

The Executive Bylaws  
Module Fourteen

## Market Conduct



هَذَا كِتَابٌ أَنْبَأَ اللَّهُ الْمَلَائِكَةَ

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**Chapter One**  
**Scope of Application**

**Article 1-1**

The provisions of this Module apply to dealing in Securities, whether it is executed or not; in particular orders of purchase and sale, in accordance with the cases set out in this Module.

**Chapter Two****Trading while Possessing or Exploiting Inside Information (Insider Trading)**

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**Article 2-1**

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**The Crime of Trading while Possessing or Exploiting Inside Information (Insider Trading)**

A punishment by imprisonment for a term not exceeding five years and a fine of not less than the amount of the benefit achieved or losses avoided or an amount of ten thousand Dinars – whichever is higher – and not more than three times the benefit achieved or losses avoided or the amount of one hundred thousand Dinars – whichever is the higher – or by either of these two penalties, shall be incurred by any Insider who sold or purchased a Security while in possession of Inside Information regarding the same, or disclosed Inside Information or gave advice based on Inside Information to another Person.

The same penalty shall be applied to any Person who purchased or sold a Security based on Inside Information obtained from an Insider, while being aware of the nature of such information, for the purpose of realizing any benefit for himself or for others.

**Inside Information****Article 2-2**

Inside Information shall meet the following requirements:

1. It shall be related to a Security or a Listed Company on the Exchange.
2. It shall not be available for the public in any manner.
3. It shall have a significant effect on the price or trading of a Security if such information is disclosed or provided for the public.

**Article 2-3**

Information shall not be considered as Inside Information in the following cases:

1. If it is disclosed in the Exchange.
2. If it is included in records available to be reviewed by any Person.
3. If it is a technical analysis or a research study on a Security and has been prepared based on information available for the public.

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Article 2-4

**Insider**

An Insider is any Person who, by virtue of his position, is in possession of information or data that has or may have a material effect on a Security or Listed Company which is not available to the public. This shall include the following categories:

1. Members of a Board of Directors and the administrative body in a Listed Company, its Parent Company and Subsidiaries, which have Inside Information which is, directly or indirectly, related to such Listed Company.
2. Employees of other entities who are in possession Inside Information related to a Listed Company or listed Securities. This shall include the Auditor, advisory entities, Credit Rating Agencies, and other entities.
3. Shareholders who are informed by their representatives in the Board of Directors in the Listed Company of the Inside Information they have of such company.
4. Employees of a Licensed Person who have information concerning selling or purchasing a listed Security by a Client.
5. Persons who illegally possess Inside Information of a Listed Company or the trading of listed Security.
6. Any other Person defined as an Insider.

**Cases of Trading while Possessing or Exploiting Inside Information (Insider Trading)**

Article 2-5

The provision of Article (118) of the Law shall be applied if the selling or purchasing is conducted directly or indirectly on a listed Security by the Insider while possessing Inside Information in the following cases:

1. If the Insider sells or purchases a Security while possessing Inside Information related to such security.
2. If the Insider sells or purchases on behalf of another Person.
3. If the Insider assigns another Person to sell and purchase on his/her behalf thereof.
4. If the Insider exploits accounts of other Persons to conduct transactions of selling or purchasing.
5. If the Insider is an employee for a Licensed Person and has Inside Information regarding the intention of a Client to trade on a Security, and such Insider, consequently, enters orders for the same security before the orders of such Client are entered, in order to get precedence and achieve a benefit for such insider or a third party.
6. If the Insider has Inside Information concerning a Merger project or an Acquisition Offer on a Security, and such insider sells or purchases the same security, while possessing such information, excluding cases in which it is permissible to sell or purchase in accordance with the provisions of Module Nine (Mergers and Acquisitions) of these Bylaws.
7. If the Insider discloses Inside Information or gives advice to another Person, based on Inside Information.
8. If any Person sells and purchases a Security, based on Inside Information acquired thereby from an Insider and such Person is aware of the nature of such information, in order to achieve any benefit for such person or for a third party.

**Legitimate Cases that do not Amount to Trading while Possessing or Exploiting Inside Information**

**Article 2-6**

The Insider shall not be deemed as guilty of the crime set forth in Article (118) of the Law in the following cases:

1. If the Insider is selling and purchasing to execute orders of another Person and according to such insider's job or work, without revealing the Inside Information possessed thereby.
2. If the Insider is selling or purchasing in accordance with a court judgment.

