

The Executive Bylaws  
Module Four

# Securities Exchanges and Clearing Agencies



هَذَا كِتَابٌ أَنْبَأُ فِيهِ الْمَلَأُ

## Contents

<b>Chapter</b>	<b>Title</b>
<b>Chapter One</b>	<b>Exchanges</b>
1-1	Scope of Application
1-2	Establishing and Licensing an Exchange
1-3	Exchange Management
1-4	Regulatory Requirements
1-5	Rules and Regulations of an Exchange
1-6	Violation's Committee
1-7	Crisis Intervention by the Authority
1-8	Accounts and Reporting of the Exchange
1-9	Cancellation of an Exchange's License
<b>Chapter Two</b>	<b>Clearing Agencies</b>
2-1	Scope of Application
2-2	Establishing and Licensing a Clearing Agency
2-3	Clearing Agency Management Requirements
2-4	Regulatory Requirements
2-5	Rules and Regulations of a Clearing Agency
2-6	Crisis Intervention by the Authority
2-7	Accounts and Reporting of a Clearing Agency
2-8	Cancellation of a Clearing Agency License
2-9	Detailed Requirements for Central Securities Depositories
2-10	Additional Requirements for Central Securities Depositories and Securities Settlement Systems or Central Counterparty

## Chapter One Exchanges

### Article 1-1

#### Scope of Application

The provisions of this Chapter apply to Exchanges which are licensed by the Authority.

### Article 1-2

#### Establishing and Licensing an Exchange

### Article 1-2-1

An Exchange runs a trading system designated to match Bid and Ask Offers for Securities that are listed on the Exchange. This system follows the procedures and rules set by the Exchange and approved by the Authority.

Securities that are listed in the Exchange shall not be traded outside this system. The Exchange may set provisions for certain transactions in the Exchange's rules, after the Authority's approval.

### Article 1-2-2

L 32

No Person may establish, operate, nor assist in the establishment or operation of an Exchange unless obtaining a license under the Law and these Bylaws in accordance with the systems and regulations approved by the Authority. The Authority shall be solely authorized to issue a license to the Exchange, which shall be published in the Official Gazette.

### Article 1-2-3

Licensing of an Exchange shall be in accordance with the following:

1. An application shall be submitted for an Exchange license in accordance with the application form specified by the Authority for that purpose. The application shall have attached to it all the documents and information specified in these Bylaws, and together with the fees specified by the Authority.
2. Following receipt of an Exchange license application that fulfils the requirement in clause (1) of this Article, the Authority may request additional information or documents as it considers necessary to determine the application.
3. If the applicant fails to submit documents and information within the notification period that is specified by the Authority, the application shall be deemed to have been withdrawn.
4. The Authority shall determine an Exchange license application after it receives the application accompanied by all information and documents specified in clauses (1) and (2) of this Article.  
To obtain an Exchange license, the applicant shall fulfil all the requirements and obligations stipulated in this Module and any other requirements set by the Authority.
5. The Authority shall inform the applicant of its determination regarding its application to obtain an Exchange's license. The Authority may reject granting the license for public interest reasons. In the event of a rejection of an application, the determination shall be justified.

**Article 1-3**

**Exchange Management**

**Article 1-3-1**

The conditions that are related to fit and proper rules shall be fulfilled by each Member of the Board of Directors of the Exchange during his tenure as a member.

**Article 1-3-2**

L 36

The Exchange shall be managed by a Board of Directors formed of a Chairman and a Vice Chairman, who shall replace the Chairman in case of the Chairman's absence, and six members who shall be elected and chosen by the general assembly of the company subject to the approval of the Board.

The Chairman of the Exchange's Board of Directors, or his authorized deputy, shall inform the Board of the names of candidates for the membership of the Exchange's Board of Directors at least thirty days prior to the date of the company's general assembly meeting for election of the Members of the Board of Directors.

Within fifteen days of being notified of such a nomination, the Board may object by a reasoned decision to any of such candidates for not fulfilling the required conditions. Such objection shall exclude the candidate from eligibility for membership of the Board of Directors. No candidate shall be nominated to the general assembly of the company if the Board has not been notified of that nominee, nor where an objection has been raised against that candidate as per the provisions of this Article.

The Board may request the Exchange's Board of Directors to displace any member who, during the tenure of his position, no longer meets any condition of those set out under the previous Article, or if such action is deemed appropriate to maintain the safety of investors' assets or is in the Exchange's interest. In case of failure to displace this member, the Board may issue a reasoned decision to terminate any of the members from their position, and notate that order in the Authority's records.

**Article 1-3-3**

L 37

The Chairman of the Board of the Exchange shall represent the Exchange before others and the courts, in addition to other competences stated in the Memorandum and Articles of Association, and shall also execute the Board of Directors' decisions. The Exchange shall have a Chief Executive Officer or more appointed by the Board of Directors after the Authority's approval and pursuant to the controls it may specify. The Chief Executive Officer is entitled to manage the Exchange, and the Board of Directors shall specify his remuneration and authorities. It is prohibited to conjoin the position of the Chairman of the Board of Directors with the position of the Chief Executive Officer.

