Appendix 8

In this Appendix underlining indicates new text and striking through indicates deleted text.

Some text that is not being amended is included for information only.

The DFSA Rulebook

Authorised Market Institutions

(AMI)

PART 1: INTRODUCTION

1. APPLICATION, INTERPRETATION AND OVERVIEW

1.1 Application

1.1.1 (1) This module applies to:

(a) every Person who carries on, or intends to carry on, either or both of the Financial Services of Operating an Exchange or Operating a Clearing House in or from the DIFC;

(b) a Key Individual, or a Person intending to be a Key Individual, of a Person referred to in (a); and

(c) a Controller, or a Person intending to be a Controller, of a Person referred to in (a).

(2) This module also applies to an Authorised Market Institution where it:

(a) carries on, or intends to carry on, the Financial Service of Operating an Alternative Trading System to the extent that such activities constitute operating a Multilateral Trading Facility; or

(b) acts as a Trade Repository.

(3) This module does not apply to a Recognised Body.

Guidance

This module will also apply to an Authorised Market Institution that is Operating a Facility for Investment Tokens or Crypto Tokens, unless otherwise specified. Operating a Facility for Investment Tokens is defined in GLO in relation to an Authorised Market Institution to mean Operating an Exchange on which Investment Tokens are traded, Operating a Clearing House on which Investment Tokens are cleared, or Operating a Multilateral Trading Facility on which Investment Tokens are traded. Operating a Facility for Crypto Tokens is defined in similar terms in relation to Crypto Tokens.

1.2 Overview of the module

Guidance

The regulatory framework

1. The Regulatory Law 2004 ("the Regulatory Law") and the Markets Law 2012 ("the Markets Law") provide the framework for the licensing and supervision of Authorised Market Institutions and for taking regulatory action against those licensed institutions.

2. In particular, while Article 41 of the Regulatory Law prohibits a Person from carrying on Financial Services in or from the DIFC, Article 42 of that Law permits Persons duly authorised and Licensed to conduct Financial Services in providing their services.

3. The Markets Law establishes a framework in relation to how an Official List of Securities is maintained and administered by the Listing Authority. Either the DFSA, or an

Authorised Market Institution where it has been granted an endorsement on its Licence to do so, may maintain an Official List of Securities.

4. The GEN module prescribes the Financial Services which may be carried on by an Authorised Firm or Authorised Market Institution and the detailed requirements that must be met by such firms. In addition, the GEN module also sets out the circumstances under which an Authorised Market Institution may be authorised to carry out certain functions by way of an endorsement on its Licence.

5. The RPP Sourcebook contains, amongst other things, the detailed policies and procedures relating to how the DFSA exercises its licensing and supervisory functions relating to Authorised Market Institutions.

The AMI module

6. The AMI Module is comprised of four Parts containing 12 chapters and three Appendices.

7. Part 1 contains chapter 1, which sets out the application provisions and the overview of the AMI module.

8. Part 2 contains chapters 2 and 3. Chapter 2 sets out the requirements relating to application for a Licence to Operate an Exchange or Clearing House (or both) and an endorsement to operate a Multilateral Trading Facility or to maintain an Official List of Securities. Chapter 3 sets out the assessment of application related requirements, including application to obtain Key Individual status of an Authorised Market Institution.

9. Part 3 contains chapters 4, 5, 5A, 5B, 6 and 7. These chapters set out the substantive requirements (called the "Licensing Requirements") that must be met by a Person at the point of grant of a Licence to be an Authorised Market Institution and thereafter on an on-going basis. Chapter 4 contains the provisions which prescribe what the Licensing Requirements are, and the procedures an Authorised Market Institution must follow in order to make any material changes to the arrangements it has in place to meet the Licensing Requirements. Chapter 5 contains the Licensing Requirements that are common to both Exchanges and Clearing Houses. Chapter 5A contains the additional requirements that apply to an Authorised Market Institution that is Operating a Facility for Investment Tokens, whether that facility is an Exchange, a Clearing House or a Multilateral Trading Facility. Chapter 5B contains the additional requirements that apply to an Authorised Market that is Operating a Facility for Crypto Tokens. Chapter 6 contains the additional Licensing Requirements that are specific to Exchanges and chapter 7 contains the additional Licensing Requirements that are specific to Clearing Houses.

10. Part 4 contains chapters 8, 9, 10, 11 and 12. These chapters set out a range of miscellaneous provisions covering the requirements relating to the approval of Controllers of Authorised Market Institutions (chapter 8), the provisions governing the supervision of Authorised Market Institutions (chapter 9), the procedures for withdrawal of a Licence or endorsement (chapter 10), appeal procedures from the decisions of the DFSA (chapter 11) and the transitional provisions (chapter 12).

11. There are three Appendices, Appendix 1 contains the requirements relevant to testing of technology systems, Appendix 2 contains the requirements relating to the use of price information providers and Appendix 3 contains the contract delivery specifications applicable to Derivative contracts which require physical delivery.

PART 2: APPLICATION AND AUTHORISATION

2. APPLICATION FOR A LICENCE OR ENDORSEMENT

2.1 Application

2.1.1 (1) This chapter applies to a Person who intends to carry on either or both of the Financial Services of Operating an Exchange or Operating a Clearing House in or from the DIFC.

(2) This chapter also applies to a Person referred to in (1), who intends to obtain an endorsement on its Licence to:

(a) carry on the Financial Service of Operating an Alternative Trading System to the extent that such activities constitute operating a Multilateral Trading Facility; or

(b) act as a Trade Repository.

(3) A Person who intends to carry on the Financial Services and activities referred to in (1) and (2) is referred to in this chapter as an "applicant" unless the context otherwise provides.

(4) This chapter also applies to an Authorised Market Institution applying to change the scope of its Licence, or where a condition or restriction has previously been imposed on its Licence, to have such a condition or restriction varied or withdrawn. Such an Authorised Market Institution may be referred to as an "applicant" in this chapter.

Guidance

1. The activity of operating a Multilateral Trading Facility ("MTF") is an activity that falls within the definition of the Financial Service of Operating an Alternative Trading System (see GEN Rule 2.22.1). A Person needs to be Licensed as an Authorised Firm to carry on that Financial Service. However, pursuant to GEN Rule 2.2.12, a holder of a Licence to Operate an Exchange may also operate an MTF if it has obtained an endorsement on its Licence permitting it to do so.

2. Acting as a Trade Repository is not a Financial Service, and may be carried on by an Authorised Firm or Authorised Market Institution with an endorsement on its Licence permitting it to do so (see GEN Rule 2.2.13).

3. A new applicant for a Licence or an existing holder of a Licence may apply to have an endorsement on its Licence to operate a Multilateral Trading Facility or to maintain a Trade Repository.

2.2 Application for a Licence

2.2.1 An applicant who intends to carry on either or both of the Financial Services of Operating an Exchange or Operating a Clearing House must apply to the DFSA for a Licence in accordance with the Rules in this section and chapter 3.

2.2.2 The DFSA will only consider an application for a Licence to Operate an Exchange or Operate a Clearing House from a Person:

(a) who is a Body Corporate; and

(b) who is not an Authorised Firm or an applicant to be an Authorised Firm.

2.2.2A An applicant must be a Body Corporate incorporated under the DIFC Companies Law if the application is for:

(a) authorisation to Operate an Exchange or Clearing House relating to Crypto Tokens; or

(b) the variation of a Licence to permit an activity referred to in (a).

2.2.3 A Person applying for a Licence must submit a written application to the DFSA:

(a) demonstrating how the applicant intends to satisfy the Licensing Requirements specified in Part 3 and any other applicable requirements; and

(b) with copies of any relevant agreements or other information in relation to the application.

2.3 Application for an endorsement

2.3.1 The following requirements must be met by an applicant for the grant of an endorsement to operate a Multilateral Trading Facility:

(a) it must hold a Licence with an authorisation to Operate an Exchange; ~~and~~

(b) it must be able to demonstrate that it can satisfy the requirement in Rule 4.2.1(3)~~.~~; and

(c) it must be a Body Corporate incorporated under the DIFC Companies Law if the MTF will trade Crypto Tokens.

Guidance

1. Under GEN Rule 2.2.11(c) and Rule 2.2.12, an Authorised Market Institution Licensed to Operate an Exchange may obtain an endorsement to carry on the activity of operating a Multilateral Trading Facility.

2. An Exchange with an endorsement to operate an MTF needs to meet, on an on-going basis, the applicable Licensing Requirements under Rule 4.2.1(3). Accordingly, when an Exchange wishes to obtain such an endorsement, it needs to be able to demonstrate to the

DFSA that it can meet each of the Licensing Requirements with respect to the proposed MTF. For example, it should demonstrate how the IT systems and human resources available to it would be utilised for the purposes of operating the MTF.

2.3.2 The requirements in App 5 to GEN must be met by an Authorised Market Institution for the grant of an endorsement to act as a Trade Repository.

2.4 Application for a change of scope of a Licence

2.4.1 An Authorised Market Institution applying to change the scope of its Licence, or to have a condition or restriction varied or withdrawn, must provide the DFSA with written details of the proposed changes including an assessment of how it intends to satisfy the Licensing Requirements in relation to the new Licence scope.

Guidance

1. Where an Authorised Market Institution applies to change the scope of its Licence, it should provide at least the following information:

   a. particulars of the new activities requiring a variation to the scope of Licence, and the date of the proposed commencement of such activities;

   b. a revised business plan as appropriate, describing the basis of, and rationale for, the proposed change;

   c. details of the extent to which existing documentation, procedures, systems and controls will be amended to take into account any additional activities, and how the Authorised Market Institution will be able to comply with any additional regulatory requirements including the applicable Licensing Requirements; and

   d. if the Authorised Market Institution is reducing its activities and it has existing Members who may be affected by the cessation of a Financial Service, details of any transitional arrangements.

2. If an application for a change of scope of Licence involves carrying on a new Financial Service, the application will be assessed against all the requirements applicable to the relevant Financial Service.

3. AUTHORISATION

3.1 Application

3.1.1 This chapter applies to every Person who is an applicant for:

(a) a Licence to be an Authorised Market Institution;

(b) an endorsement to:

(i) maintain an Official List of Securities;

(ii) operate a Multilateral Trading Facility; or

(iii) act as a Trade Repository; or

(c) Key Individual status.

Guidance

1. This chapter outlines the DFSA's authorisation requirements for an Authorised Market Institution and its Key Individuals, as well as the process for an Authorised Market Institution to obtain an endorsement on its Licence to maintain an Official List of Securities, operate a Multilateral Trading Facility or act as a Trade Repository.

2. This chapter should be read in conjunction with the RPP Sourcebook, which sets out the DFSA's general regulatory policy and processes. See chapter 2 of the RPP sourcebook.

3.2 Assessment

3.2.1 (1) In order to become authorised to carry on one or both of the Financial Services of Operating an Exchange or Operating a Clearing House, the applicant must demonstrate to the satisfaction of the DFSA that it can meet the relevant Licensing Requirements specified in chapters 5, 5A, 5B, 6 and 7, as appropriate to the Financial Services it proposes to carry on, both at the point of the grant of the Licence and thereafter on an on-going basis.

(2) In order to obtain an endorsement on its Licence to:

(a) maintain an Official List of Securities;

(b) operate a Multilateral Trading Facility; or

(c) act as a Trade Repository,

the applicant must demonstrate to the satisfaction of the DFSA that it can meet the requirements applicable to Persons undertaking the relevant activities, both at the point of the grant of the endorsement and thereafter on an on-going basis.

Guidance

1. The Licensing Requirements are specified in chapters 5, 5A, 5B, 6 and 7 of Part 3 of this module. These include the general requirements applicable to all Authorised Market Institutions (chapter 5), and the additional requirements applicable to specific types of activities of Authorised Market Institutions (chapters 5A, 5B, 6 and 7).

2. Where an Authorised Market Institution (or an applicant for a Licence) seeks to obtain an endorsement on its Licence, additional requirements relevant to the type of endorsement need to be satisfied (see, for example, App 5 of GEN for the requirements relating to Trade Repositories).

3. Currently, the function of maintaining an Official List of Securities is performed by the DFSA. However, the DFSA has the power, pursuant to Article 29 of the Markets Law, to grant an Authorised Market Institution an endorsement on its Licence permitting it to maintain an Official List of Securities.

4. Section 3.6 of the RPP Sourcebook sets out the matters which the DFSA takes into consideration when making an assessment under Rule 3.2.1.

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5. GENERAL LICENSING REQUIREMENTS APPLICABLE TO ALL AUTHORISED MARKET INSTITUTIONS

5.1 Application

5.1.1 This chapter applies to an Authorised Market Institution and its Key Individuals.

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5.4 Conflicts of interests

5.4.1 Without limiting the generality of the obligations under section 5.2 of GEN, an Authorised Market Institution must take all reasonable steps to ensure that any conflicts of interest, including those:

(a) between itself and its shareholders, Members or other users of its facilities; and

(b) between its Members and other users of its facilities, and, among themselves,

are promptly identified and then prevented or managed, or disclosed, in a manner that does not adversely affect the sound functioning and operation of the Authorised Market Institution.

5.4.2 Without limiting the generality of the requirement in Rule 5.4.1, an Authorised Market Institution must establish and maintain adequate policies and procedures to ensure that its Employees do not undertake personal account transactions in Investments or Crypto Tokens in a manner that creates or has the potential to create conflicts of interest.

5.4.3 An Authorised Market Institution must establish a code of conduct that sets out the expected standards of behaviour for its Employees, including clear procedures for addressing conflicts of interest. Such a code must be:

(a) binding on Employees; and

(b) to the extent appropriate and practicable, made publicly available.

