity must notify the CSD Department of the investor's death or loss of capacity to prevent any transaction in the account thereafter.

Every person enjoying legal capacity to do so should notify the CSD Department of any update to the institutional or government investors' data or with respect to the persons authorised to act on their behalf.

3.4 Securities Certificates and Allotment Letters

Learning Objective

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

For those issuers that have securities listed on the ADX with certificates, the owners of those securities may not trade unless the relevant certificates have been deposited in the deposit account at the CSD Department.

Securities certificates are deposited according to the following procedures:

- a. The owner of the securities certificates or their legal representative must submit the request to deposit such certificates, along with the full data and documents required.
- b. The issuing company or its registrar must verify the validity and ownership of the securities, as well as the identity and capacity of the person requesting the deposit.
- c. The issuing company or its registrar shall, after verifying the validity of securities, dematerialise the certificates and notify the CSD Department.
- d. The CSD Department must deposit the dematerialised securities in the investor's deposit account at the CSD Department through electronic book entry.

The issuing company or its registrar must also adhere to the procedures for issuing security certificates in lieu of any such lost or damaged certificates prior to depositing them with the CSD Department.

Similarly, where the issuer with ADX listed securities has issued allotment letters regarding such securities, the owner of the securities may not trade until the original allotment letter or security certificate has been deposited with the CSD Department and registered under the relevant investor number. As with certificates, the issuing company or its registrar must also adhere to the procedures for issuing allotment letters or security certificates at the request of the owner in lieu of any lost or damaged, prior to depositing them with the CSD Department.

3.5 Deposit Accounts at the CSD

Learning Objective

7.3.5 Know regulations concerning deposit accounts at the CSD (Articles 26–29)

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

- a. Submitting a request to the broker or custodian to transfer a specific number of securities owned to the deposit account at the CSD Department, using the requisite form.
- b. The broker or custodian must then enter the data of the transfer request to the ADX electronic system and perform such transfer before the opening of the trading session on the next working day.
- c. Unless there are legal reasons, neither the broker nor the custodian can abstain from transferring the securities owned by the investor to the deposit account at the CSD Department.
- d. The broker or custodian will be responsible for any delay in making the transfer.

The investor may then issue instructions with respect to the securities held in the deposit account at the CSD Department.

In the event of the cancellation of the registration of the clearing member at the CSD Department, or the suspension of activity temporarily or permanently, the CSD Department will transfer the securities owned by the investors to the deposit account at the CSD Department, either at the request of the investors or by order of the Authority.

If an issuer provides its shareholders with bonus shares, then the CSD Department will deposit the bonus share issued in the account in which the original stock is deposited on the record date, in the appropriate proportion. The CSD Department will register bonus shares in a whole, round number to the deposit account as long as the investor is entitled to one or more shares. The CSD Department will not add fractions of shares to the shareholder's account. Instead, total fractions of bonus shares are registered in the issuing company's account. The issuing company must then sell the fractions of shares in the market within a period not exceeding 30 days from the date of registration.

3.6 Settlement Collateral

Learning Objective

7.3.6 Know regulations concerning settlement collateral (Articles 31–34)

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

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.
- b. Pledging securities as guarantee, provided that:
 - the securities presented as guarantee satisfy any criteria established by the CSD Department 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
 - any such other conditions, as may be established by ADX management.
- c. Depositing the cash money belonging to a specific customer in the bank account designated by the CSD Department, to enable the clearing member to conduct trading operations in favour of such customer.

It is the ADX management that, subject to the Authority's approval, decides on the permitted trading ceiling of the clearing member, in proportion to the value of guarantee deposited.

3.7 Clearing and Settlement Regulations

Learning Objective

7.3.7 Know regulations concerning clearing and settlement (Articles 35–46)

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 Department. 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 may review 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.

3.7.1 On the Trading Day

It is the CSD Department that calculates the net daily amount and dues payable by and to the clearing member for each trading day. This is done 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 commissions payable by the clearing member to the ADX and the Authority. The

CSD Department, 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.

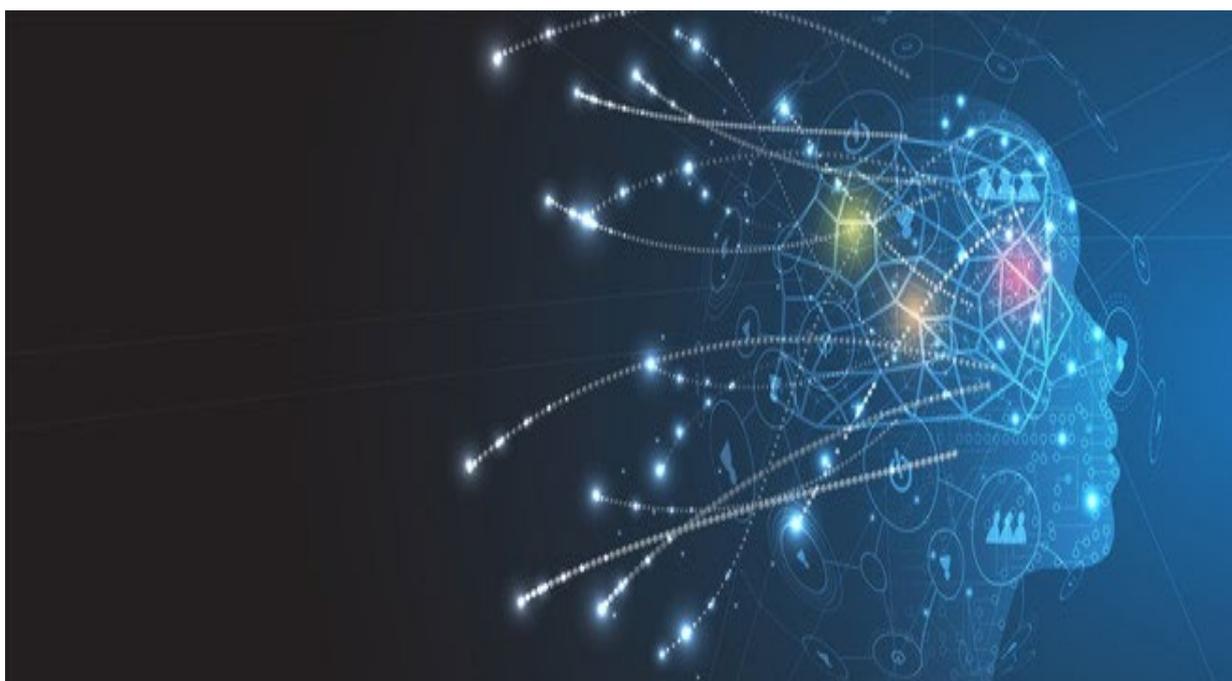
3.7.2 On the Settlement Day

The CSD Department sends a settlement report to the settlement bank by 08:00 at the latest on the settlement day. The settlement 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 settlement day, undertaking to settle the purchase transactions performed by and through that clearing member. The CSD Department reserves the right to make amendments to the payment or receipt orders of the clearing members at the settlement bank, to remedy any errors in the original settlement report, with no need for recourse to the clearing member.

The clearing member must provide, in the settlement account, the amount payable by 09:00 at the latest on the settlement day. It is expected that the clearing member verifies that the cash balance in its Clearing Member's Settlement Account is sufficient and available for the settlement of any amounts payable on the settlement day, according to the settlement report for that day.

The clearing member must arrange an overdraft and authorise the settlement bank to use the overdraft facility if the cash balance in its Clearing Member's Settlement Account is insufficient or unavailable to settle the amounts payable.

The settlement bank must transfer the amounts from the Clearing Members' Settlement Accounts to ADX settlement account and vice versa by 09:30 at the latest on the settlement day, according to the amounts shown in the settlement report.



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 09:00 at the latest on the day following the settlement day.

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

- a. First, using the cash guarantee submitted by the clearing member, if any.
- b. Second, if necessary, liquidating the bank guarantee submitted by the clearing member.
- c. Finally, if necessary, selling the securities pledged by the CSD Department and submitted by the clearing member as guarantee.

Without impacting any of the above provisions, the ADX may suspend the clearing member from trading for failing to settle the amount payable for settlement by the prescribed deadline.

Furthermore, the 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 such member's failure to fulfil its settlement obligations.

It is expected that the clearing member keeps the minimum guarantee required by the CSD Department at all times. If the guarantee falls below the minimum amount required for any reason whatsoever, the ADX may suspend the clearing member from purchases until the guarantee required is presented to the CSD Department.

3.8 Pledging Securities

Learning Objective

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

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). The CSD 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).
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.

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

- a. creditor on mortgage
- b. debtor on mortgage (owner of securities)
- c. securities, subject of the pledge (issuing company, quantity), and
- d. party entitled to profits.

In order 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.

The CSD Department registers the pledge on bonus shares on their record date, unless the pledge request otherwise indicates. Furthermore, in the event that the nominal value of pledged securities is split, the CSD Department places a pledge sign on the securities resulting from the splitting process.

The pledging of Securities deposited with the CSD Department is only effective upon its registration on the automated clearing system. Any pledge will be released on the basis of a request submitted by the creditor on mortgage using the form prepared for this purpose 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 Department 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. Where the debt secured by pledge is settled, the creditor on mortgage must immediately request the CSD Department to release the pledge.

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:

- a. If the claimant is the creditor mortgagee or the party to whose benefit the shares have been frozen, the CSD Department will execute the court order and notify the court about the undertaken procedures.
- b. If the claimant is not the creditor mortgagee, the CSD Department 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.
- c. 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.

4. Clearing in Commodities Markets

Clearing in any market typically 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 making sure that the transaction goes smoothly which will involve guaranteeing that both parties will receive what is due. This puts the clearing house at risk and is broadly dealt with by making sure the clearing house has plenty of financial capacity and putting in place mechanisms to make sure the participants' can meet their requirements. The participants are often required to deposit what is known as 'margin' with the clearing house to act as a good faith deposit towards their obligations.

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.

4.1 Clearing Operations in Commodities Markets

Learning Objective

- 7.4.1 Understand the regulations of clearing operations in commodities markets (The Authority Resolution No. (11) of 2015): licence conditions (Article 3); obligations of the commodities CCP (Article 10); risk management (Article 11)

Clearing activity can only be practised in a market after first obtaining a licence from the Authority. This involves meeting certain conditions that include the following:

1. 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.
2. The company's memorandum of association must be authenticated by the official authorities.
3. The paid-up share capital and reserves must not be less than AED 50 million.
4. The licence fee of AED 200,000 must be paid to the Authority in advance.
5. A commodities CCP must ensure compliance with the relevant IOSCO's Principles on Clearing. The Authority will assess compliance on an annual basis and release the results.
6. The applicant must develop corporate governance provisions approved by the Authority that include a clearly defined organisational structure, and operational processes, procedures and policies for the board of directors and executive management, technical and administrative staff.
7. At least 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.
8. The appointment of the chairman, board members and the CEO, and their compensation must be approved by the Authority.
9. Technical and administrative staff necessary for the conduct of the clearing activities must be duly appointed.
10. Suitable headquarters along with the software and technical systems and equipment necessary to engage in the business are required.
11. Approval by the Authority of the shareholders of a commodities CCP, including full transparency and disclosure of the identity and ownership levels of those shareholders. The Authority has absolute discretion to refuse any transfer of ownership.

12. Voting rights of shareholders must be commensurate with their respective ownership percentage.
13. Additional conditions or requirements as decided by the Authority in accordance with the requirements of the public interest may apply.

A commodities CCP must satisfy all of the licence conditions at all times.

4.1.1 Obligations of a Commodities CCP

Under the Authority regulations, a commodities CCP is obliged 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, as well as 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 the Authority.
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 as they arise.
3. Set the rules of professional conduct for its employees, supervise them, regulate and control their personal dealings in securities so as to ensure their compliance with the provisions of law, regulations, decisions and instructions issued by the Authority, particularly those related to honesty, integrity and conflicts of interest.
4. Maintain, on a continuous basis, 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. There should be permanent electronic programs, systems, technical devices and IT 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.
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 in general through periodic review. In addition, it must review and ensure the correctness of its margin system on a periodic basis.
9. Provide the Authority 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
 - an 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
 - a 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 the Authority.
10. Obtain prior approval of the Authority 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.
11. Immediately notify the Authority of the following:
- any intention to place a clearing member in default
 - in the event of any material changes or developments in the company, or any deficit that affects its financial position
 - any material changes in the information or data provided when applying for the licence
 - any change in the members of the board of directors of the clearing company
 - any 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
 - any violations by its employees of the laws, regulations, by-laws or decisions issued by the Authority.
12. Keep books and records or use computers and other modern technology equipment in accordance with the international accounting standards accepted by the Authority, and keep all records and financial data relating to the clearing operations, margin payments, financial instruments, clearing member and the market where transaction are executed, date and time of the transaction and the date of the time of the settlement and date of expiry of the contract, as well as 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. Back-up copies of the data and documents must be maintained for the same period and must be safeguarded against damage. The Authority must be allowed to access and review everything related thereto upon request.
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.
15. To 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. There should be transparency 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. To establish and administer a 'default fund' which is used in the event of breach or default.
18. To 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. The segregation of accounts should be clearly identified to enable clearing members and their customers to make their decisions about their transactions.

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:
- at all times on real-time basis, monitor the exposure of the commodities CCP to its clearing members
 - set margin requirements to the minimum level agreed to with the Authority 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)
 - determine the form and value of the guarantee that the clearing member must provide according to the category of its membership
 - 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:
 - the adequacy of the default fund shall be established through stress testing. Such testing shall be done at least daily
 - 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 and others
 - to set procedures that clarifies the mechanism to finalise all obligations (offsets) arising from trading operations in the market between the CCP company and its members
 - the commodities CCP must assess its liquidity requirements on a daily basis ensuring that it has adequate liquidity, covering both payments and receipts, and is not subject to wrong way risk
 - 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 the Authority
 - margin and default fund contributions must be collected by the commodities CCP in either cash or securities. Bank guarantees are not acceptable
 - to establish effective procedures applicable to handling default cases against obligations by clearing members. These procedures 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
 - to establish suitable procedures for separating the accounts between clearing members and their customers in order to ease the transfer of the financial positions and collaterals from the defaulting member to another non-defaulting member
 - the commodities CCP must perform stress tests on both its margin requirements and default fund contributions. The commodities CCP should take the appropriate steps, as agreed in advance with the Authority. Periodic back tests should be performed to ensure that the stress test scenarios are adequate.

4.1.2 Risk Management

A commodities CCP must manage its risk by adhering to the following:

1. Preparing an operational manual for risk management that includes the identification and definition of specific risks that the commodities CCP may face and how to address them should they materialise. Effective measures must be developed to ensure that current or potential risks that the commodities CCP may be exposed to are identified, indicating how to address, confront, report and monitor such risks, in order to enable the commodities CCP to continue to operate and to comply with the provisions of the regulations. Such risks include:
 - credit risks
 - counterparty risks
 - market risks
 - operational risks
 - legal risks
 - business risks – arising from poor management or investment decisions, as well as business continuity and disaster recovery issues. Any plans for continuity and recovery should be adequately tested and the results made public
 - liquidity risks – a strong structure must be developed to manage liquidity risk and must include the operational and analytical tools and mechanisms to identify, measure and monitor cash flows associated with the settlement on continuous basis and in a timely manner so as to ensure that the organisation is capable of settling the liabilities and payments associated with the settlement processes in all currencies
 - concentration risks
 - cases of liquidation or restructuring
 - risk exposures of the clearing members and their customers
 - risk exposures of other entities that deal with the commodities CCP, 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.
2. 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.
3. Establish a surveillance program to assess clearing members' compliance with the risk management requirements of the commodities CCP.
4. 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 the Authority.
5. Continuous assessment of member contributions to the default fund and the risks it may pose according to the rules set by the CCP.
6. Not to dismiss the internal auditor except by a decision of the board of directors, provided that both the Authority and the internal auditor are notified at least 30 days prior to dismissal explaining the reasons and justifications for the dismissal.
7. Comply with all regulatory rules, procedures and requirements established by the Authority concerning internal controls and the role of the internal auditor.

5. 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.

5.1 Delivery Months

Learning Objective

7.5.1 Know delivery months for products traded on the Dubai Gold & Commodities Exchange: Gold Futures (I.4.1); India Gold Quanto Futures (I.5.1); Shanghai Gold Futures (I.6.1); Silver Futures (J.4.1); Crude oil Futures (N.5.1, N.6.1, N.7.1, N81); Equity Index Futures and Options (P61)

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.
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.

5.2 Gold Futures

Learning Objective

- 7.5.2 Know details of Gold Futures: contract size (I.4); minimum price movement (I.4.2); last trading day (I.4.3); final cash settlement price (I.4.4); cash settlement day (I.4.5)

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 per troy ounce.
- **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.

5.3 India Gold Quanto Futures

Learning Objective

- 7.5.3 Know details of India Gold Quanto Futures: contract size (I.5); minimum price movement (I.5.2); last trading day (I.5.3); final cash settlement price (I.5.4); cash settlement day (I.5.5)

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

- **The contract size** – one lot.
- **Minimum price movement** – US\$1.00 per lot.
- **Last trading day** – two business days prior to the last business day of the delivery month.
- **Final cash settlement price** – the benchmark reference gold 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.

5.4 Shanghai Gold Futures

Learning Objective

- 7.5.4 Know details of Shanghai Gold Futures: contract size (I.6); minimum price movement (I.6.2); last trading day (I.6.3); final cash settlement price (I.6.5); cash settlement day (I.6.6)

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. 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.

5.5 Silver Futures

Learning Objective

- 7.5.5 Know details of Silver Futures: contract size (J.4); minimum price movement (J.4.2); last trading day (J.4.3); final cash settlement price (J.4.4); cash settlement day (J.4.5)

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

- **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 per troy ounce.
- **Last trading day** – two business days prior to the last business day of the contract delivery month.
- **Final cash settlement price** – the benchmark reference silver 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.



5.6 West Texas Intermediate (WTI) Futures

Learning Objective

- 7.5.6 Know details of West Texas Intermediate (WTI) Light Sweet Crude Oil Futures: contract size (N.5); minimum price movement (N.5.2); last trading day (N.5.3); final cash settlement price (N.5.4); cash settlement day (N.5.5)

The contract specification for the West Texas Intermediate (WTI) Light Sweet Oil Futures contract is as follows:

- **The contract size** – 1,000 barrels.
- **Minimum price movement** – US\$ 0.01 per barrel.
- **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 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.

