

SCA Board Decision No. (11) of 2015 Regulations of Clearing Operations in Commodities Markets

The Chairman of the Board of Directors of the Securities and Commodities Authority (SCA),

Having perused the Federal Law No. (8) of 1984 concerning Commercial Companies and amendments thereof;

The Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market and amendments thereof;

The Federal Decree No. (32) of 2013 concerning the Formation of the Council of Ministers of the United Arab Emirates and amendments thereof;

The Council of Ministers Resolution No. (13) of 2000 concerning the Regulations as to the Functioning of the Securities & Commodities Authority and amendments thereof;

The Council of Ministers Resolution No. (324 / 11 & 23) of 2014 concerning the Re-constitution of the Board of Directors of the Securities and Commodities Authority;

The Decision of the Board of Directors No. (157 / r) of 2005 concerning the Regulations as to Listing and Trading of Commodities and Commodities Contracts and amendments thereof; and

Pursuant to the approval of the Board of Directors in its second meeting of the fifth term held on 29/1/2015; and

After coordination with the concerned market,

Decided as follows:

Article (1) ^[1]

In the application of the provisions of this Regulation, the following words and expressions shall have the meanings set forth opposite each of them, unless the context of the provision indicates otherwise:

State :The State of the United Arab Emirates.

Law Federal: Law No. (4) of 2000 concerning the Emirates Securities and

Commodities Authority and Market.

Authority: The Securities and Commodities Authority.

Board :The Board of Directors of the Authority.

Central Bank UAE Central Bank

Market :The commodities market licensed in the United Arab Emirates by the Authority

Commodities CCP : Central Clearing Party is the legal entity that conducts the clearing operations for all Futures and Options contracts that are executed in the Commodities Market, and that becomes the counterparty to all contracts via novation.

Board of Directors of the Company : The Board of Directors of the Commodities CCP .

Executive management :refers to individuals at the highest level of Commodities CCP organizational management who are responsible for the day-to-day business affairs of managing the CCP including the Managing Director, Chief Executive Officer, and Chief Financial Officer.

Clearing Member Members: of the CCP who are involved in conducting clearing and settlement transactions for their own accounts and those of their customers.
Clearing: The process through which the net rights and obligations of the members are calculated.

Settlement :The process by which contracts on commodities are completed and their values are finally and unconditionally settled.

Margin: The minimum required margin by the clearing member of its customers to be submitted as collateral to the CCP.

Commodities: Agricultural products, minerals, natural resources, and any other commodities traded as derivative products.

Derivatives: Financial contracts that are traded in the Market, their values are dependent on the value of the financial assets underlying such contracts - such as commodities, indexes, currencies or any other financial products considered as such by the Authority.^[2]

Futures Contracts: Contracts to buy or sell commodities, indices, currencies or any other financial instruments approved by the Board, on a future specified date at a price agreed upon at the time of the entering of contract. The Futures shall stipulate the underlying quantity, price, grade or quality date and place of

delivery, in line with the regulations.

Options Contracts: Options are contracts through which a seller gives a buyer the right, but not the obligation, to buy or sell a specified number of commodities, indices, currencies or any other financial instruments approved by the Board at a specified strike price within a set time period.

Wrong Way Risk : A situation arising when a risk mitigant is also a risk contributor.

Authorization and Licensing License

Article (2)

Any clearing activity may only be practiced in the market only after obtaining a license from the Authority. .

License Conditions

Article (3)

I. The license to engage in CCP clearing activities is subject to the following requirements:

1.The applicant must be a joint-stock company incorporated within the UAE or a free- zone area company whose core business shall be for the conduct of clearing activities.

2.The company's memorandum of association must be authenticated by the official authorities.

3.The paid-up share capital and reserves must not be less than AED 50 million.

4.The license fee of AED 200,000 must be paid to the Authority in advance

5.. The Commodities CCP must ensure compliance with the relevant IOSCO's Principles on Clearing. The Authority will assess compliance on an annual basis and release the results.

6.Develop Corporate Governance provisions approved by the Authority including a clearly defined organizational structure, processes, procedures and policies that the applicant's Board of Directors and executive management, technical and administrative staff operates in line with.

