

## ADX Regulated Derivative Contracts Trading Regulations

### Article (1) Definitions

The following expressions and words shall have the meanings set out against each of them, unless the context indicates otherwise

<b>Authority</b>	:	Securities and Commodities Authority
<b>Market</b>	:	Abu Dhabi Securities Exchange Company (P.J.S.C.)
<b>Board</b>	:	ADX Board of Directors
<b>Derivative Trading System</b>	:	The Derivatives Trading System provided by an Exchange to its members for the trading of Derivatives Contracts.
<b>Block Trade</b>	:	Transactions made on regulated derivative contracts in large amounts outside the central order book in the Market in accordance with the provisions of these Regulations.
<b>Brokerage Company</b>	:	A brokerage company licensed by the Authority to carry out the activity of a trading broker or a trading and clearing broker.
<b>Derivative Member</b>	:	A legal person having the Market approval to carry out the functions of a Derivatives Member in accordance with the provisions of these Regulations.
<b>Dealer</b>	:	A legal person licensed by the Authority to exercise the activity of a securities dealer.
<b>Market Maker</b>	:	A legal person incorporated within the state and having the Market approval to exercise market making activity in the state.
<b>Central Clearing</b>	:	A legal person licensed by the Authority to exercise the activity of central clearing.
<b>Central Order Book</b>	:	The electronic register within the Market Derivative Trading System that is used to display, trade, execute and safeguard orders in respect of Derivatives Contracts
<b>Contract Series (Series)</b>	:	Regulated derivative contracts standardized in terms of the type of security involved, its quantity, or the contract's validity date.
<b>Contract Specifications</b>	:	The specific terms and conditions that are applicable to a ADX Derivatives Contract, that are approved by the Authority and issued via Notice from time to time.
<b>Price Limits</b>	:	The permissible percentage of increase or decrease of the previous closing price of derivative contracts determined by the Market.

<b>Daily Settlement Price</b>	: A price that is determined by Central Clearing House to be used for the daily settlement of Derivative Contracts.
<b>Closing Price</b>	: The price of the balance between the offered and required quantities calculated by the electronic trading system after the pre-closure bid in accordance with the calculation standards provided by the Market derivative trading system.
<b>Derivatives Contract</b>	: A financial contract with a specified value by both parties to the contract, and that contract derives its value from the value of the underlying securities and depends on the change in the value of those securities.
<b>Regulated Derivative Contract</b>	: A derivative contract issued in accordance with the terms and conditions of the Market.
<b>Futures Contract</b>	: A regulated derivative contract that obligates the parties to the contract to buy and sell a specified amount of the underlying securities at a specified price on a certain future date.
<b>Expiry Day</b>	: the last day of trading for a specific Derivatives Contract
<b>Initial Margin</b>	: The cash amount, a number of securities, or bank letter of guarantee deposited by both the seller and buyer of a regulated derivatives contract upon contracting in his account at the Central Clearing House in accordance with the percentages and conditions specified by the Central Clearing House.
<b>Maintenance Margin</b>	The minimum initial margin agreed between the Derivatives Member and its client, with which the client is required to deposit a cash amount or additional securities to restore his account with the Central Clearing House to the initial margin
<b>Opening Price</b>	: The opening price of the derivative contract according to the mechanism determined by the Market.
<b>Order</b>	: The order entered into Derivative Trading System to buy or sell listed Derivatives Contracts
<b>Securities</b>	: Any tradable securities accepted by the Authority
<b>Underlying Securities</b>	: Securities, foreign securities, local or foreign indices subject of the derivatives contract.
<b>Corporate Action</b>	: Actions taken by the listed company that result in rights, obligations or changes to the securities issued by it, such as: declaration of profits, bonus shares, subscription rights, reducing or increasing the capital, splitting or re-merging shares, merging or acquisition, suspension or cancellation of listing the security or changing the nominal value of the shares.
<b>Open Position</b>	: A buy or sell position in a Derivatives Contract, held under an account of the Clearing Member, that has not been closed through a corresponding trade

