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**Principles for Financial Market  
Infrastructure Disclosure**



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## I Executive Summary

The Committee on Payments and Market Infrastructure and the Technical Committee of the International Organisation of Securities Commissions (CPMI – IOSCO) have specified that financial market infrastructures (FMIs), include central securities depositories (CSDs), securities settlement systems, central counterparties, payment systems and trade repositories which facilitate clearing, settling and recording of monetary and other financial transactions.

In April 2012, CPMI-IOSCO issued a report on the Principles for Financial Market Infrastructures (FMI Principles) containing 24 principles. A key objective of the FMI Principle is to encourage disclosure of the Principles by FMIs through a public disclosure framework in accordance with the assessment methodology.

Dubai Central Securities Depository LLC (Dubai CSD) is a private for-profit company incorporated under the Commercial Company Law of the United Arab Emirates and registered with SCA for Central Depository Activity in United Arab Emirates (UAE). Dubai CSD operates a fully dematerialized securities depository for the emirate of Dubai in the UAE where 100% of the shares of listed companies are dematerialized. The local currency is the UAE Dirham. The ISO currency code is AED. The AED is pegged to the US Dollar at an official rate of 3.6725.

The CSD company was incorporated on 14 March 2019 to segregate the functions of CCP clearing house and CSD of Dubai Financial Market pursuant to the introduction of the CSD and CCP regulations by SCA. It has a paid-up capital of AED10 million. Dubai CSD is owned 100% by Dubai Central Clearing and Depository LLC which is the wholly-owned post-trade subsidiary of Dubai Financial Market PJSC (DFM), the listed stock exchange operator in Dubai.

The Dubai CSD website address is: <https://www.dubaicsd.ae>

## **II. Summary of major changes since the last update of the disclosure**

This is the second disclosure of FMI Principles by Dubai CSD. Updates have been regarding changes to the account structure with the introduction of omnibus accounts and for the share registrar business.

## **III. General Background of Dubai CSD**

Dubai CSD is incorporated under the UAE Commercial Company's Law No 2 of 2015 and will be regulated by Securities & Commodities Authority (SCA). In addition to the UAE Commercial Company's law, Dubai CSD is also licensed pursuant to Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity and the guidelines issued by SCA from time to time as a licensed Central Securities Depository (CSD) in the United Arab Emirates.

Dubai CSD's management consists of experienced professionals who oversee the affairs of the CSD. The Executive Management is responsible for overall business performance and formulation of strategies and policies.

All securities are held in dematerialised form and securities are fungible in accordance with SCA regulations governing the Central Depository Activity. Under the legal framework, securities can be held either in the names of the investor or under approved omnibus account operators registered with the CSD. Securities can also be transferred or pledged by bookkeeping entry without physical delivery of securities and meets the requirements of SEC Rule 17f-7 concerning eligible depository to hold securities of US registered investment companies.

Securities includes shares, exchange traded funds/exchange traded notes, funds, rights, warrants, bonds and shares of private companies for its function as a share registrar to private companies.

The operations of the depository including its quarterly financial statement are reviewed by the Executive Management. The quarterly financial statement is required to be submitted to SCA on a quarterly basis.

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#### IV. Principle-by-Principle Summary Narrative Disclosure

##### Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

*Key consideration 1.1: The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.*

Dubai CSD operates under a well-founded legal framework which comprises of the Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity issued by SCA(the CSD Regulations), the Dubai CSD Rules, operational policies of Dubai CSD and also agreements entered with stakeholders and business partners which provide a high degree of certainty for each material aspect of the activities. Certainty of ownership of securities in dematerialized form is also supported by Companies Law of UAE and the CSD Regulations.

*Key consideration 1.2: An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*

- a. Dubai CSD has formulated its Rules, operational policies and procedures in accordance with the legal framework outlined above.
- b. The Rules are approved by the Executive Management of Dubai CSD and are also approved by SCA. The operational policies and procedures are approved by the Executive Management and are notified to SCA.
- c. Dubai CSD enters into agreement with its Participants, Clearing Corporations, Issuers and regulatory authorities and other stakeholders in accordance with the Dubai CSD Rules.