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Technology resources

5.5.5 (1) An Authorised Market Institution must have sufficient technology resources to operate, maintain and supervise its facilities.

(2) The Authorised Market Institution must be able to satisfy the DFSA that its technology resources are established and maintained in such a way as to ensure that they are secure and maintain the confidentiality of the data they contain.

(2) An Authorised Market Institution must ensure that its Members and other participants on its facilities have sufficient technology resources which are compatible with its own.

(4) For the purposes of meeting the requirement in (1), an Authorised Market Institution must have adequate procedures and arrangements for the evaluation, selection and on-going monitoring of information technology systems. Such procedures and arrangements must, at a minimum, provide for:

(a) problem management and system change;

(b) testing information technology systems before live operations in accordance with the requirements in Rule 5.5.6;

(c) monitoring and reporting on system performance, availability and integrity; and

(d) adequate measures to ensure:

(i) the information technology systems are resilient and not prone to failure;

(ii). business continuity in the event that an information technology system fails;

(iii) protection of the information technology systems from damage, tampering, misuse or unauthorised access; and

(iv) the integrity of data forming part of, or being processed through, information technology systems.

(5) An Authorised Market Institution must meet the applicable requirements in App 1 for the purposes of:

(a) testing the adequacy and effectiveness of its own information technology systems; and

(b) assessing the adequacy and effectiveness of information technology systems of its Members.

Guidance

1. In assessing an Authorised Market Institution's systems and controls used to operate and carry on its functions, the DFSA recognises that an Authorised Market Institution is likely to have significant reliance on its information technology systems. In assessing the adequacy of these systems, the DFSA will consider:

   a. the organisation, management and resources of the information technology department of the Authorised Market Institution;

   b. the arrangements for controlling and documenting the design, development, implementation and use of technology systems; and

   c. the performance, capacity and reliability of information technology systems.

2. In particular, when assessing whether an Authorised Market Institution has adequate information technology resourcing, the DFSA will consider:

   a. whether its systems have sufficient electronic capacity to accommodate reasonably foreseeable volumes of messaging and orders, and

   b. whether such systems are adequately scalable in emergency conditions that might threaten the orderly and proper operations of its facility.

Regular review of systems and controls

5.5.6 (1) An Authorised Market Institution must undertake regular review and updates of its information technology systems and controls as appropriate to the nature, scale and complexity of its operations.

(2) For the purposes of (1), an Authorised Market Institution must adopt well defined and clearly documented development and testing methodologies which are in line with internationally accepted testing standards.

Guidance

Through the use of such testing methodologies, the Authorised Market Institution should be able to ensure, amongst other things, that:

a. its systems and controls are compatible with its operations and functions;

b. compliance and risk management controls embedded in its system operate as intended (for example, by generating error reports automatically); and

c. it can continue to work effectively in stressed market conditions.

5.6 Business Rules

Content of Business Rules

5.6.1 (1) An Authorised Market Institution must establish and maintain Business Rules in accordance with the requirements in this section. Such rules must include:

(a) criteria governing the admission of Members and any other Persons to whom access to its facilities is provided;

(b) criteria governing the admission of Investments or Crypto Tokens to trading, or clearing and settlement, as appropriate to its facilities;

(c) Default Rules; and

(d) any other matters necessary for the proper functioning of the Authorised Market Institution and the facilities operated by it.

(2) An Authorised Market Institution's Business Rules must:

(a) be based on objective criteria and non-discriminatory;

(b) be clear and fair;

(c) set out the Members' and other participants' obligations:

(i) arising from the Authorised Market Institution's constitution and other administrative arrangements;

(ii) when undertaking transactions on its facilities; and

(iii) relating to professional standards that must be imposed on staff and agents of the Members and other participants when undertaking transactions on its facilities;

(d) be legally binding and enforceable against the Members and other participants;

(e) be made publicly available free of charge;

(f) contain provisions for the resolution of Members' and other participants' disputes and an appeal process from the decisions of the Authorised Market Institution; and

(g) contain disciplinary proceedings, including any sanctions that may be imposed by the Authorised Market Institution against its Members and other participants.

Guidance

1. The DFSA assesses, at the point of grant of a Licence to an Authorised Market Institution, the adequacy of its Business Rules and its systems and controls to ensure effective monitoring of compliance with such rules. Thereafter, any amendment to the Business Rules can only be made in accordance with the requirements set out in Rules 5.6.4 to 5.6.7 in this section.

2. Persons other than Members may have access to an Authorised Market Institution's facilities. See Rule 6.9.1(1)(a)(ii).

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5.7 Access to facilities

Member criteria

5.7.1 (1) An Authorised Market Institution must not grant access to its facilities to a Person except in accordance with the requirements in this module and its Business Rules.

(2) A Person who has been granted access to the facilities of an Authorised Market Institution pursuant to its Business Rules is a Member of the Authorised Market Institution, except where otherwise provided.

Guidance

1. Generally only Persons admitted as Members in accordance with the Business Rules will have access to the facilities of an Authorised Market Institution.

2. However, in certain circumstances, an Authorised Market Institution may permit access to its facilities to Persons other than Members (see Rules 5.7.3). Such access would generally be provided through a Member and subject to adequate controls put into place by the Member.

3. Under Rule 5.7.2(1)(d), an Authorised Market Institution Operating a Facility for Investment Tokens or Crypto Tokens is permitted to admit certain additional Persons as Members, where their access is only for trading or clearing of Investment Tokens or Crypto Tokens, as the case may be. Such Persons are defined in GLO and referred to in this module as Direct Access Members.

5.7.2 (1) An Authorised Market Institution may only, subject to (2), (3) and (4) admit as a Member:

(a) an Authorised Person;

(b) a Person who is admitted to the list of Recognised Persons pursuant to Article 37 of the Markets Law 2012;

(c) a Person who meets the criteria in GEN Rule 2.3.2(2); or

(d) a Person not referred to in (a) to (c), only if:

(i) the facility is one on which Investment Tokens or Crypto Tokens are traded or cleared or both traded and cleared; and

(ii) the Person's access is only for trading or clearing of Investment Tokens or Crypto Tokens, as the case may be.

(2) An Authorised Market Institution must not admit as a Member a Person referred to in (1)(c) unless such Person:

(a) agrees in writing to submit unconditionally to the jurisdiction of the DFSA in relation to any matters which arise out of or which relate to its use of the facilities of the Authorised Market Institution;

(b) agrees in writing to submit unconditionally to the jurisdiction of the DIFC Courts in relation to any proceedings in the DIFC, which

arise out of or relate to its use of the facilities of the Authorised Market Institution;

(c) agrees in writing to subject itself to the DIFC laws and the jurisdiction of the DIFC Courts in relation to its use of the facilities of the Authorised Market Institution; and

(d) appoints and maintains at all times, an agent for service of process in the DIFC and requires such agent to accept its appointment for service of process.

(3) Prior to admitting a Person referred to in (1)(a), (b) or (c) as a Member, an Authorised Market Institution must undertake due diligence to ensure that such a Person:

(a) is of sufficient good repute;

(b) has a sufficient level of competence and experience, including appropriate standards of conduct for its staff who will be permitted to use its order entry system; and

(c) has organisational arrangements, including financial and technological resources, which are no less than those of an Authorised Firm carrying out similar Financial Services.

(4) Prior to admitting a Person referred to in (1)(d), an Authorised Market Institution must undertake due diligence to ensure that the Person:

(a) meets the criteria in (3)(a) and (b);

(b) has adequate financial and technological resources to meet the Business Rules of the facility; and

(c) does not pose any operational risks to the orderly and efficient functioning of the facility's trading or clearing systems.

Guidance

1. A Person who can be admitted under the criterion in Rule 5.7.2(1)(c) (i.e. a Person referred to in GEN Rule 2.3.2(2)) is a Person undertaking Commodity Derivative transactions on the relevant Authorised Market Institution only on its own behalf or on behalf of a wholly owned holding company or subsidiary of such company.

2. In assessing the membership criteria used by an Authorised Market Institution to permit access to its facilities, the DFSA will consider:

   a. whether the Business Rules can be enforced contractually against Members;

   b. whether the criteria are objective and applied in a non-discriminatory manner; and

   c. the financial resource requirements for those not authorised by the DFSA.

3. Pursuant to Rule 5.7.2(3)(c), an Authorised Market Institution is required to assess the adequacy of the organisational arrangements of a candidate to become a Member, if it is not an Authorised Firm or Direct Access Member, against the organisational

requirements that would apply to such a Person had it been an Authorised Firm undertaking similar activities. For example, a Person which is not an Authorised Firm or Direct Access Member should have organisational resources that are equivalent to a firm Licensed to carry on the Financial Service of Dealing as Agent and/or Dealing as Principal.

4. Section 5A.3 and 5B.3 sets out additional requirements relating to Direct Access Members.

5. Members who are not Direct Access Members may also use a facility for trading or clearing of Investment Tokens or Crypto Tokens.

Direct electronic access

5.7.3 (1) An Authorised Market Institution may only permit a Member to provide its clients Direct Electronic Access to the Authorised Market Institution's trading facilities where:

(a) the clients meet the suitability criteria established by the Member in order to meet the requirements in (2):

(b) the Member retains responsibility for the orders and trades executed by the clients who are using Direct Electronic Access;

(c) the Member has adequate mechanisms to prevent the clients placing or executing orders using Direct Electronic Access in a manner that would result in the Member exceeding its position or margin limits; and

(d) the Member is not a Direct Access Member.

(2) An Authorised Market Institution which permits its Members to allow their clients to have Direct Electronic Access to its trading facilities must:

(a) set appropriate standards regarding risk controls and thresholds on trading through Direct Electronic Access;

(b) be able to identify orders and trades made through Direct Electronic Access; and

(c) if necessary, be able to stop orders or trades made by a client using Direct Electronic Access provided by the Member without affecting the other orders or trades made or executed by that Member.

(3) For the purposes of this Rule and elsewhere in the Rulebook, Direct Electronic Access means any arrangement, such as the use of the Member's trading code, through which a Member or the clients of that Member are able to transmit orders relating to Investments or Crypto Tokens directly to the facility provided by the Authorised Market Institution.

(4) For avoidance of doubt, a Person who is permitted to have Direct Electronic Access to an Authorised Market Institution's facilities through a Member is not, by virtue of such permission, a Member of the Authorised Market Institution.

Guidance

In assessing the adequacy of the criteria used by an Authorised Market Institution to permit its Members to allow their clients to have Direct Electronic Access to Authorised Market Institution's facilities, the DFSA will consider:

a. whether such criteria include contractually binding arrangements between the Member and the clients;

b. whether such clients are subject to adequate training, competence and experience requirements and checks;

c. how electronic access is approved and secured and the measures taken to prevent or resolve problems which would arise from the failure of such access;

d. the rules and guidance governing the Person's, procedures, controls and security arrangements for inputting instructions into the system;

e. the rules and guidance governing facilities offered to Person's permitted for inputting instructions into the system and restrictions placed on the use of those systems;

f. the rules and practices to detect, identify and halt or remove instructions breaching any relevant instructions;

g. the quality and completeness of the audit trail of any transaction processed through an electronic connection system; and

h the procedures to determine whether to suspend trading by those systems or access to them by or through individual Members.

5.8 Admission of Investments to trading or clearing

Investment criteria

5.8.1 (1) An Authorised Market Institution must have clear and objective criteria ("investment criteria") included in its Business Rules according to which Investments or Crypto Tokens can be admitted to trading, or traded, on its facilities, or cleared and settled on its facilities, or both, as relevant to its operations. The investment criteria must include the requirements in (2), ~~and~~ (3) and (4) as relevant.

(2) An Authorised Market Institution must ensure that Investments are admitted to trading or traded on an Exchange it operates only if:

(a) in the case of Securities, the Securities are admitted to the Official List of Securities; and

(b) in the case of Derivative contracts (other than Crypto Token Derivatives), the contracts meet the contract design specifications in Rule 6.3.2.

(3) An Authorised Market Institution must ensure that only Investments which meet the requirements in (a), (b) or (c) are traded on an MTF it operates:

(a) in the case of Securities, the Securities are admitted to trading on a Regulated Exchange in a jurisdiction acceptable to the DFSA; and

(b) in the case of Security Tokens that do not meet the criteria in (a):

(i) there is a current Approved Prospectus relating to the Security Tokens;

(ii) the Authorised Market Institution has taken adequate steps, before admitting the Security Tokens to trading, to satisfy itself that both the Security Tokens and the relevant Reporting Entity meet the general eligibility requirements in MKT section 9.3; and

(iii) the Authorised Market Institution has adequate systems and controls in place to effectively monitor and enforce a Reporting Entity's compliance with the requirements of MKT Chapter 9B; or

(c) in the case of Derivatives (other than Crypto Token Derivatives), the instruments meet the contract design specifications in Rule 6.3.2.

(4) An Authorised Market Institution must ensure that Crypto Tokens or Crypto Token Derivatives are admitted to trading or traded on an Exchange or MTF it operates, or cleared and settled on a facility it operates, only if:

(a) in the case of Crypto Tokens, the Crypto Tokens are Accepted Crypto Tokens; and

(b) in the case of Crypto Token Derivatives:

(i) the Crypto Tokens to which the Derivatives relate are Accepted Crypto Tokens; and

(ii) the Derivative contracts meet the contract design specifications in Rule 6.3.2.

(45) Where an Authorised Market Institution admits to trading or clearing or trades on its facilities Investments the value of which is determined by reference to an underlying benchmark or index provided by a Price Information Provider, it must only do so in accordance with the requirements in App 2.

