

Market Maker Regulations

The Board of Directors of Abu Dhabi Securities Exchange

Having perused the Federal Law No. (4) of 2000 concerning Emirates Securities and Commodities Authority and Market, as amended;

Law No. (3) of 2000 of the Emirate of Abu Dhabi concerning the establishment of Abu Dhabi Securities Exchange as amended;

The Authority's Board of Directors Decision No (2/R) of 2000 concerning the regulations on the Market Membership;

The Authority's Board of Directors Decision No. (2) of 2001 concerning the Regulations as to Trading, Clearing, Settlement, Transfer Of Ownership And Custody of Securities, as amended;

Resolution of the Board of Directors of Securities and Commodities Authority No (3/R) of 2001 concerning the Regulations as to the Functioning of the Market, as amended;

Resolution of the Board of Directors of Securities and Commodities Authority No (27) of 2014, concerning the regulation of brokerage in the securities, as amended;

Resolution of the Chairman of the Board of Directors of the Authority No (26/R.M) of 2016 concerning the regulation of some activities, financial services and trading mechanisms;

The Regulations, Decisions and Instructions issued by Abu Dhabi Securities Exchange

Resolved:

Article (1) Definitions

The following words and expressions shall have the meaning set opposite each of them unless the context otherwise requires:

Companies Law: : Federal Law No (2) of 2015 concerning the Commercial Companies Law, as amended;

Law: : The Federal Law No. (4) of 2000 concerning Emirates Securities and Commodities Authority and Market, as amended.

Authority: : Securities and Commodities Authority.

Market: : Abu Dhabi Securities Exchange.

Securities: : Shares, stocks, bonds, promissory notes issued by the shareholding companies, bonds and promissory notes issued by the federal government, local governments, general authorities and corporations in the state and any other local or non-local financial instruments acceptable to the authority.

Brokerage : The brokerage company authorized by the Authority to practice financial

- Company:** brokerage activities.
- Market Making:** : The activity which mainly depends on providing continuous prices for the purchase and sale of a certain security with the aim to increase the liquidity on such security.
- Market Maker:** : The corporate body incorporated in the state having the license from the Market to practice market making activity in the state.
- Foreign Market Maker:** : The Market Maker incorporated abroad, or in a financial Free Zone within the state having the approval of the Market to practice the activity of Market Making in the state.
- Eligible Securities:** : Securities that comply with the standards set by the Market and that are tradable with the support of Market Makers.

Article (2) Practicing the Market Making Activity

Market making activity may not be practiced in the state without obtaining a license or approval from the Market in accordance with the terms, conditions and procedures stipulated in these regulations and the technical requirements set by the Market.

Article (3) Conditions for practicing the activity

To practice the activity of Market Making a license or approval of the Market shall be obtained in accordance with the following:

First: obtaining a license from the Market in accordance with the following conditions:

- 1. The applicant for the license shall take one of the following forms:**
 - a. A company established in the state with one of its purposes be to practice Market Making, or licensed by the Authority with the compliance of preventing conflict between activities regulations issued by the Authority.**
 - b. A commercial bank or investment company licensed by the United Arab Emirates Central Bank, or a branch of a foreign bank, provided that the parent bank of the foreign bank is licensed to practice Market Making, and subject to obtaining the approval of the United Arab Emirates Central Bank in any of these cases.**
- 2. The paid up or allocated capital for practicing Market Making may not be less than AED (30) million or its equivalent in any other currency**
- 3. Availability of financial solvency and qualified administrative and technical staff to practice Market Making in accordance with the conditions and regulations set by the Market, and the regulatory controls of the financial activities and services issued by the Authority.**

4. The availability of electronic programs and technical systems required to conduct the activity in accordance with the requirements, conditions and regulations set by the Market.
5. Make available professional code of conduct manual, company internal procedures manual and risk management regulation.
6. Payment of license fee prescribed by the Market
7. The applicant for the license shall always meet the conditions of the license