*Key consideration 1.3: An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.*

Based on legal framework outlined above, Dubai CSD is able to support the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way. The legal framework and various regulations governing the depository activities of Dubai CSD is available on the Dubai CSD website.

*Key consideration 1.4: An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*

The UAE has well founded legal system which provides high degree of certainty that the action taken by Dubai CSD under its rules, procedures and agreements are enforceable. These are guided by relevant regulations issued by SCA governing the activities undertaken by the Dubai CSD pursuant to the relevant regulations. The statutory role of the CSD is provided for in the SCA regulations.

*Key consideration 1.5: An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

Not applicable - Dubai CSD does not operate in multiple jurisdictions.

## **Principle 2: Governance**

**An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.**

The SCA Regulations together with the relevant guidelines issued by SCA prescribes key governance arrangements relating to Dubai CSD's Executive Management and the prescribed mandatory positions and committees. As per Article 1 – 9, of the Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity, SCA must approve the founders and holders of the controlling shares in addition to be fully informed of their identity, equity percentage. The appointment of Executive Management is also required to be approved by SCA.

Dubai CSD is part of the Dubai Financial Market (DFM) group and adopts the governance arrangements of DFM which are made available to the public to promote the safety and efficiency of the Dubai CSD, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

*Key consideration 2.1: An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*

Dubai CSD operates under well-established UAE and SCA legal framework that places high priority on the safety and efficiency of Dubai CSD and explicitly support financial stability and other relevant public interest considerations.

*Key consideration 2.2: An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*

Dubai CSD has, through DFM, documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements are currently disclosed publicly by way of Corporate Governance Report published in the annual report of DFM PJSC which is available at [www.dfm.ae](http://www.dfm.ae).



*Key consideration 2.3: The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*

Roles and responsibilities of the Executive Management are well defined under the corporate governance framework. The Executive Management has well established procedures for functioning in accordance with global standards and also have supporting committees to support them perform their duties. The Executive Management reviews the performance of members and committees annually. All employees of the Dubai CSD are governed by the DFM group employee code of the conduct policy which manages various aspects related to conflicts of interests.

*Key consideration 2.4: The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non- executive board member(s).*

Formation of a board is not mandatory as per SCA regulations. The functions of the board are performed by the Executive Management along with supporting committees. The executive management members have relevant experience and skill to perform their duties. Article 3-5 of the SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity mandates the provision of adequate technical and administrative staff required to engage in the depository business. The relevant mandatory positions of the CSD will be staffed by experienced people licensed by SCA.

*Key consideration 2.5: The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*

The roles and responsibilities of the Executive Management are clearly defined. Dubai CSD Management has the appropriate experience, mix of skills, and the integrity necessary to discharge their responsibilities. Executive Management are required to be fit and proper person and follow employee code of conduct as prescribed by Dubai CSD. Certain key roles require an approval and license from the regulator.

*Key consideration 2.6: The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*

Dubai CSD has a comprehensive Risk Management Framework approved by the General Manager in compliance with guidelines issued by SCA. Dubai CSD has constituted a Risk Management Group/Committee in accordance with SCA guidelines. Article 3-8 of the SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity requires a provision of risk management operational guide that enumerates and defines potential risk and the method by which risks will be addressed, monitored and reported so that the depository can continue its business and comply with the SCA provision. Article 4-5 requires SCA to be provided with a list of members of the risk committee and its objectives and conditions as well as the task and procedures followed by the risk committee members.

*Key consideration 2.7: The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*

The legal and regulatory framework together with the governance arrangements ensures that design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its participants and other relevant stakeholders. All major decisions related to relevant stakeholders are communicated by way of consultation papers and decisions informed via Circulars.

### **Principle 3: Framework for the comprehensive management of risks**

**An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.**

*Key consideration 3.1 An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.*

Dubai CSD has a risk management framework in line with the SCA guidelines that comprehensively addresses the applicable risks. Article 3-8 of the Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity requires a provision of risk management operational guide that enumerates and defines potential risk and the method by which they will be addressed, monitored and reported so that the depository can continue its business and comply with the SCA provision. The Dubai CSD Risk Management Framework has adopted the risk management principles and guidelines from the COSO ERM integrated framework, ISO 31000 and the KPMG ERM model. The risk management framework is reviewed at least annually or as and when required.

