ABU DHABI GLOBAL MARKET, an international financial centre (IFC) in the capital of the United Arab Emirates, fully opened for business on 21st October 2015. A financial free zone, ADGM is an independent jurisdiction regarding civil and commercial law encompassing the entire 114 hectares (1.14 sq km) of Al Maryah Island, with rules and regulations aligned with international best practice. ADGM’s three independent authorities (Registration Authority, Financial Services Regulatory Authority and the ADGM Courts) provide a holistic environment enabling companies to conduct business and operate with confidence.
ADGM, SETTING
THE FOUNDATION
FOR COMMODITIES & COMMODITY
DERIVATIVES MARKETS

In line with the treatment of Commodity Derivatives by European Union regulators under the Markets in Financial Instruments Directors (Directive 2004/39/EC) (MiFID), options, futures and CFDs on commodities are regulated as financial instruments under the ADGM’s Financial Services and Markets Regulations.

Potential ‘commodity’ based investment products include exchange traded commodities, commodity index funds and commodity-linked medium term notes.

Within ADGM, there are three types of Commodity Derivatives:
• OPTIONS
• FUTURES
• CONTRACTS FOR DIFFERENCE (CFDs)

Recognised Investment Exchanges (RIEs) and OTC derivative market players that operate platforms to trade Commodity Derivatives are catered for by our regulatory framework and regulated by the FSRA.

The ADGM market covers both physical markets as well as commodity derivative markets.
FOSTERING A VIBRANT & OPEN COMMODITIES MARKET

A distinguishing feature of commodities markets is the broad range of market participants, from banks to specialist commodity trading firms, who are available in the marketplace. Types of firms that operate as market participants may also vary from time to time. To foster a dynamic and holistic commodities ecosystem, the ADGM platform allows market participants such as:

- ADGM domiciled entities (both FSRA-regulated and unregulated)
- International regulated entities (including commodity derivative exchanges)
- Unregulated entities (including commodity warehouses, trading houses and price reporting agencies)

Firms undertaking investment activities in the ADGM are required to obtain FSRA authorisation, unless exempted.

To know more about being an “Authorised Firm at ADGM”, please visit www.adgm.com for more details.
**A PLATFORM FOR RECOGNISED BODIES & OTHER MARKET INFRASTRUCTURE**

**RECOGNISED BODIES**
Intermediaries that aim to offer trading and/or clearing platforms for Commodity Derivatives need to seek recognition as Recognised Bodies in the ADGM as per FSRA Market Infrastructure Rulebook (MIR). Recognised Bodies, exchange houses and clearing houses licensed and regulated by the FSRA, often serve as the frontline regulators of the markets they operate in. Ultimately oversight of these Recognised Bodies lies with the FSRA as the regulatory authority in ADGM. To obtain recognition, these Recognised Bodies are required to put in place member application and supervision rules and processes, policies and procedures relating to their wider market monitoring and market transparency obligations, which include position limits, position reporting and delivery limits.

Recognised Bodies are exempt from authorisation requirements, as long as they stay within the boundaries of the Recognition Requirements.

**NON-ADGM RECOGNISED BODIES (REMOTE ORGANISATIONS)**
There is a further sub-category of Recognised Bodies that can operate in ADGM related commodity markets. These are Internationally Non-ADGM Recognised Bodies (also referred to as “remote organisations” such as exchanges and/or clearing houses that exist, and operate outside the ADGM), who provide access to their own facilities to persons/entities located in the ADGM.

As an open platform, ADGM also welcomes remote organisations that provide trading, and clearing, facilities to ADGM market participants in relation to Commodity Derivatives.

**MULTILATERAL TRADING FACILITIES (MTFs) AND ORGANISED TRADING FACILITIES (OTFs)**
In addition to Recognised Bodies, the ADGM regulatory framework provides for Multilateral Trading Facilities (MTFs, being a non-exchange trading venue operating under non-discretionary rules) and Organised Trading Facilities (OTFs, being a multilateral system operating under discretionary rules), which are Authorised Persons (investment firms or market operators) that facilitate multilateral deals in Financial Instruments (including Commodity Derivatives) on a trading venue. MTFs and OTFs (in addition to the general requirements applicable to Authorised Persons in the Conduct of Business Rulebook (COBS) and the General Rulebook (GEN)) are also subject to further specific rules within COBS and the MIR.