Second: the Foreign Market Maker shall obtain the approval of the Market to conduct the activity in accordance with the below conditions:

1. The applicant for approval must be a foreign company licensed to conduct Market Maker activity in the country incorporation by a regulator similar to the Authority, member of the International Organization for Securities Committees (IOSCO), and applies rules and procedures similar to that applied in the State with regard to Know Your Customer (KYC), Customer Due Diligence (CDD) and Anti-Money Laundry/Combating the Finance of Terrorism (AML/CFT), or a company licensed to conduct Market Making activity in a financial free zone within the State.
2. The Foreign Market Maker shall obtain the approval of the competent authority to conduct the Market Making activity within the state if foreign company, or meet the conditions of the Cabinet of Ministers in relation to registration if a company established in a financial free zone within the state in accordance with the Companies' Law
3. The similar regulator in the country of incorporation shall deal similarly with the Market Maker licensed within the state.
4. The Foreign Market Maker shall have at least five years experience in the same field
5. Payment of the approval fee determined by the Market
6. Contract with a brokerage company licensed in the State (member of the Market) to execute the orders through it.

Article (4)

Application to conduct Market Making Activity in the Market

The applicant for the license or approval to practice the Market Making activity shall submit an application to the Market using the form prescribed for this purpose, together with the information, data and supporting documents, in particular:

First: The Applicant

1. The legal form of the applicant and a list of names of the members of the board of directors, the executive management and persons authorized to sign and submit the application.

2. A report clarifying the document keeping system relating to the practice of the activity.
3. A Report clarifying the regulations and basis of internal control and financial audit
4. If the applicant is an entity authorized by the Authority to practice any other activity or financial services, a letter from the Authority indicating the following:
 - A. The company did not commit any material violations of financial solvency standards or the rules of separating the accounts approved by the Authority within the six months preceding the date of submitting the license application.
 - B. Availability of the financial solvency required for the company to practice the activity in accordance with the standards issued in this regard.

Second: Applicant for Foreign Market Maker Approval

1. No objection from the regulator similar to the Authority in the country of incorporation, or from a regulator in the financial free zone if incorporated in such zone.
2. Submit an undertaking to the Market to disclose any information it may request and any changes to its organizational and financial status, that have impact on its conduct of the activity, or any decisions taken against it in the country or incorporation, any other country or the free zone wherein it practices the Market Making activity.
3. Provide the Market with a copy of the contract concluded between Foreign Market Maker and the brokerage company licensed in the state (member of the Market)

Third: The Market may request other clarifications, information or documents if it deems necessary.

**Article (5)
The Market Decision**

1. The Market shall issue its decision to approve or decline an application within 30 working days from the date of submitting the application that satisfies the conditions, requirements and technical standards set by the Market.
2. The applicant shall register the approval issued by the Market with the Authority within (5) working days from the date of its issue.

Article (6)
Duration of License or Approval and Renewal

1. The duration of the license or approval shall be one year, expiring at the end of December each year. The duration of the first license or approval starts on the date such license is granted until the end of December of the same year. The fee due on such license shall be charged as a proportion of the fees due for the approval period for the year, with any part of a month calculated as a full month.
2. The license or approval shall be renewed by an application to be submitted to the Market at least one month before its expiry, together with the payment of the renewal fee determined by the Market, provided the renewal of the registration with the Authority within a period not exceeding (5) working days from the date of renewing the approval with the Market
3. The General Manager of the Market shall have the right to cancel the license or the approval issued by the Market if a completed renewal application is not submitted within the specified period

Article (7)
Collaterals required from the Market Maker

1. The Market shall determine the type and amount of the collaterals to be provided by the Market Maker
2. The brokerage company executing the Foreign Market Maker's orders shall verify its financial solvency and ability to meet its obligations, and the Market shall determine the type and amount of collaterals that shall be provided by the brokerage company.

