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INTRODUCTION TO MARGIN TRADING

Dear Investor,

This leaflet aims at introducing you to the concept of margin trading and the risks related thereto. Hence, kindly read carefully this guidance bulletin before you proceed to any margin trading activity.

Cash Trading Account vs. Margin Trading Account: What is the difference?

The Cash Trading Account is an account through which the investor must pay the full value of the securities purchased prior to execution of the transaction, without the brokerage firm being allowed to finance the payment to be made by the investor for the value of purchases made on this account. As for the Margin Trading Account, it is an account through which the brokerage firm finances the investor to purchase securities against collateral consisting of the securities available in that Margin Trading Account or other collateral as permitted by the regulations. The margin trading system increases the investor's purchasing power but exposes the investor to huge potential losses. Please find here below, Dear Investor, what you need to know about Margin Trading.

What is the process of Margin Trading?

Let us assume that you wish to purchase one share at the rate of Dirhams (10) and the price of the share increased to Dirhams (15), if you purchased that share through your cash account –i.e. you already paid its full value- you would have realized then (50%) profit.

However, if you purchased the said share through your margin trading account, you would have paid Dirhams (5) and the brokerage firm would have financed for the remaining Dirhams (5). In this instance, you would have then realized Dirhams (5) profit, i.e. a profit rate of (100%).

But should the share price drop down to Dirhams (5) and you had purchased the said share through your cash trading account and paid its full value, your loss would be (50%). If you had purchased the same share through your margin trading account, then your loss would be (100%) in addition to the commissions and expenses, which means that your loss when trading on margin is higher.

The investor may be compelled from time to time to top up the margin trading account by way of depositing financial sums or securities therein if the value of the shares purchased through the said margin trading account drops.

Margin Trading Risks

Dear Investor, margin trading may involve significant risks; therefore, before you decide to trade on margin, it is necessary that you be aware of the following:

1. You could sustain a loss greater than the amount invested in your margin trading account;
2. You could be required to deposit additional sums or securities or be compelled to sell securities when notified by the brokerage firm that you sustained a loss in your margin trading account which resulted in a contribution rate lower than the minimum maintenance margin agreed upon;
3. The brokerage firm may sell all or part of the securities available in your margin trading account should you fail to cover the outstanding debit balance in the margin trading account;

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To avoid such risks, you could protect your investment through the following measures:

a. Be aware of the margin trading mechanism and what may happen in case of a drop in the value of the shares purchased through your margin trading account;

b. Be aware of the amount of commissions, expenses and costs to be charged by the brokerage firm for its margin financing and how this shall affect the return on your investment;

c. Understand the securities which you may purchase through your margin trading account as determined in the margin trading agreement;

d. Have the adequate knowledge that enables you to estimate your ability to trade on margin considering your financial resources, your investment goals, and your capability to assume the risk level expected to arise from such trading.

Read the Margin Trading Agreement

The relationship existing between you and the licensed brokerage firm which finances you is organized pursuant to the margin trading agreement which you should thoroughly read and discuss, with the firm, the provisions stipulated therein before executing the same as it shall be binding upon you.

As in the case of financing agreements, the margin trading agreement includes clauses and conditions which must be complied with; for example, the said agreement includes provisions relating to the calculation of commissions and expenses chargeable to the margin trading account, your responsibility for the settlement of sums financed and how the securities financed on margin represent a collateral for the financing granted.

Therefore, dear Investor, you are required to pay attention to all clauses and conditions stipulated in the agreement and especially those related to the brokerage firm's notice to you regarding any drop occurring in the value of the securities available in the margin trading account as well as the procedures followed by the firm in the event of your failure to cover the shortage.

Peruse the Margin Trading Decision

When dealing through your margin trading account with the brokerage firm, you will be subject to the Authority's Board of Directors Decision No. (25/R) for the Year 2008 Concerning Margin Trading (sometimes referred to as the "Decision"), which you should thoroughly read and understand. The brokerage firm may, in agreement with you, add other organizational terms and conditions provided that such terms and conditions are not contradictory to the above mentioned Decision.

Amount permitted to be financed by the Brokerage Firm

Pursuant to the Authority's Board of Directors Decision No. (25/R) for the Year 2008 Concerning Margin Trading, the brokerage firm is allowed to finance up to (50%) of the purchase value in the margin trading account. This means you are required to deposit at least (50%) of the purchase value in the margin trading account in accordance with the percentages fixed in the margin trading agreement, which is referred to as the "**Initial Margin**".

Once you make a purchase through the margin trading account, the brokerage firm shall monitor the account on daily basis to notify you of any drop in the margin trading account pursuant to a proportion to be agreed upon and known as the "**Maintenance Margin**". The Maintenance Margin represents the lowest ratio permitted to be reached by the customer for his/her contribution to the market value of the securities at any time after the date of purchase.

According to the Authority's Decision, the Maintenance Margin represents a minimum ratio of (25%) of the market value of the securities purchased through

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the margin trading account, and some brokerage firms may require a higher Maintenance Margin to be agreed upon in the margin trading agreement entered into between you and them.

Illustrative Example:

Let us assume dear Investor that you agreed with the brokerage firm that the latter will finance you on margin at the ratio of (50%) and you purchased securities through the margin trading account in the value of Dirhams (16,000). The brokerage firm will finance the sum of Dirhams (8,000) and you shall deposit the sum of Dirhams (8,000) in cash or in the form of securities. Should the market value of the securities drop to Dirhams (12,000), the value of your contribution to the margin trading account shall drop to Dirhams (4,000) according to the following:

Dirhams 12,000 (shares market value) – Dirhams 8,000 (brokerage firm's financed amount) = Dirhams 4,000 (your contribution value).

In the event where brokerage firm calculates the Maintenance Margin at (25%) ratio; i.e. (25% x 12,000), then, the Margin Maintenance will be AED (3,000). Therefore, your contribution will be sufficient as it is higher than the Maintenance Margin. However, if the brokerage firm calculates the Maintenance Margin at (40%) ratio, i.e. (40% x 12,000), then, Margin Maintenance would be AED (4,800), which means that your contribution will not be sufficient and as a result the brokerage firm shall notify you to top up the account and compensate the shortage (Margin Call) in the amount of AED (800).

How to top up the Margin Account (Margin Call)

Dear Investor, if the Maintenance Margin drops below the minimum level permitted, the brokerage firm shall notify you to top up the account (Margin Call) by way of depositing additional sums or securities within two (2) business days in such a manner so as to restore your contribution ratio to the Maintenance Margin ratio required according to the market value of such securities as of the date you provide coverage.

Should you fail to top up the account within two (2) business days from date of notice, the brokerage firm may sell all or part of the securities financed on margin in such a manner so as to restore your ownership ratio to the Maintenance Margin Ratio at least, according to the market value of such securities as at the date of sale.

Dear Investor, for further information you may peruse the Authority's Board of Directors Decision No. (25/R) for the Year 2008 Concerning Margin Trading by visiting the Authority's website or through the following link: https://www.sca.gov.ae/

The Securities and Commodities Authority provides this guidance bulletin as a service to investors, but it shall not have any value in legal disputes, as the Authority's Board of Directors Decision No. (25/R) for the Year 2008 Concerning Margin Trading shall remain the legal reference in this respect. In the event of a dispute, it is advisable to seek the assistance of a legal advisor specialized in securities.

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