**Article 1-3-4**

The Exchange shall prepare appropriate policies and procedures, to prevent Members of the Board of Directors from gaining access to the information of the clients and members of the Exchange, and to prevent any conflicts of interest amongst Members of the Board of Directors of the Exchange and those clients and members. The aforesaid policies and procedures shall be submitted to the Authority for approval

**Article 1-3-5** Employees of the Exchange are prohibited from participating as a Member of the Board of Directors or from accepting any position in a Listed Company or a Licensed Person or any related party.

**Article 1-3-6** Each employee and every Member of the Board of Directors of the Exchange, is obliged to disclose, as soon as being appointed, to the Compliance Officer of the Exchange the details of all Shares they own in the Listed Companies in the Exchange, including the ownership of their minor children under their custody, and any change that may occur to that ownership.

The Exchange shall submit an annual report including the details of these disclosures to the Authority.

**Article 1-3-7** Each employee in the Exchange and every Member of the Board of Directors of the Exchange is obliged to keep the confidentiality of the data and inside information that they gain sight of, by virtue of their position or through their professional or personal relations, and they are not allowed to reveal such, or give advice on the basis thereof to another non-insider. They shall not sell, purchase or subscribe in listed securities or those securities that applied for a listing unless under circumstance and conditions stipulated in Article (1-3-8) of this Module.

**Article 1-3-8** Without violating the provisions of Article (1-3-7) of this Module, employees of the Exchange and their minor children under their custody are not allowed to purchase or sell listed Securities or those Securities that under a Listing Application, unless in the following cases:

1. Inheritance and will.
2. Execution of a court judgment.
3. Public Offering in companies allocated by the State, or offered from public entities and authorities, and subscribing to the Pre-emptive Right in increasing the companies' capital in which they own shares.
4. Obtaining prior permission from the direct manager, the Compliance Officer and the Chief Executive Officer of the Exchange to sell or purchase the listed Securities. In the event of approval, selling or purchasing shall be completed within two business days. Any Shares purchased after such an approval may not be sold before six months after taking possession.

The Exchange shall prepare a code of professional conduct for the Members of the Board of Directors of the Exchange which shall regulate the trading of the Exchange's Member of the Board of Directors in listed Securities and those Securities that are under a Listing Application in the Exchange.

**Article 1-4**

**Article 1-4-1**

L 38

**Regulatory Requirements**

The Exchange shall abide by the following obligations:

1. Set policies and procedures to ensure the fairness, transparency and efficiency in trading in listed Securities.
2. Ensure that management maintains proper awareness of the risks associated with its business and operations.
3. Set policies and procedures to determine and manage any conflicts of interest between the Exchange and its members or among shareholders or management.
4. Provide and operate its services in accordance with applicable laws and regulations.
5. Organize its operations, standards of practice and its members' behaviour in accordance with the rules, policies and procedures of the Exchange.
6. Set preventive measures to ensure the sound management of the technical operation of its systems, including the establishment of effective contingency arrangements to cope with the risks of system disruptions.
7. Provide its services in accordance with the most advanced techniques and applications and automated systems in line with the international standards approved and set by the Authority.
8. Maintain sufficient financial resources to facilitate the performance of its business in a regulated form.
9. Maintain the confidentiality of all information under its custody with respect to its members, Issuers and clients. It is not permissible to disclose such information except to the Authority, or by its order or by a judicial order. It shall set policies and procedures to protect the information systems.
10. Follow the Authority's instructions.

**Article 1-4-2**

After obtaining the approval of the Authority, the Exchange shall prepare, and ensure adherence to, policies and procedures to preserve the confidentiality of the information and data related to trading in Securities or related to the Members of the Exchange or the Issuers. Moreover, Members of the Board of Directors of the Exchange and any unauthorized employee are not allowed to review such data unless to do so is within the limits of those policies and procedures.

**Article 1-4-3**

The Exchange shall not enter into any outsourcing agreement relating to the delegation of any of its functions to another person without obtaining the Authority's approval.

**Article 1-4-4**

Where an Exchange, because of the occurrence of any event or circumstances, is unable to operate any of its facilities or to provide any of its services within its regular working hours, it must immediately notify the Authority of that inability and provide further information as the Authority may require in that concern.

**Article 1-4-5**

L 39

An Exchange company shall inform the Authority immediately on the occurrence of any of the following matters:

1. If it is found that one of its members cannot comply with any of the Exchange's rules or its financial resources' regulations.
2. If it deemed there is a financial irregularity or any other situation that may indicate inappropriateness of a member or his incapacity to fulfil his obligations.
3. Any disciplinary action is taken against any member, operator, or his subordinates.

**Article 1-4-6**

An Exchange shall provide the Authority with any reports, data or information that may be required by the Authority.

**Article 1-4-7**

An Exchange shall make public the prices, volume and time of the transactions executed in respect of listed Securities. The related information shall be available to the public at an appropriate financial charge.

**Article 1-4-8**

An Exchange shall not suspend, cancel or amend any sale or purchase transaction in a Security except in accordance with the rules and instructions set by the Authority.

