

Awraq Maliyah

Interview
With H.E. Economy Minister

Professional magazine issued by the Securities and Commodities Authority

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SCA Wins Two Awards of Sheikh Khalifa Government Excellence Program



SCA Organizes Forum on «Restructuring the Regulatory System of Financial Sector»



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Editor's note

Here we are presenting to our dear readers another issue of the “Awraq Maliya” but this time in its new look, having been transformed into a specialized economic magazine, as part of the SCA's initiatives to boost interactions with investors and the general public.

The SCA's decision to convert the “Awraq Maliya”, which, for the past five issues, was in a form of a bulletin, is not for just a media show-off, but stems from a thorough study in an effort to make very important additions to the content to cover various economic issues of great interest.

As part of its policy of building bridges of communication with investors, strategic partners and all its clients to boost confidence, the SCA has stepped up this year its media efforts by launching a number of educative and awareness campaigns via the various media tools, including the upgrading of its “Awraq Maliya” from a bulletin to a magazine which covers developments on the financial market and about the SCA's activities and initiatives.

In addition to our faith in the message of economic journalism, this issue of “Awraq Maliya” also reflects the SCA's deep belief in value addition to communication, being an important factor in the handling of crisis and emergency situations and in improving investment awareness among all stakeholders in the financial markets.

Editors

Awraq Maliyah

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SCA Media Section

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Sheikh Khalifa Government Excellence Awards





SCA Board Approves Amendment of Trading, Clearance and Settlement Regulation

The board of directors of the Securities and Commodities Authority (SCA) has held a meeting, presided over by its chairman, H.E. Engineer Sultan bin Saeed Al-Mansoori, Minister of Economy, during which the board approved amendments on a number of regulations, including the Trading, Clearance and Settlement Regulation, Securities Ownership Transfer Regulation, Securities Custody Regulation, Brokers Regulation and Market Functioning Regulation.

The meeting, which underscored the need for all listed public joint stock companies (PJSCs) to adhere strictly to the corporate governance and institutional discipline standards and support for investor awareness programs, was the fourth by the new board and was attended by all board members, including H.E. Mohammed bin Ali bin Zayed Al-Falasi, Deputy Board Chairman, H.E. Abdullah Salim Al-Turifi, SCA Chief Executive Officer, H.E. Mubarak Rashid Al-Mansoori, H.E. Mohammed Ali Ahmed Al-Dhahiri, H.E. Abdullah bin Ali Al-Hamli and H.E. Butti bin Khalifa Al-Falasi, as well as H.E. Ibrahim Al-Za'abi, SCA's Deputy CEO for Licensing, Supervision and Enforcement, who is the board's rapporteur and H.E. Maryam Al-Suwaidi, SCA's

Deputy CEO for Legal Affairs, Issuance and Research, who is the board's coordinator.

The board discussed a number of issues related to the securities sector and endorsed an amendment on the mechanism for distribution of profit through bank accounts.

By the new amendment, distribution of profit through bank account of shareholders which hitherto used to be compulsory through bank account shall now be optional for shareholders. In this regard, the board approved an amendment on Article (2/23) of 2001 concerning Trading, Clearance, Settlement Transfer of Ownership and Securities Custody Regulation, which shall now read as follows:

The holder of the right in the subdivision of the nominal value of the share or dividends, whether in cash or bonus shares, shall be the owner of the share registered on the tenth day commencing on the day following the date of convening the General Assembly in which it was resolved to distribute such dividends or to effect the subdivision. The company shall deposit the cash dividends in the bank account of the shareholder, or shall post by registered mail a bank cheque of the amount of the dividend to the beneficiary's address as recorded

in the market register. This shall be done within a period not exceeding thirty days from the date of the General Assembly's resolution to distribute such dividends. The company may deposit the dividend into the market's bank account within the aforementioned period according to the mechanism directed by the market and in coordination with the SCA. The market shall, in turn, deposit the cash dividend into the account of the beneficiary shareholder within a period not exceeding thirty days from the date of the General Assembly's resolution to distribute such dividends.

The board also approved an amendment on the text of Article (18) to which the following clause was added:

"The Broker shall obtain from any customer thereof a statement of the customer's bank account number to which the distributed cash dividends related to its shares are to be transferred. The customer shall sign this certificate to indicate its acceptance thereof. The broker must ensure obtaining such statement from the customers before executing any trades on their behalf, and shall provide the market with a list of all the names of its customers supported by copies of the statements signed and submitted by them."

Abu Dhabi Hosts 4th Meeting of Committee of Heads of GCC Securities Market Regulators

Committee discussed drafts of unified rules for listing of stocks, bonds, sukuk and ETFs

The 4th meeting of the committee of heads of securities market regulators of member states of the Gulf Cooperation Council (GCC) was held here in Abu Dhabi. H.E. Abdullah Al-Turifi, CEO of Securities and commodities Authority (SCA) presided over the meeting, which was held under the chairmanship of the UAE, in preparation of the 2nd meeting of the ministerial committee of board chairmen of GCC securities market regulators, scheduled for UAE on June 14th.

During the meeting, the committee discussed recommendations of the working team on initial public offering (IPO) and subscriptions and recommendations of the working team on disclosure and developments on the securities markets of member states.

Other issues discussed by the committee include issues on the agenda of the 2nd meeting of the ministerial committee of board chairmen of GCC securities market regulators. The issues include a draft of the unified rules and regulations of listing stocks on financial markets in member states, latest developments in GCC financial markets and other issues on the agenda of the 2nd meeting of the ministerial committee of board chairmen of GCC securities market regulators.



In his opening address, Al-Turifi underscored the significance of achieving market integration among member states, which, he said, can better be achieved through the unifying of policies and regulations, adding that concerted efforts and hard work are the way to achieving that objective.

He said in a bid to achieve that objective, the committee of heads of securities markets of member states have, in their past meetings, deliberated on a number of issues related to achieving GCC market integration. "Notable among those issues are the issue of drafts of unified rules on listing of stocks, bonds, sukuk and ETFs on the markets of member states and a draft of the multi-lateral MoU for securities markets of member states. These issues, which were prepared by the working

team on listing, transparency and corporate governance, had been studied and approved by your esteemed committee and are ready for referral to the ministerial committee for endorsement and for the appropriate actions to be taken," he stated. The meeting discussed recommendations of the working team on IPO and subscriptions on financial markets regarding a draft of the unified rules of listing stocks on financial markets, a draft of unified rules on listing of bonds and sukuk on the markets, a draft of unified rules on listing of exchange traded funds (ETFs). The meeting also discussed recommendation of the working team for listing, disclosure and corporate governance regarding a draft of unified rules on disclosure and transparency on securities markets of member states and a draft of unified rules on

corporate governance.

Issues on the agenda of the 2nd meeting of the ministerial committee of board chairmen of GCC securities market regulators were also discussed during the meeting. The issues include a GCC secretariat report concerning effecting the minutes of the 1st meeting of ministerial committee of board chairmen of GCC securities market regulators, a draft of the unified rules of listing stocks on financial markets of member states, a draft of unified rules on listing of bonds and sukuk on the markets, a draft of unified rules on listing of ETFs and a draft of multi-lateral MoU among securities market regulators of member states, the minutes of previous meetings of the committee of heads of GCC securities market regulators and the date and venue of the committee's next meeting.



Al-Mansoori Calls for More Market Modernization Mechanisms

Opens 5th GCC Regulators' Conference in Abu Dhabi

H. E. Engineer Sultan bin Saeed Al-Mansoori, Minister of Economy and Board Chairman of the Securities and Commodities Authority (SCA) has called for adoption of more modernization mechanisms to meet the growing demands of the markets and investors.

In his inaugural address of the 5th Annual GCC Regulators' Conference Al-Mansoori praised the GCC regulatory authorities for the positive roles they play in the financial industry. He said after the financial crisis, regulators around the world, including the GCC, are assuming an ever increasing role to strengthen the foundations of the financial sector. "The regulatory role is under reform in many countries to touch all basis including systemic stability, microprudential regulations, conduct of business and consumer protection. Regulators need to be proactive by being prepared for adverse outcomes, and need to be reactive to the needs of the industry. The world is still learning from past experiences and evidence shows that the regulatory process is an evolving one," he stated.

He underscored the significance of corporate governance, transparency and compliance, which he said are of prime importance and called for strict compliance to criteria and law enforcement.

The conference which was held in Abu Dhabi under the patronage of the SCA, was attended by representatives of the International Organization for Securities Commissions (IOSCO), financial and economic experts, representatives of brokerage companies, financial services and banks from member states of the Gulf Cooperation Council (GCC) and from a number of foreign countries.

Commenting on the conference, which was organized by Thomson Reuters – Complanet, H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, said the aim of holding the conference is to provide a discussion platform for GCC regulators to discuss developments in the post global financial crisis era in light of the positive response by member states to avoid the negative impact of the crisis and efforts by international regulators to adopt more

changes in order to avoid a repetition of the crisis in the future. He thanked the Economy Minister for patronizing the conference and the attendees for honoring invitation to the conference.

Jane Diplock, Chairperson of both the IOSCO Executive Committee and the New Zealand Securities Commission, also delivered an address in which she recounted the problems which arose from the global financial crisis and the role GCC played in tackling the repercussions of that crisis.

She underscored the need for all to uphold corporate governance and good governance, urging all concerned bodies to seriously adhere to those two issues to avoid recurrence of the global crisis.

The conference was held in sessions – Session (1), which was held under the theme: "Emerging challenges facing financial market regulators", was chaired by Jane Diplock with speakers including H.E. Ibrahim Al-Za'abi, Deputy CEO for Licensing, Supervision and Enforcement at the SCA, Phillip Thorpe, Chairman and Chief Executive of Qatar Financial Centre

Regulatory Authority, Bryan Stirewalt, Managing Director of the Supervision Department of the Dubai Financial Service Authority and Eddy Wymeersch, Former Chairman of the Committee of European Securities Regulators.

Session (2) was held under the theme: "The evolution of corporate governance in the Middle East – challenges and opportunities". The moderator was Dr. Obaid Al-Za'abi, Research Advisor and Director of Research and Development at the SCA and speakers include Dr. Nasser Saidi, Chief Economist, Head of External Relations at the DIFC Authority and Executive Director of Hawkamah - Institute for Corporate Governance, Tania Fabiani, President, ACFE UAE Chapter and Head of Antifraud Programs of the Abu Dhabi Accountability Authority, James MacPherson, Chief Executive Officer, Bahrain Chamber for Dispute Resolution, Humphrey Hutton, Partner-in-Charge, Forensic & Dispute Services – Deloitte and Gregory Golden, Partner – Baker Botts.

Session (3) was held under the theme: "Board effectiveness – the need for development". Chaired by Paul Johns, Chief Marketing Officer of Thomson Reuters, speakers include Michael Ryan, Deputy Chief Executive of Qatar Financial Centre Regulatory Authority, Bryan Stirewalt, Managing Director of the Supervision Department of the Dubai Financial Service Authority, Dr. Abdullah Abdul Gader, Founding Executive Director, GCC Board Directors Institute and Board Member of the Gulf International Bank, Eddy Wymeersch, Former Chairman of the Committee of European Securities Regulators and Simon Copleston, Executive Vice President, General Counsel & Board Secretary of Abu Dhabi Commercial Bank.

Jamal Al-Jasmi, General Manager of Emirates Institute for Banking and Financial Studies, chaired Session (4) which was held under the theme: "Training and Human Resources". Speakers include H.E. Mohammed Al-Hadari, Deputy CEO for Organizational and Supporting Services at the SCA, Dr. Ashraf Al-Nabhani, Dean of the College of Banking and Financial Studies - Oman, Garry Muriwai, Director of Bahrain Institute of Banking and Finance and Bill Howarth, Chief Executive Officer – International Compliance Association.

Ibrahim Al-Za'abi, Maryam Al-Suwaidi Swap Posts at SCA



Maryam Al-Suwaidi



Ibrahim Al-Za'abi

As part of the policy of the Securities and Commodities Authority (SCA) aimed at diversifying leadership experience and rotating working teams, the SCA has effected a position swap between some of its leadership, moving H.E. Ibrahim Al-Za'abi to take over the position of the Deputy CEO for Legal Affairs, Issuance and Research, hitherto occupied by H.E. Maryam Al-Suwaidi, who now takes over from Al-Za'abi the post of Deputy CEO for Licensing Affairs, Supervision and Enforcement.

Commenting on the position swap, H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, commended Al-Za'abi for his outstanding efforts during his tenure as Deputy CEO for Licensing Affairs, Supervision and Enforcement. He also lauded Al-Suwaidi for her outstanding performance during her tenure as SCA Deputy CEO for Legal Affairs, Issuance and Research. He honored the two distinguished leaders by presenting to each of them a plaque in recognition of their excellent service at their former posts.

SCA: Q1 of 2010 Disclosure Rate of Local PJSCs is 98%

The disclosure rate of local public joint stock companies (PJSCs) for the first quarter of the fiscal year ending on 31/03/2011 has reached 98.1%, while 103 out of a total of 105 local PJSCs listed on the UAE markets have declared their statements for the first quarter of the fiscal year ending on March 31.

The total number of local and foreign PJSCs which furnished the SCA with their financial statements within the legally stipulated period stood at 116 out of a total of 127 SCA-registered PJSCs listed on the stock markets in the country. The figure represents a disclosure rate of 91.3%, following the exclusion of Firdaus Holding, whose fiscal year ends on March 31 of every year. On the other hand, 11 companies, including two local and nine foreign companies, failed to meet the deadline for disclosure of their financial statement for the first quarter of the year ending on March 31.

Meanwhile, disclosure rate of local public joint stock companies (PJSCs) for the last fiscal year ending on 31/12/2010 has reached 98.1%, while 116 out of a total of 128 SCA-registered companies listed on the UAE markets has furnished the SCA with their statements within the stipulated legal timeframe. The SCA said the total number of local firms which declared their financial statements for the fiscal year ending 31/12/2010 stood at 104 out of a total of 106 PJSCs listed on the stock markets. The SCA praised the companies which made the disclosure within the stipulated timeframe and underscored the significance of timely disclosures in building confidence on the market by releasing valuable information to investors.

Accountants and Auditors Association of UAE Honors SCA

Maryam Al-Roumi attends honoring ceremony

H.E. Maryam Mohammed Khalfan Al-Roumi, Minister for Social Affairs, has honored the Securities and Commodities Authority (SCA), presenting the latter with a plaque from the Accountants and Auditors Association (AAA) of the UAE and a certificate of merit during a special award ceremony organized by the AAA in Dubai.

H.E. Mohammed Al-Hadari, SCA Deputy CEO for Organizational and Support Services Affairs, received the plaque and certificate on behalf of H.E. Abdullah Salim Al-Turifi, SCA Chief Executive Officer.

The honoring of the SCA was in recognition of the latter's significant role in support of the AAA's programs and the successful achievement of its goals. It is also in appreciation of the SCA's role in support of the AAA through its continuous cooperation with the latter in the joint holding of conferences and training programs.

The SCA and the AAA had signed last month a memorandum of understanding (MoU) aimed at boosting cooperation and facilitating the sharing information and capacity building in the area of



H.E. Maryam Al-Roumi presenting the plaque to H.E. Al-Hadari

accounting and auditing to improve the standards and performance of SCA employees, as part of the SCA's efforts to achieve its objectives of meeting the demands of and the rapid developments in the administration of financial markets.

Salah Al-Helyan is New UASA Secretary General

Members of the Union of Arab Securities Authorities (UASA) have endorsed UAE's candidate, Salah Al-Helyan, for the post of UASA Secretary General. The endorsement is in appreciation of the UAE's significant role in the founding of the UASA.

Al-Helyan, succeeds H.E. Abdullah Al-Turifi, CEO of the Securities and Commodities Authority (SCA), who served in that capacity for four years, during which he contributed immensely in strengthening UASA's basic foundation and in the building of its organization's organization structure.

With the organization now entering a new era of acceleration, the situation demands a full time secretary general to steer UASA's affairs. This demand was highlighted earlier by Al-Turifi, whose growing responsibilities as CEO of the SCA also demand his full attention.

Al-Turifi has expressed profound gratitude to all UASA members for endorsing the UAE candidate to succeed him as the new UASA Secretary General.

UASA members congratulated Al-Helyan, who was nominated for the post by the SCA. They described him as highly



experienced and qualified for the new post. Before assuming his new post, Al-Helyan has served in various capacities in many organizations, including being a board member and deputy chairman of UAE Insurance Authority and as director general of Gulf Insurance Consulting. He has also served as insurance and aviation expert at the Dubai Courts and the Ministry of Justice, to name just a few.

It's worth noting here that the UASA was established in early 2007 as a

nonprofit organization which enjoys independent corporate entity status. Some of its major objectives include to promote coordination and cooperation among members to harmonize their related laws and regulations and to strive to surmount the obstacles that impede Arab investment and to expand the base of Arab investment and diversify its tools.

Others are to develop the operations of Arab financial market regulators and activate their supervisory, legislative and organizational roles, to develop Arab financial markets in terms of competence, transparency, liquidity and to promote the setting up and developing of financial institutions and firms like investment banks specializing in covering and issuing of new offerings.

The UASA also undertakes other responsibilities like spreading investment awareness among citizens of member countries, participating in regional and international forums related to its activities and issuing of regular publications which aim at strengthening the bond among member countries and educating them about the union's various activities and events.



During the ceremony

SCA Honors 41 Associates for Completing Brokers Qualification Program

The SCA has held certificate award ceremony for Forty one associates, including brokers and other workers in the financial services industry, who have graduated from a special qualification program, being organized by the SCA in collaboration with the UK-based Chartered Institute for Securities and Investment (CISI), which supervises the program.

H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, distributed certificate to the 41 members of the batch which completed the professional brokers qualification program at

the Dubai-based SCA Training Center. Ruth Martin, CISI Managing Director, who was also present at the ceremony, participated in awarding certificate to the graduates.

In a keynote address, Al-Turifi, congratulated the graduates for successfully completing the program. He expressed profound gratitude to Simon Culhane, CISI Chief Executive and Ruth Martin, CISI Managing Director, for their continuous cooperation as vital strategic partners of SCA in the area of training and qualification. "I sincerely believe that the positive dividend of the SCA's initiation

of this qualification program for brokers and other workers in the financial services sector will begin to show clearly in the near future. This is because the SCA's qualifying rules for these exams seek to achieve one of the important initiatives of the SCA strategic plan, which is basically focused on sustainable development of the local markets and the performance of their cadres and supporting them (cadres) professionally and technically," Al-Turifi said in his address.

Commenting on the occasion, Ruth Martin expressed profound happiness for the positive

development. "We are delighted to offer our congratulations to all these candidates. They have demonstrated their professionalism, many having combined the challenge of work and study. All of them would have to have passed at least three demanding examinations and richly deserve their license to practice. They are an inspiration to their colleagues and to others in the UAE financial services industry," she said.

It's worth noting here that the SCA Training Center, which is located in Dubai, conducts the exams, which are free for SCA members and UAE nationals.

SCA Discusses Cooperation with AMF of France

H.E. Abdullah Al-Turifi, Chief Executive Officer of the SCA has held talks with Edouard Vieillefond, Deputy Chief Executive Officer of the Financial Services Authority of France (AMF), when the latter visited the SCA heading a delegation from the AMF.