- Primary Exchange** : The home exchange where the Underlying Security to a Derivatives Contract is listed and/or traded
- Settlement Bank** : The entity concerned with the cash settlement operations, through the transfer, deduction, and payment of the owed funds.
- Tick Size** : Refers to the minimum price fluctuation in relation to a Derivatives Contract

### **Article (2)**

#### **Derivative Member Approval Requirements**

1. The functions of the Derivatives Member may only be carried out after obtaining the approval of the Market in accordance with the provisions of these Regulations.
2. The following conditions shall be satisfied for the Market to grant its approval to exercise the functions of a Derivatives Member:
  - a. The applicant shall be a Brokerage Company, a Dealer, or a Market Maker.
  - b. Availability of the financial solvency necessary to carry out the work.
  - c. Availability of qualified human resources required for work.
  - d. Availability of electronic programs and technical systems required for trading in derivative contracts as specified by the Market from time to time, particularly the Order Management System (OMS).

### **Article (3)**

The entity willing to exercise the functions of the Derivatives Member must submit an application to the Market on the form approved for this purpose, provided that the application includes the following, as a minimum:

1. Documents evidencing the fulfillment of the conditions stipulated in Article (2) of these Regulations.
2. A copy of the client agreement form for trading in derivative contracts, which must include the following as a minimum:

- a. An explanation of the concept of derivative contracts and the trading mechanisms for this type of securities.
- b. The risks that the client may be exposed to as a result of trading in derivative contracts.
- c. The ratio of the Initial Margin and the Maintenance Margin, provided that they shall be within the ratio specified by these Regulations.
- d. The mechanism of exchanging notifications with the client and the times of sending these notifications which relate to trading of derivative contracts

#### **Article (4)**

##### **The Market's Decision**

1. The Market shall make its decision whether to approve or reject the application within five (5) working days from the date of submission of the application satisfying all 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 a period of no more than (5) working days from the date of issue and shall annually renew the registration with the Authority.
3. The Market may grant the approval with the conditions or restrictions it deems appropriate.
4. A Derivatives Member who has obtained the Market approval to carry out the activity may not start carrying out the activity before the Market ascertains that the member has done the following:
  - a. Installing and equipping the technical systems necessary to participate in the Market's derivative contracts trading system, and the Market's carrying out the necessary tests to ensure the same.
  - b. Prepare the human resources trained by the Market and will work for the member.
  - c. Payment of any approval fees prescribed by the Market.

**Article (5)**  
**Derivatives Member Obligations**

**First:** The Derivatives Member shall, on an ongoing basis, be obligated to the following:

- a. Satisfy all approval requirements on an ongoing basis and notify the Market immediately of breach of any of the conditions of granting the approval
- b. Notify the Market immediately upon imposing any disciplinary penalty on it by any of its governing regulator.
- c. Notify the Market of any change in any of the information provided to the Market, whether before or after granting the approval to carry out the activity.
- d. Carry out any act that would adversely affect the reputation of the Market or its dealers.
- e. Carry out any trading process for derivative contracts or entering any trading orders with the aim of affecting the prices or trading volumes of derivative contracts or that would affect the interaction of bid and offer forces in the Market.
- f. Make any change to or update its order receiving and management system without obtaining prior approval from the Market.
- g. Comply with all regulatory decisions that may be issued by the Authority or the Market in relation to the trading of derivative contracts.

**Second:** A Derivatives Member who deals for the benefit of clients in derivative contracts trading shall abide by the following:

- a. Notify the client of the trading operations executed in his favor on the same day of trading and by the mechanism agreed upon in the client agreement, provided that the notification shall include the following information, as a minimum:
  1. The name, address, account number and other personal information of the client.

2. Details of the executed transactions, including type (buy or sell), quantity, price and execution time.
  3. Any details of the calculated, paid and due margin for the transactions executed during the day.
  4. Commissions due from the client
- b. Send the session account statement to the client as per the mechanism and within the times agreed upon in the client agreement.
  - c. Not to carry out any trading operation for the benefit of its clients if it has an interest in carrying out this transaction that may lead to a conflict of interest, unless the client is informed of that interest and takes all necessary measures to ensure a fair treatment of the client.