Guidance

1. Investment criteria are only one aspect of requirements applicable to an Authorised Market Institution when trading or clearing and settling Investments or Crypto Tokens on its facilities. There are other requirements applicable to such activities, which are contained in this module.

2. Any Securities that are admitted to the Official List of Securities maintained by the DFSA meet the requirement in Rule 5.8.1(2)(a).

3. A Reporting Entity of Security Tokens that are admitted to trading by an Authorised Market Institution under Rule 5.8.1(3)(b)(iii) will be subject to the requirements imposed on Reporting Entities in MKT. An Authorised Market Institution should therefore assess whether a prospective Reporting Entity is capable of meeting those requirements before admitting its Security Tokens to trading.

4. Crypto Tokens are not either Securities or Investments. As they are not Securities, they cannot be admitted to the Official List. In addition, a Crypto Token does not have a Reporting Entity or require an Approved Prospectus. However, a Crypto Token must be an Accepted Crypto Token (i.e, the DFSA must have approved the Crypto Token as suitable for use in the DIFC) before any Financial Service can be carried on in the DIFC in relation to the Crypto Token (see GEN section 3A). Therefore, only an Accepted Crypto Token can be admitted to trading or cleared or settled by an Authorised Market Institution.

5. Crypto Token Derivatives (i.e. Derivatives relating to Crypto Tokens) are Investments. An Authorised Market Institution trading or clearing Crypto Token Derivatives is therefore required to comply with requirements such as ensuring the Derivative contracts meet the contract design specifications in Rule 6.3.2 and, if the value of the Derivative is determined by reference to a benchmark or index, ensuring the Price Information Provider meets the requirements in APP 2. In addition, under GEN section 3A, any underlying Crypto Token to which the Derivative relates is required to be an Accepted Crypto Token.

5.9 Integrity and transparency

Integrity and fair dealing

5.9.1 An Authorised Market Institution must be able and willing to:

(a) promote and maintain high standards of integrity and fair dealing in the carrying on of business on or through its facilities; and

(b) co-operate with the DFSA or other appropriate regulatory authorities with regard to regulatory matters when required.

Guidance

1. In determining whether an Authorised Market Institution is able and willing to promote high standards of integrity and fair dealing, the DFSA will consider:

   a. the extent to which an Authorised Market Institution seeks to promote and encourage such standards through its rules, policies, procedures and practices;

   b. the extent to which Members are required to, and do, adhere to such standards; and

   c. any other Rules and principles which apply to the carrying on of business on or through its facilities.

2. In assessing the ability and willingness of an Authorised Market Institution to co-operate with the DFSA and other regulatory authorities, the DFSA will consider:

a. the agreements in place, including those between Members and other participants granted access to the facilities and the relevant Authorised Market Institution, for sharing information, such as information regarding large open positions; and

b. how diligently the Authorised Market Institution responds to enquiries from the DFSA or other regulatory authorities.

Transparency

5.9.2 (1) An Authorised Market Institution must have clear and comprehensive policies and procedures for providing sufficient information to enable Members and other participants on its facilities to have an accurate understanding of the risks, fees, and other material costs of using its facilities.

(2) An Authorised Market Institution must make the policies and procedures referred to in (1) publicly available.

Guidance

In assessing whether an Authorised Market Institution has adequate policies and procedures for disclosing sufficient information to enable its Members and other participants to fully understand the risks, fees and other material costs in using its facilities, the DFSA will consider whether such information:

a. includes explanatory material relating to the system's design and operations, to the rights and obligations of Members and other participants, and to any risks in participating in such facilities;

b. includes its fees at the level of individual services it offers as well as its policies on any available discounts;

c. is provided in a clear and easy to understand manner and is accurate, up-to-date, and readily available to all current and prospective Members and other participants on its facilities; and

d. is made public, through placing such information on its website and other appropriate means.

Transaction recording

5.9.3 Without limiting the requirements in GEN Rules 5.3.24 to 5.3.27, an Authorised Market Institution must ensure that satisfactory arrangements are made for:

(a) recording the activities and transactions, including orders and order audit trails, effected on or through its facilities;

(b) maintaining the activity and transaction records for at least 6 years from the date of the transaction or order entry;

(c) providing the DFSA with these records in a timely manner if required by the DFSA; and

(d) due observance of the applicable data protection and associated requirements.

Guidance

1. The type of information that requires recording will vary according to the activity and type of transactions conducted on or through the facilities of the Authorised Market Institution.

2. In general, for an Authorised Market Institution Licensed to Operate an Exchange, the type of information which should be recorded will include:

   a. the name of the relevant Investment or Crypto Token and the price, quantity and date of the transaction, including the order audit trail (i.e. orders entered into the system and subsequently amended or cancelled);

   b. the order type, time of instruction and expiry date;

   c. the identities and, where appropriate, the roles of the counterparties to the transaction;

   d. the facilities on which the transaction was effected and is to be cleared and settled; and

   e. the date and manner of settlement of the transaction.

3. In general, for an Authorised Market Institution Licensed to Operate a Clearing House, the type of information which should be recorded will include:

   a. the name of the relevant Investment or Crypto Token and the price, quantity and date of the transaction;

   b. the identities and, where appropriate, the roles of the counterparties to the transaction;

   c. the facilities on which the transaction was effected and is to be cleared;

   d. where applicable, the time novation takes place; and

   e. the date and manner of settlement of the transaction.

4. In addition to the DFSA requirements in this module and in GEN, the requirements in the Data Protection Law 2007, DIFC Law No 1 of 2007, apply to an Authorised Market Institution. Therefore, in complying with the DFSA requirements relating to record keeping, an Authorised Market Institution should consider its obligations under the Data Protection Law 2007.

5.10 Safeguarding and administration of assets

5.10.1 An Authorised Market Institution must ensure that, where its obligations include making provision for the safeguarding and administration of assets belonging to Members and other participants on its facilities:

(a) satisfactory arrangements ("safe custody arrangements") are made for that purpose in accordance with Rules 5.10.2 and 5.10.3; and

(b) are provided on clear terms of agreement between the Members and other participants on the facility and the Authorised Market Institution.

Guidance

1. In determining whether an Authorised Market Institution has satisfactory arrangements for safeguarding and administering assets, the DFSA will consider:

   a. the terms of the agreement under which safe custody arrangements are made and whether they adequately provide for the matters specified in Rule 5.10.2;

   b. the level of protection provided to Members and other participants on its facilities against the risk of theft, fraud, defalcation or other types of loss through such arrangements; and

   c. the degree of monitoring the Authorised Market Institution would be undertaking relating to custodians, and if relevant, sub-custodians.

2. At the point of granting a Licence to an Authorised Market Institution, the DFSA assesses the adequacy of an applicant's safe custody arrangements. Any subsequent changes to the safe custody arrangements that have been in place at the time of granting the Licence, where they are material changes, would require the DFSA's prior approval in accordance with the requirements in Rule 4.3.2.

3. In addition to meeting the requirements in Rule 5.10.1, safe custody arrangements for Investment Tokens or Crypto Tokens must also meet the requirements in section 5A.4 or 5B.5.

5.10.2 An Authorised Market Institution must ensure that the safe custody arrangements, at a minimum, provide for:

(a) the segregation of assets belonging to every Member and other participant on its facilities from the assets belonging to the Authorised Market Institution and the other Members and participants on its facilities;

(b) the prompt access by the Authorised Market Institution to the assets held under the safe custody arrangements;

(c) the use or transfer of asset belonging to the Members and other participants on its facilities to be made only in accordance with the instructions of the relevant owners of those assets or in accordance with the terms of the agreement referred to in Rule 5.10.1(b) and any applicable legislation;

(d) the reconciliation at appropriate intervals and frequency between the assets and accounts held under the safe custody arrangements; and

(e) accurate records relating to the assets held under the safe custody arrangements to be kept, including:

   (i) the identity of the legal and beneficial owners of the relevant assets, and where appropriate, any Persons who have charges over, or other interests in, those assets;

   (ii) records of any additions, reductions and transfers in each individual account of assets; and

   (iii) the identity of the assets owned by (or where appropriate on behalf of) different Persons, including, where appropriate, the assets owned by Members and other participants on its facilities.

Guidance

In assessing whether an Authorised Market Institution's safe custody arrangements meet the requirements in Rule 5.10.2, the DFSA would particularly look at:

a. the frequency with which statements of the holdings are provided to the Members and other participants on its facilities whose assets are held under the safe custody arrangements;

b. the records of the assets held and the identity of the beneficial and legal owners and any other persons with rights over such assets, and whether the Authorised Market Institution maintains a register of charges over Investments or Crypto Tokens traded or cleared on its facility;

c. the records of any instructions given in relation to those assets;

d. the records of the carrying out of those instructions;

e. the records of any movements in those assets (or any corporate actions or other events in relation to those assets); and

f. how the Authorised Market Institution reconciles its records of assets held with the records of any custodian or sub-custodian used to hold those assets, and with the record of beneficial or legal ownership of those assets.

5.10.3 An Authorised Market Institution must not appoint any Person as a third party custodian unless that Person:

(a) is appropriately authorised under its Licence or subject to regulation and supervision by a Financial Services Regulator acceptable to the DFSA for the activity of deposit taking or providing custody and depository services; and

(b) is prohibited from appointing sub-custodians except where the sub-custodians meet the requirements in (a).

Guidance

1. An Authorised Market Institution should undertake due diligence to ensure, in the case of any custodians or sub-custodians which are not regulated by the DFSA, that they are appropriately licensed and supervised for the activity of deposit taking or custody and depository services by a Financial Services Regulator in their home jurisdiction.

2. In order to meet the requirements relating to sub-custody arrangements, an Authorised Market Institution should include clear provisions in the contract with its appointed custodians whether or not sub-custodians may be appointed and if so, the procedures for appointing the sub-custodians, in accordance with the requirements in Rule 5.10.3(b). There should also be contractual requirements for advance notification to the Authorised Market Institution of any changes to the sub-custodians.

3. If an Authorised Market Institution proposes to make new custody arrangements or make any material changes to its existing custody arrangements, such changes trigger the prior DFSA approval requirements in Rule 4.3.2. This requirement would be triggered, for example, if the appointed custodians at the time of the grant of the Licence had not used sub-custodians but subsequently propose to do so.

5.11 Promotion and maintenance of standards

Orderly conduct on facilities

5.11.1 An Authorised Market Institution must have an effective market surveillance program to:

(a) ensure that business conducted on or through its facilities is conducted in an orderly manner and in accordance with the applicable Business Rules and other applicable requirements so as to afford proper protection to investors; and

(b) monitor for conduct which may amount to Market Abuse, financial crime or money laundering.

Guidance

1. To satisfy the DFSA that Rule 5.11.1(a) is met, an Authorised Market Institution should have rules and procedures in place for:

   a. preventing and detecting the use of its facilities for abusive, improper or fraudulent purposes; and

   b. preventing the improper, reckless or negligent use of its facilities.

2. In determining whether an Authorised Market Institution is ensuring that business conducted on its facilities is conducted in an orderly manner, the DFSA will consider:

   a. arrangements for pre and post trade transparency, taking into account the nature and liquidity of the Investments or Crypto Tokens traded; and

   b. the need to provide anonymity for trading participants.

3. An Authorised Market Institution Operating an Exchange will also have appropriate procedures allowing it to influence trading conditions, impose a trading halt promptly when required, and to support or encourage liquidity when necessary to maintain an orderly market. The DFSA will consider the transparency of such procedures and the fairness of their application and potential application.

4. In addition, Members who are Authorised Firms should be able to satisfy any other legal obligations they may have, including those to Clients that may exist under COB.

5. AML module contains AML obligations of an Authorised Market Institution.

Prevention of Market Abuse, money laundering and financial crime

5.11.2 (1) Without limiting the generality of Rule 5.11.1, an Authorised Market Institution must:

(a) operate appropriate measures to identify, deter and prevent Market Abuse, money laundering and financial crime on and through the Authorised Market Institution's facilities; and

(b) report promptly to the DFSA any Market Abuse, money laundering and financial crime, as required.

(2) For the purposes of (1)(a), an Authorised Market Institution must:

(a) include in its Business Rules a regime to prevent Market Abuse, money laundering and financial crime that meets the requirements in (3), which is applicable to its Members; and

(b) implement adequate measures to ensure that its Members comply with that regime.

(3) The regime referred to in (2)(a) must, at a minimum, include rules and procedures in relation to:

(a) compliance arrangements to prevent Market Abuse, money laundering and financial crime;

(b) transaction monitoring;

(c) risk assessment; and

(d) training.

Guidance

1. Abusive, improper and fraudulent purposes include:

a. trades intended to create a false appearance of trading activity;

b trades which one party does not intend to close out or settle;

c. conduct which is likely to result in disorderly trading in the market; and

d. any contravention of the provisions in Part 6: Prevention of Market Abuse in the Markets Law.

2. An Authorised Market Institution must have an effective surveillance system in place for:

a. the coordinated surveillance of all activity on or through its facilities and activity in related Investments conducted elsewhere; and

b. communicating information about Market Abuse and financial crime to the DFSA or appropriate regulatory authorities.

3. An Authorised Market Institution Operating a Facility for Investment Tokens or Crypto Tokens should, where relevant, ensure measures under Rule 5.11.2(1)(a) include effective measures to identify, deter and prevent Market Abuse by Persons permitted to access and update records held on any DLT or similar technology based application used in connection with the operation of the facility.

