



# Regulations on Allocation Accounts

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# Introduction

Dubai Financial Market ("DFM")'s Board of Directors,

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

The Authority's Board of Directors' Decision No. (2/R) of 2000 concerning the Regulation for DFM Membership;

The Authority's Board of Directors' Decision No. (2) of 2001 concerning the Regulation for Trading, Clearing, Settlement, Transfer of Ownership and custody of Securities, as amended;

The Authority's Board of Directors' Decision No. (3/R) of 2001 concerning the Regulation for the Functioning of the Market, as amended;

The Authority's Board of Directors' Decision No. (27) of 2014 concerning the Brokerage in Securities, as amended;

Dubai Decree No. (14) of 2000 on the Establishment of Dubai Financial Market as amended and the Regulations, Decisions and Instructions of DFM's board of directors has approved the following Regulations:

## Article (1) Definitions

In these Regulations, the following words and expressions shall have the meanings set forth opposite each of them, unless the context otherwise requires:

"SCA"	UAE Securities and Commodities Authority;
"Market"	Dubai Financial Market;
"Clearing Entity"	The entity that conducts the settlement and clearing operations for all orders which are carried out in DFM according to the Regulations and Decisions regulating thereof;
"Securities"	The shares, bonds and notes issued by joint stock companies, bonds and notes issued by the Federal Government or Local Governments, public authorities and public institutions in the UAE, and any other domestic or non-domestic financial instruments accepted by the SCA;
"Broker Company"	Any broker company authorized by the Market to trade through an Allocation Account;



"Allocation Account"	A Broker Company's account with the Clearing Entity that is designated to conclude Securities' purchase or sale transactions in the name of the Broker Company on behalf of its clients, provided that such transactions shall be allocated to the clients' accounts within the allocation period according to these regulations;
"Allocation Period"	The period granted to the broker company during which such broker company shall allocate the Securities from the Allocation Account to the clients' account within no more than (45) minutes from the closure of an ordinary trading session of the Market, according to these Regulations.
"Foreign Broker"	A legal person licensed by an equivalent regulatory body outside the UAE.

## Article (2) General Provisions

1. These Regulations set out the operational pattern and procedures to be followed when using the Allocation Account mechanism in the Market. Such operations may not be carried out except according to these Regulations.
2. Broker Company may open one Allocation Account only for all its clients, according to the classification set out in these Regulations.
3. As an exception of Clause (2) above, the Broker Company may open more than one Allocation Account in case their client is a Foreign Broker or a fund manager.
4. Opening an Allocation Account for a Client with a Broker Company shall not prevent opening an Allocation Account with any other Broker Company.

## Article (3) Requirements for Broker Company to Obtain Approval to use an Allocation Account

To obtain the market approval to use Allocation Accounts, the broker company must meet the following requirements:

1. shall be a trading and clearing member;
2. shall have the technical and administrative capabilities and experience necessary to use an Allocation Account;
3. shall have the solvency necessary to use an Allocation Account; and
4. Shall not have committed a material breach to the solvency standards or the regulations on separation of accounts approved by the SCA during the six months immediately preceding the Approval Application date.



#### **Article (4)** **Approval Application**

The Broker Company willing to use the Allocation Account mechanism shall submit its application to the Market according to the form prepared for that purpose, accompanied with all the information and documents supporting such application, including the followings in particular:

1. A report clarifying the technical system used to manage the Allocation Account;
2. A report clarifying the system of keeping the documents related to be the operations that carried out through the Allocation Account;
3. A report clarifying the rules and basis of internal audit and control of the operations carried out through Allocation Account;
4. Client Agreement form including, at least, the following information:
  - a. Statement of Allocation Account concept, as well as risks that may be encountered by the client as result thereof; and
  - b. A detailed statement of the rights and obligations of both the client and the Broker Company.
5. The Market may request any further clarifications, information or documents.

#### **Article (5)** **Market Decision**

The Market shall issue its decision, either approving or rejecting the application, within thirty (30) days from submitting the application fulfilling the requirements set out in these regulations.

#### **Article (6)** **Obligations of the Broker Company**

The Broker Company shall:

1. Limit using Allocation Account to delivery versus payment (DVP) clients, and any other cases as accepted by the Market and approved by the SCA;
2. Sign an agreement with each client willing to use an Allocation Account;
3. Classify the Allocation Account into sub accounts to ensure not exceeding the allowed ownership percentages, through placing clients' orders based on their nationalities according to the following classification:
  - a. "Local" to conclude a trading transaction to be allocated to the benefit of UAE clients;
  - b. "GCC" to conclude a trading transaction to be allocated to the benefit of GCC clients;
  - c. "Foreign" to conclude a trading transaction to be allocated to the benefit of clients of other nationalities.



