

FINANCIAL SERVICES REGULATORY AUTHORITY
سلطة تنظيم الخدمات المالية

Market Infrastructure Rulebook (MIR)



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1 INTRODUCTION

- 1.1.1** The Rules and guidance in this Rulebook apply to Recognised Bodies that carry on, or intend to carry on, business in or from the Abu Dhabi Global Market, and to applicants for recognition as a Recognised Body.
- 1.1.2** Where this rulebook states that the Regulator may have regard to any factor in assessing or determining whether a Recognition Requirement is satisfied, it means that the Regulator will take that factor into account so far as it is relevant.
- 1.1.3** In determining whether a Recognised Body satisfies the Recognition Requirements, the Regulator will have regard to any relevant factor, including, but not limited to, the factors specifically discussed in this rulebook.



2 RULES APPLICABLE TO ALL RECOGNISED BODIES

2.1 Introduction

2.1.1 This chapter contains the Recognition Requirements for Recognised Bodies.

2.1.2 A Recognised Body must at all times comply with the requirements of this chapter to the satisfaction of the Regulator. The same standards apply on initial recognition and throughout the period Recognised Body status is held. The term Recognised Body in the guidance should be taken to refer also to an applicant when appropriate.

2.1.3 In considering whether a Recognised Body satisfies Recognition Requirements applying to it, the Regulator may take into account all relevant circumstances including the constitution of the Person concerned and its regulatory provisions.

2.1.4 In considering whether a Recognised Body satisfies the Recognition Requirements, the Regulator will have regard to:

- (a) the constitution, regulatory provisions and practices of the Recognised Body;
- (b) the nature (including complexity, diversity and risk) and scale of the Recognised Body's business;
- (c) the size and nature of the market which is supported by the Recognised Body's facilities;
- (d) the nature and status of the types of investor who use the Recognised Body's facilities or have an interest in the market supported by the recognised facilities;
- (e) competition in the markets for services provided, or proposed to be provided, by the Recognised Body in its capacity as such; and
- (f) the nature and scale of the risks to the Regulator's statutory objectives associated with the matters described in (a) to (e).

2.2 Suitability

2.2.1 The Recognised Body must be a fit and proper Person to perform the relevant functions of a Recognised Body. In determining whether a Recognised Body is a fit and proper Person, the Regulator may have regard to any relevant factor including, but not limited to:

- (a) the commitment shown by the Recognised Body's governing body to satisfying the Recognition Requirements and to complying with other applicable obligations;
- (b) its arrangements, policies and resources for fulfilling its obligations in relation to its activities as a Recognised Body, including in relation to the control of conflicts of interest;



- (c) the extent to which its constitution and organisation provide for effective governance and effective oversight by the governing body of its relevant functions;
- (d) breaches of any relevant law, regulation or code of practice by the Recognised Body or its Key Individuals;
- (e) its arrangements for ensuring that it employs individuals who are honest and demonstrate high standards of integrity;
- (f) its connections with any undertaking under its control or in its group, and any Person with a position of influence over, or who effectively runs the business of, the Recognised Body, having regard to:
 - (i) the reputation and standing of that other Person, including his standing with any relevant Abu Dhabi Global Market or Non-Abu Dhabi Global Market regulator;
 - (ii) breaches of any law or regulation by that other Person;
 - (iii) the roles of any of the Recognised Body's Key Individuals who have a position within organisations under the control or influence of that other Person, including their responsibilities in that organisation and the extent and type of their access to its senior management or governing body;
 - (iv) the extent to which the Recognised Body operates as a distinct entity notwithstanding its connection with that other Person; and
 - (v) the extent to which the Recognised Body's governing body is responsible for its day-to-day management and operations,

but nothing in this paragraph should be taken to imply any restriction on the ability of a Recognised Body to outsource any function to any Person in a manner consistent with the rules on outsourcing set out in Rule 2.14.

2.2.2 The Persons who are in a position to exercise significant influence over the management of the Recognised Body, whether directly or indirectly and who effectively direct the business and operations of the Recognised Body, including its Key Individuals, must comply with the requirements for Approved Persons and Recognised Persons as set out in Part 5 of FSMR.

2.3 Governance

2.3.1 A Recognised Body's governing body must comply with the requirements of an investment firm's governing body set out in GEN.

2.4 Financial resources

2.4.1 A Recognised Body must have financial resources sufficient for the proper performance of its relevant functions as a Recognised Body. In considering whether this requirement is satisfied, the Regulator must take into account all the circumstances, including the



Recognised Body's connection with any Person, and any activity carried on by the Recognised Body, whether or not it is an exempt activity.

2.4.2 In determining whether a Recognised Body has financial resources sufficient for the proper performance of its relevant functions, the Regulator may have regard to:

- (a) the operational and other risks to which the Recognised Body is exposed;
- (b) if the Recognised Body is principal to or guarantees the performance of transactions, the counterparty and market risks to which it is exposed in that capacity;
- (c) the amount and composition of the Recognised Body's capital and liquid financial assets;
- (d) the amount and composition of the Recognised Body's other financial resources (such as insurance policies and guarantees, where appropriate);
- (e) the financial benefits, liabilities, risks and exposures arising from the Recognised Body's connection with any Person, including but not limited to, its connection with:
 - (i) any undertaking in the same group as the Recognised Body;
 - (ii) any other Person with a significant shareholding or stake in the Recognised Body;
 - (iii) any other Person with whom the Recognised Body has made a significant investment, whether in the form of equity, debt, or by means of any guarantee or other form of commitment; and
 - (iv) any Person with whom the Recognised Body has a significant contractual relationship;
- (f) the amount and liquidity of its financial assets and the likely availability of liquid financial resources to the Recognised Body during periods of major market turbulence or other periods of major stress for the Abu Dhabi Global Market financial system; and
- (g) in relation to a Recognised Investment Exchange, the nature and extent of the transactions concluded on the Recognised Investment Exchange.

Capital requirements

2.4.3 A Recognised Investment Exchange must, at all times, hold capital in accordance with Rule 3.2.

2.4.4 A Recognised Clearing House must, at all times, hold capital in accordance with Rule 4.2.

2.4.5 "Capital" means Tier 1 Capital, as defined in PRU 3.12.



2.4.6 The Regulator may require a Recognised Body to hold an additional capital buffer, which may be used only in times of market stress or financial difficulty.



Accounting information and standards

2.4.7 The Regulator will usually rely on a Recognised Body's published and internal management accounts and financial projections, provided that those accounts and projections are prepared in accordance with Global Market, US or international accounting standards.

2.5 Systems, controls and conflicts

2.5.1 The Recognised Body must ensure that the systems and controls used in the performance of its relevant functions are adequate, and appropriate for the scale and nature of its business. This applies in particular to systems and controls concerning:

- (a) the transmission of information;
- (b) the assessment, mitigation and management of risks to the performance of the Recognised Body's relevant functions, including conflicts of interest;
- (c) the effecting and monitoring of transactions on the Recognised Body;
- (d) the technical operation of the Recognised Body, including contingency arrangements for disruption to its facilities;
- (e) the operation of its functions relating to the safeguards and protections to investors;
- (f) (where relevant) the safeguarding and administration of assets belonging to users of the Recognised Body's facilities; and
- (g) outsourcing.

2.5.2 In assessing whether the systems and controls used by a Recognised Body in the performance of its relevant functions are adequate and appropriate for the scale and nature of its business, the Regulator may have regard to the Recognised Body's:

- (a) arrangements for managing, controlling and carrying out its relevant functions, including:
 - (i) the distribution of duties and responsibilities among its Key Individuals and the departments of the Recognised Body responsible for performing its relevant functions;
 - (ii) the staffing and resources of the departments of the Recognised Body responsible for performing its relevant functions;
 - (iii) the arrangements made to enable Key Individuals to supervise the departments for which they are responsible;
 - (iv) the arrangements for appointing and supervising the performance of Key Individuals (and their departments); and



- (v) the arrangements by which the governing body is able to keep the allocation of responsibilities between, and the appointment, supervision and remuneration of, Key Individuals under review;
- (b) arrangements for the identification and management of conflicts of interest;
- (c) arrangements for internal and external audit; and
- (d) information technology systems.

General safeguards for investors

2.5.3 A Recognised Body must have rules, procedures and appropriate surveillance to ensure that its facilities are such as to afford proper protection to investors. The Regulator may have regard to the extent to which the Recognised Body's rules, procedures and arrangements for monitoring and overseeing the use of its facilities:

- (a) include appropriate measures to prevent the use of its facilities for abusive or improper purposes;
- (b) provide appropriate safeguards for investors against fraud or misconduct, recklessness, negligence or incompetence by users of its facilities;
- (c) provide appropriate information to enable users of its facilities to monitor their use of the facilities;
- (d) include appropriate arrangements to enable users of its facilities to raise queries about any use of those facilities which they are reported to have made;
- (e) include appropriate arrangements to enable users of its facilities to comply with any relevant regulatory or legal requirements; and
- (f) include appropriate arrangements to reduce the risk that those facilities will be used in ways which are incompatible with relevant regulatory or legal requirements,

and in this paragraph "appropriate" should be taken to mean appropriate having regard to the nature and scale of the Recognised Body's facilities, the types of Persons who will use the facilities and the use which they will make of those facilities.

2.5.4 A Recognised Body must be able and willing to promote and maintain high standards of integrity and fair dealing in the carrying on of business on or through its facilities. The Regulator may have regard to the extent to which the Recognised Body seeks to promote and encourage, through its rules, practices and procedures, conduct in Regulated Activities which is consistent with the Code of Market Conduct and with any other codes of conduct, rules or principles relating to behaviour in Regulated Activities which users of the Abu Dhabi Global Market financial system would normally expect to apply to the Regulated Activity and the conduct in question.

2.5.5 A Recognised Body must be able and willing to cooperate, by the sharing of information or otherwise, with the Regulator, with any other authority, body or Person having responsibility in the Abu Dhabi Global Market for the supervision or regulation of any



Regulated Activity or other financial service, or with a Non-Abu Dhabi Global Market regulator. The Regulator may have regard to the extent to which the constitution and rules of the Recognised Body and its agreements with its Members enable it to obtain information from Members and to disclose otherwise confidential information to the Regulator and other appropriate bodies, including:

- (a) the extent to which the Recognised Body is willing to provide information about it and its activities to assist the Regulator in the exercise of its functions;
- (b) the extent to which the Recognised Body is open with the Regulator or other appropriate bodies in regulatory matters;
- (c) how diligently the Recognised Body investigates or pursues enquiries from the Regulator or other appropriate bodies; and
- (d) whether the Recognised Body participates in appropriate international fora.

2.5.6 For the purpose of this section, "information" includes information held about large positions held by Members of a Recognised Body.

Conflicts of interest

2.5.7 A conflict of interest arises in a situation where a Person with responsibility to act in the interests of one Person may be influenced in his action by an interest or association of his own, whether Personal or business or employment related. Conflicts of interest can arise both for the employees of Recognised Bodies and for the members (or other Persons) who may be involved in the decision-making process, for example where they belong to committees or to the governing body. Conflicts of interest may also arise for the Recognised Body itself as a result of its connection with another Person.

2.5.8 The Regulator recognises that a Recognised Body has legitimate interests of its own and that its general business policy may properly be influenced by other Persons (such as its owners). Such a connection does not necessarily imply the existence of a conflict of interest nor is it necessary to exclude individuals closely connected with other Persons (for example, those responsible for the stewardship of the owner's interests) from all decision-making processes in a Recognised Body. However, there may be decisions, primarily regulatory decisions, from which it may be appropriate to exclude an individual in certain circumstances where an interest, position or connection of his conflicts with the interest of the Recognised Body.

2.5.9 The Regulator may have regard to the arrangements a Recognised Body makes to structure itself and to allocate responsibility for decisions so that it can continue to take proper regulatory decisions notwithstanding any conflicts of interest, including:

- (a) the systems and controls intended to ensure that confidential information is only used for proper purposes;
- (b) the size and composition of the governing body and relevant committees;
- (c) the roles and responsibilities of Key Individuals, especially where they also have responsibilities in other organisations;



- (d) the arrangements for transferring decisions or responsibilities to alternates in individual cases; and
- (e) the arrangements made to ensure that individuals who may have a permanent conflict of interest in certain circumstances are excluded from the process of taking decisions (or receiving information) about matters in which that conflict of interest would be relevant.

2.5.10 The Regulator may also have regard to the contracts of employment, staff rules, letters of appointment for members of the governing body, members of relevant committees and other Key Individuals and other guidance given to individuals on handling conflicts of interest. Guidance to individuals may need to cover:

- (a) the need for prompt disclosure of a conflict of interest to enable others, who are not affected by the conflict, to assist in deciding how it should be managed;
- (b) the circumstances in which a general disclosure of conflicts of interest in advance of any particular instance in which a conflict of interest arises may be sufficient;
- (c) the circumstances in which a general advance disclosure may not be adequate;
- (d) the circumstances in which it would be appropriate for a conflicted individual to withdraw from involvement in the matter concerned, without disclosing the interest; and
- (e) the circumstances in which safeguards in addition to disclosure would be required, such as the withdrawal of the individual from the decision-making process, or from access to relevant information.

2.5.11 The Regulator may also have regard to the arrangements made:

- (a) for enforcing rules or other provisions applicable to staff and other Persons involved in regulatory decisions; and
- (b) to keep records of disclosures of conflicts of interest and the steps taken to handle them.

2.5.12 A Recognised Body must ensure that appropriate arrangements are made to:

- (a) identify conflicts between the interests of the Recognised Body, its shareholders, owners and operators and the interests of the Persons who make use of its facilities or the interests of the facilities operated by it; and
- (b) manage or disclose such conflicts so as to avoid adverse consequences for the sound functioning and operation of the facilities operated by the Recognised Body and for the Persons who make use of its facilities.

2.5.13 A Recognised Body must establish and maintain adequate policies and procedures to ensure that its employees do not undertake Personal account transactions in investments in a manner that creates or has the potential to create conflicts of interest.



2.5.14 A Recognised Body must establish a code of conduct that sets out the expected standards of behaviour for its employees, including clear procedures for addressing conflicts of interest. Such a code must be:

- (a) binding on employees; and
- (b) to the extent appropriate and practicable, made publicly available.

Information transmission

2.5.15 In assessing a Recognised Body's systems and controls for the transmission of information, the Regulator may also have regard to the extent to which these systems and controls ensure that information is transmitted promptly and accurately:

- (a) within the Recognised Body itself;
- (b) to its Members; and
- (c) (where appropriate) to other market participants or other relevant Persons.

Risk management

2.5.16 In assessing a Recognised Body's systems and controls for assessing and managing risk, the Regulator may also have regard to the extent to which these systems and controls enable the Recognised Body to:

- (a) identify, measure and control all the general, operational, legal and market risks wherever they arise in its activities;
- (b) allocate responsibility for risk management to Persons with appropriate knowledge and expertise; and
- (c) provide sufficient, reliable information to Key Individuals and, where relevant, the governing body of the Recognised Body.

Internal and external audit

2.5.17 A Recognised Body's arrangements for internal and external audit will be an important part of its systems and controls. In assessing the adequacy of these arrangements, the Regulator may have regard to:

- (a) the size, composition and terms of reference of any audit committee of the Recognised Body's governing body;
- (b) the frequency and scope of external audit;
- (c) the provision and scope of internal audit;
- (d) the staffing and resources of the Recognised Body's internal audit department;
- (e) the internal audit department's access to the Recognised Body's records and other relevant information; and



- (f) the position, responsibilities and reporting lines of the internal audit department and its relationship with other departments of the Recognised Body.

Information technology systems

2.5.18 Information technology is likely to be a major component of the systems and controls used by any Recognised Body. In assessing the adequacy of the information technology used by a Recognised Body to perform or support its relevant functions, the Regulator may have regard to:

- (a) the organisation, management and resources of the information technology department within the Recognised Body;
- (b) the arrangements for controlling and documenting the design, development, implementation and use of information technology systems; and
- (c) the performance, capacity and reliability of information technology systems.

2.5.19 The Regulator may also have regard to the arrangements for maintaining, recording and enforcing technical and operational standards and specifications for information technology systems, including:

- (a) the procedures for the evaluation, selection and testing of information technology systems;
- (b) the procedures for problem management and system change;
- (c) the arrangements to monitor and report system performance, availability and integrity;
- (d) the arrangements (including spare capacity and access to back-up facilities) made to ensure information technology systems are resilient and not prone to failure;
- (e) the arrangements made to ensure business continuity in the event that an information technology system does fail;
- (f) the arrangements made to protect information technology systems from damage, tampering, misuse or unauthorised access; and
- (g) the arrangements made to ensure the integrity of data forming part of, or being processed through, information technology systems.

2.5.20 The Regulator may have regard to the arrangements made to keep clear and complete audit trails of all uses of information technology systems and to reconcile (where appropriate) the audit trails with equivalent information held by system users and other interested parties.

2.6 Operational systems and controls

2.6.1 A Recognised Body must establish a robust operational risk management framework with appropriate systems and controls to identify, monitor and management operational risks



that key participants, other Recognised Bodies, service providers (including outsourcees) and utility providers might pose to itself.

2.6.2 A Recognised Body must have a business continuity plan, which is subjected to periodic review and scenario testing, that addresses events posing a significant risk of disrupting operations, including events that could cause a widespread or major disruption. The plan should:

- (a) outline objectives, policies, procedures and responsibilities to deal with internal and external business disruptions and measures to ensure timely resumption of service levels;
- (b) include policies and procedures for event and crisis management;
- (c) incorporate the use of a secondary site;
- (d) contain appropriate emergency rules for force majeure events;
- (e) be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events;
- (f) outline business continuity procedures in respect of its Members and other users of its facilities following disruptive or force majeure events; and
- (g) in the case of a Recognised Clearing House, be designed to enable the Recognised Clearing House to complete settlement by the end of the day of disruption, even in case of extreme circumstances.

2.6.3 A Recognised Body should have an incident management procedure in place to record, report, analyse and resolve all operational incidents.

2.6.4 A Recognised Body should have clearly defined operational reliability objectives and policies to achieve these objectives, as well as a scalable operational capacity adequate to handle increasing stress volumes, service-level objectives and historical data.

2.6.5 A Recognised Body should have a comprehensive physical and information security policy, standards, practices and controls to identify, assess and manage security threats and vulnerabilities and to protect data from loss and leakage, unauthorised access and other processing risks.

2.7 Transaction recording

2.7.1 The Recognised Body must ensure that satisfactory arrangements are made for recording transactions effected on or cleared (or to be cleared) by the Recognised Body by means of its facilities.

2.7.2 In determining whether a Recognised Body has satisfactory arrangements for recording the transactions effected on, or cleared (or to be cleared) by means of, its facilities, the Regulator may have regard to:

- (a) whether the Recognised Body has arrangements for creating, maintaining and safeguarding an audit trail of transactions for at least 10 years; and



- (b) the type of information recorded and the extent to which the record includes details for each transaction of:
 - (i) the name of the investment (and, if relevant, the underlying asset) and the price, quantity and date of the transaction;
 - (ii) the identities and, where appropriate, the roles of the counterparties to the transaction;
 - (iii) if the Recognised Body's rules make provision for transactions to be effected, cleared or to be cleared in more than one type of facility, or under more than one part of its rules, the type of facility in which, or the part of its rules under which, the transaction was effected, cleared or to be cleared; and
 - (iv) the date and manner of settlement of the transaction.

2.7.3 Where transactions are effected on a Recognised Investment Exchange and cleared through a Recognised Clearing House, the Recognised Bodies concerned may agree which information is to be recorded by each Recognised Body and need not duplicate each other's records.

2.8 Membership criteria and access

2.8.1 A Recognised Body must ensure that access to its facilities is subject to criteria designed to protect the orderly functioning of the market and the interests of investors.

2.8.2 The Recognised Body must make transparent and non-discriminatory rules, based on objective criteria, governing access to, or Membership of, its facilities. In particular, those rules must specify the obligations for users or Members of its facilities arising from:

- (a) the constitution and administration of the Recognised Body;
- (b) its professional standards for staff of any investment firm or credit institution having access to or Membership of a financial market operated by the Recognised Body;
- (c) conditions established for access to or Membership of a financial market operated by the Recognised Body by Persons other than investment firms or credit institutions; and
- (d) the rules and procedures for Clearing and settlement of transactions.

