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CAPITAL MARKETS AUTHORITY OF LEBANON

Series 3000

BUSINESS CONDUCT REGULATION

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Series 3000

BUSINESS CONDUCT REGULATION

Part A – Introduction

3001. Purpose

- (1) This Regulation applies to approved institutions' securities business activities. It does not apply to banking or credit activities regulated by the Banque du Liban.
- (2) The purpose of this Regulation is to:
 - i) Establish the rules and code of conduct that an approved institution must comply with in carrying out securities business and dealing with clients,
 - ii) Define the policies, procedures, systems and controls that an approved institution must establish and keep up-to-date,
 - iii) Establish the rules on handling of client money and client assets by an approved institution,
 - iv) Set out the requirements to notify or report certain matters to the Authority, and
 - v) Establish the rules and code of conduct that a registered person must comply with in carrying out his responsibilities at an approved institution.

3002. Principles for approved institutions

- (1) An approved institution must meet the following principles in carrying on securities business:
 - i) Conduct its business with honesty and integrity, and due regard for its clients' interests and objectives.
 - ii) Conduct its business with due skill, care and diligence.
 - iii) Ensure sound management of its business, including effective policies and systems for corporate governance, risk management and compliance.
 - iv) Ensure the financial soundness of its business, including maintaining adequate financial resources and controls.
 - v) Ensure that client money and client assets are adequately protected and subject to effective controls.
 - vi) Communicate with its clients in a manner that is clear, fair and not misleading.
 - vii) Take reasonable care to ensure the suitability of advice and discretionary decisions for clients.

- viii) Effectively identify and minimize conflicts of interest with its clients, and effectively manage and disclose any conflict that cannot be avoided.
- (2) An approved institution must also comply with the rules of professional conduct set out in Annex 1.

3003. Principles for registered persons

- (1) A registered person must meet the following principles in carrying out his duties and functions:
 - i) Act with honesty and integrity, and due regard for the approved institution's clients' interests and objectives.
 - ii) Act with due skill, care and diligence.
 - iii) Take reasonable care to ensure the suitability of advice and discretionary decisions for clients.
- (2) A registered person and other employees of an approved institution must also comply with the rules of professional conduct set out in Annex 1.

Part B – General Requirements

3101. Compliance with the Regulations

- (1) An approved institution and a registered person must comply with the Law, the Regulations and other regulatory requirements of the Authority applicable to them.
- (2) The provisions of this Regulation apply to all securities business activity of approved institutions.
- (3) An approved institution must provide to the Authority without delay any information, records or documents that the Authority requests for the purpose of administration of the Law and the Regulations.
- (4) The approved institution's governing body is ultimately responsible for compliance with the Law and the Regulations and all other regulatory requirements applicable to the approved institution. The governing body must ensure that adequate systems and controls are in place and implemented effectively to ensure compliance, as required by this Regulation.
- (5) The governing body and employees of an approved institution and registered persons must comply with any directive issued by the Authority to appear to explain any matter or to assist in any enquiry relating to the administration of the Law and the Regulations.

3102. Powers of the Authority

- (1) The Authority may waive a provision of this Regulation in whole or in part as it applies to an approved institution either on application from the approved institution or on its own initiative.
- (2) The Authority may publicly announce a waiver if it believes that the waiver may apply to other approved institutions and an announcement is in the interests of the sound administration of the Regulation.

Part C – Governance, Systems and Controls**3201. Corporate Governance**

- (1) The governing body of an approved institution must:
 - i) be clearly responsible for setting or approving (or both) the business strategy and objectives of the firm,
 - ii) comprise an adequate number and mix of individuals who have, among them, the relevant knowledge, skills, expertise and time commitment necessary to effectively carry out the duties and functions of the governing body, and
 - iii) have adequate powers and resources to enable it to carry out its duties and functions effectively.
- (2) The senior management of the approved institution must be clearly responsible for the day-to-day management of the firm's business in accordance with the business strategy and objectives approved by the governing body.

3202. Division of responsibilities

- (1) An approved institution must maintain a clear and appropriate division of the principal responsibilities between its governing body and senior management so that:
 - i) it is clear who is responsible for all operations and functions, and
 - ii) the business and affairs of the approved institution are adequately monitored and overseen by the governing body and senior management.
- (2) The CEO is responsible for arranging the division of responsibilities under subarticle (1) and must ensure it is fully documented.
- (3) The CEO is responsible for overseeing the establishment and implementation of the approved institution's systems and controls.

