

The Operational Procedures of Technical Short Selling

These Operational Procedures are issued in Arabic and translated into English. In the event of any discrepancy between the two languages, the Arabic version shall prevail, for the purpose of interpretation and implementation.

Article (1) Definitions

The expressions and terms used in this document must have the same meanings assigned to them; unless otherwise defined in the context of this document:

SCA:	Securities and commodities Authority
Market	Abu Dhabi Securities Exchange (ADX)
Securities	Shares, bonds, and Sukuks issued by the Public Joint Stock companies, besides the bills and debentures issued by the Federal Government, the Local Governments, the public entities, the public institutions in the State (the UAE), the investment components issued by investment funds, and any other local or foreign financial securities branded as such by the Council.
Market maker	The legal entity licensed to engage in market-making, or the foreign market maker registered with ADX.
Technical Short Selling	The process which the investor sells a security he does not own and to commit to cover during the settlement period (T+2)
Brokerage Company (Broker)	The legal entity licensed to engage in brokerage activities in ADX.
Initial Margin	The amount of money deposited by the client with the Brokerage Company for the Margin Trading Account in accordance within the prescribed ratio of the market value of the securities to be traded on margin prior to executing the purchase order.

Collateral	The value of the initial margin with the amount collected out of the sale of the securities deposited in the technical short selling account.
Client	Natural or juristic person holding an investor number in ADX.
Authorized entity	The Brokerage company registered in ADX and holding ADX approval to use the mechanism of technical short selling.

Article (2)

ADX may, from time to time, define the clients who will not be eligible to utilize the mechanism of the technical short-selling.

Article (3)

The conditions to approve using the technical short selling transaction for the authorized entity

- 1- Having the technical and administrative capabilities and competence required to exercise the mechanism of technical short selling, manage the accounts, and provide the necessary collaterals.
- 2- Having never committed substantial violations of the creditworthiness standards, the rules for accounts' split-up, and the applicable trading and settlement procedures within the last six months prior to the date of application.
- 3- Having the necessary technical and procedural systems to initiate the transactions of lending and borrowing, or contracting with a lending and borrowing agent registered in ADX.
- 4- All requirements must be available on an ongoing basis.
- 5- Any other terms, conditions, or requirements ADX might consider essential.

Article (4)

Documents needed for approval

- 1- The entity willing to utilize the technical short selling mechanism should submit an application to ADX, enclosed with the supporting data, information, and documents, especially:
 - a. The client agreement form.
 - b. The internal procedures of the technical short selling transactions.
- 2- ADX may request extra explanations, information, or documents, if they are necessary.

Article (5)

Defining the securities eligible for short selling

Based on the following criteria, ADX shall define the securities eligible for short selling and shall review them every 6 months:

- 1- Securities turnover ratio.
- 2- The presence of a market maker.
- 3- A contract signed with a liquidity provider.

Article (6)

Obligations of the authorized entity

- 1- Complying with the type and quantity of the securities approved for technical short selling as per the regular disclosure rules of ADX.
- 2- Committing with the deadline set by ADX to allow the technical short-selling.
- 3- Applying accounting system that will support the technical short selling.
- 4- Providing an OMS (Order Management System) to distinguish the technical short selling orders from other orders, and send a confirmation message to the client summarizing the selling order.
- 5- Using an independent trading account dedicated for the short-selling.
- 6- Freezing the Collateral in the client's account till the transaction is completely settled.
- 7- Evaluating the shorted securities at the market closing price, by the end of each working day, and informing the client if his contribution falls to 25%, by applying the following formula: (value of the Collateral minus the market value of the securities) and divided by (the market value of the securities), so the client would be able to cover the shortage and increase his contribution ratio to more than 25%, otherwise the Broker shall be obliged to apply the measures stated in Article 11/2.
- 8- Keeping the records of all technical short selling transactions in compliance with the resolutions, rules, and procedures set in the regulations of SCA and ADX.
- 9- Recording all the technical short selling transactions in special registers, provided they shall exhibit the following data as a minimum requirement:
 - a. Name of the client.
 - b. The trading order, and the description of the traded financial securities.
 - c. Value of the executed transaction.
 - d. All fees, expenses, and commissions.
 - e. The mechanism and time of covering the technical short selling.
 - f. The alert and warning messages addressed to the client as regards the decline of the collateral ration.
- 10- Weekly reporting the following to ADX, or when upon its request:
 - a. The total market value of the Securities traded on basis of technical short selling,
 - b. The number of notifications addressed to the clients requesting him to increase the collateral ratio, and the value of this required increase,