Article (8)
Market Maker Obligations

Without prejudice to any other obligations prescribed by any law, regulations, decisions or circulars issued by the Authority, the Market Maker undertakes as follows:

1. To sign an agreement with the Market prior to commencing the activity, that shall include the conditions, requirement and regulations of its business and trading in the Market, and shall state the eligible securities under its responsibility.
2. Shall notify the Market about any unusual trading in the securities under its responsibility.
3. Refrain from using the Market Maker facilities to trade on behalf of the clients.
4. To maintain the financial solvency required to conduct the activity in accordance with the solvency standards issued by the Authority, or the standards issued by the regulator for the Foreign Market Maker

5. Provide the Market with the following reports:
 - a. A monthly report of profit and loss and the size of the portfolio with respect to the activities of Market Making.
 - b. The quarterly financial statements audited by the accounts auditor, if the Market Maker is a company practicing Market Making activities only.
 - c. The audited annual financial statements if the Market Maker is a company practicing Market Making activities only.
 - d. A half-yearly report on the internal control function covering the following aspects as a minimum:
 - The procedures of organizing internal control;
 - a list of internal control processes implemented and their outcomes;
 - a list of issues discovered and the corrective action plan, especially those related to market risk, settlement and liquidity.
6. Retain commercial records, registers, statements, data and information relating to trading and practicing the activity for a period not less than (10) years, and retain an electronic back-up copies of such data for the same period.
7. Practice the activity and exert the care of a prudent person in accordance with the provisions of the law, regulations, decisions, rules and circulars issued pursuant thereto, taking into account commercial norms in this regard and the principles of honesty, justice and equality

Article (9) Market Maker Trading

1. The Market shall determine trading numbers for the Market Maker so that it is distinguished from the other trading numbers and to ensure a complete separation between the activity of the Market Maker and any other activity it practices
2. The Market trading system shall determine the transactions relating to the Market Maker and classifies them as from the Market Maker.
3. The Market Maker shall enter the orders in the trading system directly or through a brokerage company (member of the contracting market) in the event of Foreign Market Maker.
4. The Market Maker shall have the same priorities of other investors in executing transactions
5. The Market Maker trading transactions shall be subject to the laws of the Authority, the regulations, decisions, rules issued pursuant thereto and the provisions of these regulations.

6. The Market Maker shall enter the bid or ask orders executable on eligible securities under its responsibility without violation or contradiction with the data set forth in the agreement concluded between the Market Maker and the Market, including:
 - a. Minimum Orders Size
 - b. Maximum difference between bid and ask orders
 - c. Minimum presence of Market Maker's Orders in orders book in a continuous trading session during the day
 - d. Refresh bid and ask orders over minimum time period, and refresh the same on executing bid or ask orders or both in full and on cancellation of the order or expiry of its duration.
 - e. the entered bid or ask order should be within the top three positions in the orders register at the time on which the Market Maker's order is entered.
 - f. maintain bid and ask orders in the trading system as a percentage of the total time in continuous trading hours in each trading day as per the Market rules.
7. The Market Maker shall be exempted from its obligations to enter executable bid and ask orders on eligible securities in the following conditions:
 - a. During scheduled and unscheduled bidding periods, such as opening bid period and closing bid period
 - b. During suspension of trading in the eligible security under its responsibility.
 - c. Exceeding the permitted ownership limits
 - d. Exceeding its permitted trading ceiling
 - e. During the opening and closing periods
8. The Market may exempt the Market Maker from its obligations, wholly or partially, based on a request submitted by it, in accordance with the conditions and in such cases as provided for in the agreement, or circumstances at the discretion of the Market

Article (10)

The Facilities granted to the Market Maker

1. Articles (3), (4), (5), (6), and (7) of the Authority's Board Decision No. (3) of 2000 concerning the Regulations as to Disclosure and Transparency shall not apply to Market Makers.
2. In exceptional circumstances and at the discretion of the Market, the Market may exempt Securities that are subject to Market Making from the application of Article (9) of the Authority's Board Decision No. (2) of 2001 concerning the

Regulations as to Trading, Clearing, Settlement, Transfer of Ownership and Safe Custody of Securities.

