

NASDAQ Dubai Notice No : 18/10
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CONSULTATION PAPER – PROPOSED CHANGES TO THE NASDAQ DUBAI BUSINESS RULES IN LIGHT OF THE OUTSOURCING OF MARKET OPERATIONS OF NASDAQ DUBAI TO THE DUBAI FINANCIAL MARKET PJSC

To: NASDAQ DUBAI MEMBERS

WHY ARE WE ISSUING THIS PAPER?

1. This consultation paper summarises the proposed changes to the existing NASDAQ Dubai Ltd ('NASDAQ Dubai') Business Rules Version 7.4. These changes are in light of the outsourcing of NASDAQ Dubai's trading, clearing, settlement and custody services for equity securities and exchange traded commodities (ETCs) to the Dubai Financial Market PJSC ('DFM') platform (the 'Outsourcing').
2. To facilitate the Outsourcing, NASDAQ Dubai will make changes to its existing market model. These changes are aimed at streamlining trading of NASDAQ Dubai securities on the DFM platform, which will encourage larger retail participation and result in more liquidity in NASDAQ Dubai securities. The most important changes are:
 - Bank guarantees as a margining tool for all buy orders (as opposed to the current margin model).
 - Pre-validation of all sell orders. This means that before a sell order can be executed, the trading system will ensure that the securities to be sold are held in the relevant trading or custody accounts.
 - Investor Identification Numbers: this allows investors to hold unique identification numbers which are mapped to their respective custody and trading accounts.
3. The Outsourcing is subject to regulatory approvals.
4. As a result of the Outsourcing and the resulting changes to the existing market model, NASDAQ Dubai is proposing to revise its existing Business Rules Version 7.4 to issue two new rulebooks, which are based on the existing Business Rules Version 7.4.

Rulebook 1

5. The existing Business Rules Version 7.4 will be revised and amended to make these rules applicable **only** to primary and secondary equities and ETCs which are subject to the Outsourcing. This Rulebook will be called Business Rules for Equities and ETCs, Version 7.5 (referred to as '**Rulebook 1**').

Rulebook 2

6. Additionally, the existing Business Rules Version 7.4 will be amended to remove references to primary and secondary equities and ETCs and amend the definitions accordingly. Apart from changes to the definitions, no changes are made to the existing Business Rules Version 7.4 to create this new set of rules. These rules will remain applicable to structured products, debt products, collective investment funds and derivatives which will remain on the existing NASDAQ Dubai platform and are not affected by the Outsourcing. These rules will constitute Business Rules for Derivatives, Debt Securities, Structured Products and Collective Investment Funds Version 7.6 (referred to as 'Rulebook 2')
7. For clarity, Members who will trade equity securities and ETCs will find all applicable rules in Rulebook 1 Version 7.5 and Members who will trade derivatives, debt securities, structured products and collective investment funds will find all applicable rules in Rulebook 2 Version 7.6.
8. This consultation paper sets out the changes made to the existing Business Rules (Version 7.4) to produce Rulebook 1 Version 7.5, applicable to equities and ETCs as well as the changes made to the same rules to produce Rulebook 2 Version 7.6 applicable to derivatives, debt securities, structured products and collective investment funds.

WHO SHOULD READ THIS PAPER?

9. This Paper is primarily of interest to existing and potential Members of NASDAQ Dubai and may be of interest to other stakeholders.
10. NASDAQ Dubai wishes to notify and consult with its stakeholders on the changes needed to the existing NASDAQ Dubai Business Rules Version 7.4 to implement the Outsourcing arrangement.

HOW TO PROVIDE COMMENT?

11. All comments should be forwarded to nasdaqdubai.legal@nasdaqdubai.com on or before **11 April 2010**.
12. You may wish to identify the organisation you represent in providing your comments. NASDAQ Dubai reserves the right to publish any comments you provide, unless a request to the contrary is made expressly.

WHAT HAPPENS NEXT?

13. Once all comments are received, NASDAQ Dubai will consider if any further amendments are required to these proposals. We may then proceed to enact the changes to the Business Rules, subject to regulatory approval. A Notice will go out to announce the issuance of Rulebook 1 for Equities and ETCs Version 7.5 and Rulebook 2 for Derivatives, Debt Securities, Structured Products and Collective Investment Funds Version 7.6.

TERMINOLOGY IN THIS PAPER

14. Defined terms are identified throughout this paper by the capitalisation of the initial letter of a word or of each word in a phrase. Unless otherwise defined in this paper, defined terms have the meaning as defined by the NASDAQ Dubai Business Rules Version 7.4 unless a new definition is being introduced as part of the revision of any rules.