During the meeting, which was within the framework of cooperation and coordination between the two authorities, the two sides discussed avenues of joint cooperation in the area of securities industry. They also discussed the general situation of securities markets, the new models of financial regulatory bodies currently being discussed and studied worldwide and ways to develop foreign investment between them. They underscored the need to continue to share experience between them on market issues to further improve transactions on their securities markets.

Al-Turifi said the existing relations of cooperation between the two authorities is based on the MoU they signed in 2009, adding that the MoU made provision for working visits between the two sides and training programs aimed at sharing information and technical experience on best regulatory practices.

AGIB Meets SCA Requirements to Practice Margin Trading

The company is first to acquire margin trading license in UAE

The Securities and Commodities Authority (SCA) has issued a license to the Arab German International Broker LLC (AGIB) to practice margin trading. The move is part of the SCA's efforts to improve efficiency of the UAE capital market and to meet the growing demands of investors in general and financial institutions, in particular. It also aims at providing new financial services on licensed financial markets in the country in accordance with the best international practices. This made the AGIB the first company in the UAE to acquire margin trading license, having fulfilled all requirements outlined by the SCA board decree concerning margin trading. The SCA decree defines margin trading as: "Funding by a brokerage company of a percentage of the market value of securities financed on margin, secured as collateral by the same securities or any other collateral in the cases exhaustively stated in this decision".





SCA Holds Meeting with Financial Brokers

Merger of brokerage firms, cut in fees among issues discussed at the meeting

The Securities and Commodities Authority (SCA) has held in Abu Dhabi a meeting with representatives of brokerage firms operating in the country. The meeting, which was attended by representatives of financial markets in the country, discussed a number of issues aimed at uplifting performance of companies operating on the markets and developing the working methods of brokers.

In her keynote address, H.E. Maryam Al-Suwaidi, SCA Deputy CEO for Licensing, Supervision and Enforcement Affairs, said the meeting was part of the SCA's strategy to boost the competence of UAE markets within the framework of enhancing cooperation and coordination among the SCA, the financial markets and brokers, adding that it was also to strengthen the avenues of communication between them to achieve the anticipated integration and development.

She said the SCA is doing its best to develop further its supervision tools. "It is also to develop and expand the understanding of investor protection to include protection of clients in order to involve both investors and brokers alike," she said, adding that this will be achievable only through the sound implementation of rules that protect both sides.

The meeting discussed many issues of interest to all parties. They include the issue of the SCA commission on trading deals, suspending the issuance of new license for new brokerage companies and cutting

the exams fees for the brokers orientation program. The brokers proposed various alternatives regarding the issue of the SCA commission, but the SCA pointed out that its share of the commission is one of the lowest compared to its peers in the GCC states and worldwide and is based on the best international practices. The SCA reiterated its strong support for merger and amalgamation of brokerage firms in order to have strong entities which can compete strongly on the markets, adding that the issuance of new license will depend on the value the new company can add to the local market. The SCA said cutting down the

reduced in the near future.

Touching on the fines being paid by brokers, the SCA pointed out that they are determined by the type of violation, adding that the magnitude of the fine increase steadily in accordance with the SCA rules, which are very objective and fair by standards. The SCA said these rules are regularly reviewed by a special committee, which also review violations committed before deciding on the appropriate penalties, adding that the SCA takes into consideration the record of the violating company with regards to the number of repetition of violations before deciding on the penalty.

The SCA said the aim of the exams, which is being held in collaboration with the UK-based Chartered Institute for Securities & Investment (CISI), is to improve the performance of all those working in the financial brokerage sector. The SCA pointed out that the exams are being held in many countries of the world and the certificate issued to those who passed the exams is recognized in most parts of the world. It said the SCA had done its best to ensure the exams fee, which is being determined by the CISI, is affordably low, adding that UAE nationals interested in sitting for the exams have been exempted from paying the fee.

The SCA said it had extended last year the period required for the passing of the exams to one year, adding that some of the exams are currently being translated into Arabic. This is in addition to a portion of the exams, which is already in Arabic.

**The SCA encourages
merger and acquisition
among brokerage firms to
give birth to stronger and
highly competitive entities**

market dues can be achieved through the merger and amalgamation of companies.

Regarding the request for cables and telecom lines fees which brokers pay for transfer of data between them and the markets, the SCA said a joint SCA-UAE markets team is currently studying the issue to see how best the financial burden regarding that issue can be solved for the brokerage companies, adding that there are strong indications that the expenses will be

SCA Participates in Conference on XBRL in India, Brussels

A delegation from the SCA has participated in the conference on eXtensible Business Reporting Language (XBRL) which was held in the Belgian capital, Brussels, in May 2011.

During the conference, the delegation made a visual presentation on the SCA's project regarding the development of XBRL in the UAE.

The delegation also participated in a number of sub-committee meetings of the conference during which it was announced that a similar conference will be held in the UAE in the second quarter of 2012.

Meanwhile, a SCA delegation has also participated recently in similar conference in Bombay, India. The delegation, which was led by H.E. Mohammed Khalifa Al-Hadari, SCA's Deputy CEO for Organizational and Supporting Services, consisted of representatives of SCA and the securities markets in the UAE. The delegation's participation in the conference is also in implementation of the strategic plan initiative which aimed at adopting and implementing advanced technologies, like



Members of SCA delegation at the conference in India

the XBRL, on the local markets.

The transfer of the jurisdiction of the XBRL to the SCA was announced officially during the conference, which also attracted participants from many parts of the world, including officials and representatives of regulatory bodies and international organizations from Japan, Singapore, Belgium, the United Kingdom, the Securities and Exchange Board of India, the CEO

of XBRL and the International Financial Reporting Standards (IFRS), the Central Bank of India and other organizations.

H.E. Mohammed Al-Hadari made a presentation on the SCA's efforts in the area of financial reporting, in collaboration with the Abu Dhabi Securities Exchange and the Dubai Financial Market, to boost transparency and real time access to information.

SCA Honors Outstanding Companies in Corporate Governance compliance

The SCA has honored a number of companies which distinguished themselves in complying with the requirements of corporate governance by implementing the requirements within the stipulated time frame. The companies were honored in a special ceremony held in Abu Dhabi under the auspices of H.E. Engineer Sultan bin Saeed Al-Mansoori, Minister of Economy and SCA Board Chairman.

The SCA presented souvenir to representatives of the honoree companies during the ceremony which was attended by some officials and representatives of public joint stock companies in the country. The SCA praised the companies for their prompt response in complying with the corporate governance rules. The SCA said by honoring them it was trying to entrench a new culture which he described as an unprecedented initiative with regard to financial markets in the GCC region.

It pointed out that the ceremony reflects the SCA's commitment to boost its support in the entrenching of the culture of corporate governance, disclosure and transparency in accordance with the best international practices.

Latest statistics show that 71 companies, representing 88%, have furnished the SCA with all requirements for the implementation of corporate governance by the end of 2010, while 10 companies, representing 12% are yet to meet those requirements. This brings to 81 the total number of companies which must meet those requirements, while those which are not affected by those rules total 48. The unaffected ones include investment companies, banks and finance companies. This is because these companies are subject to the Central Bank directives and rules. Also exempted from the corporate governance rules are foreign firms listed on financial markets in the UAE.

Companies honored

Abu Dhabi Aviation Company
RAK Properties
SALAMA Islamic Arab Insurance
Emirate Driving Co
Al-Wathba National Insurance
Gulf Cement
RAK Ceramics
Dubai National Insurance and Reinsurance Co
Emaar Properties
Abu Dhabi National Building (BUILDCO)
Al-Ain Ahlia Insurance
Arab Aviation
Dubai Financial Market
Foodco Holding
Gulf Pharmaceuticals (JULPHAR)
Agthia Group
Fujairah Cement
Arab Heavy Industries
Kaipara Diaries
Gulf Navigation Holding





The Securities and Commodities Authority (SCA) continues to record more achievements as outlined in its strategic plans, having been crowned recently with two prestigious awards of the Sheikh Khalifa Government Excellence Program, including the Institutional Excellence Award at the federal level (major categories) and the Emirates Award for Government Excellence (Best Practice category). H.H. Sheikh Mohammed bin Rashid Al-Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai presented the two awards to the SCA during the 2010 Sheikh Khalifa Government Excellence Award ceremony.

According to organizing committee of the program, the SCA deservingly won the Government Excellence (Best Practice category) award because its operation plan and results of its performance had met all the “Institutional Excellence Award” standards the program has outlined for organizations with less than 900 staff members.

The committee said the SCA’s winning of the “Best Practices” award was in recognition of the SCA’s electronic administrative system, developed internally to manage and follow-up the performance of all its organs and employees.

In a related development, the SCA continues to register more achievements targeted by its strategic plans and manifested in its operation plan with the aim of uplifting local financial markets to be on a par with international financial markets.

The SCA efforts last year have been rewarded with the elevation of UAE financial markets to the emerging secondary market status by the FTSE Index, while efforts continue for similar achievements with other credit rating agencies like Morgan Staley and Standard & Poor’s.

The SCA continues to work hard to further improve the performance of UAE local markets to the status of advanced markets of the world. This had prompted the SCA to update its laws and regulations, as well as issue new regulations for efficient

regulation of the markets.

The relentless efforts exerted by the SCA culminated into elevation of UAE financial markets to the emerging secondary market status by the FTSE Index, paving the way for imminent elevation to the “advanced emerging market” status as efforts towards that continue unabated.

The elevation was also in recognition of the steady and sustained progress achieved by the SCA compared to its peers, not only in the area of effective supervision or financial markets but also in the area of providing a framework for integrated regulation of financial markets and investors in the UAE. This success has boosted further the foreign investment opportunities, attracting more corporate investors to the UAE markets and raising the daily trading volume on the local markets.

The SCA continues to be in close contact with the international rating agencies like FTSE, MSCI and S&P, by furnishing them with accurate data and information about financial markets in the UAE.



SCA Wins Two Awards of Sheikh Khalifa Government Excellence Program

Awards are part of SCA's 2010 achievements highlighted by the Annual Report

H.H. Sheikh Mohammed bin Rashid Al-Maktoum presenting the award to H.E. Sultan Al-Mansoori and H.E. Abdullah Al-Turifi

As part of its development strategy and policy, the SCA has put in place regulations to meet the needs of investors from any parts of the world.

The regulations include, securities custody regulation, regulation which protects the interest of minority shareholders, and is currently putting a finishing touch to market-maker regulation, to just name a few.

Disclosure and transparency

In view of the significance of provisional report in practical aspect, including the provision of valuable information about the a company's situation to help prevent rumors on the market, Article 36 of the Corporate Governance Regulation was amended to compel companies to provide the SCA and the markets provisional reports, scrapping the old rules of making that optional on the companies.

In this regard, the SCA board approved the aforementioned amendment which is

SCA's 10th anniversary

The SCA has celebrated last year the 10th anniversary of its establishment by issuing a special commemorative stamp and silver coin in AED50 denomination. In marking the occasion, the SCA organized a special event which attracted VIPs and distinguished guests. Former board chairpersons and board members of the SCA were honored in a special ceremony held on the fringe of an international forum, which formed part of the event. The forum discussed the roles of securities markets and regulators and their prerogatives.



applicable on all companies listed on the local markets, and in collaboration with the UAE Central Bank, applicable to banks and other business institutions licensed by the Central Bank, to reflect the significance of the provisional reports in disclosure of listed company's financial standing.

As part of its efforts to provide the best services for its clients to save time and efforts, the SCA adopted a new system of renewing the registration of SCA-registered PJSCs. It also adopted the International Securities Identification Number (ISIN) system for stocks of local PJSCs listed on the



ADX and the DFM. A total of 109 numbers were issued to the listed companies. The SCA gained membership of the ISIN in early 2010.

The SCA issued an administrative decree which compels investors to present their bank accounts to local financial markets to solve the problem of distribution of dividend to shareholders. In this regard, the SCA amended all its related regulations, including the regulations concerning trading, brokers and market function, with the amendment taking effect from January 1, 2011.

The SCA is currently in charge of legislative and licensing responsibilities for setting up local mutual funds and promoting foreign mutual funds in the UAE. This followed an agreement signed between the

SCA and the UAE Central Bank.

According to a Central Bank decree issued on July 29, 2010 to form a joint committee, the SCA will receive in that regard applications, which will be designed and formatted by the SCA. The applications will be studied thoroughly by the SCA to ensure they meet all the requirements before referring them to the joint SCA-Central Bank Committee to consider its approval or otherwise before a license is issued to the applicant.

The SCA effected the compulsory implementation of Ministerial Decree No. 518 of 2009 concerning "Corporate Governance and Institutional Discipline Standards" to ensure companies' compliance with the decree. It issued in late 2009 regulation for licensing of bookkeepers of

PJSCs leading to the licensing of four (4) companies in 2010 to handle this activity. The move aimed at eliminating the negative practices of illegal trading in PJSC shares which cropped up in recent time.

In its efforts to boost the financial brokerage sector, the SCA board issued Decree No. 45 of 2010 to amend the regulation concerning brokers. The amendment includes the addition of more instruments including instruments on the opening of branches of brokerage companies and merger of brokerage firms.

Based on Ministerial Decree No. 12 of 2010 concerning Capital Adequacy of securities and commodities brokerage companies, the SCA has started from May 13, 2010 implementing the Capital Adequacy regulation on all companies operating in the financial market sector as part of its plan to implement the best international practices and standards.

H.E. Engineer Sultan bin Saeed Al-Mansoori, Minister of Economy and SCA Board Chairman has issued Ministerial Decree No. 206 of 2010 concerning "Allocation of securities to subscribers and dividend of subscriptions". The decree is part of the SCA's efforts to encourage investors to patronize the IPO market and companies to float their shares for public subscription. It is also to stir up greater competition among the various parties of the IPO market.

Based on the ministerial decree, the bank handling the subscription must calculate the return on subscription proceeds from the next day to the subscription closing date until the day preceding the date of refunding surplus amounts to subscribers, provided that this is conducted in accordance with applicable UAE banking rules.

The SCA also issued decree No. 46 of 2010 amending the regulation for disclosure and transparency, regulation concerning trading, clearance and settlement, ownership transfer and securities custody.

The SCA issued a license to a national securities brokerage company permitting it to provide financial consultancy and analysis services following the company's fulfillment of all requirements for that license, which made the company the first in the country to acquire license to practice

Training programs for Emiratis



As part of its commitment to the training of national cadres, the SCA board has approved the setting up of a special training program for Emiratis working for brokerage firms and those interested in working in that area.

To implement the program, the SCA directed its Training Center to design a special program to equip Emiratis interested in working in the brokerage sector with all the necessary skills and to qualify them for the CISI exams. Based on the program, the SCA will bear the cost of sitting for the CISI exams on every interested Emirati.

The SCA has issued certificate to 72 trainees, who have successfully completed three training programs, including executive leadership, promising leadership and the "SHARE" programs.

Each of the three programs seeks to achieve the UAE federal government's strategy regarding training and empowerment of national human resources and preparing first and second tier of competent leadership personnel.

that activity. The SCA had earlier issued a license to one of the leading banks in the country to make that bank the first to get a permit to provide securities custody service in the UAE. The SCA also signed a number of important agreements, including a market-maker agreement with the BainXco.

Supervision and regulation

In the area of supervision and regulation, the SCA suspended the listing of securities of two companies listed on UAE markets for their failure to settle fines imposed on them. The suspension will last until the two companies settle their fines. It revoked the license of two brokerage companies for their inability to rectify their situation according to rules. The SCA issued a study about its implementation of high standard of disclosure. The study shows that disclosure criteria on UAE financial markets, regarding the disclosure of provisional and annual financial statements are one of the best in the world, comparable to those in the United States, Britain and Malaysia.

The SCA signed 13 memoranda of understanding with local and international institutions to bring to 49 the total of such agreements it signed since it was established in 2000 to the end of last year.

The SCA also launched various media campaigns to educate the public about SCA roles and to educate investors about all they need to know about investment in the UAE securities industry. The campaigns were launched via two satellite TV channels through a weekly investment awareness program. The SCA also uses other mediums in the campaign, including issuing of booklets and pamphlets and other publications, forums, seminars and lectures. The SCA also publishes in Arabic and English annual report about the performance of the Emirates Securities Market and a bulletin about its achievements. The SCA also organizes major regional and international conferences to sustain its good image and reputation to the world.

The year 2010 was a very active year for the SCA's public and investor education program, having organized 41 forums and lectures on various topics of interest to investors. Notable among those topics

Preparing financial database for companies listed on the UAE financial markets and economic index for a number of GCC and Arab countries for research purposes

are: the functions of financial market regulators, setting up and trading in mutual funds, SCA's role in protecting investors, mutual fund management, Islamic financial markets, professional ethics in the financial market and other topics.

The SCA assessed the risk management systems of major brokerage firms and launched a new website, with refurbished ESM, SHARE and eLearning portals. The SCA makes accessible its legislations via the blackberry, iPad and iPhone and introduced a new software program, named «Talaby» through which SCA staff can process easily all internal administrative procedures. The program

seeks to cut to the barest minimum the use of paper in all administrative procedures and to save time and efforts. The SCA also introduced web filtering program to deny its staff access to some restricted websites.

Research and analysis

The SCA prepared about 100 studies, researches and reports on securities market related topics to help the SCA update its regulations and promulgate new ones. In statistics, a financial database of companies listed on the local markets and economic indices for a group of GCC and Arab countries were prepared for research purposes.

The SCA also launched its financial analysis plan, which actually started operation in financial analysis report of randomly picked companies to enable the SCA track the performance and financial standing of companies.

In the area of educating the various segments of the stakeholders on the financial market, the SCA issued three awareness booklets titled; Basic understanding of the financial market, introduction to financial market and exchange traded fund.

Rules and regulations

In its efforts to give greater credibility to the local markets and to protect the interest of all parties on the market, the SCA has issued a number of rules and regulations, including those dealing with the licensing of financial analysis companies and accreditation of financial analysts according to the rules of the regulations concerning margin trading, financial consultancy and financial analysis. The SCA opened the registration door for all companies interested in engaging in the margin trading activities. During a meeting held in Abu Dhabi and presided over by H.E. Engineer Sultan bin Saeed Al-Mansoori, the SCA board agreed to amend Article (36) of the regulation concerning disclosure and transparency and to amend a number of rules of the brokers regulation and the margin trading regulation.

The board approved amendment of Article (23) of the regulation concerning brokers with regard to the SCA's powers to take the necessary action regarding bank guarantee.

The amendment allows the SCA and the board of the concerned market to act as it saw necessary on the bank guarantee deposited by a broker by using it partially or totally to settle any financial obligation against the broker for investors or the market, or in implementation of the SCA decision in this regard if the broker delayed in meeting those obligations. The broker may appeal against the SCA's decision before a competent court of law within a period of thirty (30) days from the date of his awareness of that decision.



Al-Mansoori: SCA is Studying and Updating a Number of Regulations for Protection of Investors

Economy Ministry is currently working on 14 new laws

The markets will soon witness the floating of shares of new PJSCs for public subscription

**UAE's GDP
expected
to grow at
the rate of
3% - 3.5%
in 2011**



H.E. Engineer Sultan bin Saeed al-Mansoori, Minister of Economy and Board Chairman of the Emirates Securities and Commodities Authority (SCA) has said that the SCA is studying and updating a number of regulations, including regulations for mutual funds, investment management, market-maker, short selling, etc.