7. At least one third of the board of directors of the company, subject to a minimum of two members, must be independent. All board members must be of good repute and have adequate experience in the fields of financial services, risk management and clearing services.
 8. The Authority has to approve both. The appointment of the chairman, board members and the CEO, and their compensation must be approved by the Authority.
 9. Technical and administrative staff necessary for the conduct of the clearing activities must be duly appointed.
 10. Suitable headquarters along with the software and technical systems and equipment necessary to engage in the business are required.
 11. Approval by the Authority of the shareholders of the Commodities CCP including full transparency and disclosure of the identity and ownership levels of the shareholders. The Authority has absolute discretion to refuse any transfer of ownership.
 12. Voting rights of shareholders shall be commensurate with their respective ownership percentage
 13. Additional conditions or requirements as decided by the Authority in accordance with the requirements of the public interest may apply.
- II. The Commodities CCP must satisfy all license conditions at all times.

Article (3/bis) [3]

The foreign CCP companies may apply for recognition by the Authority to provide their services in a foreign market to customers inside the State, provided that such companies must satisfy the following conditions:

1. The company shall be licensed in its home country to exercise the clearing and settlement activity and shall be subject to the supervision of a supervisory authority similar to the Authority.
2. The supervisory authority of the company shall be a party to the Multilateral Memorandum of Understanding (MMoU) of the IOSCO, or a party to a bilateral memorandum of understanding with the Authority.
3. The company shall comply with the principles of the IOSCO related to the business of the CCP company.

The Authority have the right to impose certain conditions or obligations or exempt therefrom; or may request any documents as it deems appropriate to the circumstances of each case.

Technical and Administrative Staff

Article (4)

First: The Commodities CCP shall ensure that it has adequate technical and administrative resources to perform its regulatory responsibilities, and carry out necessary due diligence on any external service providers.

Second: The CCP Company may share the technical and administrative staff with its parent company or other combination of companies within the Group after obtaining the approval of the Authority, and provided that the Company shall take the necessary precautionary measures to prevent conflicts of interest and functions.

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Third: The objectives of the technical and administrative staff, set by the Board of the Commodities CCP, shall place a high priority on the safety and efficiency of the Commodities CCP and explicitly support financial stability and other relevant public interest considerations.

Fourth: Whoever is appointed to carry out the technical and administrative functions of the Commodities CCP must satisfy or fulfill the following requirements:

1. A natural person, having full legal capacity.

2. Qualified and must have the expertise necessary to discharge his duties.

3. The Fit & Proper criteria including:

- Be of good conduct and was never sentenced to a freedom restricting punishment for a crime involving moral turpitude and was never rehabilitated.
- Not stopping the payment on its commercial debts even if such default on payment was not accompanied with a bankruptcy declaration, or was declared bankrupt but not rehabilitated.

4. The executive management must be of good repute and has sufficient experience to ensure sound and prudent management of the clearing business

Fifth: The technical staff described below shall be appointed after obtaining the approval of the Authority.^[5]

1. Chief Compliance Officer: He or She shall directly report to the board of directors, and at a minimum shall assume the following functions:

a. Monitor the adequacy and effectiveness of the measures designed to comply with the applicable legislations and the actions taken to address any deficiencies as well as assess such measures and actions on a regular basis and manage the compliance policies and procedures established by the senior management and the board of directors.

b. Provide advice and assistance to the staff responsible for the delivery of the services and activities at the Commodities CCP in order to help them comply with their stipulated obligations.

c. Submit regular reports to the board of directors on compliance by the Commodities CCP and its employees with this Decision and all applicable legislations.

d. Notify the Authority of any violation of the law or the regulations, decisions or controls issued pursuant thereto or the internal regulations practiced by the market.

Perform the role of money laundering reporting officer, maintain links with the Central Bank and report on any Suspicious Transaction Reports as per the pertinent Federal laws. The Chief Compliance Officer is not permitted to take part in the conduct of services or activities which he is monitoring and he must disclose any conflicts of interest situations that he may be involved in.

2. Internal Auditor: He or She reports directly to the board of directors and shall perform the following functions, at a minimum:

a. Evaluate the effectiveness of risk management processes and control mechanisms commensurate with the risks faced by the Commodities CCP.

b. Approve a comprehensive audit and review plan by the board of directors and disclose it to the Authority on an annual basis at least.

c. Subject the clearing operations, the risk management processes, the internal control mechanisms and the accounts to an independent review and audit on an annual basis at least.

