Market Notice (031)	
Date	10/12/2015

Subject	Margin Trading

Executive Summary

The purpose of this Market Notice is to announce the introduction of Margin Trading at QSE. It summarizes the most important regulatory requirements and provides guidance on the QFMA licensing process for Members.

Introduction

The Exchange herewith announces the start of application process for its members wishing to be licensed as Margin Lenders by the Qatar Financial Markets Authority. Once the member is licensed as a Margin Lender, it can perform Margin Trading activity at QSE. Margin Trading will allow investors to purchase securities that are partially funded by a finance made available by a Margin Lender, a Member licensed to provide Margin Trading services.

Regulatory framework

Margin Trading will be governed by:

(i) **the QFMA Margin Trading Rules which can be found on QFMA's website: http://www.qfma.org.qa/App_Themes/AR/ABook/Hamesh_Trading_Rules.pdf**
(ii) **Section 4.10 of the QSE Rulebook, attached to this notice as Annex 2,**
(iii) **Section 3.6 of the QCSD Rulebook, which can be found on QCSD's website: http://www.qcsd.com.qa/Arabic/QCSDRules.pdf**
(iv) **And the provisions of this Market Notice.**

Market participants are encouraged to read these rules carefully and direct any questions they may have to the Sales & Marketing department of QSE.

The most important requirements for Margin Trading are summarized below.

Margin Lender application and licensing

To become a Margin Lender, Members need to obtain a license from the QFMA. For this, an application needs to be submitted to QSE together with the following supporting documents:

- **Business plan: the candidate's business plan relative to Margin Trading**
- **Financial Statements: Financial Statements per the last day of the month preceding the license application submission (see article 4 (1) of the QFMA Margin Trading Rules)**
- **System documentation: functional description of systems that are used for Margin Trading and management of the Margin Trading Accounts (see article 3 (2) and article 4 (2) of the QFMA Margin Trading Rules)**
- **Staff: preferably an organization chart, highlighting staff/managers that are involved in Margin Trading and their duties/responsibilities/reporting lines and job descriptions**
- **Administrative Organization & Internal Controls: a document that describes administrative organization and internal controls, including but not limited to Margin Trading client acceptance, account opening procedures, compliance with the activity, concentration and client exposure limits, Margin calculations and client notifications, reporting requirements, and position close- out procedures (see article 3 (2), 9, 10, 15 and 16 of the QFMA Margin Trading Rules).**
- **Template Margin Trading Account opening form and Client Margin Trading Agreement (see article 4 (3) and article 6 of the QFMA Margin Trading Rules)**

Once a license from the QFMA is obtained, the Margin Lender will sign a Margin Lender's agreement with the client wishing to perform margin trading. The application form can be obtained from the Sales & Marketing department of QSE.

Please note that a Margin Lender will have to certify, among other conditions, that it satisfies and will continue to satisfy appropriate levels of expertise, in addition to technical, operational and risk management capabilities. As part of the application process, the Exchange may request that the candidate provides information, considering that its role is to verify the Margin Lenders' compliance with the Margin Trading rules issued by the QFMA, and to inform the QFMA of any breach of the provisions of these rules, in accordance with

the provisions of Article No. (18) thereof, as well as the application of the provisions of the QSE Rulebook.

Client Margin Trading Agreement and "Know Your Customer" rules

As a condition to offer Margin Trading services to their Clients, Margin Lenders must satisfy themselves that Margin Trading is suitable for their Clients. This requires appropriate due diligence of the Clients financial condition, investment objectives, risk tolerance and knowledge and experience in respect of financial markets and trading (see article 9 (1) QFMA Margin Trading Rules).

Furthermore, a Margin Trading agreement needs to be in place between the Margin Lender and the Client in accordance with article 6 of the QFMA Margin Trading Rules, which should at least include:

