

Association of Global Custodians
Middle East and Africa Focus Committee ("AGC ME&A");
Subject to Supplemental Comments

The CEO
Qatar Central Securities Depository
Post Box 1234
Doha Qatar

Attention: **Mr Misnad Abdul Latif Al Misnad**

Dear Sir,

Re: Removal of Custody Accounts in Qatar

The Association of Global Custodians Middle East & Africa ("AGC ME&A") represents the international banking community¹.

The AGC ME&A would like to take the opportunity to briefly convey members' concerns regarding the proposed removal of the custody accounts in Qatar.

Background:

The Qatar market has a dual account structure therein allowing investors maintaining accounts at the Qatar Central Securities Depository to have the option to hold shares in a custody account or trading account or both. The shares that are held in the custody account benefit from an additional level of security as the shares cannot be accessed by the brokers. In the event investors wish to sell shares they need to transfer shares to the trading account by instructing their custodian prior to trading. As a common market practice, investors provide authorization to their appointed agents i.e. Global Custodian, Regional broker, local broker to transfer shares as required. The process adopted is as follows:

- Qatar follows a trade date (T)+3 settlement cycle and is a no fail market.
- All executed market trades are alleged by the sub custodian to the Global Custodian (GC) on T and T+1 morning.

¹ *The Association of Global Custodians is an informal group of 12 financial institutions that provide securities safekeeping services and asset-servicing functions to primarily institutional cross-border investors worldwide. As a non-partisan advocacy organization, the Association represents members' common interests on regulatory and market structure matters through comment letters, white papers and interaction with legislative and regulatory authorities and financial industry organizations around the globe. The members of the Association of Global Custodians are: BNP Paribas; BNY Mellon; Brown Brothers Harriman & Co; Citibank, N.A.; Deutsche Bank; HSBC Securities Services; JP Morgan; Northern Trust; RBC Investor & Treasury Services; Skandinaviska Enskilda Banken; Standard Chartered Bank; and State Street Bank and Trust Company.*

- Immediately following sale trade execution, the seller's shares are earmarked for delivery in the trading account.
- Investors are required to send matching settlement instructions and secure funding arrangements on or before the sub custodian's deadline. The Depository's deadline to affirm or reject trades is on or before T+3, 9.00 a.m.
- In the event the investor does not recognize the trade allegation, the investor must specifically request the sub custodian to reject the trade and the sub custodian will submit the rejection to the Depository in writing.
- For sale trades that are rejected by the sub custodian, the Depository will not release the shares and the seller's shares are not at risk of being delivered to the broker. The broker is still obligated to settle the trade, but the seller's shares are not at risk of being delivered to the buyer on settlement date.
- The broker has until T+6 to deliver the shares to the buyer or compensate the buyer through the cash close out mechanism. The buyer can also claim up to QAR 1 million in losses by writing to the Regulator, Qatar Financial Markets Authority.
- In the event the sub custodian does not receive a settlement instruction, mismatch trade details, or if the investor does not specifically request to reject the trade, the sub custodian will not affirm or reject the trade to the Depository. On T+3 (settlement date), and the shares are made available to the buyer. A negative position is created in the selling broker's account and the sold position is held under block in the seller's account, pending resolution between the seller and selling broker. The seller has from T+3 until T+6 to send settlement instructions to the sub custodian for late settlement or claim the broker for the shares.)
- If however the seller sends settlement instruction to the sub custodian for late settlement, the sub custodian affirms the trade late at the Depository and the pending trade is settled.
- For sale trades that are not instructed or rejected by the sub custodian, the seller's shares are at risk of being debited from their trading account and delivered to the buyer.
- If a seller claims the shares and this is not disputed by the broker, the broker is responsible to return the shares to the seller through one of the following means:
 - The broker could use its own inventory
 - The buy-in window of the Exchange (T+4 to T+6)
 - Borrow the shares through Securities Lending and Borrowing (SLB) facility
 - Buy from the normal market on T+3
- In the event the broker is unable to return shares to the seller by T+6, the trade will be settled through a cash close out mechanism on T+7. The Depository debits the seller's shares to deliver to the buyer. The seller receives close out proceeds from the broker.
- The seller can also claim up to QAR 1 million in losses by writing to the Regulator, Qatar Financial Markets Authority.

Risk and Concerns:

While we endorse the development to consider adopting a single account structure, aligning Qatar with internationally followed market standards, we believe it is necessary to highlight

concerns regarding how the single account structure will impact the existing negative trade affirmation model.

Qatar follows a negative trade affirmation model. i.e. any trade that is not recognized by the client has to be rejected in writing or else the investor runs a risk of losing the shares and being compensated with cash close out. While the DVP/ trade rejection concept has been implemented since May 2011 we understand that to date there has not been a single trade rejection and the possibility of such a case is rare, however, the risk still remains and client could lose its shares if not rejected in a timely manner.

We would like to highlight that most markets that have a trade affirmation/confirmation process follow a model that has a positive affirmation Unconfirmed trades are automatically rejected and form part of the fail trade mechanism with the obligation passed on to the broker.

Currently in Qatar a reverse of the above is being adopted. Any trade that is not recognized has to be rejected by the client in writing. This would mean that investors have to specifically notify sub custodians within a certain window and reject the trade so that their shares are not debited in case of any erroneous sale.

Proposal:

Our recommendation is that prior to implementing the single account structure i.e. removal of the Custody account, the Qatar market should adopt the positive affirmation process thereby eliminating the residual risk of the client losing their shares in case of an error sale.

We do understand if the above is implemented as it stands today there is a possibility of many trades failing and that this may cause a disruption to the market. This is mainly due to Qatar market trades having multiple counterparties involved (e.g. local, regional & International brokers) and all legs of the trade not matching on time.

To address these concerns, most markets have adopted the following tools to make the mechanism more efficient.

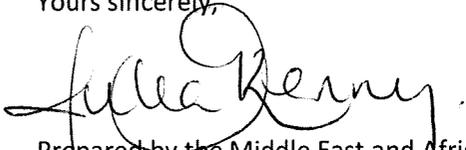
- 1) Follow a positive affirmation process where client shares should not be delivered if instructions are not received (A CCP model)
- 2) Have a settlement guarantee fund in place to protect the brokers and clients
- 3) Introduce an efficient SBL mechanism so that the broker could manage the short positions fairly quickly.
- 4) Shorter settlement cycle for rectification of error trades or permit a window (immediately after trading close) for brokers to rectify error trades.

In conclusion, we would like to take the opportunity to thank you for considering our proposal and we would welcome the ability to meet with you to discuss these matters in more. The AGC ME&A Committee communication details are as follows:

Julia McKenny
Standard Chartered Bank
Chairperson of AGC ME&A

Email: julia.mckenny@sc.com

Yours sincerely,

A handwritten signature in black ink that reads "Julia McKenny". The signature is written in a cursive style with a large, prominent initial 'J'.

Prepared by the Middle East and Africa Association of Global Custodian Committee,
Julia McKenny, Chairperson. 24 January 2019