BACKGROUND

15. The proposed Outsourcing is designed to attract more liquidity from retail investors who trade on the DFM to the NASDAQ Dubai market. More than half the total value traded on DFM in 2009 was carried out by brokers who also trade on NASDAQ Dubai, either directly or indirectly. These Members will now be able to offer their investors seamless access to NASDAQ Dubai securities. To further allow retail participation through other UAE brokers, NASDAQ Dubai plans to encourage qualified DFM brokers to become Members of NASDAQ Dubai and will endeavour to facilitate their application process, while maintaining a high standard of market regulation.
16. Essentially, the operational functions of NASDAQ Dubai equities and ETCs – trading, clearing, settlement and custody - will be outsourced to DFM. The DFM's securities market characteristics and operational procedures will be adopted so as to create a seamless platform for DFM's and NASDAQ Dubai's equities markets.
17. The regulatory and legal framework will remain intact, with NASDAQ Dubai continuing to be regulated by the Dubai Financial Services Authority as an Authorised Market Institution and governed by DIFC laws.
18. The NASDAQ Dubai derivatives market, as well as debt securities, structured products and collective investment funds, will not be affected by these changes.
19. There will be no change to the listing status or the regulatory framework of NASDAQ Dubai equities or issuers.

I. THE PROPOSED CHANGES – RULEBOOK 1

20. NASDAQ Dubai proposes to **amend** certain **rules** to reflect the new market model and Outsourcing arrangements.
21. NASDAQ Dubai proposes to **introduce** new **rules** to reflect the new market model under the Outsourcing arrangements.

II. RULES TO BE AMENDED

DEFINITIONS

22. NASDAQ Dubai is introducing new definitions to add clarity to the new rules added or to rules that are amended. Existing definitions have been amended to reflect the applicability of the rules to only equities and ETCs. Definitions which relate to other products (such as derivatives) have been deleted from Rulebook 1.

CLOSING AUCTION AND CLOSING PRICE

23. Under the current NASDAQ Dubai trading model, trading begins with an opening auction, is followed by continuous trading and then a closing auction. No closing auction will be held for equity securities and ETCs migrated to the DFM platform, as this feature is not supported under the Outsourcing. NASDAQ Dubai expects to work with DFM on system developments that may allow the re-introduction of a closing auction in due course.
24. NASDAQ Dubai proposes to remove rules that reference the closing auction and allow for the various trading phases to be communicated to the market via Notice.
25. Additionally, the rules have been amended to state that the method of calculation of the Closing Price will be communicated via Notice.
26. NASDAQ Dubai expects to issue a Notice stating that, in the absence of a closing auction, the Closing Price will be determined by the last traded price. Market surveillance tools which are in place will ensure that no price manipulation takes place. In case of no trading for a particular Business Day, the previous day's Closing Price will be used.

ORDER TYPES AND PARAMETERS

27. The current NASDAQ Dubai market model supports a number of Order types which will not be supported under the Outsourcing. NASDAQ Dubai expects to work with DFM on system developments that may allow the re-introduction of Order types in due course.
28. In the meantime stop Orders and ice-berg Orders as described by Rule 4.7 (3) and (4) (iii) will not be available. NASDAQ Dubai proposes to remove rules that reference certain types of Orders and allow for any additional order types to be communicated to the market via Notice.
29. Market Orders, limit Orders, fill-or-kill as well as fill-and-kill orders will continue to be available.

ORDER REQUIREMENTS

30. Current Rule 4.6 sets out the Order requirements. In light of the Outsourcing, Orders will be required to include the Trading Account Number (See section 42. below) of the Member or the underlying Customer, as the case may be.
31. Rule 4.6 will be amended to include reference to the Trading Account Number.
32. A Circular will be sent out to provide details of setting up Trading Accounts.

MAINTENANCE OF RECORDS

33. Current Rule 3.3.2 sets out the records that a Member is required to maintain. This rule will be amended to include the Trading Account Number of the Member or the underlying Customer, as the case may be.
34. Rule 3.3.2 will be amended to include reference to the Trading Account Number.

CURRENCY OF TRADING

35. Issuers are encouraged to change the denomination of their equity securities and ETCs to UAE Dirham to promote retail participation and enhance liquidity. Notwithstanding, trading in US Dollar will continue to be available.
36. The current Rules set out the currency of all orders to be in US Dollars. We propose to amend all rules which refer to the currency of trading to include US Dollars or United Arab Emirates Dirhams in line with the denomination of the security.