**A RISK-BASED APPROACH FOR COMMODITIES FIRMS**

For all ADGM FSRA-regulated commodities firms, FSRA adopts a risk-based approach similar to those applicable to financial services firms. The FSRA does not adopt a one-size-fits-all criteria. The detailed regulatory obligations will vary based on the type/category of participant and the risk and complexity they bring to the market. Where appropriate, it may include differing prudential requirements, as well as conduct of business requirements and client asset rules to assure protection of investors.

**SPECIALIST COMMODITIES FIRMS AND LICENCING EXCLUSIONS**
The Financial Services and Markets Regulations (FSMR) 2015 (Schedule 1) provides that Members of an ADGM Recognised Investment Exchange (RIE) that undertake trading activity as a specialist commodity firm on its own account for Commodities Derivatives, and are not part of a Group whose main business is the provision of financial services, may be excluded from licensing. These Members would still be subject to the Business Rules of a RE and also be required to hold a commercial licence with the Registration Authority.
COMMODITY WAREHOUSING

A commodity warehouse, contracted by an ADGM recognised Investment Exchange (RIE), can be located on Al Maryah Island, the jurisdiction of ADGM. Warehousing can also be located outside of ADGM’s jurisdiction.

ADGM recognises that a successful financial services ecosystem encompasses a wide variety of market participants and stakeholders. This is no different when considering an ADGM commodity market, with one of the essential building blocks being physical commodity warehousing.

OPERATION OF COMMODITY WAREHOUSES

Consistent with international best practice, the operation of commodity warehouses is not an FSRA Regulated Activity within ADGM, and does not require a Financial Services Permission. Commercial operations of this nature, however, would require a commercial licence from the ADGM Registration Authority.

CONDUCIVE FOR PHYSICAL COMMODITY WAREHOUSING

ADGM has an interest in physical commodity warehousing due to the role it plays in ensuring that exchange-traded Commodity Derivatives contracts (which incorporate warehouse arrangements) are adequately anchored to the price of the underlying commodity, and because of the central function warehouses play in ensuring effective settlement of contracts. Commodity Derivative Exchanges have specific contractual relationships with their commodity warehouses and have terms and conditions by which the warehouses must abide.

The direct application of common law allows ADGM to benefit from the established body of case law on rights and processes around warehousing process and control, as well as, the commercial flexibility for market participants in physical commodity trading to enter into commercial valid and flexible contractual relationships that relate to their specific industry.

UNDERSTANDING THE FUNCTIONS OF ADGM AUTHORITIES

FINANCIAL SERVICES REGULATORY AUTHORITY (FSRA)

The FSRA is the independent financial services regulator of ADGM and supports Abu Dhabi’s ambition to be a progressive and vibrant international financial services centre. The FSRA is responsible for licensing and supervising financial intermediaries, including banks, insurance companies, exchanges and capital market intermediaries conducting financial activities in ADGM and within the financial free zone of Abu Dhabi. The FSRA is committed to providing and operating a fair, well-regulated and robust financial regime that is benchmarked against international standards and best governance practices.

The FSRA is a recognised member of the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Basel Consultative Group of the Basel Committee on Banking Supervision.

REGISTRATION AUTHORITY (RA)

The RA handles all aspects of incorporation, registration and licensing of legal entities in ADGM, including activities in relation to commodities (eg, trading, transportation and warehousing). A list of all the types of non-financial commercial activities that can be conducted in the ADGM can be found online*.

ADGM – A STRATEGIC FINANCIAL CENTRE FOR COMMODITIES MARKETS

Abu Dhabi Global Market, an international financial centre in the capital of the United Arab Emirates, opened for business on 21st October 2015. ADGM believes that a fair, efficient and transparent marketplace is fundamental in meeting the dynamic and growing needs of the Abu Dhabi economy and global markets.

As an IFC, ADGM is committed to provide an open and enduring marketplace that facilitates dynamic market activities. The ADGM Commodities Market will enable firms and commodities participants to engage in commodities trading, derivatives trading, settlement, clearing and depository services, together with foreign exchange and wealth management.

As a financial free zone, ADGM is an independent jurisdiction encompassing the entire 114 hectares (1.14 sqkm) of Al Maryah Island with rules and regulations aligned with international best practice. ADGM’s three independent authorities, the Registration Authority, the Financial Services, Regulatory Authority and ADGM Courts, provide a business efficient and robust environment for registered companies to operate with certainty and expand their businesses.