**Article 1-5**

**Rules and Regulations of an Exchange.**

**Article 1-5-1**

L 41

No rule issued by an Exchange, or any amendment thereof through withdrawal, replacement or change thereof or addition thereto, shall be valid unless approved by the Authority. The Exchange shall submit the reasons and objectives for proposing such a rule or amendment thereof and set out its impact; thereupon, the Authority may give its approval, disapproval or amendment and shall notify the Exchange of its decision within a period not exceeding three months of the date of notification of the proposal.



**Article 1-5-2**

An Exchange shall prepare policies and procedures necessary to perform its activities after obtaining the Authority's approval. Those policies and procedures shall in particular cover the following:

1. Agreements concluded between the Exchange and Members of the Exchange or the Clearing Agency, Market Maker or Issuers of Securities admitted to trading in the Exchange including the acknowledgement of contractors with the Exchange and their adherence to the rules and procedures of the Exchange.
2. Announcement of disclosures and the publishing of such information.
3. Risk management.
4. Complaints.
5. Monitoring System.
6. Disciplinary actions.
7. Charges and fees.
8. Code of professional conduct applicable to Members of the Board of Directors of the Exchange and its employees.

**Article 1-5-3**

An Exchange shall prepare rules for trading in Securities that are listed in the Exchange in order to ensure the trading takes place in a fair, orderly and efficient manner, after obtaining the Authority's approval thereof. The Exchange must have effective arrangements to verify that Issuers with Securities admitted to trading on the Exchange comply with their disclosure obligations under the Law and applicable regulations.

An Exchange is obliged, periodically, to ensure that the Securities admitted to trading are in compliance with the Exchange's requirements.

**Article 1-5-4**

An Exchange must notify the Authority with any material violations of its rules or regulations by Members of the Exchange or Traders. The Exchange must provide the Authority with any information required in this respect.

**Article 1-5-5**

The Authority may request from an Exchange to prepare policies and procedures or specific rules or regulations within its scope of activities, or to amend it within a certain period. If the Exchange fails to abide by or to meet such a request within the specified period, the Authority may undertake such preparation or amendment on behalf of the Exchange at the expense of the latter.

**Article 1-5-6**

Issuers of the Securities that are listed in the Exchange and Members of the Exchange shall adhere to the Exchange's rules and regulations.

**Article 1-6**

**Violations Committee**

**Article 1-6-1**

The Exchange shall form a committee consisting of at least three members specializing in examining the Violations committed by a member of the Exchange, and it shall be headed by a judge delegated by the Judicial Council. The other members shall be chosen by the Exchange, and they shall not be from its employees or members of its Board of Directors or those related to it, and they shall be approved by the Authority. The members shall be experienced in financial, economic and legal affairs and not related to the Exchange.

The Exchange shall determine their rewards and the procedures of disbursing them. Membership term shall be three renewable years, and its secretariat shall be an employee of the Exchange.

**Article 1-6-2**

Each member of the violations committee is prohibited from having a direct or indirect interest, during his tenure, in or with any of the Exchange's Members.

**Article 1-6-3**

The secretariat of the violations committee shall be responsible for receiving the notifications concerning the Violations referred from the Authority or the Exchange as the case may be and shall submit them to the committee's chairman as well as notifying the stakeholders with the dates of the sessions and undertaking such other tasks as the committee chairman shall assign to the secretariat.

**Article 1-6-4**

The violations committee chairman may order an investigation to be conducted before submitting the Violation to the committee. Investigations shall be conducted by the Exchange or by a committee formed by the committee chairman for that purpose for the Violations committed by the Exchange company. The investigating entity shall submit its opinion to the committee chairman by submitting a memorandum including a detailed statement of the investigation procedures, summary of incidents of the Violation, proofs, evidences and recommendations. The committee may decide to dismiss the investigation.

<b>Article 1-6-5</b>	The secretariat of the violations committee shall notify the <u>Violator</u> with the date set by the committee to consider the alleged <u>Violation</u> and its content. Notification shall be at least three <u>Business Days</u> before the specified date. Notice procedures stipulated in Chapter Four of Module Three (Enforcement of the Law) of these <u>Bylaws</u> shall be followed. Service of notice shall be through the secretariat or through the electronic means of communication.
<b>Article 1-6-6</b>	The secretariat of the violations committee shall enable the person referred to the committee or their attorney to review all papers related to the <u>Violation</u> and shall provide them with a copy of the papers after the payment of the stipulated fees.
<b>Article 1-6-7</b>	The committee shall place before the person referred to the committee the alleged <u>Violation</u> and the relevant evidence in order to enable the alleged violator to defend himself in person or by appointed attorney.
<b>Article 1-6-8</b>	The committee, by a decision or based upon a request from the person referred to the committee or his agent, shall hear the testimony of any person that the alleged violator desires the committee to hear or whose expertise it wished the committee to consider.
<b>Article 1-6-9</b>	The absence of the <u>Violator</u> , after it was affirmed that he was informed with the date, shall not prevent the committee from considering the <u>Violation</u> and issuing a decision accordingly.
<b>Article 1-6-10</b>	The committee is empowered to consider all <u>Violations</u> alleged to have been committed by any of the <u>Exchange Members</u> . The committee may impose the following penalties: <ol style="list-style-type: none"><li>1. Caution the <u>Violator</u> to discontinue committing the <u>Violation</u>.</li><li>2. Issue a warning.</li><li>3. Subject the <u>Violator</u> to further supervision.</li><li>4. Suspend the <u>Violator</u> from working or practicing the profession for a period not exceeding one year.</li><li>5. Impose restrictions on the <u>Violator's</u> activity or activities.</li><li>6. Suspend the trading of a <u>Security</u> for a specific period in the interest of the market.</li></ol> In all cases, the committee may cancel transactions related to the <u>Violation</u> and the consequences thereof.