3. Chief Risk Officer: He or She reports directly to the board of directors and shall perform the following functions, at a minimum:

a. Implement the risk management framework, including the policies and procedures established by the board of directors.

b. Develop the policies and procedures required for identifying, measuring and avoiding all types of risks faced by the company.

c. Apply the policies and procedures and the necessary control systems.

d. Prepare risk reports

e. Follow up on the application of capital adequacy standards mandated by the Authority.

f. Make the necessary recommendations to the Risk Committee or the board of directors of the Commodities CCP.

4. Chief Technology Officer (CTO): He or She shall perform the following functions, at a minimum:

a. Continuously develops IT technology standards and protocols in line with industry best practices.

b. Manages the various internal IT departments such as systems, security, networks and application to ensure IT configuration control and IT corporate security.

c. CTO will ensure necessary IT Audits are conducted to preserve data confidentiality.

d. CTO sets, implements and monitors system response times, recovery times and targets for system availability. CTO insures corresponding policy and procedures are in place to recover data in case of disaster, force majeure and

maintaining a remote hot back-up site.

e. CTO coordinates with internal & external teams/departments for Disaster Recovery and Business Continuity initiative of the organization including market-wide, live, disaster recovery tests.

f. CTO carries out effective vendor management and communications

Sixth: It is not permissible to simultaneously occupy any two or more of the positions specified in the fifth item of this Article.

License Application

Article (5)

I. The application for a license to practice the clearing activity must be submitted to the Authority on the form prepared for this purpose, together with the information, data and documents supporting the application in particular:

1. Written internal rules, subject to the requirement to amend its provisions periodically in line with the changes that occur on the applicable legislations and circulars, and to notify the Authority accordingly. The internal regulations must include the following information or reports:

a. The legal form of the applicant.

b. The names of members of the board of directors and executive management, and names of shareholders and their stock ownership percentages.

c. The organizational structure of the Commodities CCP showing the functions and management responsibilities carried out by the directors and the other employees therein.

d. The documentary cycle and internal rules and procedures to be followed from the beginning of the transaction until the completion of the clearing process.

e. Mail registration system.

f. Internal bookkeeping system.

g. Complaints registration system.

h. The system to handle errors resulting from the clearing operations.

2. The countries and markets where the applicant will offer its services, the clearing activities, the asset classes (Equities & fixed income securities, Rates, Credits, Commodities, foreign exchange and others), the products related to clearing operations (futures, options, and other) and the details of any reciprocal operating agreements with other clearing organizations.

3. A statement of details of the financial resources, how they are maintained, the procedures for securing them; the manner and procedures for the separation of

accounts, and the rules and procedures for the liquidation of transactions which cannot be settled.

4.A statement of the technical systems and equipment used, the proposed operating procedures to conduct the activity, and details of contracts outsourcing certain administrative or technical tasks that support the main business.

5.A statement showing how to calculate the margin requirements, and how to deal with cases of violations of the obligations, as well as a list of acceptable collateral, along with a disclosure to the clearing members and the Authority on the criteria for determining the margin requirements for each financial instrument.

6.A statement of the details and conditions of the clearing members and their categories, the responsibilities and obligations of each category, the maximum limit for their transactions, or the necessary guarantees (collateral) for raising the maximum limit and cases and procedures to suspend and cancel the membership, subject to the requirements of the regulations.

7.A statement of the total value of clearing operations completed through the Commodities CCP and the results of stress tests if the activity was practiced before submitting the license application.

8.A list of the members of the Audit Committee and the Remuneration Committee of the Board of Directors Remuneration Committee, and their respective functions and procedures.

9.A statement of the members of the Risk Committee, its objectives and conditions, and the functions and procedures of its members.

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10.A statement showing any legal or judicial obligations or liabilities related to the license applicant, and cases where there is a liability as a result of any outsourcing to foreign clearing members or third party outsourcers in contravention of regulations or resolutions.

11.Receipt of payment of the license application fee.

II. The Authority may request any additional clarification, information or documents.

III Any changes to the license requirements in this section are to be immediately notified to the Authority.