3203. Required systems and controls

- (1) An approved institution must establish and maintain systems and controls that are appropriate to the nature of its securities business. The systems and controls must conform to the requirements of this Regulation and be sufficient to enable the approved institution to comply with its business obligations, the Law and the Regulations.
- (2) Subject to the approval of the Authority, an approved institution that is an institution licensed by the Banque du Liban may use and apply systems and controls established for that institution as a whole, provided that the systems and controls meet all of the requirements of this Regulation as they apply to the institution's securities business.
- (3) The approved institution must establish systems and controls that are sufficient taking into account the following:
 - i) the nature, scale and complexity of its business,
 - ii) the diversity of its operations,
 - iii) the number and value of its transactions, and
 - iv) the degree of risk associated with each area of its operations.
- (4) An approved institution must establish systems and controls to cover at a minimum:
 - i) Organizational structure – the division of responsibilities and reporting lines in accordance with article 3202
 - ii) Risk management policies, systems and controls
 - iii) Internal controls, including financial controls
 - iv) Supervision policies and procedures
 - v) Compliance policies and procedures
 - vi) Compliance monitoring program
 - vii) Anti-money laundering financing procedures
 - viii) Code of professional conduct
 - ix) Operations manual
 - x) Business continuity plans.
- (5) An approved institution must document its systems and controls appropriately and keep its documentation up to date.
- (6) An approved institution must review its systems and controls, including its documentation, periodically. The firm's governing body must receive reports on the results of the reviews and the actions to be taken.

- (7) The documentation of systems and controls must be available to all management and staff to whom they are relevant.

3204. Code of professional conduct

- (1) The code of professional conduct required by subarticle 3203 (4) must include at least the requirements listed in Annex 1.
- (2) An approved institution must require each registered person and each employee to recognize and comply with the code of professional conduct in carrying out their functions and responsibilities.
- (3) Each registered person and each employee of an approved institution must agree to comply with the approved institution's code of professional conduct by signing a copy of the code and any amendment to the code.

3205. Compliance systems and controls

- (1) Depending on the nature, scale and complexity of its business, an approved institution may create a compliance committee to monitor the appropriateness and effectiveness of its compliance systems and controls.
- (2) The Authority may require an approved institution to create a compliance committee if it considers one to be necessary based on the nature, scale and complexity of the business.
- (3) An approved institution must appoint a senior officer as head of compliance who is competent, acts with integrity, and has sufficient qualifications, expertise and knowledge in securities business and regulations.
- (4) An approved institution must ensure that:
 - i) the head of compliance reports to a senior officer and has direct access to the governing body,
 - ii) the compliance department is operationally independent of all business operations,
 - iii) the compliance department has sufficient resources and authority to effectively carry out its responsibilities,
 - iv) appropriate policies and procedures are in place to enable the approved institution to comply with the Law and Regulations and all other applicable regulatory requirements,
 - v) a compliance monitoring and reporting program is in place to assess compliance with regulatory requirements on an ongoing basis,

- vi) compliance with its code of professional conduct is monitored,
- vii) reports and notifications required to be filed with the Authority are accurate and filed on time, and
- viii) its senior management and governing body receive regular reports on compliance matters, including the results of compliance monitoring and any breaches of regulatory requirements.

3206. Supervision of activities

- (1) An approved institution must establish written policies and procedures to ensure proper supervision of:
 - i) its business conduct, including dealings with its clients,
 - ii) its market conduct, and
 - iii) the activities of its registered persons.
- (2) The supervision policies and procedures must be designed to achieve compliance with the Law and the Regulations.
- (3) The supervision policies and procedures must be reviewed periodically and kept up to date.

3207. Risk management systems and controls

- (1) An approved institution must establish and maintain risk management systems and controls to enable it to identify, assess, control and monitor material risks.
- (2) An approved institution must develop, implement and maintain policies and procedures to manage material risks that the institution or its clients are exposed to.
- (3) Depending on the nature, scale and complexity of its business, an approved institution may appoint a senior officer as risk management officer.
- (4) The Authority may require an approved institution to appoint a risk management officer if it considers one to be necessary based on the nature, scale and complexity of the business.

3208. Anti-money laundering officer

- (1) An approved institution that handles client money in any form must appoint a senior employee as anti-money laundering (AML) officer. The AML officer is responsible for overseeing compliance with Law 318 and all circulars and regulations related to money laundering.

- (2) An AML officer must report to the approved institution's governing body on compliance with anti-money laundering requirements and the adequacy of the institution's anti-money laundering policies and procedures at least quarterly.

3209. Audit committee

- (1) Depending on the nature, scale and complexity of its business, an approved institution may appoint an audit committee.
- (2) The Authority may require an approved institution to appoint an audit committee if it considers one to be necessary based on the nature, scale and complexity of the business.
- (3) An audit committee must meet at least quarterly.
- (4) Minutes of all audit committee meetings must be recorded and retained on file.

