

'Q and A' for NASDAQ Dubai Members

Market Operations Consolidation between NASDAQ Dubai and DFM

What is changing?

NASDAQ Dubai will outsource its key operational functions for equities – trading, clearing, settlement and custody – to Dubai Financial Market (DFM), subject to regulatory approval.

NASDAQ Dubai is also encouraging its equity issuers to change their listing currency from US Dollars to UAE Dirhams (which is the currency of DFM equity listings).

Why is NASDAQ Dubai doing this?

The changes will make it easier, in practical terms, for many of DFM's 600,000 retail investors to trade NASDAQ Dubai stocks. This will increase the liquidity of those stocks.

When will the outsourcing take place?

Within the first few months of 2010, on a date to be announced.

What is staying the same?

NASDAQ Dubai will retain its identity as a separate exchange, with its own Listing Rules (including allowing bookbuilding), Official List of Securities, Business Rules and Members. It will continue to be regulated to international standards by the Dubai Financial Services Authority (DFSA).

In addition, the outsourcing arrangements do not apply to derivatives, which will continue to be traded, cleared and settled on NASDAQ Dubai's own systems. The outsourcing arrangements also do not apply to debt securities and structured products (Sukuk and conventional bonds).

How will the changes increase liquidity of NASDAQ Dubai equities?

For many brokers, NASDAQ Dubai and DFM equities will for the first time be visible on the same trading screen. This will facilitate trading.

For many DFM retail investors, the outsourcing will bring practical benefits that will make it easier to trade on NASDAQ Dubai including:

- They will use the same Investor Number (NIN) account for both exchanges
- The regular statements of share holdings they receive from DFM will also include their NASDAQ Dubai share holdings
- They can trade in the same currency on both exchanges, through change to UAE Dirham listings

Will the trading hours stay the same?

No. NASDAQ Dubai will move to opening hours of 10:00 to 14:00 (06:00 to 10:00 GMT) Sunday-Thursday, which are also DFM's opening hours. (Currently, NASDAQ Dubai's trading hours are 10:00 to 17:00 (06:00 to 13:00 GMT) Sunday-Thursday.)

How will trading take place?

Trading will take place through DFM's trading platform, instead of through NASDAQ Dubai's trading platform. Both exchanges use an X-Stream platform supplied by NASDAQ OMX.

The trading features and functionalities of NASDAQ Dubai's trading system will be replaced by the features and functionalities of DFM's trading system, which includes pre-validation of trades.

What rules will govern trading?

Trading will continue to be governed by the Business Rules of NASDAQ Dubai. These will be revised to reflect the DFM trading model. NASDAQ Dubai's Business Rules and trading procedures will continue to be regulated by DFSA.

Which brokers will be able to trade NASDAQ Dubai equities?

Only Members of NASDAQ Dubai will be able to trade NASDAQ Dubai equities. NASDAQ Dubai is encouraging more DFM Members to apply to become Members of NASDAQ Dubai.

How will NASDAQ Dubai Members connect to the DFM trading platform?

They will be able to connect by any of these methods:

1. DFM Trader Work Station
2. NASDAQ Dubai Market Place Service (a NASDAQ Dubai service that facilitates the placing of orders)

3. Through a DFM-approved UAE broker which is also a NASDAQ Dubai Member

If a Member is not ready to connect to the DFM trading platform on the day trading of NASDAQ Dubai equities moves across to it, what will happen?

The Member can connect to the DFM platform later, as soon as it is ready to do so.

Will Members trading NASDAQ Dubai equities and equity derivatives need two Trader Work Stations?

Yes; one to connect to DFM's X-Stream platform for equities and one to connect to NASDAQ Dubai's X-Stream platform for equity derivatives.

How will the NIN system operate?

Each investor should obtain a NIN from DFM. Investors who already have one can use that same NIN to trade NASDAQ Dubai equities through a NASDAQ Dubai Member. For Members whose clients do not already have a NIN, NASDAQ Dubai can assist with the application process.

Some investors might not have obtained a NIN by the time trading moves over to DFM's trading platform. Each Member will be able to use its custodian's NIN to hold the equities of any number of such investors, until those investors obtain their own NINs.

No entity or individual can have more than one NIN. For a cross or block trade, a different NIN will be needed for the same Member for each side of the same trade.

Will margining requirements be maintained?

No. DFM's system of bank guarantees will be adopted for trading of NASDAQ Dubai equities. Buy orders and executions will be limited to the value permitted under a bank guarantee.

NASDAQ Dubai Members that already have a bank guarantee for trading DFM equities will need to either amend that guarantee to include NASDAQ Dubai as a beneficiary, or obtain a new bank guarantee to trade NASDAQ Dubai equities; or else they can rely on a bank guarantee obtained by a NASDAQ Dubai Clearing Member.

Will over the counter trading be allowed?

A deal can be negotiated off-exchange, but the resulting trade must take place on-exchange, through DFM's pre-validation system.

What will the trading safeguards be?

We are not changing our current procedure; i.e. there is no specific trading safeguard.

What types of order will be available?

- i) Market Orders
- ii) Limit Orders
- iii) Fill or Kill
- iv) Fill and Kill

Will market making be possible?

The current system will change, because of the requirement for pre-validation. A Member will still be able to enter both bid and offer prices in order to provide liquidity.

Will NASDAQ Dubai remain the central counterparty (CCP)?

Yes, to the extent that if a Member defaults on cash payment and the bank guarantee also defaults, the CCP will meet the Member's obligations through NASDAQ Dubai's Clearing Guarantee Fund.

Will links to Euroclear and Clearstream still be provided?

This is under review and we will provide information on this as soon as possible.

Will there be one daily report for both exchanges?

Yes, NASDAQ Dubai brokers will receive one end-of-day report that includes equities on both NASDAQ Dubai and (if any) DFM.

How will settlement take place?

Settlement will change from a T+3 basis to T+2, which is the DFM system. Equities listed in UAE Dirhams will be able to settle on Sundays; for equities listed in US Dollars, Sunday will be a settlement holiday, as it is now.

NASDAQ Dubai's current settlement bank arrangements with Standard Chartered and HSBC will remain in place, but will be amended to reflect this outsourcing arrangement.

How will custody arrangements be handled?

NASDAQ Dubai has 10 custodians and DFM has five. NASDAQ Dubai's current custodian arrangements will remain in place; however the way they operate will be amended to reflect this outsourcing arrangement. NASDAQ Dubai will facilitate the opening of NIN accounts for its custodians and their broker clients.

Which software protocols can be used to access DFM?

Either FIX or SDK can be used.

Will issuers be able to keep their listing in US dollars if they wish to?

Yes. DFM's systems can trade, clear and settle in US dollars just as easily as in UAE Dirhams.

NASDAQ Dubai advises issuers not to have a listing in both currencies at the same time, as that would split the liquidity.

Will there be any changes to fees?

These are under review. Any changes will be communicated as soon as possible.

Will there be any change to the way issuers make disclosures to the market?

No. Issuers will continue to disseminate their disclosures through NASDAQ Dubai's CAP/CANDI system, just as they do now. They will not disseminate disclosures through DFM.

Will the outsourcing changes outlined above be permanent?

DFM and NASDAQ Dubai will continue to review all aspects of their markets in the interests of efficiency and in order to promote Dubai's growth as a regional and international capital markets hub. Further improvements to operations functionality might take place in 2011, particularly with regard to clearing.