The minister, who disclosed this in an exclusive interview with the “Awraq Maliya” magazine, hinted that a number of new companies will soon float their shares for public subscription. He said the decline in trading volume on the local markets will soon improve dramatically, adding that his ministry is currently preparing to issue 14 new laws, some of them updated existing laws.

He said the move is aimed at regulating and coordinating investment, business and corporate governance in the UAE, adding that the new laws, which are mostly in their final stages of promulgation, will cover issues like foreign investment, industry, intellectual properties, competitiveness, arbitration, corporate governance, small and medium-scale enterprises.

He pointed out that most of the UAE economic sectors have achieved significant growth, notably, the manufacturing sector has made a giant stride in the number of industrial installations, to reach 4960 installations with more than 382,000 workers and a total investment capital of more than AED115 billion.

* Some investors and brokers are demanding the intervention of the SCA to boost the financial market. You have already issued a number of legislations and regulations to achieve such a demand. You also intend to issue more of such legislations. What are the most significant laws and regulations that you plan to issue within the year to boost the markets?

The SCA is currently studying a number of regulations. We have just finished with issues like the mutual funds and investment management regulations. We have also launched very recently the “Delivery Versus Payment” (DVP) - a new mechanism for settlement in the financial market. Other regulations still under studies include the “Market-maker” regulation and its associated regulations like the regulations concerning short-selling, derivatives and securities lending and borrowing. All these regulations will be issued as a package with the “market-maker” regulation, which will also include rules on licensing, applications, the required documents, obligations of all the various parties and penalties.

The significance of the “Market-maker” regulation lies in finding a sustainable market for trading of particular securities in accordance with the license issued for trading of those securities, while maintaining a balance on the market at the same time.

* In spite of the liquidity pressure, a number of companies have resorted to floating their shares for public subscription. What are your expectations on the future of subscription of shares in light of the continuous liquidity weakness and difficulties in lending by banks?

It is evidently clear that the global financial market has moved towards greater stability in 2010. At the local level there are also strong indications that the financial sector, in particular and the UAE’s economic activities, in general, are witnessing stability and rapid recovery at the moment, as steps taken by the government to minimize the negative impact of the global financial crisis showed great sign of success. The government took a number of steps to boost liquidity in the credit sector by pumping liquidity into the financial sector and financing capitals. The measure has started bearing fruit and this has boosted investor confidence in the financial markets. That’s why it is appropriate to float new IPOs at the moment.

The local markets are expected to witness the floating of shares of public joint stock companies, currently under incorporation, for public subscription. Moreover, two companies have already applied to float their shares for public subscription. Their application is currently under review.

The successful subscription of the floated shares of Dar Insurance and Eshraaq Properties reflects a strong come-back for the subscription market. This will certainly give a major boost to other companies to convert to public joint stock company (PJSC) status and float their shares for public subscription. Regarding the rate of subscription coverage, I don’t think it will be in 100 fold or even dozen fold as it used to happen in the past, but the fact that Dar Insurance’s capital of AED120 million has been fully covered successfully is in itself a great sign of the ability of local firms to succeed in achieving full coverage of the subscription of their shares.

This leads us to other important points which must be met in order to achieve successful IPOs. They include marketing and promotion campaign like the choice of good time for floating shares, explaining clearly the advantages and incentives in investing in the company and the company’s future plans, targeting of a large segments of investors and, of course, the company’s activities must be attractive in terms of profit against relatively low risk.

* The SCA, last year, succeeded in topping the list of federal institutions and authorities in terms of government excellence, sweeping two glorious medals during the Sheikh Khalifa Government Excellence Award ceremony. What are the most significant initiatives which the SCA is planning to take in the future to maintain this high status that it has achieved for itself?

The SCA will continue to implement the best practices in its major administrative operations through a number of means, which are:

1. Developing SCA’s supervisory system:

The SCA seeks to achieve this by working hard to increase the number of cadres specializing in the area of supervision, improving the competence of inspection teams to be able to deal with modern financial services, modernizing the supervision tools, including the electronic systems of monitoring trading activities and the database systems which support the decision-making process. This is in addition to the development of inspection programs and procedures for companies under SCA supervision. The SCA will also implement a program that will ensure all companies fully comply with the risk



management regulation within a particular timeframe, as that will boost confidence in the capital markets and spread the culture of “respecting the standards” among brokers in order to help minimize the rate of risk that investors are exposed to and boost the capacity and effectiveness of the monitoring system in detecting violations against laid down rules and regulations.

2. Developing legislations that regulate UAE capital markets:

In this regard, the SCA will continue to strive to develop the investor protection and fair trading systems, follow up latest developments in the area of securities and commodities markets and organize them in a way that would be appropriate for the country, through the introduction of advanced investment tools, practices and products, in addition to issuing legislations for the development of the financial market structure, dealing with any loopholes which may crop up during the implementation of the existing legislations and regulating accurate legislations that would regulate the markets, uplift its effectiveness and ensure confidence in its security and neutrality. The results of developing these legislations will certainly help provide international standard investment environment, enhance investor confidence in our markets and boost the strength of our markets in attracting local and foreign investments. All the above will certainly add to the UAE’s competitiveness ranking status in the area of implementing securities legislations and this is the UAE’s general policy.

3. Boosting disclosure, transparency and corporate governance:

In doing this, the SCA is casting the net of the corporate governance regulation wider to cover all companies and institutions operating in the areas of securities, investment, financial services and mutual funds. This will lead to providing investors with the necessary information for them to make informed investment decisions. It will also add to the UAE’s competitiveness ranking status in the area of implementing corporate governance by institutions operating in the securities sector.

4. Boosting awareness of investors and other capital market stakeholders:

This is being done by increasing the

The ministry
is committed to
raising to 25%
the industry
sector’s
contribution
to the GDP

channels of communication with investors and other concerned bodies in the securities industry and by increasing and boosting the awareness programs for improving investors’ awareness on the legal aspects of investment and their investment culture to help enhance sound practices and professional and ethical conducts of those doing business in the securities industry.

5. Excellence and innovation in providing services for clients:

This is being done by implementing the latest means of service provision and through the adoption of the culture of excellence in the day to day work of employees, in addition to activating the system of call centers and the redesigning of services-related operations to ensure high quality. This, we believe, will lead to improved efficiency in the provision of services and, in turn, lead to customer satisfaction with the SCA’s services.

* Market regulators around the world have witnessed waves of changes and new regulations in the aftermath of the global financial crisis, at a time the International Organization of Securities Commissions (IOSCO) added more clauses to its charter in that regard. How do you coordinate with other international regulators in this regard?

Past experiences have shown that global financial crisis is always followed

by structural reforms in supervision and monitoring regulations of the financial sectors. Some of these reforms may come within the framework of improving the effectiveness of existing supervision regulations, while others may come with different forms of reforms which will completely change the regulatory systems with totally new ones.

As a result of the last global financial crisis a number of countries introduced reforms in their regulatory systems. A good example is the ongoing reforms in the United States and the United Kingdom. International experience has shown that to have a very effective securities market and financial institution supervision and monitoring system there must be good coordination among supervisory and regulatory bodies irrespective of the models they adopt. Therefore, there is the need to put in place effective mechanisms for cooperation and sharing of information among these bodies.

In this regard, IOSCO, made a number of changes to its principles and charter related to the regulation of securities with the aim of accommodating the changes witnessed by the securities markets in recent years. The number of those principles was raised from the current 30 to 38, in addition to a principle that deals with market risks and the role of legislative bodies in minimizing those risks. A provision has also been made in the principles for complex financial tools, auditing firms and credit rating agencies.

The SCA is striving to boost its relations with its counterparts in various parts of the world through the signing of memorandum of understanding on boosting joint cooperation sharing of information and experience and through its presence at the regional and international levels through its proactive role in IOSCO and membership of Committee of Heads of GCC Financial Market Regulators.

* Some brokers and investors are criticizing the lengthy period given to companies to declare their financial statements. Is there any plan to cut down this disclosure period?

The SCA can strongly assert that both the provisional and annual financial statement disclosure standards being used in the country are among the world’s most



H.E. Sultan Al-Mansoori being briefed during a visit to an industrial plant abroad

advanced and most effective. They can be comparable to those in practice in the United States, the United Kingdom and Malaysia. Moreover, putting a timeframe for disclosure of financial statement does not mean the concerned companies should

wait until the end of the timeframe before disclosing their financial statements. Many companies disclose their financial statement early within the timeframe, but it is also a fact that many other local companies have affiliates and branches inside and outside the country so they need longer period of time to meet their disclosure obligations.

It's worth noting here that the SCA's regulations, in general and the disclosure and transparency regulation, in particular, are subjected to regular review and updating according to the best practices of many advanced markets. This is being done after coordination and consultation with local bourses and other concerned bodies.

** Securities markets in the country are witnessing a downturn in the volume of trading since the global financial crisis, what is your expectation for the markets' performance in the future?*

Frankly, most of the stock markets in the world have been suffering from low volume of daily trading since the global financial crisis. This is evidently clear on the advanced, emerging and those below the emerging market ratings. It is natural to see trade volume slip during financial crisis as investors stay away from stocks and keep their liquidity or invest them in government

bonds due to the latter's low risk and slight price fluctuation nature. The low liquidity encountered on the GCC markets came from foreign investors' withdrawal of their funds from their financial centers to cover their losses on markets in advanced countries at a time when local investors also avoided the local markets. Meanwhile, reports from the World Bank (WB) and the International Monetary Fund (IMF) show that the UAE's economic foundation remained very good and the country's infrastructure also remained very suitable for business. Similarly the financial analysis reports for listed companies show a positive trend in the performance of those companies, while the successful resolving of the issue of settling the debt of some companies has reflected positively on UAE financial markets. Furthermore, regulatory bodies in the country, in collaboration with financial institutions, have updated old legislations and provided new ones to better organize market mechanisms like the DVP which, we believe, would lead to the positive review of the market ranking from "secondary" to "emerging" market rating, a move which will attract more foreign investment to the UAE.

The situation improved as investment

**4960 industries
in UAE with
total investment
capital of over
AED115 billion
employ over
382,000 workers**



climate improved in most western countries since the beginning of the year, followed by the improvement in the flow of liquidity into the local stock markets – thanks to the return of local and foreign investors to the markets due to abundant investment opportunities and coupled with the significant improvement in financial situation in the Gulf region, in general and the UAE, in particular – Therefore, we are expecting this improvement in the volume of trading on the local markets to continue steadily. At the end of last year the average of daily trading on the markets did not exceed AED200 million but now it is recording an average of more than AED400 million as a result of the significant improvement of the situation.

* The markets were affected by the slip in foreign investment during the global financial crisis, but the political situation in some Arab countries is now causing the flight of foreign investment from the markets. Is there any plan in the offing for rationing foreign investment on the financial markets?

Attracting foreign investment is one of the leading economic objectives the UAE is striving to continue to achieve. The SCA is also pursuing a number of policies in this regard with a focus on two major dimensions. The first is the development of the basic structure of the UAE capital market legislations to win an elevation of its credit rating status from international credit rating agencies. These efforts are beginning to yield good results in recent time with the FTSE elevating the UAE markets credit rating to secondary emerging status. The SCA is also working with the MSCI to uplift the credit rating of the local market, a move which would help attract more foreign corporate investment like the mutual funds to the UAE and boost the competitiveness status of the local markets against other emerging markets in the region.

The second dimension is to work towards the issuing of mutual funds and portfolio management regulations to regulate the work of these professional investments through an integrated organizational framework. The development of a professional corporate investment by means of funds and portfolios will help stabilize the markets, on the one hand and will provide professional

investment opportunities, on the other. This will, in turn, encourage foreign investors to invest on stock markets in the country.

* Your Excellency, you said earlier that your ministry will be enacting 14 new laws. Where have you reached so far in these laws and when will the laws be passed?

The ministry is developing and modernizing a set of legislations aimed at uplifting the performance of the UAE economy. This is in implementation of the federal government's strategy, which, generally, seeks to ensure a balanced sustainable development and to achieve the UAE's Vision 2021 objectives. The ministry is currently planning to enact 14 laws, some of them are new laws, while others are amended laws. The move is aimed at organizing and coordinating investment, business conduct and corporate governance in the country. The laws, which are in their final stage, will cover foreign investment, industry, intellectual property, competitiveness, arbitration, corporate governance and small and medium-scale companies.

* The UAE is working hard to diversify its investment and it's currently moving towards investing heavily in the industry sector. How do you evaluate investment in the UAE industry sector and what is the volume of local and foreign investment in this vital sector?

UAE is currently the second major attraction of foreign investment in the Arab world. During the period 2005 – 2008, we were able to attract direct foreign investment

(DFI) of more than US\$51 billion (AED187 billion) to maintain our enviable record as the second best FDI destination in the Arab world. The UAE continues to provide more investment opportunities, thanks to our advanced infrastructure, our country's high status in the area of business competitiveness and successful business promotion. All these are aimed at maintaining our position as a strong investment destination. These qualities, which have been boosted by the UAE's strategic geographical location and its position as a financial hub, will help us continue to attract more investment in the future. The Year 2010 was a great year for UAE's economy which made fantastic recovery from the global financial crisis. Most of the economic sectors achieved good growth with the manufacturing sector making significant leap in the number of industrial installations to 4,960 industries employing more than 382 thousand workers and with investment capital of more than AED115 billion. The sector also made a significant leap in the production of final products which helped cover a significant portion of the local requirement. Many of these products also found their way to international markets having been boosted by their quality which met international markets standards and specifications.

* The new Commercial Company Law, which is expected to be passed soon, allows foreign investors to own equity up to 100%, when will the law be passed? Is the ownership percentage allowed for foreigners similar in all sectors? In what sectors can foreigners enjoy 100% ownership?

The ministry has completed preparing a draft company law in June last year and has since referred that draft law to the federal government for action. We expect it to be passed this year as there are certain procedures to be followed according to timeframe until its final passage. The draft law has already been dispatched from my ministry to the Ministerial Legislation Council for action.

* What about the Foreign Investment Law, when will it be passed? And what are the most significant features of that law?

The Foreign Investment Law will help prepare the legislative framework which would allow and promote foreign investment by providing for it all the

In spite of food price hike, inflation is under control at around 1% - 1.5%



necessary incentives and guarantees. It will also eliminate a sizeable amount of organizational and administrative bottlenecks, while reflecting the government's entrenched belief in the wisdom of opening the door for foreign investment. The great benefits of foreign capital demands we open more areas of the country's economic activities which need investment. It also requires we have in place policies and incentives to match with the types of foreign investment required. Therefore, the ministry has deliberated on the draft law with a concerned local body before referring it to the cabinet for approval followed by other constitutional procedures necessary for its approval and passage.

*** How would you evaluate the contribution of the industry sector to the GDP this year?**

The ministry, by virtue of its strategic plan, is committed to increasing the contribution of the industry sector to the GDP from the current 16% to 25% in the next five years. This will be done by boosting the sector's opportunities internally and by promoting the UAE abroad as an attractive investment environment, especially in light of the superb infrastructure the UAE boasts of.

*** Some people say protectionism is a threat to the global economy. What is your opinion on that and how can the local industry be protected in this regard?**

It is no secret that the UAE's economy is one of the most open economies in the world. In view of this, protectionism, as being practiced by some countries to protect their economic gains and to avoid being exposed to international economic developments cannot apply on the UAE. But in spite of its commitment to boost its open economy policy, the UAE protects its economic gains and adopts protectionism policy within a limit which provides protection to its local industry and national economy in a way that never contradicts our open policy.

*** The world is suffering from waves of high food prices, particularly, in light of the many natural disasters and climate change. The UAE is now moving seriously towards investing in the agriculture sector to safeguard its food security. What is the**



most significant plan of your ministry in this regard both locally and externally?

The UAE adopts a clear policy of boosting its food security. This policy provides strategic reserve capable of covering the country's major food items needs. It also provides for government investment in agriculture in a number of countries like Sudan, Azerbaijan, Egypt, Pakistan, Australia, the United States, Canada and other countries, with the aim of achieving food security and maintaining stability on the market. Undoubtedly, having strategic reserve of food items, including rice, flour, edible oil, sugar, meat and poultry, reflects the country's efforts in securing the basic needs of our people and creating stability in prices of these items on the UAE markets.

*** In spite of your ministry's significant efforts to arrest the rising cost of basic commodities, through various awareness and sensitization programs and follow-up of market activities by your ministry's Consumer Protection Department, many are saying that prices continue to rise higher and higher. What are your next plan to arrest the situation?**

The UAE, through the ministry of economy, remains committed to protecting consumers from the negative impacts of price hike on the international markets, particularly, in light of the high prices of consumer goods in 2010 and 2011 despite improvement in the global economy and growing consumption rates. In view of the above, the ministry of economy launched an early warning alarm project, which was prepared based on standards capable of predicting developments in food items and looming crisis. The project, which will also contribute in boosting the balance on

the local market, is now in the execution stage, having completed the introduction stage during which its plans, programs and working mechanisms were fully covered, taking into consideration the future plans for expansion of the project to input new commodities. The ministry is also committed to protecting consumers by putting in place an effective mechanism for lowering the prices of essential commodities in the country, in collaboration with the various cooperative societies and major retail outlets in the country with the aim of boosting consumers' purchasing power and creating a balance on UAE markets. The ministry, through the Consumer Protection Department, is monitoring the market in collaboration with the concerned local departments. The ministry receives consumers' complaints. It received in 2010 a total of 3,518 complaints, solved 3,496 of them, referred 10 to the Arbitration Settlement Committee and 12 to the special courts.

*** Will the price rise of food items affect the country's inflation rate, and what is your expectation for the inflation rate this year?**

In spite of the price hike of food items inflation will remain under control. We expect inflation rate to hover around 1% to 1.5%.

*** What are your expectations for the future of the national economy and the growth rate for this year?**

We expect the UAE's GDP to grow between 3 to 3.5% in 2011.

*** To what level will the rising oil price impact on the national economy?**

It's natural the rising oil price will reflect positively on the national economy and GDP growth as the UAE is one of the major oil exporters in the world.





Al-Turifi: UAE is Studying the Pros and Cons of Changes on Regulatory Models in Europe and the United States

SCA organizes forum on «Restructuring the Regulatory System of Financial Sector»

The Securities and Commodities Authority (SCA) has organized recently in Abu Dhabi a conference on “Restructuring the Regulatory System of Financial Sector”. A number of international experts and other stakeholders in the financial and economic sectors attended the one-day conference, which was held under the patronage of H.E. Engineer Sultan bin Saeed Al-Mansoori, Minister of Economy and SCA Board Chairman.

In an opening address, H.E. Abdullah Salim Al-Turifi, SCA Chief Executive Officer, said the conference seeks to discuss the various financial market regulatory models from some member countries of the European Union and the United States, adding that the aim here is to highlight the worldwide changes taking place in the role of regulators in an effort to boost the financial systems of the countries of the world to make them more efficient to counter the global financial crisis which hit the world in 2008.

