

The QFMA’s Board Decision No. 5 of 2017
**Concerning the Issuance of Operational Procedures of Exchange-
Traded Funds (ETFs)**
(Covered Short Selling Procedures (CSSP))

The Board of Directors,

Having considered Law No. 8 of 2012 of Qatar Financial Markets Authority;

Law of Qatar Central Bank and the Legislations of Financial Institutions,
Promulgated by virtue of Law No. 13 of 2012;

QFMA’s Board Decision No. 5 of 2009 concerning the Issuance of Financial
Services Rulebook;

Decision of the QFMA’s Board Chairman No. 3 of 2010 Concerning the Issuance
of Offering & Listing of Securities Rulebook and its amendments;

Decision of the QFMA’s Board Chairman No. 1 of 2012 concerning the Issuance of
Listing Rules of Investment Funds’ Units;

Decision of the QFMA’s Board Chairman No. 2 of 2012 Concerning the Issuance
of Securities Lending & Borrowing Activity;

Decision of the QFMA’s Board Chairman No. 3 of 2012 Concerning the Issuance
of Liquidity Provider Activity;

QFMA Board’s Decision No. 1 of 2016 regarding Ownership of Shares in Listed
Companies on QSE;

Qatar Stock Exchange Rulebook;

Rules of Qatar Central Securities Depository;

QFMA's Board approval at its 3rd meeting of 2017 on 23rd of October 2017;

And the proposal of the QFMA's Chief Executive Officer;

We have decided the following:

Article (1)

Operational Procedures of Exchange-Traded Funds (ETFs) (Covered Short Selling Procedures (CSSP)) annexed to this decision shall come into full force and effect.

Article (2)

All competent authorities, each within its jurisdiction, shall implement this decision. The decision shall be effective from the date of issuance and shall be published in the Official Gazette.

Abdulla Bin Saoud Al-Thani

The Governor

Chairman of the Board of Directors

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*This is a translation of the Official Arabic version of
Operational Procedures of Exchange-Traded Funds (ETFs)
(Covered Short Selling Procedures (CSSP))
In case of any discrepancies, the Arabic version shall prevail.*

Operational Procedures of Exchange-Traded Funds (ETFs) (Covered Short Selling Procedures (CSSP))

Definitions

Covered Short Selling:

Process of selling securities (ETF units or index constituents) according to these procedures.

The short position of securities is covered by the settlement date by creating or redeeming ETF units, or via any other approved means decided by Qatar Financial Markets Authority (QFMA) in this regard.

All Parties

Qatar Stock Exchange (QSE), Qatar Central Securities Depository (QCSD) and fund entities to domestic ETF listed on QSE (specifically the founder, fund manager, custodian and liquidity provider).

Authorized Participant

Liquidity provider and institutional investors that have entered into an agreement with the founder to create and redeem ETF units directly with the fund.

Company:

Financial services company licensed by QFMA to execute securities purchase or sale's orders for a third party.

Liquidity Provider (LP)

Financial services company licensed by QFMA to perform this activity and has been approved by QSE to enhance the liquidity in the market on the accepted security for trading at QSE in accordance with QSE Rulebook.

Fund - ETF:

Exchange Traded Fund (ETF) listed on QSE is an investment open-ended fund specifically designed to track a performance of a specific index or a particular sector so that the fund components are in a harmony with the components of that index or sector.

Index Constituents

Shares of listed companies that constitute a specific index

1. Preamble

1.1 All Parties shall confirm that creation and redemption procedures outlined in the Articles of Associations of the Fund are acceptable and have been tested. QSE and QCSD will provide QFMA with monthly exception reporting once the procedures are live and notify QFMA once a breach occurs by Email. QFMA will also be provided with a report on covered short selling volume on a monthly basis.

Transfer of shares by QCSD for the purposes of creation and redemption of ETF units does not require QFMA's approval. QCSD will assign a new movement type in QCSD systems for such activity.

Post listing, transfer of shares on behalf of Authorized Participants other than the LP for unit creation and redemption purposes, will incur QCSD charges in line with existing exempt transfer fee schedule. However, such transfers will not require QFMA's approval.

1.2 LP is permitted to conduct covered short selling of the ETF Units and Index Constituents for performing bona fide ETF liquidity provision activity (QCSD to enable the LP National Identification Number (NIN) for covered short selling) under approved arrangements as described below. LP shall have segregated trading

accounts for each specific financial instrument under the same NIN and the LP undertakes to use the Fund's own account to trade only the components of that Fund, so that shares are not traded outside the components of that fund. LP undertakes that for redemption activity, the LP should enter buy orders for units, before it enters short sells orders in the underlying Index Constituents. For the non-ETF related LP activity account, the LP undertakes not to sell short on this account.