5.11.3 (1) An Authorised Market Institution must:

(a) before accepting a prospective Member, ensure that the applicant has in place adequate arrangements including systems and controls to comply with the Authorised Market Institution's regime for preventing Market Abuse, money laundering and financial crime referred to in Rule 5.11.2(2)(a);

(b) monitor and regularly review compliance by its Members with that regime; and

(c) take appropriate measures to ensure that its Members rectify any contraventions without delay.

(2) An Authorised Market Institution must promptly notify the DFSA of any:

(a) material breach of its regime by a Member; and

(b) circumstances in which a Member will not or cannot rectify a breach of its regime.

Guidance

1. An Authorised Market Institution is subject to the requirements in the DFSA's AML module. Members of an Authorised Market Institution which are Authorised Firms are also subject, by virtue of being Authorised Firms, to the requirements in the DFSA's AML module.

2. In determining whether an Authorised Market Institution's measures are adequate and appropriate to reduce the extent to which its facilities can be used for Market Abuse, money laundering and financial crime, the DFSA will consider:

   a. whether the Authorised Market Institution has appropriate staff, surveillance systems, resources and procedures for this purpose;

   b. the monitoring conducted for possible patterns of normal, abnormal or improper use of those facilities;

   c. how promptly and accurately information is communicated about Market Abuse, financial crime and money laundering to the DFSA and other appropriate organisations; and

   d. how the Authorised Market Institution co-operates with relevant bodies in the prevention, investigation and pursuit of Market Abuse, money laundering and financial crime.

3. An Authorised Market Institution shall have regard to Part 8 of the Markets Law in relation to Market Abuse and the relevant provisions of the Regulatory Law. Examples of practices that amount to market manipulation (which is one form of Market Abuse) in an automated trading environment that should be identified and prevented by an Authorised Market Institution to promote Proper Markets include the following:

   a. entering small orders in order to ascertain the level of hidden orders, particularly used to assess what is resting on a dark platform, known as Ping Orders;

   b. entering large numbers of orders and/or cancellations/updates to orders to create uncertainty for other market participants, slowing down their process and to camouflage its own strategy, known as Quote Stuffing;

   c. entry of orders or a series of orders intended to start or exacerbate a trend, and to encourage other participants to accelerate or extend the trend in order to create an opportunity to unwind/open a position at a favourable price, known as Moment Ignition; and

   d. submitting multiple orders often away from one side of the order book with the intention of executing a trade on the other side of the order book, where once

that trade has taken place, the manipulative orders will be removed, known as Layering and Spoofing.

5.12 Miscellaneous requirements

Whistleblowing

5.12.1 An Authorised Market Institution must have appropriate procedures and protections for enabling Employees to disclose any information to the DFSA or to other appropriate bodies involved in the prevention of Market Abuse, money laundering or other financial crime or any other breaches of relevant legislation.

Guidance

An Authorised Market Institution's policies and procedures should enable Employees to make protected disclosures, in good faith, of information which, in the reasonable belief of the Employee making the disclosure, tends to show that one or more of the following has been, is being, or is likely to be, committed:

a. a criminal offence;

b. a failure to comply with any legal obligation;

c. a miscarriage of justice;

d. the putting of the health and safety of any individual in danger; or

e. a deliberate concealment relating to any of (a) to (d),

irrespective of whether the relevant conduct or failure occurred, occurs or would occur.

Handling of complaints

5.12.2 (1) An Authorised Market Institution must have effective arrangements in place for the investigation and resolution of complaints made against it.

(2) An Authorised Market Institution must establish and maintain a register of complaints made against it and their resolution. Records of the complaints must be maintained for a minimum of six years.

Guidance

1. Procedures should be in place to acknowledge a complaint promptly, for making an objective consideration of the complaint and for a timely response to be sent to the complainant. The response should inform the complainant that, if he is not satisfied with the response, he should contact the DFSA.

2. Complaints should be fairly and impartially investigated by a person not involved in the conduct about which the complaint has been made. At the conclusion of the investigation, a report should be prepared and provided to the relevant Key Individuals.

Use of 'investment token market' and similar terms to refer to a facility

5.12.3 An Authorised Market Institution must not refer to a facility it operates as an 'investment token market', 'investment token clearing house', 'security token

market', 'security token clearing house', 'derivative token market', 'derivative token clearing house', or using any other similar term, unless it is a facility on which only Investment Tokens are traded or cleared.

Guidance

1. An Authorised Market Institution should not refer to a facility where both Security Tokens and conventional Investments are traded and cleared using terms referred to in Rule 5.12.3.

2. An Authorised Market Institution that trades and/or clears both conventional Investments and Investment Tokens may refer to the facility that trades or clears Investment Tokens as an Investment Token, Security Token or Derivative Token market or clearing house, provided it is able to effectively maintain and demonstrate that there is a clear separation of Investment Token trading or clearing from conventional Investment trading or clearing.

5A. ADDITIONAL REQUIREMENTS FOR OPERATING A FACILITY FOR INVESTMENT TOKENS

5A.1 Application

5A.1.1 This chapter applies to an Authorised Market Institution Operating a Facility for Investment Tokens.

Guidance

Operating a Facility for Investment Tokens is defined in GLO as Operating an Exchange, Operating a Clearing House or Operating an Alternative Trading System on which Investment Tokens are traded, cleared, or both traded and cleared.

5A.2 Technology and governance requirements

5A.2.1 Without limiting the generality of the technology resources requirements in Rule 5.5.5, an Authorised Market Institution must ensure that it meets the requirements that would apply to an Authorised Firm Operating a Facility for Investment Tokens under COB section 14.1.

5A.3 Operating a Facility for Investment Tokens that permits direct access

5A.3.1 An Authorised Market Institution must ensure that:

(1) it treats each Direct Access Member as its Client;

(2) its Business Rules clearly set out:

(a) the duties owed by the Authorised Market Institution to the Direct Access Member and how the Authorised Market Institution is held accountable for any failure to fulfil those duties; and

(b) the duties owed by the Direct Access Member to the Authorised Market Institution and how the Direct Access Member is held accountable for any failure to fulfil those duties;

(3) appropriate investor redress mechanisms are available, and disclosed, to each Member permitted to trade or clear Investment Tokens on its facility, as required under Rule 5.12.2; and

(4) its facility contains a prominent disclosure of the risks associated with the use of DLT for trading and clearing Investments, particularly those relating to Digital Wallets and the susceptibility of private cryptographic keys to misappropriation.

5A.3.2 (1) Without limiting the generality of the systems and controls obligations of the Authorised Market Institution, an Authorised Market Institution must have in place adequate systems and controls to address market integrity, AML, CTF and investor protection risks in permitting a Direct Access Member to access its facility, including procedures to:

(a) identify the ultimate beneficial owner of a Direct Access Member, where the Member is a Body Corporate;

(b) ensure that appropriate customer due diligence sufficient to address AML and CTF risks has been conducted on each Direct Access Member, before permitting that Member to access its facility;

(c) detect and address market manipulation and abuse; and

(d) ensure that there is adequate disclosure relating to the Investment Tokens that are traded on the facility, through prospectus and on-going disclosure under MKT chapters 2, 4 and 6.

(2) An Authorised Market Institution must have adequate controls and procedures to ensure that trading in Investment Tokens by Direct Access Members does not pose any risks to the orderly and efficient functioning of the facility's trading system, including controls and procedures to:

(a) mitigate counterparty risks that may arise from defaults by Direct Access Members, through adequate collateral management measures, such as margin requirements, based on the settlement cycle adopted by the Authorised Market Institution;

(b) identify and distinguish orders that are placed by Direct Access Members, and, if necessary, enable the Authorised Market Institution to stop orders of, or trading by, such Members;

(c) prevent Direct Access Members from allowing any other Persons to access the facility through that Member's access; and

(d) ensure that Direct Access Members fully comply with the Business Rules of the facility and promptly address any gaps and deficiencies that are identified.

(3) An Authorised Market Institution must have adequate resources and mechanisms to carry out front-line monitoring of the trading activities of Direct Access Members.

(4) An Authorised Market Institution must ensure that, to the extent that any of the systems and controls referred to in (1) are embedded within, or otherwise facilitated through DLT, they must be included within the scope of the annual audit and written report required under Rule 5A.5.

Guidance

To satisfy the DFSA of the matters referred to in Rule 5A.3.2, an Authorised Market Institution should, as a minimum, be able to demonstrate that it has effective procedures built into its DLT or similar technology application being used that enable:

a. the clear identification of each Direct Access Member accessing its facility to trade; and

b. the monitoring of bid and offer prices and volatility for any indications of market manipulation or abuse.

5A.3.3 When an Authorised Market Institution Executes a Transaction in Investment Tokens for a Direct Access Member, the Authorised Market Institution must comply with the requirements relating to confirmation notes that would apply to an Authorised Firm under COB section 6.9 and COB App 3 section A3.1.

5A.4 Safe custody of Investment Tokens

5A.4.1 Without limiting the generality of section 5.10, where an Authorised Market Institution's obligations include making provision for the safeguarding and administration of Security Tokens belonging to Members and other participants on its facility, it must ensure that:

(1) where its safe custody arrangements involve acting as a Digital Wallet Service Provider, it complies with the same requirements that would apply to an Authorised Firm carrying on such activities under COB section 14.3 and the Client Asset provisions in COB sections 6.11, 6.12 and 6.13;

(2) where it appoints a Third Party Digital Wallet Service Provider to Provide Custody for Investment Tokens traded or cleared on its facility, that person is either:

(a) an Authorised Firm permitted to be a Digital Wallet Service Provider; or

(b) a firm that is regulated by a Financial Services Regulator to an equivalent level as that provided for under the DFSA regime for Providing Digital Wallet Services.

5A.5 Technology audit reports

5A.5.1 An Authorised Market Institution must ensure that it meets the requirements relating to technology audit reports that would apply to an Authorised Firm Operating a Facility for Investment Tokens under COB section 14.5.

5B. ADDITIONAL REQUIREMENTS FOR OPERATING A FACILITY FOR CRYPTO TOKENS

5B.1 Application

5B.1.1 This chapter applies to an Authorised Market Institution Operating a Facility for Crypto Tokens.

Guidance

Operating a Facility for Crypto Tokens is defined in GLO as Operating an Exchange, Operating a Clearing House or Operating a Multilateral Trading Facility (MTF) on which Crypto Tokens are traded, cleared, or both traded and cleared.

5B.2 Technology and governance requirements

5B.2.1 Without limiting the generality of the technology resources requirements in Rule 5.5.5, an Authorised Market Institution must ensure that it meets the requirements that would apply to an Authorised Firm Operating a MTF for Crypto Tokens under COB section 15.2.

5B.3 Operating a Facility for Crypto Tokens that permits direct access

5B.3.1 An Authorised Market Institution must ensure that:

(a) it treats each Direct Access Member as its Client;

(b) its Business Rules clearly set out:

(i) the duties owed by the Authorised Market Institution to the Direct Access Member and how the Authorised Market Institution is held accountable for any failure to fulfil those duties; and

(ii) the duties owed by the Direct Access Member to the Authorised Market Institution and how the Direct Access Member is held accountable for any failure to fulfil those duties;

(c) appropriate investor redress mechanisms are available, and disclosed, to each Member permitted to trade or clear Crypto Tokens on its facility, as required under Rule 5.12.2; and

(d) its facility contains a prominent disclosure of the risks associated with the use of DLT for trading and clearing Crypto Tokens, particularly those relating to Digital Wallets and the susceptibility of private cryptographic keys to misappropriation.

5B.3.2 (1) Without limiting the generality of the systems and controls obligations of the Authorised Market Institution, an Authorised Market Institution must have in place adequate systems and controls to address market integrity, AML, CTF and investor protection risks in permitting a Direct Access Member to access its facility, including procedures to:

(a) identify the ultimate beneficial owner of a Direct Access Member, where the Member is a Body Corporate;

(b) ensure that appropriate customer due diligence sufficient to address AML and CTF risks has been conducted on each Direct Access Member, before permitting that Member to access its facility; and

(c) detect and address market manipulation and abuse.

(2) An Authorised Market Institution must have adequate controls and procedures to ensure that trading in Crypto Tokens by Direct Access Members does not pose any risks to the orderly and efficient functioning of the facility's trading system, including controls and procedures to:

(a) mitigate counterparty risks that may arise from defaults by Direct Access Members, through adequate collateral management measures, such as margin requirements, based on the settlement cycle adopted by the Authorised Market Institution;

(b) identify and distinguish orders that are placed by Direct Access Members, and, if necessary, enable the Authorised Market Institution to stop orders of, or trading by, such Members;

(c) prevent Direct Access Members from allowing any other Persons to access the facility through that Member's access; and

(d) ensure that Direct Access Members fully comply with the Business Rules of the facility and promptly address any gaps and deficiencies that are identified.

(3) An Authorised Market Institution must have adequate resources and mechanisms to carry out front-line monitoring of the trading activities of Direct Access Members.

(4) An Authorised Market Institution must ensure that, to the extent that any of the systems and controls referred to in (1) are embedded within, or otherwise facilitated through DLT, they must be included within the scope of the annual audit and written report required under Rule 5B.6.1.

Guidance

To satisfy the DFSA of the matters referred to in Rule 5B.3.2, an Authorised Market Institution should, as a minimum, be able to demonstrate that it has effective procedures built into its DLT or similar technology application being used that enable:

a. the clear identification of each Direct Access Member accessing its facility to trade; and

b. the monitoring of bid and offer prices and volatility for any indications of market manipulation or abuse.