Consideration of the License Application

Article (6)

1.The Authority shall issue its decision to approve the application for a license or reject it by a reasoned decision within a period of no more than 15 days from the date of submission of the complete application. If the Authority does not issue its decision in this regard within such period, this shall be construed as a rejection of the application.

2. The applicant whose application has been rejected may appeal the rejection decision within a period of no more than 15 days from the date of being notified of the rejection of his application. The Authority shall issue a decision to decide on the appeal within 30 days from the date of submission of the complete appeal.
3. A new application may not be submitted before the lapse of six months after the first application is rejected or considered rejected.
4. The Authority may subject its approval to grant the license to the conditions or limitations determined by the Authority in accordance with the requirements of public interest. The Authority may also suspend the licensing based on its assessment of the public interest within the period it deems appropriate.

License Term and Renewal

Article (7)

1. The term of the license shall be one year expiring at the end of December of each year. The term of the first license shall be from the date of granting the license until the end of December of the same year.
2. The license shall be renewed following an application submitted to the Authority at least one month prior to the end of the license term after ensuring that the Commodities CCP has continued to be in compliance with the provisions of these Regulations, and the payment of the annual license renewal fee of 100,000 Dirhams. The Authority may suspend the Commodities CCP from practicing the activity if a complete license renewal application has not been submitted within the specified period.

CCP's regulations approval

Article (8)

Regulations issued by the Clearing Corporation and the amendments therein should be approved by the authority. The Authority may take such steps to apply or cancel these regulations after coordination with the market and clearing company.

Article (9)

Clearing operations are not to be conducted through the clearing company unless the Authority has approved the goods or contracts.

Obligations of the Commodities CCP

Article (10)

The Commodities CCP must comply with and take all administrative and technical procedures necessary to initiate the licensed activity in accordance with the provisions of these Regulations, including the following:

1. Provide a system for internal control and periodic review, which shall be applicable to its managers and employees. Such internal control is to ensure the sound compliance with applicable law, regulations, decisions, circulars, legislations and the internal regulations of the company, as well as the procedures for compliance with the laws, regulations, decisions, circulars, by-laws and legislations in force in the UAE concerning anti-money laundering and financing of terrorism. The system for internal control must be subject to frequent and independent audits. The results of such audits must be forwarded to the board of directors and must be made available to the Authority.
2. Develop effective institutional and administrative procedures to identify and manage potential conflicts of interest between:
 - a. The exchange and the Commodities CCP
 - b. The Commodities CCP (or any of its board members or employees) and its members and their clients and illustrate the adequate procedures to deal with such situations as they arise.
3. Set the rules of professional conduct for its employees, supervise them, regulate and control their personal dealings in securities so as to ensure their compliance with the provisions of law, regulations, decisions and instructions issued by the Authority, particularly those related to honesty, integrity and conflicts of interest.
4. Maintain, on a continuous basis, the capital adequacy necessary to engage in the activity in order to secure its ability to meet its obligations.
5. Provide adequate liquidity necessary to meet its obligations on an ongoing basis.
6. There should be permanent electronic programs, systems, technical devices and IT and staff to execute clearing transactions of the clearing members in order to determine the net rights and obligations of each on the same day of the transaction. The executed transactions should be cleared with margin settlement and account reconciliation to verify that the margin requirements are met on time.
7. Ensure that the clearing members meet their obligations relating to the settlement of transactions arising from novation. If the reason for delaying the

completion of the settlement is due to the seller, the arising rights and benefits shall be for the buyer as of the date scheduled for settlement.

8. Analyze and monitor the performance and the extent of compliance with margin requirements in general through periodic review. In addition, it must review and ensure the correctness of its margin system on periodic basis.

9. Provide the Authority with the following documents:

a. Minutes of the meeting of the Board and its Committees.

b. Quarterly reviewed financial reports, by the company's external auditor within a period not exceeding 30 days from the date of the end of the quarterly period and signed by the chairman or General Manager as the case may be.

c. An annual financial report audited by the company's external auditor and must include the closing accounts and the annual balance sheet, within a period not exceeding 90 days of the end of the fiscal year. The annual financial report must be signed by the board of directors.

d. An updated periodic report on the percentage of common stock shareholders or members whose common stock ownership is more than 10% of the capital of the Commodities CCP.

e. The details of any reciprocal operating agreements with other clearing organizations.

f. Any other reports, statements or information requested by the Authority.