5.7 Brent Crude Oil Futures

Learning Objective

- 7.5.7 Know details of Brent Crude Oil Futures: contract size (N.6); minimum price movement (N.6.2); last trading day (N.6.3); final cash settlement price (N.6.4); cash settlement day (N.6.5)

The contract specification for the Brent Crude Oil Futures contract is as follows:

- **The contract size** – 1,000 barrels.
- **Minimum price movement** – US\$ 0.01 per barrel.
- **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.

5.8 Mini WTI Crude Oil Futures

Learning Objective

- 7.5.8 Know details of DGCX Mini West Texas Intermediate (WTI) Light Sweet Crude Oil Futures: contract size (N.7); minimum price movement (N.7.2); last trading day (N.7.3); final cash settlement price (N.7.4); cash settlement day (N.7.5)

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 per barrel.
- **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 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.

5.9 Dubai India Quanto Crude Oil Futures

Learning Objective

- 7.5.9 Know details of Dubai India Crude Oil Quanto Crude Oil Futures: contract size (N.8); minimum price movement (N.8.2); last trading day (N.8.3); final cash settlement price (N.8.4); cash settlement day (N.8.5)

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.

5.10 MSCI India Index Futures

Learning Objective

7.5.10 Know details of MSCI India Index Futures (INR): contract size (P.6); minimum price movement (P.6.2); last trading day (P.6.3)

The contract specification for the MSCI India Index Futures contract is as follows:

- **The 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.

5.11 Errors in the Index

Learning Objective

7.5.11 Know rules concerning errors in an equity index (P.5)

If, no later than 30 minutes after the publication of the final cash settlement price for a particular delivery month, any member of the Exchange notifies the Exchange of, or there otherwise comes to the attention of the Exchange, an alleged or 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 such alleged or apparent 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 whatsoever 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.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

- 1. Describe what 'E-Trading' is.**
Answer reference: Section 1.1.1
- 2. What conditions must be met to provide E-Trading services?**
Answer reference: Section 1.1.2
- 3. How long will it take for an application decision to be given?**
Answer reference: Section 1.1.3
- 4. List the operational characteristics and requirements a brokerage company must provide.**
Answer reference: Section 1.1.5
- 5. If a foreign brokerage company fails to comply with the regulations of the ADX, what measures can be taken?**
Answer reference: Section 1.2
- 6. Name the timeframes for submitting annual and quarterly reports to the Exchange by the broker?**
Answer reference: Section 2.1
- 7. What obligations must a broker have in relation to selling orders?**
Answer reference: Section 2.2
- 8. Does the E-Trading system display 'clean' or 'dirty' prices for debt instruments?**
Answer reference: Section 2.3
- 9. List three of the requirements a broker is permitted to execute 'big block' deals.**
Answer reference: Section 2.4
- 10. Name the entities who must register with the CSD Department.**
Answer reference: Section 3.1
- 11. What must issuers wishing to list securities on the ADX provide in relation to the register?**
Answer reference: Section 3.2
- 12. What are the exceptions to assigning an investor number?**
Answer reference: Section 3.3
- 13. What is required for owners of shares with certificates to trade those shares on the ADX?**
Answer reference: Section 3.4
- 14. What are the requirements of transferring securities to a deposit account?**
Answer reference: Section 3.5
- 15. What forms of guarantee are required from clearing members on the ADX?**
Answer reference: Section 3.6

16. In relation to a mortgage, what will the CSD Department do if the claimant is not a creditor mortgagee?

Answer reference: Section 3.8

17. Which principles must a commodities CCP observe when practising the activity?

Answer reference: Section 4.1.1

18. Explain the dismissal process of an internal auditor?

Answer reference: Section 4.1.2

19. List the delivery months for Crude Oil Futures.

Answer reference: Section 5.1

20. What is the time period for an error to be amended on an equity index?

Answer reference: Section 5.11

Chapter Eight

Dubai Financial Market (DFM)

1. Brokerage Firms	203
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This syllabus area will provide approximately 11 of the 100 examination questions



This chapter covers the rules and regulations associated with the Dubai Financial Market (DFM). DFM operates as a secondary market for the trading of securities issued by public shareholding companies, bonds issued by federal or local governments, local public institutions and mutual funds as well as other local or foreign DFM approved financial instruments.

After launching as a public institution in March 2000, the Executive Council of Dubai decided to transform the DFM into a public shareholding company with a capital of AED 8 billion divided into 8 billion shares, and 20% of the capital was offered through an IPO.

DFM operates according to Shariah principles and is regulated by the UAE Securities and Commodities Authority (SCA or The Authority).

1. Brokerage Firms

1.1 Obligations of Brokerage Firms to the DFM and the SCA

Learning Objective

8.1.1 Know the obligations of brokerage firms towards DFM and SCA (Article 7)

Brokerage firms operating on the DFM must meet certain obligations, including the following:

1. **Financial solvency** – brokerage firms must maintain the level of financial solvency necessary for carrying out their activities and meeting their obligations, in accordance with the criteria issued by the Authority.
2. **Market notifications** – each brokerage firm is required to notify the market of the following:
 - any material changes or developments that occur in the company, or any deficit that may affect its financial position
 - any adjustment made to the information and data contained in its licence application
 - any change or adjustment made to the orders system used by the company

- any change in the members of its board of directors or management board
 - any attachment or pledging of the company's assets, or any lawsuits in which the company or any of its Authority-approved employees take part, and any court rulings issued in said lawsuits which may affect the company's financial position, and
 - any acts committed by its employees in violation of laws, regulations or circulars applied by the Authority or DFM.
3. **Segregating departments** – if licensed to carry out more than one activity, brokerage firms must have autonomous, dedicated departments for each activity and segregate between the departments and activities to avoid conflict of interests.
 4. **Not publishing incorrect information** – brokerage firms must refrain from publishing or promoting any incorrect information related to parties whose securities are listed on the market.
 5. **Verifying eligibility** – brokerage firms must verify the eligibility of their clients, and the soundness of transactions executed.
 6. **Not executing outside trading sessions** – brokerages must refrain from executing any buying or selling orders outside trading sessions, unless allowed by applicable laws.
 7. **Meeting trading obligations** – brokerage firms must meet all obligations arising from trading brokered within the specified timelines.
 8. **Evidencing consent** – brokerages must be able to prove client consent for all executed orders, by acquiring client signature on written order forms, or by recording and archiving orders received by phone or online, in accordance with the rules and technical requirements set by the Authority. The brokerage firm must also verify the orders received by fax or email, or any other electronic means, and keep copies of such orders, while also issuing a confirmation for the client regarding all executed orders on the same day of the execution.
 9. **Maintaining records** – brokerages must maintain commercial books and records or use computers and other modern technologies in accordance with the International Financial Reporting Standards (IFRS), as well as rules issued by the Authority, and retain client orders whether written, recorded through phone or received by any other electronic means approved by the Authority, for a period of ten years. Back-up copies of such data and documents must be retained for the same period in order to preserve the client's data and transactions and to avoid any damage to them.
 10. **Enabling SCA access** – the Authority must be provided with access and must be able to review the records, documents, accounts and financial statements that show the brokerage's financial position and its clients' financial positions, transactions, and agreements to open accounts for each of them. All information must be made available immediately upon request.
 11. **Minimum employee numbers** – brokerages must have the necessary number of employees in its offices within the DFM trading floor, in accordance with the Authority and the DFM requirements.
 12. **Compliance** – brokerages must comply with all regulatory rules, procedures and requirements determined by the Authority with respect to internal controls and the functions of the compliance officer.



1.2 Obligations of Brokerage Firms to Clients

Learning Objective

8.1.2 Know the obligations of brokerage firms towards their clients (Article 8)

Brokerage firms and their employees are required to comply with the Professional Code of Conduct, and refrain from any act that may harm the reputation of the market, its members or traders. In particular, brokerage firms and their employees must adhere to the following:

1. Brokers must not trade in securities in favour of a client until an agreement is in place, dated and signed by persons legally authorised by the parties. The agreement sets out the rights and obligations of both parties, the method of terminating the agreement, the client's investment goals, the means of receiving orders and notifications, and where the securities will be held. Such data must be updated periodically.
2. Brokers must verify the client's ability to make the payment for purchased securities before the settlement date.
3. Brokers must not deal with third parties on behalf of clients unless authorised by an authenticated power of attorney. The power of attorney will define the limits and authorities of the agent regarding the account and the handling of shares.
4. Brokers must capture and include certain basic information within client orders, including the date and time of the order, the type of security, number of securities, and price of securities and expiry of the order. If the order is written, it should include the signature of the client or the representative of the client.
5. Brokers must not receive or keep any blank and signed orders from the clients.

6. Brokers should not dispose of clients' monies in any manner contrary to their instructions or in violation of the activity for which the brokerage firm is authorised to practise.
7. Executed transactions must be notified to the client and custodian in writing or by the agreed means of communications upon execution. The client or custodian may object to any transaction in accordance with the procedures of delivery versus payment.
8. Firms must not combine the role of brokerage with the role of an agent in a contract brokered.
9. The client must be provided with a detailed quarterly statement of account – in the event of executing trading orders during that period – without prejudice to the right of the client to request a detailed statement of account or a statement of securities balance at any time.
10. Brokerage firms must maintain the confidentiality of client data, transactions and orders, and not utilise them to achieve benefits or gains for the brokerage firm, or any of its employees, or others.
11. Observe the principles of honesty and integrity and avoid conflict of interest situations. The brokerage firm must not favour personal interests or third-party interests over the interests of clients and must refrain from prejudice among clients, executing their orders on a first received, first served basis.
12. Practise the licensed activity with care and prudence in accordance with the provisions of the law and the regulations and the conditions and controls on which the licence was issued. Additionally, business norms and the principles of trust, fairness, equality and care should be observed.
13. Obtain from each client a statement of the bank account number to which the client's cash dividends will be transferred. The statement must be signed by the client.
14. Brokerage firms must open a trading account on the market for any investor seeking trading, without requiring a minimum advance deposit.
15. The brokerage firm is not allowed to open more than one account for the same investor.
16. Trading in the broker's portfolio or in the shares of a parent, subsidiary, sister or affiliate company is not allowed unless it is carried in accordance with the applicable Authority regulations and DFM rules.

1.3 Trading Members and Clearing Members

Learning Objective

- 8.1.3 Know regulations that apply to: trading members (Article 10); trading and clearing members (Article 11); failed settlement (Article 9)

Brokerage firms that are just trading members of the DFM must enter into a contract with a clearing member to settle clients' accounts, or accounts of the company. The contract will detail the relationship between both parties, the rights and obligations of each, work procedures and means of distributing commission among the parties. Once signed, a copy of the contract must be submitted to both the Authority and DFM. Furthermore, the trading member must not receive any cash from its clients, with the clients paying the clearing member.

Brokerage firms that are both trading and clearing members must settle their obligations to the DFM according to the DFM's regulations. They must not pay any cash to clients with debit balances, and not pay any amounts that exceed a client's credit balance, while observing margin trading regulations. Credit must not be added to clients' accounts via post-dated cheques, except after these cheques have been cashed.

Trading and clearing members are not permitted to sell shares of debtor clients without DFM approval, and must not commit any actions that lead to the freezing of clients' securities or prevent the clients from utilising their securities, except in accordance with a court ruling, procedures applicable in the DFM, or the Authority resolutions.

Any broker cannot receive commission from investors that exceeds the limits set by the Authority, and commissions are distributed in accordance with the regulations and resolutions issued by the Authority. The value of securities deals is settled between the broker and its clients in accordance with the trading regulations and brokers regulations.

If the client fails to pay the price of securities related to the executed deal within the two settlement days, the brokerage firm is obliged to sell the securities no later than one working day from the settlement date, upon approval from the DFM. The selling must be at the market price, with the client incurring any losses arising. Any profits arising from the selling of securities must be deposited in the Investor Protection Fund's account.

2. Rules of Securities Trading in the DFM

2.1 Order Handling

Learning Objective

8.2.1 Know the rules governing order handling (Articles 2 & 3)

When handling client orders, it is important to appreciate that these orders are binding on the brokerage firm. The client order to the broker for the buying or selling of a security can arrive via fax, email or any other electronic means. The broker must be able to prove to the DFM that it has obtained an order that states the name of the client, the issuer, type of transaction (buying or selling), the number of securities, price, date and validity of the order.

The broker must handle the orders received from its clients fairly and justly, based on the time these orders were received. Clients' orders and transactions executed on their behalf have priority over orders executed for the broker or any other account in which the broker holds an interest.

Only persons registered in the brokerage firm's representatives register are allowed to enter buying and selling orders into the trading system. However, this requirement does not prevent a client entering orders into the trading systems online or via any other electronic platform provided by the broker.

The brokerage is expected to exert its utmost efforts to ensure its clients get the best selling and buying prices at the time of execution according to the priority of their orders, and with no prejudice to the conditions set by their orders.

Unsurprisingly, the broker is not permitted to share any undisclosed information that came to its knowledge, nor may the broker invest based on such information. It is the broker that is responsible for the orders entered by the broker into the trading system.

2.2 Broker Reporting Requirements

Learning Objective

8.2.2 Know brokers reporting requirements (Article 5)

Upon execution, the broker must notify the client of the executed transactions on that client's account.

Unless a shorter period is stipulated in the client agreement, the broker must submit to the client a statement of account that outlines the client's balance of securities and cash, and all transactions executed on behalf of the client, every three months.

2.3 Other Broker Rules and Requirements

Learning Objective

8.2.3 Know the rules relating to: conflicts of interest (Article 6); insider trading (Article 7); board members (Article 7); misleading information (Article 8); articles of association of an issuer (Article 9); mistakes (Article 11); cancellations (Article 12); brokers representatives (Article 15)

2.3.1 Conflicts of Interest

Where the broker has an interest in the transaction to be executed in the client's account, or that relates to the transaction that may lead to a conflict of interests, then the broker may not execute the said transaction unless appropriate measures are taken to ensure the client's interests are met and that the client was treated fairly.

2.3.2 Internal/Insider Information

A broker must not execute any transaction related to a security for its benefit or the benefit of any of its clients based on internal/insider information related to that security or any other related security.

Information related to any person's intention to buy or sell any specific security in large volumes, or to the person having executed said transactions is considered internal/insider information. Furthermore, prior to publication, financial consultations prepared by the broker are considered internal/insider information.

A broker should not execute any order on behalf of a client if the broker knows the order is based on internal/insider information.

2.3.3 Dealing for Board Members

When executing trades for a member of the listed company's board of directors, its general manager or any of its insider employees, the broker must take care that the client is not dealing within the closed period (the ten days leading up to the announcement of material information, or the 15 days leading up to the disclosure of financial statements) and abides by the requirements to clear trades with, and disclose trades to, the market.

2.3.4 Misleading Information

A broker must not commit any act that aims to give an incorrect and misleading idea about the price of any security, or its trading volume, in a manner that significantly affects the supply/demand of the particular security, and may not exploit information related to investors' orders for its own benefit or the benefit of others.

2.3.5 Violations of the Articles of Association

A broker must not execute any order related to a security if the order violates the articles of association of the issuer of this security or violates any effective laws in the country. If this happens, the DFM has the right to compel the broker to re-sell or re-buy the particular security so that the situation is as it was before executing the order. If the amount that results from the re-selling or re-buying exceeds the amounts paid by the client, the broker must transfer the resulting amount to the DFM. If the resulting amount is less than what the client paid, the broker suffers the loss. However, unravelling the violating transaction does not prevent the DFM taking disciplinary action against the offending broker.



2.3.6 Mistakes

If trading was conducted on a particular account by mistake, the broker can request the DFM to adjust the trading account number for the transaction. The adjustment request must normally be submitted within 30 minutes after conclusion of the trading session. In exceptional cases, the CEO of the market may accept adjustment requests submitted after this time, on approval from the Authority.

The DFM has the right to request all necessary documents and take necessary measures to verify the mistake.

2.3.7 Cancellations

There are various situations that might result in the cancellation of orders, including the following:

1. By a resolution from the CEO of the market or the person acting on the CEO's behalf, the buying or selling orders of a certain security may be cancelled where:
 - the orders were in violation of the law or the regulations and procedures applicable in the market
 - the transactions executed during the trading session were as a result of a technical glitch in the market's systems
 - upon receiving a written request from both brokers of the transaction, at the market's discretion, provided that there are valid and serious reasons that justify the cancellation or adjustment of the transaction. Both parties involved in the transaction will return to their status before execution of the transaction.
2. The Authority can cancel trading transactions that are in violation of the law or the regulations, resolutions or circulars. The Authority may instruct that the situation is restored to what it was before executing the trading in accordance with DFM's procedure, and without harming others.

2.3.8 Brokers Representatives

All representatives and employees of the broker are not allowed to trade securities listed on the DFM except through the brokerage firm and with the approval of the DFM. Trading through other brokerage firms requires the approval of the CEO of the DFM.

2.4 Settlement Requirements

Learning Objective

8.2.4 Know settlement requirements (Article 10)

Brokers must pay the value of securities sold on behalf of their clients, after deducting commissions and fees, before the end of two days or the end of the settlement period set by the DFM. Payments are made through cheques in the name of the broker and in favour of the registered client, or through financial transfers to the client's account.

If the client does not request to receive the value of sold securities, the broker must add this value to the client's balance before the end of the settlement period for the sold securities.

The buying client must pay for the securities bought on its behalf before the settlement date, and the broker must verify its client's ability to make the required payment.

In cases where securities are bought and sold during the same trading session, the client must have in its cash account enough credit to cover the value of purchase.

If the buying client fails to pay the price of the securities bought on its behalf, and the commissions due on the transaction within the settlement period, then the broker may sell the securities, at market price, upon market approval. Any profits resulting from the selling are deposited in the Investor Protection Fund's account. Any losses resulting from the selling are incurred by the client or the brokerage firm.

When dealing in cash with its clients, the broker must always comply with the applicable anti-money laundering regulations.

3. The Professional Code of Conduct (DFM)

The DFM's Professional Code of Conduct is required of all its brokerage firms and their employees. Broadly, it expects firms and their employees to abide by the ethics of the profession, and refrain from any acts that would be detrimental to the reputation of another brokerage firm or the reputation of the market, its members or traders.

3.1 Obligations to Employees and Representatives

Learning Objective

8.3.1 Know brokerage firms' obligations in relation to their employees and representatives (Article 2)

Brokerage firms must, at all times, ensure that any persons employed to deal with clients, or on their behalf, have the necessary qualifications for their role, including professional experience and training to perform the tasks expected.

At all times, brokerage firms must have the necessary resources to enable effective and constant supervision of its employees or other persons appointed to deal with clients, on their behalf, with other brokerage firms, or with the market.