“Recently, we heard many criticisms from the industry practitioners and among the scholars directed at the financial regulators on the back of the latest crisis which has proven that the current regulatory systems were inefficient in preventing the crisis, and acted dynamically to achieve fast recovery. This is one of the leading reasons why we are witnessing such changes in





leading world economies”, he added.

He pointed out that the UAE is closely monitoring these global changes and studying their advantages and disadvantages, although those changes are in their infancy stage and are yet to be tested, it is worth examining them with scrutiny. He said every country has reason for choosing a particular model, adding that many countries do not adopt a whole particular model but chooses the most suitable one and amend them to suit their local conditions. “The current UAE model has proven its efficiency and advantages, although we are not isolated from what is happening in the world because we take from other countries’ experience. That is why we focus on studying the current developments in the regulatory models of those countries from whom we have benefitted in preparing our regulations and legislations”, he added.

He said the goal of the conference is to take a closer look at the specifics of these recent changes, their backgrounds and their hoped outcomes. “The speakers will present the changes in leading financial systems around the globe, their nature and of prime importance, the need for them and their implement ability in the UAE and the GCC region as whole,” he stated.

The conference was held in three sessions, during which experts from various

international organizations discussed topics related to regulatory models and the best way forward to restructure the regulatory systems following the battering all the systems received during the recent global financial crisis.

Session(1),discussed latest developments on the issue of financial markets, under the topic: “Reshaping the supervisory role in the financial sector...”

Session (2) discussed the issue of “financial regulatory systems development from legal perspective and their effect on GCC”.

Session (3) which was held under the topic: “models of financial supervision in the light of recent international practices”, highlighted international practices in the area of financial market regulatory systems



Dr. Obaid Al-Za'abi



Restructuring the Regulatory Systems of the Financial Sector



Paul Maco

The Dodd-Frank Act came as a legislative response by the US to the global financial crisis

Session (1), which discussed the topic: “Reshaping the supervisory role in the financial sector – the cases of the USA, Holland and the United Kingdom”, was chaired by Sir Andrew Large, Former Deputy Governor of the Bank of England and Head of the SCA Advisory Board. Three papers were presented:

Paul Maco of Vinson and Elkins, presented a paper under the title: “Twin Peaks or the Rocky Mountain Range?” – The Dodd-Frank Act and the Architecture of Modern Financial Market Regulation.

Presenting his paper on the US case study, Mr. Maco said: “Due to its sheer dominance in the global capital markets, the U.S. financial services industry for decades has been able to manage the inefficiencies in its regulatory structure and still maintain its leadership position. Now, however, maturing foreign financial markets and their ability to provide alternate sources of capital and financial innovation in a more efficient and modern regulatory system are pressuring the U.S. financial services industry and its regulatory structure. The United States can no longer rely on the strength of its historical position to retain its preeminence in the global markets.”

He said the Dodd-Frank Act of the United States and events leading to the passing of the act in 2008 came as a legislative response by the US to the global financial crisis. “It also aimed at protecting investors. Although the Act was signed by US President Barack Obama on 21st/07/2010, the issue demanded the issuance of about 250 working rules and 65 studies by a group of federal regulatory authorities before the changes brought by the Dodd-Frank Act was completed and put into effect,” he added.

He cited the Paulson Report which was issued in March 2008, under the title: Blueprint for a Modernized Financial Regulatory Crisis U.S. Department of the Treasury. He also cited U.S. antecedents: the de-regulatory Gramm-Leach-Bliley Act of 1999 and Commodities Futures

Modernization Act of 2000.

At the global level, he said, the Paulson Report cites U.K. move to tri-partite system composed of the central bank (Bank of England), finance ministry (H.M. Treasury) and national financial regulatory agency for all financial services (Financial Services Authority)

He added that the Paulson Report also cites adoption of “Twin Peaks” model in Australia and The Netherlands emphasizing regulation by objective: one agency for prudential regulation, another separate agency for business conduct and consumer protection.

Maco also touched on the Three long-term goals outlined by the Paulson Report as including: Market stability regulation to address overall conditions of financial market stability that could impact the real economy, prudential financial regulation to address issues of limited market discipline caused by government guarantees; and Business conduct regulation (linked to consumer protection regulation) to address standards for business practices. He said these were to be carried out by the Federal Reserve as Market Stability Regulator, a new Prudent Financial Regulator assuming the role of the Office of Comptroller of the Currency and Office of Thrift Supervision, Business Conduct Regulator, including the functions of the SEC and CFTC, Federal Insurance Guarantee Corporation (the former FDIC) and Corporate Finance Regulator. “This, of course, did not happen. The Paulson Report was released in March 2008, the month Bear Stearns collapsed and the financial crisis became visible to the public. Instead we have Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) for financial market reform and investor protection,” he said.

Shedding some light on the Dodd-Frank Act, Mr. Maco said it is the most extensive revision of U. S. financial market regulation since the 1930’s. “Although the Federal Reserve Bank (Fed) is more “market stability regulator,” does not



move towards “Twin Peaks,” or otherwise streamline the U.S. financial market regulatory architecture as some anticipated in early 2009, nor does it address reform of Government Sponsored Enterprises - Fannie Mae and Freddie Mac, or address an extensive list of issues associated with the financial crisis, in spite of the fact that it does increase the supervisory powers of existing regulatory bodies, eliminate one regulator and create a new council of regulators,” he added.

He cited Dodd-Frank “top ten” elements as including Financial Stability Oversight Council, expanded powers for Federal Reserve Bank, orderly Liquidation Authority expanded power for FDIC, “Volker Rule” prohibiting “banking entity” from proprietary trading or ownership interest in hedge or private equity fund, bank capital requirements extended to “systemically important” non-bank financial services companies, OTC Derivatives - comprehensive new rules, expanded SEC and CFTC authority, SEC investor protection powers expanded, Credit Rating Agencies expanded regulation and hedge fund manager

registration, recordkeeping, reporting, and inspection.

Other, he said, include: Consumer Financial Protection Bureau, Plus one more – Federal Insurance Office and the Financial Stability Oversight Council, whose members are made up of heads or representatives of all regulatory bodies of the financial sector.

Mr. Maco outlined some points that must be taken into serious consideration in the Gulf region regarding the restructuring of regulatory systems of financial sector. These points, he said, include the need to review laws within the context of historic developments, local financial market rules and political culture, adding that the current circumstances of the markets and future growth within a nation and surrounding region should be carefully considered in designing regulatory systems and supervisory roles.

He noted that the Twin Peaks systems may have more than two “peaks” as the Paulson Report, often viewed as advocating Twin Peaks, itself demonstrates.

He said such models of regulatory architecture may be best viewed as

“optimal” targets and not an end in itself

Recounting some useful considerations and goals for restructuring regulatory systems, Mr. Maco there is the need to avoid giving conflicting missions to a regulatory body as prudent supervision may come into conflict with business conduct supervision, different regulatory bodies given overlapping authority may generate “regulatory arbitrage” at one extreme, or “regulatory gridlock” at the other extreme, while gaps in authority between regulatory bodies create opportunities to avoid oversight and, unless intentional and with valid purpose, should also be avoided

On other points of consideration, he said regulatory bodies achieve the best results when the regulator has the authority, the powers - such as inspection and enforcement, the people, training, financial funding, and the other resources needed to carry out the regulatory mission, adding that harmonization of related and conflicting laws within the overall legal system, when appropriate, should be viewed as a means to support regulatory reform.



The Regulatory Structure of Holland's Financial System

Making his presentation on the Holland's case, Paul Koster, Chief Executive of Dubai financial Services Authority (DFSA), said the financial services sector is one of the leading sectors of Holland's economy.

He said the Netherlands' financial sector is dominated by systemically important institutions which operate across various markets. "These institutions bring both considerable benefits and sizeable risks to the country... Mitigating such risks requires a regulatory structure which can ensure careful and comprehensive monitoring and supervision of its financial sector," he explained.

Mr. Koster briefly touched on the process for creating regulation in Europe and the so-called Lamfalussy process, before briefly outlining the history of the regulatory structure in the Netherlands. "Prior to 2002, the Netherlands

had a functional, otherwise known as a sectoral model, with separate supervisors for banks, insurance companies and securities firms. "In 2002, the twin peaks regulatory model was introduced in the Netherlands. The functional approach had become redundant due to the blurring of sector boundaries and was no longer sustainable. The decision was taken in response to two predominant trends: the consolidation of the Netherlands' financial sector into one dominated by a few large institutions conducting business across multiple product types and lines and the development of complex financial products with cross-sectoral elements," he further explained.

He pointed out that the regulatory reform separated the responsibilities for prudential and conduct of business supervision. "The decision was made to assign the prudential supervision for all financial institutions to the existing central bank, De Nederlandsche Bank (DNB), leveraging on the synergies between the macro monitoring and micro supervisory aspects, as well as on its long-standing credibility. A new conduct of business supervisor, the Authority for Financial Markets (AFM) was created with a strong focus on market behavior and investor protection. The existing securities regulator was absorbed by the AFM and most of the insurance and pensions regulator merged with the DNB in 2004," he said.

"Although the Netherlands' economy has experienced many difficulties over the past two years, it has weathered the crisis better than some other European countries," he added.

Mr. Koster also briefly commented on the experience of the twin peaks model which has also been adopted in Australia for over a decade. He said Australia is the only other major country with substantial experience of this model. "Unlike the Netherlands, the responsibilities for macroprudential and microprudential supervision are separated. The two principal

authorities are the Australian Prudential Regulation Authority (APRA), which is responsible for prudential supervision at the firm level, and the Australian Securities and Investments Commission (ASIC), which is responsible for market conduct in relation to financial services and general corporate legal standards. The central bank, the Reserve Bank of Australia, is responsible for macroprudential matters," he explained.

The DFSA Chief Executive Officer examined the various regulatory structures which are implemented throughout the world. He said although the functional approach to supervision, whereby institutions are supervised according to the sector within which they operate, has merit in that there is technical expertise within the sectoral regulator, it has many disadvantages and has attracted a lot of criticisms.

"The recent experience of regulatory gaps and arbitrage does appear to have reinforced a continuing move towards integrated regulation, on either a full integration or a twin peaks basis. The Belgian government has decided to move towards the twin peaks model by integrating the prudential supervision of its financial institutions into its central bank. In contrast, Ireland has already formed a unitary integrated regulatory institution and France recently established a prudential control authority connected to its central bank as the single licensing and supervisory authority for its banking, investment services and insurance sectors. These developments appear to have been provoked by the global financial crisis," he explained.

He opined that there is no ideal regulatory framework. "I now conclude by reiterating that the financial crisis has not provided evidence of an optimal regulatory structure. In the case of the Netherlands, the IMF concluded in its recent preliminary findings report that the twin peaks model remains appropriate.. I believe that the optimal model for any country depends on several factors, including the size and nature of a country's financial sector and the extent to which firms are active across traditional sectoral boundaries," he concluded.



Paul Koster





Charles Taylor

The UK Experience

Presenting his paper under the title: “ Reshaping the supervisory role in the financial sector - The case of the UK, Charles Taylor – Chief Operating Officer of the International Center for financial Regulation (ICFR), started by highlighting the four phases of development in UK’s regulatory legislations.

Phase one of the regulatory cycle focused on crisis management and stabilization, phase two saw the emergence of the “grand plan” in collaboration with the G20 international cooperation and the Financial Stability Board. This phase saw the economies beginning to steady. “In phase three detailed legislative proposals were tabled, economies start to recover, the tension between international ideals and domestic imperatives become more apparent, while industry pushback becomes more manifest,” he said, adding that phase four saw the testing of detail of legislative proposals, the growing of industry pushback and the waning of political commitment wanes as G20 falters and the long implementation phase begins in a quest for the ideal regulatory model.

Mr. Taylor touched on the Basel process, which is now in its third decade having gone through phases of development since it was established in 1988. He said the UK had taken a number of steps in its efforts to reshape the supervisory role in its financial sector.

Comparing the existing paradigms with the new ones, Mr. Taylor said in the existing paradigm monetary policy focused narrowly on price inflation, while in the new paradigm monetary policy focused on price inflation, but leaning against financial imbalance.

Touching on the new UK regulatory structure, he said the UK has switched to the integrated model, represented in the Financial Services Authority (FSA) and the Bank of England which are to work in what is more or less similar to the Twin-peaks model. “While the Bank of England will oversee the prudential aspects of the regulatory system, a new body, named Consumer Protection and Market Authority (CPMA) shall assume the role of the FSA by overseeing the market conduct and consumer protection aspect in order the achieve a good management of systemic risks, effective cooperation between national and international regulatory institutions, and economic and financial stability,” he said,

Outlining the new UK regulatory philosophy, he said the majority of policy will be formulated at the EU level. He added that regulation now is more proactive, outcomes based approach, with focus on forward looking firm based judgement.

He pointed out that a key element is that orderly business failure with minimum cost

should not be seen as a regulatory failure. He said the Prudential Regulation Authority (PRA) will work closely with the Financial Policy Committee (FPC) to assess systemic risks, adding that while the new CPMA is to be the “consumer champion”, it will aim to balance rules vs. principles in the pursuit of “deterrence and redress”. He said transition to the new structure is planned to occur in the second half of 2012.

Mr. Taylor touched on the role of the PRA, which he said will be a focused prudential regulator, equipped with the philosophy, systems and skills to deliver a single statutory objective. “The PRA will also promote the stable and prudent operation of the financial system through the regulation of individual financial firms with the aim of minimizing the disruption caused should they fail. It will use “judgment” and risk models to determine potential level of impact and hence engagement,” he explained.

Touching on the CPMA, Taylor said the CPMA is a more intrusive regulator with earlier intervention powers, adding that the CPMA also has prudential and conduct of business regulation responsibility for 25,000 firms, as well as responsibility for the conduct regulation of the 2,200 firms regulated by the PRA and that the CPMA delivers regulation using a risk model

focusing on early risk identification and prioritisation of interventions.

Regarding CPMA’s methods for consumer protection, the ICFR Chief Operating Officer said the CPMA uses tools for comprehensive risk identification and analysis, it applies earlier intervention policy and is less reliant on firms’ own systems and controls and on disclosure to minimise risks. “the CPMA also adopts industry-wide interventions rather than firm-specific inspection, although these will continue at a similar frequency used by FSA. Furthermore, the CPMA has the ability to deploy resources flexibly to tackle issues and risks,” he added.

He also outlined the CPMA’s regulation of conduct in wholesale financial markets, which, he said, includes protecting London’s position as a major global financial centre, promoting confidence in the stability, integrity and efficiency of UK financial market and UK representation to the European Securities and Markets Authority (ESMA). Mr. Taylor summed up his presentation by saying that the effectiveness of regulation is better assessed through its legislative philosophy and quality than through its legislative structure. He wondered if two new focused authorities will perform better than the old regime, just he wondered what good regulation looks like.

Recent Regulatory Developments and the Systemic Dimension

In the second session, which was chaired by Maryam Al-Suwaidi, SCA Deputy CEO for Legal Affairs, issuance and Research, three working papers were presented.

Sir Andrew Large, presented the first working paper on "Recent regulatory developments and the systemic dimension – GCC perspective". He started by saying that he prefers to use the term "Systemic policy" to using the terms "micro-prudential" and "macro-prudential" policy in his analysis of what went wrong regarding the recent regulatory development and the global financial crisis, which he blamed on regulatory structure, policy vacuum and delivery of policy, as well as systemic stress as a result of excessive broad leverage, borrowing and debt, systemic issues like the existence of policy gap.

He said the existing prudential policies failed to deal with the global financial crisis by find the appropriate solutions to the problem before it spiral into a crisis, while the policy vacuum and, in some cases, the delivery of policy also contributed to the crisis.

To avoid similar crisis in the future, he said, there is the need to take three major issues into serious consideration, including the role of architecture, the role of individual bank supervision (microprudential policy) and macroprudential framework by mitigating risks of financial crises and identifying new policy area for many jurisdictions.

Sir Large outlined the various models of regulatory structures adopted by some advanced countries of the world highlighting the various degrees of the successes and failures in their countries of adoption. He said there is a worldwide consensus on the need to reshape the financial regulatory structure but the general trend is currently in favor of the

Peaks model, which leaves the supervision role to the Central Bank as in the case of the United Kingdom and Belgium, while Indonesia favored the unitary model of supervision compared to the creation of a separate consumer protection regulator by the United States.

On systemic stress, he said the root cause was excessive broad leverage created by banks, insurance companies and products embedded leverage. He also blamed it on users of credit, including consumers, companies, government and other financial institutions like hedge funds and private equity. "In spite of indicators of systemic tension like asset prices, credit spreads, maturity mismatch, inadequate liquidity buffers and other compromised risk areas, sparks can then cause crisis and random shocks whose triggers are never obvious nor predictable.

He outlined four prepositions on systemic issues, which, he said, include:

1) Policy gap, particularly in policy areas like the monetary, microprudential, fiscal, and competition areas.

2) plethora of microprudential, which, he said, will not be solved by initiatives like the Basel, FSB, G20, EU, jurisdictions, nor will it be solved through capital and liquidity, structural/Volker rules, tbtf/living wills, AI, ratings, Rem incentives, Accounting Standards..., etc, without an oversight initiative. Where is the oversight? Are they joined up? By whom? He queried. They must be joined up and be placed under international oversight. Someone must be put in charge of oversight issue, he added.

3) international issue: which, he said, needs national initiatives. He pointed out that the issue must regarded as global markets but not global government. He said national level implementation is vital by implementing the laws where the fiscal authority reside, adding that although it is a tough, issues like this must not be neglected because they are achievable with serious cooperation.

4) Relevant for all jurisdictions: He said the main problems were in mature economies due to too much leverage/debt in US, UK, but elsewhere in EU it was due to easy money. But the problem was less in Canada, Australia and in main Asian countries,

Twin-

Andrew Large



like China, adding that the issues are generic as they impacted the UAE, particularly Dubai, and so are the lessons

Sir Large also outlined a number of generic challenges, which, he said, includes four policy areas (macro, micro, resolution, monetary), several authorities (ministry of finance, central bank and regulators), multiple tasks across authorities, choice of instruments, how to create engagement and co-ordination, governance (individual authorities), accountability and transparency.

He said there is the need for creating a macroprudential and systemic policy framework to secure and maintain financial stability and for overarching mandate, adding that this should be through systemic conjuncture to identify threats, apply policy instruments and implement policy actions, as well as through the resilience of system.

He called for the engagement of all parties in decisions related to policy formulation and delivery. He said skills Skill sets and working knowledge are not available from one institution, hence the need to engage the central bank, regulators, practitioners and government, adding that they must have the practical experience during crisis and steady state. Academics also have a major role to play in this regard.

On the instruments and policy tools, Sir Andrew said they include capital ratios which get at root cause impact all creators of leverage, liquidity, remuneration and LTV ratios, to name but a few, adding that authority to deliver this policy lies in overarching oversight, which include assess data and deliver response and overarching authority, which include obtaining data, enforcing or influencing policy decision, as well as influencing other policy areas like monetary policy and fiscal policy.

Concluding his presentation, Sir Large said there are many thoughts for UAE regarding systemic policy. “These thoughts include the need for conscious creation and implementation of framework at the local level. This initiative must be led by the UAE Central Bank but with engagement from SCA and other areas of government,” he added.

