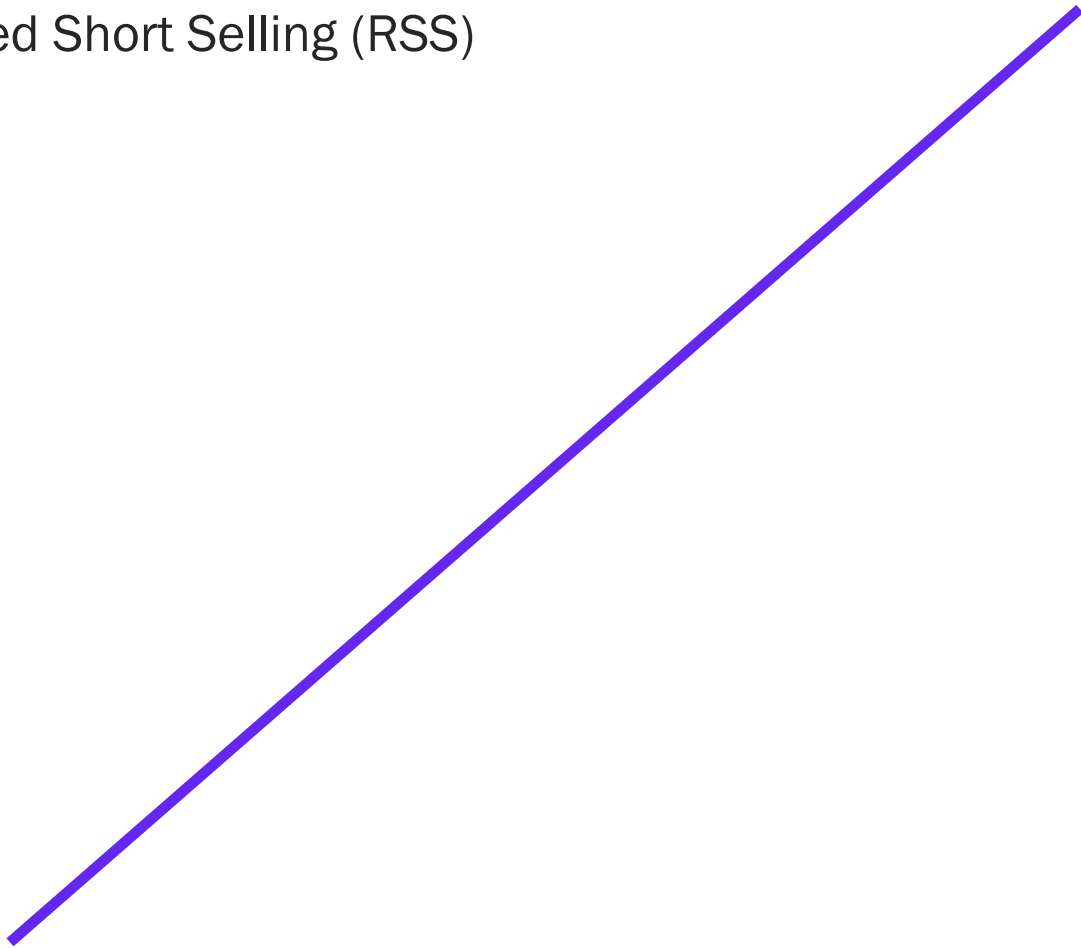


Operational Model and Procedures For Implementation of Regulated Short Selling (RSS)



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1. Purpose

The purpose of this document is to outline:

- 1.1. The operational model for implementation of RSS (the “**Operational Model**”); and,
- 1.2. The relevant procedures for implementation of RSS (the “**Procedures**”).

2. Definitions

- 2.1. Capitalized terms used in this Operational Model and these Procedures and not defined herein shall have the meaning given to them in the DFM Rules, CCP Rules, CSD Rules and SCA’s decisions.
- 2.2. Headings are for convenience only and shall not affect the interpretation of this Operational Model and these Procedures.
- 2.3. In this Operational Model and these Procedures, unless the context otherwise requires, the following words and expressions shall have the following meanings:

Locate Confirmation means a record evidencing that the DVP Investor placing the RSS Order has obtained confirmation from a lender that the lender has the security available to lend.

DVP Investor means a Client holding an investor number through a CSD Custodian and uses a CSD Custodian for settlement of Transactions.

Non-DVP Investor means a Client holding a direct investor number with CSD and whose trades are settled by the RSS Trading Member as a Clearing Member or via a Clearing Member.

OMS means order management system of the Market Member offering RSS mechanism.