In all cases, the brokerage firm is held responsible for any acts, mistakes or negligence committed by its employees while performing their jobs. It must not allow any person who is not licensed or registered to use the electronic trading system or the electronic clearing system. It must not allow the use of its username by unauthorised persons.

Representatives of the broker must not execute buying or selling orders for their own benefit or the benefit of their employers or members of the board of directors of their companies, or the employees of their companies or their spouses, ascendants or descendants to the second degree, except upon approval of the market.

Representatives of the broker and the other employees of brokerage firms may not trade for their own accounts except through their own firms and upon a written approval of the brokerage firm manager and the DFM.

3.2 Obligations in Relation to Client Due Diligence (CDD)

Learning Objective

8.3.2 Know brokerage firms' obligations in relation to client due diligence (Article 3)

The DFM's Professional Code of Conduct requires brokerage firms to take reasonable steps to determine the identity, contact details, financial solvency and investment goals of their clients, including at least:

- a. For natural persons:
 - full name as in the passport, passport number, date of issuance and place of issuance
 - nationality and place of residence
 - profession, exact address, PO Box and phone number.
- b. For the corporate persons:
 - name of company/entity and its nationality
 - commercial register number, commercial licence, place and date of issuance for both
 - copy of the memorandum of association for the founding company as per the laws of the native country
 - address, PO Box, zip code and other contact details of main headquarters
 - name of person authorised to manage accounts, that person's nationality, passport number, date and place of passport issuance, profession and an authorisation letter.
- c. For securities portfolios managed by a licensed investment manager:
 - full name of portfolio manager as in the passport, passport number, date and place of issuance, and nationality of portfolio manager
 - place of residence, exact address, PO Box and other contact details of the portfolio manager.
- d. For investment funds:
 - nature of the entity, its legal form, type and capital
 - copy of the memorandum of association
 - full name of the investment/fund manager, as applicable, as in the passport, passport number, date and place of issuance, and nationality of the manage
 - address, PO Box, zip code and other contact details.

3.3 Other Obligations

Learning Objective

- 8.3.3 Know brokerage firms' obligations in relation to: fairness (Article 4); order taking (Article 4); confidentiality (Article 4); segregation (Article 4); call recording (Article 4); complaints (Article 4); suspicious activity (Article 4); market data (Article 4)

The DFM's Professional Code of Conduct includes a number of obligations additional to those considered above. Among these are the following:

3.3.1 Fairness

The brokerage firm must observe in dealing with its clients the principles of honesty and integrity and act fairly when the nature of the clients' dealings with it are similar, avoiding any acts that provide some, and not all, of its clients with advantage or incentive or any special information, whether directly or indirectly.

3.3.2 Order Taking

The brokerage firm must ensure that orders received from its clients are written and signed by the client, or received through the call recording system, fax or email. Oral orders are not allowed, should not be approved nor taken into account.

3.3.3 Confidentiality

The brokerage firm must maintain the confidentiality of all information related to its client's transactions and account, and refrain from disclosing such information except with the client's permission, or in compliance with orders issued by the Authority, the DFM or competent judicial authorities.

3.3.4 Segregation

The brokerage firm must segregate its accounts from the accounts of its clients in accordance with the regulations issued by the Authority.

3.3.5 Call Recording

The brokerage firm must abide by the Authority regulations in relation to the recording of calls.



3.3.6 Complaints

The brokerage firm must have an internal system for handling complaints from its clients, ensuring the following at all times:

1. All client complaints related to its business are handled in a proper and timely manner.
2. Steps are taken to verify and respond immediately to these complaints.
3. The client has been informed about the other steps available according to rules and regulations, in case the client's complaint was not handled immediately.

The brokerage firm must adhere to the contents of the complaint, and submit in a timely manner all information to the market management for investigation.

3.3.7 Suspicious Activity

If the brokerage firm senses that a person is manipulating or trying to manipulate the market, it shall immediately notify the DFM.

3.3.8 Market Data

The brokerage firm must not publish or promote any market data or the status of market listed entities unless such information is verified and made public by the concerned entity.

3.4 Prohibited Actions

Learning Objective

8.3.4 Know prohibited actions (Article 5)

The DFM's Professional Code of Conduct prohibits certain actions, as follows:

- Brokerage firms, or any of their employees, must not take advantage of their knowledge of a client's orders for the execution of trading transactions for their own accounts or other accounts.
- Brokerage firm, whether acting solely or in complicity with others, must not take any action that manipulates or misleads investors, including:
 - executing trading transaction(s) on a particular security in order to delude investors that it is an active security, or to impact its price (increase, reduce or fix its price) or the volume of its trading, or in order to influence the investor's decision regarding investment
 - entering, adjusting and/or cancelling the buying or selling order(s) of a particular security, in order to delude investors that it is an active security, or to impact its price or the volume of its trading, or in order to influence the investor's decision regarding investment
 - the brokerage firm must not trade any securities for its own account or for an account in which it holds an interest, based on previous knowledge held by the firm relating to future trading for, or with its clients
 - the brokerage firm must not, whether acting solely or in complicity with others, exploit information related to investors' orders for its personal benefit or the benefit of others
 - the brokerage firm must not, fully or partially, refrain from providing any consultation or other services related to its activity, before ensuring the immediate notification of all affected clients, and before taking the necessary measures related to outstanding work or unfinished business related to the accounts of such affected clients, and
 - the brokerage firm must not harm the reputation of another brokerage firm by accusing the latter of professional negligence or shortcomings, or spreading rumours about other brokerage firms.

3.5 Record Keeping

Learning Objective

8.3.5 Know record keeping requirements (Article 8)

Article 8 of the DFM's Professional Code of Conduct relates to record keeping. It states that brokerage firms must keep up to date records, physical or electronic. The DFM has the right to access and review these records.

As a minimum, the records must include the following:

- a. all concluded client agreements
- b. buying and selling orders executed by the brokerage firm, as well as all orders received by phone
- c. all securities owned by the brokerage firm and its employees

- d. all securities owned by clients of the brokerage firm, as well as any client assets held by the firm or a third party acting on its behalf
- e. all accounting entries and transactions.

4. Online Trading Regulations (DFM)

4.1 Price Limits

Learning Objective

8.4.1 Know how price limits are applied (Article 1)

Securities listed on the DFM are normally traded within the price limits set by the market. However, price limits do not apply to shares on their very first trading session when the share price is allowed to float between the date of listing and the conclusion of the trading session during which at least one transaction involving the share is executed. The closing price for the share at the end of the trading session is used as the benchmark to calculate change limits at the start of the next trading session.

For dual listed companies (foreign companies) on the DFM, which are listed and have securities traded in another financial market, the opening price for the security on the first trading day on the DFM is based on the last closing price of the security in the principal market. The maximum and minimum daily limits of the price margin are applied according to market procedure as of the security's first day of trading on the DFM. Market management reserve the right to apply different procedures for the trading of foreign shares listed on the market where appropriate and when justified.

4.2 Pre-Opening and Opening Sessions

Learning Objective

8.4.2 Know activities carried out during the: pre-opening session (Article 3); opening session (Article 4)

The DFM's pre-opening session aims to determine the opening price for listed securities that will be used in the subsequent trading session. Brokerage firms are not permitted to enter orders at market price during the pre-opening session and the order prices entered during the pre-opening session are considered general knowledge, with the orders displayed in the market to enable the opening price to be based on supply and demand.

The indicative opening price is updated every time orders are entered during the pre-opening session. The opening price is then calculated at the conclusion of the pre-opening session based on the following criteria:

1. the price that sees the largest executable trading volume. If more than one price meets this condition, then
2. the price that sees the least inexecutable trading volume. If more than one price meets this condition, then
3. the price that sees the least possible change from the closing price for the previous trading day. If more than one price meets this condition, then
4. the highest price.

Volumes of all orders entered into the trading system are taken into account when calculating the opening price.

Orders may be entered, adjusted or cancelled (subject to below) during the pre-opening session. Unexecuted and valid orders may be transferred from the previous day to the current session. In the final five minutes of the pre-opening session, selling and buying orders cannot be cancelled, the buyer cannot reduce the buying price and the seller cannot increase the selling price, and in all cases, the number of shares offered for buying or selling cannot be reduced.

During the pre-opening session no trading is conducted, but the trading system arranges orders as follows:

- All entered buying orders are shown at an equal or higher price than the indicative opening price.
- All entered selling orders are shown at an equal or lower price than the indicative opening price.

4.2.1 Opening Session

At the end of the pre-opening session, the opening session sees all executable volumes executed at the opening price calculated by the trading system. Unexecuted orders, or the remaining partially-executed orders, are carried forward into the trading session.



4.3 Trading Session

Learning Objective

8.4.3 Know activities carried out during the trading session (Article 5)

Selling and buying of securities during the trading session is conducted continuously. Brokerage firms can enter orders and execute trading transactions when prices and any other conditions match. They can also adjust, cancel, suspend or activate any orders that have not been executed or have been partially executed.

During the trading session, if a buying order is entered at an equal or higher price than the price on the selling side, or when a selling order is entered at an equal or lower price than the price on the buying side, the transaction is executed at the price set on the other side.

If a buying or selling order is entered with an executable volume at more than one price at the other side, these orders shall be executed according to the available price chain in order of priority until all the orders are executed. If the order is not fully executed, then the remaining unexecuted volume stays on the trading system, at the last executed price.

4.4 Pre-Closing and Closing Sessions

Learning Objective

8.4.4 Know activities carried out during the: pre-closing session (Article 6); closing session (Article 7)

4.4.1 Pre-Closing Session

In a similar way to the pre-opening session, orders are automatically collected within the central orders register without being executed in the pre-closing session. Orders may be adjusted or cancelled. New orders at determined prices can be entered during the pre-closing session, but not at the market price. At the end of this session, orders are matched on the basis of the theoretical auction price, which is calculated according to the criteria outlined below. If a single matching price is not determined after the first step the model progresses to the second step and, if necessary, the third.

Step 1 Maximum tradable volume – is the price that generates the greatest volume of trading.

Step 2 Establishing the minimum surplus – if there is more than one price at which there is a maximum tradable volume, the price with minimum unexecuted volume will be chosen.

Step 3 Mid-point – the mid-point of the prices that have more than one maximum tradable volume and at least two prices with the same minimum surplus. In order to determine the theoretical auction price, the mid-point is rounded up to the nearest price tick.

4.4.2 Closing Session

During the closing session, data and information are displayed, enquiries can be made and necessary reports are printed. Brokerage firms cannot adjust or cancel orders, nor enter new orders during this session.

5. Order Types (DFM)

Orders can be categorised into different types depending on the price, time in force (validity) and other special conditions.

5.1 Limit and Market Orders

Learning Objective

8.5.1 Know the following order types: limit (Article 8); market (Article 8)

Limit and market orders are the two categories based on price.

5.1.1 Limit Order

A limit order is an order to buy or sell a specific number of shares at a specific price, eg, purchase 100,000 shares in XYZ Co at AED 3.20.

5.1.2 Market Order

A market order is an order to buy or sell a specific number of shares at the best price in the market at the time the order is placed, eg, sell 200,000 shares in ABC Co.

Market orders can be entered only during the trading session – they cannot be entered in the pre-opening or pre-closing sessions. Market orders are executed at the best price available on the other side. If the order is partially executed, the remaining part of it is displayed at the last execution price.

Market orders are rejected if no orders exist on the other side.

5.2 Other Types of Order

Learning Objective

- 8.5.2 Know the following order conditions: day order (Article 9); good-till-cancelled (Article 9); immediate-or-cancel (Article 9); good-till-date (Article 9); at-the close (Article 9); orders without time-limits (Article 9); fill-or-kill (FOK) (Article 10); fill-and-kill (FAK) (Article 10)

There are a number of order types that are based on their time in force, alternatively referred to as their validity.

5.2.1 Day Orders

A day order expires if it is not executed by the end of the trading session on the day it was entered.

5.2.2 Good-Till-Cancelled

A good-till-cancelled order will, if not executed, remain until unless the investor cancels it.

5.2.3 Immediate-Or-Cancel

An immediate-or-cancel order is also referred to as an immediate order. It is only valid during the trading session and must be executed immediately. Any remaining unexecuted parts of the order are cancelled.

5.2.4 Good-Till-Date

A good-till-date order expires if it is not executed by the end of a specified date.

5.2.5 At-the-Close

At-the-close orders expire at the end of the trading session.

If no time limit is set for the validity of an order, the order is considered to be a day order.

All time-specified orders are automatically removed from the trading system once expired.

5.2.6 Special Orders

Special orders that can be entered into the trading system are as follows:

- **Fill-or-Kill (FOK) Orders** – must be executed in full and cannot be partially executed.
- **Fill-and-Kill (FAK) Orders** – may be executed in full or in part depending on market conditions at the time of entry. Execution will be at the specified price or better (which could be a limit price or at market price). The remaining part of any FAK order that is not executed immediately and in full is cancelled.



6. Order Handling (DFM)

6.1 Prioritisation of Orders

Learning Objective

8.6.1 Know the correct method for order prioritisation (Articles 11, 12, 13 & 14)

The arrangement of buying and selling orders and the execution of trading transactions are done separately based on the following priorities:

- a. Price priority – given to the best price as follows:
 - The buying order at a higher price is given priority over other buying orders.
 - The selling order at a lower price is given priority over other selling orders.
- b. Timing – if multiple orders are entered at the same price, they are arranged based on timing priority as follows:
 - Priority is given to orders entered earlier over those entered at a later time.
 - Priority is given to orders entered during the previous trading session over those entered during the current trading day.
- c. If an order is adjusted, in terms of price, volume, investor number, the addition or cancellation of a special condition, this order then loses its priority and is arranged according to the date and time of adjustment. This does not apply to adjustment to the order validity.

Certain features of a previous order can be changed with the order remaining valid. The adjusted original order is given a new time stamp and a new line priority if the change affected the price, investor's account number, an increase in the declared volume or the addition/cancellation of a special condition. The entered order does not lose its priority if the declared volume is decreased or if its validity duration is changed. While being adjusted, the order is not deleted, and therefore can still be traded.

Changes cannot be made to the share type, market type or order type. If these need to be changed, the order must be cancelled and re-entered.

Order cancellation can be done on the trading system and once it is used, the original order cannot be recovered. If the order has been traded, the cancellation is rejected.

As already encountered, existing orders in a company's orders register are executed based on the following priorities:

- a. **Best price** – execution priority is given to the best price.
- b. **Timing of entry** – orders are arranged in order of entry, where the order with the earliest time stamp is placed first, on a first received first served basis.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

- 1. List the market notifications a brokerage firm is required to notify the market of?**
Answer reference: Section 1.1
- 2. How must executed orders be notified to the client and custodian?**
Answer reference: Section 1.2
- 3. A brokerage firm that is both trading and clearing member must observe margin trading regulations in relations to?**
Answer reference: Section 1.3
- 4. What documentation must a client order prove?**
Answer reference: Section 2.1
- 5. What is the reporting requirement for brokers on the DFM in relation to their clients?**
Answer reference: Section 2.2
- 6. What are the DFM restrictions on brokers regarding conflicts of interest and internal/inside information?**
Answer reference: Sections 2.3.1 and 2.3.2
- 7. Can a DFM broker deal on behalf of a director of a listed company in that company's shares?**
Answer reference: Sections 2.3.3
- 8. What is the time period of notification if a mistake is made on an account?**
Answer reference: Section 2.3.5
- 9. Name the situations that might result in the cancellation of an order.**
Answer reference: Section 2.3.7
- 10. When will an Investor Protection Fund account be used?**
Answer reference: Section 2.4
- 11. What information should be gathered through reasonable steps by a brokerage firm in relation to corporate persons?**
Answer reference: Section 3.2
- 12. What should a brokerage firm ensure when handling complaints?**
Answer reference: Section 3.3.6
- 13. How are price limits applied on the DFM?**
Answer reference: Sections 4.1
- 14. What actions cannot be conducted within the final five minutes of pre-opening session?**
Answer reference: Section 4.2

15. Explain how the theoretical auction price works.

Answer reference: Section 4.4.1

16. How does a limit order differ from a market order?

Answer reference: Section 5.1

17. Which order is bought or sold at the best price?

Answer reference: Section 5.1.2

18. Explain the difference between a fill-or-kill order and a fill-and-kill order.

Answer reference: Section 5.2.6

19. What are the buying and selling priorities in relation to the best price?

Answer reference: Section 6.1

20. When is an order given a new time stamp?

Answer reference: Section 6.1

The background features a complex, abstract geometric pattern. It consists of overlapping, semi-transparent shapes in various shades of blue, from light sky blue to deep navy. These shapes are interconnected by thin white lines that form a network of paths and nodes. Some nodes are represented by small white dots, while others are larger, solid-colored circles in shades of blue, white, and dark grey. The overall effect is that of a digital or scientific network, possibly representing data flow or molecular structure. The pattern is most prominent in the top and bottom corners, with a large white curved area in the center where the text is located.

Glossary

Abu Dhabi Securities Exchange (ADX)

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

Annual General Assembly

The annual gathering of shareholders of a company. Also referred to as an annual general meeting.

Broker

A juristic person authorised to conduct brokerage business in a market.

Capital Adequacy

The requirement to hold a minimum amount of capital as a cushion against losses and protection for depositors and creditors.

Capital Market Institutions

Collective term for the Depository Centre, alternatively referred to as the Central Depository, the exchanges, such as the Dubai Financial Market (DFM) and the Abu Dhabi Exchange (ADX), and the clearing system.

Credit Rating Agencies (Category 4 Licence)

'Credit rating agencies' is the fourth of the five categories that require a licence from the Authority.

Custody, Clearing and Recording (Category 3 Licence)

'Custody, clearing and recording' is the third of the five categories that require a licence from the Authority.

Chinese Wall

The term given to arrangements made by a firm, such that information held by an employee in one part of the business must be withheld from (or, if this is not possible, at least not used by) the people with or for whom he acts in another part of the business.

Commodities

Agricultural produce and natural resources extracted from under the ground and the seas after being processed and prepared for commercial use.

Corporate Governance

The set of relationships between management, board, shareholders and stakeholders providing structure through which the objectives of the company are set.

Crypto Asset

Includes cryptocurrencies like Bitcoin and Ethereum. Technically defined as 'a record within an electronic network or distribution database functioning as a medium for exchange, storage of value, unit of account, representation of ownership, economic rights, or right of access or utility of any kind, when capable of being transferred electronically from one holder to another through the operation of computer software or an algorithm governing its use'.