International Coordination in Regulatory Reform - Challenges and Prospects

Dr. Amadou Sy, Advisor on Monetary and Capital Markets at the IMF, presented a paper on “ International Coordination in Regulatory Reform – Challenges and Prospects”,

Making his points Dr. Sy said there is increasing need to strike a balance between stability and growth which is in short supply in many countries now recovering from the global financial crisis, “There is disillusionment with the pace and progress of reform and this stems from the moderation in some of the proposals seen as a pushback by industry or national interests, the time that has lapsed since the crisis, with many items on the reform agenda still under discussion, some “more affected” countries seen as front-running the reforms and thus raising issues of international inconsistency and some “less affected” members seeing this as “not their crisis” and hence not owning the reforms,” he stated, adding that the underlying foundations of supervisory and regulatory coordination remains ‘work in progress’.

On Home-Host Cooperation, Information Sharing and Coordination, he said in the bilateral sphere, standards of home-host cooperation are still to be met by many countries, but the capacity, capabilities and contribution of regional supervisory bodies varies significantly in the regional sphere, while in the international setting, representation in standard setting bodies is not uniform which may slow acceptance of reform. “Regarding the International Financial Standards, key standards are still evolving – for instance, insolvency, safety nets, crisis management; and key pieces of existing standards need more coherence. Furthermore, supervisory will and ability to act remains an issue as key elements of the supervisory ability and will to act – clear mandate, operational independence, adequate resources, effective powers – are not met with in many countries assessed under the IMF-World Bank FSAP program,” he said. “Despite these challenges, a globally coordinated response has emerged as more progress in micro-prudential rules though



macro-prudential framework is taking shape, responses have been largely bank-centric initially though work is ongoing in the non-bank arena, resolution remains a more difficult proposition and will test the willingness for international collaboration and a commitment to strengthen supervision to support regulatory reform is emerging,” he said.

He pointed out that his outfit continues to work to strengthen Financial Sector Surveillance through a number of steps, including the modernizing of the FSAP by introducing stability modules and risk-based assessments with the World Bank (WB), monitoring policy consistency through G-20 MAP, revising assessment methodology for IOSCO Objectives and Principles (with IOSCO) and developing assessment methodology for Deposit Insurance Core Principles (with IADI and BCBS).

Dr. Sy conclude his presentation by saying that the post crisis response at the global level has led to stronger and more representative forums and mechanisms for coordinating international financial sector policy. “This is more a new era of international coordination in financial reform than the end, but it certainly faces many challenges which can set back progress if not addressed. The IMF has been deeply engaged in fostering a coordinated response to regulatory reform which takes into account national differences where appropriate,” he added.

The Need for Comprehensive Regulations in the Financial Sector

Niall Otoole of the Clyde & Co, who presented a paper on: “The need for comprehensive regulations in the financial sector”, said Financial Services Regulation has two types of goals – specific and general goals.

“The specific goals include to enforce applicable laws, prosecute cases of market misconduct, such as insider trading, license providers of financial services, protect individual investors and investigate complaints, in addition to maintaining confidence in the financial system,” he said, adding that the general goals include eliminating systematic shocks to the economy, protecting investors, enhancing economic development and reducing terrorism and financial crime.

Mr. Otoole, who outlined financial services models in various countries of the world, said the single regulator model is being practiced by the Dubai International Financial Center (DIFC) the UK, Singapore and Germany, while Australia adopts a model in which specific authorities regulate each sector of financial services, the USA adopts a multiple regulators model, while the UAE operates a model of multiple regulators & the Central Bank, adding that more time is needed to determine the most suitable model for combating global financial crisis and the most suitable market index standards to adopt.

He also touched on government debt and the injection of liquidity.

He gave detailed evaluation of models, using single regulator like the UK, Germany and Singapore, as example, and example on countries using multiple regulators like the United States. He also touched on the weaknesses and strengths of some regulatory models. He said while the monitoring and market intelligence division of UK’s Financial Services Authority has succeeded in spotting insider dealings, it has failed in dealing with the global financial crisis. He opined that the Anglo-Saxon model of regulation is dead due to UK’s reputation in

Europe being undermined by the way FSA handled the crisis and cited a statement made by the UK chancellor regarding the

A new Federal Securities and Commodities Law is necessary to provide SCA with a more significant role in financial service regulation and more detailed regulations regarding market exemptions of local and foreign securities in or from the UAE



Niall Otoole

FSA’s handling of the credit crunch. The UK chancellor said the FSA will “cease to exist in its current form” and criticized the semi-tripartite system of regulation, which divided responsibility between Bank of England, the FSA and the Treasury.

He also quoted Mr. Mervyn King, Governor of Bank of England, as saying that “No one was controlling levels of debt, and when the crunch came, no one knew who was in charge. Monetary stability and financial stability are two sides of the same coin. During the crises the former was threatened by the failure to secure the latter.”

Similarly, he said, gross misconceptions were peddled by a splendidly performing Bundesbank public relations machine. These were not challenged by failing financial market

watch dog BaFin, whose president had been muzzled by his superiors, the Berlin Ministry of Finance. “As part of the regular

banking supervision procedures, it was the responsibility of the Bundesbank to detect and signal alarm at the extraordinarily high credit commitments item in IKB’s annual report,” he added

Regarding the United States, he said US Banks were instrumental in the worst financial crash since the 1930’s.

Touching on the UAE, Otoole praised the Emirates Securities and Commodities Authority for its successful step in which it signed a memorandum of understanding with the UAE Central Bank on cooperation and exchange of supervisory information regarding anti-money laundering, combating of terrorism and other types of financial crimes. He outlined some positive initiatives by regulatory bodies in the UAE, like issuing license for financial consultancy and financial analysis, and the UAE Central Bank’s ban on the sale of structured products to investors and individuals, while the Dubai

Financial Services Authority (DFSA) has also amended some investment laws and regulations on business practices.

He pointed out that the DFSA, which is a single “integrated” financial services regulator, regulates all financial and associated services, including banking, securities, Islamic finance, exchanges, insurance etc, conducted in or from the DIFC. Its regulatory framework is based on best practices of leading financial jurisdictions, citing the UK for example. “Although the DFSA, which has signed 53 bilateral MOUs with regulators in jurisdictions across the world, has its own civil and commercial laws, federal criminal laws still apply. It also has limitations on retail investors,” he said, adding that DFSA regulated brokers wishing to deal in the Dubai International Financial Center (DIFC), Dubai Financial Market (DFX) and Abu Dhabi Stock Exchange (ADX) securities, the Emirates Securities and Commodities Authority (ESCA) considers these brokers should be licensed by them as well.

Highlighting the UAE model, he said it is based on multiple financial services regulators, including the Central Bank, the ESCA and the Insurance Authority. Whereas the Central Bank, which is the main body regulating banking and investment business, is governed by Federal Law No. (10) of 1980, ESCA regulates certain categories of investment and securities business like exchange operations and brokerage business and overseas the two stock exchanges: ADX, DFM, and the DGCX, while the Insurance Authority (MOE) regulates insurance business in the country, adding that some of the negative aspects of this model are: the Central Bank does not have a policy of publishing all its rules and regulations, it also has less detailed regulations than DFSA, lack of clarity between who regulates what and lack of clarity in the law regarding division of responsibility between Central Bank and ESCA.

He said all the regulatory bodies have made various initiatives to plug the loopholes in their systems in reaction to similar moves by other countries of the world. He outlined a number of positive initiatives by regulatory bodies in the UAE, including the licensing of



investment consultants and financial analysts by virtue of a SCA regulation issued in 2008 which bans any action that could harm the markets and regulations which promotes strict adherence to impartiality, objectivity and transparency. The UAE Central Bank also banned the sale of structured products to investors and individuals, while the Dubai Financial Services Authority (DFSA) has also amended some investment laws and regulations on business practices.

“What needs to happen now is for the UAE to keep an eye on initiatives by other regimes, deliberate on whether we need a new architecture of supervision and to increase multi-national approach to the issue,” he added

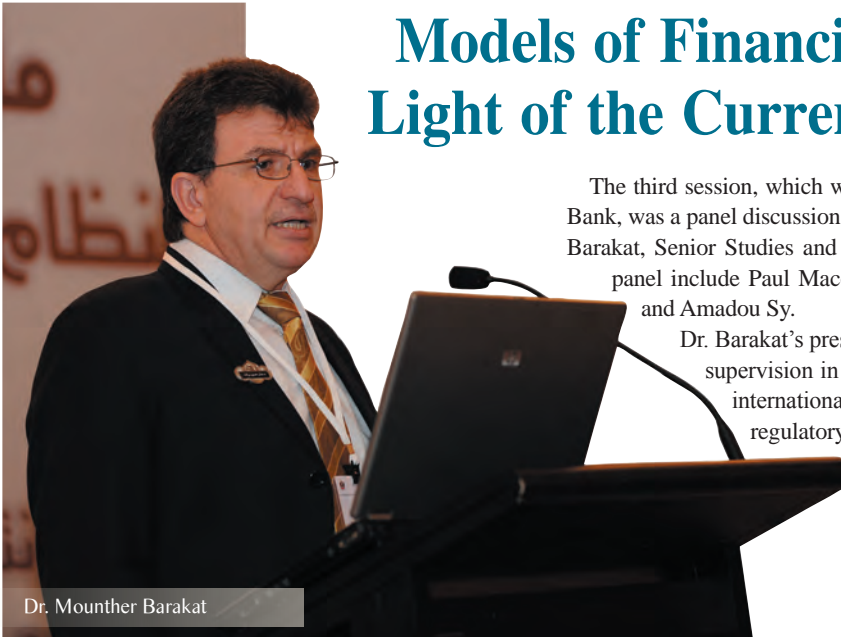
Touching on the scope for reform in the UAE’s new and expanding economy, he said the multiple regulators could be streamlined for efficiency. “A new Federal Securities and Commodities Law is necessary to provide ESCA with a more significant role in financial service regulation and more detailed regulations regarding market exemptions of local and foreign securities in or from the UAE. The Central Bank regulates offer and sale of securities which could be allocated to ESCA as ESCA is already responsible for regulating financial advice and certain categories of securities and investment, including overseeing UAE’s two stock exchanges,” he added and called for issuance of new regulations concerning “Take-over rules”, collective investment

funds and COB in the market.

He said the Central Bank use of guidelines should be replaced by implementation of strict rules, while ESCA should become main financial services regulatory body in UAE. “Although reform is certainly needed, it needs to be tailored to the UAE market and culture, but operating internationally,” he added. He cited some of the challenges as including regulators busy with unprecedented levels of activity, the need to ensure rules are clear, the need to ensure processes and decision making are transparent, building confidence, enforcement to maintain market confidence and integrity, alignment of regulatory standards amongst the GCC and beyond, consider mutual recognition of licensed entities across GCC similar to EU and adoption of international standards and best practices tailored to local environment and business culture.

He rounded up his presentation with some suggestions to the UAE including his call for better coordination among the various regulators in the country. He said the UAE is playing a significant role in the drawing of international standards through its membership in the International Organization of Securities Commissions (IOSCO) and the latter’s technical committees, adding that he believes each country should consider deeply its own conditions and characteristics in the implementation of standards and urged the UAE to choose a regulatory model that best suits her culture.

Models of Financial Supervision in Light of the Current Financial Crisis



Dr. Mounther Barakat

The third session, which was chaired by Dr. Redwan Shaban of the World Bank, was a panel discussion, following a presentation made by Dr. Mounther Barakat, Senior Studies and Research advisor at the SCA. Members of the panel include Paul Maco, Paul Koster, Sir Andrew Large, Niall Otoole and Amadou Sy.

Dr. Barakat's presentation, which was on the "Models of financial supervision in light of the current financial crisis", highlighted international practices in the area of financial market regulatory systems. He began with International trend towards supervision in many countries of the world including Singapore in 1971, the UK in 2000, Belgium and Holland in 2004 before touching on Key approaches to supervision, which he said, include institutional, functional, integrated Twin Peaks and unique approaches.

Highlighting the Twin Peaks model, which he defined as a form of regulation by objective, in which there is a separation of regulatory functions between two regulators: one that performs the safety and soundness supervision function and the other that focuses on conduct-of-business regulation, but the two closely coordinate their activities together.

Touching on the various global supervisory regimes before and after the global financial crisis, Dr. Mounther said many countries were forced by the crisis to shift from their current models in the aftermath of the crisis. He cited the United States which moved from the somehow functional/institutional model to what looks more of a Twin Peaks/integrated mix following the passing of the Dodd-Frank Act in 2010, which seeks to create an improved framework for identifying and mitigating systemic risk by creating the Financial Stability Oversight Council (FSOC) which promotes coordination and cooperation among all financial regulators in the USA, the Volker Rules, which prohibit propriety trading by banks and financial institutions and re-regulation of derivatives by stipulating minimum leverage and risk-based capital requirements, in addition to investor protection & new regulation of securities rules through the Bureau of Consumer Financial Protection (BCFP).

Dr. Barakat also outlined the UK integrated model saying that traditionally, the FSA has had all-encompassing powers to oversee the conduct of business and microprudential regulation with the Bank of England (BOE) having macroprudential regulatory authority. He added that the ongoing changes is moving the regulatory framework towards a twin peak like model in which the FSA will cease to exist in its current form. "In its place, the government intends to establish the following new entities between now and the end of 2012: Prudential Regulation Authority (PRA) which will be responsible for the prudential regulation of financial firms, Consumer Protection and Markets Authority (CPMA) which will regulate firms providing financial services to consumers, Financial Policy Committee (FPC) which will have responsibility for macro issues

potentially affecting economic and financial stability and the Economic Crime Agency (ECA) which will prosecute economic and financial crimes," he stated.

On Holland's Twin Peaks model, Dr. Barakat said the Central Bank of Netherlands (DNB) was responsible for macroprudential (systemic stability), adding that microprudential and conduct of business were under a few other regulatory bodies.

He pointed out that the Twin Peaks approach was developed in 2004 and was improved after the crisis by the DNB initiating key structural changes, including improved financial institutions risk analysis to help identify key risks and open and communicative strategy with the government and with the AFM, while the Council for Financial Supervisors (RFT) has also been created in order to ensure the seamless exchange of information between regulatory stakeholders.

Dr. Mounther also touched on the Australia's Three Peaks model, which he described as a strict "twin peaks" like approach. He said the model has been followed where supervision is organized along the following tracks: Prudential supervision for all firms (banks, investment firms, insurance, and pension funds) is exercised by the Australian Prudential Regulation Authority (APRA), market

Key benefits of the Twin Peaks model include the prudential supervisor may give precedence to safety and soundness over conduct of business

supervision aimed at market integrity and consumer protection is in the hands of the Australian Securities and Investments (ASIC), the Reserve Bank of Australia (RBA) oversees systemic stability, predominantly through its influence over monetary policy, while the Australian Competition and Consumer Commission (ACCC) regulates anti-competitive behavior.

On France's model, Dr. Mounther said France adopted the Functional approach with some elements of a twin peaks model although it is still greatly fractured with far too many regulatory bodies. "Regulation and surveillance of the French financial markets are exercised by two authorities: the Banque de France and the Autorité des Marchés Financiers (Financial Markets Authority) with several other sub-authorities. Insurance activities in France are supervised by a separate insurance regulator, the Insurance and Mutual Societies Supervisory Authority (ACAM)," he said, adding that a new Banking & Financial Regulation Law 2010 has been passed to strengthen the French capital markets.

He pointed out that the Financial and Banking Regulation Law of October 22, 2010 contains six main measures: They include creation of the Council of Financial Regulation and Systemic Risk, enhancement of the powers of the Financial Markets Authority to include conduct of business and consumer protection authorities, the Law ratifies the creation of the Prudential Control Authority, in January 2010 of the French entity called Autorité de Contrôle Prudentiel and makes some changes to its system; issuing of regulation of derivative instruments and short sales and regulation of credit rating agencies as well as the reinforcement of the regulation of providers of financial products and services.

Highlighting Singapore's integrated model, he said Singapore has an integrated financial regulatory structure as the Monetary Authority of Singapore (MAS) has the authority to regulate the banking, securities, futures, and insurance industries in the nation-state, adding that Singapore's system also underwent some changes in the aftermath of the global financial crisis as the Securities and Futures (Amendment) Act

The interwoven regulatory financial supervision with no clear boundaries is a major concern

2009 was passed to amend the Securities and Futures Act.

He outlined some key benefits of the Singapore model, according to the G30 Report, as including the prudential supervisor may give precedence to safety and soundness over conduct of business (CoB) and Consumer protection, as Twin Peaks (TP) will help prevent that, TP may also be the optimal means of ensuring that issues of transparency, market integrity

and consumer protection receive sufficient priority, a means of achieving the benefits of the Integrated Approach with the added distinct emphasis on consumer protection issues, particularly for retail customers, On the way forward, Dr. Mounther said there is the need for change as there is increasing demand on supervisors effectiveness and accountability. "The interwoven regulatory financial supervision with no clear boundaries is a major concern. Separation of prudential/systemic from Conduct-of-business and consumer protection is necessary. The independence of supervisors is recognized to be an essential element for effective supervision. There is also the need to provide regulators with legal protection for their official actions as institutions," he said, adding that checks and balances can be achieved by having each of the two regulators (peaks) report to two different ministries.

RECOMMENDATIONS

The conference ended with the following recommendations:

- There is a great need to specify clearly the roles of the different regulators.
- Avoid conflicting missions for a single regulatory body.
- Avoid giving overlapping authorities to different regulatory bodies to avoid both "regulatory arbitrage" and "regulatory gridlocks"
- Regulatory bodies need to be given authority, powers and legitimacy for supervision, inspection and enforcement of policies.
- The need to ensure that there is a system of checks and balances.
- The need to ensure the independence and protection of regulators for their official actions.
- Conflicting laws within the overall legal system need to be harmonized and all rules & regulations need to be made clear.
- Timely and efficient information exchange between regulators is very important.
- Each regulatory framework (whether it is based on the integrated model or the twin peak model) has its pros and cons. A model should not be looked at as an end in itself but rather as an optimal target. The quality of judgment and underlying philosophy will decide the effectiveness of the specific regulatory structure.
- International cooperation is very important but the implementation of the required measures needs to be done at a national level in each individual country. Both international and national efforts need to be coordinated.
- Choosing a model depends on the unique characteristics of each country both economic and political.
- A key issue that remains in a lot of countries is that regulatory reform cannot be achieved without the supervisory will and their ability to act.
- Transparency is very important on the side of regulators especially with regards to market conduct.



SCA Holds «Mutual Fund» Seminar for Brokers

The Securities and Commodities Authority (SCA) has held a sensitization lecture on "Mutual Funds" for brokers and financial analysts working for brokerage countries in the country. Dr. Munther Barakat, Senior Advisor on Studies and Research at the SCA, delivered the lecture which was held in Abu Dhabi and Dubai.

The lecturer outlined the Mutual Funds draft regulation published by the SCA on its website with the aim of attracting comments and inputs from its strategic partners. He said the draft regulation, which concerns the local mutual funds, also aims at promoting foreign investment funds in the country.