3210. Auditor

- (1) An approved institution must appoint an external auditor acceptable to the Authority to review and report on its financial statements and operations in accordance with the provisions on auditors established by the Banque du Liban for banks and financial institutions, and by the Code of Commerce.
- (2) The auditor of an approved institution must review and report on the institution's financial statements, books and records within 120 days of its fiscal year end.

3211. Internal audit

- (1) Depending on the nature, scale and complexity of its business, an approved institution may create an internal audit unit to monitor the appropriateness and effectiveness of its systems and controls.
- (2) An approved institution that is licensed to provide custody or managing services must have an internal audit unit.
- (3) The Authority may require an approved institution to create an internal audit unit if it considers one to be necessary based on the nature, scale and complexity of the business.
- (4) An internal audit unit must have documented responsibilities, procedures and reporting lines to the governing body or one of its committees.
- (5) An internal audit unit must be independent from operational and business functions and have unrestricted access to all relevant records of the approved institution.

- (6) An internal audit unit must review and report on the institution's financial statements, books and records at least annually. The unit is also responsible for assessing internal controls and risk management policies and procedures.
- (7) All internal audit reports must be recorded and retained on file for at least 10 years.

3212. Segregation of functions

- (1) An approved institution must establish policies and procedures for the appropriate separation of functions within its operations including:
 - i) separation of compliance and control functions from persons dealing with clients, and
 - ii) separation of corporate finance and investment banking functions from other functions.
- (2) The policies and procedures in subarticle (1) must be designed to secure and maintain the confidentiality of confidential information relating to clients, including inside non-public information.

3213. Employees and agents

- (1) An approved institution must take appropriate steps to satisfy itself that its employees and agents are qualified and suitable to carry out the responsibilities assigned to them.
- (2) An approved institution must establish a program to ensure that employees and agents are suitably trained for their responsibilities and to comply with regulatory requirements applicable to them.
- (3) An approved institution is responsible for the conduct of its registered persons and for ensuring that they remain fit and proper to carry out their responsibilities.
- (4) An approved institution must maintain records of its employees, including their experience, qualifications, training, disciplinary record and any complaint filed relating to an employee.

3214. Insurance

- (1) An approved institution must obtain insurance coverage for all of its business operations and significant risks.

- (2) The coverage provided by the insurance policies must be reviewed annually and revised as necessary to reflect any changes in the nature and scale of the approved institution's securities business.

3215. Business continuity plan

- (1) An approved institution must have in place an appropriate business continuity plan that reflects the nature, scale and complexity of its business to ensure that it can continue to carry on its business operations and meet its obligations under the Law and the Regulations in the event of an unforeseen interruption in its operations.
- (2) In the case of a bank or a financial institution licensed by the Banque du Liban, the business continuity plan for its securities business must meet the requirements of the Banque du Liban for banking operations.
- (3) The business continuity arrangements must be documented, kept up to date and tested periodically to ensure their effectiveness.

3216. Outsourcing of functions

- (1) An approved institution may delegate specific functions to an external person, provided that appropriate safeguards are in place, including:
 - i) a contract that clearly sets out the terms of the arrangement, and the extent and limits of the delegation of functions,
 - ii) suitable arrangements to supervise the performance of the delegated functions, and
 - iii) the approved institution responds to any concerns about the performance of the delegated functions.
- (2) An approved institution must ensure that an external person selected to perform specific functions is qualified to perform them.
- (3) An approved institution remains responsible for the performance of any outsourced functions and for ensuring compliance with regulatory requirements. The institution must maintain continuous supervision of all outsourced functions and regular reports on the performance of such functions.
- (4) An approved institution must notify the Authority of any arrangements to delegate any functions within 7 days of the commencement of services.
- (5) An approved institution that is subject to BDL circular 128 is prohibited from outsourcing any compliance monitoring activities.

Part D – DEALING WITH CLIENTS**3301. Prepared securities advertisements**

- (1) A prepared securities advertisement means any securities advertisement that is prepared in advance and is communicated in writing, in any form, to one or more persons in Lebanon.
- (2) Before communicating a prepared securities advertisement, or approving one to be communicated by another person, an approved institution must ensure that the advertisement:
 - i) identifies the approved institution,
 - ii) complies with the requirements of this Part and Annex 2,
 - iii) is approved by a designated officer of the approved institution after confirming it complies with this Part, and
 - iv) is clear, fair and not misleading.
- (3) A prepared securities advertisement that relates to specific securities must:
 - i) present a fair and balanced view of the merits of the securities, and
 - ii) contain sufficient information to enable a person to make an informed assessment of the securities or securities activity described.
- (4) A prepared securities advertisement that contains any information on a future forecast or past performance of securities must:
 - i) identify the source of the information and any assumptions that apply, and
 - ii) contain a clear warning that past performance may not be a reliable indicator of future performance.
- (5) An approved institution must maintain a record of each prepared securities advertisement that it has approved.