- 3. The Market Maker may practice short sale, Securities lending and borrowing in accordance with the regulations of the Market in this regard**
- 4. If an issuer of covered warrants is acting as a Market Maker for such covered warrants it will be exempted from complying with the requirements of the minimum number of covered warrant holders for the issuance value.**
- 5. A security may have more than one Market Maker.**

Article (11)

Cancellation of Eligible Security Registration

- 1. The Market Maker may request the cancellation of the registration of the eligible security under its responsibility after the lapses of the minimum duration provided for in the agreement.**
- 2. The Market may cancel the registration of a security or more of the eligible securities under the Market Maker responsibility if it sees that the performance of the Market Maker does not serve the interests of the Market**

Article (12)

The Market Disclosures

- 1. The Market, at the beginning of each financial year, publishes a list of the securities eligible for Market Making, and have the same updated as required**
- 2. The Market shall publish any license or approval to practice the activity of Market Making and the eligible securities under its responsibility, as well as the cancellation of any license or approval of any Market Maker through the website of the Market or any other mean as the Market deem appropriate.**

Article (13)

Control and Inspection of the Market Maker

- 1. The Authority may perform oversight and inspection over the Market Maker in order to ensure its compliance with the Authority's law, regulations and decisions issued pursuant thereto.**
- 2. The Authority may perform periodical oversight and inspection over companies practicing Market Making in order to ensure their compliance with the Authority's law, regulations, the decisions issued pursuant thereto and regulations of the Market, and shall notify the Authority with any violation committed and the penalties imposed on it.**

Article (14)

Suspension and Cancellation of the License or approval

1. **The Market may suspend the Market Maker from Market Making if the Market establishes that the Market Maker's performance does not serve the interests of the Market, or upon the expiry of the agreement concluded between them, without effecting its previous obligations.**
2. **The Market may cancel the license or approval of the Market Maker in any of the following cases:**
 - a. **Failure to comply with any of the conditions of the license or approval stipulated in the Law, regulations, decisions, controls, or instructions issued in implementation thereof.**
 - b. **Serious breach of any of the duties or obligations set out in the Law, regulations, decisions, controls or instructions issued in implementation thereof.**
 - c. **Failure to pay the applicable fees or the imposed fines**
 - d. **The passing of a final court judgment declaring the licensed company bankrupt.**
 - e. **The winding-up or liquidation of the licensed company.**
 - f. **The Market Maker becoming subject to an investigation involving suspicious fraud or breach of trust whether within the State or abroad.**
 - g. **Pursuant to a decision from the Authority**
3. **The decision to cancel the license of a Market Maker shall, at the company's expense, be published in two daily newspapers issued in the State with at least one in the Arabic language.**

Article (15)

Penalties

In the event of violation of these regulations, the Market may take any of the following actions:

1. **warning**
2. **Liquidate or utilize the collateral provided by the Market Maker, wholly or partially, for the purpose of the collateral and without conflict with the regulations or decisions of the Authority.**
3. **Suspend the Market Maker for a period not exceeding one year.**
4. **Cancel the license or approval issued by the Market for the practice of Market Making activity.**

5. Apply penalties pursuant to the regulations of the Market and without conflict with the law and regulations of the Authority.
6. Refer any violator to the Authority to investigate its violation and decide on the appropriate penalty.

**Article (16)
Fees**

The Market Maker undertakes to pay the fees prescribed by the Market, without conflict with the law, regulations and decisions of the Authority and the provisions of these regulations.

Article (17)

Any decisions, circulars, regulations, or procedures issued by the Market in contrary to the provisions of these regulations shall be revoked.

Article (18)

These regulations shall come into effect from the day following their issuance by the board of directors of the Market.

**Hamad Abdulla Al Shamsi
Chairman**

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