4. Connect the Allocation Account number directly with the client's Investor Number for allocation purposes;
5. Validate the availability of sufficient balance of securities to ensure the completion of settlement process;
6. To fulfill clients' orders only through transaction executed in the Market;
7. Not to execute any delusive or fake transactions, that lead to give the investors the wrong impression of the Existence of high liquid market on the related security, to influence its price (upward, downward, or stabilizing), to influence its trading volume in the market, or to influence the Investor's decision to or (not to) invest;
8. Refrain from using the Allocation Account to conclude transactions on the shares of joint listing companies or foreign companies to the benefit of UAE clients or GCC clients, while such transactions may be carried out for clients of other nationalities;
9. Refrain from concluding any sale or purchase transactions except in accordance with orders established by clients. such orders should be archived and kept following the same mechanism used to record and archive normal orders;
10. Executing trading transactions in the Allocation Account based on actual price of each transaction, and using the weighted average price of these orders as a common price for the allocation process;
11. Observe the settlement cap related to trading operations in the market. The Market may refuse any Allocation transaction to a client's account in case of insufficient settlement cap;
12. Refrain from charging any additional charges or commissions from clients other than, the assigned trade commissions, when trading using the Allocation Account.
13. Keep records clarifying each transaction completed using an Allocation Account, including:
  - a. Original sale or purchase order by the client; and
  - b. Client's instructions for allocation including details of allocation amounts.
14. Provide the SCA and/or the Market with any information or documents related to the Allocation Account within no more than (24) hours of the application, except in cases where the SCA or the Market permits such a period to be exceeded.



## **Article (7)**

### **Obligations Related to Allocation Period**

When allocating securities from an Allocation Account, a Broker Company shall:

1. ensure that the transactions carried out on an Allocation Account are not in violation with the applicable laws and regulations, especially in relation to ownership limitations and percentages, disclosures related thereto and ban periods prior to any allocation process;
2. allocate all the sale and purchase transactions carried out on an Allocation Account during the Allocation period to the clients' accounts according to their instructions; and
3. allocate the Securities by either of the following methods:
  - a. Manually, through the mechanism provided by the Market; or
  - b. Uploading the Allocation particulars using the (CSV) file provided by the Market according to the details stated in the system manuals.

## **Article (8)**

### **Failure in Securities' Allocation**

1. Upon the expiry of the Allocation period, Securities that have been rejected by the Custodian, or have not been allocated during the Allocation period should be automatically allocated to a special account of the broker company with the clearing house named "Automatic Allocation Account". These securities should be settled according to the mechanism provided by the Market, The Automatic Allocation Account must be classified into sub accounts as follows: :
  - a. "Automatic Local" for automatic allocation of Securities that are not allocated from the Allocation Account labeled local;
  - b. "Automatic GCC" for automatic allocation of Securities that are not allocated from Allocation Account labeled GCC; and
  - c. "Automatic Foreign" for automatic allocation of Securities that are not allocated from the Allocation Account labeled foreign.
2. The settlement of failure Allocation incidents should follow the same procedures related to the settlement of delivery versus payment (DVP) transactions.

## **Article (9)**

### **Failure in Securities' Allocation Obligations related to mistakes in executing some trades or mistakes during the allocation process**

1. In case a Broker Company, while reviewing all the orders and transactions, upon the closure of a trading session, found that a trade has been carried mistakenly to the Allocation Account, such Broker Company shall submit the necessary modification request in the form prepared by the Market for that purpose to the trading controller within thirty minutes from the closure of the trading session in which the related transaction has been done. Such form shall be accompanied with a copy of the clients' purchasing or selling orders.
2. In case a Broker Company found that, they have mistakenly allocated some securities to any client's account they may take the necessary correction during the allocation period.



### **Article (10)** **Block Trades**

As an exception of block trades' rules issued by the Market, Allocation Accounts could be used to execute such trades.

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

In case of violation of these Regulations, The Market may:

1. issue a warning to the Broker Company;
2. suspend the approval given to the Broker Company;
3. cancel the approval given to the Broker Company;
4. impose a fine on the Broker Company not exceeding the maximum fine established in the SCA Law and the Regulations implementing thereof;
5. impose penalties and fines according to the Market Regulations in compliance with SCA Regulations; or
6. Refer any violating Broker to the SCA to consider the violation and impose the suitable penalty thereon.


### **Article (12)**


Any decisions, circulars, controls or procedures issued by the market that contradict the provisions of these regulations shall be canceled.


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