Dr. Barakat started by highlighting the rules and conditions that must be met



first by companies which intend to establish local investment fund, citing those conditions as including the capital, the type of activity approved in the company's incorporation charter, the rate of investment in the fund and capital adequacy to engage in such activity. He also outlined the mechanisms for licensing local investment fund, the incorporation charter's structure and content, the

important information that must be provided and the mechanism for modifying the incorporation charter.

He also touched on many other related issues like ways of identifying risks related to each and every tool of the investment tools, how to use investment tools to deal with investment funds-related risks, mechanism and conditions for subscription of local investment fund units,

measures to be taken to issue, list and trade in investment fund units and many other related issues.

He gave detailed explanation about important issues like the principles of assets evaluation, pricing of investment fund unit, investment fund assets, loans and financial reports, prerogatives of board of directors of investment fund, disclosure and information sharing, monitoring and supervision of investment funds, cancellation of license and closing of the fund, the duties of investment fund manager and custodian.

Issues like violations, penalties, complaints about SCA decisions and mechanism for harmonizing the status of the existing investment funds were also highlighted during the seminar.

SCA Holds Seminar on «Dispute Resolution in the Area of Securities»

The Securities and Commodities Authority (SCA) has held in Abu Dhabi and Dubai a seminar on "Dispute Resolution in the Area of Securities". The seminar, which is part of the SCA's efforts to boost awareness on the securities market, discussed investors' keen interest in having various and rapid mechanisms for the resolution of disputes as that is an important way of attracting investors to the securities industry. Dr. Muzher Farghali, a legal advisor at the SCA, made a presentation explaining in details dispute resolution mechanisms and the SCA's efforts in developing the mechanisms and in dealing with any shortcoming that may crop up in their implementation.

He pointed out that the mechanisms include administration, litigation and arbitration tools. He said the administration tool deals with complaints of investors and brokers lodged at the market where they transact business or lodged at the SCA regarding complaints on securities listed on the Abu Dhabi Stock Exchange (ADX and the Dubai Financial Market (DFM), while the SCA also look into grievances of complainants against the market's decision.

Dr. Farghali outlined the procedure and scope of handling those complaints from the beginning to the end when the final judgment is passed. He also outlined the mechanisms of litigation as a



means of resolving conflict in case any of the parties involved decided to go that far. He said the courts of law – federal or local – have the authority to look into such a case according to the civil laws of the country.

The speaker went on to outline the arbitration mechanism as an alternative means to litigation at the law courts in the resolution

of dispute between those transacting business on the securities markets.

He said this tool is a very fast and effective means of resolving dispute, adding that arbitration is optional to all parties involved in the dispute who must agree to the arbitration tool as a means of resolving their dispute before it is effective.

Companies Should be Encouraged to List Stocks on Local Markets - Expert

The Securities and Commodities Authority (SCA) has organized awareness seminar in Abu Dhabi and Dubai on the topic: "Financial Market Tools and Mechanisms". Dr. Hammam Al-Shamma, Economic Advisor of Al-Fajer Securities, made a presentation on the subject matter during the seminars which were held on May 23 and 24 respectively.

In his presentation, Dr. Al-Shamma called for effective procedural measures to increase liquidity on the local financial markets. He said the continuous slip of local markets indices is caused by economic problems and not procedural ones.

Dr. Al-Shamma attributed the plummeting local market indices and level of trading on those markets to a number of factors, notably, the fall in granting of bank credit and liquidity pressure arising from real estate markets in the country. He called for securitization of properties loans through a funding source outside the revenue circle. He said securitization will free about AED165 billion which is the value of mortgage loans.

Touching on policies and tools which could help raise trading level on the local markets, Dr. Al-Shamma called for facilitating of bank loans by cutting down interest rates, adding that the indirect means of determining interest rates must stop.

He underscored the need to adopt interest rate as a reference base with a maneuver margin of ± 2 or 3% of the basic price. He said this must be made in a way that will not cut across with fixed exchange rate, on the one hand and without contradicting the principle of competitiveness



Al-Shamma during the lecture

and economic freedom among banks, on the other hand, adding that there is the need for financial policymakers to cut down the compulsory bank reserve on deposit.

Al-Shamma said any fall in lending leads to greater slip in the value of financial and properties assets, which ultimately reflects again on the banks, adding that

UAE has adopted a package of prudential recovery policies, including providing support in the form of capitals to raise the level of general spending in the country.

Al-Shamma pointed out that there is the need to encourage companies to list their shares on bourses and use them as a major source of funding

Securitization will free about AED165 billion

it is a spiral cycle which roles on inwardly, leading to the insolvency of borrowers due to depreciation in assets value, particularly the financial and properties value. This is because most of the loans granted to the private sector are against mortgage or stock, in addition to the problem of depreciation of properties rate due to lack of speculators' interest in them but which were being generously funded by banks in 2006 up to the first half of 2008. He called for increase in the number of free stocks tradable on the markets by encouraging the government and mutual funds to float some portion of their shares for trading on the markets. He said the

investment. He said the increase in number of listed companies will raise the number of traders and purchase/sale orders on the markets, adding that it will also provide greater opportunities for diversification of mutual funds as a result of increase in number of sectors listed on the market to reflect positively on the performance of the national economy. He called for increase in financial products which provide tools for attracting investors to trade on the market. He said those products or derivatives are necessary for prudential funds and alternative mutual funds. "It is therefore very important for promoting market status to higher ranks in

the rating ladder of credit rating agencies," he added.

"The SCA takes into serious consideration the issue of gradual elevation in the development of awareness and acceptance. It also takes into consideration the boosting of work with rules that seek to protect the financial markets from the risks of derivatives, notably, supervision, which in this case is to have in place the concerned supervisory authority to inspect the use of derivatives and put in place the maximum derivatives transaction volume allowed for the various institutions," Al-Shamma stated, adding that there should also be a maximum credit limit financial institutions should provide for their companies.

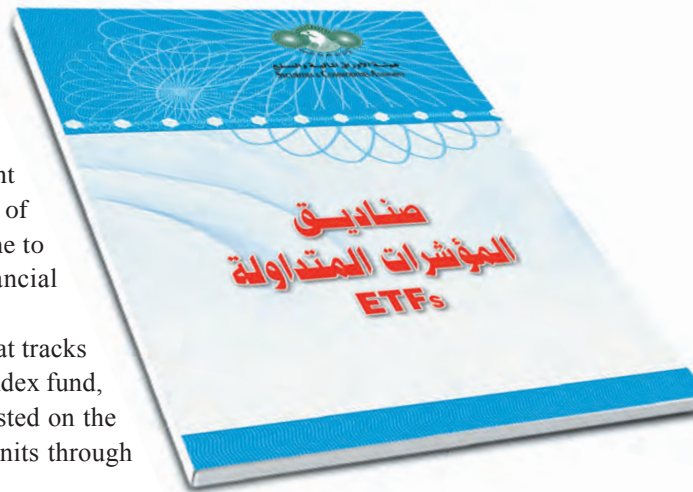
Al-Shamma said there is the need to improve transparency on the markets with the aim of meeting the demands of attracting foreign investors and implementing all the standards requirements of the credit rating agencies for listing UAE markets on the international indices. He called for the setting up of a unit in the SCA to handle the follow-up and supervision of performance of the accountancy offices to ensure they perform their duties effectively.



Exchange Traded Funds (ETFs)

The Securities and Commodities Authority (SCA) has issued a booklet on Exchange Traded Funds (ETFs), which is one of modern investment tools. The issuance of the booklet is a continuation of a series of booklets the SCA issues from time to time to highlight significant investment products on the financial markets.

The 20-page booklet defines ETF as: A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs are listed on the financial markets so that investors can trade in its units through brokers licensed to trade on those markets.



The booklet says the fund manager starts by announcing the issuance of the fund giving all details about the fund, including its objectives, risks, approved index, dues and commission, etc.

It points out that a unit of the ETF reflects the performance of all or most of the shares of the company on the index. It says buying the shares of this fund allows the buyer to indirectly own equities of all companies forming the index.

The booklet explains that diversification of companies in the fund's index minimizes the risk involved in depending on particular shares.

It says in the event of one of the companies in the index suffers a decline in its performance or collapses that will not necessarily affect the other companies forming the index.

"The diversity in the component of ETF index is not limited to a company's type of operation or sector, but could also mean diversity in terms of high, medium or low market value of share prices, in a way that would match investors' objectives. Diversity may also mean having a combination of sukuk, short and long-term bonds in the index," the booklet added.

It says ETFs generally provide the easy diversification, low expense ratios,

and tax efficiency of index funds, while still maintaining all the features of ordinary stock, such as limit orders, short selling, and options. Because ETFs can be economically acquired, held, and disposed of, some investors invest in ETF shares as a long-term investment for asset allocation purposes, while other investors trade ETF shares frequently to implement market timing investment strategies.

The booklet listed the advantages of ETFs as including lower costs, transparency, tax efficiency, buying and selling flexibility, market exposure and diversification, in addition to the ability to invest in the stocks of companies, which is impossible to invest in their shares through ordinary means.

Diversification of companies in the fund's index minimizes the risk involved in depending on particular shares

Regarding the negative aspects of ETFs, the booklet says their stocks face the same risks faced by stocks of companies in the index, in addition, ETFs are dependent on the efficacy of the arbitrage mechanism in order for their share price to track net asset value, especially if there is shortage in its trading liquidity.

It says there are two types of ETF investors - The first is: Major investors (authorized participants) who deal directly with the fund through the setting up of units and repurchasing them. This is done through the primary market and not through the financial market. The second type of ETF investors is: ordinary investors on the market.

It says each ETF has two values - Net Asset Value (NAV) and trading value, adding that the prices of ETF may vary.

On the setting up of ETF, the booklet says, the first step is to get an approval from the market regulator, then the fund manager strikes a deal with the authorized participant, market maker or major corporate investor which can set up or repurchase the ETF units. The authorized participant then borrows shares to set up ETF units then floats the ETF to the general public through an open capital market, the booklet explains and outlined steps for repurchasing ETF units.



Liquidity Rise in Banking Sector to Spur Recovery of Local Markets

The steady liquidity rise in the UAE banking sector is expected to spur trading activities on the local markets in the near future, especially in view of the interest rate cut and the resumption of lending by banks in the past months.

Total deposit of the UAE banking sector rose to reach AED1105.1 billion by end of March this year, compared to AED1049.6 billion at the end of 2010. The figure represents a growth of 5.3% against AED1022 billion recorded during the same period last year, according to UAE Central Bank report.

The report also shows that total lending by banks also rose to reach AED1048.1 billion against AED1031.3 billion at the end of last year. The figure represents a growth of 1.62% at AED16.8 billion.

The current significant liquidity improvement in the banking sector came at a time when the sector is witnessing a major fall in interest rate as Interbank Offered Rate (IBOR) slipped to its lowest in May, with IBOR reaching 1.88375% in three months, down from 1.98% at the beginning of the month.

Deposit, which surged by about AED55.5 billion in the first quarter of the year, helped in improving liquidity in the sector, to beat down the IBOR.

This improvement is coming at a time when a number of banks are trying to cast their net wider to cover the larger segment of trusted consumers in the society in the marketing of loans, while many banks have cut the interest rates on loans to about 40%, as expectations grow for further cut in interest rate and continuous increase in liquidity. Although with great optimism that this developments would reflect positively on the national economy, in general, including the financial market, some experts believe that the liquidity which flowed to the banks in the form of deposits during the first quarter of the year is just an instant one limited by time which will not exceed three months to one year. This is making banks to refrain from granting big loans and to tighten up their lending policy.

Meanwhile, instant deposit which requires bank dividend reached AED544.7

	Deposit	Loans
March 2011	1105.1	1048.1
February 2011	1079.0	1049.2
January 2011	1057.0	1043.4
December 2010	1049.6	1031.3
November 2010	1049.8	1040.7
October 2010	1053.8	1037.7

billion by end of last February to represent 62% of total deposits of the banking sector, the report says, adding that dividend from instant deposit does not exceed 1% per annum and this is expected to push both individuals and institutions to gradually invest part of their deposits on the stock markets for better dividend.

According to experts the reluctance of banks to expand in lending can be traced to the fact that major part of their liquidity is temporary although their long term deposits with more than a year grace period have surged to 21.5% in February this year compared to 17% in October last year, increasing by AED44 billion at a time when lending accounted for only AED11.5 billion.

Although banks have been cautious in expanding lending during the period, the Institute of International Finance (IIF) has recently expressed optimism about the UAE banking sector regarding the continuous improvement of liquidity in the sector.

The IIF is expecting lending rate to slip

to deposit during the year to about 94.8% compared to 97.2 % in 2010 and 103.6% in 2009. This reflects an improvement in liquidity which could spur banks to resort to lending once again.

This policy is being supported by a depreciation in banks' allowances for loan losses this year as some corporations succeeded in restructuring their debts to boost their profit margins as it happened with most of them during the past two quarters.

Experts believe that local stock markets will be, in the near future, the greatest beneficiary of the liquidity rise in the country as dividend from investing on those markets, in the medium and long term, will be bigger than the one that will be yielded from keeping them as deposit in banks.

This is coming at a time when there is high expectations for Morgan Stanley Index to elevate the UAE markets to emerging market status, which will certainly boost the strength and competitiveness of those markets at the international level, thus attracting more foreign investment to the markets and attracting local investors and institutions to invest proactively in local stocks. Meanwhile, the total Assets Under Management (AUM) for the wealth management division of Morgan Stanley is about US\$3 trillion (about AED11 trillion). Pundits expect a portion of this wealth will be invested on local financial markets as soon as the UAE markets have been elevated to emerging market status following the SCA's successful efforts in implementing all the necessary requirements.

Deposit surge in Q1 of 2011 helped in improving liquidity in the banking sector to beat down the IBOR





Al-Turifi and Al-Jasmi signing the agreement in the presence of SCA/EIBFS officials

SCA Signs 6 Local and International Memoranda of Understanding in 6 Months

The Securities and Commodities Authority (SCA) has signed six memoranda of understanding (MoU) from December 2010 to end of May 2011, as part of its general strategy of boosting cooperation with its strategic partners at the internal and external levels. Out of the six MoU, two are with international institutions, including the International Federation of Technical Analysts (IFTA) and the International Compliance Association (ICA), while the remaining four were signed with local institutions, including the Zayed University (ZU), the Emirates Institute for Banking and Financial Studies (EIBFS), the UAE Accountants and Auditors Association (AAA) and the University of Sharjah (UoS).

The memoranda of understanding signed by H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, aimed at boosting cooperation with those institutions in a way that would serve the SCA programs and reflect positively on the UAE national economy.

Commenting on the issue, Al-Turifi said the SCA remains committed to engaging in new strategic partnership with leading local and international institutions with the aim of sharing experience and knowledge, and to benefit from training programs in the areas

of technical analysis of financial markets and investment on those markets.

Developing national cadres:

The SCA has signed a MoU with the Emirates Institute for Banking and Financial Studies (EIBFS) to boost cooperation between the two sides in areas of interest in a way that would improve performance in the financial sector and contribute to growth and development of the securities and commodities markets.

The SCA praised the EIBFS for the significant role it continues to play in grooming competent national cadres to specialize in the banking and finance sector.

For his part, Al-Jasmi said the EIBFS, since its establishment in 1983, has been working in close cooperation with government institutions and agencies in support of the Emiratization program by producing capable national cadres to engage in the banking and finance sector through special training and academic programs, adding that the banking sector has recorded a significant development in the rate of Emiratization, which has reached 35.4% in 2010, up from 9.4% in 1997. In figures, he said, the number of UAE nationals has surged from 1,278 to 12,983 working in 905 branches, while the rate of UAE nationals occupying executive positions (branch

managers) has surged to 71.7%.

The MoU calls for joint action to facilitate and share information, capabilities, expertise and national human resources, developing and facilitating procedures within the framework of the existing UAE laws and regulations, cooperation in the area of training and sharing of expertise, encouraging national cadres to take up jobs in the securities sector and increasing the production of skillful and competent national labor force to meet the growing demands of the securities sector, particularly the brokerage companies operating on UAE securities markets.

The agreement also calls for joint efforts to improve the role of national cadres and boost the capacities of workers and other stakeholders in this vital sector through cooperation and provision of all forms of support, including awareness and professional advice and organizing of specialized conferences, forums and workshops in the areas of economy, finance and human resources development.

The EIBFS will provide opportunity for SCA staff to participate in and benefit from all events, training courses and conferences it organizes. It will also allow SCA staff to benefit from its library, information and statistics. The two sides also agreed



to cooperate in the area of adopting in the near future programs in some academic specializations for diploma certificate or any other certificate the two sides would agree on.

International Compliance Association (ICA)

The MoU signed between the SCA and the ICA seeks to boost cooperation in the area of training and capacity building in a way that would help advance professional standards and the development of the capital markets and the financial services industry of the United Arab Emirates.

In a statement, Al-Turifi said by signing the MoU, the SCA is seeking to adopt specialized professional training methods to help develop the financial markets, uplift the professional standards of workers in the financial services and improve the levels of investment in the country, adding that those objectives are to be achieved by various means and mechanisms, including boosting cooperation and mutual understanding with the ICA in the area of training.

Based on the agreement, the ICA will provide and customize training and qualifying accreditation programs addressing the core issues of the financial services industry as well as the systematic risk management techniques aimed at creating highly competent standards and state-of-art- performance. It will tailor professional training courses for all

professionals working in the financial services industry related to risk management. The ICA will be ready to provide and implement courses and accreditation programs to be required by the SCA.

Zayed University

The SCA also signed a MoU with the Zayed University (ZU) as part of the two sides' commitment to boost avenues of joint action between them and to tap the available experience and capacities in their areas of specialization.

According to the MoU, the two sides shall cooperate in the areas of professional advice and institutional support and development, in general, and in the area of human resources, administrative and social development, in particular. It also covers joint cooperation in the organizing of conferences, specialized workshops and forums, training programs in the latest developments and best practices in areas of mutual interest. The two sides shall also share facilities for executing of joint programs and projects which promote their policies and objectives.

In a statement, Dr. Al-Jasim said the agreement will allow the University's Social Services Institute to provide for the SCA professional advice, scientific and practical training programs to further develop the SCA's administrative and human resources, in a way that will reflect positively on the SCA's organizational support and development.

University of Sharjah

The SCA also signed another MoU with the University of Sharjah (UoS) to boost bilateral cooperation in various areas, including professional advice, institutional support and development, in general and human resources, administrative and social development, in particular.

H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, signed the agreement for his side, while Dr. Sami Mahmoud, UoS Director, also signed for his outfit.

Based on the MoU, the two sides will cooperate in a number of areas, including the areas of professional advice and institutional support and development, in general and human resources, administrative and social development, in particular. They will collaborate in organizing conferences, workshops, forums and training programs which will feature and discuss the latest developments and best practices in areas of mutual interest. They will also collaborate in joint programs and projects which will enhance and improve the policies and objectives of the two sides.

Dr. Sami Mahmoud reiterated his outfit's commitment to achieving excellence through its experts and professors and underscored the significance of social partnership, which, he said, is a major component of the university's mission.

International Federation of Technical Analysts (IFTA)

The SCA signed a MoU on mutual cooperation with the International Federation of Technical Analysts (IFTA). The MoU outlines the framework for mutual cooperation between the two parties in the areas of sharing of experience, advancement of professional standards and development of the UAE capital markets and investment industry.