5B.3.3 When an Authorised Market Institution Executes a Transaction in Crypto Tokens for a Direct Access Member, the Authorised Market Institution must comply with the requirements relating to confirmation notes that would apply to an Authorised Firm under COB section 6.9 and COB App 3 section A3.1.

5B.4 Disclosure of information relating to Crypto Tokens

Publication of key features document

5B.4.1 (1) An Authorised Market Institution must ensure that a Crypto Token is not traded on an Exchange or MTF it operates unless the Authorised Market Institution has published a key features document on its website for the Crypto Token.

(2) The key features document must contain the information set out in COB Rule 15.6.1.

Requirements if a white paper is published

5B.4.2 Where an Authorised Market Institution publishes a white paper relating to a Crypto Token, it must:

(a) take reasonable steps to ensure the version published is the latest version of the white paper; and

(b) disclose prominently that:

(i) it has not prepared the white paper or verified the accuracy of information in the white paper; and

(ii) investors should take care in relying on information in the white paper as it may be inaccurate or out of date.

Guidance

1. A 'white paper' is a concept paper prepared by the developers of a Crypto Token. It sets out the idea and the overall value proposition for users of the Crypto Token. It also commonly outlines a development roadmap for the Crypto Token and the key milestones the developers expect to meet.

2. An Authorised Market Institution is not required to publish or make available a white paper for a Crypto Token, however if it decides to do so it must ensure that the requirements in Rule 5B.4.2 are met.

Ongoing information

5B.4.3 (1) An Authorised Market Institution must take reasonable steps to ensure that there is accurate and up-to-date information available about a Crypto Token traded on an Exchange or MTF it operates so that users are able to make informed decisions about trading in the Crypto Tokens.

(2) Without limiting the generality of (1), the Authorised Market Institution must as a minimum ensure the following information is readily available:

(a) the total number and market capitalisation of Crypto Tokens traded globally;

(b) whether the supply of Crypto Tokens is set to increase or decrease according to a pre-defined path;

(c) details of any inflationary or deflationary mechanisms that are to be used, such as the issuing or burning of Crypto Tokens (other than through the normal mining process);

(d) the total number of Crypto Tokens held by the developers or issuer of the Crypto Token, held in reserve for rewards or other promotional purposes or otherwise locked away from the total supply of Crypto Tokens; and

(e) a breakdown of the largest holders of the Crypto Tokens, in particular holders of 10% or more of the total supply of the Crypto Tokens.

(3) Under (2)(e), an Authorised Market Institution is not required to disclose the identity of the holder if it has taken reasonable steps but has not been able to establish the holder's identity.

Guidance

1. To make an informed decision about whether to buy or sell a Crypto Token traded on an Exchange or MTF, users of the Exchange or MTF need accurate and up-to-date information about matters that may affect the price of the Crypto Token. As there is no Reporting Entity for a Crypto Token, the Authorised Market Institution is responsible for ensuring that adequate ongoing information about the Crypto Token is available.
2. Ongoing information may be published by the Authorised Market Institution on its website, or the Authorised Market Institution may provide links on its website to a site where the information can be found. If the Authorised Market Institution provides links to the information, the links should take a user directly to the relevant information and the site should contain reliable information.
3. Under Rule 5B.4.3(2)(e) and (3), an Authorised Market Institution is required to disclose that a person has a significant holding even if it is not reasonably able to establish their identity.

Forums

5B.4.4 If an Authorised Market Institution provides a means of communication (a "forum") for users to discuss Crypto Tokens, it must:

(a) include a clear and prominent warning on the forum informing users that the Authorised Market Institution does not conduct due diligence on information on the forum;

(b) restrict the posting of comments on the forum to members;

(c) ensure that all persons using the forum have equal access to information posted on the forum;

(d) require a person posting a comment on the forum to disclose clearly if he is affiliated in any way with a Crypto Token or is being compensated, directly or indirectly, to promote a Crypto Token;

(e) take reasonable steps to monitor and prevent posts on the forum that are potentially misleading or fraudulent or may contravene the Market Abuse provisions;

(f) immediately take steps to remove a post, or to require a post to be deleted or amended, if the operator becomes aware that (d) or (e) have not been complied with; and

(g) not participate in discussions on the forum except to moderate posts or to take steps referred to in (f).

5B.5 Safe custody of Crypto Tokens

5B.5.1 Without limiting the generality of section 5.10, where an Authorised Market Institution's obligations include making provision for the safeguarding and administration of Crypto Tokens belonging to Members and other participants on its facility, it must ensure that:

(1) where its safe custody arrangements involve acting as a Digital Wallet Service Provider, it complies with the same requirements that would apply to an Authorised Firm carrying on such activities under COB section 14.3 and the Client Asset provisions in COB sections 6.11, 6.12 and 6.13;

(2) where it appoints a Third Party Digital Wallet Service Provider to Provide Custody for Crypto Tokens traded or cleared on its facility, that person is either:

(a) an Authorised Firm permitted to be a Digital Wallet Service Provider; or

(b) a firm that is regulated by a Financial Services Regulator to an equivalent level as that provided for under the DFSA regime for Providing Digital Wallet Services.

5B.6 Technology audit reports

5B.6.1 An Authorised Market Institution must ensure that it meets the requirements relating to technology audit reports that would apply to an Authorised Firm under COB section 14.5.

6. ADDITIONAL LICENSING REQUIREMENTS FOR OPERATING AN EXCHANGE

6.1 Application

6.1.1 (1) This chapter applies to an Authorised Market Institution Operating an Exchange or an applicant for such a Licence.

(2) In this chapter, a reference to an "Exchange" is a reference to a Person referred to in (1).

6.2 Proper Markets

6.2.1 (1) An Exchange must have rules and procedures for fair, orderly and efficient operation of trading of Investments or Crypto Tokens on its facilities. For this purpose, an Exchange must ensure that only Investments or Crypto Tokens in which there is a Proper Market are traded on its facilities.

(2) For a Proper Market to exist in Investments or Crypto Tokens:

(a) Derivatives traded on its facilities must meet the contract design specifications in Rule 6.3.2;

(b) relevant market information must be made available to Persons engaged in dealing on an equitable basis, including pre-trade and post-trade disclosure of orders, in accordance with the requirements in section 6.4.

(c) there must be adequate mechanisms to discontinue, suspend or remove from trading on its facilities any Investments or Crypto Tokens in circumstances where the requirements relating to Proper Markets are not met;

(d) there must be in place controls to prevent volatility in the markets that is not the result of market forces, in accordance with the requirements in section 6.5;

(e) error trades must be managed, in accordance with the requirements in section 6.6;

(f) short selling and position concentration must be monitored and managed, in accordance with the requirements in section 6.7;

(g) there must be a fair and non-discretionary algorithm operating in respect of the matching of orders on its facilities;

(h) there must be in place adequate controls, to monitor and manage any foreign ownership restrictions applying to Investments traded

on its facilities, in accordance with the requirements in section 6.8; and

(i) any liquidity incentive schemes must be offered only in accordance with the requirements in section 6.9.

Guidance

Rules and procedures referred to in Rule 6.2.1(2) should generally form part of the Business Rules of an Authorised Market Institution (see the content of Business Rules in Rule 5.6.1).

6.3 Specifications relating to design and trading of Derivatives

6.3.1 (1) An Exchange which trades Derivative contracts on its facilities must:

(a) have clear and transparent rules and procedures for the trading of Derivative contracts, which are made publicly available; and

(b) ensure that the trading in Derivative contracts on its facilities is undertaken in a fair, orderly and efficient manner.

(2) The rules and procedures must promote transparency by ensuring that there is sufficient information made available to the markets relating to the terms and conditions of the Derivative contracts traded on its facilities. Such information must include, where relevant, information relating to delivery and pricing of Derivative contracts.

Contract design specifications

6.3.2 (1) An Exchange must ensure that the Derivative contracts traded on its facilities:

(a) have a design that enables the orderly pricing and effective settlement of the obligations arising under the contract; and

(b) where they are Commodity Derivative contracts which require physical delivery, have terms and conditions which:

(i) promote price discovery of the underlying commodity;

(ii) ensure, to the extent possible, that there is a correlation to the operation of the physical market in the underlying commodity;

(iii) include contract delivery specifications which address matters specified in App 3; and

(iv) provide for legally enforceable settlement and delivery procedures.

(2) For the purposes of meeting the requirement in (1)(a), an Exchange must include in its Business Rules contract design specifications relating to Derivative contracts traded on its facilities which, at a minimum, include:

(a) minimum price fluctuations (price ticks);

(b) maximum price fluctuations (daily price limits), if any;

(c) last trading day;

(d) settlement or delivery procedures as applicable;

(e) trading months;

(f) position limits, if any;

(g) reportable levels; and

(h) trading hours.

On-going review

6.3.3 An Exchange must:

(a) establish and implement clear procedures relating to the development and review of contract design for Derivative contracts traded on its facilities;

(b) have adequate process through which the views of potential users of Derivative contracts can be taken into account when developing and reviewing contract design for Derivative contracts;

(c) have adequate powers which enable it to eliminate contractual terms which produce, or are likely to produce, manipulative or disorderly conditions in the markets generally, or in relation to the particular class or type of Derivative contracts; and

(d) have adequate mechanisms to monitor and evaluate whether the settlement and delivery procedures reflect the underlying physical market and promote reliable pricing relationship between the two markets.

Guidance

1. When assessing whether an Exchange's rules and procedures are adequate, the DFSA will consider, among other things:

   a. the criteria adopted by the Exchange for Derivative contracts to be traded on its facilities;

   b. what powers the Exchange has in order to eliminate manipulative or disorderly conduct, including powers to vary, remove or rescind conditions of any Derivative contracts already traded where these are found to cause manipulative or disorderly conditions; and

   c. what mechanisms are established by the Exchange to monitor and review market activities relating to Derivative contracts traded on its facilities.

2. When designing and reviewing the design of Commodity Derivative contracts, an Exchange should consider the following physical market characteristics, including differences within a commodity market with regard to the commodity in question:

a. size and structure of the physical market;

b. commodity characteristics (such as grade, quality, weight, class, growth, origin, source etc.);

c. historical patterns of production, consumption and supply, including seasonality, growth, market concentration in the production chain, domestic or international export focus and logistics;

d. extent of distribution or dispersal of production and consumption of the underlying physical commodity among producers, merchants and consumers;

e. accepted market practice at the physical commodity market in question, including loading tolerances and delivery of alternative supply under the contract terms;

f. adequacy, nature and availability of supply of the underlying physical commodity, including an estimate of the deliverable supplies for the delivery month specified in the relevant commodity contract;

g. movement or flow of the underlying physical commodity;

h. the liquidity of the underlying physical market;

i. the spot market pricing system including transparency, availability, reliability and frequency of cash pricing;

j. price volatility; and

k. the existence of price controls, embargoes, export restrictions or other regulation or controls affecting the price or supply of the underlying physical commodity.

6.4 Transparency and disclosure

6.4.1 An Exchange must have adequate arrangements for providing to the markets adequate information about Investments or Crypto Tokens traded on its facilities, and its trading activities, for the purposes of promoting:

(a) pre-trade transparency; and

(b) post-trade transparency.

Pre-trade transparency

6.4.2 (1) An Exchange must disclose the information specified in (2) relating to trading of Investments or Crypto Token on its facilities in the manner specified in (3).

(2) The information required to be disclosed pursuant to (1) is:

(a) the current bid and offer prices and volume;

(b) the depth of trading interest shown at the prices and volumes advertised through its systems for the Investments or Crypto Tokens; and

(c) any other information relating to Investments or Crypto Tokens which would promote transparency relating to trading.

(3) The information referred to in (2) must be made available to the public on a continuous basis during normal trading.

Guidance

1. When making disclosure, an Exchange should adopt a technical mechanism by which the public can differentiate between transactions that have been transacted in the central order book and transactions that have been reported to the Exchange as off-order book transactions. Any transactions that have been cancelled pursuant to its rules should also be identifiable.

2. The reference to trading interest in Rule 6.4.2(2)(b) includes any actionable indications of interests. Actionable interests are messages from one Member to another in a trading system about available trading interest that contains all necessary information to agree on a trade.

3. An Exchange should use adequate mechanisms so that pre-trade information is available to the public in an easy to access and uninterrupted manner at least during business hours. An Exchange may charge a reasonable fee for the information which it makes available to the public.

4. An Exchange will be able to withhold pre-trade disclosure only if it has obtained a waiver or modification to Rule 6.4.2. An Exchange may seek a waiver or modification from the disclosure requirement in Rule 6.4.2(1) in relation to certain transaction orders where:

   a. the order size is pre-determined and exceeds a pre-set and published threshold level; and

   b. the details of the exemption are included in its Business Rules.

5. In assessing whether an exemption from pre-trade disclosure should be allowed, the DFSA will take into account factors such as:

   a. the level of order threshold compared with normal market size for the Investment or Crypto Token;

   b. the impact such an exemption would have on price discovery, fragmentation, fairness and overall market quality;

   c. whether there is sufficient transparency relating to trades executed without pre-trade disclosure as a result of dark orders whether or not they are entered in transparent markets;

   d. whether the Exchange supports transparent orders by giving priority to transparent orders over dark orders, for example, by executing such orders at the same price as transparent orders; and

   e. whether there is adequate disclosure of details relating to dark orders available to Members and other participants on the facilities of the Exchange to enable them to understand the manner in which their orders will be handled and executed on those facilities.

6. Dark orders are orders executed on execution platforms without pre-trade transparency.

Post-trade transparency

6.4.3 (1) An Exchange must disclose the post-trade information specified in (2) relating to trading of Investments or Crypto Tokens on its facilities in the manner specified in (3).