2.8.3 The Recognised Body shall only give access to or admit to Membership a Person who:

- (a) is fit and proper and of sufficient good repute;
- (b) has a sufficient level of ability, competence and experience, including appropriate standards of conduct for its staff; and
- (c) where applicable, has adequate organisational arrangements, including financial and technological resources.



- 2.8.4** A Recognised Body may refuse access to its facilities on legitimate commercial grounds.
- 2.8.5** In assessing whether access to a Recognised Body's facilities is subject to criteria designed to protect the orderly functioning of the market, or of those facilities, and the interests of investors, the Regulator may have regard to whether (in respect of Persons other than investment firms and credit institutions):
- (a) the Recognised Body limits access as a Member to such Persons:
 - (i) over whom it can with reasonable certainty enforce its rules contractually;
 - (ii) who have sufficient technical competence to use its facilities;
 - (iii) whom it is appropriate to admit to Membership having regard to the size and sophistication of users of its facilities and the nature of the business effected by means of, or cleared through, its facilities; and
 - (iv) (if appropriate) who have adequate financial resources in relation to their exposure to the Recognised Body;
 - (b) indirect access to the Recognised Body's facilities is subject to suitable criteria, remains the responsibility of a Member of the Recognised Body and is subject to its rules; and
 - (c) where access is granted to Members outside the Abu Dhabi Global Market, there are adequate safeguards against financial crime.
- 2.8.6** The Recognised Body must make arrangements regularly to provide the Regulator with a list of users or Members of its facilities.

Electronic access

- 2.8.7** A Recognised Body may only permit a Member to provide its clients Direct Electronic Access to the Recognised Body's facilities where:
- (a) the clients meet the suitability criteria established by the Member in order to meet the requirements in Rule 2.8.8;
 - (b) the Member retains responsibility for the orders and trades executed by the clients who are using direct electronic access; and
 - (c) the Member has adequate mechanisms to prevent the clients placing or executing orders using Direct Electronic Access in a manner that would result in the Member exceeding its position or margin limits.
- 2.8.8** A Recognised Body which permits its Members to allow their clients to have Direct Electronic Access to its trading facilities must:
- (a) set appropriate standards regarding risk controls and thresholds on trading through direct electronic access;



- (b) be able to identify orders and trades made through direct electronic access; and
- (c) if necessary, be able to stop orders or trades made by a client using Direct Electronic Access provided by the Member without affecting the other orders or trades made or executed by that Member.

2.8.9 "Direct Electronic Access" means any arrangement, such as the use of the Member's trading code, through which a Member or the clients of that Member are able to transmit orders relating to investments directly to the facility provided by the Recognised Body.

2.8.10 For avoidance of doubt, a Person who is permitted to have Direct Electronic Access to a Recognised Body's facilities through a Member is not, by virtue of such permission, a Member of the Recognised Body.

2.8.11 The Regulator may have regard to the arrangements made to permit Direct Electronic Access to the Recognised Body's facilities and to prevent and resolve problems likely to arise from the use of electronic systems to provide indirect access to its facilities by Persons other than its Members, including:

- (a) the rules and guidance governing Members' procedures, controls and security arrangements for inputting instructions into the system;
- (b) the rules and guidance governing the facilities Members provide to clients to input instructions into the system and the restrictions placed on the use of those systems;
- (c) the rules and practices to detect, identify, and halt or remove instructions breaching any relevant restrictions;
- (d) the quality and completeness of the audit trail of any transaction processed through an electronic connection system; and
- (e) procedures to determine whether to suspend trading by those systems or access to them by or through individual Members.

2.9 Financial crime and market abuse

2.9.1 A Recognised Body must:

- (a) operate an effective market surveillance program and appropriate measures to identify, monitor, deter and prevent conduct which may amount to market misconduct, financial crime and money laundering on and through the Recognised Body's facilities; and
- (b) immediately report to the Regulator any suspected market misconduct, financial crime or money laundering, along with full details of that information in writing.

2.9.2 A Recognised Body must have appropriate procedures and protections for enabling employees to disclose any information to the Regulator or to other appropriate bodies involved in the prevention of market misconduct, money laundering or other financial crime or any other breaches of relevant legislation.



2.9.3 In determining whether a Recognised Body's measures are appropriate to reduce the extent to which its facilities can be used for a purpose connected with market abuse or financial crime, to facilitate their detection and to monitor their incidence, the Regulator may have regard to:

- (a) whether the rules of the Recognised Body enable it to disclose any information to the Regulator or other appropriate bodies involved in the detection, prevention or pursuit of market abuse or financial crime inside or outside the Abu Dhabi Global Market; and
- (b) whether the arrangements, resources, systems, and procedures of the Recognised Body enable it to:
 - (i) monitor the use made of its facilities so as to obtain information regarding possible patterns of normal, abnormal or improper use of those facilities;
 - (ii) detect possible instances of market abuse and financial crime, for example, by detecting suspicious patterns in the use of its facilities;
 - (iii) communicate information about market abuse and financial crime promptly and accurately to appropriate organisations; and
 - (iv) cooperate with all relevant bodies in the prevention, investigation and pursuit of market abuse and financial crime.

2.10 Custody

2.10.1 The Recognised Body must ensure that where its facilities include making provision for the safeguarding and administration of assets belonging to users of those facilities, satisfactory arrangements are made for that purpose with an appropriate custodian or settlement facility and clear terms of agreement between the users of the facility and the Recognised Body.

2.10.2 In determining whether a Recognised Body has made satisfactory arrangements for the safeguarding and administration of assets belonging to the users of its facilities, the Regulator may have regard to:

- (a) the level of protection which the arrangements provide against the risk of theft or other types or causes of loss;
- (b) whether the arrangements ensure that assets are only used or transferred in accordance with the instructions of the owner of those assets or in accordance with the terms of the agreement by which the Recognised Body undertook to safeguard and administer those assets;
- (c) whether the arrangements ensure that the assets are not transferred to the Recognised Body or to any other Person to settle the debts of the owner (or other Person with the appropriate rights over the assets) except in accordance with valid instructions from a Person entitled to give those instructions, or in accordance with the terms of the agreement by which the Recognised Body undertook to safeguard and administer those assets;



- (d) whether the arrangements include satisfactory procedures to ensure that any rights arising in relation to the assets held as a result of any actions by the issuers of those assets (or other relevant Persons) are held, transferred or acted upon in a timely and accurate manner in accordance with the instructions of the owner of those assets or in accordance with the terms of the agreement by which the Recognised Body undertook to safeguard and administer those assets;
- (e) whether there are adequate arrangements to ensure the proper segregation of assets belonging to the Recognised Body (or to undertakings in the same group) from those belonging to the users of its facilities for the safeguarding and administration of assets;
- (f) whether the arrangements include satisfactory procedures for the selection, oversight and review of custodians or sub-custodians used to hold the assets;
- (g) whether the agreements by which the Recognised Body undertakes to safeguard and administer assets belonging to users of its facilities include appropriate information regarding the terms and conditions of that service and the obligations of the Recognised Body to the user of the service and of the user of the service to the Recognised Body;
- (h) whether the records kept of those assets and the operation of the safeguarding services provide sufficient accurate and timely information:
 - (i) to identify the legal and beneficial owners of the assets and of any Persons who have charges over, or other interests in, the assets;
 - (ii) to record separately any additions, reductions and transfers in each account of assets held for safeguarding or administration; and
 - (iii) to identify separately the assets owned by (or, where appropriate, on behalf of) different Persons, including, where appropriate, the assets owned by Members of the Recognised Body and their clients;
- (i) the frequency of reconciliation of the assets held by (or on behalf of) the Recognised Body with the accounts held with the Recognised Body by the users of its safeguarding and administration services and the extent of the arrangements for resolving a shortfall identified in any reconciliation; and
- (j) the frequency with which statements of their holdings are provided to the users of the safeguarding and administration services, to the owners of the assets held and to other appropriate Persons in accordance with the terms of the agreement by which the Recognised Body undertook to safeguard and administer those assets.

2.10.3 This Rule 2.10 does not apply to collateral taken under title transfer arrangements.

2.11 Rules and consultation

2.11.1 The Recognised Body must ensure that appropriate procedures are adopted for it to make rules, for keeping its rules under review and for amending them. The procedures must



include procedures for consulting users of the Recognised Body's facilities in appropriate cases.

2.11.2 Any amendment to a Recognised Body's Business Rules must, prior to the amendment being effective, be

- (a) made available for market consultation; and
- (b) approved by the Regulator.

2.11.3 The Regulator may dispense with the requirement in Rule 2.11.2(a) in cases of emergency, force majeure, typographical errors, minor administrative matters, or to comply with applicable laws.

2.11.4 A Recognised Body must have procedures for notifying users of these amendments.

Public consultation

2.11.5 A Recognised Body must, before making any amendment to its Business Rules, undertake public consultation on the proposed amendment in accordance with the requirements in this Rule.

2.11.6 For the purposes of Rule 2.11.5, a Recognised Body must publish a consultation paper setting out (a) the text of both the proposed amendment and the Business Rules that are to be amended, (b) the reasons for proposing the amendment, and (c) a reasonable consultation period, which must not be less than fourteen days from the date of publication, within which Members and other stakeholders may provide comments. The Recognised Body must lodge with the Regulator the consultation paper no later than the time at which it is released for public comment.

2.11.7 The Regulator may, where it considers on reasonable grounds that it is appropriate to do so, require the Recognised Body to extend its proposed period of public consultation specified in the consultation paper.

2.11.8 A Recognised Body must

- (a) facilitate, as appropriate, informal discussions on the proposed amendment with Members and other stakeholders including any appropriate representative bodies of such Persons;
- (b) consider the impact the proposed amendment has on the interests of its Members and other stakeholders; and
- (c) have proper regard to any public comments received.

2.11.9 Following public consultation, a Recognised Body must publish the final rules and consider whether it would be appropriate to discuss the comments received and any amendments made prior to publication.

Review of rules



2.11.10 In determining whether a Recognised Body's procedures for consulting Members and other users of its facilities are appropriate, the Regulator may have regard to the range of Persons to be consulted by the Recognised Body under those procedures. Consultation with a smaller range of Persons may be appropriate where limited, technical changes to a Recognised Body's rules are proposed. A Recognised Body's procedures may include provision to restrict consultation where it is essential to make a change to the rules without delay in order to ensure continued compliance with the Recognition Requirements or other legal obligations.

2.11.11 In determining whether a Recognised Body's procedures for consulting Members and other users of its facilities are appropriate, the Regulator may have regard to the extent to which the procedures include:

- (a) informal discussions at an early stage with users of its facilities or appropriate representative bodies;
- (b) publication to users of its facilities of a formal consultation paper which includes clearly expressed reasons for the proposed changes and an appropriately detailed assessment of the likely costs and benefits;
- (c) adequate time for users of its facilities to respond to the consultation paper and for the Recognised Body to take their responses properly into account;
- (d) adequate arrangements for making responses to consultation available for inspection by users of its facilities, unless the respondent requests otherwise;
- (e) adequate arrangements for ensuring that the Recognised Body has proper regard to the representations received; and
- (f) publication, no later than the publication of the amended rules, of a reasoned account of the Recognised Body's decision to amend its rules.

2.12 Discipline

2.12.1 The Recognised Body must have effective arrangements for monitoring and enforcing compliance with its rules (including, in the case of a Recognised Investment Exchange, effective arrangements for monitoring transactions in order to identify disorderly trading conditions or market abuse).

2.12.2 The arrangements must include procedures for:

- (a) investigating complaints made to the Recognised Body about the conduct of Persons in the course of using the Recognised Body's facilities; and
- (b) fair, independent and impartial resolution of appeals against decisions of the Recognised Body.

2.12.3 Where arrangements include provision for requiring the payment of financial penalties, they must include arrangements for ensuring that any amount so paid is applied only in one or more of the following ways:



- (a) towards meeting expenses incurred by the Recognised Body in the course of the investigation of the breach in respect of which the penalty is paid, or in the course of any appeal against the decision of the Recognised Body in relation to that breach;
- (b) for the benefit of users of the Recognised Body's facilities; or
- (c) for charitable purposes.

2.12.4 In determining whether a Recognised Body has effective arrangements for monitoring and enforcing compliance with its rules (including its settlement arrangements), the Regulator may have regard to:

- (a) the Recognised Body's ability to:
 - (i) monitor and oversee the use of its facilities;
 - (ii) assess its Members' compliance with its rules (and settlement arrangements, where appropriate);
 - (iii) assess the significance of any non-compliance;
 - (iv) take appropriate disciplinary action against Members in breach of its rules (and settlement arrangements, where appropriate);
 - (v) suspend a Member's access to its facilities;
 - (vi) refer Members' or others' conduct to other appropriate authorities for possible action or further investigation;
 - (vii) retain authority over a Member for at least one year after he has ceased to be a Member;
 - (viii) where appropriate, enforce its rules (and settlement arrangements, where appropriate) against users (other than Members) of its facilities; and
 - (ix) take action against suppliers of services to Members (for example, warehouses) whose performance or conduct may be critical to ensuring compliance with its rules (and settlement arrangements, where appropriate);
- (b) the position, management and resources of the departments responsible for monitoring and overseeing the use of the Recognised Body's facilities and for enforcing compliance with its rules (and settlement arrangements, where appropriate); and
- (c) the arrangements made for the determination of disciplinary matters including the arrangements for disciplinary hearings and the arrangements made for appeals from the Recognised Body's decisions in those matters.



2.12.5 In assessing whether the procedures made by a Recognised Body to investigate complaints about the users of its facilities are satisfactory, the Regulator may have regard to:

- (a) whether these procedures include arrangements which enable the Recognised Body to:
 - (i) acknowledge complaints promptly;
 - (ii) consider and investigate these complaints objectively, promptly and thoroughly;
 - (iii) provide a timely reply to the complainant; and
 - (iv) keep adequate records of complaints and investigations;
- (b) the arrangements made to enable a Person who is the subject of a complaint to respond in an appropriate manner to that complaint; and
- (c) the documentation of these procedures and the arrangements made to ensure that the existence of these procedures is brought to the attention of Persons who might wish to make a complaint.

2.12.6 In assessing whether the arrangements include procedures for the fair, independent and impartial resolution of appeals against decisions of a Recognised Body, the Regulator may have regard to at least the following factors:

- (a) the appeal procedures of the Recognised Body, including the composition and roles of any appeal committees or tribunals, and their relationship to the governing body;
- (b) the arrangements made to ensure prompt hearings of appeals from decisions made by the Recognised Body;
- (c) the format, organisation and rules of procedure of those hearings;
- (d) the arrangements made to select the Persons to preside over those hearings and to serve as members of any appeal tribunal;
- (e) the provision for determining whether or not such hearings should be in public;
- (f) the provision made to enable an appellant to be aware of the procedure at any appeal hearing and to have the opportunity to prepare and present his case at that hearing;
- (g) the provision made for an appeal tribunal to give an explanation of its decision; and
- (h) the provision for publicity for any appeals or for determining whether or not publicity should be given to the outcome of any appeal.



2.12.7 In assessing whether a Recognised Body's arrangements include appropriate provision for ensuring the application of any financial penalties in ways described in the Recognition Requirement, the Regulator may have regard to:

- (a) the Recognised Body's policy regarding the application of financial penalties; and
- (b) the arrangements made for applying that policy in individual cases,

but the Regulator does not consider that it is necessary for Recognised Bodies to follow any specific policy in order to meet this Recognition Requirement.

2.13 Complaints

2.13.1 The Recognised Body must have effective arrangements for the investigation and resolution of complaints arising in connection with the performance of, or failure to perform, any of its Regulatory Functions.

2.13.2 The arrangements must include arrangements for a complaint to be fairly and impartially investigated by a Person independent of the Recognised Body, and for him to report on the result of his investigation to the Recognised Body and to the complainant.

2.13.3 The arrangements must confer on the Person mentioned in Rule 2.13.2 the power to recommend, if he thinks appropriate, that the Recognised Body:

- (a) makes a compensatory payment to the complainant; or
- (b) remedies the matter complained of,

or takes both of those steps.

2.13.4 Nothing in these Rules is to be taken as preventing the Recognised Body from making arrangements for the initial investigation of a complaint to be conducted by the Recognised Body.

2.13.5 In determining whether a Recognised Body has effective arrangements for the investigation and resolution of complaints arising in connection with the performance of, or failure to perform, any of its Regulatory Functions, the Regulator may have regard to the extent to which the Recognised Body's resources and procedures enable it to:

- (a) acknowledge complaints promptly;
- (b) make an objective, prompt and thorough initial investigation of complaints;
- (c) provide a timely reply to the complainant after that initial investigation;
- (d) inform the complainant of his right to apply to the Recognised Body's complaints investigator; and
- (e) keep adequate records of complaints and investigations.

2.13.6 In determining whether a Recognised Body's arrangements for the investigation of complaints include appropriate arrangements for the complaint to be fairly and



impartially investigated by an independent Person (a "complaints investigator"), the Regulator may have regard to:

- (a) the arrangements made for appointing (and removing) a complaints investigator, including the terms and conditions of such an appointment and the provision for remuneration of a complaints investigator;
- (b) the complaints investigator's access to, and relationship with, the Recognised Body's governing body and Key Individuals;
- (c) the arrangements made for giving complainants access to the complaints investigator;
- (d) the facilities made available to the complaints investigator to enable him to pursue his investigation and prepare his report and recommendations, including access to the Recognised Body's records, Key Individuals and other staff (including, where appropriate, suppliers, contractors or other Persons to whom any functions have been outsourced and their staff); and
- (e) the arrangements made for the Recognised Body to consider the complaints investigator's report and recommendations.

2.14 Outsourcing

2.14.1 A Recognised Body may satisfy Recognition Requirements applying to it by making arrangements for functions to be performed on its behalf by any other Person.

2.14.2 Where a Recognised Body makes such arrangements, the arrangements do not affect the responsibility on the Recognised Body to satisfy Recognition Requirements applying to it, but it is in addition a Recognition Requirement applying to the Recognised Body that the Person who performs (or is to perform) the functions is a fit and proper Person who is able and willing to perform them.

2.14.3 A Recognised Body must, before entering into any material outsourcing arrangements with a service provider, obtain the Regulator's prior approval to do so.

2.14.4 A Recognised Body that outsources any functions must comply with the outsourcing requirements in GEN 3.3.32.

2.14.5 If a Person who performs a function on behalf of a Recognised Body is himself carrying on a Regulated Activity in the Abu Dhabi Global Market, he will, unless he is a Person to whom the general prohibition does not apply, need to be either an authorised Person or an exempt Person. The Person to whom a function is delegated is not covered by the Recognised Body's exemption.

2.15 Applications for recognition

Application process

2.15.1 An applicant for Recognised Body status must demonstrate to the Regulator that it is able to meet the Recognition Requirements before a recognition order can be made. Once it



has been recognised, a Recognised Body must comply with the Recognition Requirements at all times.

2.15.2 The Regulator must refuse to make a recognition order in relation to a body applying for recognition as a Recognised Body if it appears to the Regulator that an existing or proposed regulatory provision of the applicant in connection with the applicant's business as an investment exchange or the provision by the applicant of Clearing Services imposes, or will impose, an excessive requirement on Persons directly or indirectly affected by it. A requirement is excessive if it is not required by any Abu Dhabi Global Market law and either:

- (a) it is not justified as pursuing a reasonable regulatory objective; or
- (b) it is disproportionate to the end to be achieved,

in either case, having regard to the effect of existing legal and other requirements, the global character of financial services and markets and the international mobility of activity, the desirability of facilitating innovation and the impact of the proposed provision on market confidence.

2.15.3 There is no standard application form. A prospective applicant should contact the Regulator at an early stage for advice on the preparation, scheduling and practical aspects of its application. It is very important that an application is comprehensively prepared, demonstrates satisfaction of all Recognition Requirements and is based on a well-developed and clear proposal.