L 42

**Article 1-6-11**

The secretariat of the violations committee shall notify the secretary of the Disciplinary Board about each Violation that is referred to the committee, setting out the parties and the nature and reason of the Violation.

**Article 1-6-12**

L 43

The secretariat shall inform the Authority and the Exchange of the decisions issued by the committee against any of the members of the Exchange, the details of the Violations committed, and the procedures taken and the penalty imposed immediately after their issuance. The Authority shall be provided with all documents related to the subject within three Business Days from the date of issuing the decision.

The management of the Exchange shall inform the Authority of any action taken against any of its violating Members and the details of the Violation committed immediately after taking it. The Authority shall be provided with all documents related to the subject within three Business Days from the date of taking the action.

The Authority may, by virtue of a decision it issues or based on a grievance filed by a complainant within fifteen days of his receipt in writing of the notification of the decision, refer the subject to the Disciplinary Board to review the disciplinary action in accordance with its accredited review system. The Disciplinary Board may uphold the decision of the Exchange or the committee, or amend, or cancel the same by a reasoned decision.

**Article 1-7**

**Crisis Intervention by the Authority**

**Article 1-7-1**

L 44

In the event of any disaster, crisis and disturbance, which may result in a serious impact on the market, and in the event where several traders give misleading intimations or indications, the Authority shall have the widest powers to issue instructions that aim to regain fairness, transparency and efficiency of the market. The Authority may take any of the following actions:

- 1 - Suspend trading at an Exchange or the trading of any listed Security for a limited period.
- 2 - Cancel trading for a specific period or cancel transactions on certain shares.
- 3 - Issue decisions to dissolve all or part of an account balance or reduction thereof.
- 4 - Amend the trading days and hours.
- 5 - Amend or suspend any of the Exchange's rules.

**Article 1-7-2**

L 45

In the event of non-compliance by an Exchange with the decisions or instructions issued by the Authority stipulated under the preceding Article, the Authority may take appropriate measures to achieve regular trading or liquidate any position related to the Securities.

**Article 1-8**

**Accounts and Reporting of the Exchange**

**Article 1-8-1**

An Exchange shall appoint one or more external Auditor from the Auditors registered in the Authority.

**Article 1-8-2**

An Exchange shall apply comprehensive systems and controls of risk management enabling it to identify, assess, classify, manage and address the risk associated with its activities. The Exchange shall submit a risk report to the Authority every six months.

**Article 1-8-3**

An Exchange shall maintain an internal audit system in accordance with the international standards approved by the Authority.

**Article 1-8-4**

The Authority may appoint, by means of a written notice, an Auditor, who is registered in the Authority's registry, to an Exchange at the expense of the Exchange to examine and audit the accounts, data and records of the Exchange, as well as to prepare a general or a special report regarding a specific matter, if the Authority deems it would be in the public interest.

**Article 1-8-5**

An Exchange shall submit to the Authority an annual report within ninety days from the end of its financial year that shall particularly include the following:

1. A report that describes the activities that are performed by the Exchange throughout the previous year with regard to financial, intellectual and human resources of the Exchange.
2. Audited financial statements including the report of the external Auditor.
3. Any other reports that the Authority may specify.

**Article 1-9**

**Article 1-9-1**

L 46

**Cancellation of an Exchange's License**

By virtue of a written notification to the Exchange, the Authority may cancel the Exchange license as of the date specified in the Authority's resolution in the following cases:

- 1 - If the company is no longer able to meet any of the conditions by which the company was qualified to obtain a license.
- 2 - If operations in the Exchange have been suspended for more than five working days.
- 3 - In the event of the closure of the Exchange.
- 4 - If the Exchange does not abide by the Authority's instructions despite being notified accordingly by the Authority.
- 5 - If the Exchange does not provide the Authority with the information requested by the latter or if it provides misleading or inaccurate information.  
The Authority shall publish the decision of license cancellation and reasons thereof in the Official Gazette.

**Article 1-9-2**

L 47

The Authority on its own accord, may grant an Exchange company a specific time extension or may extend a given period after the date of license cancellation in case the Authority deems it to be in the interest of the public, or pursuant to a request by the Exchange until the closure of its operations or to handover its activities to another licensed Exchange. Moreover, the Authority may appoint a temporary supervisor, and define his duties, jurisdictions and specialities, to manage or to follow up on the Exchange's activity.