- **a.** **a detailed description of the Margin Lending and the Client's responsibility to seek prior professional advice and a statement that the Client fully understands the conditions and the risks involved in Margin Trading including:**
- **the possibility that the client may lose part of or the whole funds deposited in the margin trading account.**
- **the right of the Margin Lender to sell part of the securities purchased on margin in the event of the decline of the maintenance margin proportion less than the limit specified by the Agreement and the failure of the client to cover the shortfall in the maintenance margin within the period specified by the notice on the maintenance margin shortfall replenishment, provided that the securities may be sold to yield the best interest for the client.**
- **b.** **A statement that the client's securities and cash balance kept in the margin trading account and other collaterals are a guarantee to pay the amounts owed by the company to the margin trading account.**
- **c.** **A statement providing that the client has the right to receive dividends and interest when due, and vote in the general assemblies of the companies in which he owns securities at the margin trading account.**
- **d.** **A description of the amount of commissions and fees which will be collected by the margin lender from its client.**
- **e.** **A description of the maintenance margin proportion, which shall not be less than the limit established in these rules.**

f. A description of the procedures which will be carried out by the margin lender in the event of the decline of maintenance margin proportion less than the limit set in the Agreement, including the method of notifying the client thereof.
g. A statement providing that the client fully understand and approve the Margin Trading rules.
h. A statement showing the percentage of finance given by the Margin Lender to the client.
i. A statement showing that the finance rate payable to the margin lender provided this rate shall not exceed the last finance price announced by Qatar Central Bank.
j. A statement providing for the funding period, which may be extended with the agreement of the two parties.

As mentioned above, a template Margin Trading Agreement and Margin Trading Account opening forms for Clients should be submitted to QSE as part of the application process.

Margin Trading Accounts

A Margin Lender needs to open a designated account for each Client to administer the Margin Trading position consisting of securities (physically held in the designated Depository Margin Trading Account, see below) and cash (held in segregated cash accounts in accordance with section 37 of the QFMA Financial Services Rulebook).

Depository Margin Trading Account

Margin Trading orders are executed by the Margin Lender. All securities bought on margin are posted and kept on the Depository Margin Trading Account, where the Margin Lender may determine a return on the financed amount as mentioned in article 6 (2) i of the QFMA Margin Trading Rules and article 4.10.3 of the QSE Rulebook.

Segregated cash account

In addition, the Margin Lender should have a designated cash account with a commercial bank in Qatar for the purpose of receiving Margin payments for Clients.

The Margin Lender should have the appropriate systems and procedures in place to ensure that securities purchased on Margin are strictly segregated from other assets and that cash Margin payments are strictly segregated from the Margin Lender's assets.

Margin requirements

The QFMA Margin Trading Rules and the QSE Rulebook provide for minimum margin requirements. To buy securities on margin, the Client should provide cash funds of no less than 60% of the expected value of the resulting Margin Trading position (Initial Margin) and the Margin lender should ensure that the initial margin is available in the margin trading account prior to entering into the margin transaction. Subsequently, whenever the net market value for the securities kept in the margin trading account is less than 30 % of the total value of the position, the Client is notified thereof and required to provide Maintenance Margin, taking into consideration the cash balance and other collaterals available in the margin trading account.

The Client may also keep additional collaterals (as described in Article 11 of the Margin Trading Rules issued by the QFMA in his own margin trading account, according to the limits set forth in the margin trading rules issued by the QFMA.

(Please refer to Articles 10 (4), 10 (6), and 11 of the margin trading rules issued by the QFMA).

In addition to minimum margins requirements referred to above, please note that the QFMA Margin Trading Rules provide for activity limits (not more than 50% of the net owners' equity of the Margin Lender can be allocated to Margin Trading), concentration limits (not more that 30% of the total margin trading exposure of the Margin Lender may be concentrated in one single security) and Client exposure limits (Margin loans for one single Client cannot be in excess of 10% of the net owners'' equity of the Margin Lender). Please refer to article 10 (2), 10 (3) and 10 (5) of the QFMA Margin Trading Rules respectively.

Capital Adequacy

Margin Lenders, as financial services firms licensed by the QFMA, should at all times comply with the QFMA's Capital Adequacy Requirements, available on QFMA's website: http://www.qfma.org.qa/App_Themes/AR/ABook/Malaa.pdf

There are currently no additional requirements for Margin Lenders to provide additional bank guarantees under article 3 (5) of the QFMA Margin Trading Rules.

Supervision

The Exchange is entitled to verify the Margin Lenders' compliance with the Margin Trading rules issued by the QFMA, and to inform the QFMA of any breach of the provisions of these

rules, in accordance with the provisions of Article No. (18) thereof, as well as in application of the provisions of the QSE Rulebook.

For further assistance and additional information please contact the Operations department and/or Sales & Marketing department of QSE.