*Key consideration 3.2: An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.*

Dubai CSD prescribes rules and procedures to participants and to their customers where applicable to manage and contain the risk to Dubai CSD. Risks created by not complying with rules and procedures are managed by a penalty structure imposed on CSD participants.

*Key consideration 3.3: An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk- management tools to address these risks.*

The risk management framework of Dubai CSD addresses material risks it bears from and poses to other entities (such as other FMIs and service providers) as a result of interdependencies and develops appropriate risk- management tools to address these risks. This review is documented in the Key Risk Register of Dubai CSD.

*Key consideration 3.4: An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.*

Dubai CSD shares a Disaster Recovery Plan and Business Continuity Management framework with DFM to address scenarios that may potentially prevent it from being able to provide its critical operations and services. The Disaster Recovery Policy and Business Continuity Management policy is built in line with international standards for business continuity ie. ISO 22301:2012. The Disaster Recovery Plan and Business Continuity Management Framework is tested regularly for effectiveness. In case of orderly wind-down, the regulator's advice will be followed and implemented. Article 15 of SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity provides for specific provision with regards liquidation and bankruptcy of the CSD. It provides that in case of voluntary or mandatory liquidation of the CSD, the liquidation shall be made under the supervision and control of SCA.

#### **Principle 4: Credit risk**

Not applicable to Dubai CSD because Dubai CSD does not undertake any business activities that creates credit risks to the CSD. The functions of securities settlements are performed by the CSD only based on instructions of the CCP clearing house.

#### **Principle 5: Collateral**

Not applicable to Dubai CSD because the CSD does not undertake any business activities that requires taking of collateral.

#### **Principle 6: Margin**

Not applicable to Dubai CSD because the CSD does not perform CCP clearing house functions.

#### **Principle 7: Liquidity Risk**

Not applicable to Dubai CSD because liquidity risk is managed by the CCP clearing house.

#### **Principle 8: Settlement Finality**

Not applicable to Dubai CSD because the CSD does not perform the functions of a CCP clearing house.

#### **Principle 9: Money Settlements**

Not applicable to Dubai CSD because the CSD does not perform the functions of a CCP clearing house.

**Principle 10: Physical Deliveries**

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

*Key consideration 10.1: An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.*

Dubai CSD currently does not handle any physical deliveries. It is a 100% fully dematerialized CSD.

*Key consideration 10.2: An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.*

Not applicable because the CSD's functions excludes any physical instruments or commodities.

### **Principle 11: Central securities depositories**

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

*Key consideration 11.1: A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.*

- a. Dubai CSD has well defined rules, procedures, and controls, including robust accounting practices and system access controls to safeguard the rights of securities issuers and holders.
- b. Any creation or deletion of securities is allowed after submission of prescribed documents including applicable approvals.
- c. Dubai CSD operates a fully electronic dematerialized system in the central securities depository registry. Dubai CSD operates an electronic system of reconciliation of securities at the end of the day.

*Key consideration 11.2: A CSD should prohibit overdrafts and debit balances in securities accounts.*

No overdraft and debit balances in securities accounts are permitted in Dubai CSD.

*Key consideration 11.3: A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.*

Dubai CSD maintains securities only in dematerialised form and is mandated by regulations to operate the statutory share register of all listed companies. The CSD is also a share registrar to some unlisted companies.

*Key consideration 11.4: A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.*

Under the legal framework and SCA regulations, securities may either be held in segregated accounts of the beneficiary owner or in an omnibus account structure under the name of an approved omnibus account operator. The records of the CSD reflects the ownership of securities. With respect to the securities credited to the depository accounts, Dubai CSD may not assert any right, charge, security interest, lien, right of retention or claim of any kind but reserve the right to act on instructions from a CCP clearing house to, among other things, debit securities underlying an unpaid settlement obligation from a clearing member in the event of a default by the said clearing member as a member of the CCP clearing house or debit securities underlying a trade settlement pursuant to rules of a CCP clearing house for mandatory financial settlement in lieu of delivery of securities.