Cryptocurrency

One form of crypto asset that includes the likes of Bitcoin and Ethereum.

Customer Due Diligence (CDD)

CDD is performing background checks on the customer to ensure that they are properly risk-assessed before being onboarded. It is a vital component in the prevention and detection of money laundering and terrorist financing.

Dealing in Investment (Category 2 Licence)

'Dealing in investment' is the second of the five categories that require a licence from the Authority.

Dealing in Securities (Category 1 Licence)

'Dealing in securities' is the first of the five categories that require a licence from the Authority.

Depository Centre

The Depository Centre, alternatively referred to as the Central Depository, facilitates the successful completion of trades undertaken on exchanges, such as the Dubai Financial Market (DFM) and the Abu Dhabi Exchange (ADX). The Depository Centre enables the seller of securities to deposit the securities agreed to be sold and only transfers these to the buyer when it is certain that the cash to settle the transaction is flowing in the other direction, from buyer to seller.

Derivative

A financial instrument whose price is based on the price of an underlying asset. This underlying asset could be a financial asset or commodity – examples include bonds, shares, stock market indices and interest rates; for commodities they include oil, silver or wheat. Most derivatives take the form of either futures/forwards, options or swaps.

Designated Non-Financial Businesses and Professions (DNFBP)

Businesses including accountants and auditors, jewellery dealers and the like. As with financial institutions, DNFBPs must have procedures to prevent and detect financial crime, such as money laundering.

Dubai Financial Market (DFM)

The Dubai Financial Market (DFM) runs a secondary market for the trading of securities issued by public shareholding companies, bonds issued by federal or local governments, local public institutions and mutual funds as well as other local or foreign DFM-approved financial instruments.

Dubai Gold & Commodities Exchange (DGCX)

Dubai Gold & Commodities Exchange is a derivatives exchange that trades products including gold futures, silver futures, crude oil futures and equity index futures and options.

Equity

Share capital.

Financial Intelligence Unit

The UAE Financial Intelligence Unit (FIU) receives and analyses suspicious transactions and activities that may involve money laundering, financing of terrorism and related criminal activities.

Financial Promotion

Advertisements and other invitations to engage in the purchase or sale of financial products and other financial services. Such advertisements are subject to the Authority's regulations.

First Category Listed Company

A first category listed company is one that has not had its listing suspended for six months or more, nor incurred accumulated losses of 50% or more of the capital according to its last audited annual financial statements. In either of these instances, it would be reclassified as a second category listed company.

General Assembly

A term for a gathering of shareholders or members, for example the members of a market constitute its general assembly.

Inside Information

Information which:

- relates to particular securities or to one or more particular issuers (ie, it is not so wide as to apply to securities or issuers of securities generally). It could, however, include information about the particular market or sector the issuer is active in;
- is specific or precise;
- has not been made public; and
- is price sensitive, (ie, if it were made public, would be likely to have a significant effect on the price of any securities).

Islamic Securities

Securities that comply with Shariah, such as *Sukuk*.

KIID

A key investor information document that is a summary document reflecting an underlying offering document for a fund.

Licence Categories

The five categories of firms that require a licence from the Authority.

Listing

The process required and conditions to be met to enable securities to be traded on particular markets.

Local Fund

A local fund is a public or private investment fund which has been established and licensed by the SCA, within the UAE, in accordance with the regulations.

Market

A securities and commodities market licensed in the UAE by the SCA.

Market Abuse

Market abuse is an offence relating to 'behaviour' by a person, or a group of persons working together, which is:

1. based on information that is not generally available to those using the market and, if it were available, it would have an impact on the price; and
2. likely to give a false or misleading impression of the supply, demand or value of the investments concerned; and
3. likely to distort the market in the investments.

Money Laundering

Money laundering refers to the purchase of securities with funds, the source of which is not identified accurately, or emanating from an unknown or disguised source, so that it appears to have originated from a legitimate source, where in fact it has not. In very simple and superficial terms, it is purchasing securities with criminally derived money.

Nominal Value (of a Bond)

The amount paid to the holder on maturity.

Nominal Value (of a Share)

The minimum amount that the company must receive from subscribers on the issue of the shares.

Qualified Investor

A qualified investor is an investor that is suitably experienced in investments and the related risk and meets certain minimum wealth requirements.

Ranking and Advice (Category 5 Licence)

'Ranking and advice' is the fifth of the five categories that require a licence from the Authority.

Related Party Transactions

Deals done between a company and related parties (related party transactions) need to be handled carefully to ensure nothing untoward occurs. Related parties are typically considered to be the chairman and other members of the company board, plus members of the senior executive management of the company, employees of the company, and the companies in which any of these persons holds 30% or more of its capital, as well as subsidiaries or sister companies or affiliate companies.

SCA

The Securities and Commodities Authority.

Second Category Listed Company

A second category listed company is one that has either had its listing suspended for six months or more, or incurred accumulated losses of 50% or more of the capital according to its last audited annual financial statements.

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.

Special Purpose Acquisition Company (SPAC)

A special purpose acquisition company (SPAC) is alternatively referred to as a 'blank check company'. It is a company formed with the sole purpose of effecting a 'merger' - to raise money through an initial public offering (IPO) so that it can buy another company.

Sukuk

Islamic securities that are often considered to be the Shariah compliant version of bonds.

The Authority

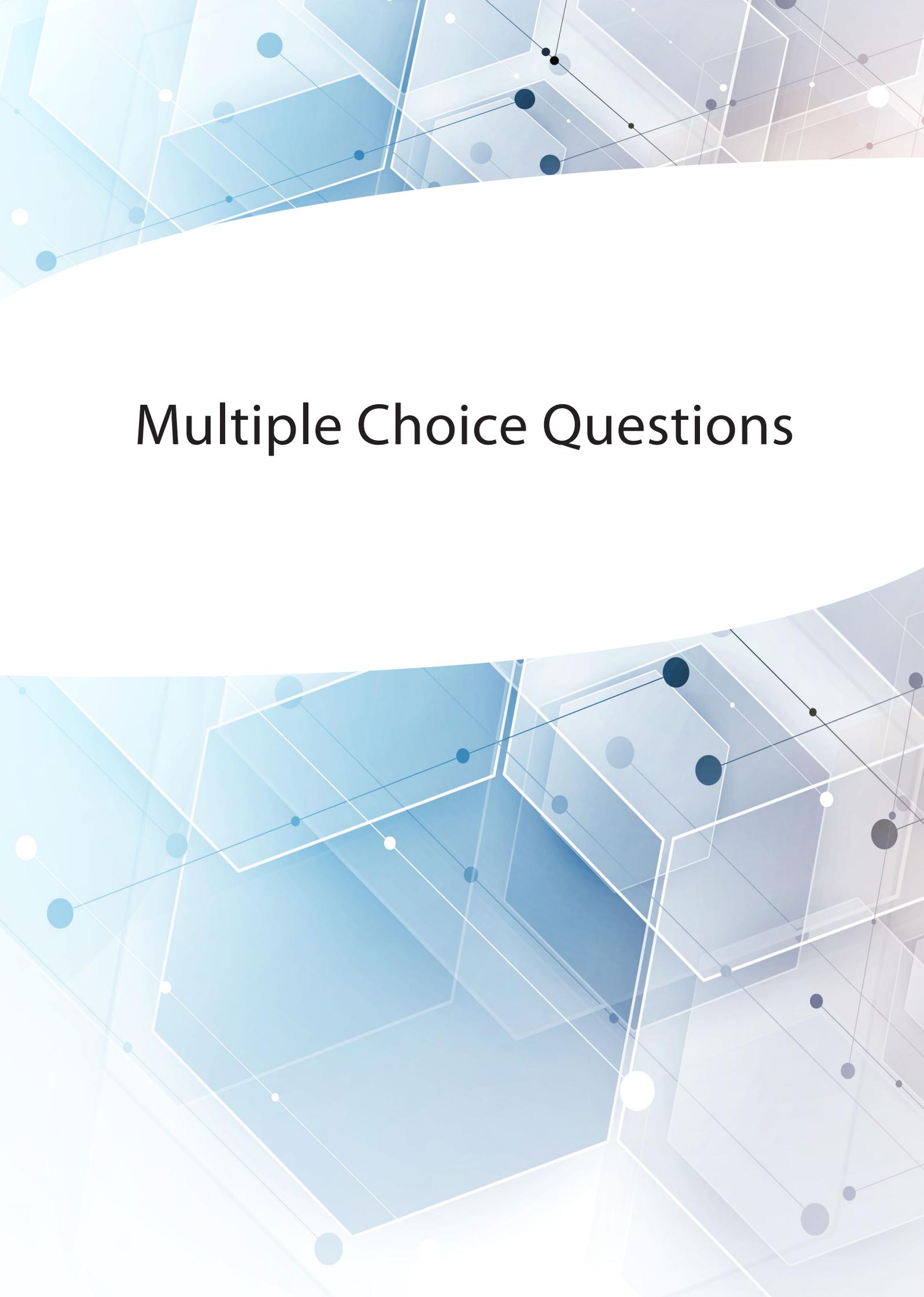
The Securities and Commodities Authority.

The Securities and Commodities Authority

The regulator that proposes and makes regulations regarding the listing and trading of securities and commodities in the UAE.

Watch List

The watch list is a list of the companies that have been transferred from the first category of listing to the second category.



Multiple Choice Questions

The following additional questions are for learning and revision purposes. Whilst they are based on the syllabus, they do not necessarily replicate actual examination standard questions and are included to test your knowledge and understanding of the relevant sections of the workbook.

1. 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 Futures

 2. A local fund offered to investors in the UAE must include which of the following in its prospectus?
 - A. Promised level of return
 - B. Guaranteed capital growth
 - C. Future income minimum
 - D. Information on shares in-kind

 3. Mustapha's four-year term as a Securities & Commodities Authority board member is ending. Which one of the following is most likely to be the reason that they are automatically ineligible to have their membership renewed?
 - A. They are now aged 72
 - B. They have served two terms
 - C. They missed the last two meetings due to illness
 - D. They recently bought property outside the UAE

 4. What is the normal frequency with which investment managers must provide statements to their retail clients?
 - A. Monthly
 - B. Quarterly
 - C. Six monthly
 - D. Annually

 5. If the Securities & Commodities Authority places a listed company on the watch list, this will be for what initial period?
 - A. One month
 - B. Three months
 - C. Six months
 - D. One year
-

6. A brokerage firm operating on the Dubai Financial Market has just appointed a new member to its management board. As a consequence, what action must it now take?
- A. Advise all its clients
 - B. Notify the market
 - C. Issue a press release
 - D. Update its insurance cover
7. Who is responsible for setting the fee charged to an investor requesting a statement of account from the Depository Centre?
- A. The Securities & Commodities Authority alone
 - B. The Depository Centre alone
 - C. The Securities & Commodities Authority and Depository Centre jointly
 - D. Either the Securities & Commodities Authority or Depository Centre depending on the type of securities
8. In line with standard procedures, by what LATEST time on the settlement day must the amounts shown in the settlement report be transferred to the Abu Dhabi Securities Exchange settlement account?
- A. 08:00
 - B. 09:30
 - C. 13:30
 - D. 15:00
9. The inclusion of which detail in a financial promotion means that the firm must include a balanced indication of both short- and long-term prospects?
- A. Tax benefits
 - B. Yield figures
 - C. Bond prices
 - D. Market sector analysis
10. Which one of the following is most likely to mean an applicant for initial licence approval from the Authority fails in its financial eligibility?
- A. Repeated returned cheques
 - B. Using more than one business account
 - C. Utilising outsourced payroll software
 - D. Factoring its receivables

11. What additional action must a financial institution take before establishing a business relationship with a new foreign client who is a politically exposed person?
 - A. Conduct background credit checks
 - B. Obtain senior management approval
 - C. Seek a third party character reference
 - D. Carry out a risk/benefit analysis

 12. Where crypto assets are to be offered in the form of security tokens, prior approval from the Securities & Commodities Authority is required only if:
 - A. the offering is to be made for a very limited period
 - B. the offering person has never previously made a similar offer
 - C. the offering is open to persons other than qualified investors
 - D. the offering person intends to make use of a digital network

 13. When details of the shareholder register for newly listed securities have been uploaded by the Clearing, Settlement and Depository Department of the Abu Dhabi Securities Exchange, who will be sent a copy of the e-register?
 - A. The issuer
 - B. The Securities & Commodities Authority
 - C. The Ministry of Finance
 - D. The Ministry of Economy

 14. If the Securities & Commodities Authority decides to delist a listed company's shares, this will automatically be announced within 30 days on the website of:
 - A. the Depository Centre
 - B. the issuing company
 - C. the market concerned
 - D. the Ministry of Finance

 15. Within what MAXIMUM period after approval of a securities listing must the Depository Centre install a terminal device for the registrar of the listing entity?
 - A. 48 hours
 - B. 1 week
 - C. 15 days
 - D. 1 month
-

16. Which of the following people will normally be classed as a politically exposed person?
- A. The senior executive manager of a state-owned corporation
 - B. The chief executive of a domestic charity
 - C. A junior employee of a government ministry
 - D. A head teacher of a large school
17. A board director of a securities market has failed to explain why he missed the last three board meetings. What is the automatic consequence of this situation?
- A. He will temporarily lose his voting rights
 - B. He must pay fine
 - C. He will be issued with a formal warning
 - D. He must step down
18. If a licensed firm executes a purchase order for a retail client at 10:30 on Monday of a normal working week, what is the LATEST day by which confirmation details must be sent to the client?
- A. Monday
 - B. Tuesday
 - C. Wednesday
 - D. Thursday
19. What is the MINIMUM paid-up capital required for a category 1 licence for dealing in securities?
- A. There is no capital requirement for category 1 firms
 - B. AED 5 million
 - C. AED 30 million
 - D. AED 50 million
20. If a client on the DFM fails to pay for securities within the time allowed after a brokerage firm executes a deal, within what MAXIMUM time after the settlement date must the firm sell the securities?
- A. One working day
 - B. Two calendar days
 - C. Three working days
 - D. Seven calendar days

21. How often must the compliance officer of a financial institution submit a report on money laundering procedures to senior management?
- A. Monthly
 - B. Quarterly
 - C. Semi-annually
 - D. Annually
22. When a pledge request for securities 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
23. The summary of an evaluation report for in-kind shares must specify:
- A. the purchase cost of the shares
 - B. the different evaluation methods used
 - C. the date of submission to the Securities & Commodities Authority
 - D. the length of time the shares have been held
24. The board of a listed company have approved the purchase of shares in the company by the general manager. To avoid a regulatory breach the general manager must also:
- A. disclose the purchase details to the market
 - B. arrange for the purchase to take place via a broker
 - C. complete and sign an indemnity document
 - D. nominate another employee of the company as his sponsor
25. What is the maximum period within which the Authority accepts or rejects initial approval for a private local fund after it receives the application?
- A. 5 working days
 - B. 10 working days
 - C. 20 working days
 - D. 30 working days

26. Banks are prohibited from establishing accounts where the account name contains:
- A. the names of more than two persons
 - B. numbers without any names
 - C. foreign words which are not obviously recognisable
 - D. words which are connected to government bodies
27. Licensed firms should follow the appropriateness standards for transactions where:
- A. the product is classed as financially complex
 - B. the client has not been provided with a recommendation
 - C. the product has been issued by a foreign entity
 - D. the client is not considered experienced
28. The rule that subscribers to shares in newly incorporated public joint-stock companies must be qualified investors is waived in cases where:
- A. the number of shares on offer exceed one million
 - B. the company is a finance corporation
 - C. the subscriber is resident outside the State
 - D. the shares are priced at less than AED 10 each
29. In order for shares in a company transferred from the first category to the second category to be traded, what specific provision must the market make?
- A. Request payment of a guarantee
 - B. Appoint a named broker
 - C. List them on a dedicated screen
 - D. Notify the Depository Centre
30. A representative of a Dubai Financial Market (DFM) broker wants to execute a selling order on behalf of the father of one of the firm's employees. Under the DFM Professional Code of Conduct, this is only permitted if:
- A. the value of the order is below AED 5,000
 - B. the approval of the market is received
 - C. the order is for securities considered low risk
 - D. the father is also an employee

31. Where a bank uses a third party to undertake customer due diligence measures, the bank must:
- A. only use the third party for cash transactions
 - B. ensure that the third party is regulated
 - C. formally audit the third party's findings
 - D. provide the third party with full details of the transaction
32. Licence applicants' policies and procedures for dealing with, and investigating any complaints filed by clients must include which one of the following?
- A. An independent third-party investigation for all significant complaints
 - B. Providing a copy of the complaints handling procedures on request
 - C. Clearing any compensation with the Authority
 - D. Entering into a non-disclosure agreement
33. If a competent authority requests customer due diligence files from a financial institution, in accordance with the record keeping requirements how quickly must these be made available to them?
- A. Immediately
 - B. Within 48 hours
 - C. Within 5 working days
 - D. Within 10 working days
34. Under the Dubai Financial Market's (DFM's) Professional Code of Conduct, sell orders received by brokerage firms on the DFM:
- A. cannot be accepted after 15:00
 - B. cannot be accepted orally
 - C. must be time stamped on receipt
 - D. must be actioned within 30 minutes
35. The first financial year of a local fund cannot exceed which of the following from the date the fund was licensed?
- A. 6 months
 - B. 12 months
 - C. 18 months
 - D. 24 months

36. The obligation on financial institutions to verify the identity of the beneficial owners of a legal person is waived in cases where:
- A. the value of a transaction is below AED 3,500
 - B. the financial institution is less than 12 months old
 - C. the customer is a company listed on a regulated exchange
 - D. the controlling interest is held by a corporate trustee
37. Licensed firms which provide investment management services are required to send statements to retail clients at more than the usual minimum frequency if:
- A. the client is aged over 75
 - B. the portfolio value is higher than AED 1 million
 - C. the client is a politically exposed person
 - D. the portfolio is being leveraged
38. What action must financial institutions take when establishing procedures to combat the financing of terrorism?
- A. Appoint a chief risk officer
 - B. Arrange for monthly reports to the board
 - C. Set up an independent audit function
 - D. Appoint a special purpose entity
39. When a licensed firm outsources significant services, which one of the following is expected?:
- A. The use of an independent third party arbitration service
 - B. The obligation to make reparation payments for any negligence
 - C. The right of access by the Securities & Commodities Authority to relevant documents
 - D. The option to automatically renew on the expiry date
40. What method is normally used to announce the movement of a listed company from the first category to the second category?
- A. Advertisement in a daily newspaper
 - B. Publication on the market's website
 - C. Press release by the Securities & Commodities Authority
 - D. Issue of a company statement