**Third:** Additional Obligations of the Market Maker

1. Trading for his own account only.
2. Opening a special account for trading in regulated derivative contracts called (Derivatives Trading Account).
3. Not to transfer the executed orders from the account designated for the trading transactions of Regulated Derivatives Contracts to another account.

**Fourth:** Additional Obligations for the Dealer. The Dealer is obligated to sell or buy derivative contracts to investors in accordance with the regulation governing the exercise of his activity.

**Article (6)**

**Derivative Contracts**

- a. The Market will list the regulated derivative contracts after registering them with the Authority
- b. The Market will publish the specifications of the listed derivative contracts in accordance with the provisions of these Regulations.
- c. The Market will specify the timings for derivative contracts trading sessions

**Article (7)**  
**Margin Requirements**

- (a) The Derivatives Member is obligated to collect the initial margin from their clients in a special account for the trading of regulated derivative contracts in amounts that cover at least what the Derivatives Member shall submit to the Central Clearing House in the Market in accordance with the provisions of the Central Clearing rules and to obtain the client's express approval regarding the Derivatives Member's maintenance of that margin until the client's position is closed, before entering any order.
- (b) The Derivatives Member is obligated to obtain an undertaking from his client to feed his derivatives trading account if his ownership percentage of the Maintenance Margin drops below the specified limit after being notified of this by the Derivatives Member.

**Article (8)**  
**Price Management**

- (a) The Market will establish the method used to calculate and publish the Opening Prices, Intra-Day Prices, and Closing Prices for each Derivative Contract.
- (b) The Market will establish the minimum price movement, daily price limits for each Derivative Contract and publish it as part of the contract specifications

**Article (9)**  
**Orders Management**

- 1. Trading in Derivative Contracts shall be conducted through the Market Derivative Trading System.
- 2. The trading order shall include the following information:
  - a. client's identification number
  - b. Trading Symbol/Code assigned to the Derivative Contract

- c. type of order (sell or buy)
  - d. Quantity
  - e. price
3. The Market may set a minimum or a maximum Order quantity or value for any Derivatives Contracts
  4. Orders are executed in the Order Book subject to the following priorities:
    - a. **Best Price:** Orders with the best price (Highest bid/lowest offer) shall have priority upon execution.
    - b. **Order entry time:** Orders are arranged in time serial Order by placing the Order which holds the earliest time stamp first.
  5. In terms of price, orders are divided into the following:
    - a. **Limit Order** – An Order that has specified a maximum buy price or a minimum sale price.
    - b. **Market Order:** an order that gives priority to execution price

All orders are executed on the corresponding side of the Orders Register until the quantity specified of such order is executed.

6. On partial execution of the Order, the remaining quantity automatically converts to a limit Order at the last matched price from the other side of the Order Book.
7. Order shall be divided in terms of validity into:
  - a. Day Order -Valid for the Trading Day only.
  - b- Good till Date (GTD) - Order valid till stipulated date
8. Orders are divided in terms of executed quantities into:
  - a. **Fill or Kill” (FOK) Order** - Execute the entire Order else cancel the Order



- b. **All or None (AON)** - Executes the entire Order quantity in one trade (if available)
  - c. **Minimum Fill** - Executes an Order only if the minimum specified quantity is available on the other side of the Order Book to be filled.
9. a. A Derivative Trading Member may amend the data entered into the trading system prior full execution or cancellation of the order
- b. in the event of amendments or withdrawal of any order before execution the application of the price and time priority rules will vary based on the mechanism the Market's Derivatives Trading System operates.

#### **Article (10)**

##### **Executed trade transactions amendment**

- (a) No Derivatives Trading Member can amend any trade executed by them.
- (b) In case of any error trade, Derivatives Trading Member must report such error within 30 minutes of its execution time. The market may, at its absolute discretion, agree to amend or reject the error.

#### **Article (11)**

##### **Trade Cancellation**

The Market may, in exceptional circumstances or in cases of serious violations of any applicable legislation, cancel any trading transaction made on derivative contracts.

#### **Article (12)**

##### **Financial Position Limits**

1. The Market may, by a disclosure, specify limits on the number of regulated derivative contracts and series, and specify the underlying securities, the month of contract settlement, the month of contracting and the validity date of the derivatives contract that may be registered with the Market, and may impose limits for each of the regulated derivative contracts or for all contracts.