**Article 1-9-3**

An Exchange license cancellation by the Authority shall not affect the Authority's ability to commence or take any disciplinary action against the person concerned in relation to any action or failure of that person prior to the license cancellation.

## Chapter Two

### Clearing Agencies

<b>Article 2-1</b>	<b>Scope of Application</b> The provisions of this Chapter apply to <u>Clearing Agencies</u> which are licensed by the <u>Authority</u> .
<b>Article 2-2</b> <b>Article 2-2-1</b>	<b>Establishing and Licensing a Clearing Agency</b> No person may incorporate a <u>Clearing Agency</u> , or manage, or assist in incorporating or assist in managing a <u>Clearing Agency</u> , or thereafter announce thereof unless obtaining a license from the <u>Authority</u> in accordance with the conditions and restrictions set forth in the <u>Law</u> and these <u>Bylaws</u> and the license shall be published in the Official Gazette.
<b>Article 2-2-2</b>	The <u>Authority</u> may license a <u>Clearing Agency</u> to undertake one or more of the following activities or services: <ol style="list-style-type: none"><li>1. Providing one or all of the services related to settlements or clearing of <u>Securities</u> with respect to payment, delivery or both.</li><li>2. Safekeeping of <u>Securities</u> within a Central <u>Securities</u> Depository for keeping and transferring ownership or registry of the transactions related thereto including selling, purchasing, transferring ownership, pledge, dividends distribution and other transactions.</li><li>3. Any other services set by the <u>Authority</u>.</li></ol>
<b>Article 2-2-3</b>	In the event that a <u>Clearing Agency</u> is licensed for more than one of the activities set out in Article (2-2-2) of this Module, such a Clearing Agency shall practice the activities, related to safekeeping of <u>Securities</u> within a Central <u>Securities</u> Depository, <u>Security</u> settlement system or <u>Central Counter Party</u> , through companies with independent financial liability that each are licensed by the <u>Authority</u> .

**Article 2-2-4**

Licensing of a Clearing Agency shall be in accordance with the following:

1. An application shall be submitted for a Clearing Agency license in accordance with the application form specified by the Authority for that purpose. The application shall have attached to it all the documents and information specified in these Bylaws, together with the payment of the fees specified by the Authority.
2. Following receipt of a Clearing Agency license application that fulfils the requirement in clause (1) of this Article, the Authority may request additional information or documents as it considers necessary to determine the application.
3. If the applicant fails to submit documents and information within the notification period that is specified by the Authority, the application shall be deemed to have been withdrawn.
4. The Authority shall determine the Clearing Agency license application after it receives the application accompanied by all information and documents specified in clauses (1) and (2) of this Article.  
To obtain a Clearing Agency license, the applicant shall fulfil all the requirements and obligations stipulated in this Module and any other requirement set by the Authority.
5. The Authority shall inform the applicant of the determination regarding its application to obtain a Clearing Agency license. The Authority may reject granting the license for public interest reasons. In the event of a rejection of an application, the determination shall be justified.

**Article 2-2-5**

L 50

A Clearing Agency license may be granted only after the fulfilment of the following conditions:

1. The company shall be a shareholding company with the capital set out in Appendix No. (1) of Module Five.
2. Provision of guarantees set by the Authority.
3. Intention to provide one or more of the services referred to in Article (2-2-2).
4. Any other conditions set by the Authority.

**Article 2-3**

**Article 2-3-1**

**Clearing Agency Management Requirements**

The conditions that are related to fit and proper rules shall be fulfilled by each Member of the Board of Directors of the Clearing Agency during his tenure as a member.

**Article 2-3-2**

A Clearing Agency shall prepare appropriate policies and procedures to prevent the Members of the Board of Directors from gaining access to information of the clients and the members of the Clearing Agency, and to prevent conflicts of interest amongst the Members of the Board of Directors of the Clearing Agency and those Clients and members. The aforesaid policies and procedures shall be submitted to the Authority for approval.



**Article 2-3-3** Employees of a Clearing Agency are prohibited from participating as Member of the Board of Directors or from accepting any position in a Listed Company or a Licensed Person or any related party.

**Article 2-3-4** Each employee and every Member of the Board of Directors of a Clearing Agency, is obliged to disclose, as soon as being appointed, to the Compliance Officer of the Clearing Agency the details of all Shares they own in the Listed Companies in the Clearing Agency, including the ownerships of their minor children under their custody and any change that may occur to that ownership.

A Clearing Agency shall submit an annual report including the details of these disclosures to the Authority.

**Article 2-3-5** Each employee in a Clearing Agency and every Member of the Board of Directors of a Clearing Agency is obliged to keep the confidentiality of the data and inside information that they gain sight of by virtue of their position or through their professional or personal relations, and they are not allowed to reveal such, or give advice on the basis thereof to another non-insider. They shall not sell, purchase or subscribe in listed Securities or those Securities that are under a Listing Application unless under the circumstance and conditions stipulated in Article (2-3-6) of this Module.