41. When a Dubai Financial Market broker sells securities on behalf of a client, how is the broker permitted to pass these funds on to the client?
- A. By cheque only
 - B. By cheque or money order only
 - C. By money order or by transfer to the client's account
 - D. By cheque or by transfer to the client's account
42. What is the MAXIMUM term of imprisonment that can be imposed on a person who commits the crime of money laundering?
- A. 3 years
 - B. 5 years
 - C. 10 years
 - D. 12 years
43. 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
44. Licence applicants must meet certain requirements in relation to governance. These requirements include an expectation that the Board has what, in terms of membership?
- A. At least two individuals
 - B. One non-executive for every two executives
 - C. An equal number of non-executives and executives
 - D. Sufficient numbers
45. If a retail customer is determined to purchase a financially complex product despite being advised by a licensed firm that it is unsuitable, what action must the firm take?
- A. Refuse to carry out the transaction and take no further action
 - B. Refer the client to an alternative firm for a second opinion
 - C. Discuss the matter with the Securities & Commodities Authority before proceeding
 - D. Proceed but retain documentary evidence of the client's insistence
46. To comply with the regulations, the operator of a crypto asset exchange must provide all its users with a risk statement prepared in line with:
- A. the disclosure requirements
 - B. the Code of Conduct
 - C. the Depository Centre rules
 - D. the Central Bank obligations
-

47. If in-kind shares are given different values by two evaluators, which figure should be used?
- The average of both
 - The most recent
 - The lowest
 - The highest
48. If the appointed representative of a financial services firm communicates a financial promotion on the firm's behalf, the firm:
- bears no responsibility for this promotion
 - bears only consequential loss liability for this promotion
 - must not be named in this promotion
 - must ensure this promotion is compliant with the rules
49. Following a breach of the crypto asset regulations, the Securities & Commodities Authority has the power to suspend a licensed person's chief executive officer from working in this area for up to what MAXIMUM period?
- One month
 - Two months
 - Four months
 - Six months
50. In what situation would a broker on the Dubai Financial Market (DFM) normally be given 30 minutes after the end of the trading session to notify the DFM?
- More than AED 2 million was spent in a single transaction
 - Insider dealing has come to the attention of the broker
 - Trading was conducted on the wrong account by mistake
 - More than 5% of an issuer's total securities were sold
51. A bonus share allocation added to shares deposited in an account with the Clearing, Settlement and Depository Department includes a half share. How will this half share be dealt with?
- It will be added to the deposited shares
 - It will be re-designated and sent to the underlying investor
 - It will be registered in the issuing company's account and sold
 - It will be cancelled and written off

52. A new broker is being added to the membership register of a licensed market. Within what MAXIMUM period must this addition be notified to the Securities & Commodities Authority?
- A. One week
 - B. Two weeks
 - C. Three weeks
 - D. Four weeks
53. 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
54. If an order is placed on the Dubai Financial Market to sell 50,000 shares in a company at the best price available, this is usually described as what type of order?
- A. Day order
 - B. Fill-or-Kill order
 - C. Market order
 - D. Limit order
55. The minimum fine for money laundering will be tripled if the perpetrator:
- A. is classed as a politically exposed person
 - B. acts through a non-profit organisation
 - C. causes psychological distress to others
 - D. acts in collusion with members of their immediate family
56. What is expected of a licence applicant in relation to whistleblowing? The potential whistleblower must be:
- A. part of the senior management team
 - B. kept confidential during investigation of the reported violation
 - C. within the internal audit department
 - D. within the compliance department

57. 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
58. What is the standard contract size for Shanghai Gold Futures on the Dubai Gold & Commodities Exchange?
- A. 100 grammes
 - B. 500 grammes
 - C. 1,000 grammes
 - D. 2,000 grammes
59. What event would cause a listed company to automatically lose its position in the first category of listing?
- A. A suspension of its shares' listing for eight months
 - B. A reduction in its credit rating from BBB+ to BBB
 - C. A sudden 20% fall in its share price
 - D. A joint resignation by two of its board directors
60. A financial institution must carry out customer due diligence for any occasional wire transfers where the amount transferred is at least:
- A. AED 1,500
 - B. AED 2,500
 - C. AED 3,500
 - D. AED 4,500
61. What must brokerage companies operating on the Abu Dhabi Securities Exchange provide within 45 days of the end of each specified fiscal period?
- A. A current list of board directors
 - B. A list of compliance breaches
 - C. A transactions statement
 - D. An audited quarterly report

62. Under the Dubai Financial Market's (DFM's) Professional Code of Conduct, a DFM broker acting on behalf of a natural person must obtain details of that person's:
- A. marital status
 - B. religion
 - C. bank account
 - D. nationality
63. A broker has been ordered by the Abu Dhabi Securities Exchange (ADX) to resell securities following a regulatory breach. What must the broker do with any resulting profit?
- A. Use it to offset future client charges
 - B. Use it to offset compliance costs
 - C. Pass it to a registered charity
 - D. Pass it to the ADX
64. Which of the following details must be included in the prospectus for an exchange-traded fund?
- A. Index performance over the previous 12 months
 - B. Index performance over the previous 3 years
 - C. Minimum deviation from the tracked index
 - D. Maximum deviation from the tracked index
65. Where an offender submits a conciliation application in order to avoid a criminal prosecution, who will make a decision on this application?
- A. Public Prosecution
 - B. Securities & Commodities Authority
 - C. Ministry of Justice
 - D. Ministry of Finance
66. If a licensed firm has insufficient information to assess the appropriateness of a transaction where it is required to do so, what action should it take?
- A. Proceed with the transaction on an execution-only basis
 - B. Document the limitations when processing the transaction
 - C. Ask the client to confirm the transaction should proceed
 - D. Decline to process the transaction at this stage

67. A licence applicant must include a guide detailing the policies and procedures specifically covering which of the following areas?
- A. Handling big block deals
 - B. Whistleblowing
 - C. Accepting gifts
 - D. Conflict of interest
68. The delivery dates for Silver Futures available on the Dubai Gold & Commodities Exchange start from which month each year?
- A. January
 - B. February
 - C. July
 - D. August
69. Venture capital funds are able to lend money to unlisted companies in which of the following circumstances?
- A. Up to 30% of the fund's assets where the fund also holds equity investments in the unlisted companies
 - B. Up to 30% of the fund's assets where the fund does not hold equity investments in the unlisted companies
 - C. Up to 70% of the fund's assets where the fund also holds equity investments in the unlisted companies
 - D. Up to 70% of the fund's assets where the fund does not hold equity investments in the unlisted companies
70. The price limits set for securities listed and traded on the Dubai Financial Market are automatically waived in cases where:
- A. the market declares exceptional trading conditions
 - B. the market is in the last 30 minutes of a trading session
 - C. the shares are in their initial trading session
 - D. the issuer of the shares is subject to a takeover bid
71. Which of the following is automatically considered a qualified investor?
- A. A politically exposed person
 - B. An Islamic cleric
 - C. An international body
 - D. A small domestic charity

72. Under the Corporate Governance Guide, a joint-stock company may be required to retain documents beyond the normal ten-year period specifically in cases where the company:
- A. has contracts with government departments
 - B. held a series of extraordinary general meetings
 - C. owns subsidiary companies based outside the UAE
 - D. is a party in an ongoing judicial lawsuit
73. A suitability report prepared by a licensed firm for one of its clients must include which of the following details?
- A. Statement of the mechanisms and tools used in the assessment
 - B. Warning of the consequences of ignoring the recommendations
 - C. Illustration of the impact of these recommendations over five years
 - D. Declaration relating to the author's personal and corporate liability
74. On what specific grounds is a court permitted to commute a sentence imposed in relation to financing terrorism?
- A. Information was provided which led to the arrest of other perpetrators
 - B. Proof was given that the monies were never actually utilised for a terrorist act
 - C. Religious conviction was shown to be the primary motivation
 - D. Evidence of previous exemplary behaviour was submitted
75. Where a client wishes to exchange crypto assets for which the transaction history cannot be traced, what action should a licensed firm take?
- A. Apply a lien to the transaction
 - B. Report the matter to the custodian
 - C. Ask for Securities & Commodities Authority validation
 - D. Refuse to carry out the exchange
76. Any bonds held by a cash investment fund must have a MINIMUM credit rating (or equivalent) of:
- A. A
 - B. A-
 - C. BBB+
 - D. BBB-

77. Any promotional material submitted to the Securities & Commodities Authority for approval must include a statement which identifies:
- A. any directors who own at least 5% of the issuer's shares
 - B. any shareholders who own at least 10% of the issuer's shares
 - C. the relevant qualifications of the appointed promoter
 - D. the selection method for the subscription communication channel
78. What does the difference between the clean and dirty prices of debt instruments shown on the E-Trading system represent?
- A. Interest
 - B. Charges
 - C. Inflation
 - D. Profits
79. Before debt securities, which are secured, can receive a primary listing, who must be appointed to represent the interest of the holders?
- A. A sponsor
 - B. An agent
 - C. A trustee
 - D. A depository
80. Licensed bodies must include all of the following in its letterhead EXCEPT:
- A. That they are licensed by the Securities and Commodities Authority
 - B. Licence number
 - C. Address
 - D. Licence category
81. Local funds must make audited financial reports available with what frequency?
- A. Monthly
 - B. Quarterly
 - C. Semi-annually
 - D. Anually
82. One of the key functions of the Depository Centre is to maintain a register of:
- A. all persons authorised to conduct trades
 - B. all transactions in listed securities
 - C. all banks permitted to operate brokerage client accounts
 - D. all initial prices for listed securities

83. An accountant who suspects that a client is financing terrorism is obliged to report this matter to the:
- A. Securities & Commodities Authority
 - B. Ministry of the Interior
 - C. UN Security Council
 - D. Financial Intelligence Unit
84. In order for a foreign brokerage company to gain approval to remotely access the Abu Dhabi Securities Exchange, it must be licensed by a home regulator which is a member of the:
- A. Bank for International Settlements
 - B. Organization for Economic Co-Operation and Development
 - C. International Securities Services Association
 - D. International Organization of Securities Commissions
85. What is the MAXIMUM fine that can be levied on a legal person for the crime of financing terrorism?
- A. AED 30 million
 - B. AED 40 million
 - C. AED 50 million
 - D. AED 60 million
86. What is the MINIMUM price movement for India Gold Quanto Futures contracts on the Dubai Gold & Commodities Exchange?
- A. \$0.10
 - B. \$0.50
 - C. \$1.00
 - D. \$2.00
87. A corporate entity has submitted an application to the Securities & Commodities Authority for approval to act as an introducer. The regulator must issue its decision within what MAXIMUM period?
- A. 10 days
 - B. 15 days
 - C. 20 days
 - D. 25 days

88. Which employees of a brokerage firm on the Dubai Financial Market are permitted to enter selling orders into the trading system?
- A. Only board members and senior managers
 - B. Only those on the representatives register
 - C. All of them, provided they have board approval
 - D. All of them, without restriction
89. Local private fund units face restrictions on subsequent transfer which allow transfer to which of the following?
- A. Government entities
 - B. Other public funds
 - C. Other private funds
 - D. Professional investors or counterparties
90. The three parameters which licensed firms must use to assess suitability, are a client's financial circumstances, investment objectives and:
- A. health
 - B. experience
 - C. domicile status
 - D. marital status
91. The Corporate Governance Guide permits a board member of a joint-stock company to accept a gift valued at AED 500 provided that it is:
- A. neither intended nor likely to influence the recipient's activities
 - B. not given as cash or any other highly liquid financial instrument
 - C. fully disclosed to both the shareholders and the market
 - D. clear that identical or similar gifts have been made in the past
92. If one Dubai Financial Market (DFM) brokerage firm harms the reputation of another through a false accusation of professional negligence, this means that:
- A. the matter will be automatically referred to the Grievance Committee
 - B. the accusing firm is in breach of the DFM Professional Code of Conduct
 - C. the market will appoint an independent adjudicator to investigate the matter
 - D. the accused firm must suspend activities until the accusation is formally dismissed

93. When Islamic securities are offered, which of the following details must be included in the offering document or prospectus?
- A. Method of dispute resolution
 - B. Names of all underlying guarantors
 - C. Ages of the Shariah Supervisory Committee members
 - D. Limitations on subscription eligibility
94. What crime in relation to money laundering carries a maximum financial penalty of AED 1 million?
- A. Tipping-off another suspect
 - B. Failure to report a suspicion
 - C. Concealing the true source of funds
 - D. Transferring funds on behalf of a third party
95. For Gold Futures traded on the Dubai Gold & Commodities Exchange, how many business days after the last trading day does cash settlement take place?
- A. One
 - B. Two
 - C. Three
 - D. Four
96. When providing E-Trading services, how often must brokerage companies issue clients with detailed securities trading statements?
- A. Weekly
 - B. Monthly
 - C. Quarterly
 - D. Six monthly
97. The Securities and Commodities Authority's administrative sanctions allow it to suspend a licensed body from practising its financial activity for how long?
- A. Maximum of one month
 - B. Maximum of three months
 - C. Maximum of one year
 - D. Indefinitely

98. Under the CISI Code of Conduct, the principle relating to conflict of interest covers duties owed to which stakeholders?
- A. Clients only
 - B. Market participants only
 - C. Clients and market participants only
 - D. Clients, market participants and regulators
99. If the market deems that an extraordinary event has undermined the proper working of an exchange-traded derivative, what action must the market take before suspending trading?
- A. Post a notice on its website
 - B. Carry out an impact assessment
 - C. Liaise with the Minister of Economy
 - D. Obtain approval from the Securities & Commodities Authority
100. If a person attempts to conceal the true source of funds criminally obtained by another individual, then it is likely that this person:
- A. has committed the crime of money laundering
 - B. has committed a joint predicate offence
 - C. is in breach of international data protection regulations
 - D. is in breach of insider trading regulations

Answers to Multiple Choice Questions

1. B Chapter 7, Section 5.5

The contract Silver Futures on the DGCX specifies the last trading day to be two business days prior to the last business days prior to the last business day of the contract delivery month.

2. D Chapter 3, Section 1.2.2

The prospectus must provide full information on every shares in-kind deals including the units to be issued in exchange. Guarantees or promises must not be included.

3. B Chapter 1, Section 1.1.1

The period in office – with the exception of the chief executive, SCA board members are appointed for four years, renewable once.

4. C Chapter 6, Section 4.4

Periodic reporting for firms providing investment management services to retail clients must normally be at least six-monthly, with the following exceptions:

- the client may request statements three-monthly instead
- if they receive deal-by-deal confirmations, and certain higher-risk investments are excluded, the statement may be sent every 12 months, and
- where the client has authorised that their portfolio be leveraged, the statement must be provided monthly.

Firms must advise their retail clients of their right to request quarterly statements.

5. D Chapter 4, Section 3.4

The watch list is a list of the companies that have been transferred from the first category to the second category due to failing to meet one of the two conditions.

A joint committee established by the SCA monitors companies placed on the watch list assessing their compliance with the disclosure and listing requirements. This is initially for a one-year period, extendable to three years. The committee makes recommendations to the SCA and the market as to whether the monitored company should be transferred to the first category.

6. B Chapter 8, Section 8.1.1

Brokerage firms operating on the DFM must meet certain obligations, including notify the market of any change in the members of its board of directors or management board.

7. B Chapter 4, Section 1.2

The Depository Centre's obligations include:

- enabling investors to have access to their accounts that detail their ownership of securities. This includes issuing statements of account to the investors upon their request at any time for a fee to be determined by the Depository Centre.

8. B Chapter 7, Section 3.7.2

The settlement bank must transfer the amounts from the Clearing Members' Settlement Accounts to ADX settlement account and vice versa by 09:30 at the latest on the settlement day.

9. B Chapter 6, Section 4.2

There is a general requirement for firms to ensure that any communication with a client is fair, clear and not misleading. An example of this is, for a promotion that quotes a yield figure, that it gives a balanced impression of both the short- and long-term prospects for the investment.

10. A Chapter 2, Section 2.2

The Authority's initial licence approval requirements for financial eligibility include not having repeatedly had returned cheques.

11. B Chapter 5, Section 4

For foreign PEPs, in addition to undertaking CDD measures, financial institutions and DNFBPs must obtain senior management approval before establishing a business relationship.

12. C Chapter 4, Section 8.1.2

Crypto assets in the form of security tokens may only be offered for subscription and/or issued in the UAE by an offering person incorporated in the UAE or in a financial free zone within the UAE. Offer documentation must be submitted to the SCA where the offering is limited to qualified investors and prior approval of the SCA is required if the offering includes persons other than qualified investors.

13. A Chapter 7, Section 3.2

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.

14. C Chapter 4, Section 3.5

In cases where the SCA, after consulting with the market, decides to delist a company's shares, the concerned market will post an announcement on its website of the decision to delist the shares of the company within 30 days of the decision, including the fact that transferring the company's shares after the delisting will be done 'over-the-counter' (away from the market's systems).

15. B Chapter 4, Section 1.3

The Depository Centre must, within one week from the approval of the listing of any security on the market, install a terminal device for the registrar of the listing entity to enable access to the register for inquiries and to make the required updates.

16. A Chapter 5, Section 4

A PEP is defined as a natural person that is or has been entrusted with a prominent public function in the UAE (domestic PEP) or any other foreign country (foreign PEP). Examples of prominent public functions include heads of state or government, senior politicians, senior government officials, judicial or military officials, senior executive managers of state-owned corporations, senior officials of political parties and persons who are, or have previously been, entrusted with the management of an international organisation or any prominent function within such an organisation.

17. D Chapter 1, Section 1.2

As with members of the board of the Authority, any member of the board of a market must step down after failing to attend three consecutive meetings without an acceptable excuse.

18. B Chapter 6, Section 4.3

Where a firm carries out an order for a retail client it must send a notice confirming the deal details as soon as possible (but no later than on the next business day).

19. C Chapter 1, Section 6.1

The paid-up capital requirements for the five licence categories are as follows:

- First category – Dealing in securities (AED 30 million)
- Second category – Dealing in investment (AED 50 million)
- Third category – Keeping, clearing and registration (AED 50 million)
- Fourth category – Credit rating agencies (AED 5 million)
- Fifth category – Arrangement and advice (nil)

20. A Chapter 8, Section 1.3

If the client fails to pay the price of securities related to the executed deal within the two settlement days, the brokerage firm is obliged to sell the securities no later than one working day from the settlement date, upon approval from the DFM. The selling must be at the market price, with the client incurring any losses arising.