1.3 The Company undertakes to provide to QCSD an incremental bank guarantee (IBG) wherein QCSD is the sole beneficiary, whereby the role of QCSD is only limited to safe-keeping and liquidation of the IBG as deemed necessary, to cover the cumulative open short sell positions of the ETF Units and Index Constituents. QCSD will not enter the IBG details in its system. QCSD will send a copy of the IBG to QSE via email, including the value of the IBG. QSE will add the IBG details in its UTP systems. In case the Company needs to increase the limit for covered short sell position, it shall submit additional guarantees in the form approved or increase the amount of the IBG. QSE will update the “Short Sell Limit” equal to 70% of the IBG and notify QCSD via email same day during end of day. The Short Sell Limit should cover all cumulative open short positions. The initial daily limit allowed for short sell should be 23% of the allowed sales limit, i.e. 1/3rd of the 70% of the guarantee.

1.4 LP undertakes that it will employ all necessary measures to not breach the covered short sell position in ETF Units or Index Constituents beyond Short Sell Limit. Such undertaking shall be submitted to QCSD, attached to the LP agreement between the LP and the QSE. In case the LP does not employ the necessary measures and breaches the short sell position, they will be penalized according to QFMA's legislations in this regard. QSE will notify QFMA and QCSD in the event the short sell limit is breached in writing on the next working day after market close. LP shall cover all short positions on T+3 except for scenarios mentioned in 2.2 and 2.3 below.

In all cases, the LP undertakes to not exceed individual ownership limits in index constituents that mentioned in the article of association of the companies. QSE will monitor the holdings in two NINs of the Company; i.e., Own Portfolio NIN and LP Activity NIN to calculate the sum of holdings in the two NINs. The monitoring tool will generate alert if Cumulative Individual Ownership Limit for an Index Constituent stock exceeds the individual ownership limits specified for the Index Constituent stocks. QCSD will inform the Company to make the necessary

correction without any responsibility on QCSD. QCSD will report the breach by Email to QFMA as well.

QCSD will send alerts to QSE when the LP exceeds 60% of ownership limit (Any transaction after 60% will be alerted with percentage details). In case of exceeding the ownership limit (100%), QSE will suspend any further buying for the LP's various NINs (including Own Portfolio) after receiving the exceeding 100% alert. It will be the responsibility of Company to bring the situation, as it was earlier. QCSD will inform the Company to make the necessary correction without any responsibility on QCSD. QCSD will report in writing on the NIN exceeding of the ownership limit by Email to QFMA as well.

In case of a short position on the LP's NIN, the Company may request QCSD to move shares from its Own Portfolio NIN to LP NIN in order to cover the short position. Such instruction should be received by 12:00 Noon on QCSD business working day through a pre-specified Form by QCSD. The LP shall pay fees as per QCSD exceptional transfer fee for this NIN transfer. Such transfers will not require QFMA's approval.

Major Shareholders report published by QCSD will only reflect holdings on the Own Portfolio NIN of the company in case it exceeds 5% of the company's capital in the Index Constituents. The Cumulative Individual ownership (Own Portfolio NIN + LP NIN) if more than 5% will not be reflected in the Major Shareholders report in case the ownership of Own Portfolio NIN is less than 5%.

1.5 The Fund manager undertakes to provide the QSE, QCSD and LP a Portfolio Composition File (PCF) and the daily Net Asset Value (NAV) of the Fund on daily basis by 7:00pm. The LP undertakes to comply with the PCF weights as per 2.2.7 below. When the LP breaches the limit in a specific underlying share by over selling that specific security, the LP's ability to short sell that specific security shall be suspended until corrective action as per 2.2.7 is taken. If LP is found to be consistently breaching the limits as indicated in the PCF, the LP will be penalized according to QFMA's legislations in this regard. In this case, QCSD will provide QFMA and a copy to QSE, with monthly report via email regarding the breach (If any) .Furthermore, fund manager undertakes that the ETF NIN will not exceed individual ownership limits for the Index Constituent stocks. QSE's UTP system will treat ETF NIN as any another NIN for the restrictions on individual ownership limits in stocks.