UAE Accountants and Auditors Association

The SCA has signed a MoU with the UAE Accountants and Auditors Association (AAA). The agreement aims at boosting cooperation between the two organizations and at facilitating the sharing of experience and capacity in the area of accounting and auditing. It also seeks to improve the performance standard of SCA personnel to achieve SCA's objective of meeting the fast growing demands of the various administrations of the financial markets.

In a statement, the SCA said the MoU aims at boosting cooperation between the two sides and at building strong partnership to help develop and facilitate procedures between them in light of the of UAE laws and regulations, adding that the MoU also promotes cooperation between the two sides in the areas of training and building the capacity of SCA employees, sharing of experience and setting up a joint working team to follow up the implementation of the agreement. For his part, Dr. Al-Zarouni said the MoU targets the boosting of joint cooperation, sharing of experience, capacity building in the areas of accounting and auditing and building of strong partnership aimed at serving members of the AAA and the accounting fraternity at large, adding that it also aims at developing the accounting and auditing profession and improving the performance of accountants and auditors through joint training programs, holding of specialized conferences and forums and joint preparing of professional studies and researches.



71 Firms Comply with Corporate Governance Rules by End of 2010

Financial market sector forward march for more achievements

Corporate governance has taken a center stage in the running of business entities in the Gulf and the Arab world, in general. Although the “corporate governance” terminology became popular in the region just in recent time, the positive results of this practice have encouraged the countries in the region to continue vigorously in enforcing the practice to boost the administration of companies and other business institutions to promote disclosure of information of interest to investors and creditors alike.

Generally, corporate governance means: set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debtholders, trade creditors, suppliers, customers and communities affected by the corporation’s activities. Internal stakeholders are the board of directors, executives, and other employees.

It is no exaggeration to say that despite the short period of its application in the UAE, the Ministerial Decree No. 518 of 2009 concerning corporate governance and institutional discipline standards has yielded outstanding results in the UAE compared to its results in many countries of the world.

As part of its efforts to boost transparency, disclosure and all issues related to the local securities market, companies listed on those markets and other parties involved in the financial market industry, the SCA recently reiterated its call to all parties to comply fully with corporate governance rules and regulations, particularly the clause on election of board members of companies. The call represents a landmark in the efforts to deepen transparency in the election of board members of companies



in the UAE, which is happening for the first time in the over four decades of UAE’s history.

The SCA demanded from all PJSCs to announce publicly through the media the opening of the door for registration of candidates interested in contesting in the election of board members. The announcement, according to the SCA rules, must be made in two daily newspapers – English and Arabic – and according to the rules outlined by the SCA. It must be notified in the announcement that names

and other details of the candidates shall be published on the company’s notice board and website or any other medium approved by the SCA two weeks clear from the date of convening the company’s general assembly meeting. The SCA should also be furnished with the list of names of the candidates.

The new step is in compliance with Ministerial Decree No. 518 of 2009 concerning corporate governance and institutional discipline standards and in accordance with the SCA’s efforts aimed at

promoting and developing UAE securities markets as one of the major strategies the SCA is working hard to achieve.

In a circular the SCA issued for the second consecutive year regarding the annual general assembly of PJSCs, the SCA reminded the PJSCs that the door of registration of candidates interested in contesting for board membership position must remain open for one month, at least, from the date of placing the announcement in the dailies. Any shareholder who has met all requirements outlined by the company's rules and charter have the right to contest in the company's board membership election. The interested candidate just has to present application to that effect attached with his profile and the position he is seeking to contest for.

Based on the latest statistics regarding compliance with and application of all the requirements of corporate governance rules, 71 companies, representing 88% of the concerned companies, have fulfilled, by the end of 2010, their obligations of furnishing the SCA with the requirements of their strict adherence to corporate governance rules, while the remaining 10, accounting for 12% of the concerned companies, are yet to fulfill that obligation. In all, 81 companies are subject to the Ministerial Decree No. (518) of 2009 concerning corporate governance and institutional discipline standards, while 48 companies, including investment, banking, financial and foreign companies listed on UAE markets, are not subject to the decree. This is in view of the fact that those companies are subject to the UAE Central Bank instructions. Also exempted are foreign companies listed on UAE markets.

Many economy and finance experts believe that it is very important for companies to uphold and entrench transparency in the election of their board members as that will boost the confidence of shareholders and investors thus reflecting positively on the companies' listed stocks on the market. They said the companies' strict compliance with and application of corporate governance rules is now one of the most important issues investors consider before making

Corporate Governance in the World - How it Started

In 1999 the Organization for Economic Cooperation and Development (OECD) issued a declaration known as Principles of Corporate Governance, which were updated in 2004 with the addition of new set of important legal framework to help assess the level of practical implantation of corporate governance.

The OECD Principles of Corporate Governance cover six key areas of corporate governance:

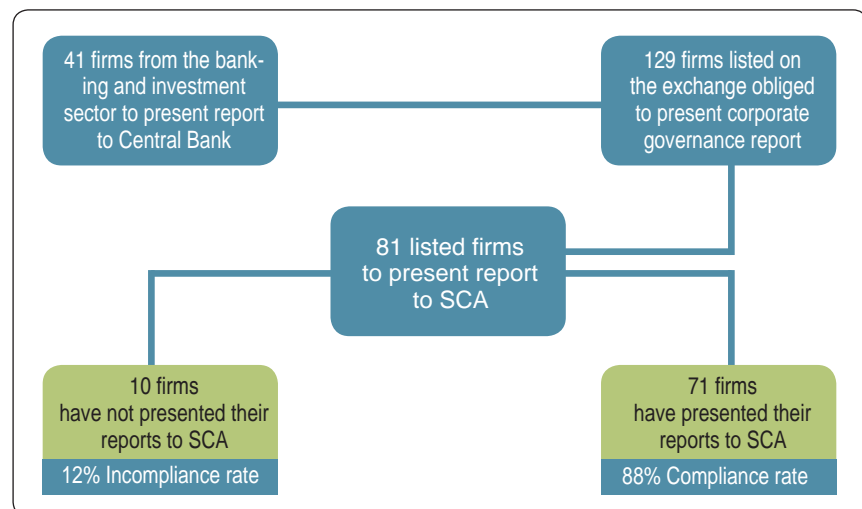
- 1)- Ensuring the basis for an effective corporate governance framework.
- 2)- The rights of shareholders.
- 3)- The equitable treatment of shareholders.
- 4)- The role of stakeholders in corporate governance.
- 5)- Disclosure and transparency.
- 6)- The responsibilities of the board.

investment decisions, particularly in light of the economic globalization and tough competition among various companies and institutions to enter the local and international markets for investment, that is where companies complying with corporate governance rules have the edge in the competition of attracting more capital and in long-term competitiveness advantage due to their good record in transparency, accountability and financial oversight, which are all what is needed to win the heart and mind of local and foreign investors.

Following the issuance of the corporate governance regulation in 2007, H.E. Engineer sultan bin Saeed Al-Mansoori, Minister of Economy and SCA Board Chairman issued Ministerial Decree No. 518 of 2009 concerning corporate governance and institutional discipline

standards. The decree amended the corporate governance rules issued earlier by the SCA. Companies were given optional period to implement the decree with the aim of having feedback regarding the views of the PJSCs and other institutions which have started implementing the rules, in order to benefit from those views in effecting the necessary amendments to upgrade the decree.

Some of the amendment made on the 2007 decree to produce the 2009 decree are: identifying the companies which must apply the corporate governance rules as including all companies and institutions listed on the local financial markets and their executives. Companies fully owned by the federal government or by any of the local governments, have been exempted from the compulsory implementation of the rules.



IPO Bounces Back on Local Markets

As SCA moves to give it a boost

Initial public offering (IPO) is expected to make a strong come-back on the UAE local markets this year following investors' renewal of confidence in the markets as liquidity begin to flow into the markets once again.

The UAE witnessed the first successful public subscription in two and a half years following the 100% subscription of the shares of Dar Insurance Co. which will be listing soon on the Abu Dhabi Stock Exchange (ADX). The development is a clear proof of the re-flow of liquidity into the market.

The Incorporation committee of Dar Insurance announced last March that the total IPO of the company's shares of AED66 million has been fully subscribed. The announcement broke the temporary silence and freeze that had engulfed the local markets for almost two and a half years and marked the beginning of another era of bustling local financial markets in light of the improving local and global financial situation.

Takaful National Insurance also floated 55% of its shares in April this year following its incorporation in Abu Dhabi as a public joint stock company with an initial capital of AED150 million. The company was established by a conglomerate of four firms, including Abu Dhabi National Islamic Finance (ADNIF), an affiliate of National Bank of Abu Dhabi (NBAD), Abu Dhabi National Insurance company (ADNIC), Abu Dhabi National Energy Company (TAQA) and Aldar Properties. Abu Dhabi-based Eshraq Properties (PJSC) also floated 55% of its capital totaling 825 million shares for public subscription on May 1st 2011.

The public subscription of Takaful national Insurance, which opened on April 18, 2011, ended with strong response and patronage from investors, having been oversubscribed seven times. Subscription requests for 590 million shares were received after the close of subscription of a total of 82.5 million shares.

Out of the total shares floated, individual Emirati investors were allocated 20 million shares to subscribe, representing 13.33%



of the total capital shares, while the remaining 62 million shares were floated for all investors, including individuals and institutions.

Individual Emirati investors were allowed to subscribe 5000 shares by allocation of 2000 shares per request, while other investors – individuals and institutions – were able to request for subscription of nothing less than 10,000 shares. The stocks will be listed on the ADX.

Meanwhile, Eshraq Properties' first tranche of capital shares of AED206.2 million, representing 25% of its capital share of AED1.5 billion, has been oversubscribed. The company, the third to float its shares for public subscription in Abu Dhabi this year, demanded from subscribers the payment of 25% of the value of the subscription in May, while the rest of the payment is made within two years. The company's move seeks to ease pressure on subscribers in light



of the current liquidity insufficiency on the markets.

The success of Eshraq Properties under the current market condition is certainly a major achievement for the IPO market. On the other hand, it would encourage other companies hesitating in patronizing the IPO market to overcome their fears and move on to float their shares, on condition their products are good and meet the market demand based on the Vision 2030 of the Emirate of Abu Dhabi.

The SCA has earlier announced that it was expecting UAE markets to witness new IPOs for four companies by mid 2011. Although the volume of the subscription can be described as small except for the Eshraq Properties, its success is an indication of a strong bounce back of subscription activities. A number of major firms are expected to float new shares for public subscription in the near future. Meanwhile, some subscription banks have hinted that a number of companies are planning to float their shares for initial public offering, having seen that time has come for them to move onto the stock market. New studies show that subscription markets in the UAE and the Gulf region, in general, are expected to witness a strong recovery this year after over two years of downturn at the international level.

The studies show that UAE markets will have the lion's share of the new subscriptions as stock and commodities assets have become more enticing for investment at the current prices. The studies also show that stock markets shall witness waves of subscriptions as investor confidence continues to soar in UAE and its financial markets.

A survey conducted by the Chartered Financial Analyst (CFA) shows that the confidence of major investors in the economic growth of their businesses in the UAE is high above that of their peers in other countries of the region. The survey covered 200 senior officials, including investment portfolio managers, senior analysts, executives, investment consultants and planners of pension investment plans from GCC member states, Egypt, Jordan and Lebanon. The survey show that 59% of the respondents said their businesses had witnessed strong growth.



The survey and other reports issued by a number of corporations expect growth in the public offering market in the near future. This expectation followed investors' move towards establishing multi-activities public joint stock companies. So far the Department of Economic Development - Abu Dhabi (DED) has issued 5 licenses to such companies, according a annual report issued by the DED. This points to a potential return of active IPO market in the country.

This is happening at a time the SCA continues to exert efforts to meet the latest

this new mechanism by the markets which intended to list more new companies, adding that it is currently studying, in collaboration with a number of financial bodies in the country, the possibility of having those financial bodies to play the role of agents in the coverage of the subscriptions.

In order to prepare the UAE markets for greater expansion, for the potential rise in the IPO operations and for the conversion of companies to PJSCs and listing on the UAE markets, the SCA issued Ministerial Decree No. (206) of 2010 concerning the allocation of securities to subscribers and proceeds generated from subscriptions. By virtue of this decree, all banks shall have to refund surplus amounts and subscription proceeds to subscribers. Securities subscription receiving entities must calculate the refund on subscription proceeds as from the next day to the subscription closing date until the day preceding the date of refunding surplus amounts to subscribers. The refund of proceeds from amounts which have not been allocated shares is within the confines of the law and represents a source of encouragement for investors to actively participate in the subscription of shares floated by companies, as investors stand to gain whatever the result provided he/she had deposited his money at the bank for subscription of a company's shares. This encourages investors to rush to subscribe shares of companies and in turn encourages companies to float their shares for public subscription leading to the success of the IPO market in achieving its objective of providing finance to companies at the appropriate cost.

**Local markets
poised for waves
of subscriptions as
investor confidence
soars high in UAE
financial markets**

developments on the global scene while trying to facilitate investment process in a way that would serve better the interest of the national economy, investors and the companies. The SCA said it will soon adopt a new mechanism which will allow companies which intend to float their shares for public subscription to determine the rate of payment from the nominal value of the share in a way that would suit the company after considering the market situation, but that should be on condition that the payment is not below a quarter of the nominal value of the share as stated by the law.

The SCA said there is greater optimism on



اجتماع الجمعية العمومية العادية الخامس والعشرون / الجمعية العمومية غير العادية 25th Ordinary General Assembly / Extraordinary General Assembly



Companies Distribute AED17.2 Billion Cash, Grant in 2010

A total of 163 general assembly meetings were held in 2010, including 107 ordinary and 56 extraordinary meetings during which cash and grant payouts totaling AED17.2 billion were approved.

The insurance sector topped the chart in the number of general assembly meeting with 39 meetings, followed by the banking sector with 35 then the industry sector with 22 meetings. The consumer goods sector recorded a total assembly meeting of 18, the investment and financial services sector recorded 14 meetings, followed by

the real estate sector with 13, the services sector witnessed 11 meetings, while the transport, energy and telecommunications sectors recorded 5, 4 and 2 meetings respectively.

Regionally, the Emirate of Dubai hosted the highest number of the general assembly meetings with 63 meetings, representing 39% of the total general assembly meetings held in the UAE last year. The figure includes 42 ordinary meetings and 21 extraordinary meetings.

The Emirate of Abu Dhabi recorded a total of 46 general assembly meetings,

representing 27% of the total general assembly meetings held in the country during the same period. The figure consists of 31 ordinary and 15 extraordinary meetings. Third on the list is the Emirate of Ras Al-Khaimah with a total of 21 meetings, including 13 ordinary and 8 extraordinary meetings, followed by the Emirate of Sharjah with a combined total of 16 ordinary and extraordinary meetings. The Emirate of Fujairah followed with a combined total of seven (7) ordinary and extraordinary meetings, trailed by the Emirate of Ajman and the Emirate of Umm Al-Qaiwain with totals of six (6) and four (4) ordinary and extraordinary meetings respectively.

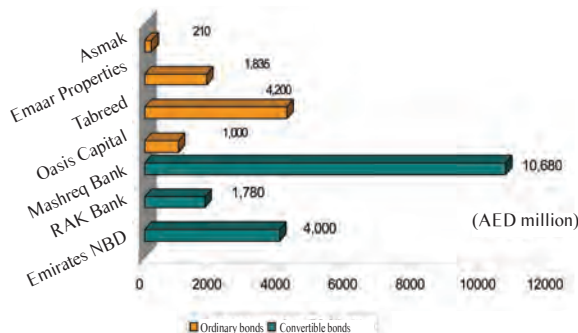
Total dividend distribution approved by the general assembly meetings last year stood at AED17.2 billion, out of which cash payout represents 75% at a total amount of AED12.8 billion, while grant payout accounted for 25% at a total amount of AED4.36 billion.

Sectorially, the banking sector topped the list of total distribution of dividend with AED6.2 billion, representing 37% of the total dividend distributed during the same period. The telecom sector followed with a total of AED5 billion, representing 29%, followed by the energy sector with a total of AED1.22 billion, representing 7%, then the investment and financial services sector also with a total of AED1.12 billion, also representing 7%, while the insurance sector followed with a total of AED880 million, representing 5%, trailed by the rest of the economy sectors.

The banking and telecom sectors equal each other in terms of total cash dividend distribution with each distributing a total of AED4.3 billion. The insurance sector followed with a total of AED750 million cash dividend distribution.

At company level, Arab Heavy Industries and the Gulf Livestock Co. topped the list of cash dividend distribution, as their general assembly

Companies which approved the issuance of debt instruments in 2010



meetings approved a cash dividend distribution of 100%. Al-Ain Ahlia Insurance Co. followed with 75%, trailed by the Emirates Telecommunications Corporation (Etisalat) and the National Corporation for Tourism & Hotels with 60% each. The total nominal value of bonus share payout approved by the general assembly meetings held in 2010 stood at AED4.4 billion. Sectorially, the banking sector topped the chart of bonus share payout in nominal value totaling about AED1.95 billion. The telecom sector followed with about AED718 million, trailed by the energy sector with about AED600 million.

At company level, Alliance Insurance Co. topped the list companies which approved bonus share payout at their general assembly meetings with 33%. Finance House followed with 25%, followed by the Abu Dhabi Islamic Bank and the RAK Bank with 20% each. Meanwhile, the general assembly meetings of seven public joint stock companies (PJSCs) have approved debt instruments (bonds and sukuk) totaling AED23.7 billion in 2010. This includes AED16.46 billion worth of regular bond and AED7.24 billion worth of convertible bond.

The general assembly of Mashreq Bank approved the issuance of the biggest volume of bonds - AED10.68 billion worth of regular bond, followed by TABREED which approved the issuance of convertible bond worth AED4.2



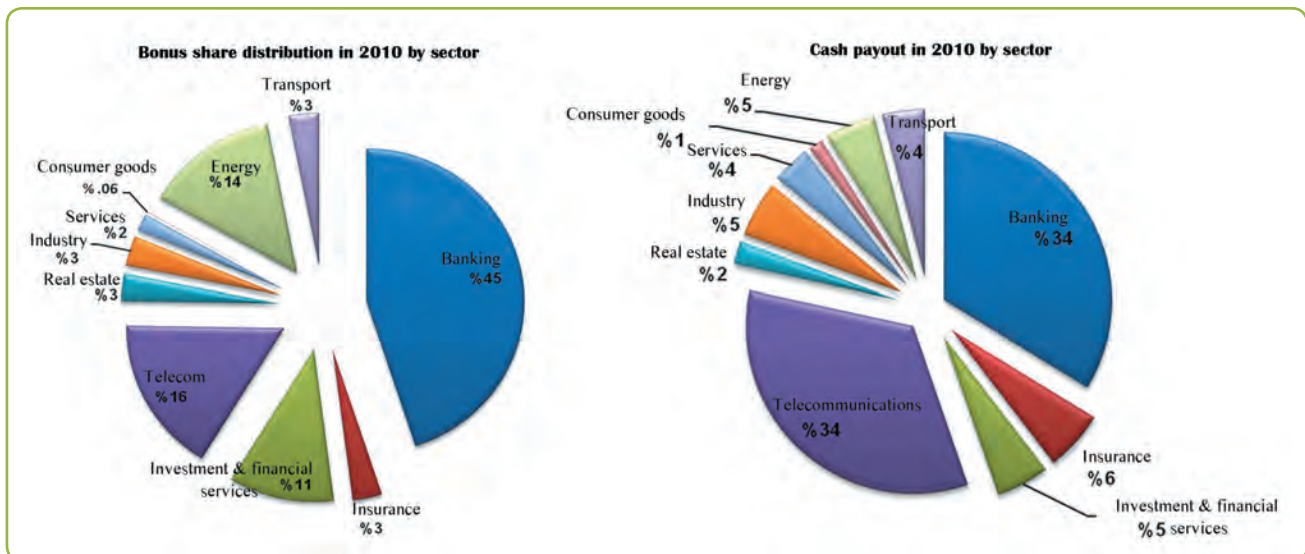
billion. The general assembly of the Emirates NBD also approved the issuance of AED4 billion worth of regular bond, followed by Emaar Properties, whose general assembly approved the issuance of AED1.83 billion worth of convertible bond. RAK Bank followed with the issuance of AED1.78 billion worth of regular bond, followed by the general assembly of Oasis Capital which approved the issuance of convertible bond worth one billion Dirhams, while ASMAK's general assembly also approved the issuance of convertible bond worth AED210 million. Capital increase through the conversion of debt instruments to shares totaled AED616.77 million, while the Emirates Integrated Telecommunications Company (Du) approved a capital increase through the floating of new shares totaling

AED571.6 million for public subscription.

