

# Securities Lending and Borrowing Activity

## Article 1

The following terms and phrases shall have the meaning ascribed to them as set out below, unless the context indicates otherwise:

**Securities Lending and Borrowing Activity:** an activity to permit activity Participants to lend or borrow from another Lending and Borrowing activity Participants Admitted Securities, whether acting on behalf of its clients or for its own account.

### Securities Lending and Borrowing Activity:

1. The term “Securities Lending and Borrowing Activities” shall mean conducting any of the financial services activities subject to regulation by the Authority as specified in Article 4 of the QFMA Financial Services Rulebook.

Without limitation each of the following activities in respect of a securities lending transaction may, depending on the context, constitute Securities Lending and Borrowing Activities:

- a. Advising the lender or borrower of the securities in respect of the transaction;
  - b. Selecting and negotiating with a counterparty in the transaction and executing or directing the execution of the loan with the counterparty;
  - c. Receiving, delivering, or directing the receipt or delivery of loaned securities;
  - d. Receiving, delivering, or directing the receipt or delivery of collateral;
  - e. Providing mark-to-market, corporate action, recordkeeping or other services incidental to the administration of the transaction;
  - f. Making and enforcing margin calls;
  - g. Investing, or directing the investment of, cash collateral;
  - h. Indemnifying the lender or borrower of the securities with respect to various matters; and
  - i. Such other activities as may be specified by the Authority.
2. Conducting Securities Lending and Borrowing Activities shall be considered as a financial services activity subject to regulation by the Authority under Article 4(10) of the QFMA Financial Services Rulebook. A license from the Authority for Conducting Securities Lending and Borrowing Activities shall not itself constitute a license to conduct any other financial services activity; rather, such a license shall only permit the holder to conduct other financial services activities for which the holder is duly licensed, in respect of securities lending and borrowing transactions.
  3. Subject to Article 6 of the QFMA Financial Services Rulebook, an applicant for a license for Conducting Securities Lending and Borrowing Activities must be a financial services firm that holds a license from the Authority, or

a license recognized by the Authority from another financial services regulatory authority of the State, to conduct one or more financial services activities, and be in good standing as such.

4. Except as the Authority may otherwise permit, a company that conducts Securities Lending and Borrowing Activities for or on behalf of a client must execute an agreement with the client setting forth the terms and conditions pursuant to which such services will be provided, which agreement shall be in a form approved by the Authority, with regard given to whether the client is Professional or not.
5. A company that conducts Securities Lending and Borrowing Activities must comply with all applicable rules of any Exchange on which it conducts such activity.

**Financial Services Company:**

It is a licensed financial services company that provides management or advisory services to a borrower or lender in respect of a securities lending transaction.

**Lending and Borrowing Programme Participant:**

It is an Exchange member firm or custodian that is licensed by the Authority to conduct Securities Lending and Borrowing Activities and approved by the Exchange to conduct securities lending transactions in Admitted Securities, whether acting on behalf of its clients or for its own account.

**Professional Client:**

- 1- Shall mean any of the following for purposes of the QFMA Law, Regulations and Rules:
  - a. an entity authorized or regulated in the State, or in their home country as:
    - a financial services company/investment company (including all QFMA licensed entities);
    - a credit institution (including all QCB licensed entities);
    - any other type of financial institution authorized or regulated by QFMA;
    - a collective investment fund or a management company of such a fund;
    - a pension fund or a management company of such a fund; or
    - any other type of investment institutions;
  - b. Qatar Central Bank and other governmental entities;
  - c. any other investment institutions whose main activity is to invest in financial instruments; or
  - d. any such other persons as the Authority may specify.
- 2- A person not qualifying as a Professional Client under the preceding article may, at its explicit request in writing, be treated as a Professional Client provided at least two of the following criteria are met:

- The size of the person's financial instrument portfolio, including cash deposits and financial instruments exceeds QR 2,000,000;
- The person has carried out frequent transactions on the financial markets at an average of at least 10 transactions per quarter over the previous year;
- The person works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

**Securities Lending and Borrowing Agreement:**

An agreement entered into between two activity Participants setting for the terms and conditions pursuant to which one party (as the lender) will loan securities the other party (as borrower) as provided for in this Part.

**Article 2**

**First:** The Authority may approve on the Exchange application of administration and implementation of Securities Lending and Borrowing Activity.

**Second:** It shall be prohibited to lend securities unauthorized by the Authority.

**Third:** Securities lending or borrowing shall not be permitted except for facilitating the settlement of shares in deals transactions in which the sold shares are not available at the time of deal completion, or any other cases specified by the Authority.