**Article 2-3-6** Without violating the provisions of Article (2-3-5) of this Module, employees of a Clearing Agency and their minor children under their custody are not allowed to purchase or sell listed Securities or those Securities that are under a Listing Application, except in the following cases:

1. Inheritance and will.
2. Execution of a court judgment.
3. Public Offering in companies allocated by the State, or offered from public entities and authorities, and subscribing to the Pre-emptive Right in increasing the companies' capital in which they own shares.
4. Obtaining prior permission from the direct manager, the Compliance Officer and the Chief Executive Officer of the Clearing Agency to sell or purchase the listed Securities. In the event of approval, selling or purchasing shall be completed within two Business Days. Any Shares purchased after such an approval may not be sold before six months after taking possession.

The Clearing Agency shall prepare a code of professional conduct for the Members of the Board of Directors of the Clearing Agency which shall regulate the trading of the Clearing Agency's Member of the Board of Directors in listed Securities and those Securities that applied for a Listing in the Exchange.

**Article 2-4**

**Article 2-4-1**

L 51

**Regulatory Requirements**

A Clearing Agency shall abide by the following obligations:

1. Arrange for fair and effective clearing and settlement in relation to any commercial transactions in Securities.
2. Manage risks associated with its activity and operate at the highest levels of professionalism.
3. Prioritize the public interest and that of those who deal with the company above the company's own interests.
4. Manage its services according to the related rules approved by the Authority.
5. Maintain confidentiality of all information and data under its possession, except what is required by the Authority or the judicial authorities.
6. Provide its services with the most advanced technology and automated systems in line with the international standards adopted by the Authority or as requested or decided by the Authority.

**Article 2-4-2**

A Clearing Agency shall not disclose information of a confidential nature which it receives in the course of carrying out its services except to:

1. The account holder in respect of his account or any person authorized with a power of attorney from the account holder to review such account.
2. The Authority.
3. Judicial authorities of the State of Kuwait, or to any person based upon a judicial order.
4. Governmental authorities and departments concerned in enforcing the laws and systems of anti-money laundering and combating terrorism financing or anti-corruption.
5. An Exchange or another Clearing Agency in order to fulfil its obligations pursuant to agreements concluded with such an Exchange or Clearing Agency subject to the Authority's approval.
6. If the disclosure of this information is necessary to comply with the applicable laws and regulations.

**Article 2-4-3**

A Clearing Agency shall not enter into any outsourcing agreement relating to the delegation of any of its functions to another person without obtaining the Authority's approval.

**Article 2-4-4**

Where a Clearing Agency, because of the occurrence of any event or circumstances, is unable to operate any of its facilities or to provide any of its services within its regular working hours, it must immediately notify the Authority of that inability and to provide further information as the Authority may require in that concern.

**Article 2-4-5**

L 56

The Authority may issue instructions to a Clearing Agency to ensure settlement of Securities transactions and to maintain the integrity of risk management in Securities Exchanges. The Authority may, in particular, issue instructions concerning the settlement of Securities contracts, and make amendments to the contractual obligations that may arise from the Securities contract or any other matters deemed necessary by the Authority to implement the provisions of the Law.

**Article 2-4-6**

L 52

A Clearing Agency shall inform the Authority at the earliest of the following:

1. If it is found that any of its counterparties became unable to abide by any of the rules applicable to operations of clearing, settlement and depository.
2. If it is deemed that the financial position of any counterparty and its ability to fulfil its obligations has given signs of instability, or his ability to fulfil his obligation has already become unstable.

Notification shall include a statement of the case setting out, where relevant, the name of the counterparty, trading number, civil identification number, a statement of the due net amount of money or that there is no due balance, a statement of the name and number of the purchased or sold Securities as well as the procedure held in that concern. In addition, both the Exchange and the concerned entity shall be provided with a copy of that notification.

**Article 2-4-7**

A Clearing Agency shall provide the Authority with any reports, data or information that may be required by the Authority.

**Article 2-4-8**

A Clearing Agency shall prepare policies and procedures necessary to perform its activities after obtaining the Authority's approval. Those policies and procedures shall in particular cover the following:

1. Providing services of clearing and settlement related to Securities or any other related service.
2. Becoming a member of a Clearing Agency and the obligations of its members.
3. Specifications of the rights and obligations of parties to a Securities transaction in respect of clearing and settlement and any related services.
4. Determination of the time at which the rights of the creditors of parties to a Securities transaction arise, including the rights pertaining to the cash return or its equivalent and the relevant Securities as a result of sales, purchases or title transfer operation.
5. Rules and procedures to be followed in the event that any person dealing with a Clearing Agency fails to deliver Securities or funds for the purposes of settling a transaction or other obligations within the clearing system.
6. Information, data and records which are considered confidential and the authorisation of persons to access the same due to the nature of their work.
7. Information, data and records that the Clearing Agency must disclose, and those to which the public may have access and obtain copies thereof.
8. Complaints.
9. Monitoring system.
10. Charges and fees
11. Code of professional conduct applicable to the Clearing Agency's Members of the Board of Directors and its employees.

The Authority may waive some of those requirements according to the nature of the activity licensed to the Clearing Agency.