NETTING OF SETTLEMENT TRANSACTIONS

37. Currently, Securities Clearing Members receive settlement obligations reports which reflect their net open positions for cash as well as their net open positions for securities.
38. In light of the Outsourcing and the custody accounting structure used on the DFM platform, the netting of securities obligations will no longer be supported. Securities obligations will be calculated per account on a gross basis. The rules will be amended to state that the report generated for settlement obligations will continue to reflect net open positions for cash but will reflect gross open positions for securities.

CENTRAL SECURITIES DEPOSITORY AND REGISTRY

39. The Central Securities Depository of the DFM supports different types of accounts than those supported by the current NASDAQ Dubai CSD. We propose to amend Rule 11.2 to reflect the types of accounts supported under the Outsourcing. Most notably, a Securities Settlement Pool Account will not be supported. It will be replaced by custody accounts that can be held directly with the DFM Central Securities Depository or a Custodian. The rules will be amended to reflect this change.

CLEARING BANK

40. Under the Outsourcing and new market model NASDAQ Dubai will no longer need the services of a Clearing Bank as set out in the current Rules. Financial settlement obligations will be handled directly between NASDAQ Dubai's settlement banks and the Clearing Members settlement banks. The amendments to the rules reflect this change.

III. NEW RULES

41. Several rules have been added to provide clarity on the amended market model as set out below.

INVESTOR IDENTIFICATION NUMBER

42. New rules have been introduced to require Investor Identification Numbers, which represents a change from the existing market model.

TRADING ACCOUNT

43. New rules have been introduced to require a Trading Account which is assigned a specific number and which is required at Order entry and for record keeping.

IV. PROPOSED NOTICES

44. NASDAQ Dubai will issue several Notices as set out under current and proposed rules which clarify market features and procedures to implement the Outsourcing. The Notices will cover the following:

- Trading Phases
- Calculation of Closing Price
- Trading Hours
- Eligible Margin
- Settlement

BUSINESS DAYS AND TRADING HOURS

45. Rule 4.4.1 sets out that Business Days for a calendar year and Trading Hours will be published by Notice.

46. NASDAQ Dubai is proposing to adopt the trading hours of the DFM which are 10 am to 2 pm for equity securities and ETCs. Also, NASDAQ Dubai will settle on Sundays for UAE Dirham denominated securities as per the DFM settlement process. No rule change or amendment is required.

MARGIN

47. Rule 6.2.14 (1) states that NASDAQ Dubai shall have sole discretion to determine Eligible Margin and shall specify the type of cash, Eligible Securities, bank guarantees and other assets comprising Eligible Margin by Notice.

48. Therefore NASDAQ Dubai did not deem it necessary to amend the existing Margin rules, which are already drafted to include the various options for margining such as the use of bank guarantees, cash and/or securities. NASDAQ Dubai will be communicating via Notice all operational details of the new margining model, which will be primarily based on each Clearing Member supplying a bank guarantee. As NASDAQ Dubai will be adopting the DFM model, Clearing Members will be required to provide bank guarantees and/or cash margin.

SETTLEMENT

49. Rule 6.3.1 sets out that unless otherwise determined by NASDAQ Dubai by Notice, all settlement of cash shall be in US Dollars.

50. NASDAQ Dubai is proposing to allow settlement in UAE Dirhams in addition to US Dollars in light of the anticipated change of denomination of certain equity securities as well as ETCs and as such settlement in UAE Dirhams as well as US Dollars will be supported.

51. Rule 6.3.2 sets out that timing of settlement and settlement cycle will be provided by Notice. NASDAQ Dubai will move from a T+3 to a T+2 settlement cycle in line with the current DFM model. No rule change is required.

PRE-VALIDATION

52. Under the Outsourcing, NASDAQ Dubai will move to a pre-validation model. No specific rule change is required to effect pre-validation, other than the requirement of Investor Identification Numbers. NASDAQ Dubai will continue to issue Notices and Circulars to Members to explain the pre-validation of sell orders under the new market model.

V. THE PROPOSED CHANGES – RULEBOOK 2

53. The existing Business Rules Version 7.4 will be amended to remove references to primary and secondary equities and ETCs and amend the definitions accordingly. Apart from changes to the definitions, no changes are made to the existing Business Rules Version 7.4 to create this new set of rules.

Attached to this consultation paper are Rulebook 1 and Rulebook 2 provided in marked-up form, such that the reader can clearly identify between new or amended rules. Where sections of the rules remain clean, this means that there have been no changes.

PLEASE SEND YOUR COMMENTS ON THESE PROPOSED CHANGES TO nasdaqdubai.legal@nasdaqdubai.com ON OR BEFORE 11 April 2010.

This NASDAQ Dubai Notice will be available on the website at www.nasdaqdubai.com