(2) The post-trade information required to be disclosed pursuant to (1) is the price, volume and time of the transactions executed in respect of the Investments or Crypto Tokens traded on its facilities.

(3) The information referred to in (2) must be:

(a) made available in real-time on reasonable commercial terms and on a non-discriminatory basis; and

(b) made available, as soon as practicable thereafter, to the public.

Guidance

An Exchange should use appropriate mechanisms to enable post-trade information to be made available to the public in an easy to access and uninterrupted manner at least during business hours. An Exchange may charge a reasonable fee for the information which it makes available to the public.

6.5 Volatility controls

6.5.1 (1) An Exchange must have in place effective systems, controls and procedures to ensure that its trading systems:

(a) are resilient;

(b) have adequate capacity to deal with peak orders and message volumes; and

(c) are able to operate in an orderly manner under conditions of market stress.

(2) Without limiting the generality of its obligations arising under (1) or any other Rule, an Exchange's rules, systems, controls and procedures must enable it to:

(a) reject orders that exceed its pre-determined volume and price thresholds, or that are clearly erroneous;

(b) temporarily halt trading of Investments or Crypto Tokens traded on its facility if there is a significant price movement in relation to those Investments or Crypto Tokens on its facility or a related market during a short period; and

(c) where appropriate, cancel, vary or correct any transaction.

Guidance

An Exchange should test its trading systems to ensure that they are resilient and capable of operating orderly trading under conditions of market stress and other contingencies.

6.5.2 (1) An Exchange must have adequate arrangements, including technology, which:

(a) are capable of preventing capacity limits relating to messaging being breached;

(b) require its Members to apply pre-trade controls to their clients; and

(c) permit only its Members to modify the parameters of any pre-trade controls.

(2) An Exchange must make publicly available the details of arrangements it has in place in order to meet the requirement in (1).

Guidance

1. In order to meet the requirements in Rule 6.5.2(1), an Exchange may, within its arrangements:

   a. include a mechanism for "throttling" orders to prevent breaches of its capacity;

   b. prohibit "naked" or "unfiltered" access to its facilities by Members' clients where the client orders do not pass through pre-trade controls; and

   c. include requirements for Members to have appropriate pre-trade controls on the orders of their clients, which include in-built and automatic rejection of orders outside of certain pre-set parameters.

2. Pre-trade controls which an Authorised Market Institution requires from its Members should contain:

   a. price or size parameters: Members should be able to automatically block or cancel orders that do not meet the set price or size parameters either or both on an order-by-order basis or over a specified period of time;

   b. controls around permission to trade: Members should be able to block or cancel orders immediately as soon as they are made aware that trade permissions of a trader have been breached;

   c. effective risk management: Members should be able to block or cancel orders automatically where the trades pose risks that compromise the Member's own risk management thresholds. Such controls should be applied as necessary and appropriate to exposures to individual clients or financial instruments or groups of clients or financial instruments, exposures of individual traders, trading desks or the Member as a whole;

   d. reporting obligations: Members should be obliged to notify the Exchange about significant risks that may affect fair and orderly trading and major incidents as soon as they become aware of such risks or incidents;

   e. overriding of pre-trade controls: Members should have procedures and arrangements for dealing with orders which have been automatically blocked by the Member's pre-trade controls but which the Member may re-submit. Such procedures and arrangements should serve to alert compliance and risk

management staff of the Member that controls have been overridden and require their approval for the overriding of these controls;

f. training on order entry procedures: Members should ensure that employees using the order entry system have adequate training on order entry procedures before they are allowed to use Members' order entry systems;

g. monitoring and accessibility of knowledgeable and mandated staff: Members should monitor their orders to the Exchange in as close to real time as possible, including from a cross-market perspective, for potential signs of disorderly trading. Such monitoring should be conducted by Member's staff who understand its trading flow. They should be accessible to the Exchange and have necessary authority to take necessary and appropriate remedial action. Members should ensure that compliance staff are able to follow closely the Member's electronic trading activity so that they can quickly respond to and correct any failures or regulatory infractions that may take place; and

h. control of messaging traffic: Members should have control of messaging traffic to the Exchange particularly to ensure any messaging limits imposed by the Exchange on the Members are not exceeded. Messaging limits are limits imposed by an Exchange on its Members for the transmission of orders such as buy or sell to ensure that the Exchange's capacity to deal with such orders is not exceeded.

6.6 Error Trade policy

6.6.1 (1) An Exchange must be able to cancel, amend or correct any Error Trades.

(2) An Error Trade is the execution of an order resulting from:

(a) an erroneous order entry;

(b) malfunctioning of the system of a Member or of the Authorised Market Institution; or

(c) a combination of (a) and (b).

(3) For the purposes of (1), an Exchange's Business Rules must include a comprehensive Error Trade policy which sets out clearly the extent to which transactions can be cancelled by the Exchange at its sole discretion, at the request of a Member or by mutual consent of the Members involved.

(4) An Exchange must have adequate systems and controls to:

(a) prevent or minimise Error Trades;

(b) promptly identify and rectify Error Trades where they occur; and

(c) identify whether Error Trades are related to disorderly market activity.

Guidance

When assessing whether an Exchange has an appropriate and adequate Error Trade policy, the DFSA will consider whether the rules and procedures included in the Business Rules:

a. are adequate and, where prevention is not possible, minimise the impact of Error Trades;

b. are sufficiently flexible in the design to address varying scenarios;

c. establish a predictable and timely process for dealing with Error Trades, including measures specifically designed to detect and identify Error Trade messages to market users;

d. promote transparency to market users with regard to any cancellation decisions involving material transactions resulting from the invocation of the Error Trade policy;

e. include adequate surveillance conducted in the markets to detect Error Trades;

f. promote predictability, fairness and consistency of actions taken under the Error Trade policy; and

g. enable sharing of information with other markets, when possible, concerning the cancellation of trades.

6.7 Short selling and position management

6.7.1 (1) An Exchange must have in place effective systems, controls and procedures to monitor and manage:

(a) Short Selling in Securities or Crypto Tokens; and

(b) risks arising from position concentrations.

(2) For the purposes of (1), an Exchange must have adequate powers over its Members to address risks to an orderly functioning of its facilities arising from unsettled positions in Investments.

(3) Short Selling for the purposes of this Rule constitutes the sale of a Security or Crypto Token by a Person who does not own the Security or Crypto Token at the point of entering into the contract to sell.

Guidance

1. An Exchange should, when developing its controls and procedures with regard to Short Selling and position management, have regard to:

   a. its own settlement cycle, in order to ensure that any Short Selling activities on its facilities do not result in any delay or prevent effective settlement within such cycle; and

   b. orderly functioning of its facilities, to ensure that any long or short position concentration on Investments or Crypto Tokens that remain unsettled does not interrupt such functioning.

2. Examples of circumstances that would not be treated as short selling in Rule 6.7.1(3) include where the seller:

   a. has entered into an unconditional contract to purchase the relevant Securities or Crypto Tokens but has not received their delivery at the time of the sale;

   b. has title to other Ssecurities or Crypto Tokens which are convertible or exchangeable for the Securities to which the sale contract relates;

   c. has exercised an option to acquire the Securities or Crypto Tokens to which the sale contract relates;

   d. has rights or warrants to subscribe and receive Securities or Crypto Tokens to which the sale contract relates; and

   e. is making a sale of Securities that trades on a "when issued" basis and has entered into a binding contract to purchase such Securities, subject only to the condition of issuance of the relevant Securities.

6.8 Foreign ownership restrictions

6.8.1 (1) An Exchange may admit to trading on its facilities Investments which are subject to foreign ownership restrictions where it has in place adequate and effective arrangements to:

(a) monitor applicable foreign ownership restrictions; and

(b) promptly identify and take appropriate action where any breaches, or likely breaches, of such restrictions occur or are about to occur, so as to ensure that there is no undue interruption or negative impact on its trading activities.

(2) For the purposes of (1), the arrangements of an Exchange must include:

(a) requirements applicable to issuers and other Persons responsible for the relevant Investments to:

(i) make available to the Exchange information relating to any ownership restrictions applicable to the Investments; and

(ii) take such action as appropriate to remedy any breaches as soon as practicable;

(b) mechanisms to access current information relating to ownership of the relevant Investments, including any beneficial owners;

(c) appropriate public disclosure of information where ownership restrictions are, or are about to be, breached;

(d) mechanisms to suspend trading in the relevant Investments where the ownership restrictions are, or are about to be, breached; and

(e) mechanisms to reinstate trading where ownership restrictions are no longer in breach.

Guidance

1. An Exchange is required, as part of information to be provided to the DFSA, to promptly inform the DFSA where breaches of the ownership restrictions occur. See section 9.8.

2. An Exchange should establish appropriate thresholds at which an early warning system and subsequent public disclosure is triggered relating to foreign ownership restrictions. Such thresholds should be set at intervals/levels, taking into account the patterns of trading in the relevant Investments and other factors which enable the Exchange to take preventative measures before the breaches occur.

6.9 Liquidity incentive schemes

6.9.1 (1) An Exchange must not introduce a liquidity incentive scheme unless:

(a) participation in such a scheme is limited to:

(i) a Member of the Exchange; or

(ii) any other Person where:

(A) the Exchange has undertaken due diligence to ensure that the Person is of sufficient good repute and has adequate competencies and organisational arrangements; and

(B) the Person has agreed in writing to comply with the Business Rules of the Exchange so far as those rules are applicable to that Person's activities; and

(b) it has obtained the DFSA's prior written approval for the scheme.

(2) For the purposes of this section, a liquidity incentive scheme means an arrangement designed to provide liquidity in the market or in relation to a particular Investment or Crypto Token or class of Investments or Crypto Tokens.

(3) An Exchange must, at least 10 business days prior to the introduction of a liquidity incentive scheme referred to in (1), lodge with the DFSA a notification containing:

(a) the details of the relevant scheme;

(b) the benefits to the Exchange and its Members and other users resulting from the scheme;

(c) a certification by it that the requirements in (1)(a) have been fully met; and

(d) the date on which the scheme is intended to become operative.

(4) The DFSA will, within 10 business days of receiving the notification referred to in (3), approve the proposed liquidity incentive scheme unless it has reasonable grounds to believe that the introduction of the scheme is reasonably likely to be detrimental to the existence of Proper Markets. Where the DFSA does not approve the proposed liquidity incentive scheme, it will notify the Exchange of its objections to the introduction of the proposed liquidity incentive scheme, and its reasons for that decision.

(5) If the DFSA decides to exercise its power under (4) not to approve a proposed liquidity incentive scheme, the Exchange may refer the matter to the FMT for review.

(6) An Exchange must, as soon as practicable, announce the introduction of the liquidity incentive scheme, including the date on which it becomes operative and any other relevant information.

Guidance

1. Examples of liquidity incentive schemes are arrangements under which an Exchange offers to market makers rebates, stipends, waivers of membership or transaction fees and other financial incentives, including payments for routing order flows or other forms of soft dollar benefits.

2. The period of 10 business days referred to in Rule 6.9.1(4) will commence to run from the date on which all the information relating to the liquidity incentive scheme as specified in Rule 6.9.1(3) has been provided to the DFSA.

3. For the purposes of certifying that a Person meets the criteria set out in Rule 6.9.1(a)(ii), an Exchange should undertake:

   a. a verification of the identity of the relevant Person and its beneficial owners and directors for the purposes of applicable AML requirements;

   b. an assessment of the character and good standing, as well as the knowledge, experience and skills, of the Person and its directors and relevant Employees; and

   c. the adequacy of the control framework created by the Person in respect of the liquidity incentive scheme to ensure that trading occurs in accordance with the Business Rules of the Exchange.

4. An Exchange is not required, pursuant to Rule 6.9.1(6), to make public disclosure of any details about the liquidity incentive scheme where such information is reasonably regarded as commercially sensitive information. However, is should make such disclosure as it deems appropriate to keep its market well informed about the introduction of the scheme.

6.10 Clearing and settlement arrangements

6.10.1 An Exchange must:

(a) ensure that there are satisfactory arrangements in place for securing the timely discharge of the rights and liabilities of the parties to transactions conducted on or through its facilities; and

(b) inform its Members and other participants of the arrangements referred to in (a).

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7. ADDITIONAL LICENSING REQUIREMENTS FOR OPERATING A CLEARING HOUSE

7.1 Application

7.1.1 (1) This chapter applies, subject to (3), to an Authorised Market Institution Operating a Clearing House and an applicant for such a Licence.

(2) In this chapter, a reference to a "Clearing House" is a reference to a Person in (1), except where specific reference is made to:

(a) a Central Counterparty (CCP);

(b) a Securities Settlement System (SSS); or

(c) a Central Securities Depository (CSD).

(3) Specific references in this chapter to a Clearing House undertaking any of the functions specified in (2)(a) to (c) apply only in respect of that function.

Guidance

1. The Financial Service of Operating a Clearing House is defined in GEN Rule 2.18.1(1). This definition provides that Operating a Clearing House can be carried on by either the operator becoming a Central Counterparty (CCP) or by operating a Securities Settlement System (SSS) (i.e. a system that enables Investments to be transferred and settled by book entry), regardless of whether or not such a Person also acts as a Central Securities Depository (CSD) in respect of Securities cleared or settled on its facility and similar facilities.

2. Where a Clearing House undertakes the function of acting as a CSD under its own Licence, the additional requirements in section 7.4 apply to it. The function of CSD may also be carried out by an Authorised Firm licensed to carry on the Financial Service of Providing Custody. See GEN definition in Rule 2.13.1(3). Such a firm is subject to similar requirements as in section 7.4, which are set out in COB section 10.2.