2. Derivatives Trading Members may not engage in any transactions if this would result in exceeding a Financial Position Limit
3. The Market may direct a Derivatives Trading Member to reduce its position, or adjust its trading in Listed Derivatives Contracts, where the Market deems it necessary for the proper functioning of the market. If a Derivatives Trading Member transmits an order to trade a Listed Derivatives Contract, and the execution of such order would result in the breach of the Position Limit, the Market may suspend some or all of the trading activities of the Derivatives Trading Member until such time as determined by the Market.

### **Article (13)**

#### **Block Trades**

1. Derivatives Trading Members may conduct block trades through the Market Derivative Trading System for Block Trades.
2. For the purpose of these Regulations, the Market shall determine from time to time the value of a transaction that is considered a Block Trade.

### **Article (14)**

#### **Derivative Contract Specifications**

Each Derivatives Contract shall include the following:

1. The underlying securities
2. The contract size referring to the quantity of the Underlying Securities.
3. A trading currency and a settlement currency.
4. Contract Series that refer to multiple contracts with the same Underlying Asset, but different Expiry Day.
5. Tick Size which refers to the minimum price fluctuation.
6. Trading hours
7. Settlement type
8. Daily Settlement Price which is used to calculate the daily variation margins (mark to market)
9. Expiry Day or Last Trading Day

10. Settlement Day
11. Final Settlement Price

**Article (15)**  
**Futures Contract**

1. In the Futures Contract, the Buyer shall be committed to executing the settlement and shall have the right to buy the Underlying Securities or to execute cash settlement when the price moves down, as provided in the Contract Specifications and these Regulations. The Seller shall be committed to executing the settlement and shall have the right to sell the Underlying Securities or to execute cash settlement when the price increases, as provided in the Contract Specifications and these Regulations
2. The Underlying Securities shall give the Futures Contract the key components as a security against which compliance shall arise and shall form the base for calculating the daily settlement (Mark to Market) and the final settlement, upon expiration of the Contract due to delivery or cash settlement.
3. Contract Size, which includes the number of Underlying Securities, shall be stated in the Contract Specifications.
4. The Volume of Price Movement (tick size), which means the scope of the price movement volume with respect to the Contract and shall be stated in the Contract Specifications
5. The Forward Price, which is the price agreed upon between the parties.
6. Mechanism of closing the transaction, which means the revocation of the obligations of the parties to the Contract by closing their positions. It shall be stated in the Contract Specifications.
7. Final Trading Time, which refers to the deadline for executing and registering the orders upon expiration of the Contract. They shall be provided for in the Contract Specifications.
8. Fixation Value is the value calculated to the Underlying Securities, which represents the basis for calculating Contract expiration settlement or calculating the daily settlement (Mark to Market).

9. Mechanism and Dates of Settlement
10. Contract Expiration Date is the last day of the month under which the final settlement between the Buyer and the Seller shall take place, while the details relating to month and year of expiration shall be defined upon designation of the Series.
11. Duration of the Series in Futures Contracts shall start from the first trading day and shall end upon expiration of the Contract.
12. Trading currency shall be in AED.
13. In case the Market has listed new Series during the period pertaining to the same Series, such Series shall be distinguished by the same volume and designation with respect to the actual listed Contracts.
14. Designation of contract Series shall be as follows (designation of series):
  - a. Each Series shall be designated to each Futures Contract, so as to contain unified symbols.
  - b. Contract expiration year shall be designated by referring to the final figure of the year in which the Series ends.
  - c. Contract expiration month shall be designated using a code that refers to such a month.

## **Article (16)**

### **Cash Settlement and Payment**

Each Derivatives Contract shall be settled by the CCP through the Settlement Bank in cash

In respect of each Derivatives Contract, the following payments shall be made:

1. Where the Final Settlement Price exceeds the Derivatives Contract price, the Derivative Member shall pay to the Central Clearing House, and the Central Clearing House pays to the Derivative Member through the Settlement Bank an amount calculated as the product of the number of Contracts and the difference of the Final Settlement Price and the Contract price, and

2. Where the Derivatives Contract price exceeds the Final Settlement Price, the buyer pays to the Central Clearing House through the Settlement Bank, and the Central Clearing House pays to the buyer through the Settlement Bank an amount calculated as the product of the number of Contracts and the difference of the Derivatives Contract price and the Final Settlement Price.