2.15.4 An application should include the following information:

(a)	Details of the applicant's constitution including copies of its memorandum and articles of association (or similar or analogous documents) and any agreements between the applicant, its owners or other Persons relating to its constitution or governance.
(b)	Details of the applicant's structure and ownership, including the identity and scale of interests of the Persons who are in a position to exercise significant influence over the management of the proposed Recognised Body, whether directly or indirectly in a structure chart.
(c)	A full organisation chart and a list of the posts to be held by Key Individuals (with details of the duties and responsibilities) and the names of the Persons proposed for these appointments when these names are available.
(d)	Copies of the applicant's proposed rules and procedures.
(e)	Information, evidence and explanatory material (including supporting documentation) necessary to demonstrate to the Regulator that the Recognition Requirements will be met.
(f)	Details of all business to be conducted by the applicant, whether or not a Regulated Activity.
(g)	Details of the facilities which the applicant plans to operate, including details of the trading platform, settlement arrangements, Clearing Services and custody services which it plans to supply.
(h)	Copies of the last three annual reports and accounts and, for the current financial year, quarterly management accounts.



(i)	Its business plan for the first three years of operation as a Recognised Body.
(j)	Details of its auditors, bankers, solicitors and any Persons providing corporate finance advice or similar services (such as reporting accountants) to the applicant.
(k)	Details of any relevant functions to be outsourced or delegated, with copies of relevant agreements.
(l)	Details of information technology systems and of arrangements for their supply, management, maintenance and upgrading, and security.
(m)	Details of all plans to minimise disruption to operation of its facilities in the event of the failure of its information technology systems.
(n)	Details of internal systems for financial control, arrangements for risk management and insurance arrangements to cover operational and other risks.
(o)	Details of its arrangements for managing any counterparty risks, including details of margining systems, guarantee funds and insurance arrangements.
(p)	Details of internal arrangements to safeguard confidential or privileged information and for handling conflicts of interest.
(q)	Details of arrangements for complying with the notification rules and other requirements to supply information to the Regulator.
(r)	Details of the arrangements to be made for monitoring and enforcing compliance with its rules and with its Clearing, settlement and default arrangements.
(s)	A summary of the legal due diligence carried out in relation to ascertaining the enforceability of its rules (including Default Rules) and arrangements for margin against any of its Members based outside the Abu Dhabi Global Market, and the results and conclusions reached.
(t)	Details of the procedures to be followed for declaring a Member in default, and for taking action after that event to close out positions, protect the interests of other Members and enforce its Default Rules.
(u)	Details of Membership selection criteria, rules and procedures.
(v)	Details of arrangements for recording transactions effected by, or cleared through, its facilities.
(w)	Details of arrangements for detecting financial crime and market abuse, including arrangements for complying with money laundering law.
(x)	Details of criteria, rules and arrangements for selecting Specified Investments to be admitted to trading on a Recognised Investment Exchange, or to be cleared by a Recognised Clearing House and, where relevant, details of how information regarding Specified Investments will be disseminated to users of its facilities.
(y)	Details of arrangements for cooperating with the Regulator and other appropriate authorities, including draft memoranda of understanding or letters.
(z)	Details of the procedures and arrangements for making and amending rules, including arrangements for consulting on rule changes.
(aa)	Details of disciplinary and appeal procedures, and of the arrangements for investigating complaints.



(bb)	Any information required in accordance with directions issued by the Regulator.
(cc)	The appropriate fee.

2.15.5 The Regulator may require the applicant to provide additional information, and may require the applicant to verify any information in any manner. In view of their likely importance for any application, the Regulator will normally wish to arrange for its own inspection of an applicant's information technology systems.

Timing

2.15.6 The application must be determined by the Regulator before the end of the period of six months beginning with the date on which it receives the completed application.

2.15.7 At any time after making a formal application, the applicant may make amendments to its rules, guidance or any other part of its application submitted to the Regulator, provided that it updates its application accordingly.

2.15.8 The Regulator will keep the applicant informed of the progress of the application. It may be necessary to ask the applicant to clarify or amplify or discuss some aspects of its proposals, and the Regulator may invite the applicant to attend meetings for that purpose.

2.15.9 The Regulator will notify the applicant if it does not give its approval.



3 RULES APPLICABLE TO RECOGNISED INVESTMENT EXCHANGES

3.1 Introduction

3.1.1 This chapter contains additional Recognition Requirements applicable to Recognised Investment Exchanges.

3.2 Capital requirements

3.2.1 A Recognised Investment Exchange shall hold the following capital:

- (a) an amount equal to 6 months' operational expenses; plus
- (b) unless the Regulator directs otherwise, an additional buffer amount of up to a further 6 months' operational expenses.

3.2.2 For the purposes of this Rule, operational expenses shall be considered in accordance with:

- (a) International Financial Reporting Standards (IFRS);
- (b) generally accepted accounting principles of a third country determined by the Regulator to be equivalent to IFRS; or
- (c) accounting standards of a third country the use of which is permitted by the Regulator.

3.2.3 Recognised Investment Exchanges shall use the most recent audited information from their annual financial statement.

3.3 Fair and orderly trading

3.3.1 A Recognised Investment Exchange must ensure that it has transparent and non-discretionary rules and procedures to provide for fair and orderly trading, and to establish objective criteria for the efficient execution of orders.

3.3.2 In determining whether a Recognised Investment Exchange is ensuring that business conducted by means of its facilities is conducted in an orderly manner (and so as to afford proper protection to investors), the Regulator may have regard to the extent to which the Recognised Investment Exchange's rules and procedures:

- (a) are consistent with the Rules of Market Conduct;
- (b) prohibit abusive trading practices or the deliberate reporting or publication of false information about trades;
- (c) prohibit or prevent:
 - (i) trades in which a party is improperly indemnified against losses;
 - (ii) trades intended to create a false appearance of trading activity ("wash trades");



- (iii) cross trades executed for improper purposes;
 - (iv) improperly prearranged or pre-negotiated trades;
 - (v) trades intended to assist or conceal any potentially identifiable trading abuse ("accommodation trades"); and
 - (vi) trades which one party does not intend to close out or settle.
- (d) include appropriate measures to prevent the use of its facilities for abusive or improper purposes;
 - (e) provide appropriate safeguards for investors against fraud or misconduct, recklessness, negligence or incompetence by users of its facilities;
 - (f) provide appropriate information to enable users of its facilities to monitor their use of the facilities;
 - (g) include appropriate arrangements to enable users of its facilities to raise queries about any use of those facilities which they are reported to have made;
 - (h) include appropriate arrangements to enable users of its facilities to comply with any relevant regulatory or legal requirements; and
 - (i) include appropriate arrangements to reduce the risk that those facilities will be used in ways which are incompatible with relevant regulatory or legal requirements,

and in this paragraph "appropriate" should be taken to mean appropriate having regard to the nature and scale of the Recognised Body's facilities, the types of Persons who will use the facilities and the use which they will make of those facilities.

3.3.3 In determining whether a Recognised Investment Exchange is ensuring that business conducted by means of its facilities is conducted in an orderly manner (and so as to afford proper protection to investors), the Regulator may have regard to whether the Recognised Investment Exchange's arrangements and practices:

- (a) enable Members and clients for whom they act to obtain the best price available at the time for their size and type of trade;
- (b) include procedures which enable the Recognised Investment Exchange to influence trading conditions or suspend trading promptly when necessary to maintain an orderly market; and
- (c) if they include arrangements to support or encourage liquidity:
 - (i) are transparent;
 - (ii) are not likely to encourage any Person to enter into transactions other than for proper trading purposes (which may include hedging, investment, speculation, price determination, arbitrage and filling orders from any client for whom he acts);



- (iii) are consistent with a reliable, undistorted price-formation process; and
- (iv) alleviate dealing or other identified costs associated with trading on the Recognised Investment Exchange's markets and do not subsidise a market position of a user of its facilities.

3.3.4 The rules of a Recognised Investment Exchange must provide that the Recognised Investment Exchange must not exercise its power to suspend or remove from trading on a regulated market operated by it any Financial Instrument which no longer complies with its rules, where such step would be likely to cause significant damage to the interests of investors or the orderly functioning of the financial markets.

3.4 Rules Applicable to Recognised Investment Exchanges that are also MTF and OTF Operators and rules on Liquidity providers

3.4.1 A Recognised Investment Exchange may carry on the Regulated Activity of operating a MTF provided that its recognition order includes a stipulation permitting it to do so. If it does include such a stipulation, the specific rules on MTFs and OTFs in COBS will apply to that function, but that function only.

3.4.2 A Recognised Body may also act as a Trade Repository if its recognition order includes a stipulation permitting it to do so. Acting as a Trade Repository will result in it being subject to the additional conduct requirements in Appendix 2 of GEN.

3.5 Pre-trade transparency obligations

3.5.1 Recognised Investment Exchanges shall, in relation to Financial Instruments traded on its systems, make public:

- (a) the information specified in Rule 3.5.4;
- (b) the information specified in Rule 3.5.5; and
- (c) current bid and offer prices and the depth of trading interests at those prices which are advertised through their systems.

3.5.2 Market operators and investment firms operating a trading venue shall make that information available to the public on a continuous basis during normal trading hours.

3.5.3 The transparency requirements shall be calibrated for different types of trading systems including continuous auction order-book, quote-driven, periodic auction and hybrid trading systems.

3.5.4 General requirements

- (a) Where the Recognised Investment Exchange operates a continuous auction order book trading system, it shall, for each Financial Instrument, make public continuously throughout its normal trading hours the aggregate number of orders and of the Financial Instruments those orders represent at each price level, for the five best bid and offer price levels.



- (b) Where the Recognised Investment Exchange operates a quote-driven trading system, it shall, for each Financial Instrument, make public continuously throughout its normal trading hours the best bid and offer by price of each market maker in that Financial Instrument, together with the volumes attaching to those prices. The quotes made public shall be those that represent binding commitments to buy and sell the Financial Instruments and which indicate the price and volume of Financial Instruments in which the registered market makers are prepared to buy or sell. In exceptional market conditions, however, indicative or one-way prices may be allowed for a limited time.
- (c) Where the Recognised Investment Exchange operates a periodic auction trading system, it shall, for each Financial Instrument, make public continuously throughout its normal trading hours the price that would best satisfy the system's trading algorithm and the volume that would potentially be executable at that price by participants in that system.
- (d) Where the Recognised Investment Exchange operates a trading system which is not wholly covered by paragraphs (b) or (c) or (d), either because it is a hybrid system falling under more than one of those paragraphs or because the price determination process is of a different nature, it shall maintain a standard of pre-trade transparency that ensures that adequate information is made public as to the price level of orders or quotes for each Financial Instrument, as well as the level of trading interest in that Financial Instrument.

In particular, the five best bid and offer price levels and/or two-way quotes of each market maker in that Financial Instrument shall be made public, if the characteristics of the price discovery mechanism permit it.

- (e) A summary of the information to be made public in accordance with paragraphs (b) to (e) is specified in the table in Rule 3.5.5.

3.5.5 Information to be made public

Type of system	Description of system	Summary of information to be made public
Continuous auction order book trading system	A system that by means of an order book and a trading algorithm operated without human intervention matches sell orders with matching buy orders on the basis of the best available price on a continuous basis.	The aggregate number of orders and the Financial Instruments they represent at each price level, for at least the five best bid and offer price levels.
Quote-driven trading system	A system where transactions are concluded on the basis of firm quotes that are continuously made available to participants, which requires the market makers to maintain quotes in a size that balances the needs of	The best bid and offer by price of each market maker in that Financial Instrument, together with the volumes



Type of system	Description of system	Summary of information to be made public
	Members and participants to deal in a commercial size and the risk to which the market maker exposes itself.	attaching to those prices.
Periodic auction trading system	A system that matches orders on the basis of a periodic auction and a trading algorithm operated without human intervention.	The price at which the auction trading system would best satisfy its trading algorithm and the volume that would potentially be executable at that price.
Trading system not covered by first three rows	A hybrid system falling into two or more of the first three rows or a system where the price determination process is of a different nature than that applicable to the types of system covered by the first three rows.	Adequate information as to the level of orders or quotes and of trading interest; in particular, the five best bid and offer price levels and/or two way quotes of each market maker in the Financial Instrument, if the characteristics of the price discovery mechanism so permit.

Waivers

3.5.6 A waiver from pre-transparency obligations should not enable investment firms to avoid such obligations in respect of those transactions in liquid Financial Instruments which they conclude on a bilateral basis under the rules of a Recognised Investment Exchange where, if carried out outside the rules of the Recognised Investment Exchange, those transactions would be subject to the requirements to publish quotes.

3.5.7 Waivers based on market model and type of order or transaction

Waivers may be granted by the Regulator in respect of shares, depository receipts, ETFs, certificates and other similar Financial Instruments, for any of the following:

- (a) systems matching orders based on a trading methodology by which the price of the Financial Instrument is derived from the trading venue where that Financial Instrument was first admitted to trading or the most relevant market in terms of liquidity, where that reference price is widely published and is regarded by market participants as a reliable reference price;
- (b) systems that formalise negotiated transactions, which are:



- (i) made within the current volume weighted spread reflected on the order book or the quotes of the market makers of the trading venue operating that system, subject to a volume cap to be determined by the Regulator to ensure that the use of this waiver does not unduly harm price formation;
 - (ii) in an illiquid share, depository receipt, ETF, certificate or other Financial Instrument that does not fall within the meaning of a liquid market, and are dealt within a percentage of a suitable reference price, being a percentage and a reference price set in advance by the system operator; and
 - (iii) subject to conditions other than the current market price of that Financial Instrument;
- (c) orders that are large in scale compared with normal market size; or
 - (d) orders held in an order management facility of the Recognised Investment Exchange pending disclosure.

Waivers may be granted by the Regulator in respect of other Financial Instruments, for any of the following:

- (e) orders that are large in scale compared with normal market size; and orders held in an order management facility of the Recognised Investment Exchange pending disclosure;
- (f) actionable indications of interest in request-for-quote and voice trading systems that are above a size specific to the Financial Instrument, which would expose liquidity providers to undue risk and takes into account whether the relevant market participants are retail or wholesale investors; or
- (g) Financial Instruments for which there is not a liquid market.

References to negotiated transaction

3.5.8 For the purpose of Rule 3.5.7, a negotiated transaction shall mean a transaction involving Members or participants of a Recognised Investment Exchange which is negotiated privately but executed within the Recognised Investment Exchange and where that Member or participant in doing so undertakes one of the following tasks:

- (a) dealing on own account with another Member or participant who acts for the account of a client;
- (b) dealing with another Member or participant, where both are executing orders on own account;
- (c) acting for the account of both the buyer and seller;
- (d) acting for the account of the buyer, where another Member or participant acts for the account of the seller; or



(e) trading for own account against a client order.

3.5.9 Transactions related to an individual Financial Instrument in a portfolio trade and volume weighted average price transactions:

- (a) A transaction related to an individual Financial Instrument in a portfolio trade shall be considered, for the purposes of Rule 3.5.7, as a transaction subject to conditions other than the current market price.
- (b) A volume weighted average price transaction shall be considered, for the purposes of Rule 3.5.7, as a transaction subject to conditions other than the current market price.

3.5.10 **Waivers in relation to transactions which are large in scale**

An order shall be considered to be large in scale compared with normal market size if it is equal to or larger than the minimum size of order specified in Rule 3.5.11. For the purposes of determining whether an order is large in scale compared to normal market size, all Financial Instruments admitted to trading on a regulated market shall be classified in accordance with their average daily turnover, which shall be calculated in accordance with the procedure set out in Rule 3.5.11.

3.5.11 **Orders large in scale compared with normal market size**

Class in terms of average daily turnover (ADT)	ADT < €500 000	€500 000 < ADT < €1 000 000	€1 000 000 < ADT < €25 000 000	€25 000 000 < ADT < €50 000 000	ADT < €50 000 000
Minimum size of order qualifying as large in scale compared with normal market size	€50 000	€100 000	€250 000	€400 000	€500 000

3.6 **Post-trade transparency obligation**

3.6.1 The Recognised Investment Exchange must make arrangements for the price, volume and time of transactions executed in Financial Instruments to be made available to the public as close to real-time as technically possible assuming a reasonable level of efficiency and of expenditure on systems on the part of the Person concerned, provided that:

- (a) post-trade information relating to such transactions shall be made available in any case within three minutes of the relevant transaction;
- (b) information relating to a portfolio trade shall be made available with respect to each constituent transaction as close to real time as possible, having regard to the need to allocate prices to particular Financial Instruments; and



- (c) post-trade information referring to transactions taking place on a Recognised Investment Exchange but outside its normal trading hours shall be made public before the opening of the next trading day of the Recognised Investment Exchange on which the transaction took place.

Waivers

3.6.2 The Regulator may authorise a Recognised Investment Exchange to provide for deferred publication of the details of transactions based on the size or type of the transaction. In particular, the Regulator may authorise the deferred publication in respect of transactions that:

- (a) are large in scale compared with the normal market size for that Financial Instrument;
- (b) are related to Financial Instrument traded on a trading venue for which there is not a liquid market; or
- (c) are above a size specific to that Financial Instrument which would expose liquidity providers to undue risk and takes into account whether the relevant market participants are retail or wholesale investors.

3.6.3 Recognised Investment Exchanges shall obtain the Regulator's prior approval of proposed arrangements for deferred trade-publication, and shall clearly disclose those arrangements to market participants and the public.

3.6.4 If a Recognised Investment Exchange decides to provide investment firms and credit institutions details of transactions in Financial Instruments, it must do so on reasonable commercial terms and on a non-discriminatory basis. This requirement may be waived or deferred in respect of large volume or for certain types of trades, as specified by the Regulator, in which case the Recognised Investment Exchange must ensure that the existence of and the terms of the deferral are disclosed to users and Members of their facilities and to investors.

3.6.5 Recognised Investment Exchanges shall, with regard to transactions in respect of Financial Instruments admitted to trading on or concluded within their systems, make public the following details:

- (a) the details specified in Rule 3.6.6;
- (b) an indication that the exchange of Financial Instruments is determined by factors other than the current market valuation of the Financial Instrument, where applicable;
- (c) an indication that the trade was a negotiated trade, where applicable; and
- (d) any amendments to previously disclosed information, where applicable.

Those details shall be made public either by reference to each transaction or in a form aggregating the volume and price of all transactions in the same Financial Instrument taking place at the same price at the same time.



3.6.6 Post-trade information:

- (a) Trading Day The trading day on which the transaction was executed.
- (b) Trading Time The time at which the transaction was executed, reported in the local time of the competent authority to which the transaction will be reported, and the basis in which the transaction is reported expressed as Co-ordinated Universal Time (UTC) +/- hours.
- (c) Instrument Identification This shall consist of a unique code to be decided by the Regulator identifying the Financial Instrument which is the subject of the transaction; or, if the Financial Instrument in question does not have a unique identification code, the report must include the name of the Financial Instrument.
- (d) Unit Price The price per Financial Instrument excluding commission and (where relevant) accrued interest.
- (e) Price Notation The currency in which the price is expressed.
- (f) Quantity The number of units of the Financial Instruments.
- (g) Venue identification Identification of the venue where the transaction was executed. That identification shall consist of the Recognised Investment Exchange's unique harmonised identification code.

3.6.7 Transactions related to an individual Financial Instrument in a portfolio trade and volume weighted average price transactions

- (a) A transaction related to an individual Financial Instrument in a portfolio trade shall be considered as a transaction where the exchange of Financial Instruments is determined by factors other than the current market valuation of the Financial Instrument.
- (b) A volume weighted average price transaction shall be considered as a transaction where the exchange of Financial Instruments is determined by factors other than the current market valuation of the Financial Instrument.

3.6.8 Deferred publication of large transactions

The deferred publication of information in respect of transactions may be authorised, for a period no longer than the period specified in the table in Rule 3.6.10 for the class of Financial Instrument and transaction concerned, provided the following criteria are satisfied:

- (a) the transaction is between an investment firm dealing on own account and a client of that firm; and



- (b) the size of that transaction is equal to or exceeds the relevant minimum qualifying size, as specified in table in Rule 3.6.9.