*Key consideration 11.5: A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.*

Securities may either be held in a segregated account in the name of the beneficial owner or in an omnibus account operated by approved omnibus account operators. Regulations mandate that approved omnibus account operators must segregate proprietary assets from assets of clients. No change in beneficial ownership transfers are permitted to facilitate the transfers of customer holdings.

*Key consideration 11.6: A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.*

Dubai CSD is not engaged in carrying out any other business activities other than that of a CSD unless the activity is incidental to the activities of the depository. Article 10-11-b of the SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity requires a prior approval to be taken from SCA before any additions, removal or amendment of activities into the trade license of the depository.



**Principle 12: Exchange-of-value settlement systems**

Not applicable to Dubai CSD because the CSD does not provide such a service.

**Principle 13: Participant-default rules and procedures**

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

*Key consideration 13.1: An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.*

Not applicable because the CSD does not conduct funds settlement.

*Key consideration 13.2: An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.*

Not applicable.

*Key consideration 13.3: An FMI should publicly disclose key aspects of its default rules and procedures.*

Not applicable.

*Key consideration 13.4: An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.*

Not applicable.

#### Principle 14: Segregation and portability

Not applicable to Dubai CSD because the CSD does not operate as a CCP clearing house.

### **Principle 15: General Business Risk**

**An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.**

*Key consideration 15.1: An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.*

Dubai CSD has adequate management and control systems to identify, monitor, and manage general business risks, including losses. As per Article 10-10-b of the SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity, Dubai CSD is required to submit to SCA its Quarterly Financial report reviewed by its external auditor within a period of no longer than 30 days from the end of the quarter. Article 10-10-c of the SCA regulations provides that an annual financial report audited by the company external auditor must be submitted to SCA within 90 days after the end of the fiscal year.

*Key consideration 15.2: An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*

Dubai CSD holds adequate liquid net assets funded by equity (AED10 million as paid-up capital as mandated by SCA) so that it can continue operations and services as a going concern if it incurs general business losses. The CSD is also a 100% subsidiary company of DFM. A consolidated set of financial statement is also publicly available at [https://assets.dfm.ae/docs/default-source/investor-relations/dfm-ingetrated\\_report\\_2022\\_english.pdf?sfvrsn=7514f381\\_6](https://assets.dfm.ae/docs/default-source/investor-relations/dfm-ingetrated_report_2022_english.pdf?sfvrsn=7514f381_6)

*Key consideration 15.3: An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.*

Dubai CSD holds sufficient net assets funded by equity of AED10 million to implement this plan. As the CSD does not conduct any business activities that creates risk, there is no applicable default risk facing the CSD.

*Key consideration 15.4: Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*

Dubai CSD has an initial paid-up capital of AED10 million comprising cash at bank to meet its current and projected operating expenses. In addition, Dubai CSD is supported by its ultimate parent company ie. DFM PJSC. The funds will be invested in high quality and sufficiently liquid assets in accordance with DFM group investment policy.

*Key consideration 15.5: An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.*

Article 3-3 of Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity provides that the paid-up capital of the depository should not be less than AED10 million. Prior regulatory approval is required before Dubai CSD can increase or decrease its paid-up capital. The provisions related to the capital also forms part of the Memorandum of Association of Dubai CSD.

#### **Principle 16: Custody and investment risk**

**An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.**

*Key consideration 16.1: An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.*

Securities ownership are held in dematerialized form with Dubai CSD only. The CSD does not hold securities through the services of any other third parties. Dubai CSD does not hold any participants' assets.

*Key consideration 16.2: An FMI should have prompt access to its assets and the assets provided by participants, when required.*

Not applicable because securities are held directly by Dubai CSD in dematerialized form in its own systems. Dubai CSD does not hold any other asset types nor hold assets of participants.

*Key consideration 16.3: An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.*

Dubai CSD does not have any exposures to any custodian banks in terms of safe custody of assets.