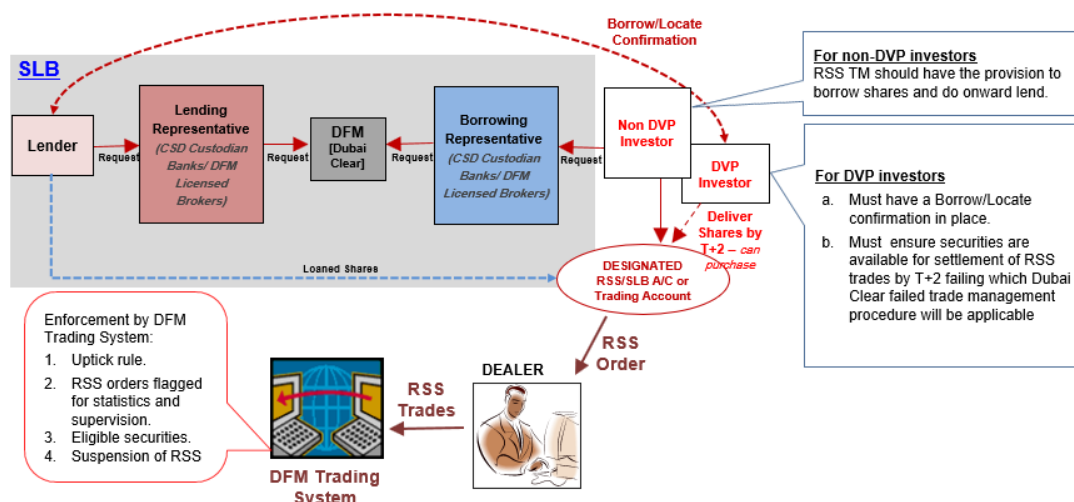
Regulated Short Selling or RSS means the practice by which the Member sells a Security not owned by its Client in accordance with Part 9 of the Membership, Trading and Derivatives Rules.

RSS Trading Member or RSS TM means a Market Member approved to engage in the RSS mechanism in accordance with Part 9 of the Membership, Trading and Derivatives Rules.

Uptick rule means the RSS Order price is accepted at a price higher than the current offer price.

3. Operational Model

3.1. The following diagram outlines the DFM RSS model and its interaction with Securities Lending and Borrowing (SLB):



3.2. Details of the SLB model, rules and procedures can be found on the CCP's website.

4. Accounts to offer RSS mechanism

4.1. The following accounts can be used to offer the RSS mechanism:

- 4.2. **RSS/SLB Trading Account for DVP Investors:** The DVP Investors may use their existing account with their CSD Custodian to conduct RSS Transactions and to hold borrowed Securities or to create a separate account with their CSD Custodian.
- 4.3. **RSS/SLB Trading Account for non-DVP Investors:** The non- DVP Investor may use their existing Trading Account with the RSS Trading Member or may open a separate account to conduct RSS Transactions.

In the event a DVP Investor or a non-DVP Investor elect to open a separate account to conduct RSS Transactions such accounts can only be used for the following purposes:

- 4.3.1. buy Securities for the purpose of returning the borrowed Securities under an SLB Transaction.
- 4.3.2. buy Securities for the purpose of settling an RSS Transaction if the Client decided not to execute the related SLB Transaction. In such case, settling of RSS Transaction will be successful only if the buy Transaction is settled.
- 4.3.3. Inward transfer of the borrowed Securities on the Settlement Date of an RSS Transaction.

5. RSS Trading Member Technical Requirements

- 5.1. RSS Trading Members must ensure that their OMS is capable of the following:
- 5.2. Flag the RSS Order as Short Sell (via FIX protocol tag 54 should be "5" and via trader workstation Order entry screen as "short sell");
- 5.3. Restricting the RSS Orders to the RSS Eligible Securities designated by the Market; and

5.4. Maintain separate register for RSS Transactions to manage short sell positions, including but not limited to:

- 5.4.1. Client details;
- 5.4.2. Description of the Securities;
- 5.4.3. Price, number of Shares and Value of the RSS Transaction;
- 5.4.4. All the fees, expenses, and commissions;
- 5.4.5. The alert, warning messages addressed to the Client as regards to the decline in Maintenance Margin ratio;
- 5.4.6. The mechanism and time to cover the short position in scenario such that shortfall of margin is not covered by the Client.