In order to determine the relevant minimum qualifying size for the purposes of point (b), all Financial Instruments admitted to trading on a regulated market shall be classified in accordance with their average daily turnover to be calculated in accordance with Rule 3.6.10.

3.6.9 Each constituent transaction of a portfolio trade shall be assessed separately for the purposes of determining whether deferred publication in respect of that transaction is available.

3.6.10 Deferred publication thresholds and delays

The table below shows, for each permitted delay for publication and each class of Financial Instrument in terms of average daily turnover (ADT), the minimum qualifying size of transaction that will qualify for that delay in respect of a Financial Instrument of that type.

		Class of Financial Instruments in terms of average daily turnover (ADT)			
		ADT < USD 100 000	USD 100 000 < ADT < USD 1 000 000	USD 1 000 000 < ADT < USD 50 000 000	ADT < USD 50 000 000
		Minimum qualifying size of transaction for permitted delay			
Permitted delay for publication	60 minutes	USD 10 000	Greater of 5% of ADT and USD 25 000	Lower of 10% of ADT and USD 3 500 000	Lower of 10% of ADT and USD 7 500 000
	180 minutes	USD 25 000	Greater of 15% of ADT and USD 75 000	Lower of 15% of ADT and USD 5 000 000	Lower of 20% of ADT and USD 15 000 000
	Until end of trading day (or roll-over to noon of next trading day if trade undertaken in final 12 hours of trading day)	USD 45 000	Greater of 25% of ADT and USD 100 000	Lower of 25% of ADT and USD 10 000 000	Lower of 30% of ADT and USD 30 000 000



		Class of Financial Instruments in terms of average daily turnover (ADT)			
		ADT < USD 100 000	USD 100 000 < ADT < USD 1 000 000	USD 1 000 000 < ADT < USD 50 000 000	ADT < USD 50 000 000
		Minimum qualifying size of transaction for permitted delay			
Until end of trading day next after trade	USD 60 000	Greater of 50% of ADT and USD 100 000	Greater of 50% of ADT and USD 1 000 000	100% of ADT	
Until end of second trading day next after trade	USD 80 000	100% of ADT	100% of ADT	250% of ADT	
Until end of third trading day next after trade	250% of ADT	250% of ADT			

3.7 Public disclosure

3.7.1 Any arrangement to make information public shall satisfy the following conditions:

- (a) it must include all reasonable steps necessary to ensure that the information to be published is reliable, monitored continuously for errors, and corrected as soon as errors are detected;
- (b) it must facilitate the consolidation of the data with similar data from other sources; and
- (c) it must make the information available to the public on a non-discriminatory commercial basis at a reasonable cost.

3.7.2 For the purposes of ensuring that published information is reliable, monitored continuously for errors, and corrected as soon as errors are detected, a verification process should be established which does not need to be external from the organisation of the publishing entity, but which should be an independent cross-check of the accuracy of the information generated by the trading process. This process should have the capability to at least identify price and volume anomalies, be systematic and conducted in real-time. The chosen process should be reasonable and proportionate in relation to the business.



- 3.7.3** (1) In respect of arrangements facilitating the consolidation of data, the Regulator considers information as being made public, if it:
- (i) is accessible by automated electronic means in a machine-readable way;
 - (ii) utilises technology that facilitates consolidation of the data and permits commercially viable usage; and
 - (iii) is accompanied by instructions outlining how users can access the information.
- (b) An arrangement fulfils the 'machine-readable' criteria where the data:
- (i) is in a physical form that is designed to be read by a computer;
 - (ii) is in a location on a computer storage device where that location is known in advance by the party wishing to access the data; and
 - (iii) is in a format that is known in advance by the party wishing to access the data.
- (c) Publication on a non-machine-readable website would not meet the requirements.

3.7.4 Information that is made public should conform to a consistent and structured format based on industry standards. Recognised Investment Exchanges can choose the structure that they use.

3.7.5 Proper information

In determining whether appropriate arrangements have been made to make relevant information available to Persons engaged in dealing in Specified Investments admitted to trading on the Recognised Investment Exchange, the Regulator may have regard to:

- (a) the extent to which Members and clients for whom they act are able to obtain information about those Specified Investments, either through accepted channels for dissemination of information or through other regularly and widely accessible communication media, to make a reasonably informed judgment about the value and the risks associated with those Specified Investments in a timely fashion;
- (b) what restrictions, if any, there are on the dissemination of relevant information to the Recognised Investment Exchange's Members and clients for whom they act; and
- (c) whether relevant information is or can be kept to restricted groups of Persons in such a way as to facilitate or encourage dealing in contravention of the Code of Market Conduct.

3.7.6 Own means of dissemination

Recognised Investment Exchanges do not need to maintain their own arrangements for disseminating news or information about Specified Investments (or underlying assets) to



their Members where they have made adequate arrangements for other Persons to do so on their behalf or there are other effective and reliable arrangements for this purpose.

3.8 Settlement and Clearing facilitation services

3.8.1 The Recognised Investment Exchange must ensure that satisfactory arrangements are made for securing the timely discharge (whether by performance, compromise or otherwise), Clearing and settlement of the rights and liabilities of the parties to transactions effected on the Recognised Investment Exchange (being rights and liabilities in relation to those transactions).

3.8.2 Appropriate links with a Recognised Clearing House or Non-Abu Dhabi Global Market Recognised Clearing House will be deemed sufficient to satisfy this criterion.

3.9 Admission of Financial Instruments to trading

3.9.1 Admission to trading

- (a) The Recognised Investment Exchange must make clear and transparent rules concerning the admission of Financial Instruments to trading on any financial market operated by it.
- (b) The rules must ensure that all Financial Instruments admitted to trading on any regulated market operated by the Recognised Investment Exchange are capable of being traded in a fair, orderly and efficient manner.
- (c) The rules must ensure that:
 - (i) all Financial Instruments admitted to trading on a regulated market operated by the Recognised Investment Exchange are freely negotiable; and
 - (ii) all contracts for Derivatives admitted to trading on a regulated market operated by the Recognised Investment Exchange are designed so as to allow for their orderly pricing as well as for the existence of effective settlement conditions.
- (d) The Recognised Investment Exchange must maintain effective arrangements to verify that issuers of Financial Instruments admitted to trading on a regulated market operated by it comply with the disclosure obligations.
- (e) The Recognised Investment Exchange must maintain arrangements to assist users of a regulated market operated by it to obtain access to information made public under the disclosure obligations.
- (f) The Recognised Investment Exchange must maintain arrangements regularly to review whether the Financial Instruments admitted to trading on a regulated market operated by it comply with the admission requirements for those instruments.
- (g) The rules must provide that where a Recognised Investment Exchange, without obtaining the consent of the issuer, admits to trading on a regulated market



operated by it a Transferable Security which has been admitted to trading on another regulated market, the Recognised Investment Exchange:

- (i) must inform the issuer of that security as soon as is reasonably practicable; and
 - (ii) may not require the issuer of that security to demonstrate compliance with the disclosure obligations.
- (h) The rules must provide that where a Recognised Investment Exchange, without obtaining the consent of the issuer, admits to trading on a multilateral trading facility operated by it a Transferable Security which has been admitted to trading on a regulated market, it may not require the issuer of that security to demonstrate compliance with the disclosure obligations.

3.9.2 Transferable securities

- (a) Transferable securities shall be considered freely negotiable if they can be traded between the parties to a transaction, and subsequently transferred without restriction, and if all securities within the same class as the security in question are fungible.
- (b) Transferable securities which are subject to a restriction on transfer shall not be considered as freely negotiable unless the restriction is not likely to disturb the market.
- (c) Transferable securities that are not fully paid may be considered as freely negotiable, if arrangements have been made to ensure that the negotiability of such securities is not restricted and that adequate information concerning the fact that the securities are not fully paid, and the implications of that fact for shareholders, is publicly available.
- (d) When exercising its discretion whether to admit a Financial Instrument to trading, a regulated market shall, in assessing whether the Financial Instrument is capable of being traded in a fair, orderly and efficient manner, take into account the following:
 - (i) the distribution of those Financial Instruments to the public; and
 - (ii) such historical financial information, information about the issuer, and information providing a business overview as is required to be prepared under the GPM or is or will be otherwise publicly available.
- (e) A Transferable Security that is officially listed in accordance with Part 6 of FSMR, and the listing of which is not suspended, shall be deemed to be freely negotiable and capable of being traded in a fair, orderly and efficient manner.
- (f) When assessing whether a Transferable Security is capable of being traded in a fair, orderly and efficient manner, the regulated market shall take into account, whether the following criteria (if relevant to the particular kind of Financial Instrument) are satisfied:



- (i) the terms of the Financial Instrument are clear and unambiguous and allow for a correlation between its price and the price or other value measure of the underlying Financial Instrument;
- (ii) the price or other value measure of the underlying Financial Instrument is reliable and publicly available;
- (iii) there is sufficient information publicly available of a kind needed to value the Financial Instrument;
- (iv) the arrangements for determining the settlement price of the Financial Instrument ensure that this price properly reflects the price or other value measure of the underlying; and
- (v) where the settlement of the Financial Instrument requires or provides for the possibility of the delivery of an underlying security or asset rather than cash settlement, there are adequate settlement and delivery procedures for that underlying as well as adequate arrangements to obtain relevant information about that underlying.

3.9.3 Units in collective investment undertakings

- (a) When assessing whether units in an open-ended collective investment undertaking are capable of being traded in a fair, orderly and efficient manner in accordance with (see Rule 3.9.1), the regulated market shall take the following aspects into account:
 - (i) the distribution of those units to the public;
 - (ii) whether there are appropriate market-making arrangements, or whether the management company of the scheme provides appropriate alternative arrangements for investors to redeem the units; and
 - (iii) whether the value of the units is made sufficiently transparent to investors by means of the periodic publication of the net asset value.
- (b) When assessing whether units in a closed-end collective investment undertaking are capable of being traded in a fair, orderly and efficient manner, in accordance with (see Rule 3.9.1), the regulated market shall take the following aspects into account:
 - (i) the distribution of those units to the public; and
 - (ii) whether the value of the units is made sufficiently transparent to investors, either by publication of information on the fund's investment strategy or by the periodic publication of net asset value.

3.9.4 Derivatives

When admitting to trading a Financial Instrument that is a Derivative, regulated markets shall verify that the following conditions are satisfied:



- (a) the terms of the contract establishing the Financial Instrument must be clear and unambiguous, and enable a correlation between the price of the Financial Instrument and the price or other value measure of the underlying;
- (b) the price or other value measure of the underlying must be reliable and publicly available or ascertainable; or the contract establishing that instrument must be likely to provide a means of disclosing to the market, or enabling the market to assess, the price or other value measure of the underlying, where the price or value measure is not otherwise publicly available;
- (c) sufficient information of a kind needed to value the Derivative must be publicly available or ascertainable;
- (d) the arrangements for determining the settlement price of the contract must be such that the price properly reflects the price or other value measure of the underlying or reference;
- (e) the regulated market must ensure that appropriate supervisory arrangements are in place to monitor trading and settlement in such Financial Instruments;
- (f) the regulated market must ensure that settlement and delivery, whether physical delivery or by cash settlement, can be effected in accordance with the contract terms and conditions of those Financial Instruments; and
- (g) where the settlement of the Derivative requires or provides for the possibility of the delivery of an underlying security or asset rather than cash settlement, there must be adequate arrangements to enable market participants to obtain relevant information about that underlying, as well as adequate settlement and delivery procedures for the underlying.

3.10 Default Rules

- 3.10.1** A Recognised Investment Exchange must have legally enforceable Default Rules which, in the event of a Member of the Recognised Investment Exchange being or appearing to be unable to meet his obligations in respect of one or more market contracts, enable it to suspend or terminate such Member's Membership and cooperate by sharing information with its Recognised Clearing House.
- 3.10.2** The Recognised Investment Exchange must issue a public notice on its website in respect of any Member whose Membership is so suspended or terminated.
- 3.10.3** The Recognised Investment Exchange must be able and willing to cooperate, by the sharing of information and otherwise, with the Regulator, any relevant office-holder and any other authority or body having responsibility for any matter arising out of, or connected with, the default of a Member of the Recognised Investment Exchange or any designated non-Member or the default of a Recognised Clearing House or another Recognised Investment Exchange.



4 RULES APPLICABLE TO RECOGNISED CLEARING HOUSES

4.1 Introduction

4.1.1 This chapter contains additional Recognition Requirements applicable to Recognised Clearing Houses.

4.1.2 The Rules in this Chapter are intended to be consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures. All Recognised Clearing Houses should comply with such principles.

4.2 Capital requirements

4.2.1 A Recognised Clearing House shall hold capital more than or equal to the sum of capital calculated in respect of the following risks:

- (a) **winding down or restructuring activities.** Six months' gross operational expenses.
- (b) **operational risks.** A Recognised Clearing House shall calculate its capital requirement for operational risks using either the Basic Indicator Approach or, with prior authorisation from the Regulator, the Standardised Approach or the Alternative Standardised Approach, both as provided specifically in Appendix 6.3 and generally in Appendix 6 of PRU.
- (c) **credit, counterparty credit and market risks.** A Recognised Clearing House shall calculate its capital requirements as the sum of 8% of its risk-weighted exposure amounts for credit and counterparty credit risk and its capital requirements for market risk calculated in accordance with Appendix 5.3 of PRU, subject to the following:
 - (i) For the calculation of the risk-weighted exposure amounts for credit risk and counterparty credit risk, a Recognised Clearing House shall apply the Credit Risk Capital Requirement (CRCOM) method in Appendix 4.8 of PRU.
 - (ii) Where a Recognised Clearing House does not use its own resources, the Recognised Clearing House shall apply a risk weight of 250% to its exposure stemming from any contributions to the default fund of another Clearing house and a risk weight of 2% to any trade exposures with another Clearing house.
- (d) **business risk.** A Recognised Clearing House shall submit to the Regulator for approval its own estimate of the capital necessary to cover losses resulting from business risk based on reasonably foreseeable adverse scenarios relevant to its business model. The capital requirement for business risk shall be equal to the approved estimate and shall be subject to a minimum amount of 25% of its annual gross operational expenses.

4.2.2 For the purposes of Rule 4.2.1, operational expenses shall be considered in accordance with:

- (a) International Financial Reporting Standards (IFRS);



- (b) in accordance with generally accepted accounting principles of a third country determined by the Regulator to be equivalent to IFRS; or
- (c) accounting standards of a third country the use of which is permitted by the Regulator.

Recognised Clearing Houses shall use the most recent audited information from their annual financial statement.

4.2.3 A Recognised Clearing House shall have procedures in place to identify all sources of risks that may impact its on-going functions and shall consider the likelihood of potential adverse effects on its revenues or expenses and its level of capital.

4.2.4 If the amount of capital held by a Recognised Clearing House is lower than 110% of the capital requirements or lower than 110% of USD 9.5 million (the "notification threshold"), the Recognised Clearing House shall immediately notify the competent authority in writing of the information set out in Rule 5.4.1 and keep it updated at least weekly, until the amount of capital held by the Recognised Clearing House returns above the notification threshold.

4.3 Clearing and settlement

4.3.1 A Recognised Clearing House must ensure that its Clearing Services include satisfactory arrangements for securing the timely discharge (whether by performance, compromise or otherwise), Clearing and settlement of the rights and liabilities of the parties to transactions for which it provides such services.

4.3.2 A Recognised Clearing House operating a settlement facility must ensure that its settlement services include satisfactory arrangements for securing the timely discharge of settlement obligations of the parties to transactions for which it provides such services.

4.3.3 A Recognised Clearing House must be able to demonstrate compliance with internationally accepted standards for financial market infrastructures to the satisfaction of the Regulator.

4.3.4 A Recognised Clearing House must ensure that its Clearing Services involve satisfactory arrangements for securing the timely discharge (whether by performance, compromise or otherwise) of the rights and liabilities of the parties to transactions in respect of which it provides such services (being rights and liabilities in relation to those transactions).

4.3.5 In determining whether there are satisfactory arrangements for securing the timely discharge of the rights and liabilities of the parties to transactions, the Regulator may have regard to the Recognised Clearing House's:

- (a) rules and practices relating to Clearing and settlement including its arrangements with another Person for the provision of Clearing and settlement services;
- (b) arrangements for matching trades and ensuring that the parties are in agreement about trade details;
- (c) where relevant, arrangements for making deliveries and payments, in all relevant jurisdictions;



- (d) procedures to detect and deal with the failure of a Member to settle in accordance with its rules;
- (e) arrangements for taking action to settle a trade if a Member does not settle in accordance with its rules;
- (f) arrangements for monitoring its Members' settlement performance; and
- (g) (where appropriate) Default Rules and default procedures.

4.3.6 A Recognised Clearing House will not be regarded as failing to comply with the Recognition Requirement merely because it is unable to arrange for a specific transaction to be settled.

4.4 Admission of investments to Clearing – investment criteria

4.4.1 A Recognised Clearing House must have clear and objective criteria ("investment criteria") included in its Business Rules according to which Investments can be cleared on its facilities. The investment criteria must include the requirements in Rule 4.4.2(a) and (b) below as relevant.

4.4.2 A Recognised Clearing House must ensure that only investments which meet either (a) or (b) are cleared, on the facilities of a Recognised Clearing House:

- (a) in the case of securities, such securities are either:
 - (i) admitted to an Official List of Securities; or
 - (ii) admitted to trading on a Recognised Investment Exchange, Non-Abu Dhabi Global Market Recognised Investment Exchange, or a market in a jurisdiction acceptable to the Regulator; and
- (b) in the case of Derivative contracts, are traded on a Recognised Investment Exchange, Non-Abu Dhabi Global Market Recognised Investment Exchange, or a market in a jurisdiction acceptable to the Regulator or which it considers can be cleared while managing risk arising from Clearing the Derivative contract, having regard to:
 - (i) the degree of standardisation of the contractual terms and operational processes of the Derivative contract;
 - (ii) the volume and liquidity of the Derivative contract; and
 - (iii) the availability of fair, reliable and generally accepted pricing information in the Derivative contract.

4.5 Business rules and Default Rules

Business rules

4.5.1 A Recognised Clearing House must have clear and fair Business Rules which are legally binding and enforceable against its Members, published and made freely available. Such rules must include:



- (a) criteria governing the admission of Members and any other Persons to whom access to its facilities is provided;
- (b) criteria governing the admission of investments to trading, or Clearing and settlement, as appropriate to its facilities;
- (c) Default Rules; and
- (d) any other matters necessary for the proper functioning of the Recognised Clearing House and the facilities operated by it.

4.5.2 A Recognised Clearing House's Business Rules must:

- (a) be based on objective criteria and not be discriminatory;
- (b) set out the design and operation of the relevant systems;
- (c) set out the Members' and other participants' obligations (including fees and materials costs):
 - (i) arising from the Recognised Clearing House's constitution and other administrative arrangements;
 - (ii) when undertaking transactions on its facilities; and
 - (iii) relating to professional standards that must be imposed on staff and agents of the Members and other participants when undertaking transactions on its facilities;
- (d) set out the risk for Members and other participants when accessing and participating in such facilities;
- (e) contain provisions for the resolution of Members' and other participants' disputes and an appeal process from the decisions of the Recognised Clearing House; and
- (f) contain disciplinary proceedings, including any sanctions that may be imposed by the Recognised Clearing House against its Members and other participants.

4.5.3 A Recognised Clearing House must have appropriate rules and procedures for the risk management framework and process.

Default rules

4.5.4 A Recognised Clearing House must have legally enforceable Default Rules which, in the event of a Member (including if a Member is another Recognised Clearing House or a Recognised Investment Exchange) being, or appearing to be, unable to meet his obligations in respect of one or more market contracts, enable action to be taken in respect of unsettled market contracts to which the Member is a party, where appropriate to the risks faced by it, including:

- (a) effecting any transfers and close-outs of a defaulting Member or participant's assets or proprietary or client positions (as applicable) to the Recognised Clearing



House, a non-defaulting Member or participant, and/or to a receiver, third party or bridge financial company;

- (b) the auction of any position or asset of the defaulting Member or participant in the market;
- (c) the application the proceeds of liquidation, and other funds and assets of the defaulting Member or participant; and/or
- (d) the use of a default contribution fund mechanism whereby defaulting and non-defaulting Member or participant's pre-funded contributions to the default contribution fund are applied to cover the obligation.