*Key consideration 16.4: An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.*

Dubai CSD has a well formulated investment policy as part of the group investment which lays down the guidelines to invest the surplus funds available with Dubai CSD on account of normal business operations, internal accruals or maturity of existing investments. The permissible investments along with the maximum investment limits as prescribed in the investment policy ensure that the investment strategy is consistent with overall risk-management strategy.

### Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

*Key consideration 17.1: An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.*

Dubai CSD has a risk management and internal control framework to monitor and manage the operational risks. In addition, it has standard operating procedures and process flows to manage such risks.

*Key consideration 17.2: An FMI's Board of Directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk- management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.*

The risk management framework is endorsed by the Executive Management of Dubai CSD and also by the Risk Management Committee of Dubai CSD. The Risk Management Committee of Dubai CSD reviews the risk management framework on a quarterly basis for addressing the operational risks. As per SCA Regulations, Dubai CSD shall have a risk management committee comprising members of the risk management committee members of its ultimate parent company DFM to oversee the risk management for Dubai CSD.

*Key consideration 17.3: An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.*

Dubai CSD has operational reliability objectives in place including availability objectives and business continuity plans. As a business practice these plans are tested on periodic basis to test its effectiveness.

*Key consideration 17.4: An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.*

Dubai CSD's system capacity is tested to handle stress volumes and is designed to handle projected volumes. Periodic system upgrades and reviews of SLA capacities are performed to ensure that the systems are capable of handling stressed volumes including future growth in volumes.

*Key consideration 17.5: An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.*

Dubai CSD has systems and processes in place for addressing physical and information security. Information security policies are based on ISO 27001:2013 standards to ensure:

1. Confidentiality: protecting sensitive information, including intellectual copyright, from unauthorized disclosure or intelligible interception;
2. Integrity: safeguarding the accuracy and completeness of information and computer software; and
3. Availability: ensuring that information and vital services are available to authorized users when required.

Information security includes cyber security and are also covered under the annual information technology audits.

*Key consideration 17.6: An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.*

Dubai CSD has a business continuity policy to facilitate uninterrupted business operations. Business continuity procedures and business resumption capabilities are periodically tested to ensure smooth operations in case of a disruption. Dubai CSD has a disaster recovery site designed to ensure resumption of critical IT systems in less than two hours. The recovery site is located approximately 132km from the primary site. The switchover from the normal system to DRS is tested periodically. Dubai CSD has the capacity to operate 100% fully remotely as experienced during the recent Covid 19 lock-downs.

*Key consideration 17.7: An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.*

Dubai CSD has prescribed the operating procedures and controls to be complied by its participants. Dubai CSD has procedures in place to identify, monitor, and manage the risks its operations might pose to other FMIs as part of its risk assessment.



**Principle 18: Access and participation requirements**

**An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.**

*Key consideration 18.1: An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.*

Participation requirements are laid down in SCA Regulations and in the Dubai CSD rules and operational policies. Article 8 and Article 10 of SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity provides for various provisions in relation to access to various participants including investors. Article 4 – Chapter 4 of the Dubai CSD regulations provides for provisions in relation to the accessing the CSD systems.

*Key consideration 18.2: An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.*

The participation requirements are laid down in the SCA Regulations and in the Dubai CSD rules and operational policies which are available on the websites of Dubai CSD and SCA.

*Key consideration 18.3: An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements*

The Dubai CSD rules, operational policies and the circulars issued from time to time prescribe monitoring mechanisms on an ongoing basis and also lay down procedures for facilitating the orderly exit of a participant that breaches or no longer meets the participation requirements.

**Principle 19: Tiered participation arrangements**

**An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.**

*Key consideration 19.1: An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.*

The Dubai CSD account structure is predominantly in a segregated account structure. In addition, there is no tiered participation arrangements with the CSD. Where securities are kept in an omnibus account structure, rules and regulations are in place regarding the reporting and identification of beneficial owners.

*Key consideration 19.2. An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.*

Not applicable because a tiered participation arrangement is not offered by Dubai CSD.

*Key consideration 19.3. An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.*

Not applicable as a tiered participation arrangement is not offered by Dubai CSD.