21. C Chapter 5, Section 6.3

The appointed compliance officer must review and assess the internal rules and procedures on the prevention and detection of money laundering and the financing of terrorism and their consistency with the law and other regulatory requirements and decisions. The result will be proposing updates where necessary and preparing and submitting semi-annual reports to senior management, copying the report to the relevant supervisory authority with senior management remarks and decisions.

22. A Chapter 7, Section 3.8

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

- a. creditor on mortgage
- b. debtor on mortgage (owner of securities)
- c. securities, subject of the pledge (issuing company, quantity)
- d. party entitled to profits.

23. B Chapter 3, Section 6.3

The summary of the evaluation report must include the most important evaluation data including the following:

- The fair value of the evaluated asset.
- Confirmation that there are no obligations, debts, mortgages, rights, or other guarantees charged on the asset in favour of third parties, with the ability to rely on a special report issued by the fund's legal counsel in this regard.
- The different evaluation methods used by the evaluator to specify the fair value of the evaluated asset according to the professionally followed and recognised principles in accordance with the nature of the asset.

24. A Chapter 1, Section 1.4

Any purchase or sale of shares by an employee of a listed company, including the chairman, members of the board and the general manager must be approved by the board of directors and disclosed to the market.

25. A Chapter 3, Section 1.2.1

Initial approval is within 5 working days for a private local fund and 10 working days for a public local fund.

26. B Chapter 5, Section 3

Financial institutions must not create or keep records of bank accounts using pseudonyms, fictitious names or numbered accounts without the account holder's name.

27. B Chapter 6, Section 2.1

Appropriateness standards are required for execution-only business when a licensed entity's role is limited to implementation of transactions without providing a recommendation to the client.

28. B Chapter 4, Section 2.1.1

Subscribers for the shares in newly incorporated companies must be 'qualified investors' unless the company is a bank, a finance corporation or an insurance company. A qualified investor is broadly an investor that is suitably experienced in investments and the related risk and meets certain minimum wealth requirements.

29. C Chapter 4, Section 3.3

The trading of shares of a company whose listing has been transferred to the second category involves the market providing a screen dedicated to the trading of the shares of companies classified within the second category and including the data relating to those companies. This will have the name of the listed company written next to its listing category (second category).

30. B Chapter 8, Section 3.1

Representatives of the broker must not execute buying or selling orders for their own benefit or the benefit of their employers or members of the board of directors of their companies, or the employees of their companies or their spouses, ascendants or descendants to the second degree, except upon approval of the market.

31. B Chapter 5, Section 6.1

Financial institutions and DNFBPs can utilise the services of a third party service provider to undertake the required CDD measures, but must ensure that the third party is regulated and supervised, and that it adheres to the required CDD measures towards customers and record-keeping provisions.

32. B Chapter 2, Section 3.4

Complaints handling must include providing a copy of the complaints handling procedures for free to any client upon request.

33. A Chapter 5, Section 7

All customer information regarding CDD, ongoing monitoring and analysis, records, files, documents, correspondence and forms must be made available immediately to the competent authorities upon request.

34. B Chapter 8, Section 3.3.2

The brokerage firm must ensure that orders received from its clients are written and signed by the client, or received through the call recording system, fax or email. Oral orders are not allowed, should not be approved nor taken into account.

35. C Chapter 3, Section 1.3

The first financial year must not exceed 18 months nor be shorter than 6 months from the date the fund was licensed.

36. C Chapter 5, Section 2.3

There is an exemption from the requirement to identify and verify the identity of any shareholder, partner, or the beneficial owner, if reliable sources show that the customer is either a company listed on a regulated stock exchange.

37. D Chapter 6, Section 4.4

For retail clients, the normal periodic statement requirement is six-monthly, although the client can request a quarterly statement. However, where the client has authorised that their portfolio be leveraged, the statement must be provided monthly.

38. C Chapter 5, Section 6.2

Financial institutions and DNFBPs should implement internal policies, procedures and controls for combating money laundering and the financing of terrorism that are commensurate with the risks, reflecting the nature and size of the business. These policies, procedures and controls must include an independent audit function to test the effectiveness and adequacy of internal policies, controls and procedures.

39. C Chapter 2, Section 3.5

The SCA must be provided with a copy of any outsourcing agreements entered into by licenced firms.

40. B Chapter 4, Section 3.2

Transfers of listed companies between the first and second categories are announced on the market's website.

41. D Chapter 8, Section 2.4

Brokers must pay the value of securities sold on behalf of their clients, after deducting commissions and fees, before the end of two days or the end of the settlement period set by the DFM. Payments are made through cheques in the name of the broker and in favour of the registered client, or through financial transfers to the client's account.

42. C Chapter 5, Section 8.2

Any person who commits or attempts to commit the crime of money laundering will be sentenced to imprisonment for a period not exceeding ten years and to a fine of no less than AED 100,000 and no more than AED 5,000,000, or either one of these two penalties.

43. B Chapter 7, Section 3.3

The investor number always reflects whether the investor is of UAE nationality or not.

44. D Chapter 2, Section 3.1

The number of the members of the board of directors must be formed of sufficient number of members who shall have knowledge, skill, and various experiences to perform their tasks effectively.

45. D Chapter 6, Section 1.3

Regarding suitability of financially complex products for retail customers, the Authority requires licensed entities to comply with the client's orders in the event of its insistence on the investment in the financially complex product despite notifying the client that it is not suitable. Evidence on the client insistence must be retained.

46. A Chapter 4, Section 8.5

Operating a crypto assets exchange in the UAE requires a licence from the Authority. The grant of a licence requires providing users with a risk statement in relation to the crypto assets.

47. C Chapter 3, Section 6.1

Where fund units are exchanged for assets other than cash (an 'in-kind' transfer), the assets exchanged must meet certain requirements. This includes valued by two evaluators at fair value, taking into account the lower value for each evaluated asset.

48. D Chapter 6, Section 4.6

An appointed representative is a self-employed individual, or a firm, that is contracted to sell the products of a particular financial services firm. The representative is generally exempt from obtaining authorisation, however firms must make sure their appointed representatives comply with the rules, particularly when they communicate financial promotions via their appointed representatives.

49. B Chapter 4, Section 8.13.2

The Authority, in the event of a breach of the crypto asset regulations or related decisions and circulars may impose penalties on the firm. Individuals, including members of the board, the CEO or employees approved by the accredited person, can also face penalties from the SCA. It may suspend the individual from practising the work for a period not exceeding two months.

50. C Chapter 8, Section 2.3.5

If trading was conducted on a particular account by mistake, the broker can request the DFM to adjust the trading account number for the transaction. The adjustment request must normally be submitted within 30 minutes after conclusion of the trading session. In exceptional cases, the CEO of the market may accept adjustment requests submitted after this time, on approval from the SCA.

51. C Chapter 7, Section 3.5

If an issuer provides its shareholders with bonus shares, then the CSD Department will deposit the bonus share issued in the account in which the original stock is deposited on the record date, in the appropriate proportion. The CSD Department will register bonus shares in a whole, round number to the deposit account as long as the investor is entitled to one or more shares. The CSD Department will not add fractions of shares to the shareholder's account. Instead, total fractions of bonus shares are registered in the issuing company's account. The issuing company must then sell the fractions of shares in the market within a period not exceeding 30 days from the date of registration.

52. A Chapter 1, Section 3.1.3

Each market is required to prepare a membership register in which members are entered. The SCA requires to be notified within one week of a member being entered on the market's register.

53. D Chapter 7, Section 2.4

Brokers are permitted to execute deals through the window allocated in the E-Trading system for 'big block' deals. The execution of the big block deal cannot be at a price higher or lower than 25% of the closing price from the previous trading session.

54. C Chapter 8, Section 5.1.2

A market order is an order to buy or sell a specific number of shares at the best price in the market at the time the order is placed, eg, sell 200,000 shares in ABC Co.

55. B Chapter 5, Section 8.2

The normal penalty for a person who commits or attempts the crime of money laundering is imprisonment for a period not exceeding ten years and to a fine of no less than AED 100,000 and no more than AED 5,000,000. The minimum fine triples to no less than AED 300,000, the maximum increases to no more than AED 10,000,000 if the perpetrator of a money laundering crime commits any of the following:

- abuses the influence or the power granted by the person's profession or professional activities
- commits the crime through a non-profit organisation
- commits the crime through an organised crime group
- is a repeat offender.

56. B Chapter 2, Section 3.3.2

Policies in relation to whistleblowing should encourage employees in general to inform senior management and the Authority about any essential violations they come across while performing their job tasks. The whistleblowing policies should include a mechanism for protecting the reporting employee (the 'whistleblower') from any unfair prejudice by keeping the whistleblower's identity confidential whilst the reported violation is investigated.

57. A Chapter 7, Section 3.6

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

The clearing member may choose to increase its permitted trading ceiling by pledging securities as guarantee, provided that the value of the securities is calculated at a maximum of 50% of market value

58. C Chapter 7, Section 5.4

The contract specification for the Shanghai Gold Futures contract is a **contract size** of 1,000 grammes (1 kg).

59. A Chapter 4, Section 3.1

The SCA's Decision No. 13 of 2020 concerns listed companies that are facing certain difficulties and are therefore moved from the so-called first category of listing, to a second category. Listed companies are initially allocated to the first category. Falling from the first category to the second category occurs when either the company concerned has its shares suspended for six months or more, or faces accumulated losses of 50% or more of capital.

60. C Chapter 5, Section 2.2

Article (6) of Decision No. 10 of 2019 requires financial institutions and designated non-financial businesses and professions (DNFBPs) to undertake CDD measures:

- when carrying out occasional transactions in the form of wire transfers for amounts equal to or exceeding AED 3,500

61. D Chapter 7, Section 2.1

Brokers operating on the ADX must provide the Exchange with certain reports, documents and information. These include audited quarterly reports within 45 days of the end of the specified fiscal period.

62. D Chapter 8, Section 3.2

The DFM's Professional Code of Conduct requires brokerage firms to take reasonable steps to determine the identity, contact details, financial solvency and investment goals of their clients, including at least:

- a. For natural persons:
 - full name as in the passport, passport number, date of issuance and place of issuance

- nationality and place of residence
- profession, exact address, PO Box and phone number.

63. D Chapter 7, Section 2.2

Brokers have a number of obligations in relation to client orders, including:

For orders that breach the law or regulations – in such cases the ADX has the right to order the broker to resell or repurchase the securities to return to the previous situation before executing the breach. If a profit is made from the resale or repurchase transaction, the broker must transfer the profit to the ADX. If a loss is incurred, the broker will suffer the loss but may have recourse against the client, if it is proved that breach was caused by the client.

64. D Chapter 3, Section 4.2

The ETF prospectus and the prospectus data summary must include the following:

- details of the index tracked by the ETF
- mechanism of investment in and divestment from the ETF
- mechanism for issuance and redemption of the ETF's units
- the market(s) where the ETF's units will be listed
- the name of the authorised agent
- the spread between offer and bid prices, which will be provided by the authorised agent in the market and will depend on the net value of the assets of the unit which must be continuously available
- the maximum deviation from the index tracked by the ETF.

65. B Chapter 4, Section 4.1

Conciliation is where the SCA can suspend the procedures to initiate a criminal prosecution for certain specified offences and instead decide that the offender should pay the prescribed amount for such offences.

A committee at the SCA will then make a decision, by majority, on the conciliation application. The committee considers and decides on the conciliation application within 15 working days of the date of receipt of the completed application. The committee has the power to approve or reject the conciliation application based on the public interest.

66. D Chapter 6, Section 2.3

In relation to appropriateness, each licensed entity must satisfy the following obligations:

- To refrain from implementation for the client in the event of not receiving sufficient information to assess its appropriateness, and to notify the client.

67. B Chapter 2, Section 3.3.2

The company must develop a written policy as part of its administrative by-laws to encourage its staff to report (typically referred to as 'whistleblowing') to both the firm's senior management and the SCA any material violations that may come to their attention while performing their functions.

68. B Chapter 7, Section 5.1

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
Silver Futures	Every two months starting February each year, with five delivery months available for trading at all times.

69. A Chapter 3, Section 2.2

Venture capital funds cannot lend more than 30% of the fund's assets to unlisted companies, and must hold equity in those companies to whom it lends.

70. C Chapter 8, Section 4.1

Securities listed on the DFM are normally traded within the price limits set by the market. However, price limits do not apply to shares on their very first trading session when the share price is allowed to float between the date of listing and the conclusion of the trading session during which at least one transaction involving the share is executed. The closing price for the share at the end of the trading session is used as the benchmark to calculate change limits at the start of the next trading session.

71. C Chapter 4, Section 5.1

A qualified investor is a natural or legal person capable of managing its own investments and includes international bodies and organisations.

72. D Chapter 1, Section 4.1.2

The company must maintain the documents which will evidence the way the company is governed, including all minutes, documents, reports and other papers as necessary. These should be held at the company's headquarters for a period not less than ten years, including minutes of the general assemblies, board meetings and those of its committees. In the case of a judicial lawsuit (filed or to be filed against the company) or a continuous claim or investigation related to these minutes, documents, reports and other papers, the company must maintain such documents until the end of the lawsuit, claim or continuing investigation.

73. A Chapter 6, Section 1.2

The SCA requires full details to be recorded and maintained. Specifically, Article 4 of Decision No. 05 of 2020 requires the licensed entity to prepare a suitability report that must include the following:

3. Statement of the mechanisms and tools used in assessment and its suitability.

74. A Chapter 5, Section 8.3

The court may choose to commute or exempt the offenders from a sentence if they provide the judicial or administrative authorities with information relating to the offence that leads to the disclosure, prosecution, or arrest of the perpetrators.

75. D Chapter 4, Section 8.10.1

To combat money laundering and the financing of terrorism, certain additional controls are required of firms involved in crypto assets:

- Adopt tracing measures in respect of all crypto assets brokered, exchanged and/or transferred into portfolios or otherwise used to fund purchases of other crypto assets, which demonstrate a legitimate transaction history in respect of each such crypto asset.
- Not allow the use of crypto assets that do not permit to adopt such tracing measures in order to fund accounts or make transactions.

76. C Chapter 3, Section 3

The more detailed requirements that the cash investment fund must meet are as follows:

- The credit rating of the debt instruments where the fund places investments may not be less than BBB+ or equivalent by one of the recognised rating agencies.

77. B Chapter 6, Section 5.1.2

The promotional material referred to above must include the following:

9. A statement identifying the major shareholders of the issuer and/or the foreign issuer who own 10% or more of the shares.

78. A Chapter 7, Section 2.3

Debt instruments on the ADX are traded through brokers. The trading unit for debt instruments is one instrument based on its nominal value in each issue, and each deal will be for one or more unit.

Prices are shown on the E-Trading system as buy or sell orders at the unit price, without any accumulated interest. This is also referred to as the ADX price and the 'clean' price. Buyers will then pay the value of the units purchased at their ADX price plus the accumulated interest until settlement date. This is commonly referred to as the 'dirty' price. The E-Trading system calculates the accumulated interest on the debt instruments until settlement date.

79. C Chapter 4, Section 5.2.3

To be listed, debt securities must satisfy the following conditions:

- Where the debt securities to be listed are secured, a trustee must be appointed to represent the interests of the holders and that trustee must have the right of access to any information relating to the assets.

80. D Chapter 2, Section 1.1

The letterhead must state that it is a body licensed by the Authority, along with its licence number and addresses. Disclosures to third parties must include the licence category and the financial activity it conducts but are not required to be in the letterhead.

81. C Chapter 3, Section 1.3

Semi-annual audited financial reports are required within 45 days of the period end.

82. B Chapter 4, Section 1.1

The functions undertaken by the Depository Centre are laid down in the Securities and Commodities Authority's Decision No. 19 of 2018, and include keeping a register of all transactions in securities listed on the market. Any transaction in listed securities that is not registered is deemed to be 'null and void'.

83. D Chapter 5, Section 2.1

Financial institutions, such as banks, designated non-financial businesses, such as brokers, real estate agents and dealers in precious metals, and designated non-financial professions, such as lawyers and accountants, are all required to report suspicions of money laundering and terrorist financing. If there is suspicion or if there are reasonable grounds to suspect money laundering or terrorist financing is happening or being attempted, a detailed report should be submitted to the UAE's Financial Intelligence Unit (FIU), which is the financial intelligence department at the UAE Central Bank.

84. D Chapter 7, Section 1.2

The Abu Dhabi Securities Exchange (ADX) will allow remote access by foreign brokerage companies where it is considered appropriate to do so. The considerations and conditions for this are detailed in the Foreign Brokerage Companies Remote Access Regulations.

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:

1. 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), and 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 and countering terrorist financing (AML/CFT), as well as meeting any requirements under the UAE Commercial Companies Law.

85. C Chapter 5, Section 8.4

Legal persons, as opposed to natural persons, may face a penalty in the form of a fine of no less than AED 500,000 and no more than AED 50,000,000 where representatives or managers or agents commit the crimes of money laundering, financing terrorism or financing illegal organisations for its account or in its name.

86. C Chapter 7, Section 5.3

The contract specification for the India Gold Quanto Futures contract includes a minimum price movement of US\$1.00.

87. B Chapter 6, Section 5.2

Broadly speaking, an introducer is a corporate entity that has been given approval by the SCA to provide potential clients for financial services firms.

The SCA will issue its decision approving or rejecting the application within a period of no longer than 15 days from the date of submitting the complete application.

88. B Chapter 8, Section 2.1

Only persons registered in the brokerage firm's representatives register are allowed to enter buying and selling orders into the trading system. However, this requirement does not prevent a client entering orders into the trading systems online or via any other electronic platform provided by the broker.

89. D Chapter 3, Section 1.4.2

Private fund unit transfers are restricted to existing unit holders and professional investors or counterparties (where the minimum nominal value is not less than AED 180,000 or equivalent).

90. B Chapter 6, Section 1.1.1

Article 3 of The SCA's Decision No. 05 of 2020 requires licensed firms either recommending or executing transactions in a 'financial complex product' must carefully consider the suitability in relation to the client using three parameters:

1. **The client's experience** – this should be measured by assessing the types of financial services, activities or investments that the client has been involved in, the nature, size and frequency of transactions undertaken by the client and the client's level of education and professional experience.
2. **The client's financial circumstances** – for this, the firm is expected to look at the source and amount of the client's regular income, their regular expenses and other financial obligations, and the client's assets, properties and investments. Together this will enable the firm to assess the extent to which the client can bear losses and face risks.
3. **The client's investment objectives** – the firm must consider whether the product is of the type preferred by that client, and whether it meets the client's investment in terms of period and value.