4.5.5 The Default Rules shall clearly define and specify:

- (a) circumstances which constitute a default, addressing both financial and operational default, and how the different types of default may be treated by the Recognised Clearing House;
- (b) the method for identifying a default (including any automatic or discretionary default scenarios, and how the discretion is exercised in any discretionary default scenarios);
- (c) potential changes to the normal settlement practices in a default scenario;
- (d) the management of transactions at different stages of processing;
- (e) the expected treatment of proprietary and client transactions and accounts;
- (f) the probable sequencing of actions that the Recognised Clearing House may take;
- (g) the roles, obligations and responsibilities of various parties, including the Recognised Clearing House, the defaulting Member and non-defaulting participants;
- (h) how to address the defaulting Member's obligations to clients;
- (i) how to address the allocation of any credit losses it may face as a result of any individual or combined default among its participants with respect to their obligations to the Recognised Clearing House and how stress events are dealt with; and
- (j) any other mechanisms that may be activated to contain the impact of a default, including:
 - (i) a default contribution fund, whereby defaulting and non-defaulting Members or participants' pre-funded contributions to the default contribution fund are applied to cover the losses or shortfall arising on a default on the basis of a predetermined order of priority; and
 - (ii) a resolution regime of the defaulting participant, involving "porting" or transferring the open positions and margin related to client transactions



to a non-defaulting participant, receiver, third party or bridge financial company;

- (k) for all remaining rights and liabilities of the defaulter under or in respect of unsettled market contracts to be discharged and for there to be paid by or to the defaulter such sum of money (if any) as may be determined in accordance with the rules, by offsetting all relevant rights, assets and liabilities on the relevant account;
- (l) for the certification by or on behalf of the Recognised Clearing House of the sum finally payable or, as the case may be, of the fact that no sum is payable, separately for each account of the defaulter;
- (m) the Recognised Clearing House's segregation and portability arrangements, including the method for determining the value at which client positions will be transferred; and
- (n) provisions ensuring that losses that arise as a result of the default of a Member of the Recognised Clearing House or threaten the Recognised Clearing House's solvency are allocated with a view to ensuring that the Recognised Clearing House can continue to provide the services and carry on the activities specified in its recognition order.

4.5.6 Default Rules should be reviewed and tested at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

4.5.7 A Recognised Clearing House must have adequate compliance procedures in place to ensure that:

- (a) its Business Rules and Default Rules are monitored and enforced;
- (b) any complaints relating to its operations or regarding Members and other participants on its facilities are promptly investigated;
- (c) where appropriate, disciplinary action resulting in financial and other types of penalties can be taken;
- (d) appeal procedures are in place; and
- (e) referrals can be made to the Regulator in appropriate circumstances.

4.6 Stress testing of capital

4.6.1 A Recognised Clearing House should adopt comprehensive and stringent measures to ensure that it has adequate total financial resources to effectively manage its credit risk and exposures.

4.6.2 A Recognised Clearing House should determine the amount of the total financial resources available to it and regularly test the sufficiency of such amount, particularly in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing.



4.6.3 In conducting stress testing, a Recognised Clearing House should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

4.6.4 A Recognised Clearing House which is involved in activities with a more-complex risk profile, or is systemically important in multiple jurisdictions, should maintain additional financial resources to cover a wide range of potential stress scenarios. These should include the default of the two of its market counterparties (including their affiliates) that would potentially cause the largest aggregate credit exposure for the Recognised Clearing House in extreme but plausible market conditions. In all other cases, a Recognised Clearing House should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios, which include the default of the market counterparty (including its affiliates) that would potentially cause the largest aggregate credit exposure for the Recognised Clearing House in extreme but plausible market conditions.

4.7 Risk management

Risk management framework

4.7.1 A Recognised Clearing House must have a comprehensive risk management framework (i.e. detailed policies, procedures and systems) capable of managing systemic, legal, credit, liquidity, operational and other risks to which it is exposed.

4.7.2 The risk management framework in Rule 4.7.1 must:

- (a) encompass a regular review of material risks to which the Recognised Clearing House is exposed and the risks posed to other market participants resulting from its operations; and
- (b) be subject to periodic review as appropriate to ensure that it is effective and operating as intended.

4.7.3 The risk management framework should identify scenarios that may potentially prevent a Recognised Clearing House from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down.

4.7.4 A Recognised Clearing House should prepare appropriate plans for resumption of its operations in such scenarios and, where it is not possible to do so, for an orderly wind-down of the operations of the Recognised Clearing House premised on the results of such assessments. Such procedures should also include appropriate early notification to the Regulator and other regulators as appropriate.

4.7.5 A Recognised Clearing House should, to the extent possible, provide incentives to Members and other market participants to manage and contain the risks they pose to the orderly and efficient operations of the Recognised Clearing House. Those may include



financial penalties to Members and other participants that fail to settle Investments in a timely manner or to repay intra-day credit by the end of the operating day.

Operational risk

- 4.7.6** A Recognised Clearing House shall have in place a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. It shall identify its exposures to operational risk and track relevant operational risk data, including material loss data. This system shall be subject to regular review carried out by an independent party possessing the necessary knowledge to carry out such review.
- 4.7.7** An operational risk assessment system shall be closely integrated into the risk management processes of the Recognised Clearing House. Its output shall be an integral part of the process of monitoring and controlling the operational risk profile.
- 4.7.8** A Recognised Clearing House shall implement a system of reporting to senior management that provides operational risk reports to relevant functions within the institutions. A Recognised Clearing House shall have in place procedures for taking appropriate action according to the information within the reports to management.

Legal risk

- 4.7.9** A Recognised Clearing House must have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.
- 4.7.10** A Recognised Clearing House must have adequate rules and procedures, including contractual arrangements, which are legally enforceable.
- 4.7.11** A Recognised Clearing House that operates in multiple jurisdictions must:
- (a) identify and mitigate the risks arising from doing business in the relevant jurisdictions, including those arising from conflicting laws applicable in such jurisdictions; and
 - (b) ensure the arrangements referred to in Rule 4.7.10 provide a high degree of certainty that actions taken by the Recognised Clearing House under its rules and procedures will not be reversed, stayed or rendered void.
- 4.7.12** A Recognised Clearing House may be conducting its activities in multiple jurisdictions in circumstances such as:
- (a) where it operates through linked Recognised Clearing Houses in or outside of the Abu Dhabi Global Market, or Securities Settlement Systems or Central Securities Depositories outside of the Abu Dhabi Global Market;
 - (b) where its Members and other participants are incorporated, located, or otherwise conducting business in jurisdictions outside the Abu Dhabi Global Market; or
 - (c) where any collateral provided is located or held in a jurisdiction outside the Abu Dhabi Global Market.



4.7.13 A Recognised Clearing House should be able to demonstrate to the Regulator that the legal basis on which it operates, including in multiple jurisdictions, is well founded. This would general include:

- (a) well-defined rights and obligations of the Recognised Clearing House, its Members and other users, including its service providers such as custodians and settlement banks, or would provide a mechanism by which such rights and obligations can be ascertained. This would enable the Recognised Clearing House to identify and address risks that arise from its operations involving such parties;
- (b) adequately addressing legal risks faced by a Recognised Clearing House, particularly where it operates in multiple jurisdictions including a situation where an unexpected application of a law or regulation may render a contract between itself and counterparty void or unenforceable, thereby leading to a loss; and
- (c) obtaining independent legal opinions as appropriate to its activities in order to form clear views about the legally binding nature of its contractual arrangements in the relevant jurisdictions. Such legal opinions should, to the extent practicable, confirm the enforceability of the rules and procedures of the Recognised Clearing House in the relevant jurisdictions and be made available to the Regulator upon request.

Credit risk

4.7.14 A Recognised Clearing House must establish and implement a robust process to manage:

- (a) its current and potential future credit and market risk exposures to market counterparties, including Members and other participants on its facilities; and
- (b) credit risks arising from its payment, Clearing, and settlement processes.

4.7.15 The process referred to in Rule 4.7.14 must:

- (a) enable a Recognised Clearing House to effectively measure, monitor, and manage its risks and exposures effectively;
- (b) enable a Recognised Clearing House to identify sources of credit risk and routinely measure and monitor its credit exposures; and
- (c) use appropriate risk management tools or margin and other prefunded financial resources to control the identified credit risks.

4.7.16 For the purposes of Rule 4.7.14, a Recognised Clearing House must, on a regular basis as appropriate to the nature, scale and complexity of its operations:

- (a) perform stress tests using models containing standards and predetermined parameters and assumptions; and
- (b) carry out comprehensive and thorough analysis of stress testing models, scenarios, and underlying parameters and assumptions used to ensure that they are appropriate for determining the required level of default protection in light of current and evolving market conditions.



- 4.7.17** A Recognised Clearing House must:
- (a) undertake the analysis referred to in Rule 4.7.16(b) at least on a two-monthly basis, unless more frequent analysis is warranted because the investments cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by its participants increase significantly;
 - (b) consider carrying out daily stress testing to measure and monitor its risk exposures, especially if its operations are complex or widely spread over multiple jurisdictions; and
 - (c) perform a full validation of its risk-management models at least annually.
- 4.7.18** A Recognised Clearing House must establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its Members and other participants with respect to any of their obligations to the Recognised Clearing House. Such rules and procedures should:
- (a) address how any potentially uncovered credit losses would be allocated, including the repayment of any funds the Recognised Clearing House may borrow from its liquidity providers; and
 - (b) indicate the Recognised Clearing House's process to replenish any financial resources that it may employ during a stress event, so that it can continue to operate in a safe and sound manner.
- 4.7.19** A Recognised Clearing House must document its supporting rationale for, and have appropriate governance arrangements relating to, the amount of total financial resources it maintains.
- 4.7.20** A Recognised Clearing House must have clear procedures to report the results of its stress tests to its governing body and senior management as appropriate.
- 4.7.21** A Recognised Clearing House must use the results of its stress tests to evaluate the adequacy of its total financial resources and make any adjustments as appropriate.

Liquidity risk

- 4.7.22** A Recognised Clearing House must:
- (a) determine the amount of its minimum liquid resources;
 - (b) maintain sufficient liquid resources to be able to effect same-day, intra-day or multi-day settlement, as applicable, of its payment obligations with a high degree of confidence under a wide range of potential stress scenarios;
 - (c) ensure that all resources held for the purposes of meeting its minimum liquid resource requirement are available when needed;
 - (d) have a well-documented rationale to support the amount and form of total liquid resources it maintains for the purposes of (b) and (c); and



- (e) have appropriate arrangements in order to be able to maintain, on an on-going basis, such amount and form of its total liquid resources.

4.7.23 A Recognised Clearing House must have a robust framework for managing its liquidity risks. Such a framework must enable it to manage liquidity risks arising from its Members and other participants on its facilities, and any other involved parties, such as settlement banks, custodian banks, liquidity providers ("Members and other involved parties"). For that purpose, the framework must, at a minimum, include:

- (a) rules and procedures that:
 - (i) enable the Recognised Clearing House to meet its payment obligations on time following any individual or combined default of its Members and other involved parties;
 - (ii) address unforeseen and potentially uncovered liquidity shortfalls to avoid unwinding, revoking, or delaying the settlement of its payment obligations arising under the same-day, intra-day or multiday settlement obligations, as applicable; and
 - (iii) indicate any liquidity resources the Recognised Clearing House may deploy, in the event of default by a Member or other involved parties, during a stress event to replenish the available liquid resources and the associated process, so that it can continue to operate in a safe and sound manner;
- (b) effective operational and analytical tools to identify, measure and monitor its settlement and funding flows on an on-going and timely basis; and
- (c) rigorous due diligence procedures relating to its liquidity providers to obtain a high degree of confidence that each provider (whether the provider is a Member or other participant using its facilities or an external party) has:
 - (i) sufficient information to assess, understand and manage its own liquidity risks; and
 - (ii) the capacity to perform as required under their commitment.

4.7.24 The framework referred to in Rule 4.7.23 must enable the Recognised Clearing House to effectively measure, monitor, and manage its liquidity risk.

4.7.25 To the extent that the rules addressing liquidity risk referred to in Rule 4.7.23 also address credit risks, the same rules, after adjustment as appropriate, can be used for both purposes.

4.7.26 A Recognised Clearing House must regularly:

- (a) review the adequacy of the amount of its minimum liquid resources as determined in accordance with Rule 4.7.22;
- (b) test the sufficiency of its liquid resources maintained to meet the relevant amount through rigorous stress testing; and



- (c) test its procedures for accessing its liquid resources at a liquidity provider.

4.7.27 In conducting stress testing, a Recognised Clearing House should consider:

- (a) a wide range of relevant scenarios including relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions;
- (b) the design and operation of the Recognised Clearing House;
- (c) all entities that may pose material liquidity risks to the Recognised Clearing House (such as settlement banks, custodian banks, liquidity providers, and other involved entities); and
- (d) where appropriate, for price fluctuations during a multi-day period.

4.7.28 For the purposes of meeting the minimum liquid resource requirement referred to in Rule 4.7.22, a Recognised Clearing House's qualifying liquid assets/resources may include:

- (a) cash held in appropriate currencies at a central bank in its or other relevant jurisdiction, or at creditworthy commercial banks;
- (b) committed lines of credit;
- (c) committed foreign exchange swaps;
- (d) committed repos; and
- (e) highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions.

4.7.29 A Recognised Clearing House's access to a routine line of credit made available by a central bank in its or other relevant jurisdiction, to the extent that the Recognised Clearing House has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank must comply with the following to count as liquid assets/resources:

- (a) a Recognised Clearing House must take account of what collateral is typically accepted by the relevant central bank as such assets may be more likely to be liquid in stressed circumstances, even if the Recognised Clearing House does not have access to a routine line of credit made available by a central bank; and
- (b) a Recognised Clearing House should not assume the availability of emergency central bank credit as a part of its liquidity plan.

4.7.30 A Recognised Clearing House may supplement its qualifying liquid resources with other forms of liquid resources; and such liquid resources should be in the form of assets that are likely to be saleable, or acceptable as collateral, for lines of credit, swaps, or repos on



an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions.

- 4.7.31** Where a Recognised Clearing House has access to a central bank lines of credit or accounts, payment services, or securities services, it should use those services as far as practicable, as such use is likely to enhance its ability to manage liquidity risk more effectively.
- 4.7.32** A Recognised Clearing House must have clear procedures to report the results of its stress tests undertaken for the purposes of this Rule to its governing body and senior management as appropriate.
- 4.7.33** A Recognised Clearing House must use the results of stress testing to evaluate the adequacy of its liquidity risk-management framework and make any appropriate adjustments as needed.
- 4.7.34** A Recognised Clearing House must record the results of such stress testing and the rationale for any adjustments made to the amount and form of total liquid resources it maintains.

Custody and investment risk

- 4.7.35** A Recognised Clearing House must have effective means to address risks relating to:
- (a) custody of its own assets (or banking of its cash), in accordance with Rule 4.7.36; and
 - (b) custody of its Members and other participants' assets in accordance with Rule 4.7.37.
- 4.7.36** For the purposes of Rules 4.7.35(a) and 4.7.35(b), a Recognised Clearing House must:
- (a) hold its own deposits and custody assets only with entities which have been granted Financial Services Permission by the Regulator or in banks or credit institutions regulated by a non-Abu Dhabi Global Market regulator considered by the Regulator to be equivalent for such purposes;
 - (b) be able to have prompt access to its deposits and custody assets when required; and
 - (c) regularly evaluate and understand its exposures to entities which hold its assets, including the monitoring of the overall risk exposure to an individual banker or custodian remains within acceptable concentration limits and of the bank or custodian's financial condition on an on-going basis.
- 4.7.37** For the purposes of investing its own or its participants' deposits and custody assets, a Recognised Clearing House must ensure that:
- (a) it has an investment strategy which is consistent with its overall risk-management strategy and is fully disclosed to its Members and other participants using its facilities; and



- (b) its investments comprise instruments with minimal credit, market, and liquidity risks. For this purpose, the investments may be secured by, or be claims on, high-quality obligors, or the arrangements allow for quick liquidation with little, if any, adverse price effect, or there is no investments in obligors affiliated with or securities issued by the participant.

4.8 Money settlement

4.8.1 Where a Recognised Clearing House conducts its money settlements using commercial bank money, it must adopt appropriate measures to minimise and strictly control the credit and liquidity risk arising from such use.

4.8.2 For the purposes of Rule 4.8.1, a Recognised Clearing House must:

- (a) conduct its money settlements using only such settlement assets with little or no credit or liquidity risk;
- (b) monitor, manage, and limit its credit and liquidity risks arising from commercial settlement banks. In particular, it must establish and monitor adherence to strict criteria for the use of settlement banks, which take into account, among other things, the regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability of the relevant settlement banks; and
- (c) monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks, including, to the extent such banks are also Members ensure that its legal agreements with such settlement banks, at a minimum:
 - (i) specify clearly when transfers on the books of individual settlement banks are expected to occur and when they are final;
 - (ii) ensure that funds received are transferable as soon as possible, if not intra-day, at least by the end of the day to enable it and its Members and other participants on its facilities to manage their credit and liquidity risks; and
 - (iii) not permit such banks to combine or offset any right or liability they or their affiliates may have in their capacity as a Clearing Member.

4.8.3 If a Recognised Clearing House does not conduct its money settlement on commercial bank money but on its own books, it should minimise and strictly control its credit and liquidity risks as appropriate.

4.9 Physical delivery

4.9.1 A Recognised Clearing House incurring obligations that require physical delivery of physical instruments or commodities must:

- (a) provide adequate information to its Members and other participants using its facilities relating to its obligations with respect to physical delivery of the physical instruments or commodities. Such information must also be made publicly available;



- (b) identify, monitor, and manage the risks associated with such physical deliveries; and
- (c) identify, monitor, and manage the risks and costs associated with the storage and delivery.

4.9.2 A Recognised Clearing House must have adequate arrangements, including service agreements, which enable it to meet its physical delivery obligations.

4.9.3 Where a Recognised Clearing House matches participants that have delivery and receipt obligations, the Recognised Clearing House would not need to be involved with the physical storage and delivery process but it should monitor the participants' performance and to the extent practicable, ensure the participants have the necessary systems and resources to be able to fulfil their physical delivery obligations:

4.9.4 The legal obligations for delivery should be clearly expressed in the Business Rules, Default Rules, and any related agreements, including provisions to specify, for instance:

- (a) whether the receiving participant should seek compensation from the Recognised Clearing House or the delivering participant in the event of a loss; and
- (b) if the Recognised Clearing House holds margin on the matched participants, such margin will only be released until the Recognised Clearing House confirms that both participants have fulfilled their obligations.

4.10 Collateral and margin

4.10.1 A Recognised Clearing House must call and receive collateral to manage its risks arising in the course of or for the purposes of its payment, Clearing, and settlement processes. It must, in the normal course of business, only accept collateral with low credit, liquidity, and market risks.

4.10.2 In some instances, certain types of assets which are not considered to have low credit, liquidity and market risks may be acceptable for credit purposes if the Recognised Clearing House sets and enforces appropriately conservative haircuts and concentration limits and appropriate collateral risk management procedures are put in place by the Recognised Clearing House. A Recognised Clearing House may, in some circumstances, accept the deliverable of a contract as collateral against the contract for exchange.

