

As announced in December, NASDAQ Dubai is now consolidating its key market operations functions with those of Dubai Financial Market (DFM), subject to regulatory approval. A major reason for doing this is to improve access for retail investors to NASDAQ Dubai equities, facilitating liquidity.

Work is proceeding rapidly and we aim to implement the consolidation within the first few months of 2010. It will have a significant impact on the way in which NASDAQ Dubai equities are traded, cleared and settled. This document provides initial details.

We are committed to keeping all our stakeholders fully informed of developments and will update you further as soon as we can. In the meantime please contact us if you have any questions.



February 1, 2010

## Market Operations Consolidation – NASDAQ Dubai and DFM

### Improving retail investor access to NASDAQ Dubai equities

#### Overview

The consolidation of market operations now underway between NASDAQ Dubai and Dubai Financial Market (DFM) was announced in December 2009. At the same time, DFM announced it will acquire NASDAQ Dubai. The consolidation is subject to regulatory approval.

A major purpose of the consolidation is to quickly improve access for regional retail investors to NASDAQ Dubai equities, thus facilitating liquidity on the exchange. The consolidation will be implemented within the first few months of 2010.

The consolidation has been designed to benefit the market participants of NASDAQ Dubai and DFM, including issuers, Members and investors. By putting their interests first, Dubai will achieve its goal of creating a powerful capital markets hub for the GCC and wider Middle East.

NASDAQ Dubai will maintain its identity as a distinct market, keeping its own Business and Listing Rules and its Official List of Securities. NASDAQ Dubai will amend its Business Rules to implement changes proposed as part of the consolidation. It will continue to be regulated to international standards by the Dubai Financial Services Authority (DFSA).

The consolidation details are outlined below. They apply to equities and exchange-traded commodities (ETCs) only. They do not apply to debt securities or to derivatives. (There will be a minor impact on derivatives trading, explained lower down).

#### Consolidation Details

NASDAQ Dubai will outsource its trading, clearing, settlement and custody functions for equities and ETCs to DFM's systems.

This will harmonise the way in which trading takes place on both exchanges, so that trading on either one will have the same 'look and feel' from a broker's and investor's point of view.

**Trading** – NASDAQ Dubai equities and ETCs will be traded using DFM's version of the X-Stream trading platform.

Trading hours will change from the current 10:00 to 17:00 (06:00 to 13:00 GMT) to 10:00 to 14:00 (06:00 to 10:00 GMT), which are the trading hours of DFM.

Trading of NASDAQ Dubai equities and ETCs will take place using DFM's pre-validation model, under which equities and bank guarantees are checked before an execution can take place. Trading will make use of DFM's model whereby each investor will have a trading account linked to a DFM Investor Number.

Only NASDAQ Dubai Members will have access to NASDAQ Dubai listed securities on the DFM X-Stream platform.

NASDAQ Dubai Members will not be entitled to directly trade DFM-listed securities (unless they are also DFM Members).

**Clearing and Settlement** – The current NASDAQ Dubai clearing and settlement model for equities and ETCs will no longer be used. Instead, DFM's clearing and settlement model will be adopted.

DFM's Equator system will be used for settlement. Settlement will move to DFM's T+2 schedule instead of NASDAQ Dubai's T+3 schedule.

**Depository** – Existing account holders of NASDAQ Dubai central securities depository (CSD) will be migrated to the DFM's CSD and the existing account structures of DFM's CSD will apply. One fundamental change will be the adoption of Investor Numbers for investors in accordance with the requirements of DFM's CSD.

**Dirham Listings** – NASDAQ Dubai is encouraging all its equity and ETC issuers to switch their listing currency from US Dollars to UAE Dirhams. This is the currency of all DFM-listed equities.

#### Liquidity Rationale

The above changes are designed to improve retail investor access to NASDAQ Dubai, by making trading on DFM and NASDAQ Dubai identical experiences.

Retail liquidity will be driven towards NASDAQ Dubai as it becomes much easier, in practical terms, for DFM's 600,000 retail investors to access NASDAQ Dubai equities and ETCs. Retail investors account for most of DFM's turnover.