**Article 2-7**

The Insider who has a corporate personality shall not be deemed guilty of the crime set forth in Article (118) of the Law if the Person executing transactions of sale and purchase of such Security has not been aware of the Inside Information at that time, provided that such corporate person shall abide by the provisions of Module Five (Securities Activities and Registered Persons), Module Six (Policies and Internal Procedures for Licensed Person), and Module Eight (Conduct of Business) of these Bylaws.

## Chapter Three

### Fraud and Manipulation in the Exchange

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#### Article 3-1

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#### The Crime of Fraud and Manipulation in the Exchange

A punishment by imprisonment for a term of not more than five years and fine of not less than ten thousand Dinars and not more than one hundred thousand Dinars, or by either of these two penalties, shall be incurred by any person who is proved to have intentionally committed one of the following acts:

1. Behaves in a way that creates a false impression or misleads people concerning the actual trading in a Security or a Securities Exchange through:
  - a. Entering into a deal in a manner that is not conducive to real change in the Security's ownership.
  - b. Entering a purchase or sale order for a Security with the knowledge that a similar order in terms of size, price, time of sale or purchase for the same Security, has been or will be issued by the same Person or by Persons who act in agreement with that Person.
2. Whoever concludes one or more deals concerning a Security, that would lead to:
  - a. An increase in the price of the Security of the same Issuer for the purpose of encouraging others to purchase it.
  - b. A reduction in the price of the Security of the same Issuer for the purpose of encouraging others to sell it.
  - c. Creating actual or fictitious trading for the purpose of encouraging others to purchase or sell.

#### Cases of Committing the Crime Set Forth in Article (122), Paragraph (1/A)

#### Article 3-2

The crime set forth in Article (122), paragraph (1/A) of the Law shall be committed, if a Person acts in false or misleading manner in regards with actual trading of a listed Security or of the Securities exchange through entering into a transaction in a manner which does not result in an actual change to the ownership of such Security, in the following cases:

1. Purchasing or selling a listed Security in the accounts of the same Person.
2. Purchasing or selling a listed Security amongst direct or indirect accounts of such Person through Investment Portfolios incorporated for a Licensed Person and managed by the Client or amongst accounts of such portfolios.
3. Purchasing or selling a listed Security amongst direct or indirect accounts of such Person through the Subsidiaries thereof or amongst the accounts of such subsidiaries.

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**Cases of Committing the Crime Set Forth in Article (122), Paragraph (2/c)**

**Article 3-3**

The crime set forth in Article (122), paragraph (2/c) of the Law will be committed in the following cases:

1. Concluding transactions on a listed Security, in order to give false impression about the activity or price of such Security, in cases other than those in which the Market Maker exercises its activities in accordance with the rules governing its activity.
2. Concluding transactions on a listed Security, in order to affect the closing price of the same listed Security and mislead traders.
3. Concluding transactions by a Person or amongst Persons working in collusion with each other, in order to affect a listed Security, which have the effect of fixing purchase or sale prices at a certain level or creating other unfair trading conditions.
4. A Person has a significant influence over the supply of, or demand for, a listed Security acting through selling or purchasing for the purpose of positioning at a distorted level the price at which other Persons have to deliver their security.
5. A Person or more Persons in collusion with each other concluding transactions on a listed Security or more, in order to manipulate with the market index or with the price of another relevant listed Security.
6. If the same Person concludes transactions in a frequent and contradictory manner, and at convergent times, and constitutes a significant percentage of the trading of a listed Security, especially if this is associated with a noticeable market change on the price of such Security, excluding the Market Maker who carries out its activity in accordance with rules governing its activity.