QCSD will send alerts to QSE and to the LP when the short sell volume in a specific stock of the ETFs Index Constituents LP exceeds 60%, of the volume available in that stock in the ETF NIN. QSE shall stop LP from short selling that stock at 70% when it received alert from QCSD so that he cannot breach 100% limit.

1.6 QSE undertakes to configure its trading system (UTP) such that any short sell order and trade shall reduce the LP's incremental bank guarantee settlement cap cash balance (Short Sell Limit) equivalent to the amount of total short sell position. In addition, QSE shall limit total short sell position such that the LP cannot breach the Short Sell Limit as per article 1.3 above. And the settlement limit of the Company facilitating covered short selling shall not be increased due to short sell transactions. QSE shall inform QCSD on the net short sell position (ETF Unit and/or Index Constituents) by the LP via email by 03:00 PM on a daily basis after settlement. QSE will send the Market Notice for the Index changes to QCSD via email so that QCSD only enable (via QCSD systems and reflected in UPM end of day files) valid index constituents for covered short selling QCSD will disable covered short selling for a specific stock for the 6 days prior to its AGM.

1.7 LP undertakes to subscribe to ETF units during the private subscription period before listing an amount equivalent to the minimum creation size as part of building inventory for LP activity on the first day of trading.

1.8 LP undertakes to manage its inventory of ETF units in order to meet its obligations set out in the LP agreement. Creation and Redemption requests shall be submitted to the fund as per subscription guidelines in the Articles of Associations of the ETF.

1.9 LP shall provide an undertaking to QCSD in the form of a letter confirming that it shall adhere to QFMA's procedures, instructions, rules and regulations related to covered-short-selling and liquidity provision. In addition to the above, the LP may short sell ETF units only if he has the intention to submit a creation request. Inversely, he may short sell the ETF Index Constituents only if he has the intention to submit a redemption request.

1.10 Initial Credit of Units – Based on instructions received in official letter, from the fund manager, informing about the details, QCSD will provide initial credit of units in specified account.

2. Process

2.1 Scenario 1: LP has inventory.

2.1.1 LP will use its inventory to provide liquidity in the market by entering buy and sell orders.

2.1.2 Trades will settle on T+3.

2.1.3 Once LP inventory falls below minimum volume requirements as per LP agreement between the LP and the QSE, it will initiate creation request to subscribe for more units subject to market conditions and in accordance with the articles of the fund and LP-Issuer agreement through normal creation process.

2.2 Scenario 2: LP short sell trades covered by a creation or redemption.

Creation: LP short sells ETF units, submits a creation request to the custodian and delivers the ETF Index Constituents on T+3. The Fund will deliver units on T+3, in order for the LP to deliver the short sold units for settlement;

Or,

Redemption: LP short sells (an) underlying index constituent(s), submits a redemption request and delivers ETF units to Fund on T+3. The Fund will deliver underlying index constituents to LP on T+3, in order for the LP to deliver the Index Constituents of the short sold index component(s) for settlement.

2.2.1 On T, LP has net short position end of day within the Short Sell Limit. LP shall submit creation or redemption request to the Custodian in case it is unable to deliver units or underlying index constituents on T+3. The requests shall be submitted as prescribed in the prospectus and Articles of Associations.

2.2.2 On T+1 by 12:00 Noon, custodian confirms the creation or redemption as the case may be to QCSD, providing details on the number of units, or Index Constituents breakdown as the case may be. On T+2 QCSD (by 02:00 PM) generates a statement of account for the LP (with copy to custodian). On T+3 before 10:30AM, the custodian will reconfirm to QCSD the details of number of units or Index Constituents breakdown (as the case may be) for settlement.

2.2.3 On T+3, QCSD,

In case of a creation, transfers Index Constituents from LP account to Fund account. QCSD will increase units (As per the quantity requested) in the symbol. Then credits new units in fund account and finally transfer the new units from fund account to LP account. Settlement will be performed twice (Dual Settlement Run). After processing first settlement, all above transactions will be performed and finally a second settlement run will be processed.

Or,

In case of a redemption, transfers to-be-redeemed units from LP account to Fund account and cancels units. QCSD will cancel the units (As per the quantity requested). Then transfers Index Constituents from fund account to LP account. Settlement will be performed twice (Dual Settlement Run). After processing first settlement, all above transactions will be performed and finally second settlement will be processed.

2.2.4 Creations and redemptions will be processed before the second settlement run that includes the short sold units and/or underlying index constituents.