10. Obtain prior approval of the Authority before taking any of the following actions:

a. Amending the company's memorandum of association or articles of association or Selling a stake to a strategic partner.

b. Adding, deleting or modifying an activity in the trade license.

c. Increasing or decreasing the company's capital.

d. Carrying out mergers or acquisitions.

e. Changing the partners or amending their shareholdings in the CCP. (which one is it?)

f. Disclosure or exchange of information with any other party. (is this allowed/doable)

11. Immediately notify the Authority of the following:

a. Any intention to place a clearing member in default.

b. In the event of any material changes or developments in the company, or any deficit that affects its financial position.

c. Any material changes in the information or data provided when applying for the license.

d. Any change in the members of the board of directors of the clearing company.

e. Any lien or mortgage on the assets of the Commodities CCP, and any law suits that the Commodities CCP or one of its employees is a party to, and of any potential judicial rulings issued in such law suits, which may affect the financial position of the company.

f. Any violations by its employees of the laws, regulations, bylaws or decisions issued by the Authority.

12. Keep books and records or use computers and other modern technology equipment in accordance with the international accounting standards accepted by the Authority, and keep all records and financial data relating to the clearing operations, margin payments, financial instruments, clearing member and the market where transaction are executed, date and time of the transaction and the date of the time of the settlement and date of expiry of the contract, as well as all contracts entered into by the Commodities CCP or it has been a party thereto and all information related to practicing its activities, for a minimum period of 10 years. Backup copies of the data and documents must be maintained for the same period and must be safeguarded against damage. The Authority must be allowed to access and review everything related thereto upon request.

13. Observe the principles of honesty, integrity and confidentiality of data and information; avoid conflict of interest when practicing the activity.

14. Practice the licensed activity with due diligence in accordance with the provisions of the law, the regulations issued in implementation thereof and the conditions and controls on the basis of which the license was issued subject to the commercial norms in this regard and the principles of honesty, fairness, and equality.

15. To provide sufficient information about non-confidential matters to enable clearing members and their customers to abide by the regulations of margin trading (either using in-house systems or systems from external suppliers).

16. There should be transparency to enable clearing members and their customers and related parties to understand central clearing rules and to assess the liquidity of the transactions including "open interest" and clearing volume and any other information provided by the clearing company.

17. To establish and administer a "default fund" which is used in the event of breach or default.

18. To establish rules in case of clearing member defaults against any of its liabilities. In the event of such a breach or default the following will be transferred to another clearing member chosen by the client himself: financial positions, margins, variation margin all following the approval of the clearing member to whom such items are being transferred (transferee)

19. The segregation of accounts should be clearly identified to enable clearing members and their customers to make their decisions about their transactions.

20. Instigate and enforce prudential requirements on its operations to hold the Commodities CCP safe from any risks it encounters with clearing members and their clients, including the following:

(a) At all times on real-time basis, monitor the exposure of the Commodities CCP to its clearing members.

(b) Set margin requirements to the minimum level agreed to with the Authority and sufficient to cover:

- 99% confidence

- Closing of Clearing Company's positions and those of its members within two

days Maximum risks that clearing company was exposed to over preceding three years (Back tested)

c - Determine the form and value of the guarantee that the clearing member must abide thereby according to the category of its membership, and in accordance with the controls approved by the Authority for such guarantees. The mentioned guarantee shall only be canceled or disposed of upon the approval of the Market to ensure that the clearing member will perform its obligations and implement the decisions issued by the CCP Company, the Authority or the Market.^[7]

D – Maintain a fully funded default fund sufficient to cover any default of the two biggest clearing members, the contributions in the fund by the clearing members will be based upon the risk exposures that they maintain with the central clearing company by taking the following procedures:

- The adequacy of the default fund shall be established through stress testing.

Such testing shall be done at least daily.

- Separate default funds may be maintained for different asset classes for which the Commodities CCP provides clearing services. The asset classes are: Credit, Equity, Rates, fixed income, foreign exchange, Commodities and others.