*Key consideration 19.4. An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.*

Not applicable because a tiered participation arrangement is not offered by Dubai CSD.

## **Principle 20: FMI links**

**An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.**

*Key consideration 20.1: Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.*

Dubai CSD has established links with the other depositories, backed by legal agreements which addresses the risks arising out of such links.

*Key consideration 20.2: A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.*

The legal agreements executed with the other depository is the legal basis on which the link is established.

*Key consideration 20.3: Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.*

Not applicable because credit is not extended.

*Key consideration 20.4: Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.*

There are no provisional transfers between Dubai CSD and the other linked CSDs.

*Key consideration 20.5: An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.*

Not applicable because Dubai CSD is both an issuer and investor CSD. All linked CSDs are also both investor and issuer CSDs.

*Key consideration 20.6: An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.*

Not applicable because Dubai CSD does not use any intermediaries.

*Key consideration 20.7: Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.*

Not applicable because the CSD does not perform CCP functions.

*Key consideration 20.8: Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfill its obligations to its own participants at any time.*

Not applicable because the CSD does not perform CCP functions.

*Key consideration 20.9: A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.*

Not applicable because the CSD does not perform TR functions.

**Principle 21: Efficiency and effectiveness**

**An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.**

*Key consideration 21.1: An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.*

The structure and operations of Dubai CSD is not new as the CSD has been in operations for the past 18 years pursuant to the establishment of the stock exchange in Dubai. The CSD company is being formed so as to comply with SCA Decision No 19/R.M. of 2018 concerning the Regulation of the Central Depository Activity wherein a separate company must be established to continue with the existing CSD business of DFM and also to ring-fence risk between the exchange entity, the CCP entity and the CSD. The primary objective of the CSD is to support the issuance of securities to be listed on the DFM stock exchange in dematerialized format and operate the central sharebook registry for all listed companies.

*Key consideration 21.2: An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk- management expectations, and business priorities.*

Dubai CSD is an existing business that has well defined business objectives and the business performance is reviewed periodically by the Executive Management and reported to the stakeholders.

*Key consideration 21.3: An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.*

Dubai CSD is an existing business that has well defined business objectives through setting up of Key Performance Indicators (KPI) and the business performance is reviewed periodically by the Executive Management and reported to the stakeholders.

**Principle 22: Communication procedures and standards**

**An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.**

*Key consideration 22.1: An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.*

Dubai CSD's systems currently uses proprietary messaging formats for communication with its participants due to technology reasons. A technology refresh is underway.

### **Principle 23: Disclosure of rules, key procedures and market data**

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

*Key consideration 23.1: An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.*

The Dubai CSD rules and operational policies made available to participants via circulars and also available on the Dubai CSD website. The key policies and procedures in form of circulars issued from time to time are also disclosed to the participants and publicly available.

*Key consideration 23.2: An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.*

The rights and obligations are disclosed in the CSD rules and operational policies. The circulars issued by Dubai CSD and the agreements required to be executed are also disclosed to the participants which enables them to assess the risks they would incur by participating in the FMI. Systems design and operations are documented in user guides issued to the relevant participant types.

*Key consideration 23.3: An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.*

Training is provided to a participant about the depository operations and systems which facilitates a participant's understanding of the CSD rules and operational policies, procedure and the risks that the participant may face. Dubai CSD has periodic meetings with the participants to identify issues and communicate future plans including new process and procedures.

*Key consideration 23.4: An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.*

Fees and charges for various services offered by Dubai CSD to participants are disclosed on the Dubai CSD website. Any change in pricing is notified to SCA for approval and also to the participants by way of circular.

*Key consideration 23.5: An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*

The FMI disclosure is available on request. A summarized version together with basic data on transaction volumes and values is published through the Association of Global Custodian questionnaire. A copy of the latest AGC questionnaire is available at:

[https://www.dubaicsd.ae/docs/default-source/dubai-csd/dubai-central-securities-depository-llc-questionnaire-2022-2023.pdf?sfvrsn=e34d4081\\_2](https://www.dubaicsd.ae/docs/default-source/dubai-csd/dubai-central-securities-depository-llc-questionnaire-2022-2023.pdf?sfvrsn=e34d4081_2) .