4.10.3 A Recognised Clearing House must, for the purposes of meeting the requirement in Rule 4.10.1, establish and implement a collateral management system that is well designed and operationally flexible to enable ongoing monitoring and management of collateral. A Recognised Clearing House must also ensure that it is confident of the collateral's value in the event of liquidation and its capacity to use that collateral quickly, especially in stressed market conditions. Such a system must, at a minimum:

- (a) allow for timely calculation and execution of margin calls, accurate daily reporting of initial and variation margin, and the management of any disputes;
- (b) track the extent of reuse of collateral by the Recognised Clearing House (both cash and non-cash) and the rights of the Recognised Clearing House to the collateral;



- (c) accommodate timely deposit, withdrawal, substitution and liquidation of collateral;
- (d) regularly adjust its requirements for acceptable collateral in accordance with changes in underlying risks;
- (e) establish prudent valuation practices, including daily marking to market of the Recognised Clearing House's collateral;
- (f) develop haircuts that are regularly tested, independently validated at least annually and take into account stressed market conditions;
- (g) reduce the need for procyclical adjustments, by establishing, to the extent practicable and prudent, stable and conservative haircuts that are calibrated to include periods of stressed market conditions;
- (h) establish concentration limits which are periodically reviewed by the Recognised Clearing House to determine their adequacy or imposing concentration charges to avoid concentrated holdings of certain assets where that would significantly impair the ability to liquidate such assets quickly without significant adverse price effects; and
- (i) mitigate, if it accepts collateral held in another jurisdiction or governed by non-Abu Dhabi Global Market law, the risks and exposures associated with such use, including considering foreign exchange risk, legal and operational challenges such as differences in operating hours of foreign custodians and central securities depositories and conflicts of law risks. Such measures must ensure that the collateral can be used in a timely manner and should identify and address any significant liquidity effects and legal risks.

4.10.4 If a Recognised Clearing House plans to use assets held as collateral to secure liquidity facilities in the event of a participant default, the Recognised Clearing House must:

- (a) consider, in determining acceptable collateral, what will be acceptable as security to lenders offering liquidity facilities.
- (b) measure and monitor the correlation between a counterpart's creditworthiness and the collateral posted; and
- (c) take measures to mitigate risks, that the collateral would likely lose value in the event that the participant providing the collateral defaults.

4.10.5 The rules of the Recognised Clearing House must set out:

- (a) collateral and margin requirements and collateral management process, and specify when a Recognised Clearing House may reuse or invest its participants' collateral and the process for returning that collateral to participants; and
- (b) in the event of a default, that margin provided by the defaulter for any client account is not to be applied to meet a shortfall its own proprietary account.



4.10.6 A Recognised Clearing House must, for the purposes of managing its credit and the requirements in Rules 4.10.7 and 4.10.8:

- (a) mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures;
- (b) have necessary authority and operational capacity to make intra-day margin calls and payments, both scheduled and unscheduled, to participants; and
- (c) regularly review and validate its margin system to ensure that it operates effectively and as intended.

4.10.7 The margin system of a Recognised Clearing House must, at a minimum:

- (a) establish margin levels which are commensurate with the risks and particular attributes of each product, portfolio, and market it serves, especially the risk of credit exposures posed by open positions of its Members or other participants using its facilities;
- (b) use a reliable source of timely price data for its margin system, and also procedures and sound valuation models for addressing circumstances in which pricing data is not readily available or reliable;
- (c) adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to Members and other participants using its facilities in the interval between the last margin collection and the close-out of positions following a participant default;
- (d) adopt a daily (and where appropriate, intra-day) calculation and collection policy of variation margin based on models and parameters that manages current and potential future exposures; and
- (e) analyse and review the performance of the margin model and overall margin coverage by:
 - (i) conducting rigorous daily back-testing to evaluate whether there are any exceptions to its initial margin coverage at least monthly, and more frequently as appropriate;
 - (ii) sensitivity analysis to determine the impact of varying important model parameters, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices; and
 - (iii) an assessment of the theoretical and empirical properties of its margin model for all products it clears.

4.10.8 The initial margin established pursuant to Rule 4.10.7(c) must:

- (a) at the Member's portfolio level, be applied in respect of each portfolio's distribution of future exposure. If a Recognised Clearing House uses portfolio margining, it should continuously review and test offsets among products;



- (b) at more granular levels, meet the corresponding distribution of future exposures; and
- (c) use models which, among other things:
 - (i) rely on conservative estimates of the time horizons for the effective hedging or close-out of the particular types of products cleared by the Recognised Clearing House, including in stressed market conditions; and
 - (ii) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and, to the extent practicable and prudent, limit the need for destabilising procyclical changes.

4.10.9 A Recognised Clearing House may allow offsets or reductions in required margin across products that it clears or between products that it and another Recognised Clearing House clear, if the risk of one product is significantly and reliably correlated with the risk of the other product.

4.10.10 Where two or more Recognised Clearing Houses are authorised to offer cross-margining, they must have appropriate safeguards and harmonised overall risk-management systems.

4.11 Settlement finality

4.11.1 A Recognised Clearing House must have adequate arrangements to ensure clear and certain final settlement of payments, transfer instructions or other obligations of Members and other participants using its facilities and, where relevant, its own obligations. Where possible, a Recognised Clearing House should provide intra-day or real-time settlement finality to reduce settlement risk.

4.11.2 A Recognised Clearing House's arrangements for final settlement must:

- (a) ensure that, if intra-day or real-time settlement is not feasible, final settlement (of any payment, transfer instruction, or other obligation that has been submitted to and accepted by a Recognised Clearing House in accordance with its acceptance criteria) occurs at least by the end of the value date of the relevant transaction; and
- (b) clearly define:
 - (i) the point at which the transfer instruction takes effect as having been entered into the system and when the final settlement occurs;
 - (ii) the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by the parties to the underlying contract; and
- (c) prohibit the revocation by a Member, participant or other user of a transfer instruction from the point specified in accordance with sub-paragraph (b)(ii).

4.11.3 For the purposes of this Rule:

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- (a) "final settlement" is the irrevocable and unconditional transfer of an asset or Financial Instrument, or the discharge of obligations arising under the underlying contract by the parties to the contract; and
- (b) "value date" is the day on which the payment, transfer instruction, or other obligation arising under the underlying contract is due and, accordingly, the associated funds or Investments are available to the respective parties under the contract.

4.12 Segregation and portability

4.12.1 A Recognised Clearing House acting as a Recognised Clearing House must have systems and procedures to enable segregation and portability of positions of the clients of its Members and other participants on its facilities, and any collateral provided to it with respect to those positions. Such systems and procedures must enable the Recognised Clearing House to:

- (a) maintain the client positions and any related collateral referred to in 4.12.1 in individual client accounts or in Omnibus Client Accounts; and
- (b) structure its portability arrangements so that the positions and collateral of a defaulting Member's or other participant's clients can be transferred to one or more other Members or participants.

4.12.2 A Recognised Clearing House's systems and controls must, at a minimum, provide for the following:

- (a) the segregation and portability arrangements that effectively protect the positions and related collateral of the clients of the Members or other participants on its facilities, from the default or insolvency of the relevant Member or other participants;
- (b) if the Recognised Clearing House offers additional protection of the client positions and related collateral against the concurrent default of both the relevant Member or other participants or other clients, the adoption of necessary measures to ensure that the additional protection offered is effective; and
- (c) the use of account structures that enable the Recognised Clearing House to readily identify assets and positions of the clients of the relevant Member or other participant, and to segregate their related collateral.

4.12.3 The requirement to distinguish assets and positions in accounts in 4.12.2(a) is satisfied where:

- (a) the assets and positions are recorded in separate accounts;
- (b) the netting and positions recorded on different accounts is prevented; and
- (c) the assets covering the positions recorded in an account are not exposed to losses connected to positions recorded in another account.

4.12.4 In relation to 4.12.2(a) above, a Recognised Clearing House shall offer to



- (a) keep separate records and accounts enabling its Members or participants to distinguish in accounts with the Recognised Clearing House its assets and positions from those held for the accounts of its clients ('Omnibus Client Segregation'); or
- (b) keep separate records and accounts enabling its Members or participants to distinguish in accounts with the Recognised Clearing House the assets and positions held for the account of a specific client from those held for the account of other clients ('Individual Client Segregation'). If requested, the Recognised Clearing House must offer Members or participants the possibility to open more accounts in their own name or for the account of their clients.

4.12.5 A Recognised Clearing House must make available to its Members and other participants using its facilities, its rules, policies and procedures relating to the segregation and portability of the positions and related collateral of the clients of its Members and other participants using its facilities. This includes specifying the method for determining the value at which client positions will be transferred.

4.12.6 A Recognised Clearing House should also disclose whether:

- (a) the segregated assets and/or client collateral are held by the Recognised Clearing House or unaffiliated third-party custodians that hold assets on behalf of the Recognised Clearing House;
- (b) the Recognised Clearing House takes title transfer or if it takes a security interest, whether it has a right of use or re-use of client collateral and when;
- (c) the clients' collateral is protected on an individual or omnibus basis or a Clearing Member default for different accounts; and
- (d) there are any constraints, such as legal or operational, that may impair its ability to segregate or transfer a Member's or other participant's clients' positions and related collateral.

4.12.7 In this section, assets refers to collateral held to cover positions and include the right to the transfer of assets equivalent to that collateral or the proceeds of the realisation of any collateral, but does not include default fund contributions.

4.12.8 In relation to a Non-Abu Dhabi Global Market Recognised Clearing House, this Chapter does not prevent other customer segregation models being offered to Clearing Members outside the Abu Dhabi Global Market. In relation to clearing members of clearing houses incorporated outside the Abu Dhabi Global Market, this Chapter does not require such clearing members to offer levels of segregation which are not made available by such clearing houses.

4.13 Rules relating to Central Securities Depositories

4.13.1 If a Recognised Clearing House also carries out functions of a Central Securities Depository, it may do so pursuant to its exemption or alternatively may seek an additional registration as an authorised Person solely in respect of its activities as a Central Securities Depository, provided that its recognition order includes a stipulation permitting it to do



so. If the recognition order does include such a stipulation, the rules that are applicable to Central Securities Depositories in COBS pursuant to COBS 10.2 will apply to that function, but that function only, and no other provisions of the Rulebook except MIR and such provisions of COBS shall apply.



5 NOTIFICATION RULES FOR RECOGNISED BODIES

5.1 Application and purpose

Application

5.1.1 The notification rules in this chapter apply to all Recognised Bodies, including Non-Abu Dhabi Global Market Recognised Bodies.

5.1.2 The notification rules in this chapter are in addition to the requirements on Recognised Bodies to give notice or information to the Regulator under the Act.

Purpose

5.1.3 The notification rules in this chapter are made by the Regulator in order to ensure that it is provided with notice of events and information which it reasonably requires for the exercise of its functions.

5.2 Form and method of notification

Form of notification

5.2.1 Where a Recognised Body is required to give any notice or information under any notification rule, it may do so (unless that rule expressly provides otherwise) orally or in writing, whichever is the more appropriate in the circumstances, but where it gives notice or information orally, it must confirm that notice or information in writing promptly.

Method of notification

5.2.2 Unless otherwise stated in the notification rule, a written notification required from a Recognised Body under any notification rule must be given to, or addressed for the attention of, the Recognised Body's usual supervisory contact at the Regulator and:

- (a) delivered by recorded courier to the address in Rule 5.2.3;
- (b) delivered by electronic mail to an address for the Recognised Body's usual supervisory contact at the Regulator and obtaining an electronic confirmation of receipt; or
- (c) delivered by hand to the Recognised Body's usual supervisory contact at the Regulator.

5.2.3 The address for a written notification to the Regulator is:

Financial Services Regulatory Authority
Abu Dhabi Global Market Square
Al Mariyah Island
P.O. Box 111999
Abu Dhabi
United Arab Emirates



Timely notification

5.2.4 If a notification rule requires notification within a specified period:

- (a) the Recognised Body must give the notification so as to be received by the Regulator no later than the end of that period; and
- (b) if the end of that period falls on a day which is not a business day, the notification must be given so as to be received by the Regulator no later than the start of the first business day after the end of that period.

5.3 Waivers

5.3.1 The Regulator may, on the application or with the consent of a Recognised Body, direct that any notification rule is not to apply to the body or is to apply with such modifications as may be specified in the waiver. Such waiver may be made subject to conditions.

5.4 Notification requirements

5.4.1 A Recognised Body must, in the circumstances noted, notify the Regulator of the following information:

	Event	Timing	Information Requirement
Key Individuals			
1.	A Recognised Body proposes to appoint or elect a Person as a Key Individual.	At least thirty days before appointment or election is effective.	(a) Name; (b) date of birth; and (c) description of the responsibilities in the post.
2.	A Person has resigned as, or has ceased to be, a Key Individual of the Recognised Body.	As soon as practicable.	Name.
3.	A major change in responsibilities of a Key Individual is made which amounts to a new appointment.	At least thirty days before change is effective.	(a) Name; and (b) description of the new responsibilities.
Standing committees			
4.	The governing body delegates any of its relevant functions to a standing committee, or appoints a standing committee to manage or oversee the carrying out of any of that Recognised Body's relevant functions.	As soon as practicable.	(a) Names of the members of that standing committee; and (b) the terms of reference of that standing committee (including a description of any powers delegated to that committee and any conditions or limitations placed on the exercise of those powers).
5.	There is any change in the composition or the terms of reference of a standing committee or any such committee is dissolved.	As soon as practicable.	(a) Changes to the names of the members of that standing committee; and (b) changes to the terms of reference of that standing committee (including a



	Event	Timing	Information Requirement
			description of any powers delegated to that committee and any conditions or limitations placed on the exercise of those powers).
Disciplinary action and events relating to Key Individuals			
6.	Where any Key Individual: (a) is the subject of any disciplinary action because of concerns about his alleged misconduct; (b) resigns as a result of an investigation into his alleged misconduct; or (c) is dismissed for misconduct.	As soon as practicable.	(a) Name of the Key Individual and his responsibilities within the Recognised Body; (b) details of the acts or alleged acts of misconduct by that Key Individual; and (c) details of any disciplinary action which has been or is proposed to be taken by that body in relation to that Key Individual.
7.	Any of the following has occurred in relation to a Key Individual: (a) a petition for bankruptcy is presented (or similar or analogous proceedings under the law of a jurisdiction outside the Abu Dhabi Global Market are commenced); (b) a bankruptcy order (or a similar or analogous order under the law of a jurisdiction outside the Abu Dhabi Global Market) is made; or (c) he enters into a voluntary arrangement (or a similar or analogous arrangement under the law of a jurisdiction outside the Abu Dhabi Global Market) with his creditors.	As soon as the Recognised Body becomes aware of the relevant event.	Details of the relevant event.
Constitution and governance			
8.	A Recognised Body proposes to circulate any notice or other document proposing any amendment to its memorandum or articles of association (or other similar agreement or document relating to its constitution) to its shareholders (or any group or class of them), its Members (or any group or class of them), or any other group or class of Persons which has the power to make that amendment or whose consent or approval is required before it may be made.	In advance of circulation or otherwise as soon as reasonably practicable.	(a) The proposed amendments; (b) the reasons for the proposal; and (c) a description of the group or class of Persons to whom the proposal is to be circulated.
9.	A change to a Recognised Body's memorandum or articles of association (or other similar agreement or document	As soon as practicable.	(a) Details of the amendment; and



	Event	Timing	Information Requirement
	relating to its constitution) becomes effective.		(b) the date on which the amendment took effect.
10.	Any change is made to an agreement which relates to the constitution or governance of a Recognised Body: (a) between that Recognised Body and another Person; (b) between the owners of that Recognised Body; (c) between the owners of that Recognised Body and another Person; or (d) between other Persons.	As soon as practicable.	(a) Details of the change; and (b) the date on which the change took effect.
Auditors			
11.	The auditors of a Recognised Body cease to act as such.	As soon as practicable.	(a) Whether the appointment of those auditors expired or was terminated; (b) the date on which the auditors ceased to act; and (c) if the Recognised Body terminated, or decided not to renew, their appointment, its reasons for taking that action or decision.
12.	Appointment of new auditors.	As soon as practicable.	(a) The name and business address of those new auditors; and (b) the date of their appointment.
Financial information			
13.	Publication of a Recognised Body's: (a) annual report and accounts; (b) consolidated annual report and accounts of any group in which the Recognised Body is a subsidiary undertaking, or (if the Recognised Body is not a subsidiary undertaking in any group) of any group of which the Recognised Body is a parent undertaking.	The latest of: (a) four months after the end of the financial year to which the document relates; (b) the time when the document is sent to the Members or shareholders of the Recognised Body; or (c) the time when the document is sent to the shareholders in a parent undertaking of the group to which that document relates.	A copy of the relevant document.



	Event	Timing	Information Requirement
14.	An audit committee has prepared a report in relation to any period or any matter relating to any relevant function of that Recognised Body.	As soon as practicable.	A copy of the relevant report.
15.	Publication of a Recognised Body's: (a) quarterly management accounts; or (b) monthly management accounts.	Within one month of the end of the period to which they relate.	A copy of the relevant accounts.
16.	Preparation of: (a) a statement of a Recognised Body's anticipated income, expenditure and cashflow for each financial year; and (b) an estimated balance sheet showing its position as it is anticipated at the end of each financial year.	Before the beginning of the financial year to which they relate.	A copy of the relevant document.
17.	Accounting reference date is changed.	As soon as practicable.	New accounting reference date.
Fees and incentive schemes			
18.	Any proposal to change the fees or charges levied on a Recognised Body's Members (or any group or class of them) is made.	As close to the time when the proposal is communicated to those Members as practicable.	A summary of any such proposal made.
19.	Any change is made to fees or charges levied on a Recognised Body's Members (or any group or class of them) is made.	No later than the date when the changes are published or notified to those Members.	A summary of any such changes.
Complaints			
20.	(a) Where a Recognised Body's complaints investigator has investigated a complaint arising in connection with the performance of, or failure to perform, any of its Regulatory Functions; and (b) that complaints investigator has made a recommendation in respect of that complaint that the Recognised Body should: (i) make a compensatory payment to any Person; or (ii) remedy the matter which was the subject of that complaint.	As soon as practicable.	A notification of that event.
21.	When the complaints investigator's report, as referred to above, and the particulars of his recommendations are made available to the Recognised Body.	As soon as practicable.	(a) A copy of the complaints investigator's report; and (b) particulars of his recommendations.
Insolvency events			



	Event	Timing	Information Requirement
22.	<p>On:</p> <p>(a) the presentation of a petition for the winding up of a Recognised Body (or the commencement of any similar or analogous proceedings under the law of a jurisdiction outside the Abu Dhabi Global Market); or</p> <p>(b) the appointment of a receiver, administrator, liquidator, trustee or sequestrator of assets of that body (or of any similar or analogous appointment under the laws of a jurisdiction outside the Abu Dhabi Global Market); or</p> <p>(c) the making of a voluntary arrangement by that body with its creditors (or of any similar or analogous arrangement under the law of a jurisdiction outside the Abu Dhabi Global Market).</p>	As soon as practicable.	A notification of that event.
Legal proceedings			
23.	<p>If any civil or criminal legal proceedings are instituted against a Recognised Body, except where all of the conditions stated at (a) – (c) are met in respect of those proceedings:</p> <p>(a) the amount of damages claimed would not significantly affect that Recognised Body's financial resources, if the claim were successful;</p> <p>(b) the claim would not have a significant adverse effect on the reputation and standing of that body, if that claim were successful; and</p> <p>(c) the claim does not relate to that body's Regulatory Functions.</p>	As soon as practicable.	<p>For civil proceedings:</p> <p>(a) the name of the claimant;</p> <p>(b) particulars of the claim;</p> <p>(c) the amount of damages;</p> <p>(d) any other remedy sought by the claimant; and</p> <p>(e) particulars of any allegation that any act or omission of that body was in bad faith.</p> <p>For criminal proceedings: the particulars of the offence with which that body is charged.</p>
Delegation of relevant functions			
24.	Where a Recognised Body makes an offer or agrees to delegate any of its relevant functions to another Person in respect of any activities forming a significant part of a relevant function or which make a significant contribution to the performance of a relevant function of that Recognised Body.	As soon as practicable.	<p>(a) The reasons for that delegation or proposed delegation;</p> <p>(b) the reasons why the Recognised Body is satisfied that it will continue to meet the Recognition Requirements following that delegation;</p> <p>(c) a copy of the invitation to tender, if the offer is made by issuing a written invitation to tender to another body or Person; and</p>