3302. Direct communications with clients

- (1) “Direct communication” means any securities advertisement that is not a prepared securities advertisement, including a meeting with a client or potential client, a telephone call, a presentation or any direct interaction with one or more persons.
- (2) Before pursuing a direct communication an approved institution must ensure that:
 - i) the recipient consents to receiving a securities advertisement from the firm, or
 - ii) the recipient has an existing client relationship with the approved institution.

- (3) An approved institution must take reasonable steps to ensure that any direct communication made by an individual on its behalf:
 - i) are clear, fair and not misleading,
 - ii) do not include any false or misleading statements,
 - iii) make clear the purpose of the securities advertisement, and
 - iv) identify both the approved institution and the individual who makes the communication.
- (4) An approved institution must address direct communications with clients in its code of conduct that meet the requirements in this article and that prohibits an employee acting on its behalf from using any undue pressure or making any misleading or deceptive statements.
- (5) This article does not apply to direct communications with a counterparty.

3303. Non-retail investment funds and derivatives

- (1) An approved institution must not communicate a securities advertisement to a customer relating to a non-retail investment fund, structured product or derivatives securities unless it has determined that the securities are suitable for the customer.

3304. Client classification

- (1) Before conducting securities business with or for a client, an approved institution must classify the client as one of the following:
 - i) a customer,
 - ii) a professional client, or
 - iii) a counterparty.
- (2) Before classifying a qualified individual as a professional client, an approved institution must:
 - i) carry out and document such due enquiries as are necessary to satisfy itself that the client has the minimum level of net investible assets required by this Regulation, and that the client has a minimum of 5 years of continuous experience investing in securities markets and investments,
 - ii) explain the difference between the rights and obligations of a professional client and a customer to the individual, and
 - iii) obtain the individual's written consent to being classified as a professional client. The consent form must list the regulations that apply to a customer but

not to a professional client, and state that the individual has the option to choose to be classified as a customer at that time or at any time in the future.

- (3) Before classifying a client as a counterparty, an approved institution must carry out and document such due enquiries as are necessary to satisfy itself that the client meets the definition of a counterparty in this Regulation. An approved institution must notify a client in writing that it will treat the client as a counterparty under the Regulations of the Authority.
- (4) An approved institution must make a record of the classification of each client, including sufficient information of its review of the client's information to support that classification.

3305. Know your client

- (1) Before an approved institution opens an account for or deals with a customer, it must obtain information from the customer concerning the customer's personal and financial situation, investment experience and investment objectives. The information must:
 - i) include at least the information required by Annex 5, and
 - ii) be recorded on a form that is dated and signed by the customer.This subarticle does not apply to an execution-only account.
- (2) Before an approved institution opens an account for or deals with a professional client, it must obtain information from the client concerning the client's identity and financial position. The information must:
 - i) include at least the information required by Annex 5, parts A and B (as applicable), and
 - ii) be recorded on a form that is dated and signed by the client.
- (3) An approved institution must request an update of the client's information from each client whenever a material change occurs, and at least every five years, and document any significant changes.
- (4) If a client refuses to provide the information required under this article, the approved institution must not provide securities business services to the client.
- (5) An approved institution must retain a record of all information obtained from each client pursuant to this article.
- (6) This article does not apply to dealings with a counterparty.

3306. Anti-money laundering and terrorism financing

- (1) Before an approved institution opens an account for or deals with a client, it must ensure that it complies with all obligations under the Law 318 of 2001, the Special Investigations Committee, and all circulars and Regulations of the Banque du Liban or the Authority on anti-money laundering and terrorism financing.

3307. Opening accounts: client agreement

- (1) Before conducting any securities business with or for a client, an approved institution must enter into an agreement with the client that sets out the terms and conditions of conducting business for the client and that:
 - i) includes the requirements set out in Annex 3, and
 - ii) is signed by the client.
- (2) An approved institution must retain a record of the agreements for each client, including any amendments.
- (3) An approved institution must fully disclose to each client the fees and commissions currently charged to its clients before any services are provided to the client. An approved institution must obtain the client's signature on a dated copy of its fee schedule.
- (4) A client account must contain at least \$US 10,000 or an equivalent amount in cash and securities on opening, and maintain that amount except for any reduction due to investment losses.
- (5) A customer may open a regular account, an execution-only account or both, but an approved institution must not provide any advising services on transactions made or proposed to be made in an execution-only account.

3308. Mandate over client accounts

- (1) An approved institution is prohibited from taking instructions from any person on a client account except from that client or another person authorized by that client in writing and whose identity has been confirmed by the approved institution.
- (2) An approved institution must establish and maintain adequate records and internal controls to ensure compliance with subarticle (1).
- (3) An approved institution must ensure that all transactions for a client account are within the scope of the authority agreed to by the client.