91. A Chapter 1, Section 4.2.1

A board member accepting gifts from persons or authorities may lead to a conflict of interest or the impression of a conflict. So, where the party giving the gift does so in circumstances where it may be concluded that it was intended to influence, or may influence the board member in the performance of tasks on behalf of the company, the Corporate Governance Guide says it should not be accepted. This does not prevent accepting objects of symbolic or real value of AED 500 or less, or entertainment of symbolic or simple value which is not related to any special transaction or activity of the company.

92. B Chapter 8, Section 3.4

- Brokerage firms, or any of their employees, must not take advantage of their knowledge of a client's orders for the execution of trading transactions for their own accounts or other accounts.
- Brokerage firm, whether acting solely or in complicity with others, must not take any action that manipulates or misleads investors.
- One brokerage firm must not harm the reputation of another brokerage firm by accusing the latter of professional negligence or shortcomings, or spreading rumours about other brokerage firms.

93. A Chapter 4, Section 6.1

Decision No. 20 of 2018 applies to an issuer which issues, or wishes to offer or issue, an Islamic security inside or outside the UAE, and to a foreign issuer that offers or wishes to offer an Islamic security in the UAE.

Amongst the data and documents to be provided in the offering document or prospectus are the methods of resolution of disputes relating to the Islamic security or the issuer.:

7. Methods of resolution of disputes relating to the Islamic security or the issuer.

94. B Chapter 5, Section 8.5

A failure to report suspicions, or gross negligence in implementing processes and procedures in relation to suspicions can result in imprisonment and/or a fine of no less than AED 100,000 and no more than AED 1,000,000.

95. A Chapter 7, Section 5.2

The contract specification for the Gold Futures contract includes the cash settlement day specified as the business day following the last trading day.

96. B Chapter 7, Section 1.1.4

When providing E-Trading services, the brokerage company is obliged to 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.

97. C Chapter 2, Section 1.3

Suspension is restricted to a maximum of one year.

98. D Chapter 1, Section 5

The conflict of interest principle is relevant to the following stakeholders:

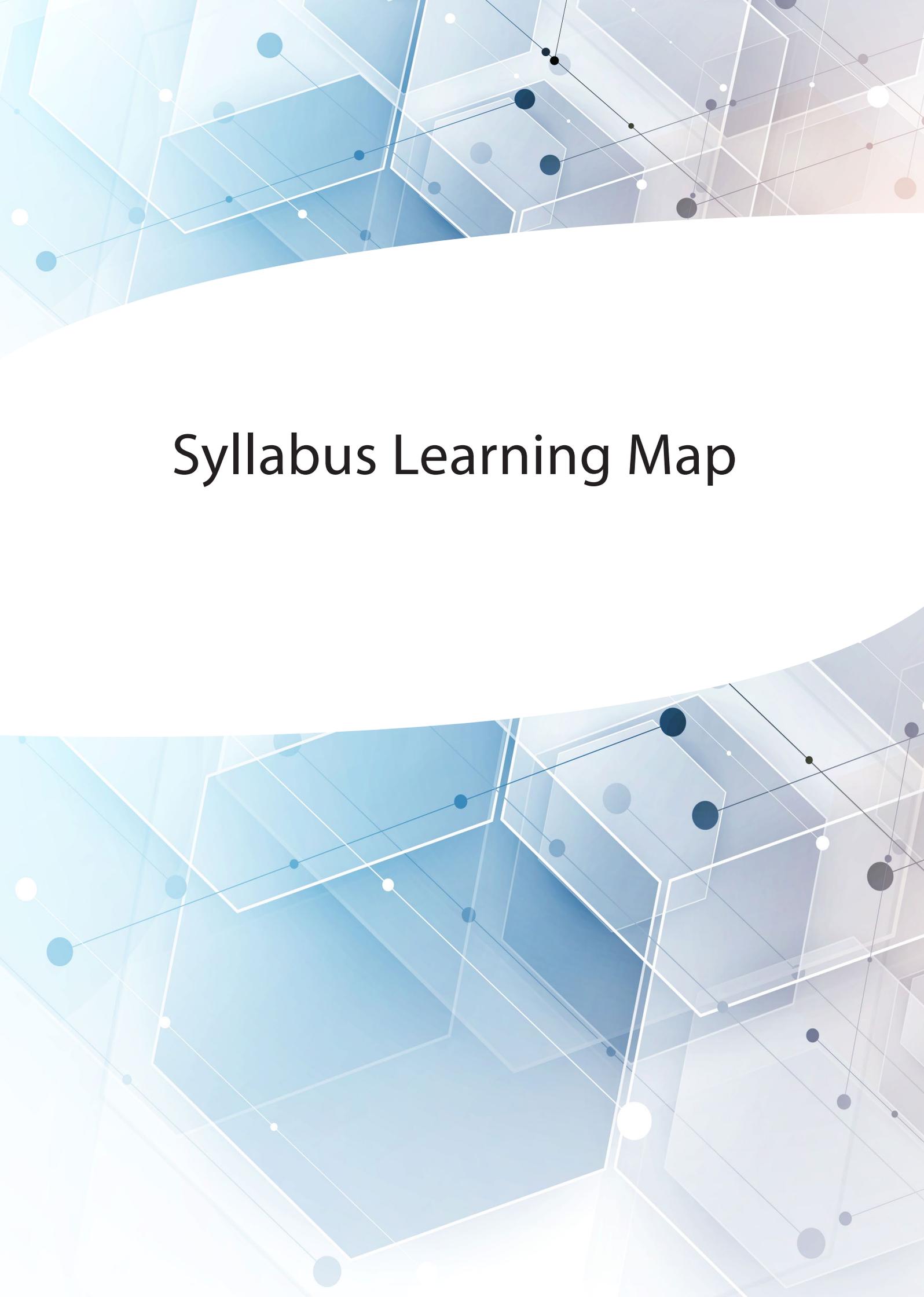
- Clients, Market
- Participants and
- Regulators

99. D Chapter 4, Section 7.1

The SCA or the market, with the approval of the SCA, may temporarily or permanently suspend or delist any exchange traded derivatives in the event of extraordinary circumstances or an event that undermines the proper working, or if it deems that the trading of such contracts will not serve the public interest or would prejudice or violate the shareholders' rights.

100. A Chapter 5, Section 1

Money laundering involves funds that are criminally derived – the proceeds of a felony or a misdemeanour according to the law. The criminal offence from which the proceeds were derived is typically referred to as the 'predicate offence'. Any person who has knowledge of this and wilfully conceals or disguises the true nature, source or location of the proceeds as well as the method involving their disposition, movement, ownership of or rights with respect to those proceeds is guilty of money laundering.

The background of the page is a complex, abstract geometric pattern. It features a network of thin white lines connecting various sized circles in shades of blue, white, and grey. The overall color palette is light blue and white, with a subtle gradient from top to bottom. The pattern is composed of overlapping, semi-transparent shapes that create a sense of depth and movement.

Syllabus Learning Map

Syllabus Unit/ Element		Chapter/ Section
Element 1	The Regulatory Infrastructure	Chapter 1
1.1	Federal Law No. 4 of 2000 On completion the candidate should:	
1.1.1	understand the functions of the Securities & Commodities Authority (SCA) (Federal Law No. 4 of 2000 Part 1, Chapters 1–3, Articles 1–19) <ul style="list-style-type: none"> incorporation of SCA organs of the SCA and its membership SCA's financial affairs 	1.1
1.1.2	understand the establishment and administration of the securities and commodities market	1.2
1.1.3	understand the application of Federal Law No. 4 of 2000 (Part 2, Chapters 3–4, Articles 30–32) to: <ul style="list-style-type: none"> clearing settlement transfer of ownership custody 	1.3
1.1.4	understand the application of Federal Law No. 4 of 2000 (Part 2, Chapter 5, Articles 33–39) to Disclosure and Transparency: <ul style="list-style-type: none"> board's powers price sensitive information dealings by the chairman, directors and staff inside information 	1.4
1.2	Securities & Commodities Authority (SCA) On completion the candidate should:	
1.2.1	understand the regulations as to the functioning of the Securities & Commodities Authority (Cabinet of Ministers Resolution 2000–13 dated 3 July 2000) <ul style="list-style-type: none"> public authority objectives and powers organs of SCA and their competencies administration finances 	2.1
1.2.2	understand the regulations as to market licensing and supervision (Cabinet of Ministers Resolution 2000–11 dated 3 July 2000) <ul style="list-style-type: none"> conditions applications board's powers 	2.2

Syllabus Unit/ Element		Chapter/ Section
1.3	SCA Resolutions On completion the candidate should:	
1.3.1	know the regulations that apply to a securities and commodities market licensed in the UAE (Regulations as to the functioning of the market SCA regulation 2001–3 dated 29 April 2001) <ul style="list-style-type: none"> • general provisions • establishment and management • membership • trading • finances 	3.1
1.4	Corporate Governance – (Law No. 3 issued Jan 2020) On completion the candidate should:	
1.4.1	know the terms of the joint-stock companies governance guide <ul style="list-style-type: none"> • the main pillars (introduction), guide principles and objectives (Article 2) • responsibilities (Article 4) 	4.1
1.4.2	know the regulations regarding: <ul style="list-style-type: none"> • gifts (Article 30) • conflicts of interest (Articles 32 & 33) • related parties (Articles 34–39) 	4.2
1.5	Codes of Conduct On completion the candidate should:	
1.5.1	know the CISI code of conduct	5
1.6	License categories and requirements (decision no.13/Chairman issued on 2021) On completion the candidate should:	
1.6.1	know licensing requirements for dealing in securities: <ul style="list-style-type: none"> • capital requirements (Annex 1) • main functions of the license category (Annex 1) • financial activities with the category (Annex 1) • approved jobs for each activity (Annex 1) 	6.1
1.6.2	know licensing requirements for dealing in investment: <ul style="list-style-type: none"> • capital requirements (Annex 1) • main functions of the license category (Annex 1) • financial activities with the category (Annex 1) • approved jobs for each activity (Annex 1) 	6.2
1.6.3	know licensing requirements for custody, clearing and recording: <ul style="list-style-type: none"> • capital requirements (Annex 1) • main functions of the license category (Annex 1) • financial activities with the category (Annex 1) 	6.3
1.6.4	know licensing requirements for credit rating agencies: <ul style="list-style-type: none"> • capital requirements (Annex 1) • main functions of the license category (Annex 1) 	6.4

Syllabus Unit/ Element		Chapter/ Section
1.6.5	know licensing requirements for ranking and advice: <ul style="list-style-type: none"> main functions of the license category (Annex 1) financial activities with the category (Annex 1) approved jobs for each activity (Annex 1) 	6.5
1.7	Accounting System Controls (decision no.13/Chairman issued on 2021) On completion the candidate should:	
1.7.1	know the obligations of licensed bodies regarding accounting system controls (Annex 2)	7

Element 2	Licensed bodies	Chapter 2
2.1	General Provisions On completion the candidate should:	
2.1.1	know the obligations of licensed bodies in relation to: <ul style="list-style-type: none"> disclosure of legal status (Article 8) state of emergency (Article 9) place of business (Article 10) close ties (Article 11) 	1.1
2.1.2	know the obligations of licensed bodies in relation to: <ul style="list-style-type: none"> control and investigation (Article 12) contact with the authority (Article 13) providing information to the Authority and the capital market institutions (Article 14) 	1.2
2.1.3	know the sanctions available to the Authority in the event of a violation of its provisions (Article 17)	1.3
2.2	Licensing Financial Activities On completion the candidate should:	
2.2.1	know: <ul style="list-style-type: none"> the types of licensed financial activities (Chapter 2, Article 1) license categories (Chapter 2, Article 2) 	2.1
2.2.2	know the requirements for meeting initial approval conditions: <ul style="list-style-type: none"> financial eligibility (Chapter 2, section 3, Article 2) experience and efficiency (Chapter 2, section 3, Article 2) honesty and integrity (Chapter 2, section 3, Article 2) compliance (Chapter 2, section 3, Article 2) professional record (dismissal, sanction or license cancellation) (Chapter 2, section 3, Article 2) feasibility study & work plan (Chapter 2, section 3, Article 2) resources (Chapter 2, section 3, Article 2) appropriateness of the company, its board and senior management (Chapter 2, section 3, Article 2) 	2.2

Syllabus Unit/ Element		Chapter/ Section
2.3	Requirements of Capital Market Institutions On completion the candidate should:	
2.3.1	know requirements for license applicants in relation to: <ul style="list-style-type: none"> governance (Chapter 4, Article 2, point 6) administration (Chapter 4, Article 2, point 7) employees (Chapter 4, Article 2, point 8) behaviour (Chapter 4, Article 2, point 9) bonuses (Chapter 4, Article 2, point 10) technical systems (Chapter 4, Article 2, point 12) 	3
2.3.2	know requirements for license applicants in relation to: <ul style="list-style-type: none"> risk management (Chapter 4, Article 2, point 13) compliance (Chapter 4, Article 2, point 14) internal audit (Chapter 4, Article 2, point 15) 	3.2
2.3.3	know requirements for license applicants in relation to: <ul style="list-style-type: none"> information confidentiality (Chapter 4, Article 2, point 17) reporting violations and legal breaches (Chapter 4, Article 2, point 19) 	3.3
2.3.4	know requirements for license applicants in relation to complaints (Chapter 4, Article 2, point 20)	3.4
2.3.5	know requirements for license applicants in relation to: <ul style="list-style-type: none"> general outsourcing (Chapter 4, Article 2, point 21, First) cloud computing (Chapter 4, Article 2, point 21, Second) outsourcing to an out of state party (Chapter 4, Article 2, point 29, Third) 	3.5
2.3.6	know record keeping requirements for license applicants (Chapter 4, Article 2, point 22)	3.6

Element 3	Investment Funds	Chapter 3
3.1	The Local Fund On completion, the candidate should:	
3.1.1	know who can establish local funds (Article 4, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)	1.1
3.1.2	know the requirement for initial approval from the Authority, the need to publish both an offering document and KIID and the process of final approval (Articles 6, 7 & 12, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)	1.2
3.1.3	Know the reporting requirements for local investment funds (Articles 14 & 15, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)	1.3
3.1.4	know the additional restrictions for private funds in relation to advertising and promotion and transfer of units (Articles 31 & 32, Resolution No. 01/Chairman of 2023 concerning the Regulation of Investment Funds)	1.4

Syllabus Unit/ Element		Chapter/ Section
3.2	Provisions Specific to Certain Public Investment Funds On completion, the candidate should:	
3.2.1	know regulations relating to: <ul style="list-style-type: none"> private equity funds (Decision No. (2/R.T) of 2017) venture capital funds (Decision No. (3/R.T) of 2017) general and limited partnership funds (Decision No. (32/R.M) of 2017) 	2
3.3	Cash Investment Funds On completion, the candidate should:	
3.3.1	know regulations regarding cash investment funds (Decision No. (52/R.T) of 2016)	3
3.4	Exchange Traded Funds On completion, the candidate should:	
3.4.1	know regulations relating to exchange-traded funds (Decision No. (49/R.T) of 2016)	4
3.5	Real Estate Funds On completion, the candidate should:	
3.5.1	know regulations relating to real estate funds (Decision No. (6/R.T) of 2019)	5
3.6	Evaluation of In-Kind Shares of Investment Funds (Decision No. (63/R.T) of 2019) On completion, the candidate should:	
3.6.1	know: <ul style="list-style-type: none"> in-kind share requirements (Article 1) evaluation requirements (Article 2) evaluator requirements (Article 3) 	6.1
3.6.2	know the obligations of the evaluator (Article 4)	6.2
3.6.3	know the required content of the in-kind shares evaluation report (Article 5)	6.3
3.6.4	know obligations of the: <ul style="list-style-type: none"> management company (Article 6) self-fund founders (Article 6) investment manager (Article 6) 	6.4
3.6.5	know requirements relating to the expenses of in-kind shares evaluation and transfer of their ownership or usufructuary (Article 7)	6.5

Element 4	Markets	Chapter 4
4.1	The Central Depository (Decision No. (19/R.M) of 2018) On completion, the candidate should:	
4.1.1	know the functions of the Depository Centre (Article 8)	1.1
4.1.2	know the obligations of the Depository Centre (Article 10)	1.2
4.1.3	know general provisions relating to the Depository Centre (Articles 11 & 12)	1.3

Syllabus Unit/ Element		Chapter/ Section
4.2	Issuing and Offering Shares in Public Joint-Stock Companies On completion, the candidate should:	
4.2.1	know regulations for the issuing and offering of shares of public joint-stock companies (SCA resolution 11/R.M dated 6 June 2016) <ul style="list-style-type: none"> • applications (Article 3) • preliminary valuation (Article 4) • meetings (Article 5) • prospectus and offer (Article 6) • receiving subscriptions and building the order book (Article 7) • pricing and allotment (Article 8) • general provisions (Article 9) 	2.1
4.2.2	know controls and procedures relating to a company buying back its shares with a view to resell them (Decision No. (40) of 2015)	2.2
4.3	Procedures for Dealing with Listed Troubled Joint-Stock Companies (Decision No. (13) of 2020) On completion, the candidate should:	
4.3.1	know the conditions for classifying a company within the first category (Article 2)	3.1
4.3.2	know the procedures for transferring a listed company between the two categories (Article 3)	3.2
4.3.3	know trading procedures for shares classified in the second category (Article 4)	3.3
4.3.4	know about the watch list: <ul style="list-style-type: none"> • purpose (Article 1) • monitoring (Article 5) • commitments of companies placed on the watch list (Article 6) 	3.4
4.3.5	know procedures relating to the delisting of shares (Articles 7 & 8)	3.5
4.4	Conciliation On completion, the candidate should:	
4.4.1	know the controls and procedures of conciliation in offences relating to public shareholding companies (Decision No. (42) of 2015)	4.1
4.5	Debt Securities (Decision No. (17) of 2014) On completion, the candidate should:	
4.5.1	know the regulations regarding qualified investors (Article 1)	5.1
4.5.2	know the terms regarding the issuing of debt securities: <ul style="list-style-type: none"> • application (Articles 8 & 9) • listing conditions – issuer (Articles 4 & 6) • listing conditions – debt securities (Article 5) • continuing obligations (Articles 19 & 20) • suspension and cancellation (Articles 21, 22, 23, 24, 25) 	5.2
4.6	Islamic Securities On completion, the candidate should:	
4.6.1	know regulation regarding the listing and offer of Islamic securities (Decision No. (20/R.M) of 2018)	6.1