E – To set procedures that clarifies the mechanism to finalize all obligations (offsets) arising from trading operations in the Market between the CCP company and its members and to inform the Authority of such procedures and any amendments thereafter.^[8]

F-The Commodities CCP shall assess its liquidity requirements on a daily basis ensuring that it has adequate liquidity, covering both payments and receipts, not subject to wrong way risk.

G-Covering of defaulting members liabilities shall follow the priority rule::

- 1.the margins of the defaulting member

- 2.the guarantee deposited at the CCP company by the defaulting member and referred to in Article (10/20/c) herein.^[9]

- 3.the default fund contributions to the obligations of the defaulting member

- 4.the skin-in-the-game of the Commodities CCP, a minimum of AED 10 million)

5. Contributions by non-defaulting members with prior approval required from the Authority.

H- Margin and default fund contributions shall be collected by the Commodities CCP in either cash or securities. Bank guarantees are not to be accepted.

- Collateral accepted in the form of securities must be:

- 1.Highly liquid with low market, credit and concentration risk

2. Under suitable discount rates to reflect market and credit risks

3. Deposited at the central depository of the security. The central clearing company will appoint a bank as a payment agent to become custodian if the clearing member is not a member in the central depository. The central clearing company is not permitted to take a pledge or lien on these securities.

• Regarding the guarantee in the cash form, it shall be kept with a licensed bank – that is characterized by the distribution of risks - or it shall be invested in high quality money market instruments, the Wrong Way Risks shall be avoided while investing cash guarantees.

[10]

I – To establish effective procedures applicable to handling default cases against obligations by clearing members. These procedures must clearly identify the responsibilities of the CCP and the responsibilities of the CCP board of directors. These procedures must be approved by the Authority.

J- To establish suitable procedures in separating the accounts between clearing members and their customers in order to ease the transfer of the financial positions and collaterals from the defaulting member to another non-defaulting member. In the event of the financial positions and collateral being held in an omnibus account then the central clearing company is required to assist in the transfer of those positions and collateral.

K- The Commodities CCP shall perform stress tests on both its margin requirements and default fund contributions. The Commodities CCP should take the appropriate steps, as agreed in advance with the Authority. Periodic back tests should be performed to ensure that the stress test scenarios are adequate.

21. To establish rules for the clearing members for conducting business. The following must be taken into consideration:

a) Determining the membership requirements, conditions and categories and to distinguish among these categories from the perspective of capital requirements obligations and reports.

b) Determining the clearing members contributions to the default fund as a requirement for membership

c) Each member must have administrative and technical staff appropriate for the class membership

d) Separation of clearing members accounts from those of their customers as well as know your clients (KYC) requirements.

Risk Management

Article (11)

The Commodities CCP must adhere to the following:

1. Prepare an operational manual for risk management that includes the identification and definition of specific risks that the Commodities CCP may face and how to address them should they materialize. The manual must be updated and revised periodically in line with the clearing activities. Furthermore, effective measures shall be developed to ensure that current or potential risks that the Commodities CCP may be exposed to are identified, indicating how to address, confront, report and monitor such risks, in order to enable the Commodities CCP to continue to operate and to comply with the provisions of these Regulations if risks arise. Such risks include:

a. Credit risks

b. Counterparty risks

c. Market risks

d. Operational risks

e. Legal risks

f. Business risks. Arising from poor management or investment decisions, as well as business continuity and disaster recovery issues. Any plans for continuity and recovery should be adequately tested and the results made public

g. Liquidity risks. A strong structure must be developed to manage liquidity risk and must include the operational and analytical tools and mechanisms to identify, measure and monitor cash flows associated with the settlement on continuous basis and in a timely manner so as to ensure that the organization is capable of performing the liabilities and payments associated with the settlement processes in all currencies used in the payment.

h. Concentration risks

i. Cases of liquidation or restructuring.

j. Risks exposures of the clearing members and their customers.

k. Risks exposures of other entities that deal with the Commodities CCP such as other CCPs with which the Commodities CCP works under interoperability agreements, the settlement systems, the payment systems, the settlement banks, the liquidity providers, and the securities depository systems, and the markets served by the Commodities CCP, etc.