**Forth:** **Compensation Permitted, Treatment of Collateral:**  
Subject to the terms of the Securities Lending and Borrowing Agreement between the lender and the borrower, it shall be permitted in any securities lending transaction conducted under an Exchange's Securities Lending and Borrowing Programme of the Exchange and this Part for:

- a- The lender of the securities to receive fees from the borrower, in addition to any collateral provided by the borrower to secure its obligations;
- b- The lender to use or invest the collateral posted by the borrower, and in case of default of the borrower, sell or otherwise dispose of the collateral and set off the proceeds against the repurchase price of the securities; and
- c- The borrower to have full ownership rights to the borrowed securities, including the right to sell and transfer.

For the avoidance of doubt, securities of the same type shall be considered fungible for purposes of this Part.

**Fifth: Transactions to be conducted on an Exchange Facility:**

An Exchange that administers a Securities Lending and Borrowing Programme as provided for in this Part shall operate an off-exchange technological facility for the execution and recording of securities lending and borrowing transactions in Admitted Securities conducted under such Exchange's Securities Lending and Borrowing Programme. For the avoidance of doubt, such facility may be operated by the Exchange's Depository function.

**Sixth:** Subject to the terms set forth in chapter two of QFMA Financial Services Rulebook, it is not permitted to conduct Securities Lending and Borrowing Activity except by entity authorized by the Authority, that after fulfilling the practicing requirements of Securities Lending and Borrowing Activity, provided it has been named and listed by the Exchange to practice Securities Lending and Borrowing Activity.

**Seventh:** The form of Securities Lending and Borrowing Agreement shall be approved by the Authority  
No Lending and Borrowing Programme Participant may lend or borrow Admitted Securities from and other Lending and Borrowing Programme Participant(whether acting on behalf of a client or for its own account) unless the two parties have executed a Securities Lending and Borrowing Agreement between themselves. The Securities Lending and Borrowing Agreement shall be in the form approved by the Authority, with regard given to whether either party is acting on behalf of a client and, in particular, a client that is not a Professional Client. Each such agreement shall expressly require the parties, upon notice in writing from the Exchange, to modify the terms of the agreement with immediate effect where such action is required in order to comply with the terms of a notice issued by the Authority under Article 4 of this Part.

The terms and conditions of each Securities Lending and Borrowing Agreement shall observe following requirements:

- a. The borrower shall agree to return equivalent securities to the lender at the specified time.
- b. The borrower shall provide collateral to secure the due performance by the borrower of its obligation to return equivalent securities to the lender. The collateral shall be in cash, or in such other form as the Authority may specify.
- c. The amount of collateral shall be not less than 100% of the current market value of the borrowed securities, or such greater amount as the Authority or the Exchange may specify.
- d. The lender shall mark to market (at least daily) all loaned securities and shall ensure maintaining the level of the collateral stipulated in (c) above ,having regard both to changes in the price of the loaned securities and changes in the value of any collateral other than cash denominated in Qatari

- Riyals (or such other currency in which trading in the loaned securities is conducted).
- e. The agreement shall specify the frequency with which the lender (or its agent) will mark to market and the reference price(s) to be used for such purpose.
  - f. In the event that at any time the value of the collateral becomes less than the level stipulated in (c) above (or such higher percentage as agreed between the borrower and the lender), the lender (or its agent) shall at least daily require the borrower to increase the amount of collateral to the relevant level by posting additional collateral.

### Article 3

The member wanting to participate in Securities Lending and Borrowing Activity shall approve to the Authority and Exchange having the appropriate systems:

- Necessary human resources.
- Information systems of its activities.
- Operation management and approved procedures.
- Risk management procedures related to its activity.

### Article 4

#### Authority's Right to Set or Amend Terms

The Authority may from time to time by notice in writing to the Exchange direct the Exchange to cause to be amended, rescinded or supplemented the terms of the Exchange's Securities Lending and Borrowing Rules or any or all Securities Lending and Borrowing Agreements then in effect. Upon receipt of such written notice, the Exchange shall take all such measures as are necessary to comply with the notice in the manner and within the time specified in the said notice.

### Article 5

#### Required Content in Securities Lending and Borrowing Rules

The Exchange's Securities Lending and Borrowing Rules shall:

- a- Provide for the matters set out in Rules 3 through 9 of this Part;
- b- Provide the Exchange with the power to suspend or terminate a Programme's Participant's approval and to take effective disciplinary action, as applicable, in circumstances where the Programme Participant has been in breach of the Exchange's Securities Lending and Borrowing Rules or where such action is required in the interests of the Exchange.
- c- The criteria and standards that an Exchange member must meet in order to be appointed as a Programme Participant including, at a minimum, those in respect of:
  - 1- The capabilities, systems and controls required by a person acting in the capacity of an Programme Participant;
  - 2- The systems, procedures and controls to be applied by the firm in respect of the management of the risks associated with its activities as an Programme Participant;