	Event	Timing	Information Requirement
			(d) a copy of the agreement, where the Recognised Body makes such an agreement.
25.	A Recognised Body makes an offer or agrees to undertake any relevant function of another Recognised Body in respect of any activities forming a significant part of a relevant function, or which make a significant contribution to the performance of a relevant function, of that other Recognised Body.	As soon as practicable.	A notification of that event.
Products, services and normal hours of operation			
26.	A Recognised Body proposes to admit to trading (or to cease to admit to trading) by means of its facilities: (a) a Specified Investment (other than a security or an option in relation to a security); or (b) a type of security or a type of option in relation to a security.	As soon as practicable.	(a) A description of the Specified Investment to which the proposal relates; (b) where that Specified Investment is a Derivative, the proposed terms of that Derivative; and (c) in the case of a Recognised Body which is admitting that Specified Investment to trading, the name of any Recognised Body which will provide Clearing Services in respect of that Specified Investment under an agreement with that Recognised Body.
27.	A Recognised Body removes a Financial Instrument from trading on a regulated market.	As soon as practicable.	(a) Notice of that event; (b) relevant information including particulars of that Financial Instrument; and (c) the reasons for the action taken.
28.	A Recognised Body proposes to provide (or to cease to provide) Clearing facilitation services in respect of: (a) a Specified Investment (other than a security or an option in relation to a security); or (b) a type of security or a type of option in relation to a security.	As soon as practicable.	(a) Notice of that event; (b) a description of the Specified Investment to which the proposal relates; (c) where that Specified Investment is a Derivative, the proposed terms of that Derivative; and (d) in the case of a Recognised Body which is admitting that Specified Investment to trading, the name of any Recognised Body which will provide Clearing Services in respect of that Specified Investment under



	Event	Timing	Information Requirement
			an agreement with that Recognised Body.
29.	A Recognised Body proposes to amend the standard terms of any Derivative admitted to trading by means of its facilities.	As soon as practicable.	(a) Notice of that event; and (b) written particulars of those proposed amendments.
30.	A Recognised Body proposes to amend the standard terms relating to any Derivative in respect of which it provides Clearing facilitation services.	As soon as practicable.	(a) Notice of that event; and (b) written particulars of those proposed amendments.
31.	A Recognised Body proposes to make (or to cease to make) arrangements for the safeguarding and administration of assets belonging to any other Person (other than an undertaking in the same group).	As soon as practicable.	(a) Notice of that event; (b) a description of the assets (or types of assets) to which the proposal relates; and (c) the date or dates on which the arrangements will be made (or cease to be made).
32.	A Recognised Body proposes to change its normal hours of operation.	As soon as practicable.	(a) Notice of that proposal; (b) the particulars of the proposal; and (c) the reasons for the actions proposed.
Suspension of services and inability to operate facilities			
33.	A Recognised Body: (a) suspends trading in any Derivative (other than an option in relation to a security), in any type of security or in any type of option in relation to a security; or (b) temporarily calls a trading halt in respect of any type of security or in any type of option in relation to a security.	As soon as practicable.	(a) Notice of that event; (b) particulars of that Derivative, type of security or type of option in relation to a security, as the case may be; and (c) the reasons for the action taken.
34.	A Recognised Body suspends trading on a regulated market in any Financial Instrument.	As soon as practicable.	(a) Notice of that event; (b) relevant information including particulars of that Financial Instrument; and (c) the reasons for the action taken.
35.	A Recognised Body suspends providing Clearing facilitation services generally in respect of any Derivative (other than an option in relation to a security), type of security or type of option in relation to a security.	As soon as practicable.	(a) Notice of that event; (b) particulars of that Derivative, type of security or type of option in relation to a security, as the case may be; and (c) the reasons for the action taken.
36.	A Recognised Body suspends any arrangements it makes for the safeguarding and administration of any	As soon as practicable.	(a) Notice of that event; (b) particulars of that type of asset; and



	Event	Timing	Information Requirement
	type of asset belonging to any other Person (other than an undertaking in the same group).		(c) the reasons for the action taken.
37.	A Recognised Body is unable to operate any of its facilities within its normal hours of operation, due to the occurrence of any event or circumstances.	As soon as practicable.	(a) Notice of that event; (b) which facility the Recognised Body is unable to operate; (c) what event or circumstance has caused it to become unable to operate that facility within those hours; and (d) what action, if any, the Recognised Body is taking or proposes to take to enable it to recommence operating that facility.
38.	A Recognised Body extends its hours of operation, due to the occurrence of any event or circumstances.	As soon as practicable.	(a) Notice of that event; (b) what event or circumstance has caused it to do so; (c) the new hours of operation; and (d) the date on which it expects to revert to its normal hours of operation.
Information technology systems			
39.	A Recognised Body changes any of its plans for action in the event of a failure of any of its information technology systems resulting in disruption to the operation of its facilities; unless the changes are only minor revisions to, or updating of, the documents containing a Recognised Body's business continuity plan (for example, changes to contact names or telephone numbers).	As soon as practicable.	(a) Notice of that event; and (b) a copy of the new plan.
40.	Any reserve information technology system of a Recognised Body fails in such a way that, if the main information technology system of that body were also to fail, it would be unable to operate any of its facilities during its normal hours of operation.	As soon as practicable.	(a) Notice of that event; (b) what action that Recognised Body is taking to restore the operation of the reserve information technology system; and (c) when it is expected that the operation of that system will be restored.
Inability to discharge Regulatory Functions			
41.	A Recognised Body is unable to discharge any Regulatory Function because of the occurrence of any event or circumstances.	As soon as practicable.	(a) Notice of that event; (b) what event or circumstances has caused it to become unable to do so;



	Event	Timing	Information Requirement
			(c) which of its Regulatory Functions it is unable to discharge; and (d) what action, if any, it is taking or proposes to take to deal with the situation and, in particular, to enable it to recommence discharging that Regulatory Function.
Membership			
42.	A Recognised Body admits a new Member.	As soon as practicable.	(a) Notice of that event; (b) a description of the Person whom it is admitting to Membership; and (c) particulars of its reasons for considering that the relevant criteria are met.
43.	A Recognised Body admits for the first time a Member whose head or registered office is in a jurisdiction from which that Recognised Body has not previously admitted Members.	As soon as practicable.	(a) Notice of that event; (b) the name of that jurisdiction; (c) the name of any regulatory authority in that jurisdiction which regulates that Member in respect of activities relating to Specified Investments; and (d) particulars of its reasons for considering that, in admitting a Member from that jurisdiction to Membership, the Recognised Body is able to continue to satisfy the Recognition Requirements which apply to it.
Investigations			
44.	A Recognised Body becomes aware that a Person has been appointed by any regulatory body (other than the Regulator or a Recognised Body) to investigate: (a) any business transacted by means of its facilities; or (b) any aspect of the Clearing facilitation services which it provides. Notifications do not need to be made in respect of: (a) routine inspections or visits undertaken in the course of regular monitoring, complaints handling or as part of a series of 'theme visits';	As soon as practicable.	Notice of that event.



	Event	Timing	Information Requirement
	(b) routine requests for information; or (c) investigations into the conduct of Members of the Recognised Body or of other users of its facilities where the use of its facilities is a small or incidental part of the subject matter of the investigation.		
Disciplinary action relating to Members			
45.	A Recognised Body has taken any disciplinary action against any Member or any employee of a Member, in respect of a breach of a rule relating to the carrying on by the Recognised Body of any of its Regulatory Functions.	As soon as practicable.	(a) Notice of that event; (b) the name of the Person concerned; (c) details of the disciplinary action taken by the Recognised Body; and (d) the Recognised Body's reasons for taking that disciplinary action.
46.	An appeal is lodged against any disciplinary action taken by a Recognised Body against any Member or any employee of a Member, in respect of a breach of a rule relating to the carrying on by the Recognised Body of any of its Regulatory Functions.	As soon as practicable.	(a) Notice of that event; (b) the name of the appellant; (c) the grounds on which the appeal is based; and (d) the outcome of the appeal, when known.
Criminal offences and civil prohibitions			
47.	A Recognised Body has evidence tending to suggest that any Person has: (a) been carrying on any Regulated Activity in the Abu Dhabi Global Market in contravention of the general prohibition; (b) been engaged in market abuse; committed a criminal offence under the Act or subordinate legislation made under the Act; or (d) committed a criminal offence under the Anti-Money Laundering rules.	As soon as practicable.	(a) Notice of that event; and (b) full details of that evidence in writing.
Restriction of, or instruction to close out, open positions			
48.	A Recognised Body decides to: (a) restrict the open position on any of the contracts of a Member; or (b) issue instructions to a Member to close out its positions on any contracts.	As soon as practicable.	(a) Notice of that event; (b) the Member's name; (c) the nature and size of any position to be restricted or closed out; and (d) the reasons for the Recognised Body's decision.
Default			



	Event	Timing	Information Requirement
49.	A Recognised Body decides to put a Member into default.	As close to when such a decision is taken by a Recognised Body as practicable.	(a) Notice of that event; (b) the name of the Member and (where relevant) the class of Membership; (c) the reasons for that decision; and (d) the names of any other exchange, Clearing house or auction platform on which, to the best of that Recognised Body's knowledge, that Member clears business or transacts for, or in respect of, its clients.
Transfers of ownership			
50.	A Recognised Body becomes aware of a transfer of ownership of the Recognised Body which gives rise to a change in the Persons who are in a position to exercise significant influence over the management of the Recognised Body, whether directly or indirectly. The Regulator may regard a Person who falls within any of the cases in FSMR as being in a position to exercise significant influence.	In advance of the transfer taking place, to allow for approval under section 105 FSMR.	(a) Notice of that event; (b) the name of the Person(s) concerned; and (c) the details of the transfer.
Significant breaches of rules and disorderly trading conditions			
51.	Any of the following events arise: (a) significant breaches of a Recognised Body's rules; or (b) disorderly trading conditions on any of its markets or auctions.	As soon as practicable.	Notice of that event.
Rule changes			
52.	A Recognised Body issues a consultation on proposed changes to its rules or procedures.	As soon as practicable.	A copy of the consultation paper and accompanying documentation.
53.	Changes to a Recognised Body's rules or procedures become effective.	As soon as practicable.	A copy of the amended rules or procedures.
54.	A Recognised Body issues guidance on or a circular relating its rules or procedures.	As soon as practicable.	A copy of the guidance or circular.
Recognised Clearing House capital			
55.	The amount of capital falls below the notification threshold set out in Rule 4.2.4.	As soon as practicable.	(a) The reasons for the Recognised Clearing House's capital being below the notification threshold and a description of the short-term perspective of the Recognised



	Event	Timing	Information Requirement
			Clearing House's financial situation; and (b) a comprehensive description of the measures the Recognised Clearing House intends to adopt to ensure the ongoing compliance with the capital requirements.



6 SUPERVISION

6.1 Suspension and removal of Financial Instruments from trading

6.1.1 The Regulator may for the purpose of protecting:

- (a) the interests of investors; or
- (b) the orderly functioning of the financial markets,

require a Recognised Investment Exchange to suspend or remove a Financial Instrument from trading or require a Recognised Clearing House to cease Clearing a Financial Instrument and to invoice back all open contracts.

6.1.2 If the Regulator exercises this power, the Recognised Body concerned may refer the matter to the Regulatory Committee.

6.1.3 The procedure the Regulator will follow if it exercises its power to require a Recognised Body to suspend or remove a Financial Instrument from trading or Clearing is set out in Part 14 of FSMR. The Regulator's internal arrangements provide for decisions to exercise this power to be taken at an appropriately senior level. If the Regulator exercises this power, the Recognised Body concerned and the issuer (if any) of the relevant Financial Instrument may refer the matter to the Regulatory Committee.

6.1.1 If the Regulator exercises its power to require a Recognised Body to suspend or remove a Financial Instrument from trading or Clearing, it must as soon as reasonably practicable, publish its decision in such manner as it considers appropriate.

6.2 Information gathering power on Regulator's own initiative

6.2.1 While the Regulator will seek to obtain information from a Recognised Body in the context of an open, cooperative and constructive relationship with the Recognised Body, where it appears to the Regulator that obtaining information in that context will not achieve the necessary results, the Regulator or (as the case may be) its officers may, by notice in writing, require the Recognised Body or any Person who is connected to the Recognised Body to provide or produce specified information or information of a specified description, at a specified place and before the end of a reasonable period, in such form and with such verifications or authentications as it may reasonably require.

6.2.2 A Person is connected with a Recognised Body if he is or has at any relevant time been:

- (a) a Member of the Recognised Body's group;
- (b) a controller of the Recognised Body;
- (c) any other Member of a partnership of which the Recognised Body is a Member;
or
- (d) a Person mentioned in section 39 of FSMR (reading references in that Part to the "authorised Person" as references to the Recognised Body).



6.3 Risk assessments for Recognised Bodies

6.3.1 Information is needed to support the Regulator's risk-based approach to the supervision of all regulated entities. Risk-based supervision is intended to ensure that the allocation of supervisory resources and the supervisory process are compatible with the Regulatory objectives and the Regulator's general duties. The central element of the process of risk-based supervision is a systematic assessment by the Regulator (a risk assessment) of the main supervisory risks and concerns for each regulated entity.

6.3.2 For each Recognised Body, the Regulator will conduct a periodic risk assessment. This assessment will take into account relevant considerations including the special position of Recognised Bodies under the Act, the nature of the Recognised Body's Members, the position of other users of its facilities and the business environment more generally.

6.3.3 The risk assessment will guide the Regulator's supervisory focus. It is important, therefore, that there is good dialogue between the Regulator and the Recognised Body. The Regulator expects to review its risk assessment with the staff of the Recognised Body to ensure factual accuracy and a shared understanding of the key issues, and may discuss the results of the risk assessment with Key Individuals of the Recognised Body. If appropriate, the Regulator may send a detailed letter to the body's chief executive, chairman or both with proposals for further action or work to address particular concerns or issues and seek their comments on the risk assessment.

6.4 Complaints

Recognised Body's arrangements

6.4.1 Recognised Bodies may receive complaints from time to time from their Members and other people, both about the conduct of Members and about the Recognised Body itself. A Recognised Body will need to have satisfactory arrangements to investigate these complaints in order to satisfy the relevant Recognition Requirements (see Rule 2.12 and Rule 2.13).

Regulator's arrangements

6.4.2 The Regulator is required to have arrangements to investigate complaints which it considers relevant to the question of whether a Recognised Body should remain recognised as such. This section describes aspects of the Regulator's arrangements for investigating relevant complaints.

6.4.3 Where the Regulator receives a complaint about a Recognised Body, it will, in the first instance, seek to establish whether the complainant has approached the Recognised Body. Where this is not the case, the Regulator will ask the complainant to complain to the Recognised Body. Where the complainant is dissatisfied with the handling of the complaint, but has not exhausted the Recognised Body's own internal complaints procedures (in the case of a complaint against a Recognised Body, including by applying to that body's complaints investigator), the Regulator will encourage the complainant to do so.



- 6.4.4** The Regulator will not usually consider a complaint which has not, in the first instance, been made to the Recognised Body concerned, unless there is good reason for believing that it is a relevant complaint which merits early consideration by the Regulator.
- 6.4.5** When it is considering a relevant complaint, the Regulator will make its own enquiries as appropriate with the Recognised Body, the complainant and other Persons. It will usually ask the Recognised Body and the complainant to comment upon any preliminary or draft conclusions of its review and to confirm any matters of fact at that stage.
- 6.4.6** The Regulator will communicate the outcome of its review of a relevant complaint to the complainant and the Recognised Body, but will normally only discuss any action which it considers the Recognised Body should take with the Recognised Body itself.
- 6.5** **Regulator supervision of action by Recognised Bodies under their Default Rules**
- 6.5.1** Recognised bodies which, under their rules, have market contracts are required to have Default Rules enabling them (among other things) to take action in relation to a Member who appears to be unable to meet his obligations in respect of one or more unsettled market contracts. The detailed Recognition Requirements relating to the Default Rules are set out in Rule 3.10 and Rule 4.5.
- 6.5.2** The Default Rules for Recognised Clearing Houses are designed to ensure that rights and liabilities between the defaulter and any counterparty to an unsettled market contract are discharged, and for there to be paid between the defaulter and each counterparty one net sum. The Insolvency Regulations contain provisions which protect action taken under Default Rules from the normal operation of insolvency law which might otherwise leave this action open to challenge by a relevant office-holder.
- 6.5.3** The Regulator may direct a Recognised Body to take, or not to take, action under its Default Rules (see Rules 6.5.4 and 6.5.5). Before exercising these powers the Regulator must consult the Recognised Body. The Regulator may also exercise these powers if a relevant office-holder applies to it.
- 6.5.4** The Regulator may issue a "positive" direction (to take action) where in any case a Recognised Body has not taken action under its Default Rules - if it appears to the Regulator that it could take action, the Regulator may direct it to do so. Before giving such a direction the Regulator shall consult the Recognised Body in question; and the Regulator shall not give a direction unless the Regulator is satisfied, in the light of that consultation that failure to take action would involve undue risk to investors or other participants in the market, or that the direction is necessary having regard to the public interest in the financial stability of the Abu Dhabi Global Market, or that the direction is necessary to facilitate a proposed or possible use of a power under COBS 16 or in connection with a particular exercise of a power under that Part.
- 6.5.5** The Regulator may issue a "negative" direction (not to take action) where in any case a Recognised Body has not taken action under its Default Rules - if it appears to the Regulator that it is proposing to take or may take action, the Regulator may direct it not to do so. Before giving such a direction, the Regulator shall consult the Recognised Body in question; and the Regulator shall not give a direction unless the Regulator is satisfied, in the light of that consultation that the taking of action would be premature or otherwise undesirable in the interests of investors or other participants in the market, or that the



direction is necessary having regard to the public interest in the financial stability of the Abu Dhabi Global Market, or that the direction is necessary to facilitate a proposed or possible use of a power under COBS 16 or in connection with a particular exercise of a power under that Part.

6.5.6 A negative direction cannot be given if, in relation to the defaulter, either:

- (a) a bankruptcy order or an award of sequestration of the defaulter's estate has been made, or an interim receiver or interim trustee has been appointed; or
- (b) a winding-up order has been made, a resolution for voluntary winding-up has been passed or an administrator, administrative receiver or provisional liquidator has been appointed,

and any previous negative direction will cease to have effect on the making or passing of any such order, award or appointment.

6.5.7 A negative direction may be expressed to have effect until a further direction is given, which may either be a positive direction or a revocation of the earlier negative direction.

6.5.8 Where a Recognised Body has taken action either of its own accord or in response to a direction, the Regulator may direct it to do or not to do specific things subject to these being within the powers of the Recognised Body under its Default Rules. However,

- (a) where the Recognised Body is acting in accordance with a direction given by the Regulator to take action on the basis that failure to take action would involve undue risk to investors or other participants in the market, the Regulator will not direct it to do or not to do specific things which the Recognised Body has power to do under its Default Rules, unless the Regulator is satisfied that this will not impede or frustrate the proper and efficient conduct of the default proceedings; and
- (b) where the Recognised Body has taken action under its Default Rules without being directed to do so, the Regulator will not direct it to do or not to do specific things which the Recognised Body has power to do under its Default Rules, unless the Regulator is satisfied that:
 - (i) the direction will not impede or frustrate the proper and efficient conduct of the default proceedings; or
 - (ii) the direction is necessary:
 - A. having regard to the public interest in the stability of the Abu Dhabi Global Market financial system;
 - B. to facilitate a proposed or possible use of a power under COBS 16; or
 - C. in connection with a particular exercise of a power under COBS 16.

6.5.9 Where, in relation to a Member (or designated non-Member) of a Recognised Body:

- (a) a bankruptcy order;



- (b) an award of sequestration of his estate;
- (c) an order appointing an interim receiver of his property;
- (d) an administration or winding-up order;
- (e) a resolution for a voluntary winding-up; or
- (f) an order appointing a provisional liquidator,

has been made or passed and the Recognised Body has not taken action under its Default Rules as a result of this event or of the matters giving rise to it, a relevant office-holder appointed in connection with the order, award or resolution may make an application to the Regulator.