- (4) No person other than the client is permitted to change contact information for the client or the address for delivery of contract notes, reports or statements of account.

3309. Duties to clients

- (1) An approved institution must act fairly, honestly, in good faith and in the interests of its clients.
- (2) An approved institution must not use a client's property, information or opportunities for its own or anyone else's benefit, unless the approved institution makes full disclosure of such usage to the client and obtains his consent.
- (3) An approved institution must protect the confidentiality of information obtained from a client and relating to a client's account, including information on transactions or proposed transactions for a client. (This does not apply to any request for information from the Authority.)
- (4) An approved institution must prevent any conflicts of interest between itself and a client and between a client and another client, or ensure that such conflicts are managed appropriately, in accordance with article 3310.
- (5) An approved institution owes the client a duty to exercise the care, skill and diligence that would be exercised in the same circumstances by an institution that has the knowledge, skills and experience that may reasonably be expected of an institution carrying on the same types of securities business.
- (6) The duties set out in this article also apply to all registered persons and employees of an approved institution.

3310. Managing conflicts of interest

- (1) If an approved institution has an actual or a potential conflict of interest relating to a transaction or service for a client, it must disclose the conflict of interest to the client in writing.
- (2) An approved institution is not required to disclose a conflict of interest if disclosure would require providing inside non-public information to the client. In that case an approved institution must take reasonable steps to ensure fair treatment of the client.
- (3) If a conflict exists between an interest of an approved institution and an interest of a client in any transaction, the institution must pay to the client the amount of any direct financial loss incurred by the client's account as a result of the conflict unless the approved institution disclosed the conflict of interest to the client and the client agreed in writing to the transaction in spite of the conflict.

- (4) An approved institution must comply with the requirements of the Market Conduct Regulation in any dealings as principal with a client or customer (as the case may be).

3311. Use of commissions and fees paid to executing firms

- (1) If an approved institution pays a third party to execute transactions for its clients, it must use all of the commissions or fees paid to the third party and charged to its clients for executing trades to pay for trade execution services or investment research services for its clients. Such services must directly benefit clients. Commissions and fees charged to clients for third party services must not be used to pay for general services provided by a third party for the benefit of the approved institution.
- (2) An approved institution must disclose any goods and services that it pays for with part of the commissions or fees charged to clients to a client on request and to the Authority on request.

3312. Suitability

- (1) An approved institution must not deal, advise or manage for a customer, or take collateral for its own account from a customer, unless it has a reasonable basis for considering the advice or transaction to be suitable for that customer, based on the facts and investment objectives disclosed by that customer, and other relevant facts about that customer that the institution is aware of.
- (2) In reviewing the suitability of advice or a transaction for a customer, an approved institution must have regard to:
- i) the customer's knowledge and understanding of the relevant securities and markets, and of the risks involved,
 - ii) the customer's financial position, including his income, net worth and the value of his portfolio, based on the information disclosed by the customer,
 - iii) the customer's experience with investments in securities markets, the frequency of his dealings in securities, and the extent to which he relies on the advice of the approved institution,
 - iv) the size and nature of the transaction relative to other transactions done for the customer,
 - v) the customer's investment objectives, time horizon and risk tolerance, and
 - vi) the customer's personal situation, including age and number of dependents.
- (3) Notwithstanding subarticle (2), if an approved institution has advised a customer that a transaction is not suitable for him and the customer decides to proceed with the transaction, an approved institution may accept an order to buy or sell the

security from the customer, provided that a record of the advice provided to the customer is retained.

- (4) This article does not apply to advising or dealing for a client in an execution-only account provided that the approved institution has not given investment advice to the client.
- (5) This article does not apply to advising or dealing for a counterparty or a professional client.

3313. Understanding risk

- (1) An approved institution must not deal, advise or manage investments for a customer, or take collateral for its own account from a customer, unless it has taken reasonable steps to enable the customer to understand the nature of the risks involved in that type of transaction.

3314. Derivatives and speculative securities

- (1) An approved institution must not deal, advise, or manage investments for a customer:
 - i) in derivatives securities, contingent liability securities or non-retail investment funds, unless the customer has acknowledged in writing that he is aware of the nature and extent of the risks involved in such securities, or
 - ii) in illiquid or speculative securities, unless it has informed the customer of the nature and extent of the risks involved in such securities, including the issues involved in determining their value.
- (2) This article does not apply to dealing for an execution-only account, or to a managed account if the investment mandate permits such securities.