Syllabus Unit/ Element		Chapter/ Section
4.6.2	understand the terms concerning the listing of Islamic bonds (Decision No. (16) of 2014) <ul style="list-style-type: none"> • application (Articles 2 & 7) • listing conditions – companies (Articles 4 & 6) • listing conditions – Islamic bonds (Article 5) • advertisements (Article 12) • continuing obligations (Articles 17 & 18) • suspension and cancellation (Articles 19–23) 	6.2
4.7	Derivatives On completion, the candidate should:	
4.7.1	know regulations concerning derivatives contracts (Decision No. (22/R.M) of 2018)	7.1
4.8	Crypto Assets (Decision No. (23) of 2020) On completion, the candidate should:	
4.8.1	know general obligations in respect of: <ul style="list-style-type: none"> • offering crypto assets (Article 6) • offering security tokens (Article 7) • listing crypto assets on a crypto asset exchange (Article 8) 	8.1
4.8.2	know disclosure requirements for: <ul style="list-style-type: none"> • crypto assets (Article 9) • security tokens (Article 10) • commodity tokens (Article 11) 	8.2
4.8.3	know the duties and obligations of crypto asset custodians (Article 13)	8.3
4.8.4	know fundraising standards for crypto assets <ul style="list-style-type: none"> • standards (Article 14) • platforms (Article 15) 	8.4
4.8.5	know requirements for licensing a crypto asset exchange (Article 16)	8.5
4.8.6	know requirements relating to the licensing of crypto assets on a crypto asset exchange (Article 17)	8.6
4.8.7	know requirements for financial activities related to crypto assets (Article 18)	8.7
4.8.8	know document submission requirements for qualified investors (Article 19)	8.8
4.8.9	know the scope of provisions relating to exchange crimes in relation to crypto assets (Article 20)	8.9
4.8.10	know: <ul style="list-style-type: none"> • required controls for combating money laundering and terrorism financing in relation to crypto assets (Article 21) • applicable technological standards for crypto assets (Article 22) 	8.10
4.8.11	know the Authority's powers to control, inspect and penalise (Article 23)	8.11

Syllabus Unit/ Element		Chapter/ Section
4.8.12	know requirements relating to: <ul style="list-style-type: none"> • data and information requests (Article 24) • complaints and grievances (Article 25) 	8.12
4.8.13	know the range of penalties for violations: <ul style="list-style-type: none"> • administrative measures (Article 26) • penalties (Article 27) • publications (Article 28) 	8.13

Element 5	Anti-Money Laundering and Combating the Financing of Terrorism	Chapter 5
5.1	Offences On completion, the candidate should:	
5.1.1	know acts considered to constitute the crime of money laundering (Articles 2 & 4)	1
5.1.2	know acts considered to constitute the crime of financing terrorism (Articles 3 & 4)	1
5.2	The Role of the Financial Services Sector On completion, the candidate should:	
5.2.1	know relevant obligations placed upon financial institutions and designated non-financial business (Articles 15, 16 & 17)	2.1
5.2.2	know required customer due diligence (CDD) measures (Decision No. (10/Chairman) of 2019) <ul style="list-style-type: none"> • purpose (Article 5) • application (Article 6) • ongoing supervision (Articles 7 & 12) • methods (Article 8) • high risk countries (Article 22) 	2.2
5.2.3	know requirements regarding establishing beneficial ownership (Decision No. (10/Chairman) of 2019) (Articles 9, 10 & 11)	2.3
5.3	Prohibitions On completion, the candidate should:	
5.3.1	know the types of business that financial institutions and DNFBPs are prohibited from engaging with (Decision No. (10/Chairman) of 2019) (Articles 13 & 14)	3
5.4	Politically Exposed Persons (PEPs) On completion, the candidate should:	
5.4.1	know the definition of a PEP (Decision No. (10/Chairman) of 2019) (Article 1)	4
5.4.2	know required measures for PEPs (Decision No. (10/Chairman) of 2019) (Article 15)	4
5.5	Suspicious Transaction Reports (STRs) On completion, the candidate should:	
5.5.1	know requirements relating to STRs (Decision No. (10/Chairman) of 2019) (Articles 16, 17 & 18)	5

Syllabus Unit/ Element		Chapter/ Section
5.6	Practical Measures On completion, the candidate should:	
5.6.1	know requirements for financial institutions and DNFBPs relying on third party service providers (Decision No. (10/Chairman) of 2019) (Article 19) and business development (Article 23)	6
5.6.2	know internal supervision measures for financial institutions and DNFBPs and for those with foreign branches and subsidiaries (Decision No. (10/Chairman) of 2019) (Article 20)	6
5.6.3	know required tasks undertaken by the compliance officer (Decision No. (10/Chairman) of 2019) (Article 21)	6
5.7	Record Keeping Requirements On completion, the candidate should:	
5.7.1	know record keeping requirements (Decision No. (10/Chairman) of 2019) (Article 24)	7
5.8	Record Keeping Requirements On completion, the candidate should:	
5.8.1	know the range of administrative penalties for financial institutions and designated non-financial business that violate Federal Law No. 20 and its executive regulation (Article 14)	8.1
5.8.2	know the criminal penalties for any person considered to be a perpetrator of money laundering (Article 22)	8.2
5.8.3	know the criminal penalties for perpetrators of money laundering that: <ul style="list-style-type: none"> • abuse their influence (Article 22) • does so through their employment or professional status (Article 22) • commits the crime via a non-profit organisation (Article 22) • is part of a criminal enterprise (Article 22) • is a repeat offender (Article 22) 	8.2
5.8.4	know the criminal penalties for any person who launders money for the financing of: <ul style="list-style-type: none"> • terrorism (Article 22) • illegal organisations (Article 22) 	8.3
5.8.5	know the criminal penalties for any legal person considered to be a perpetrator of: <ul style="list-style-type: none"> • money laundering (Article 23) • financing terrorism (Article 23) • financing illegal organisations (Article 23) 	8.4
5.8.6	know the penalty for failing to comply with suspicious transaction reporting obligations (Article 24)	8.5

Syllabus Unit/ Element		Chapter/ Section
5.8.7	know: <ul style="list-style-type: none"> the offence of tipping off (Article 25) the penalty for tipping off (Article 25) 	8.6
5.9	Market Abuse and Market Conduct Accepted Practice in the UAE On completion, the candidate should:	
5.9.1	understand the regulations in relation to market abuse in the UAE (Article 16 of the Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Custody of Securities and Article 37 of the Regulations as to Disclosure and Transparency)	9
5.10	Conflicts of Interest Accepted Practice in the UAE On completion, the candidate should:	
5.10.1	understand the rules on Chinese walls: <ul style="list-style-type: none"> control of information effect of the rules attribution of knowledge 	10.1
5.10.2	know the rules on managing conflicts of interest in connection with investment research and research recommendations: <ul style="list-style-type: none"> application implementation conditions exemptions 	10.2

Element 6	Client Protection	Chapter 6
6.1	Suitability Standards (Suitability and Appropriateness Standards (Decision No. (05/Chairman) of 2020)) On completion, the candidate should:	
6.1.1	know the suitability standards (Article 3)	1.1.1
6.1.2	know the content required in a suitability report (Article 4)	1.2
6.1.3	know obligations for licensed entities (Article 5)	1.3
6.2	Appropriateness Standards (Suitability and Appropriateness Standards (Decision No. (05/Chairman) of 2020)) On completion, the candidate should:	
6.2.1	know the appropriateness standards (Article 6)	2.1
6.2.2	know the content required in an appropriateness report (Article 7)	2.2
6.2.3	know obligations for licensed entities (Article 8)	2.3
6.3	Client Assets Accepted Practice in the UAE On completion, the candidate should:	
6.3.1	understand the purpose of the client money and custody rules including the requirement for segregation and that it is held in trust: <ul style="list-style-type: none"> holding client assets and client money protection organisational arrangements registration and recording of legal title statutory trust 	3.1

Syllabus Unit/ Element		Chapter/ Section
6.3.2	know the requirements for reconciling client assets and client money including the timing and identification of discrepancies: <ul style="list-style-type: none"> assets and money held by the firm assets and money held by third parties frequency discrepancies notification to the SCA 	3.2
6.4	Client Communications, Reporting, Financial Promotions and Advertising Accepted Practice in the UAE On completion, the candidate should:	
6.4.1	understand the rules relating to communications with clients	4.1
6.4.2	know the rules relating to fair, clear and not misleading communications and financial promotions	4.2
6.4.3	know the general client reporting and occasional reporting requirements	4.3
6.4.4	know the rules on periodic reporting; the additional requirements regarding contingent liability transactions; the exceptions and record keeping requirements	4.4
6.4.5	understand the purpose and application of the financial promotion rules	4.5
6.4.6	know the firm's responsibilities under the financial promotion rules regarding the use of appointed representatives	4.6
6.5	The Organization of Promotion and Introduction (Decision No. (3/R.M) of 2017) On completion, the candidate should:	
6.5.1	know obligations of the promoter relating to: <ul style="list-style-type: none"> financial product promotion (Article 9) promotion material (Article 10) ongoing-obligations (Article 11) promotion of foreign funds (Article 12) 	5.1
6.5.2	know obligations of the introducer (Chapter IV)	5.2
6.6	Regulations for Special Purpose Acquisition Companies (Resolution No. (01/Chairman) of 2022) On completion, the candidate should:	
6.6.1	know: <ul style="list-style-type: none"> permitted activities for Special Purpose Acquisition Companies (Article 3) classification of Special Purpose Acquisition Companies (Article 4) exemptions to the commercial companies law (Article 5) 	6.1
6.6.2	know public subscription procedures for Special Purpose Acquisition Companies: <ul style="list-style-type: none"> public subscription procedures (Article 7) public subscription of the Special Purpose Acquisition Company (Article 8) 	6.2

Syllabus Unit/ Element		Chapter/ Section
6.6.3	know requirements for: <ul style="list-style-type: none"> • allotment (Article 9) • certificate issue and registration (Article 10) • listing (Article 11) 	6.3
6.6.4	know requirements for Special Purpose Acquisition Companies in relation to: <ul style="list-style-type: none"> • public subscription proceeds (Article 12) • offering shares and warrants after listing (Article 13) 	6.4
6.6.5	know requirements for Special Purpose Acquisition Companies in relation to: <ul style="list-style-type: none"> • business consolidation (Articles 14,15,17 and 18) • redemption (Article 16) 	6.5

Element 7	Trading	Chapter 7
7.1	Abu Dhabi Securities Market ADX On completion, the candidate should:	
7.1.1	know the E-Trading regulations (E-Trading Regulations)	1.1
7.1.2	know regulations governing remote access to the Abu Dhabi Securities Exchange by foreign brokerage companies (Abu Dhabi Securities Exchange Foreign Brokerage Companies Remote Access Regulations)	1.2
7.2	Broker and Trading Rules of the ADX On completion, the candidate should:	
7.2.1	know brokerage companies reporting requirements for the ADX (Article 11)	2.1
7.2.2	know obligations of brokers towards client orders (Articles 17-19)	2.2
7.2.3	know rules concerning debt instruments (Article 47)	2.3
7.2.4	know requirements for big block deals (Article 48)	2.4
7.3	Clearing, Depository and Registry Rules On completion, the candidate should:	
7.3.1	know the role of the Clearing, Settlement and Depository Department (CSD) (Articles 3–9)	3.1
7.3.2	know regulations relating to the register deposit (Articles 11 & 12)	3.2
7.3.3	know regulations concerning investor numbers and accounts (Articles 13–20)	3.3
7.3.4	know regulations concerning: <ul style="list-style-type: none"> • the deposit of securities certificates (Articles 21–24) • allotment letters (Article 25) 	3.4
7.3.5	know regulations concerning deposit accounts at the CSD (Articles 26–29)	3.5
7.3.6	know regulations concerning settlement collateral (Articles 31–34)	3.6
7.3.7	know regulations concerning clearing and settlement (Articles 35–46)	3.7

Syllabus Unit/ Element		Chapter/ Section
7.3.8	know regulations governing the pledging of securities (Articles 49–56)	3.8
7.4	Clearing Operations in Commodities Markets On completion, the candidate should:	
7.4.1	understand the regulations of clearing operations in commodities markets (SCA resolution No. (11) of 2015) <ul style="list-style-type: none"> • licence conditions (Article 3) • obligations of the commodities CCP (Article 10) • risk management (Article 11) 	4.1
7.5	Dubai Gold & Commodities Exchange On completion, the candidate should:	
7.5.1	know delivery months for products traded on the Dubai Gold & Commodities Exchange: <ul style="list-style-type: none"> • Gold Futures (I.4.1) • India Gold Quanto Futures (I.5.1) • Shanghai Gold Futures (I.6.1) • Silver Futures (J.4.1) • Crude Oil Futures (N.5.1, N.6.1, N.7.1, N.8.1) • Equity Index Futures and Options (P.6.1) 	5.1
7.5.2	know details of Gold Futures: <ul style="list-style-type: none"> • contract size (I.4) • minimum price movement (I.4.2) • last trading day (I.4.3) • final cash settlement price (I.4.4) • cash settlement day (I.4.5) 	5.2
7.5.3	know details of India Gold Quanto Futures: <ul style="list-style-type: none"> • contract size (I.5) • minimum price movement (I.5.2) • last trading day (I.5.3) • final cash settlement price (I.5.4) • cash settlement day (I.5.5) 	5.3
7.5.4	know details of Shanghai Gold Futures: <ul style="list-style-type: none"> • contract size (I.6) • minimum price movement (I.6.2) • last trading day (I.6.3) • final cash settlement price (I.6.5) • cash settlement day (I.6.6) 	5.4
7.5.5	know details of Silver Futures: <ul style="list-style-type: none"> • contract size (J.4) • minimum price movement (J.4.2) • last trading day (J.4.3) • final cash settlement price (J.4.4) • cash settlement day (J.4.5) 	5.5

Syllabus Unit/ Element		Chapter/ Section
7.5.6	know details of West Texas Intermediate (WTI) Light Sweet Crude Oil Futures: <ul style="list-style-type: none"> contract size (N.5) minimum price movement (N.5.2) last trading day (N.5.3) final cash settlement price (N.5.4) cash settlement day (N.5.5) 	5.6
7.5.7	know details of Brent Crude Oil Futures: <ul style="list-style-type: none"> contract size (N.6) minimum price movement (N.6.2) last trading day (N.6.3) final cash settlement price (N.6.4) cash settlement day (N.6.5) 	5.7
7.5.8	know details of DGCX Mini West Texas Intermediate (WTI) Light Sweet Crude Oil Futures: <ul style="list-style-type: none"> contract size (N.7) minimum price movement (N.7.2) last trading day (N.7.3) final cash settlement price (N.7.4) cash settlement day (N.7.5) 	5.8
7.5.9	know details of Dubai India Crude Oil Quanto Crude Oil Futures: <ul style="list-style-type: none"> contract size (N.8) minimum price movement (N.8.2) last trading day (N.8.3) final cash settlement price (N.8.4) cash settlement day (N.8.5) 	5.9
7.5.10	know details of MSCI India Index Futures (INR) <ul style="list-style-type: none"> contract size (P.6) minimum price movement (P.6.2) last trading day (P.6.3) 	5.10
7.5.11	know rules concerning errors in an equity index (P.5)	5.11

Element 8	Dubai Financial Market (DFM)	Chapter 8
8.1	Brokerage Firms On completion, the candidate should:	
8.1.1	know the obligations of brokerage firms towards DFM and SCA (Article 7)	1.1
8.1.2	know the obligations of brokerage firms towards their clients (Article 8)	1.2
8.1.3	know regulations that apply to: <ul style="list-style-type: none"> trading members (Article 10) trading and clearing members (Article 11) failed settlement (Article 9) 	1.3

Syllabus Unit/ Element		Chapter/ Section
8.2	Rules of Securities Trading in the DFM On completion, the candidate should:	
8.2.1	know the rules governing order handling (Articles 2 & 3)	2.1
8.2.2	know brokers reporting requirements (Article 5)	2.2
8.2.3	know the rules relating to: <ul style="list-style-type: none"> • conflicts of interest (Article 6) • insider trading (Article 7) • board members (Article 7) • misleading information (Article 8) • articles of association of an issuer (Article 9) • mistakes (Article 11) • cancellations (Article 12) • brokers representatives (Article 15) 	2.3
8.2.4	know settlement requirements (Article 10)	2.4
8.3	The Professional Code of Conduct (DFM) On completion, the candidate should:	
8.3.1	know brokerage firms' obligations in relation to their employees and representatives (Article 2)	3.1
8.3.2	know brokerage firms' obligations in relation to client due diligence (Article 3)	3.2
8.3.3	know brokerage firms' obligations in relation to: <ul style="list-style-type: none"> • fairness (Article 4) • order taking (Article 4) • confidentiality (Article 4) • segregation (Article 4) • call recording (Article 4) • complaints (Article 4) • suspicious activity (Article 4) • market data (Article 4) 	3.3
8.3.4	know prohibited actions (Article 5)	3.4
8.3.5	know record keeping requirements (Article 8)	3.5
8.4	Online Trading Regulations (DFM) On completion, the candidate should:	
8.4.1	know how price limits are applied (Article 1)	4.1
8.4.2	know activities carried out during the: <ul style="list-style-type: none"> • pre-opening session (Article 3) • opening session (Article 4) 	4.2
8.4.3	know activities carried out during the trading session (Article 5)	4.3
8.4.4	know activities carried out during the: <ul style="list-style-type: none"> • pre-closing session (Article 6) • closing session (Article 7) 	4.4

Syllabus Unit/ Element		Chapter/ Section
8.5	Order Types (DFM) On completion, the candidate should:	
8.5.1	know the following order types: <ul style="list-style-type: none"> • limit (Article 8) • market (Article 8) 	5.1
8.5.2	know the following order conditions: <ul style="list-style-type: none"> • day order (Article 9) • good-till-cancelled (Article 9) • immediate-or-cancel (Article 9) • good-till-date (Article 9) • at-the-close (Article 9) • orders without time-limits (Article 9) • fill-or-kill (FOK) (Article 10) • fill-and-kill (FAK) (Article 10) 	5.2
8.6	Order Handling (DFM) On completion, the candidate should:	
8.6.1	know the correct method for order prioritisation (Articles 11, 12, 13 & 14)	6.1

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Element Number	Element	Questions
1	The Regulatory Infrastructure	11
2	Licensed Bodies	14
3	Investment Funds	15
4	Markets	14
5	Anti-Money Laundering and Combating the Financing of Terrorism	14
6	Client Protection	10
7	Trading	11
8	Dubai Financial Market (DFM)	11
Total		100

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