6.5.10 The effect of such an application is to require the Recognised Body concerned to take action under its Default Rules or to require the Regulator to take action.

6.5.11 The procedure is that the Regulator must notify the Recognised Body of the application and, unless within three business days after receipt of that notice, the Recognised Body:

- (a) takes action under its Default Rules;
- (b) notifies the Regulator that it proposes to take action forthwith; or
- (c) is directed to take action by the Regulator,

section 268 of the Insolvency Regulations do not apply in relation to market contracts to which the Member or designated non-Member is a party or to anything done by the Recognised Body for the purpose of, or in connection with, the settlement of any market contracts.

6.6 Power to give directions

6.6.1 The Regulator has the power to give directions to a Recognised Body to take specified steps in order to secure its compliance with the Recognition Requirements. Those steps may include granting the Regulator access to the Recognised Body's premises for the purposes of inspecting those premises or any documents on the premises and the suspension of the carrying on of any Regulated Activity by the Recognised Body for the period specified in the direction.

6.6.2 The Regulator is likely to exercise its power if it considers that:

- (a) there has been, or was likely to be, a failure to satisfy one or more of the Recognition Requirements which has serious consequences;
- (b) compliance with the direction would ensure that one or more of the Recognition Requirements is satisfied; and
- (c) the Recognised Body is capable of complying with the direction.



6.6.3 The Regulator need not follow the consultation procedure set out in the rest of Rule 6.9 or may cut short that procedure, if it considers it reasonably necessary to do so.

6.7 Power to direct controllers

6.7.1 The Regulator has the power to give a direction to the controllers of a Recognised Body if it considers that it is desirable to give the direction in order to advance one or more of its operational objectives.

6.7.2 In exercising or deciding whether to exercise its power to direct a controller, the Regulator will have regard to any statement of policy published under this section and for the time being in force.

6.8 Power to revoke recognition

6.8.1 The Regulator has the power to revoke a recognition order relating to a Recognised Body.

6.8.2 The Regulator will revoke a recognition order if the Recognised Body has asked the Regulator to revoke the order.

6.8.3 The Regulator will usually consider revoking a recognition order if:

- (a) the Recognised Body is failing or has failed to satisfy one or more of the Recognition Requirements and that failure has or will have serious consequences; or
- (b) it would not be possible for the Recognised Body to comply with a direction under the Regulator's power to give directions; or
- (c) for some other reason, it would not be appropriate for the Regulator to give a direction under its power to give directions; or
- (d) it has not carried on the business of a Recognised Body during the 12 months beginning with the day on which the recognition order took effect in relation to it, or it has not carried on the business of a Recognised Body at any time during the period of six months ending with the day the recognition order is revoked.

6.8.4 The Regulator would be likely to consider the conditions in Rule 6.8.3(b) or Rule 6.8.3(c) to be triggered in the following circumstances:

- (a) the Recognised Body appears not to have the resources or management to be able to organise its affairs so as to satisfy one or more of the Recognition Requirements; or
- (b) the Recognised Body does not appear to be willing to satisfy one or more of the Recognition Requirements; or
- (c) the Recognised Body is failing or has failed to comply with a direction made by the Regulator; or
- (d) the Recognised Body has ceased to carry out Regulated Activities in the Abu Dhabi Global Market, or has so changed the nature of its business that it no longer



satisfies one or more of the Recognition Requirements in respect of the Regulated Activities for which Recognised Body status is relevant.

6.8.5 In addition to the relevant factors set out in Rule 6.8.4, the Regulator will usually consider that it would not be able to secure a Non-Abu Dhabi Global Market Recognised Body's compliance with the Recognition Requirements or other obligations means of a direction, if it appears to the Regulator that the Non-Abu Dhabi Global Market Recognised Body is prevented by any change in the legal framework or supervisory arrangements to which it is subject in its home territory from complying with the Recognition Requirements or other obligations in or under the Act.

6.8.6 A Recognised Clearing House must terminate, transfer, invoice back or otherwise close out all open contracts prior to any such revocation taking effect.

6.9 Procedure for making orders

6.9.1 A decision to revoke a recognition order, make a direction, or refuse to make a recognition order is a serious one and Rule 6.9.6 sets out procedures which the Regulator will follow unless, in the case of a revocation of a recognition order, the Recognised Body concerned has given its consent or, in case where the Regulator proposes to make a direction, it considers it is reasonably necessary not to follow, or to cut short, the procedure.

6.9.2 The Regulator's internal arrangements provide for any of these decisions to be taken at an appropriately senior level.

6.9.3 In considering whether it would be appropriate to exercise its powers to make directions, the Regulator will have regard to all relevant information and factors including:

- (a) the rules contained in this rulebook;
- (b) the results of its routine supervision of the body concerned;
- (c) the extent to which the failure or likely failure to satisfy one or more of the Recognition Requirements may affect the statutory objectives.

6.9.4 In considering whether or not to make a recognition order, the Regulator will have regard to all relevant information and factors, including its guidance to Recognised Bodies and applicants and the information provided by applicants.

6.9.5 Before exercising its powers to make directions, the Regulator will usually discuss its intention, and the basis for this, with the Key Individuals or other appropriate representatives of the Recognised Body. It will usually discuss its intention not to make a recognition order with appropriate representatives of the applicant.

6.9.6 The procedures that the Regulator will follow in exercising its powers to make directions are:

	The Regulator will:	Guidance
1.	give written notice to the Recognised Body;	The notice will state why the Regulator intends to take the action it proposes to take, and include an invitation to make



	The Regulator will:	Guidance
		representations, and the period within which representations should be made (unless subsequently extended by the Regulator).
2.	receive representations from the Recognised Body concerned;	The Regulator will not usually consider oral representations without first receiving written representations from the Recognised Body. It will normally only hear oral representations from the Recognised Body on request.
3.	write promptly to Recognised Body who requests the opportunity to make oral representations if it decides not to hear that Person's representations;	The Regulator will indicate why it will not hear oral representations and the Regulator will allow the Recognised Body further time to respond.
4.	have regard to representations made;	
5.	(when it has reached its decision) notify the Recognised Body concerned in writing.	

6.10 Disciplinary measures

6.10.1 If the Regulator considers that a Recognised Body has contravened a requirement imposed by the Regulator, or under any provision of the Act whose contravention constitutes an offence the Regulator has power to prosecute, it may:

- (a) publish a statement to that effect; or
- (b) impose on the body a financial penalty of such amount as it considers appropriate.

6.10.2 The procedures and policies which the Regulator will follow if it proposes to publish a statement or to impose a penalty, and if it decides to publish such statement or impose such penalty, are set out in FSMR.

6.10.3 In exercising or deciding whether to exercise its power to impose a penalty, the Regulator will also have regard to any statement of policy published under this section and in force at a time when the contravention in question occurred.

6.10.4 If the Regulator considers that a qualifying parent undertaking of a Recognised Body has contravened a requirement of a direction given by the Regulator, or a provision of rules made by the Regulator, it may:



- (a) impose a penalty of such amount as it considers appropriate on the qualifying parent undertaking of the Recognised Body, or any Person who was knowingly concerned in the contravention; or
- (b) publish a statement censuring the Person.

6.10.5 The procedures which the Regulator will follow if it proposes to take action, and if it decides to take action against a Person, are set out in FSMR.

6.10.6 In exercising or deciding whether to exercise its power to impose a penalty or publish a statement of censure, the Regulator will also have regard to any statement of policy published under this section and in force at a time when the contravention in question occurred.



7 NON-ABU DHABI GLOBAL MARKET RECOGNISED BODIES

7.1 Introduction and legal background

7.2 Applications

7.2.1 Applicants for recognition as a Non-Abu Dhabi Global Market Recognised Investment Exchange or Non-Abu Dhabi Global Market Recognised Clearing House shall follow the same application procedures as apply in respect of applicants for recognition as a Recognised Investment Exchange or Recognised Clearing House.

7.2.2 Applicants for recognition as a Non-Abu Dhabi Global Market Recognised Clearing House must demonstrate that they have QCCP status for the purposes of the Bank for International Settlements' paper BCBS282 entitled "Capital requirements for bank exposures to central counterparties".

7.2.3 In addition, applications for recognition as a Non-Abu Dhabi Global Market Recognised Investment Exchange or Non-Abu Dhabi Global Market Recognised Clearing House must contain:

- (a) the address of the applicant's head office in its home territory;
- (b) the address of a place in the Abu Dhabi Global Market for the service on the applicant of notices or other documents required or authorised to be served on it;
- (c) information identifying any type of activity which the applicant envisages having in the Abu Dhabi Global Market and extent and nature of usage and Membership;
- (d) a comparative analysis of the applicant's regulatory requirements in its home jurisdiction compared against those under the rules set out in this rulebook and those contained in the IOSCO Principles for Financial Market Infrastructures; and
- (e) the information specified in Rule 2.15.4.

7.2.4 The Regulator may require further information from the applicant and may need to have discussions with the appropriate authorities in the applicant's home territory. To allow sufficient time for applications to be processed and for the necessary contacts to be made with the appropriate home territory authorities, applications should be made not later than six months before the applicant wishes the recognition order to take effect. No guarantee can be given that a decision will be reached within this time, although the Regulator will endeavour to meet the applicant's reasonable timing requirements.

7.2.5 All material should be supplied in English, or accompanied, if appropriate, by an accurate English translation. An English glossary of technical or statistical terms may be sufficient to accompany tables of statistical or financial information.

7.3 Recognition requirements

7.3.1 Before making a recognition order, the Regulator will need to be satisfied that the Non-Abu Dhabi Global Market Recognition Requirements in Rule 7.3.2 have been met.



7.3.2 Non-Abu Dhabi Global Market Recognition Requirements:

A Non-Abu Dhabi Global Market Recognised Body must ensure that:

- (a) investors are afforded protection equivalent to that which they would be afforded if the body concerned were required to comply with Recognition Requirements;
- (b) there are adequate procedures for dealing with a Person who is unable, or likely to become unable, to meet his obligations in respect of one or more market contracts connected with the Non-Abu Dhabi Global Market Recognised Body;
- (c) the applicant is able and willing to co-operate with the Regulator by the sharing of information and in other ways; and
- (d) adequate arrangements exist for co-operation between the Regulator and those responsible for the supervision of the applicant in the country or territory in which the applicant's head office is situated.

7.3.3 In considering whether it is satisfied as to the requirements mentioned in Rule 7.3.2, the Regulator shall have regard to:

- (a) the relevant law and practice of the country or territory in which the applicant's head office is situated; and
- (b) the rules and practices of the applicant.

7.4 Regulator decision on recognition

7.4.1 If the Regulator considers that the Non-Abu Dhabi Global Market Recognition Requirements are satisfied, it may make a recognition order, which will state the date on which it takes effect.

7.4.2 The Regulator shall not approve a Non-Abu Dhabi Global Market Recognised Body unless it is satisfied:

- (a) that the rules and practices of the body, together with the law of the country in which the body's head office is situated, include appropriate Default Rules which provide adequate procedures for dealing with the default of Persons party to contracts connected with the body; and
- (b) that it is otherwise appropriate to approve the body.

7.4.3 The rules may apply in relation to the approval of a body under this section such of the provisions of FSMR as the Board considers appropriate.

7.4.4 The Board may make rules which, in relation to a body which is so approved:

- (a) apply such of the provisions of FSMR as the Board considers appropriate; and
- (b) provide that the provisions of this Rulebook apply with such exceptions, additions and adaptations as appear to the Board to be necessary or expedient,



and different provision may be made with respect to different bodies or descriptions of body.

7.4.5 Where the rules apply any provisions of FSMR, they may provide that those provisions apply with such exceptions, additions and adaptations as appear to the Board to be necessary or expedient.

7.4.6 Where the Regulator considers that it is unlikely to make a recognition order, it will discuss its concerns with the applicant with a view to enabling the applicant to make changes to its rules or guidance, or other parts of the application. If the Regulator decides to refuse to make a recognition order, it will follow the procedure set out in Part 12 of FSMR.

7.5 Supervision

7.5.1 A Non-Abu Dhabi Global Market Recognised Body shall provide the Regulator with an annual report which contains the information set out in Rule 7.5.2. The period covered by such a report starts on the day after the period covered by its last report or, if there is no such report, after the making of the recognition order recognising the Non-Abu Dhabi Global Market Recognised Body as such, and ends on the date specified in the report or, if no date is specified, on the date of the report. If a Non-Abu Dhabi Global Market Recognised Body changes the period covered by its report, it should ensure that the first day of the period covered by a report is the day immediately following the last day of the period covered by the previous report. Copies of the report should be sent to the Regulator within two months after the end of the period to which it relates.

7.5.2 A Non-Abu Dhabi Global Market Recognised Body must, in the circumstances noted, notify the Regulator of the following information:

	Event	Timing	Information requirement
1.	An event occurs which is likely to affect the Regulator's assessment of whether it is satisfied as to the Non-Abu Dhabi Global Market Recognition Requirements (see Rule 7.5.3).	As soon as reasonably practicable.	Particulars of the relevant event.
2.	A Non-Abu Dhabi Global Market Recognised Body amends its: (a) memorandum and articles of association or any similar or analogous documents; or (b) chairman or president, or chief executive (or equivalent).	In its next annual report (or first annual report, if not notified to the Regulator during application process).	Particulars of the change and effective date.
3.	Disciplinary action (or any similar or analogous action) is taken against the Non-Abu Dhabi Global Market Recognised Body by any supervisory authority in its home territory, whether or not	As soon as reasonably practicable.	Particulars of the disciplinary action taken.



	Event	Timing	Information requirement
	that action has been made public in that territory.		
4.	Publication of annual report and accounts.	Within fourteen days of publication or approval of the auditor, whichever is the sooner.	A copy of the annual report and accounts.
5.	A Non-Abu Dhabi Global Market Recognised Body proposes to change its address in the Abu Dhabi Global Market for the service of notices or other documents required or authorised to be served on it or the address of its head office.	Fourteen days before the change is effective.	The new address.
6.	A Non-Abu Dhabi Global Market Recognised Body has notice that any license, permission or authorisation which it requires to conduct any Regulated Activity in its home territory has been or is about to be revoked or modified in any way which would materially restrict the Non-Abu Dhabi Global Market Recognised Body in performing any Regulated Activity in its home territory or in the Abu Dhabi Global Market.	As soon as practicable.	(a) particulars of the license, permission or authorisation which has been or is to be revoked or modified, including particulars of the Non-Abu Dhabi Global Market Recognised Body's Regulated Activities to which it relates; (b) an explanation of how the revocation or modification restricts or will restrict the Non-Abu Dhabi Global Market Recognised Body in carrying on any Regulated Activity in its home territory or in the Abu Dhabi Global Market; (c) the date on which the revocation or modification took, or will take, effect and, if it is a temporary measure, any date on which, or any conditions that must be met before which, it will cease to have effect; and (d) any reasons given for the revocation or modification.
7.	A Non-Abu Dhabi Global Market Recognised Body admits for the first time a Member whose head or registered office is in the Abu Dhabi Global Market.	As soon as practicable.	(a) notice of that event; (b) the address of the new Member.
8.	A Non-Abu Dhabi Global Market Recognised Body decides to put a Member into default.	As close to when such a decision is taken by a Non-Abu Dhabi Global	(a) notice of that event; (b) the name of the Member and (where relevant) the class of Membership;



	Event	Timing	Information requirement
		Market Recognised Body as practicable.	(c) the reasons for that decision; and (d) the names of any other exchange, Clearing house or auction platform on which, to the best of that Non-Abu Dhabi Global Market Recognised Body's knowledge, that Member clears business or transacts for, or in respect of, its clients.
9.	A Non-Abu Dhabi Global Market Recognised Body issues a consultation on proposed changes to its rules or procedures.	As soon as practicable.	A copy of the consultation paper and accompanying documentation.
10.	Changes to a Non-Abu Dhabi Global Market Recognised Body's rules or procedures become effective.	As soon as practicable.	A copy of the amended rules or procedures.
11.	A Non-Abu Dhabi Global Market Recognised Body issues guidance on or a circular relating its rules or procedures.	As soon as practicable.	A copy of the guidance or circular.

7.5.3 The following events are examples of events likely to affect an assessment of whether a Non-Abu Dhabi Global Market Recognised Body is continuing to satisfy the Non-Abu Dhabi Global Market Recognition Requirements:

- (a) significant changes to any relevant law or regulation in its home territory, including laws or regulations:
 - (i) governing exchanges or Clearing houses;
 - (ii) designed to prevent insider dealing, market manipulation or other forms of market abuse or misconduct;
 - (iii) designed to protect the interests of clients of Members of the Non-Abu Dhabi Global Market Recognised Body, or of a class of bodies which includes the Non-Abu Dhabi Global Market Recognised Body;
 - (iv) which affect:
 - A. the ability of the Non-Abu Dhabi Global Market Recognised Body to seek information (whether compulsorily or voluntarily) from its Members, including information relating to the price and volume of transactions, the identity of parties to transactions, and the movement of funds associated with transactions; and



- B. the ability of the Non-Abu Dhabi Global Market Recognised Body to pass such information, on request, to Global Market authorities;
- (b) significant changes to its internal organisation or structure;
- (c) significant changes to the practices of the Non-Abu Dhabi Global Market Recognised Body applying to any Regulated Activities carried on by it in the Abu Dhabi Global Market; or
- (d) any other event or series of events in relation to the body which:
- (i) affects or may significantly affect cooperation between the Non-Abu Dhabi Global Market Recognised Body, or its supervisor in its home territory, and the Regulator;
 - (ii) has or may have a substantial effect on the structure of the markets in which the body operates;
 - (iii) brings about or may bring about a substantial change in the nature and composition of its Membership in the Abu Dhabi Global Market; or
 - (iv) brings about or may bring about a substantial change in the Regulated Activities undertaken by it in the Abu Dhabi Global Market.

Language of notice

7.5.4 Any notice to be given or information to be supplied under these notification rules must be supplied in English, and any document to be provided must be accompanied, if not in English, by an accurate English translation.

7.5.5 An English glossary of technical or statistical terms may be sufficient to accompany tables of statistical or financial information.

Form and method of notification

7.5.6 The rules relating to the form and method of notification in Rule 5 also apply to Non-Abu Dhabi Global Market Recognised Bodies.

Waivers

7.5.7 Non-Abu Dhabi Global Market Recognised Bodies may apply to the Regulator for a waiver of any of the notification rules. The procedure is the same as that for applications from Recognised bodies.

7.6 Powers to supervise

7.6.1 The Regulator has similar powers to supervise Non-Abu Dhabi Global Market Recognised Bodies to those it has to supervise Recognised Bodies. It may (in addition to any other powers it might exercise):



- (a) give directions to a Non-Abu Dhabi Global Market Recognised Body if it has failed, or is likely to fail, to satisfy the Non-Abu Dhabi Global Market Recognition Requirements or if it has failed to comply with any other obligation imposed by or under the Act; or
- (b) revoke a recognition order if a Non-Abu Dhabi Global Market Recognised Body is failing, or has failed, to comply with the Non-Abu Dhabi Global Market Recognition Requirements or any other obligation in or under the Act; or
- (c) require a Non-Abu Dhabi Global Market Recognised Body or a Person connected with the Non-Abu Dhabi Global Market Recognised Body, to provide or produce specified information or information of a specified description, at a specified place and before the end of a reasonable period, in such form and with such verifications or authentications as it may reasonably require; or
- (d) require any of the following Persons, to provide the Regulator with a report on any matter, or appoint a Skilled Person to provide the Regulator with information or produce documents with respect to any matter:
 - (i) the Non-Abu Dhabi Global Market Recognised Body; or
 - (ii) any other Member of the Non-Abu Dhabi Global Market Recognised Body's group; or
 - (iii) a partnership of which the Non-Abu Dhabi Global Market Recognised Body is a Member; or
 - (iv) a Person who has at any time been a Person falling within (i), (ii) or (iii).

7.6.2 The Regulator will follow the approach in Rule 5, *mutatis mutandis*, if it is considering exercising these powers in relation to a Non-Abu Dhabi Global Market Recognised Body.