6. Execution of RSS Orders

6.1. The Trading Member shall comply with the following while executing an RSS Order:

- 6.1.1. **For non-DVP Investors:** RSS Trading Member, to have a valid Securities Lending and Borrowing arrangement to lend Securities.
- 6.1.2. **For DVP Investors:** RSS Trading Member, to ensure that the DVP Investor has a Locate Confirmation in place and keep a record of it. Refer to Section 10 for details on Locate Confirmation.
- 6.1.3. The RSS Order must be flagged as short.
- 6.1.4. If the RSS Trading Member offering RSS mechanism lends Securities to its Clients from the RSS Trading Member own account, or in its capacity as a Lending Agent such Member shall:
 - 6.1.4.1. have the right to acquire the Collateral from the Client specified in this document, or the Collateral specified pursuant to the SLB Circular issued by the CCP, as it deems fit; and,
 - 6.1.4.2 must take appropriate collateral as margin (minimum margin to be collected should be equal or above the CCP published margin rates for the Securities) and retain the sale proceeds of that Security until the Client's financial short position is closed by repurchasing the Securities that were short sold;
 - 6.1.4.3 evaluate the Securities value that have been short sold at the Market closing price by the end of each Business Day and shall be marked to market on a daily basis from Client's margin;
 - 6.1.4.4 inform the Client if the margin falls below margin requirement;
 - 6.1.4.5 Client to cover the shortage and increase the margin, no later than the next Business Day from the date of being notified of the same or as agreed with the Client as per RSS Agreement; and,
 - 6.1.4.6 allow the Client to withdraw any excess funds if its contribution exceeds margin
 - 6.1.4.7 The RSS member, based on the risk assessment, shall have the discretion to impose or collect higher margin than the margin specified above.
- 6.1.5. Repurchase of Securities to close the short position or for the purpose of returning the borrowed Securities must be done using the same Trading Account and Member through which the initial RSS Order was executed and the reported short position was opened.

- 6.1.6. Trade amendment of RSS Transaction to change the Client trading account after T+0 is not permitted.

7. Settlement of RSS Transactions

- 7.1. RSS Trading Member must ensure settlement of RSS Transactions by the trade Settlement Date i.e., T+2 including for DVP trades, through either:

A buy Order to cover the short position executed on the same date of the RSS trade (T+0); or

The delivery of borrowed Securities through the SLB mechanism.

- 7.2. Fee or charges may be levied by the CCP for failing to ensure the settlement of any RSS Transactions (accepted for settlement) on the Settlement Date in accordance with the CCP's rules.
- 7.3. RSS Transactions by Clients using a custodian for settlement are entitled to be settled on a DVP basis.

8. Securities Delivery for RSS Transactions

- 8.1. To settle RSS Transactions by Settlement Date the DVP or non-DVP Investor may borrow and deliver the Securities either on an OTC basis or through the RSS Trading Member, acting as a Lending Agent. To lend Securities to the Client, RSS Trading Member must be first approved by CCP as Lending Agent.

For further details, refer to the CCP Securities Lending and Borrowing Rules and procedures published on CCP's website.

9. Procedures to operate as an RSS Trading Member

- 9.1. RSS Trading Member wishing to engage in the RSS mechanism shall obtain the final approval from the Market in accordance with the requirements set forth in DFM Market Rules Module Three Membership, Trading, And Derivatives Rules.
- 9.2. RSS Trading Member wishing to act as Lending Agent shall obtain approval from CCP in accordance with the Securities Lending and Borrowing Rules and procedures to settle RSS Transactions on-behalf of its Client.
- 9.3. RSS Trading Member should successfully complete an RSS conformance test with the Market.
- 9.4. RSS Trading Member offering RSS mechanism using a separate RSS/SLB Account other than the existing Trading Account of the Client, should request the CCP for an access to the RSS/SLB Account type to create RSS/SLB Account for the Client.

10. Requirements of a Locate Confirmation Record

- 10.1. A Locate Confirmation record is evidence that the Client, placing an RSS Order, has made adequate arrangements with a lender to borrow Securities.
- 10.2. The Locate Confirmation record must contain the following details:
- 10.2.1. Date and time of confirmation;
 - 10.2.2. Quantity of Securities;
 - 10.2.3. Name of Securities;
 - 10.2.4. Trading Symbol or ISIN of the Securities;

- 10.2.5. Name or Identifier Code of Lender;
- 10.2.6. Name or Identifier Code of Borrower;
- 10.2.7. Evidence of lender confirmation to hold the quantity of Securities.

10.3. The SLHK Bloomberg message or similar Locate Confirmation record is an example of an acceptable Locate Confirmation record which the RSS Trading Member must maintain as a record for inspection purposes.

10.4. The Market shall make periodic requests of Locate Confirmation records to support RSS Transactions. Failure to ensure a Locate Confirmation record shall be considered a violation of DFM Market Rules. The Market reserves its rights to impose penalties in accordance with DFM Market Rules Module Four – Penalty Rules Module.