2. Establish adequate mechanisms for internal controls to monitor and evaluate the adequacy and effectiveness of its risk management policies, procedures and systems. Such mechanisms shall include sound administrative and accounting procedures.

3. Establish a surveillance program to assess clearing members' compliance with the risk management requirements of the Commodities CCP.

4. Establish remedial procedures in the event of default by clearing members

towards risk management requirements, and the procedures that would be taken in case of a default by any member after coordination with the Authority.

5. Continuous assessment of a member's contribution to the default fund and the risks it may pose according to the rules set by the CCP.

6. Not to dismiss the internal auditor except by a decision of the board of directors provided that both the Authority and the internal auditor are notified at least 30 days prior to his dismissal explaining the reasons and justifications for the dismissal.

7. Comply with all regulatory rules, procedures and requirements established by the Authority concerning internal controls and the role of the internal auditor.

Board of Directors and Executive Management

Board of Directors and Executive Management

Article (12)

I. At a minimum, the board of directors must assume the following responsibilities:

1. Determine the objectives and strategies of the Commodities CCP.
2. Maintain effective control over the senior management.
3. Develop salary and wage policies.
4. Oversee the risk management function, the compliance function and the internal control function.
5. Oversee outsourcing arrangements, and comply with all the provisions of these Regulations and all applicable legislations.
6. Establish a Risk Committee consisting of Board Members, senior management of the Commodities CCP and Clearing members.
7. Ensure that all conflicts of interest are disclosed and properly managed.

II. At a minimum, the executive management must assume the following responsibilities:

1. Ensure consistency of the operations of the Commodities CCP with its objectives and strategy as determined by its board of directors.
2. Design and develop the compliance and internal control procedures that promote the goals of the organization.
3. Subject the internal control procedures to periodic review and inspection.
4. Ensure adequate resources are allocated to the risk management and compliance functions.
5. Effectively participate in the risk control process.
6. Ensure that the risks facing the organization resulting from the clearing activities are dealt with effectively.

Supervision and Inspection

Article (13)

The clearing company is required to conduct supervision and periodic and unannounced inspection of members to ensure that they abide by its regulations and other by-laws and circulars as well as regulations of the market and the Authority.

Article (14)

The Authority and the markets have the right to conduct supervision and periodic and unannounced inspection of the central clearing and its members to ensure that they abide by all regulations and other by-laws and circulars issued. To conduct investigations in the vent of violation which emerged during inspection or by complaints received by the Authority. The Authority has the right to request any information or documentation from the central clearing, its employees, its members or their customers that it sees fit in order to conduct supervision and investigation.

Disclosure of information

Article (15)

The Authority may compel any person, believed to have a connection with the clearing activities, to make a disclosure of information to the Authority.

Cooperation between CCP, markets and other central clearing agencies

Article (16)

The CCP is required to cooperate according to the Authority's resolutions with the markets and other central clearing agencies and foreign regulatory authorities if needed or in case of any investigations or procedure taken to enforce the regulations that may affect the other markets.

Membership of the Commodities CCP's Board of Directors

Article (17)

- 1.Any member of the board of directors of the Commodities CCP is not permitted to hold membership of either the board of directors of clearing members or its executive management.
- 2.The Commodities CCP must notify the Authority if any member of the board of directors of any public joint stock company also holds membership of the board of directors of the Commodities CCP.
- 3.The Commodities CCP must notify the Authority if any member of the board of directors of the Commodities CCP has a personal interest that may cause a conflict of interest.

Liquidation of the Commodities CCP

Article (18)

- 1.The clearing company will be liquidated in accordance with the laws in force in the UAE.
- 2.In case of optional or compulsory liquidation of the clearing company such liquidation shall be made under the supervision and control of the Authority.
- 3.If a ruling to publicly announce the bankruptcy of a clearing member was issued, the clearing company shall conduct the clearing and settlement processes for the transactions to which it was a party to. Similarly, the clearing company will deal with the collateral to recover the obligations due to the clearing members or obligations imposed through regulations issued by the authority and or the market before the ruling was issued even if such processes extend beyond the date of issue of such ruling. Such processes shall be binding upon all parties.

Clearing Charges

Article (19)

The Commodities CCP shall determine the charges and commissions due for the exercise of the clearing activity. Such charges shall be approved by the Authority.