3315. Customer borrowing

- (1) An approved institution must not lend money or extend credit to a customer in a margin transaction, and must not arrange for any other person to lend money to a customer for purposes of investing in securities, unless:
 - i) the approved institution has assessed the customer's financial standing, based on information disclosed by that customer, and is satisfied that the amount and the arrangements for the loan or credit are suitable for the customer; and
 - ii) the customer has given his prior written consent to the loan or credit facility, specifying the maximum amount of the loan or credit, details of the amount and of any charges to be levied.
- (2) Subarticle (1) does not apply where an approved institution settles a transaction on a default or late payment by a customer.

3316. Margin requirements

- (1) An approved institution may make a margin transaction with or for a client if the client has first entered into a written margin agreement setting out the following terms:
 - i) the circumstances in which the client may be required to provide margin,
 - ii) the risks involved in margin transactions,
 - iii) the form in which the margin may be provided,
 - iv) the steps that the approved institution may be entitled to take if the client fails to provide the required margin, including the communication method(s) by which a margin call may be made to the client,
 - v) that failure by the client to meet a margin call may lead to the approved institution closing out sufficient positions in the account to cover the margin, after a time limit specified by the approved institution, and
 - vi) any circumstances that may lead to the client's position being closed without prior contact with him.
- (2) An approved institution that makes a margin transaction with or for a client must:
 - i) take reasonable steps to satisfy itself that the client is aware of the risks of margin transactions prior to making the transaction,
 - ii) require the client to provide the minimum rates of margin set out in the requirements of the Banque du Liban relative to the current value of the securities subject to margin, and
 - iii) monitor the margin provided by the client daily, and ensure that the margin is maintained at the minimum level required by the Banque du Liban relative to the current value of the securities subject to margin.
- (3) The Authority may prescribe a higher rate of margin to be provided for transactions in any security or category of securities, and the approved institution must require a client to provide any such prescribed rate of margin within 5 days.
- (4) The Authority may prohibit margin transactions on any security or category of securities.
- (5) Margin must be in the form of cash on account or fully-paid securities positions.

3317. Transmission of reports to clients

- (1) All reports, statements, notices and records that the Regulations require an approved institution to send to clients must be sent in hard copy. In addition a client may receive a copy of such reports electronically or through secure access to online services. .

- (2) An approved institution must obtain a copy of every monthly statement of account sent to a client that is signed by that client.
- (3) An approved institution must retain a record of each electronic communication sent to a client.

3318. Contract notes

- (1) An approved institution that makes a sale or purchase of a security with or for a client must send the client a contract note forthwith.
- (2) A contract note must provide the information required by Annex 4.

3319. Periodic reports for managed accounts

- (1) An approved institution that acts as manager for a client's investments (with or without discretion) must send a periodic report to the client at least every three months, except if no trading activity has taken place in the account a report may be sent annually.
- (2) A periodic report must provide the information required by Annex 6.

3320. Client complaints

- (1) An approved institution must have written procedures to ensure:
 - i) records of all written complaints are made, including details of the review of, and response to, each complaint,
 - ii) timely and proper review of each complaint received from a client,
 - iii) each client receives a written response to a complaint within 60 days of receipt that responds to the substance of the complaint, and
 - iv) appropriate remedial action is promptly taken to address valid complaints.
- (2) A copy of all written complaints must be filed with the head of compliance, who must oversee the resolution of any complaint that relates to compliance with any law or the Regulations.
- (3) A copy of all material written complaints must be filed with the Authority within 5 days of receipt by an approved institution, except for complaints about customer service issues only. The Authority must also be notified of how each material complaint was resolved.

3321. Employees' personal dealings

- (1) This article applies to the dealings of all employees of an approved institution who work in the institution's securities business, including all registered persons.

- (2) An approved institution must establish written procedures to apply to all employees' personal dealings in securities in accordance with the requirements of Annex 7, and must monitor such dealings to ensure compliance with the Regulations.
- (3) An employee of an approved institution must not knowingly be a party to any transaction in a security that a client of the approved institution is a party to.
- (4) An employee of an approved institution must not establish a trading account at another approved institution, unless his employer does not offer such an account.
- (5) If an employee holds an account at another approved institution, the employee's approved institution must receive a copy of all contract notes and account statements sent to the employee. An employee must provide all necessary consents to authorize his employer to receive such copies.

PART E – RECORD KEEPING

3401. Recordkeeping requirements

- (1) An approved institution must retain all records that it is required to maintain under the Regulations for a period of ten years, unless the Authority specifies otherwise.
- (2) Records may be recorded in any form, including in digital files, electronic or computer files and paper files, but must be secure and capable of reproduction in printed form.
- (3) An approved institution must have systems and controls in place covering the security, adequacy, access to, and period of retention of its records, and must ensure adequate back-up arrangements for its records are in place.

3402. Records of operations

- (1) An approved institution must make and retain proper records of its securities business operations, financial operations and transactions.
- (2) All records of operations must be current up-to-date at all times and be sufficient to demonstrate compliance with the Regulations.