**Article 2-5**

**Article 2-5-1**

L 53

**Rules and Regulations of a Clearing Agency**

The Authority shall require a Clearing Agency to prepare the policies and procedures or rules and regulations related to the operations of clearing, settlement and registration of Securities and other activities that relate to the Clearing Agency's business, or to amend the same within a certain period. If the Clearing Agency does not comply with the requirements within the specific period, the Authority may prepare or amend the said rules on behalf of the Clearing Agency and its expenses shall be reimbursed by the Clearing Agency.

**Article 2-5-2**

L 54

No rule issued by a Clearing Agency nor amendments thereof, either by withdrawal, replacement or change, or addition thereof, shall be valid and effective unless accredited by the Authority. The Clearing Agency shall submit the reasons and objectives for proposing such a rule or amendment and set out its impact; thereupon, the Authority may give its approval, disapproval or amendment thereof and shall notify the Clearing Agency in writing of its decision within at latest one week of date of its decision.

- Article 2-5-3** All, Issuers with Securities that were admitted to trading on an Exchange and Clearing Agency members shall comply with the Clearing Agency's rules once they are approved by the Authority and have come into effect.
- Article 2-5-4** A Clearing Agency shall have adequate resources for effective monitoring and enforcement of compliance with its rules.
- Article 2-5-5**  
L 55 In case of non-compliance by any dealer with the clearing rules, the Clearing Agency may bind that dealer to pay the charges resulting from his non-compliance. The Clearing Agency should prepare a table setting out the stipulated fees regarding non-compliance to the rules. The Authority shall approve the table or any amendment to it before it may be enforced.
- A Clearing Agency shall notify the Authority immediately upon the imposition of any fees under this Article, in addition to notifying the Authority about the non-compliance incident related to those fees.
- Article 2-5-6** A Clearing Agency shall notify the Authority immediately of any case that leads to the occurrence of Systemic Risks Expected to Occur in Securities Activities.
- Article 2-6**  
**Crisis Intervention by the Authority**
- Article 2-6-1**  
L 57 In the event of any disaster, crisis and disturbance which may result in a serious impact on the market, the Authority may issue instructions to amend or suspend any of the Clearing Agency's rules.
- Article 2-6-2**  
L 58 If a Clearing Agency fails to comply with the Authority's resolutions or instructions issued under its powers specified in the preceding Article, the Authority may take any procedure deemed necessary to maintain the fair settlement and efficiency of the commercial transactions of Securities or any category thereof.
- Article 2-7**  
**Accounts and Reporting of a Clearing Agency**
- Article 2-7-1** A Clearing Agency shall appoint one or more external Auditor from the Auditors registered in the Authority.
- Article 2-7-2** A Clearing Agency shall apply comprehensive risk management systems and controls, enabling it to identify, assess, classify, manage and address the risk associated with its activities. The Clearing Agency shall submit a risk report to the Authority every six months.
- Article 2-7-3** A Clearing Agency shall maintain an internal audit system in accordance with the international standards approved by the Authority.

**Article 2-7-4**

The Authority may appoint, by means of a written notice, an Auditor, who is registered in the Authority's registry, to a Clearing Agency at the expense of the Clearing Agency to examine and audit the accounts, data and records of the Clearing Agency, as well to prepare a general or a special report regarding a specific matter while notifying the Clearing Agency of the same, if the Authority deems it would be in the public interest.

**Article 2-7-5**

A Clearing Agency shall submit to the Authority an annual report within ninety days from the end of its financial year that shall specifically include the following:

1. A report that describes the activities that are performed by the Clearing Agency throughout the previous year with regard to financial, intellectual and human resources made available to the Clearing Agency.
2. Audited financial statements including the report of the external Auditor.
3. Any other reports that the Authority may specify.

**Article 2-7-6**

L 62

If a person is subject to insolvency, bankruptcy, liquidation or appointment of a receiver on his properties, the clearing and settlement procedures of a Clearing Agency shall have priority over any procedures or ordinary debts.

**Article 2-8**

**Cancellation of a Clearing Agency License**

**Article 2-8-1**

L 59

By virtue of a written notification to the Clearing Agency, the Authority may cancel a Clearing Agency's license according to the provisions of the Law, as of the date specified in the Authority's resolution in the following cases:

1. If the clearing agency is no longer able to meet any of the conditions by which it was qualified to obtain a license.
2. If the Clearing Agency ceases to undertake the duties to which the clearing agency is assigned or licensed.
3. Liquidation of the clearing agency.
4. Failure to fulfil any obligation required under this Law.
5. Failure to provide the information requested by the Authority or providing incorrect or misleading information.
6. If the Clearing Agency makes any amendments to its objectives in its Memorandum or Articles of Association without obtaining prior approval from the Authority.
7. If the Agency requests the cancellation of its license.

The Authority shall publish the decision of license cancellation and reasons thereof in the Official Gazette.

**Article 2-8-2**

L 60

The Authority may grant the Clearing Agency a specific time extension, or may extend the period after the date of license cancellation, if the Authority deems it necessary for the public interest, or pursuant to the request of the Agency to suspend its operations or handover its activities to another licensed Agency. Moreover, the Authority may appoint a temporary supervisor, and define their duties, jurisdictions and specialities, to manage or follow up the Clearing Agency's activity.