Voluntary Suspension & Revocation of license

Article (20)

1.The Commodities CCP that wishes to temporarily suspend its activities or has any reason that prevents it from conducting business may request from the Authority permission to temporarily suspend its activities. After the Authority has reviewed all the necessary requirements, it has the right to refuse or approve the request subject to the best interests of the general public and CCP customers. Temporary suspension must not exceed 6 months from the date of approval by the Authority. This may be extended by a similar period according to the conditions and requirements set by the Authority. In an case, the company has the right to request resumption of activities before the end of the suspension period.

2.The CCP that wishes to permanently revoke its activities must request from the Authority permission to do so after having fulfilled all cancellation requirements and payment of the cancellation fees (AED 1,000). The cancellation resolution will be issued by the Authority and published in two daily gazettes in the nations, one of which shall be in Arabic. Publishing costs shall be at the expense of the CCP.

Penalties

Article (21)

1.In case of violation by the Commodities CCP of the provisions of the law or the regulations, decisions or circulars issued pursuant thereto, the Authority may impose any of the following penalties:

- a.A warning.
- b.Imposing a fine not to exceed the maximum limit stipulated by law.
- c.Suspend the Commodities CCP from practicing the activity for a period not to exceed one year.

2.The Authority may revoke the license of the Commodities CCP in any of the following cases:

- a.Noncompliance with one of the license conditions as set forth in these Regulations.
- b.Serious breach of any duties or obligations.

- c. Default on the payment of the annual license renewal fee or the prescribed fines.
- d. The Commodities CCP is served with a judgment that declares it bankrupt.
- e. Winding-up and liquidation of the Commodities CCP.
- f. If it is found that the license was granted on the basis of incorrect information or data, or based on an undertaking that has not been performed as decided by the Authority.
- g. If the company does not request from the Authority to resume activities after the end of the cancellation period
- h. If the company does not conduct business within 3 months from the date of licensing from the Authority.

The resolution for cancellation will determine how to deal with margins, collateral and contributions in the default fund in order to settle all the obligations of the company with its members, customers or the market or to enforce the Authorities resolutions. The cancellation resolution will be published at the company's expense in two daily national newspapers, one of which shall be issued in the Arabic language.

3- If the members of the Board of Directors of the CCP company or its CEO or accredited employees breached the law, regulations, decisions or circulars issued pursuant thereto, the Authority may impose any of the following sanctions:
[11]

- a. Warning.
- b. Suspension from practicing the work for a period of no more than two months.
- c. Cancel the approval of appointment or accreditation.

Adjustments

Article (22)

Entities carrying out CCP activities before these Regulations came into force must adjust and rectify their positions to conform with the provisions of these Regulations.

Article (23)

This decision shall be published in the Official Gazette and shall take effect from

the day following the date of its publication.

Engineer / Sultan bin Saeed Al Mansouri
Chairman of the Board

Issued in Abu Dhabi on 02/03/2015

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- [1] - Definition of Derivative Products has been revoked according to Decision No. (39) of 2015.
 - [2] - Definition of Derivatives has been added according to Decision No. (39) of 2015.
 - [3] - Article(3/bis) has been added according The Chairman of the Authority's Board of Directors' Decision No. (15/R. M) of 2016
 - [4] - Item (Second) of Article (4) has been amended pursuant to Decision No. (39) of 2015.
 - [5] - Item (Fifth) of Article (4) has been amended pursuant to Decision No. (39) of 2015.
 - [6] - Item(First/9) of Article (5) has been amended pursuant to Decision No. (39) of 2015.
 - [7] - Item (20. (c)) of Article (10) has been amended pursuant to Decision No. (39) of 2015.
 - [8] - Item (20. (E)) of Article (10) has been amended pursuant to Decision No. (39) of 2015.
 - [9] - Item (20. (G.2)) of Article (10) has been amended pursuant to Decision No. (39) of 2015.
 - [10] - Last paragraph of Item (20. (H)) of Article (10) has been amended pursuant to Decision No. (39) of 2015.
 - [11] - The clause No. (3) of article (21) has been added according The Chairman of the Authority's Board of Directors' Decision No. (15/R. M) of 2016.