3403. Client records

- (1) An approved institution must keep and maintain proper records of all client accounts. The records must:

- i) accurately record the assets and liabilities of each client and of all clients collectively,
 - ii) contain the information necessary to prepare a statement of each client's assets and liabilities, and details of transactions made for the client; and
 - iii) identify all client money and client assets that the approved institution, or its custodian, are responsible for.
- (2) All records of client accounts must be current at all times and be sufficient to demonstrate compliance with the Regulations.
- (3) An approved institution must keep and maintain proper records of all orders and transactions for a client or its own account.
- (4) The records of the approved institution must contain:
- i) details of all orders for a security entered by a client or for the approved institution's own account,
 - ii) details of all purchases and sales of a security made by the approved institution for a client or for its own account,
 - iii) a record of the suitability assessments required by article 3312,
 - iv) a record of all income and expenses for each client, explaining their nature,
 - v) details of all receipts and payments of client money and client assets,
 - vi) a record of the cash in each client account,
 - vii) a record of the securities positions in each client account, including a clear description of each security and the amount held, and
 - viii) a record of all client money and client assets, including the name of the bank where client money for each client is held.

3404. Client access to records

- (1) If a client or a former client of an approved institution requests a copy of any records relating to his account, the firm must provide, within a reasonable period of time:
- i) a copy of any records that the approved institution sent, or was required to send, to that client, and
 - ii) a copy of any correspondence received from or sent to that client relating to his account.

3405. Inspection of records

- (1) All records required to be maintained by an approved institution under the Law or the Regulations must be available for inspection by the Authority forthwith on request.

- (2) The Authority may inspect an approved institution's records directly or through a person it appoints for that purpose.

3406. Recording calls

- (1) An approved institution must record all telephone calls with a client that include an order or instruction relating to a transaction.

PART F – CLIENT MONEY AND CLIENT ASSETS

3501. Client money

- (1) Subject to article 3507, all money that an approved institution receives from or on behalf of a client in the course of carrying on securities business is client money.
- (2) An approved institution may transfer client money to another person (through a clearing agency or otherwise) for the purpose of settling a securities transaction with or through that other person for a client, or to provide collateral for a client.
- (3) Money is not client money if it is immediately due and payable to the approved institution for its own account (including fees and commissions that are due to the approved institution).
- (4) If a client is a counterparty, an approved institution may exclude the application of this Part to the client if it obtains the client's prior written consent.

3502. Client money to be held with a bank

- (1) An approved institution must hold client money in a segregated account for client money only with a commercial bank licensed by the Banque du Liban, except if subarticle (4) applies.
- (2) An approved institution may open a client account with a bank in its own corporate group, if it first notifies the client of its intention and the client does not object.
- (3) An approved institution must not charge any fees or commissions to a client for holding client money.
- (4) An approved institution must notify each client of an intention to hold client money with a bank outside Lebanon (including details of each bank's name, address and contact information), and must obtain the client's prior written consent to hold client money in that manner.

3503. Segregation of client money and client assets

- (1) An approved institution that holds client money or client assets must segregate its own money and assets from client money and client assets.
- (2) Client money and client assets must be held in a client account, and are held exclusively for the approved institution's clients.
- (3) Client money and client assets must not be treated as assets of the approved institution for any purpose, except for a security position that is subject to margin in accordance with this Regulation.
- (4) A creditor of an approved institution does not have any right, claim or entitlement to client money or client assets.

3504. Records of client money and client assets

- (1) An approved institution must maintain records of client money and client assets that are sufficient to demonstrate compliance with this Regulation and to record details of all receipts, withdrawals, holdings and payments.
- (2) On an annual basis an approved institution's external auditors must review an approved institution's records of client money and client assets, and the institution's compliance with this Part of this Regulation, and report the results of its review as part of its audit of the approved institution.
- (3) Records of client money and client assets must be retained for at least ten years.

3505. Agreement with bank on client money accounts

- (1) An approved institution must have an agreement with each bank where it holds client money. The terms of the agreement must include the bank's agreement that:
 - i) a client account holds client money as defined in this Regulation and the approved institution has no right, claim or entitlement to client money,
 - ii) the bank will not enforce any right or claim that it has against the approved institution against funds held in a client account, and
 - iii) the bank will not combine the client account with any other account.

3506. Handling client money

- (1) An approved institution must receive funds from a client by cheque, certified cheque or electronic transfer.

- (2) Except as otherwise provided in this Part, when an approved institution receives client money it must either:
 - i) deposit the money into a client account no later than the next day after receipt, or
 - ii) pay the money out in accordance with article 3507.
- (3) If a client receives or deposits funds through an approved institution, the funds must be paid in full into a client account. If any part of the funds is not client money, that part should be transferred from client money as soon as possible.
- (4) Client money may be held in a client account in a foreign currency if the client has agreed in writing that client money may be held in one or more specified foreign currencies.