#### **Article (17)**

The cash Settlement for each Derivatives Contract shall be affected via Settlement Bank who will be a member of the Central Clearing House.

#### **Article (18)**

##### **Corporate Actions**

Where any Corporate Actions occur with respect to an Underlying Securities, the Market may, in its sole discretion, but shall not be obligated to, determine:

- a) To make Adjustment to the Contract size and/or price.
- b) To make any other relevant variation to the Contract or any features of its specifications to best reflect the Corporate Action.
- c) To decide to delist the contract before the expiry date of the Corporate Action, where such event following a Corporate Action announcement cannot be easily adjusted for; substituting the delisted Contract with a new Contract that reflects the same Underlying Securities as the delisted Contract, on the expiry day of the Corporate Action
- d) Any decision to specifically handle the said Corporate Action to uphold the fairness and effectiveness of such adjustment.
- e) The handling of the Corporate Actions will be in accordance with the Corporate Action adjustment policy of the Central Clearing House.

**Article (19)**  
**Trading in Underlying Securities**

Where trading in the Underlying Securities is suspended or cancelled at its trading venue, the Market may, in its absolute discretion, take the following actions:

- (a) If the Underlying Securities is temporarily suspended in accordance with the rules of its Primary Exchange, the relevant Contract(s) will be put in suspended trading mode until the Underlying Securities resumes trading at its primary trading venue.
- (b) If the Underlying Securities is cancelled at its trading venue, the Market may, in its sole discretion, delist the relevant Contract(s) after duly informing of the method of settlement that will apply to such Contracts.
- (c) When there is no relevant Reference Price available, in the case (b) above, the Market may, but is not obligated to, use a theoretically derived price for the purpose of final settlement of the Contract in accordance with the Central Clearing derivative rules.

**Article (20)**

**Default in Settlement**

- (a) Where a buyer or a seller fails to fulfil its payment obligation, in the manner prescribed within the Central Clearing rules, the Market may declare such party is in default.
- (b) In the event of Default by a buyer or seller in respect of a Derivative Contract, the Default Management Rules of the Central Clearing House will come into effect.

**Article (21)**

**Delisting of Derivative Contracts**

- 1) The Market may, from time to time and at its absolute discretion, delist any derivative contract by a 14 days prior notice to the Market.

- 2) If there are no open positions in the relevant derivative contract which the Market wishes to delist, such delisting shall become effective at the time determined by the Market.
- 3) If there are open financial positions in the relevant derivative contract which the Market wishes to delist, the Market may request early settlement of such open financial positions or restrict trading to the extent that the Market considers such trading to be necessary to enable participants to settle their open positions and to maintain Fair, orderly and transparent Market.

## **Article (22)**

### **Penalties**

In the event of violation of these Regulations, the Market may take the following:

- 1) Advising the Derivatives Member or compelling it to close one or more of the counterparty transactions either instantly or within a specific period of time.
- 2) Serving a notice of warning to the Derivatives Member
- 3) Suspension of the approval granted to the Derivatives Member
- 4) Cancellation of the approval granted to the Derivatives Member.
- 5) Impose a fine on the Broker which obtained the approval to exercise Derivatives Member functions, within the maximum limit stipulated in the Authority's law and the Regulations issued pursuant thereto.
- 6) Impose penalties and other fines pursuant to the Regulations of the Market and to the extent it is not inconsistent with the law and Regulations of the Authority.
- 7) Refer any violator to the Authority to consider its violation and decide on the appropriate penalty

**Article (23)**

The Chief Executive Officer of the Market shall take all necessary decisions to implement the provisions of these Regulations.

**Article (24)**

The Market may, with the approval of the Authority, exempt any entity from the requirements of these Regulations based on a request from it personally or by an initiative from the Market.