2.2.5 In the event of a creation request, whereby the LP cannot deliver all underlying index constituents as per PCF the Fund will honor the request based on partial delivery of the underlying Index Constituents (subject to the arrangements specified in the LP and Issuer agreement) and issue ETF units on T+3 as agreed. In this instance, the fund may insist that the LP issues collateral to the fund until the remaining underlying index constituents can be delivered. Furthermore, the Fund may lend underlying index constituents to the LP as per QFMA's legislations.

2.2.6 LP undertakes to ensure that in the case of creation, long positions in the index constituents shall be in line with the PCF provided by Fund Manager. In case of any breach of this obligation, the LP shall correct the short position in the units or long positions in the underlying Index Constituents by end of trading session on T+1. The correction trades shall be settled on T+4. In case the LP remains in breach of a short sell position beyond T+4 it will be penalized according to QFMA's legislations in this regard.

2.2.7 LP undertakes to ensure that in the case of redemption, short positions in the index constituents shall: a) be in line with the Portfolio Composition File (PCF) provided by Fund Manager, b) not exceed the total shares available in the ETF portfolio for the respective index constituents. In case of any breach of this obligation, the LP should correct the short position in the Index Constituents on T+1. The correction trades shall be settled on T+4. In case the LP remains in breach of a short sell position beyond T+4 it will be penalized according to QFMA's legislations in this regard.

After submission of redemption request by LP, the Fund / Custodian will confirm the redemption request to the QCSD by T+1 12.00 Noon. The Fund manager shall deliver the Index Constituents as per the PCF even if covered short sell position of the LP is less than the required quantity.

At all times, the ETF NIN remains under the custody account. The Fund manager may instruct the custodian to move any portion of the shares to trading account in order to: 1) rebalance in line with index 2) reinvest dividends 3) reconcile weightings differences vs the index 4) any other purpose permitted under the Articles of Association of the fund.

2.2.8 In case the LP fails to cover the open short position on the settlement day (T+3), they may buy the securities needed to cover these positions until the day (T+6). In this case, QCSD notifies QFMA by Email who may impose the financial fines it deems appropriate starting from the day (T+5).

In case a statement of account issued by QCSD on T+2 reveals any portion of a creation or redemption Index Constituents to un- available, QCSD will reissue the statement of account daily (up to T+9) until the securities are shown to be pending settlement.

2.2.9 Creation and Redemption need not always be done on the below T+3 timelines. Creation and Redemption can be done on T+0 timelines also. In such cases, the Custodian will forward the forms (Creation / Redemption) to QCSD at 11:00 am. QCSD will forward the transaction statement to Custodian at 12:00 noon. The Custodian will re-send the form (Creation/Redemption) with confirmation at 01:00 pm. Based on the confirmation instructions received from the Custodian in this form, QCSD will process the Creation/Redemption request as per 2.2.3 and 2.2.4 on T+0 instead of T+3.

2.3 Scenario 3: LP's counterparty rejects the trade.

Note: Such a scenario may occur where the LP's counterparty is a custody client and it rejects (not final rejection) the trade. Due to an error trade by the selling Company or late confirmation by custody client of counterparty Company the underlying index constituents or units are not available in the LP account on T+3.

2.3.1 In case the counterparty is a buying client and rejects a buy trade, the settlement obligation (cash obligation) shall move to buying Company and trade shall settle on T+3.

2.3.2 In case the counterparty is a selling client and rejects its sell trade, the settlement obligation (shares obligation) shall move to the selling Company and the cash obligation will be with the custodian) and trade shall settle on T+3 by creating negative balance in the account of selling Company. A late confirmation no later than T+6 shall be permitted for the selling Company to deliver the index constituents or ETF units as the case may be.

2.3.3 The selling Company should provide the securities to cover the negative balance in its account through any of the following:

- a) Own portfolio, if sufficient shares exist.
- b) Buy-ins functionality on the QCSD system.
- c) Buy the securities from the regular market to cover the failure.
- d) Borrow the securities through the Securities Lending and Borrowing program.

2.3.4 QCSD DVP procedures shall be applicable in the event the selling Company is not able to deliver the required Index Constituents or ETF units, including compensating the seller on T+6 with an amount equal to transaction value plus 5%. In addition, financial penalties may be imposed by QFMA on the parties consistently failing to maintain the efficiency of the post trade process according to QFMA's legislations. QCSD will notify QFMA by Email in this regard.