3. Where a Clearing House which did not at the time of licensing carry on CSD functions wishes to do so subsequently, it needs to apply to the DFSA for approval under Rule 4.3.1, as it is a material change to its current arrangements.

4. Operating a Central Counterparty is the only Clearing House activity relevant to Crypto Tokens, as providing a Securities Settlement System or acting as a Central Securities Depository are relevant only to Investments. For Crypto Tokens, transfers of Crypto Tokens take place by means of Distributed Ledger Technology or other similar technology.

7.2 Risk management

Guidance

1. An Authorised Market Institution which operates a Clearing House is subject to the management, systems and controls requirements in GEN chapter 5. These provisions require such an Authorised Market Institution to establish and maintain risk management systems and controls to enable it to identify, assess, mitigate, control and monitor the risks to which it is exposed and to develop and implement policies and procedures to manage the risks to which it and the users of its facilities are exposed.

2. The requirements set out below augment the GEN obligations referred to in 1.

Risk management framework

7.2.1. (1) A Clearing House must have a comprehensive risk management framework (i.e. detailed policies, procedures and systems) capable of managing legal, credit, liquidity, operational and other risks to which it is exposed.

(2) The risk management framework in (1) must:

(a) encompass a regular review of material risks to which the Clearing House is exposed and the risks posed to other market participants resulting from its operations; and

(b) be subject to periodic review as appropriate to ensure that it is effective and operating as intended.

Guidance

1. The risk management framework should, for the purposes of Rule 7.2.1(2)(a), identify scenarios that may potentially prevent a Clearing House from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down.

2. A Clearing House should prepare appropriate plans for resumption of its operations in such scenarios and, where it is not possible to do so, for an orderly wind-down of the operations of the Clearing House premised on the results of such assessments.

3. Such procedures should also include appropriate early notification to the DFSA and other regulators as appropriate. See also the requirements in section 9.8 relating to disclosure to the DFSA.

4. A Clearing House should also, to the extent possible, provide incentives to Members and other market participants to manage and contain the risks they pose to the orderly and efficient operations of the Clearing House. Those may include financial penalties to Members and other participants that fail to settle Investments or Crypto Tokens in a timely manner or to repay intraday credit by the end of the operating day.

Legal risk

7.2.2 (1) A Clearing House must have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

(2) A Clearing House must have adequate rules and procedures, including contractual arrangements, which are legally enforceable.

(3) A Clearing House that operates in multiple jurisdictions must:

(a) identify and mitigate the risks arising from doing business in the relevant jurisdictions, including those arising from conflicting laws applicable in such jurisdictions; and

(b) ensure the arrangements referred to in (2) provide a high degree of certainty that actions taken by the Clearing House under its rules and procedures will not be reversed, stayed or rendered void.

Guidance

1. This Rule is designed to address legal risks faced by a Clearing House, particularly where it operates in multiple jurisdictions. For example, an unexpected application of a law or regulation may render a contract between itself and a counterparty void or unenforceable, thereby leading to a loss.

2. A Clearing House should be able to demonstrate to the DFSA that the legal basis on which it operates, including in multiple jurisdictions, is well founded. A well founded legal basis would generally include well defined rights and obligations of the Clearing House, its Members and other users, including its service providers such as custodians and settlement banks, or would provide a mechanism by which such rights and obligations can be ascertained. This would enable the Clearing House to identify and address risks that arise from its operations involving such parties.

3. A Clearing House should, in order to form clear views about the legally binding nature of its contractual arrangements in the relevant jurisdictions, obtain independent legal opinions as appropriate to its activities. Such legal opinions should, to the extent practicable, confirm the enforceability of the rules and procedures of the Clearing House in the relevant jurisdictions and be made available to the DFSA upon request.

4. A Clearing House may be conducting its activities in multiple jurisdictions in circumstances such as:

   a. where it operates through linked CCPs, SSSs or CSDs;

   b. where its Members and other participants are incorporated, located, or otherwise conducting business in jurisdictions outside the DIFC; or

   c. where any collateral provided is located or held in a jurisdiction outside the DIFC.

Liquidity risk

7.2.3 (1) A Clearing House must:

(a) determine the amount of its minimum liquid resources;

(b) maintain sufficient liquid resources to be able to effect same-day, intra-day or multi-day settlement, as applicable, of its payment obligations with a high degree of confidence under a wide range of potential stress scenarios;

(c) ensure that all resources held for the purposes of meeting its minimum liquid resource requirement are available when needed;

(d) have a well-documented rationale to support the amount and form of total liquid resources it maintains for the purposes of (b) and (c); and

(e) have appropriate arrangements in order to be able to maintain, on an on-going basis, such amount and form of its total liquid resources.

(2) A Clearing House must have a robust framework for managing its liquidity risks. Such a framework must enable it to manage liquidity risks arising from its Members and other participants on its facilities, and any other involved parties, such as settlement banks, custodian banks, liquidity providers ("Members and other involved parties"). For that purpose, the framework must, at a minimum, include:

(a) rules and procedures that:

(i) enable it to meet its payment obligations on time following any individual or combined default of its Members and other involved parties; and

(ii) address unforeseen and potentially uncovered liquidity shortfalls to avoid unwinding, revoking, or delaying the settlement of its payment obligations arising under the same-day, intraday or multiday settlement obligations, as applicable;

(b) effective operational and analytical tools to identify, measure and monitor its settlement and funding flows on an on-going and timely basis; and

(c) rigorous due diligence procedures relating to its liquidity providers to obtain a high degree of confidence that each provider (whether the provider is a Member or other participant using its facilities or an external party) has:

(i) sufficient information to assess, understand and manage its own liquidity risks; and

(ii) the capacity to perform as required under their commitment.

(3) A Clearing House must regularly:

(a) review the adequacy of the amount of its minimum liquid resources as determined in accordance with (1);

(b) test the sufficiency of its liquid resources maintained to meet the relevant amount through rigorous stress testing; and

(c) test its procedures for accessing its liquid resources at a liquidity provider.

Guidance

1. A Clearing House should be able to effectively measure, monitor, and manage its liquidity risk. Some of the systems, controls and procedures set out under Rule 7.2.3 above to address liquidity risk are also commonly used to address credit risks, and therefore, the same procedures, adjusted as appropriate, can be used for both purposes.

Acceptable types of liquid resources

2. For the purposes of meeting its minimum liquid resource requirement referred to above, a Clearing House's qualifying liquid assets/resources may include cash held in appropriate currencies at a central bank in its or other relevant jurisdiction, or at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps and repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions.

3. If a Clearing House has access to a routine line of credit made available by a central bank in its or other relevant jurisdiction, it may count such access as part of its liquid resources to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. Even if it does not have access to a routine line of credit made available by a central bank, it should still take account of what collateral is typically accepted by the relevant central bank as such assets may be more likely to be liquid in stressed circumstances. However, a Clearing House should not assume the availability of emergency central bank credit as a part of its liquidity plan.

4. A Clearing House may supplement its qualifying liquid resources with other forms of liquid resources. If it does so, then such liquid resources should be in the form of assets that are likely to be saleable, or acceptable as collateral, for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions.

5. Where a Clearing House has access to a central bank lines of credit or accounts, payment services, or securities services, it should use those services as far as practicable, as such use is likely to enhance its ability to manage liquidity risk more effectively.

Review

6. A Clearing House should have clear procedures to report the results of its stress tests undertaken for the purposes of this Rule to its Governing Body and senior management as appropriate. It should use the results of stress testing to evaluate the adequacy of its liquidity risk-management framework and make any appropriate adjustments as needed.

7. In conducting stress testing, a Clearing House should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the Clearing House, and include all entities that may pose material liquidity risks to the Clearing House (such as settlement banks, custodian banks, liquidity providers, and other involved entities), and where appropriate, cover a multi-day period.

8. A Clearing House should record the results of such stress testing and the rationale for any adjustments made to the amount and form of total liquid resources it maintains.

Participant default

9. A Clearing House's rules and procedures should also indicate any liquidity resources it may deploy, in the event of default by a Member or other involved parties, during a stress

event to replenish the available liquid resources and the associated process, so that it can continue to operate in a safe and sound manner.

Custody and investment risk

7.2.4 (1) A Clearing House must have effective means to address risks relating to:

(a) custody of its own assets, in accordance with (2); and

(b) investments, in accordance with (3).

(2) For the purposes of (1)(a), a Clearing House must:

(a) hold its own assets with entities which are Licensed by the DFSA or a Financial Services Regulator for holding deposits or providing custody, as appropriate;

(b) be able to have prompt access to its assets when required; and

(c) regularly evaluate and understand its exposures to entities which hold its assets.

(3) For the purposes of (1)(b), a Clearing House must ensure that:

(i) it has an investment strategy which is consistent with its overall risk-management strategy and is fully disclosed to its Members and other participants using its facilities; and

(ii) its investments comprise instruments with minimal credit, market, and liquidity risks. For this purpose, the investments must be secured by, or be claims on, high-quality obligors, allowing for quick liquidation with little, if any, adverse price effect.

Guidance

A Clearing House which holds assets for its Members and other participants is subject to the "safe custody" requirements in section 5.10. In addition to those requirements, a Clearing House is required to manage risks associated with custody of its own assets (which may comprise cash) under Rule 7.2.4.

Money settlement

7.2.5 (1) Where a Clearing House conducts its money settlements using commercial bank money, it must adopt appropriate measures to minimise and strictly control the credit and liquidity risk arising from such use.

(2) For the purposes of (1), a Clearing House must:

(a) conduct its money settlements using only such settlement assets with little or no credit or liquidity risk;

(b) monitor, manage, and limit its credit and liquidity risks arising from commercial settlement banks. In particular, it must establish and monitor adherence to strict criteria for the use of settlement banks, which take into account, among other things, the regulation and

supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability of the relevant settlement banks;

(c) monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks; and

(d) ensure that its legal agreements with any settlement banks, at a minimum:

(i) specify clearly when transfers on the books of individual settlement banks are expected to occur and when they are final; and

(ii) ensure that funds received are transferable as soon as possible, if not intra-day, at least by the end of the day to enable it and its Members and other participants on its facilities to manage their credit and liquidity risks.

Use of Fiat Crypto Tokens for clearing or settlement

7.2.5A A Clearing House may use a Fiat Crypto Token for the purposes of clearing and settlement of transactions relating to Crypto Tokens if:

(a) the Fiat Crypto Token is an Accepted Crypto Token; and

(b) the Clearing House is reasonably satisfied that the risks associated with using the Fiat Crypto Token, including market, credit and liquidity risks, are low.

Guidance

A Fiat Crypto Token is defined in GEN 3A.2.5 as an Asset Referenced Token the value of which is determined by reference to a fiat currency. The DFSA would expect a Fiat Crypto Token to have the following characteristics if it used for clearing and settlement:

(a) a comprehensive governance framework with a clear allocation of accountability for the functions and activities of the Crypto Token;

(b) effective risk management frameworks for reserve management, operational resilience, cyber security and AML/CTF requirements;

(c) robust systems for collecting, storing and safeguarding data, as well as appropriate recovery and resolution plans;

(d) comprehensive and transparent disclosures on the functioning of the Crypto Token, including with respect to its stabilisation, reservation and redemption mechanisms;

(e) settlement finality features, demonstrated through clear definitions of technical finality and the point of irrevocability and transparent mechanisms for reconciling misalignments between technical settlement and legal finality; and

(f) money settlement features, with an absence of market, credit or liquidity risk, including through a direct legal claim on the issuer or the underlying reserve assets, timely convertibility at par into other liquid assets and clear and robust process for fulfilling client claims, under both normal and stressed scenarios.

Physical delivery

7.2.6 (1) A Clearing House incurring obligations that require physical delivery of commodities must:

(a) provide adequate information to its Members and other participants using its facilities relating to its obligations with respect to physical delivery of commodities. Such information must also be made publicly available;

(b) identify, monitor, and manage the risks associated with such physical deliveries; and

(c) identify, monitor, and manage the risks and costs associated with the storage and delivery of commodities.

(2) A Clearing House must have adequate arrangements, including service agreements, which enable it to meet its physical delivery obligations.

Collateral

7.2.7 (1) A Clearing House which requires collateral to manage its own, its Members' or other participants' credit risks arising in the course of or for the purposes of its payment, clearing, and settlement processes must:

(a) only accept collateral with low credit, liquidity, and market risks; and

(b) set and enforce appropriately conservative haircuts and concentration limits.

(2) A Clearing House must, for the purposes of meeting the requirement in (1), establish and implement a collateral management system that is well designed and operationally flexible. Such a system must, at a minimum:

(a) limit the assets it accepts as collateral to those with low credit, liquidity, and market risks;

(b) establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions;

(c) to reduce the need for procyclical adjustments, establish, to the extent practicable and prudent, stable and conservative haircuts that are calibrated to include periods of stressed market conditions;

(d) avoid concentrated holdings of certain assets where that would significantly impair the ability to liquidate such assets quickly without significant adverse price effects; and

(e) mitigate, if it accepts cross-border collateral, the risks associated with such use. Such measures must ensure that the collateral can be used in a timely manner.

Settlement finality

7.2.8 (1) A Clearing House must have adequate arrangements to ensure clear and certain final settlement of payments, transfer instructions or other obligations of Members and other participants using its facilities and where relevant, its own obligations.