- c. Cases, procedures, and the dates set for the covering and settlement the clients' accounts designated for the technical short selling transactions,
- 11- Applying the measures stated in Article 11/2 in case the client fails to settle the technical short selling transaction,
- 12- ADX may add any regulations, requirements, or conditions based on the exigencies of public interest.

Article (7)

Cases where ADX shall automatically stop the technical short selling transaction

- 1- When the price of the securities decreases by (5%) from the closing price of the former trading day. The stopping shall be done on the same date the securities decreases, and through the next working day.
- 2- If the short sold Securities reach (10%) of the issued capital.
- 3- Five working days before the general assembly of the issuing entity is convened.
- 4- Five days preceding the day the register is closed for the purpose of cash dividends, bonus shares, or rights issue.
- 5- During the trading period of the issuing company's rights issue.
- 6- Any other cases specified by ADX.

Article (8)

The conditions to sell the technically short selling securities

- 1- The price of the short selling transaction is at least higher by one bid unit than the last traded transaction price (Short Sell Up Tick Rule).
- 2- The client is obliged to deposit a Initial Margin equivalent to 50% of the market value of the security required to be sold by technical short selling.

Article (9)

ADX disclosure on the website

- 1- The Securities allowed to be technically short sold.
- 2- The entity authorized to exercise the mechanism of technical short selling.
- 3- The quantity of the Securities already technically short sold.
- 4- The starting date of the Securities are traded on basis of technical short selling.
- 5- The automatic stop days of the technical short selling.

Article (10)

The agreement of the technical short selling

When carrying out a short selling, the authorized entity is obliged to enter into an agreement with each client; where the full data and information indicated hereunder shall be demonstrated, besides any other information ADX might consider necessary:

- 1- The client's express written acknowledgement and acceptance of:
 - a. The right of the authorized entity to secure the outcome of the technical short selling and use it for settlement in case the client failed to provide the technically short sold financial Securities for settlement.
 - b. The right of the authorized entity to use the deposited collateral, to cover the shortage of the buying value in case of a client failed to provide the technically shorted Securities for settlement.
 - c. The right of the authorized entity to use the collateral in case the client fails, when the value of his contribution decreases, to respond within the specified period and increase its contribution accordingly.
- 2- Indication of the potential risks that might result from the technical short selling transactions.
- 3- The client's declare affirmation that he recognizes and perceives the implications of the procedures and his responsibilities, besides the risks related to the technical short selling.

Article (11)

The conditions and available means to cover the technically short sold Securities

- 1- The authorized entity, after securing the client's approval, shall settle the technical short selling transaction on the next day of its execution; if there were any serious reasons that might so necessitate.
- 2- In case the client fails to settle the technical short selling transaction, the authorized entity shall take the following measures; and in the following sequence:
 - a. Transfer the financial Securities from other accounts of the client with the authorized entity, after securing the client's approval,
 - b. During the T+2 period, and by using the collateral, the financial Securities that were technically short sold are re-bought.
 - c. In compliance with the procedures issued by ADX and approved by SCA, the Securities that were technically short sold are borrowed.
 - d. The technically short sold Securities are re-bought during the (Buy-In) session of the clearing system.
 - e. Cash reparation to the buying party in compliance with the mechanism approved by ADX.

Article (12)

Violations and penalties

In case the authorized entity violates these procedures, ADX shall apply any of the following penalties:

- 1- Suspension of the approval granted to the authorized entity for a period not exceeding three (3) months,
- 2- Revocation of the approval granted to the authorized entity,
- 3- Enforcement of penalties in compliance with ADX regulations, and without prejudice to the regulations of SCA.

Article (13)

These rules shall become binding as of the next day of their promulgation by ADX administration.