

The Qatar Central Securities Depository

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February 2014

It has assumed the duties relating to central clearing, depository and registry activities which were previously undertaken by QE. Previously, the QE acted as the central registry and depository of listed equity and debt securities (shares, bonds and sukuks). The QE was also responsible for settlement of orders by Delivery vs. Payment (“DvP”) and for registering pledges over listed securities. The QCSD has now assumed these functions, leaving the QE with its core function of a securities trading market. The QCSD is licensed by the Qatar Financial Markets Authority (‘QFMA’, the regulator of capital markets activities in Qatar).

The QCSD also provides related services, including registration, acceptance and transfer of government bonds and treasury bills (T-bills). The QCSD offers additional services including DvP, securities lending and borrowing settlement, management and follow-up of limits placed on non-Qatari shareholders, registration and authorisation of exchange-traded funds (ETFs) as well as services in connection with initial public offerings (IPOs).

The QFMA has issued Dealing Rules for the QCSD (the “Rules”) and a guide on procedures of QCSD (the “Guide”).

All registers of current shareholders recorded with QE will be transferred to the QCSD. The QE’s system will be linked to the QCSD’s system. The QCSD will also process all off-market transfers, either by inheritance or by court order.

This article sets out some of the key developments that have been introduced pursuant to the Rules.

Licencing

The following entities must obtain the requisite license from the QCSD:

- Issuers of securities listed on the QE; and
- Financial services companies whose activities require a link to the QCSD’s system.

Central Depository and Registry

All securities offered for public subscription must be deposited with the QCSD. This includes shares, bonds, T-bills, sukuks, financial indices, derivatives, et cetera. Holders of deposited securities must open a depository account with the QCSD.

Any dealings related to the securities deposited with the QCSD must be executed by recording the relevant transaction on the QCSD’s electronic registration system.

Settlement and Clearing

The QCSD carries out all settlement and clearing of transactions executed by the QE. The QCSD is responsible for determining the net rights and obligations of each market participant and to settle the positions of such participants arising from trading in securities registered with the QCSD. The QCSD is also

responsible for recording the transfer of title relating to such securities.

Pledging and Freezing of Securities

Pledges over securities are now executed through the QCSD instead of the QE. The Rules have introduced a provision relating to the assignment of rights secured by a pledge. The Rules permit the transfer of a right secured by pledge only by serving a notice upon the pledgor. The QCSD will then register the pledge in the name of the assignee.

A pledge agreement submitted to the QCSD must be authenticated by the Ministry of Justice in Qatar or notarised and legalised abroad for pledge agreements executed outside Qatar

If the QCSD receives a court order for the attachment of pledged securities by creditors other than the pledgee, the QCSD will first notify the court of the existing pledge with copy to the pledgee.

Local and international banks who wish to record pledges with the QCSD must be recorded as pledgee members with the QCSD instead of the QE. It is not clear how the existing pledgee members registered with the QE will be dealt with by the QCSD and whether there are new procedures required for those existing pledgee members.

Custodians

Custody services are now regulated by the QCSD. Custodians are required to obtain the QCSD's license and comply with QCSD's requirements set out under the Rules.

The Rules set out the following criteria for registering as a custodian:

1. the entity must be licensed by the QFMA;
2. the entity should provide a bank guarantee to the QCSD;
3. it must have a separate department providing such securities; and
4. it must have segregated accounts.

A custodian is required by the QCSD to open and maintain segregated accounts for its customers. The QCSD requires specific provisions to be incorporated in custody services agreements. Provisions relating to the conduct of business of custodians have also been introduced under the Rules.

Off Market Activities

Article 26 of the Rules relates to the settlement and clearing of off-market transactions (transactions excluded from trading system). Article 64 defines "off market transactions" as follows:

1. The transfer of title of securities in cases of inheritance, will, grant, donation;
2. The transfer of shares by the founders of a company among the other founders "during the period prescribed by law". It is not clear in the Rules whether the reference to the "period prescribed by law" means the lock-in period of two years, during which the founders cannot dispose their shares. It is our view that this is a possible exemption from the lock-in period transfers under the Commercial Companies Law, made in anticipation of the issuance of the new companies law;
3. The transfer of shares of private joint stock companies which are not listed on the QE;
4. The conversion of shares owned by the Government or Governmental entities and institutions into joint stock companies; and
5. Other transactions decided by the QFMA.

Confidentiality

The QCSD is obliged to maintain confidentiality in respect of information provided to it by market participants and may not disclose such information or data except after obtaining the prior written consent

of the concerned person or the QFMA, except for disclosures requested by a court order or public prosecution in an ongoing investigation.

QCSD Accounts

The following accounts may be opened with the QCSD:

1. National Investor Number (NIN) account for the owner of the securities;
2. Trading account in the name of the owner, opened by the broker or the custodian; and

Custody account in the name of the owner, opened by the custodian.

Conclusion

The QCSD has taken over all activities and tasks that previously belong to the central registration department of QE, and it is important that those interested in the Qatari capital markets be aware of this. It is also important to note that all shareholders' records which are currently recorded with QE are being transferred to the QCSD. QE will only carry out trading activities relating to its initial role as a stock exchange.