Annex (1)

List of the securities allowed for trading on margin (the constituents of QE Index)*:

Code	Company Name
AHCS	Aamal Holding Company
BRES	Barwa Real Estate
CBQK	Commercial Bank – Qatar
DHBK	Doha Bank
ERES	Ezdan Holding Group
GISS	Gulf International Services
IQCD	Industries Qatar
MARK	Masraf Al Rayan
MERS	Al Meera Consumer Goods Co.
MRDS	Mazaya
ORDS	Ooredoo
QATI	Qatar Insurance
QEWS	Qatar General Electricity & water Corporation
QGTS	Qatar Gas Transport Company (Nakilat)
QIBK	Qatar Islamic Bank
QIIK	Qatar International Islamic Bank
QNBK	QNB
QNNS	Qatar Navigation (Milaha)
UDCD	United Development Company
VFQS	Vodafone Qatar

* **The above list can be modified from time to time according to index modifications.**

The liquidation procedures of margin trading positions in the event of withdrawal of the approval of any security:

In the event of withdrawal of the margin trading approval of any security, all margin trading positions of that security shall be closed during a period of time specified by QSE and approved by the QFMA. QSE shall announce this period via a market notice to be issued in this regard. At the end of this period of time, it is not permissible to hold these securities (whose margin trading approval was withdrawn) in the margin trading account deposited with the Depositary, provided that the maintenance margin ratio in the margin trading account after deducting those securities shall be compatible with the provisions of the Margin Trading Agreement.

The client has the following options when closing margin trading positions of the securities whose margin trading approval was withdrawn:

- Pay its part from the margin finance
- Replacement of those securities with other securities that are allowed to be traded on margin in other accounts of the client and transfer them to the depository margin trading account.
- The sale of all or part of the securities from which the margin trading approval was withdrawn.

Annex (2)

Part Ten: Margin Trading

4.10

Dedicated Account with the Depository:

4.10.1 The Margin financer shall open a Depository Margin Trading Account for each Client for the purpose of Margin Trading.

4.10.2 The Securities purchased by the Client in the context of Margin Trading and the securities subsequently obtained as a result of any corporate action in the said Securities shall be kept in the Depository Margin Trading Account.

4.10.3 Without prejudice to the powers of the competent court, the Authority or the Depository or the conditions imposed by the Margin Trading Agreement, the Securities purchased on Margin shall neither be pledged, nor be transferred from the Depository Margin Trading Account to the Client's Depository Account or any other account without approval of the Margin Financier of the Depository.

4.10.4 The Margin Financier shall keep the securities purchased by the client on margin to secure fulfillment by the Client of his obligations under the Margin Trading Agreement and the credit facility as shown in the daily statements of account provided by the Margin Financier to the Client.

4.10.5 Initial Margin:-

The Margin Financing Member must ensure that the Initial Margin has been provided by client before execution of the on- margin purchase transaction.

"Initial Margin" means: the minimum amount paid or payable by the Client for any on-margin purchase transaction, as determined in the Margin Trading Agreement, taking into account the minimum requirements determined by the Authority.

4.10.6 Maintenance Margin:

The Margin Financier shall, at the end of each Business Day, calculate the value of the Margin Trading position of each Client and notify the Client immediately, whenever there is a decrease in the Maintenance Margin.

The Client shall pay the required margin within the period provided for in the Margin Trading Agreement.

The "Maintenance Margin" means: the minimum contribution by the to the market value of the securities and cash balances in its the margin trading account at any time. The Maintenance Margin shall subject the minimum requirements provided for in the Margin Trading Agreement.

The Maintenance Margin shall be calculated in accordance with the provisions of Article (7) of the Margin Trading Rules issued by the Authority.

4.10.7 In case the Client fails to replenish the Maintenance Margin within the period provided for in the previous article, the Margin Financier may sell a portion of the securities purchased on margin when the Maintenance Margin falls below the agreed limit, in accordance with the provisions of the Margin Trading Agreement and the relevant applicable rules, in the best interest of the client.

4.10.8 Securities authorized for Margin Trading:

Upon the Recommendations the Exchange, the Authority shall determine the securities authorized for Margin Trading.

In the event the authorizations of Securities for Margin Trading are revoked, the Exchange, after obtaining the Authority's approval, will issue a market notice identifying the procedures for closing down Margin Trading positions in such Securities.

4.10.9 In the event of any breach of the provisions of the Margin Trading rules issued by the Authority or the Exchange, the Authority shall be notified thereof in order to take the proper actions.