**Article 2-8-3**

A Clearing Agency's license cancellation by the Authority shall not affect the Authority's ability to commence or take any disciplinary action against the Person concerned in relation to any action or failure of that person prior to the license cancellation.

**Article 2-9**

**Detailed Requirements for Central Securities Depositories**

**Article 2-9-1**

Each Issuer shall have a special register kept with a Clearing Agency. The register shall contain the names, nationality, domicile, and number of Securities owned by each holder, the type and the capital paid in for each Securities.

The register shall be updated by any changes required to be registered and which are received from the Issuer or the Clearing Agency. Any party with a relevant interest may request the Issuer or the Clearing Agency to provide them with such information from the register.

**Article 2-9-2**

After obtaining the approval of the Authority, the Clearing Agency shall prepare policies and procedures as follows:

1. The procedures of verification of proxies or the powers of attorneys for attendance of shareholders and holders of other Securities in the general assemblies and the authorities of the holders of those securities in order to ensure the legal and fair representation in the attendance, and to apply any legal or contractual restrictions concerning the voting rights.
2. Reports to be provided to the Authority, including the data on the attendance at the general assemblies, the authorities of the Securities' holders and the percentages of voting on each of the agenda items.
3. The mechanism used to facilitate the process of the counting of the votes in the general assemblies and the authorities of the Securities' holders.
4. The mechanism used to verify the percentages of ownership of Kuwaiti companies which are listed on foreign Exchanges as well as Exchanges in Kuwait. The percentage of listed Securities in those Exchanges shall not exceed the percentages set out in Module Twelve (Listing Rules).

**Article 2-9-3**

Listed Securities shall be registered and settled through a Clearing Agency. It is not permissible to deal on those Securities or to obtain any consequential rights except through registration in the registers of the Clearing Agency.

- Article 2-9-4** With consideration to Article 2-9-10 of this Module, the owners of Securities, whose holdings are registered at a Clearing Agency may request the Clearing Agency to issue a statement of holding, showing their names and number of owned shares.
- The Clearing Agency shall issue to the Omnibus Account Operator such statement against its registered holding.
- Article 2-9-5** The statement of holding issued by a Clearing Agency is a prima facie evidence of title at the time of issuance of the Securities holder's shareholding if it conforms to the registers in the Clearing Agency.
- Article 2-9-6** Rights and obligations arise for all persons who traded listed Securities by selling or purchasing by executing transactions through the Exchange's trading system with settlement pursuant to the rules adopted by the Clearing Agency. The Exchange's rules may include provisions for certain transactions after the Authority's approval.
- The title of the Securities that are listed in an Exchange shall only be transferred by virtue of completing the entries in the designated registers at the Clearing Agency, unless such transfers are in violation of the law, regulations, or rules or the contract of the company that issued such Securities.
- Article 2-9-7** Securities that have been permanently cancelled from trading shall be excluded from the central depository system, whatever was the reason of the cancellation.
- Article 2-9-8** The Clearing Agency shall provide the Issuers of the Securities that are deposited in the Clearing Agency with the requested reports in accordance with the Clearing Agency's rules which are approved by the Authority.
- Article 2-9-9** Any pledge, attachment, redeeming a pledge, cancellation of attachment, transfer of title or any other action concerning a Security shall be recorded in the Clearing Agency's registers concerning that security.
- Article 2-9-10** If the Securities are registered in the Clearing Agency under the name of a bank, a company that manages portfolios of a third party, a qualified Securities Broker registered with an Exchange or an Omnibus Account Operator, then that registration must state that the title belongs to the company or to the bank or to third party's account.



- Article 2-9-11** Issuers of Securities that are listed in an Exchange shall submit to the Clearing Agency a copy of their shareholders registrar, that includes the names of the holders of those Securities, information about their identities, nationality and addresses, as soon as the Securities are issued.
- Article 2-9-12** The Securities' register shall be subject to the supervision and control of the Authority. The Clearing Agency may refuse to record any event in its registers if there was a violation of laws or regulations that are applicable to the Clearing Agency or to the Exchange.
- Article 2-10** **Additional Requirements for Central Securities Depositories and Securities Settlement Systems or Central Counterparty.**
- Article 2-10-1** The Authority may set additional requirements that it deems appropriate in relation to any Central Securities Depository, Securities Settlement Systems or Central Counterparty.

**DISCLAIMER:**

This “translation” of the Bylaws of the Capital Markets Authority from Arabic into English is provided solely for reference. No translation can exactly reflect every aspect of an original text and accordingly this “translation” may be used for guidance but not for legal purposes. Only the Arabic original shall be considered for legal proceedings and legal actions before the competent courts of jurisdiction and in any arbitration mechanism agreed upon by contracting parties to any transaction made under the Law and the Bylaws thereof. The Capital Markets Authority shall not be responsible for any mistake, error and/or misinterpretation made or given by any party based on that party’s interpretation of the Law and the Bylaws whether arising from a reading of the Arabic text or, specifically in the context of this document, the English “translation”. The original Arabic versions, as approved and accordingly published by the Authority, shall constitute the only source of the provisions and regulations of the Law and its Bylaws.