Article 3-4

**Legitimate Behaviours Exempt from Implementation of Article (122) of the Law**

The crime set forth in Article (122) of the Law shall not be committed in the following cases:

1. If the transaction is conducted pursuant to a court judgment, the Authority's regulations, or rules developed by the Exchange and approved by the Authority for certain transactions.
2. Sell or purchase the listed Security amongst the accounts of various public institutions and authorities.
3. If the Market Maker conducts such transactions in accordance with rules governing its activity in the cases set out in paragraph (1) and paragraph (6) of Article (3-3) of this Module.
4. If the transaction is conducted through selling and purchasing for the interest of the same Person, with the purpose of financing the purchase of Financial Derivatives of a listed Security or refinancing the same to keep them.
5. Sell or purchase the listed Security amongst the direct and indirect accounts of the Person through the Investment Portfolios managed for the interest of such Person or amongst the accounts of such portfolios if such portfolios or one of them are managed by the managing company, and such Person does not interfere in the management of such portfolios, and the transaction conditions, in terms of volume, price, time, and lack of repetition demonstrate lack of prior arrangement amongst the persons who have conducted such transaction and that it is a mere coincidence.
6. Sell or purchase a listed Security amongst accounts of one of the companies' managing the Investment Portfolios dedicated for Clients and managed by such Clients and the transaction conditions, in terms of volume, price, time, and lack of repetition demonstrate lack of prior arrangement to create false and misleading attitude in regards with trading of such security, provided that such transaction shall be conducted between two different Clients.
7. Enter an order or a set of orders to purchase a listed Security at levels of prices higher than the prevailing price at that time, in the case that the purpose of such orders is actual trading.
8. Enter an order or a set of orders to sell a listed Security at levels of prices higher than the prevailing price at that time, in the case that the purpose of such orders is actual trading.
9. Transactions are conducted to sell and purchase a listed Security within convergent times without an intention to affect the volume of trading or the price of such security.

Article 3-5

**Illegitimate Behaviours of Trading**

The following acts shall be included amongst the Violations, for which any Person shall be accountable in a disciplinary manner. The Disciplinary Board shall be entitled to apply financial penalties or other Penalties if any of the following acts are committed.

1. Entering, cancelling, or amending orders consecutively and intensively to achieve the following:
  - a. Obstruct or delay the trading system in the Exchange.
  - b. Make entry or follow-up of orders in the trading system more difficult.
  - c. Mislead traders concerning trading or price of a listed Security.
2. Entering orders on a listed Security at a price higher than the execution price of such security upon entering the order or at a price less than the execution price of such security upon entering the order, so as to affect the price of such Security.
3. Spreading, broadcasting, or promoting rumors or giving misleading and incorrect data, information and statements, which may affect the prices and trading of Securities.
4. Entering orders of sell or purchase on a listed Security by an Insider, personally or through another Person, while such insider is possessing Inside Information about such Security, even if such orders could not be executed for other reasons not related thereto.
5. Entering orders of sell or purchase on a listed Security by a Person, personally or through another Person, for the purpose of committing acts set out in Article (3-3) of this Module to create an actual or fictitious trading to encourage others to sell or purchase, even if such orders could not be executed for other reasons not related thereto.
6. Giving an opinion, an advice, or a recommendation which may affect the price or trading of a listed Security for the purpose of attaining a benefit or an interest for such person without disclosure of such benefit of interest before giving the opinion, advice, or recommendation.
7. Entering one or more orders on a listed Security, then cancelling such orders prior to execution, and repeating such transaction with large quantities of Securities that affect the real status of the prices of demand and supply on such security, if it turned out that such act is intended to:
  - a. Encourage traders to sell or purchase the listed Security.
  - b. Increase or decrease the price of a listed Security.
8. Entering orders or executing transactions excessively by the Licensed Person on the account of the Client for the benefit of the Licensed Person without any benefit equivalent to concluding such transactions for the Client.
9. If the same Person concludes transactions in a frequent and contradictory manner, and at convergent times, and with a rate that influence the trading of a listed Security, especially if this is associated with a noticeable market change on the price of such security, excluding the Market Maker who carries out its activity in accordance with rules governing its activity.

10. Entering one or more orders or concluding trading transactions, based on reviewing data, reports, or analyses, which may affect the price of a listed Security prior to announcing the same for the Clients or in the means of communication available for the public.
11. Entering orders or concluding transactions on a listed Security while in possession of information undisclosed to the public relevant to a company belonging to the same Group of the company which issued the Security subject of the order or deal, if such information may affect the price or trading of the Security subject of the order or deal.
12. Entering orders or concluding transactions on a Security listed outside the State of Kuwait in order to affect the price of the same security in the Exchange and encourage others to sell or purchase.
13. Any other practices aiming to mislead traders on Securities.

**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.