**Principle 24: Disclosure of market data by trade repositories**

Not applicable to Dubai CSD because Dubai CSD is not performing the function of a TR.

## Abbreviations and definitions

<b>Board</b>	The board of directors of Dubai Clear
<b>CCP</b>	Central counterparty
<b>Circulars</b>	Binding notices issued by Dubai Clear regarding regulatory and non-regulatory matters pertaining to Clearing Members.
<b>Clearing Member</b>	An entity admitted as a member of Dubai Clear pursuant to the Clearing Rules. Includes a General Clearing Member, a Trading Clearing Member
<b>CSD</b>	Central securities depository
<b>Trading Clearing Member</b>	As entity authorized to clear Proprietary and Client trades executed as a Trading Member of the DFM stock exchange.
<b>DCCD</b>	DCCD Dubai Central Clearing and Depository Holding LLC
<b>DFM</b>	Dubai Financial Markets PJSC
<b>DVP</b>	Delivery versus payment
<b>FMI</b>	Financial market infrastructure
<b>General Clearing Member</b>	An entity authorized to clear proprietary and client trades executed by him as a Trading Member of DFM or trades executed by any other Non-Clearing Trading Member of DFM.
<b>IOSCO</b>	International Organization of Securities Commissions
<b>PFMI</b>	Principles for financial market infrastructure dated April 2012 issued by the Committee on Payment and Settlement Systems and the Technical Committee of IOSCO.
<b>Shareholders' Register</b>	Shareholders' Register means the listed company's register containing data of owners of Securities and the ratios of their ownership
<b>SCA</b>	Securities & Commodities Authority
<b>Settlement Bank</b>	A bank appointed by Dubai Clear (DC) to carry out payments between DC and Clearing Members in accordance with the Dubai Clear Clearing Rules.
<b>Registrar</b>	A agency assigned by the listed company or agency to undertake safekeeping, management and responsibility of the Shareholders' Register.
<b>Trading Member</b>	An entity that has been approved as a trading member of DFM in accordance with its rules.

## List of publicly available resources

Dubai Central Securities Depository Rules	Available on Dubai CSD Website <a href="https://www.dubaicsd.ae/docs/default-source/dubai-csd/dubai-csd-rules-2020-april-7.pdf?sfvrsn=aaa44281_0">https://www.dubaicsd.ae/docs/default-source/dubai-csd/dubai-csd-rules-2020-april-7.pdf?sfvrsn=aaa44281_0</a>
Dubai Central Securities Depository– Omnibus Account Rules	Available on Dubai CSD Website <a href="https://www.dubaicsd.ae/docs/default-source/dubai-csd/rules/omnibus-account-dcsd-rules-english.pdf?sfvrsn=419cf081_0">https://www.dubaicsd.ae/docs/default-source/dubai-csd/rules/omnibus-account-dcsd-rules-english.pdf?sfvrsn=419cf081_0</a>
Dubai Central Securities Depository– Procedures	Available on Dubai CSD Website <a href="https://www.dubaicsd.ae/dubai-csd/regulations-rules-and-procedures">https://www.dubaicsd.ae/dubai-csd/regulations-rules-and-procedures</a>
PFMI: Disclosure Framework and Assessment Methodology	Available on the IOSCO website at: <a href="http://www.iosco.org/library/pubdocs/pdf/IOSCOPD396.pdf">http://www.iosco.org/library/pubdocs/pdf/IOSCOPD396.pdf</a>
PFMI	Available on the IOSCO website at: <a href="http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377-PFMI.pdf">http://www.iosco.org/library/pubdocs/pdf/IOSCOPD377-PFMI.pdf</a>
UAE Commercial Company’s Law	Available on UAE Ministry of Economy Website <a href="https://www.moec.gov.ae/en/companies-legislations">https://www.moec.gov.ae/en/companies-legislations</a>
Regulation of the Central Securities depository (CSD) Business	Available on SCA Website <a href="https://www.sca.gov.ae/en/regulations.aspx">https://www.sca.gov.ae/en/regulations.aspx</a>