(2) For the purposes of (1), a Clearing House's arrangements for final settlement must:

(a) ensure that, if intra-day or real-time settlement is not feasible, settlement occurs at least by the end of the value date of the relevant transaction; and

(b) clearly define:

(i) the point at which the final settlement occurs; and

(ii) the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by the parties to the underlying contract.

(3) For the purposes of this Rule:

(a) "final settlement" is the irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of obligations arising under the underlying contract by the parties to the contract; and

(b) "value date" is the day on which the payment, transfer instruction, or other obligation arising under the underlying contract is due and, accordingly, the associated funds or Investments are available to the respective parties under the contract.

Guidance

1. Final settlement is usually dependent on the legal environment of where the settlement occurs. Generally, in the case of certain assets, final settlement includes the transfer of title.

2. Completing final settlement by the end of the value date is important because deferring final settlement to the next-business day can create both credit and liquidity pressures for a Clearing House's Members and other participants on its facilities and stakeholders. This may also be a potential source of systemic risk. Therefore, where possible, a Clearing House should provide intra-day or real-time settlement finality to reduce settlement risk.

7.3 Additional requirements for a CCP

Credit Risk

7.3.1 (1) A Clearing House acting as a CCP must establish and implement a robust process to manage:

(a) its current and potential future credit and market risk exposures to market counterparties, including Members and other participants on its facilities; and

(b) credit risks arising from its payment, clearing, and settlement processes.

(2) For the purposes of (1), a CCP must, on a regular basis as appropriate to the nature, scale and complexity of its operations:

(a) perform stress tests using models containing standards and predetermined parameters and assumptions; and

(b) carry out comprehensive and thorough analysis of stress testing models, scenarios, and underlying parameters and assumptions used to ensure that they are appropriate for determining the required level of default protection in light of current and evolving market conditions.

(3) A CCP must:

(a) undertake the analysis referred to in (2)(b) at least on a two-month basis, unless more frequent analysis is warranted because the Investments or Crypto Tokens cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by its participants increase significantly; and

(b) perform a full validation of its risk-management models at least annually.

Guidance

1. A robust assessment process should enable a CCP to effectively measure, monitor, and manage its risks and exposures effectively. In particular, it should be able to identify sources of credit risk and routinely measure and monitor its credit exposures. Generally, a CCP should have daily stress testing to measure and monitor its risk exposures, especially if its operations are complex or widely spread over multiple jurisdictions. It should use appropriate risk management tools to control the identified credit risks. A CCP should use margin and other prefunded financial resources in order to do so.

2. In particular, a CCP should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its Members and other participants with respect to any of their obligations to the CCP. Such rules and procedures should address how any potentially uncovered credit losses would be allocated, including the repayment of any funds the CCP may borrow from its liquidity providers. They should also indicate the CCP's process to replenish any financial

resources that it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

3. A CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains. It should also have clear procedures to report the results of its stress tests to its Governing Body and senior management as appropriate, and use those results to evaluate the adequacy of its total financial resources and make any adjustments as appropriate.

Margin requirements

7.3.2 (1) Without limiting the generality of Rule 7.3.1, a Clearing House operating as a CCP must, for the purposes of managing its credit and market risk:

(a) have a margin system which meets the requirements in (2) and (3);

(b) mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures;

(c) have necessary authority and operational capacity to make intra-day margin calls and payments, both scheduled and unscheduled, to participants; and

(d) regularly review and validate its margin system to ensure that it operates effectively and as intended.

(2) The margin system of a CCP must, at a minimum:

(a) establish margin levels which are commensurate with the risks and particular attributes of each product, portfolio, and market it serves;

(b) use a reliable source of timely price data for its margin system, and also procedures and sound valuation models for addressing circumstances in which pricing data is not readily available or reliable; and

(c) adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to Members and other participants using its facilities in the interval between the last margin collection and the close-out of positions following a participant default.

(3) The initial margins established pursuant to (2)(c) must:

(a) if the CCP calculates margins:

(i) at the Member's portfolio level, be applied in respect of each portfolio's distribution of future exposure; and

(ii) at more granular levels, meet the corresponding distribution of future exposures; and

(b) use models which, among other things:

(i) rely on conservative estimates of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP, including in stressed market conditions; and

(ii) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and, to the extent practicable and prudent, limit the need for destabilising procyclical changes.

Guidance

1. A CCP should adopt comprehensive and stringent measures to ensure that it has adequate total financial resources to effectively manage its credit risk and exposures.

2. A CCP should determine the amount of the total financial resources available to it and regularly test the sufficiency of such amount, particularly in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing.

3. In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

4. A CCP which is involved in activities with a more-complex risk profile, or is systemically important in multiple jurisdictions, should maintain additional financial resources to cover a wide range of potential stress scenarios. These should include the default of the two of its market counterparties (including their affiliates) that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all other cases, a CCP should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios, which include the default of the market counterparty (including its affiliates) that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions.

5. An effective margining system is a key risk-management tool for an Authorised Market Institution operating as a CCP to manage the credit exposures posed by open positions of its Members or other participants using its facilities. Therefore, it should adopt and implement an effective margin system, which is risk-based and regularly reviewed, in order to cover its credit exposures to its Members and other participants in respect of all Investments and other products.

6. In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonised overall risk-management systems.

7. A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous back testing regularly, and sensitivity analysis at least monthly and, where appropriate, more frequently. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market

conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.

Segregation and portability

7.3.3 (1) A Clearing House acting as a CCP must have systems and procedures to enable segregation and portability of positions of the customers of its Members and other participants on its facilities, and any collateral provided to it with respect to those positions.

(2) For the purposes of (1), a CCP's systems and controls must, at a minimum, provide for the following:

(a) the segregation and portability arrangements that effectively protect the positions and related collateral of the customers of the Members or other participants on its facilities from the default or insolvency of the relevant Member or other participants;

(b) if the CCP offers additional protection of the customer positions and related collateral against the concurrent default of both the relevant Member or other participants or other customers, the adoption of necessary measures to ensure that the additional protection offered is effective; and

(c) the use of account structures that enable the CCP to readily identify positions of the customers of the relevant Member or other participant, and to segregate their related collateral.

(3) A CCP must make available to its Members and other participants using its facilities, its rules, policies and procedures relating to the segregation and portability of the positions and related collateral of the customers of its Members and other participants using its facilities.

Guidance

1. A CCP should:

a. maintain the customer positions and any related collateral referred to in Rule 7.3.3 in individual customer accounts or in omnibus customer accounts; and

b. structure its portability arrangements so that the positions and collateral of a defaulting Member's or other participant's customers can be transferred to one or more other Members or participants.

2. A CCP should also disclose whether the customers' collateral is protected on an individual or omnibus basis. In addition, it should disclose any constraints, such as legal or operational, that may impair its ability to segregate or transfer a Member's or other participant's customers' positions and related collateral.

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9 SUPERVISION OF AUTHORISED MARKET INSTITUTIONS

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9.8 Notification

Notification in respect of trading

9.8.1 Where an Authorised Market Institution proposes to remove from trading or admit to trading, by means of its facilities, a class of Investment or Crypto Token which it has not previously traded, but is licensed to do so, it must give the DFSA notice of that event, at the same time as the proposal is communicated to persons granted access to its facilities or shareholders, with the following information;

(a) a description of the Investment or Crypto Token to which the proposal relates;

(b) where that Investment is a derivative product, the proposed terms of that derivative; and

(c) the name of any clearing or settlement facility in respect of that Investment or Crypto Token.

9.8.2 Where an Authorised Market Institution decides to suspend, restore from suspension or cease trading any Investment or Crypto Token, it must immediately notify the DFSA and any person granted access to its facilities of the decision.

9.8.3 Where a Clearing House proposes to cease clearing or settling, or to commence clearing or settling, by means of its facilities, a class of Investment or Crypto Token which it has not previously cleared or settled, but is licensed to do so, it must give the DFSA notice of that event, at the same time as the proposal is communicated to persons granted access to its facilities or shareholders, with the following information;

(a) a description of the Investment or Crypto Token to which the proposal relates;

(b) where that Investment is a derivative product, the proposed terms of that derivative; and

(c) the name of any trading facility in respect of that Investment or Crypto Token.

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Directions by an Authorised Market Institution

9.10.5 Where an Authorised Market Institution:

(a) decides to limit the open position of any Person in Investments or Crypto Tokens; or

(b) issues directions to any Person to close out his position in any Investment or Crypto Token;

that Authorised Market Institution must immediately give the DFSA notice of that event, and the Person's name, the Investment or Crypto Token and size of any position to be limited or closed-out and the reasons for the Authorised Market Institution's decision.

9.11 Supervisory directions

Guidance

1. Article 26 of the Markets Law provides as follows:

"(1) Without limiting the application of the Regulatory Law 2004, the DFSA may direct an Authorised Market Institution to do or not do specified things that the DFSA considers are necessary or desirable or ensure the integrity of the financial services industry in the DIFC, including but not limited to, directions:

(a) requiring compliance with any duty, requirement, prohibition, obligation or responsibility applicable to an Authorised Market Institution;

(b) requiring an Authorised Market Institution to act in a specified manner in relation to transactions conducted on or through the facilities operated by an Authorised Market Institution, or in relation to a specified class of transactions; or

(c) requiring an Authorised Market Institution to act in a specified manner or to exercise its powers under any rules that the Authorised Market Institution has made.

(2) Without limiting the application of Article 75 of the Regulatory Law 2004, the DFSA may direct an Authorised Market Institution to:

(a) close the market or facilities operated by an Authorised Market Institution in a particular manner or for a specified period;

(b) suspend transactions on the market or through the facilities operated by an Authorised Market Institution;

(c) suspend transactions in Investments or Crypto Tokens conducted on the market or through the facilities operated by an Authorised Market Institution;

(d) prohibit trading in Investments or Crypto Tokens conducted on the market or through the facilities operated by an Authorised Market Institution;

(e) defer for a specified period the completion date of transactions conducted on the market or through the facilities operated by an Authorised Market Institution;

(f) prohibit a specified person from undertaking any transactions on the facilities operated by the Authorised Market Institution; or

(g) do any act or thing, or not do any act or thing, in order to ensure an orderly market, or reduce risk to the DFSA's objectives."

2. The DFSA expects to use these powers only in exceptional circumstances. Factors the DFSA will consider in exercising these powers include:

a. what steps the Authorised Market Institution has taken or is taking in respect of the issue being addressed in the planned direction;

b. the impact on the DFSA's objectives if a direction were not issued; or

c. whether it is in the interests of the DIFC.

3. The Decision Notice given by the DFSA will specify what an Authorised Market Institution is required to do under the exercise of such powers.

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10 WITHDRAWAL OF A LICENCE

APP2 USE OF PRICE INFORMATION PROVIDERS

A2.1 Application

A2.1.1 This Appendix applies to an Authorised Market Institution referred to in Rule 5.8.1(~~3~~5).

Use of price information providers

A2.1.2 (1) An Authorised Market Institution may only admit to trading or clearing or trade on its facilities Investments that reference to an underlying benchmark or index provided by a Price Information Provider where it has undertaken appropriate due diligence to ensure that the Price Information Provider, on an on-going basis, meets the requirements set out in (3).

(2) A Price Information Provider is a price reporting agency or an index provider which constructs, compiles, assesses or reports, on a regular and systematic basis, prices of Investments, rates, indices, commodities or figures, which are made available to users.

(3) For the purposes of (1), the Price Information Provider must:

(a) have fair and non-discriminatory procedures for establishing prices of Investments which are made public.

(b) demonstrate adequate and appropriate transparency over the methodology, calculation and inputs to allow users to understand how the benchmark or index is derived and its potential limitations;

(c) where appropriate, give priority to concluded transactions in making assessments and adopt measures to minimise selective reporting;

(d) be of good standing and repute as an independent and objective price reporting agency or index provider;

(e) have a sound corporate governance framework;

(f) have adequate arrangements to avoid its staff having any conflicts of interest where such conflicts are, or are likely to have, a material adverse impact on price establishment process; and

(g) adequate complaint resolution mechanisms to resolve any complaints about the Price Information Provider's assessment process and methodology.

Guidance

An Authorised Market Institution, when assessing the suitability of a Price Information Provider (the provider), should take into account factors such as:

a. the provider's standing and reliability in the relevant physical or derivatives markets as a credible price reporting agency;

b. the quality of corporate governance adopted, covering areas such as independent members of the board, independence of its internal audit and risk management function;

c. whether the methodologies and processes (including any material changes to such methodologies and processes) adopted by the provider for the purposes of pricing are made publicly available;

d. whether there are adequate procedures adopted to ensure that conflicts of interests between the provider's commercial interests and that of users of its services, including that of its Employees involved in pricing process, are adequately addressed, including through codes of ethics;

e. whether there is a clear conveyance to its users of the economic realities of the underlying interest the Price Information Provider seeks to measure; and,

f. the degree to which the Price Information Provider has given consideration to the characteristics of underlying interests measured, such as:

- **the size and liquidity**: Whether the size of the market informs the selection of an appropriate compilation mechanism and governance processes. For example, a benchmark or index that measures a smaller market may be impacted by single trades and therefore be more prone to potential manipulation, whereas a benchmark for a larger market may not be well represented by a small sample of participants;

- **the relative market size**. Where the size of a market referencing a benchmark is significantly larger than the volume of the underlying market, the potential incentive for benchmark manipulation to increase; and

- **Transparency**: Where there are varying levels of transparency regarding trading volumes and positions of market participants, particularly in non-regulated markets and instruments, whether the benchmark represents the full breadth of the market, the role of specialist participants who might be in a position to give an overview of the market, and the feasibility, costs and benefits of providing additional transparency in the underlying markets.

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