Twenty companies have approved amendment of their incorporation charter during their general assembly meetings held in 2010 without making decision on capital increase or decrease.

The insurance sector held six general assembly meetings, followed by three firms from the banking sector and another three from the investment and financial services sector. The industry, services and consumer goods sectors followed with two meetings each, while the energy sector trailed with one general assembly meeting.

TABREED approved 80% cut in its capital, representing AED970 million, while four companies approved the change or amendment of their legal status during their general assembly meetings in 2010.



New ESM Index launched for Re-classification of listed Firms

The Securities and Commodities Authority (SCA) has successfully launched a new index of the Emirates Securities Market (ESM) at the beginning of May 2011.

The new index consists of 10 sectors instead of the four in the past. The 10 approved sectors are: the banking sector; which has 26 companies, telecommunication; with five companies, real estate; with 12 companies, insurance; with 28 companies, investment and financial services; with 13 companies, energy; with two companies, industry; with 18 companies, services; with 10 companies, transport; with four companies and consumer goods; with 10 companies.

H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, said that as part of the efforts aimed at improving performance of UAE securities markets, the SCA has unified the sectorial classification of companies listed on UAE markets by reassigning the companies according to the new sectorial index which is in accordance with the best international practices approved by the world's elite



Al-Buloushi: The initiative coincides with the growing increase in the number of current and future firms

credit rating institutions, adding that the move aims at boosting the studies and analysis procedure for making informed investment decisions, and is in view of the fact that indices must reflect the actual status of listed companies and their various activities which should reflect on by their sectors in the market.

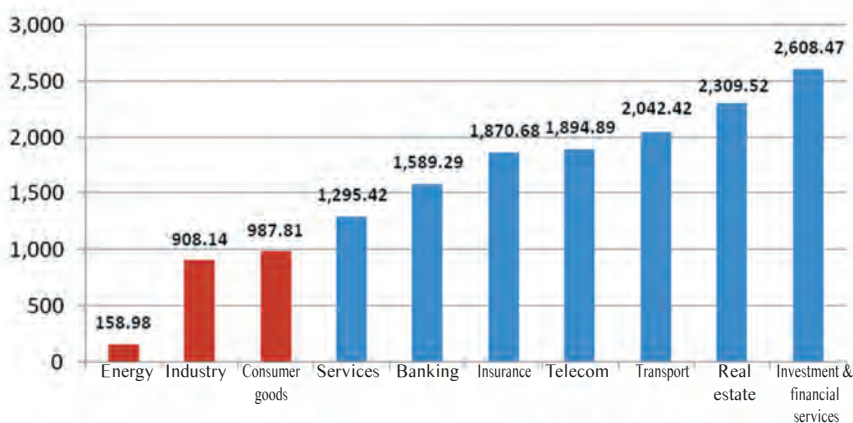


Kazim: The new step will contribute in unifying the sectors according to international sectorial ranking standards

Al-Turifi said the SCA is closely following up international developments in this regard and is taking into consideration the significance of moving on a par with any development that may crop up on the ESM sectors in order to improve the standard of UAE markets in tandem with the best international standards.

Commenting on the new

development, Essa Kazim, Director General and Chief Executive Officer of the Dubai Financial Market (DFM), said his outfit remained committed to the strong relations of cooperation with the SCA and deeply appreciates and supports the latter's efforts in various areas. He said the latest step will contribute in unifying the sectors of



The new sectorial index

the SCA, the DFM and the Abu Dhabi Securities Exchange (ADX) according to international sectorial classification standards of the Standard & Poor's (S&P) and Morgan Stanley, adding that the DFM has adopted those sectorial standards since 2006. "With the uniform adoption of the new classification index investors can now benefit more from the indices of the markets and make decisions based on sound analysis. They can also make informed comparisons not just at the local level but also at the regional and international levels," he explained.

"As for the reflection of the new arrangement on the DFM, it is just the matter of renaming some sectors to match with the new system, for example, the "public utilities sector" will now become the "services sector" and the "materials sector" will now be renamed "industry sector", while all listed companies under the "materials sector" will now be transferred to the "industry sector", he further explained, adding that under the SCA's reclassification index which limited the number of sectors to 10, all listed companies will be classified under 9 sectors on both the DFM and ADX, except for the transport sector, which will be available only at the DFM and the energy sector, which will be available only under the ADX to bring the total sectors on each of the two markets to 10.

Rashid Buloushi, ADX Deputy CEO and Director of Operations, also commented on the issue saying that the reality of the common vision of the SCA, DFM and ADX towards the

Banks	
1	Abu Dhabi Commercial Bank
2	Abu Dhabi Islamic Bank
3	Bank of Ajman
4	Bank of Sharjah
5	Amlak Finance
6	Commercial Bank of Dubai
7	Commercial Bank International
8	Dubai Islamic Bank
9	Emirates Islamic Bank
10	Emirates Investment Bank
11	Emirates National Bank of Dubai
12	First Gulf Bank
13	Finance House
14	Invest Bank
15	Mashreq Bank
16	National Bank of Abu Dhabi
17	National Bank of Fujairah
18	National Bank of Umm Al-Qaiwain
19	Sharjah Islamic Bank
20	RAK Bank
21	Tamweel
22	United Arab Bank
23	Union National Bank

Industry	
1	Union Cement Co.
2	Umm Al Qaiwain Cement
3	RAK White Cement
4	Sharjah Cement
5	RAK Cement
6	RAK Ceramics
7	Abu Dhabi National Building - BILDCO
8	Arkan Building Material
9	Arab Heavy Industries
10	Abu Dhabi Ships Building
11	Fujairah Building Industries
12	Fujairah Cement
13	Gulf Cement
14	National Cement
15	Gulf Pharmaceutical - JULPHAR

strategic development of UAE competitiveness has encouraged the taking of such an important step of unifying the sectorial classification of

Insurance	
1	Methaq Insurance
2	Green Crescent Insurance Co.
3	Dubai Insurance Co.
4	Dubai National Insurance Co.
5	Emirates Insurance Co.
6	Al Fujairah National Insurance Co.
7	Al-Ain Ahlia Insurance Co.
8	Al Buhaira National Insurance
9	Arab Orient Insurance
10	Alliance Insurance
11	Dubai Islamic Insurance & Reinsurance Co. (AMAN)
12	Al Khazna National Insurance Co.
13	Abu Dhabi National Insurance Co.
14	Scandinavian Insurance
15	Al Saqr National Insurance
16	Al Wathba Insurance
17	Takaful House
18	Al Dhafra Insurance
19	RAK National Insurance Co.
20	National General Insurance
21	Oman Insurance Co.
22	Sharjah Insurance Co.
23	Islamic Arabic Insurance
24	Takaful
25	Union Insurance Co
26	United Insurance Co.
27	Takaful Emarat

Financial Services	
1	SHUAA Capital
2	Oasis Capital
3	DFM
4	Dubai Investment
5	Gulf General Investment

Transport	
1	Gulf Navigation Holding
2	Air Arabia
3	ARAMEX

listed companies on the UAE local markets according to the best international practices and systems. He added that the reclassification initiative that

Real Estate	
1	Emaar Properties
2	Drake & Scull
3	Dubai Development Co.
4	Deyaar Development
5	Arabtec Holding Company
6	Aldar Properties
7	RAK Properties
8	Sorouh Real Estate
9	Union Properties

Services	
1	TABREED
2	National Marine Dredging Co
3	Al Firdous Holding
4	Abu Dhabi Aviation Co.
5	Abu Dhabi National Hotels
6	Fujairah Trade Center
7	Emirates Driving Co.
8	Gulf Medical
9	National Corporation of Tourism

Consumer Goods	
1	Kaipara Dairies
2	United Foods
3	RAK Poultry & Feeding
4	Gulf Livestock
5	GULFA Mineral Water
6	Foodco Holding
7	Jeema Mineral
8	Dubai Refreshments
9	ASMAK
10	Agthia Group

Telecommunications	
1	Emirates Integrated Telecom Co. (Du)
2	Emirates Telecom Corp. (ETISALAT)

Energy	
1	Dana Gas
2	Abu Dhabi National Energy - TAQA

has been approved by the joint committee of the SCA and the markets will lead to solving the sectorial index differences and problems, just as it will



also facilitate the conducting of economic research, studies and analysis to assist in making sound decisions.

He pointed out that the new sectorial classification and indices which will come into effect from May 1, 2011, will certainly reflect the actual reality of listed companies and their various activities on each of the markets. He said the initiative coincides with the growing increase in the number of current firms and those expected to crop up in the future as a result of new listings which he described as a healthy development as it boosts local investment and attracts foreign capital.

For his part, Mohammed Ali Yaseen, Chief Investment Officer of CAPM Investment, said he believes the SCA initiative of adopting a new ESM index will contribute immensely in unifying the indices on ADX and DFM, adding that the move will also provide investors with a unified view about indices on UAE stock markets. "The step will also help local indices catch up with the international criteria for those transactions, leading to better understanding of those indices by international investment institutions. It will also make the comparison of those indices clearer, thus helping to highlight the potential value of some companies on those indices comparably with

their counterparts at the regional level. Generally, I believe this development is a new step towards updating our markets with international market standards," He said.

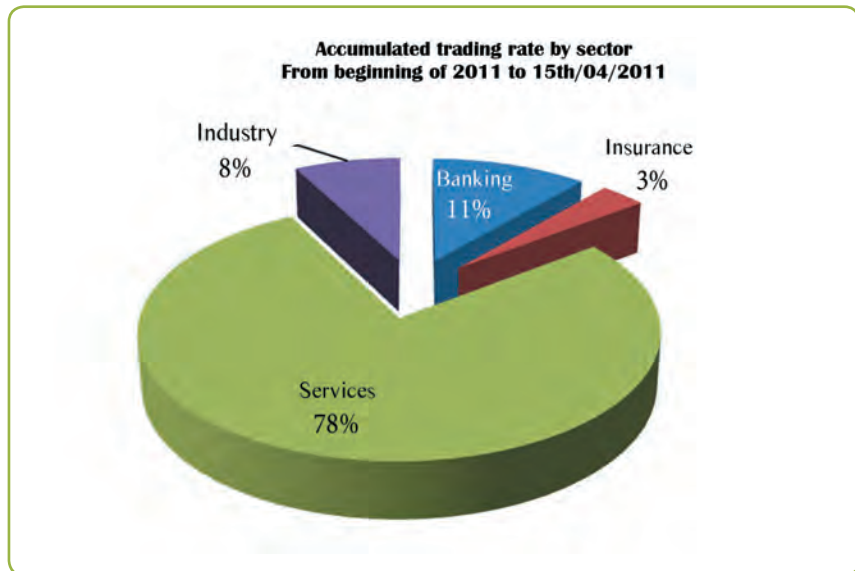
Also commenting on the development, Ziyad Al-Dabbas, Advisor at the National Bank of Abu Dhabi (NBAD), said: "I believe the SCA's decision to launch a new ESM index came to translate into action the SCA's initiatives in boosting the performance of local financial markets and improving the level of disclosure and

transparency to attract foreign investment to the local markets. The SCA's launching of the first ESM index when the financial market was set up in 2000, was enough to serve the purpose at that time in view of the sizeable number of investors on the markets, when foreigners were not allowed to own and trade on the market at that time."

He pointed out that the distribution of listed companies to ten sectors instead of the four sectors in the past will help investors, analysts, supervisors, investment portfolio and mutual fund managers to follow-up easily the performance of companies sectorially. He said having many companies operating across various sectors under one sector does not provide enough support in making sound investment decisions.

"In addition, it also makes it difficult to follow up closely the performance of stocks of companies in various sectors. For example, by merging the telecom sector with real estate sector in one sector may not help clearly identifying the performance movement of each sector but the new classification of sectors helps achieve that easily, particularly for foreign investors who concentrate on particular sectors in their investment," he added.

Dr. Hammam Al-Shamma, Economic Advisor of Al-Fajer Securities, applauded the SCA for its efforts to improve local market performance, unify the sectorial



Procedure for Re-classification of the Index

Index Calculation Steps

1. Companies classified according to the ten new sectors
2. Date of 31st/12/2003 adopted as the beginning of calculation of the new sectorial indices from 1000 points, while the general index starts from 1657.24 points –which was the actual point settled on 31st/12/2003.
3. Data of listed firms on the markets prepared as it was on 31st/12/2003, with assistance from the ADX and DFM.
4. Data on closing prices and number of companies' stocks collected on 31st/12/2003.
5. All trades and procedures of listed companies since 01/01/2004 were collected and collated in a way that appropriately matches with the electronic readings of the electronic system. It was then developed by the SCA's IT Department to become the main operator in the calculation system. This is to avoid any mistake that can result from manual calculation, on the one hand and to ensure quick and accurate re-calculation automatically, on the other.
6. The adjusted value of the historical prices of companies' stocks (corporate actions) based on which the number of stocks was adjusted, making it possible for all interested persons to compare the current stock prices with its adjusted historical price.

classification of companies listed on local markets and redistribute those companies according to the new sectorial classification, in collaboration with the ADX and the DFM.

“The unifying of sectors on the two markets will lead to make the ESM index match sectorially with those of the ADX and DFM. Until now, the ESM index being used by financial analysts in dealing with the performances of the local markets is contains four sectors only. Putting aside the banking and the insurance sectors, the services and industry sectors according to the ESM index consist of mixed companies including some companies which cannot actually represent the sectors’ performance. But now that the sectors have been unified it will be possible to move to a unified and homogenous index which reflects one economy in a unified country.

Of course this will help foreign investors understand better the performance of the local markets. For example, the real estate sector in the two markets have the same conditions although with difference in the intensity of decline in the value of properties and rents, but being one economy, the easy movement of persons and wealth from one emirate to another makes the differences, which were hitherto big, to dwindle.”

“Despite belonging to a particular emirate, the banks also operate on one economic landscape, whatever affects the bank in a particular emirate affects all the other banks in other emirates no matter the slight difference in the regulations and directives and the rise or fall of profits or losses.

The same applies to all the other sectors, which the lack of similarity in their distribution makes it difficult to see them in one focal point, just as it makes it difficult to make comparison. We are now at a threshold of a new phase of development in the UAE’s financial markets with the latter being elevated to the emerging market status, thanks to the spirit of perseverance exhibited by the ESCA in collaboration with the ADX and the DFM.”



UAE Securities Markets Implement DVP

UAE financial markets have started operating Delivery Versus Payment (DVP) service. The service came into operation on April 28, 2011. The move, which will place the UAE among the first in the region to implement such a mechanism, reflects the commitment of the SCA, the ADX and the DFM to developing the local securities market infrastructure and to adopting the best international practices.

Both the ADX and DFM, in collaboration with the SCA, have completed all the necessary preparations by testing the technological systems and putting in place all the operational procedures for the successful implementation of the service. A number of workshops had been held to highlight and test the new product and to outline the regulation and procedures of custodians and brokers regarding the new service.

In a statement, H.E. Abdullah Al-Turifi, SCA Chief Executive Officer, said implementation of the new mechanism is part of the effort to adopt best international practices in line with the recommendations of the International Organization of Securities Commissions (IOSCO) and in order to meet the requirements for the elevation of UAE markets to the emerging international markets status, according to the Morgan Stanley International Capital indices, a move which would attract more foreign investment to the UAE markets.

Al-Turifi pointed out that the local markets and brokers have taken the necessary steps to convert to the new settlement mechanisms,

having met the necessary technical requirements for the implementation of the mechanisms, adding that the SCA had issued last year licenses to a number of companies and banks to provide custodian services, enough to meet all the components of operating the DVP.

The DVP is one of the best practices being advocated by the IOSCO, as the latter, through a recommendation paper it has issued on Security Settlement Regulation, urged all member bodies to adopt the DVP, a mechanism which is very effective in minimizing risk and currently being implemented on all the elite international bourses of the world, including the New York, the London and the Hong Kong stock exchange.

It is highly expected that the DVP would help minimize the risks emanating from the delivery and receipt of securities as both the ownership transfer and payment of securities cost will be done simultaneously.

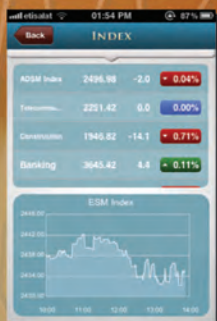
The DVP allows an investor to object to the settlement of any sale/purchase deal being executed without his/her consent or instruction or being executed in a way that flouts his/her instructions by clearing him from any obligation for payment or transfer of the ownership of his securities.

It’s worth noting here that the DVP does not change the DFM settlement duration of T Plus 2 system, nor does it revoke the need for early cross-check to ensure that the securities being offered for sale are available in the client’s trading account.

Let's Communicate

Without Limits, Anytime, Anywhere

The Securities & Commodities Authority (SCA) is now within your reach anytime, anywhere. Access us through your **iPad** or **iPhone** and browse the SCA law, regulations, decisions, circulars and stay up-to-date with all our news bulletins. You may also access the current Emirates Securities Market index, interact with your observations and suggestions, and utilize our search engine facility.



Decision Title
DECISION NO. 11 OF 2000 CO...
DECISION NO. 12 OF 2000 CO...
DECISION NO. 13 OF 2000 CON...
DECISION NO. 1/R OF 2000...
DECISION NO. 28/R OF 2010...
DECISION NO. 2/R OF 2000 CO...
DECISION NO. 3/R OF 2000...

Law Title
Federal law no. 4 of 2000 concerning the emirates securities & commodities authority and market
Federal Law No. 7 of 1976 establishing the State Audit Institution

Regulation Title
Article (1)
The following fees shall be charge Dubai Gold and Commodities Exchange:
1. Application fee for the Authority Licence 1000 dirhams
2. Fee for registration with the Authority 5000 dirhams
3. Fee for renewal of registration dirhams