11. RSS Restriction Threshold

11.1. The Market may suspend RSS Order entry on the RSS Eligible Securities:

- 11.1.1. If directed by a regulatory authority; and/or,
- 11.1.2. If there is excessive RSS activity creating undue market volatility.
or deemed appropriate to maintain a fair and orderly market.

12. RSS Eligible Securities list:

- 12.1. RSS Eligible Securities list is published on the Market's Website. The Eligible Securities list includes the selection criteria as well as the RSS Eligible Securities symbol and security name.
- 12.2. RSS Eligible Securities list is reviewed every 6 months and published via Market Circular at the beginning of January and July of each calendar year.

13. Uptick Rule for placing RSS Order:

- 13.1. The Market may decide to implement the RSS Uptick Rule for placing RSS Orders based on the share price development.
- 13.2. RSS Uptick Rule will be applied, If an RSS Eligible Securities is trading down a certain percentage from the reference price (this reference price is the Closing Price for the previous day which may be adjusted due to corporate action, or on the first day of the listing of the Security, the price at which the Security is listed). The Market will communicate these percentages via a Market Circular. These levels may and will be updated from time to time and will be updated via Market Circular accordingly.
- 13.3. Uptick rule conditions for RSS orders:
 - 13.3.1. RSS Orders must be entered at a price higher than the current offer price.
 - 13.3.2. Market orders are strictly prohibited.
 - 13.3.3. RSS Orders are allowed only during continuous trading sessions.
- 13.4. Market Makers are exempted from the criteria of Uptick Rule on the Securities on which they are obliged to perform market making or hedging activities including underlying Securities for an ETF.
- 13.5. Clients trading in DFM Derivatives and perform hedging activities on the underlying Securities, can request for a standing waiver of Uptick Rule.

- 13.5.1. Market shall review such a request. The Market shall not be under any obligation to grant a waiver. In the event a waiver is granted, the RSS Trading Member shall open a separate account to the Client.
- 13.5.2. Market has the right to suspend above mentioned Uptick Rule waiver account in case of extraordinary circumstances or possible Market misconduct.

14. Publication of RSS Trading Summary by the Market

14.1. The Market will publish the following information on its website for RSS Transactions:

- 14.1.1. Aggregated RSS Trades summary for each Securities.
- 14.1.2. Short Sell Interest Report for each Security.

15. Reporting by RSS Trading Members

15.1. RSS Trading Members offering RSS mechanism must report the following to the Market (refer Annexure 1 for format and examples):

- 15.1.1. RSS executed Transactions as per the template and means prescribed by the Market.
- 15.1.2. Short Positions for each Client in an RSS Eligible Securities as per the template and means prescribed by the Market.
- 15.1.3. The above reports to be submitted to the Market on weekly basis or as per the request from the Market.

16. Submission of Requests

16.1. All requests for approval of RSS Trading Member offering RSS mechanism are to be sent by email to: mc@dfm.ae

16.2. The P.O. Box number to be used for courier delivery purposes is: 9700 Dubai- UAE

*** END ***

Annexure 1:

1. RSS Reports to be submitted via sftp on last working day of the week after market hours.
2. File name: RSS_WeeklyReport_<ReportDate in YYYYMMDD format>_Membercode.xlsx
3. Header:

Report Date:

Start Date:

End Date:

Sheet1: RSS Executed Transactions Report:

Trade Date	Date of Transaction in YYYY-MM-DD format
Trade No	Trade Number assigned by the Market for the Transaction
Symbol	Symbol of the Security
Security Name	Security Name
ISIN	ISIN
Member	Member code
NIN1	NIN of the Client or Omnibus Account
Account	Trading Account of the Client with the Member or UCC of the Client in case of trading under Omnibus Account
Client Name	Name of the Client
Matched Qty	Qty of the Transaction
Price	Price of the Transaction
Trade Value	Value of the Transaction
Is Short	Y for RSS

Sheet2: Short Position Report:

Member	Member code
NIN	NIN of the Client or Omnibus Account
Account	Trading Account of the Client with the Member or UCC of the Client in case of trading under Omnibus Account
Client Name	Name of the Client
Symbol	Symbol of the listed security
ISIN	ISIN of the listed security
Security Name	Security Name of the listed security
B/F Net Short Qty	Net Short Qty brought forward from previous week
Short Sell Quantity	Total Short Sell Quantity during the reporting week for a Client in a particular security
Repurchase Qty	Total Quantity purchase back to cover the short sell during the reporting week for a client in a particular security
Net Short Qty	Reportable Net Short Qty if (B/F Net Short Qty + Short Sell Qty) is greater than Repurchase Qty, otherwise 0

Example: Attached



RSS_WeeklyReports_
Sample.xlsx