Practical consolidation benefits for retail investors include:

- Use of the same Investor Number account for both exchanges
- Regular statements of share holdings received from DFM will also include their NASDAQ Dubai share holdings

- Same currency on both exchanges through change to UAE Dirham listings

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

## Regulation

NASDAQ Dubai will continue to be regulated to international standards by the Dubai Financial Services Authority (DFSA), as it is now. This regulation will include all the activities that will be outsourced to the DFM. NASDAQ Dubai's own market surveillance function will also continue to operate as now and all transactions will continue to be governed by Dubai International Financial Centre (DIFC) law.

The maintenance of international regulatory standards remains a key element of NASDAQ Dubai's value proposition.

Regulatory approval will be required if the market operations consolidation outlined above is to take place. NASDAQ Dubai is working closely with the regulators in order to satisfy all requirements and address all questions that may arise.

## Next Steps

NASDAQ Dubai and DFM will in due course announce a date on which the changeover to the DFM systems will take place. This date is expected to be within the first few months of 2010.

NASDAQ Dubai has carefully considered every aspect, both practical and regulatory, of the outsourcing plan under which the changeover will take place.

It will work closely with its Members to ensure that they will be connected to DFM's X-Stream platform and can use the new clearing, settlement and custody arrangements. This process will involve rigorous testing and as much support as Members require to ensure that functionality is robust.

The exchange will work closely with its issuers to ensure that they are fully aware of the changes underway, including a switch to a UAE Dirham listing if they desire this.

## Debt and Derivatives

The outsourcing arrangements outlined above do not apply to debt securities (Sukuk and conventional bonds) or to derivatives, which will continue to be dealt with entirely on NASDAQ Dubai's own systems.

However, trading in DP World futures will halt at 14:00 (10:00 GMT) in line with the changed trading hours of the underlying stock. (Trading of all other NASDAQ Dubai futures already halts at this time.) DP World futures will also move to cash settlement.

If DP World changes its equity listing currency to UAE Dirhams, DP World futures will also move to UAE Dirhams.

## International Focus

Alongside its drive for more regional retail liquidity, NASDAQ Dubai will retain its focus as an international market, with international Members and investors. In line with this strategy, its trading hours are expected to revert to 10:00 to 17:00 (06:00 to 13:00 GMT) once this becomes operationally feasible.

In addition, clearing, settlement and other functions may continue to evolve in future in the interests of all NASDAQ Dubai market participants, regional and international.

## Synergy with DFM

DFM and NASDAQ Dubai have both achieved notable success over the years, but largely in different ways. Consolidation of their market operations will enable each to benefit from the other's strengths. It will also build critical mass for Dubai's capital markets faster than if the exchanges continued to operate separately, enabling Dubai to fulfill its regional leadership potential in this area.

DFM has established itself as a thriving UAE market since it was set up in 2000. It has 66 listed companies, all from the region, including several of the GCC's largest companies. It was the second largest market by trading volume in 2008 in the GCC (after the Tadawul in Saudi Arabia). Most of its trading is carried out by regional retail investors and its 99 Members are regionally based brokers.

NASDAQ Dubai has built a unique international and regional infrastructure since it opened in 2005. Most of its trading is carried out by international institutional investors, though it also has a significant regional investor base, including retail. Its 30 Members include most of the world's large investment banks as well as 16 regional brokers. It listed the UAE's largest IPO in 2007 (DP World at \$4.96 billion) and has 14 other international and regional equity listings. It has the UAE's only equity derivatives market, which is growing rapidly. It is a global centre for listing Sukuk. It is regulated to international standards by the DFSA inside the DIFC.

The market operations consolidation outlined above is driven by the new ownership structure announced in December 2009. Under this structure, DFM will acquire NASDAQ Dubai from its current owners, Borse Dubai and NASDAQ OMX. NASDAQ OMX will become a minority shareholder of DFM. Both DFM and NASDAQ Dubai will continue to benefit from NASDAQ OMX's international brand and expertise.

NASDAQ Dubai and its market participants share a common interest in the success of market operations consolidation, in order to build a larger and more liquid market. We look forward to working with you towards this goal.

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