- 3- Internal controls to be applied for purposes of monitoring its compliance with its obligations under the Exchange's Securities Lending and Borrowing Rules;
  - 4- Minimum requirements regarding training and competency of firm personnel involved in securities lending/borrowing activities on behalf of a client; and
  - 5- Record keeping and reporting in respect of lending/borrowing activities on behalf of a lender or borrower of securities;
- d- Provide for the Exchange to impose sanctions including the right to restrict, suspend or rescind a Programme Participant's right to participate in the Securities Lending and Borrowing Programme where this Programme Participant has contravened the Exchange's Securities Lending and Borrowing Rules or where the Authority directs the Exchange to take such action; and
  - e- Provide for the Exchange to have the right to suspend the Securities Lending and Borrowing Programme generally for a limited or unlimited period whether in response to a direction from the Authority or its own volition.

For the avoidance of doubt, an Exchange's Securities Lending and Borrowing Rules may include:

- a- rules that are generally applicable to the trading activities of member companies, provided such rules satisfy the requirements specified in this Rule; and
- b- notices issued by the Exchange;

provided, however, that all such rules and notices relevant to activity conducted under an Exchange's Securities Lending and Borrowing Programme shall be considered part of the Exchange's Securities Lending and Borrowing Rules for purposes of this Part.

## Article 6

### Licensed Financial Services Company

The Exchange shall take appropriate measures to ensure that, except as the Authority may otherwise permit, no Lending and Borrowing Programme Participant conducts a securities lending transaction on behalf of any client that is not a Professional Client unless the client is represented in the transaction by a Licensed Financial Services Company. For the avoidance of doubt, a Programme Participant that conducts a securities lending transaction on behalf of a client may also act as the client's Licensed Financial Services Company in the transaction provided that it has obtained the appropriate license from the QFMA.

## Article 7

The lender and borrower dealing in securities lending and borrowing transactions shall fulfill the following:

- The beneficiary lender name or its agent, if any;
- The borrower name or its agent, if any;
- The lent security/ies value;

- The date of securities return.
- The collateral, provided its value shall not be less than the market value of borrowed securities.
- Clarify parties' rights about trade off of collateral.
- Indicate the distribution of shares benefits and other rights related to securities and collateral.
- Securities redemption procedures and relevant arrangements in case the delivery of required securities be impossible.
- Clarify the cases of non-commitment and the right and obligations for the other party.
- The law governing the agreement.

### Article 8

The lender shall abide with reassess daily the borrowed shares based on the financial market price (market value).

### Article 9

International lending and borrowing agreements may be used such as overseas securities lending and borrowing agreement or the general agreement of securities lending and borrowing as a key model to formulate such contracts between the Exchange members and their Professional Clients.

### Article 10

The lender may use the collateral assets in buying securities to cover the loan in the following cases:

- If the borrower excuses to provide additional collateral at the end of second day of receiving notice;
- If collateral value rank below 100% of market value of lent securities for one day after the notice.

### Article 11

#### Procedures of the Exchange

An Exchange that implements and administers a Securities Lending and Borrowing Programme shall implement the following arrangements effectively:

- a. For the supervision of the activities of Program Participants in order to ensure that such activities are conducted in accordance with these Rules and in the interests of the Exchange and to detect and deter abusive Exchange practices related to such activities;
- b. For the submission of periodic and ad hoc reports to the Authority on the matters referred to in (a), as requested by the Authority;
- c. For the reporting to the Authority of the disciplinary and other actions taken by the Exchange where a Program Participant has contravened the Exchange's Securities Lending and Borrowing Rules including, for the avoidance of doubt, any instance in which the Exchange has decided not to take such action and the reasons for such decision.

## Article 12

The Exchange may suspend or terminate a Securities Lending and Borrowing Activity by the Participant in case of not restricting to the terms and conditions of Securities Lending and Borrowing Rules or having any breach in any provision of law no.33 of 2005 about QFMA, its amendments, regulations, rules, and decisions issued thereof or the rules governing the work of the Exchange, provided to inform the Authority of disciplinary actions taken against the violent participant.

## Article 13

The Authority may suspend or revoke Securities Lending and Borrowing Programme for limited or unlimited time in order to maintain the confidence in securities trading.

## Article 14

The Authority may revoke or vary the terms of an approval or apply, modify or remove any condition attach to any approval granted to an Exchange subject to its regulation to administer a Securities Lending and Borrowing Programme as provided in these Rules where the Authority considers that the programme is being administered by the Exchange in a manner that is inconsistent with this Part or that is otherwise inconsistent with the maintenance of fair and orderly markets.

## Article 15

The Authority may any other actions it considers necessary and essential to conduct Securities Lending and Borrowing Activity.