3507. Payments of client money

- (1) Money ceases to be client money if the approved institution pays it:
 - i) directly to the client,
 - ii) into a bank account in the name of the client, or
 - iii) to the approved institution itself, if the money is due and payable to the approved institution.

3508. Calculation of client money requirement

- (1) At least weekly, an approved institution must confirm that the total balance of all of its client accounts as at the close of the preceding business day was at least equal to the "client money requirement" calculated in the manner prescribed by the Authority.
- (2) If any shortfall exists in the "client money requirement" an approved institution must pay the amount of the shortfall into a client account by the close of business on the day the calculation is performed. Any amount paid into a client account becomes client money.
- (3) An approved institution must notify the Authority immediately if:
 - i) it is unable to perform the calculation required by subarticle (1), or
 - ii) a shortfall exists in its "client money requirement" at any time.

3509. Client money reporting

- (1) An approved institution that holds client money must submit any reports relating to client money requested by the Authority within the time specified by the Authority.

3510. Client assets

- (1) All assets, including securities or financial instruments, that an approved institution receives from or on behalf of a client in the course of carrying on securities business must be treated as client assets, except assets that constitute cash or collateral, which must be treated as client money.

3511. Holding client assets

- (1) An approved institution must be licensed by the Authority to provide custody services in order to hold client assets.
- (2) An approved institution must segregate all client assets that it holds from its own assets.
- (3) An approved institution must not use any client assets for its own account, or for the account of a different client.

3512. Collateral assets

- (1) Client assets include collateral taken by way of pledge to satisfy an obligation arising from that pledge until an asset is applied to satisfy that obligation.
- (2) Collateral retained by an approved institution for its own account is not a client asset, provided that the approved institution has complied with the requirements of this Part.

3513. Segregation

- (1) If a client asset is recorded in an account of an approved institution, the approved institution must ensure that the title to the account makes it clear that such asset belongs to a client and is segregated from the approved institution's assets.
- (2) If a client asset is recorded in an account with a custodian or with a foreign custodian, an approved institution must require the custodian or foreign custodian to make it clear in the title of the account that the client asset belongs to one or more clients of the approved institution and that the assets are segregated.

3514. Registration of client assets

- (1) Securities that are required by law to be held by Midclear for safekeeping must be held in an account in the relevant client's name with Midclear.
- (2) An approved institution must hold a document of title to a client asset in its physical possession, or hold the asset with a custodian in an account designated for client assets.

- (3) If an approved institution registers or records title to a client asset it must ensure that it is registered or recorded in the name of the client, unless the client is an approved institution acting on behalf of its own client, in which case the asset must be registered in the name of that approved institution's client.
- (4) If a client asset is a security acquired overseas, title to the asset may be registered or recorded in the name of a foreign custodian or in the name of the approved institution, if the approved institution:
 - i) has determined it is not feasible for the asset to be registered or recorded in the client's name, and
 - ii) has obtained the prior written agreement of the client to the client's assets being recorded or registered in the name of a foreign custodian or in the name of the approved institution.

3515. Use of foreign custodians

- (1) An approved institution must not hold client assets with a foreign custodian for any client except with the client's written consent.
- (2) Before holding client assets with a foreign custodian, an approved institution must notify the client in writing that:
 - i) different settlement, legal and regulatory requirements may apply in the relevant jurisdiction, in particular on the segregation of client assets, and
 - ii) the client assets may not be segregated from the approved institution's own assets and (subject to the provisions of article 3517) may be subject to claims from the approved institution's creditors in the event of its failure.

3516. Lending client securities

- (1) An approved institution must not lend securities belonging to a client, or lend securities to a client, unless it obtains the client's prior written consent and enters into a securities lending agreement with the client that includes such terms and conditions set out in Annex 3 as are relevant.
- (2) An approved institution must ensure that all securities lending transactions are appropriately documented, and that records are maintained of all transactions.
- (3) Securities that are registered to, or held for, more than one client must not be used for securities lending unless all of the affected clients provide prior written consent.
- (4) In any securities lending transaction, an approved institution must:

- i) ensure the borrower provides collateral to cover the current value of the securities being lent, and
- ii) monitor whether the amount of the collateral is sufficient to cover the value of the securities on a daily basis, and if it is insufficient, make up the level of collateral.

3517. Assessment of and responsibility for custodians

- (1) An approved institution owes a duty of care to a client in deciding or recommending where to hold the client assets.
- (2) An approved institution must undertake a risk assessment prior to recommending or deciding to hold client assets with a custodian to ensure that the custodian has adequate arrangements to safeguard the assets in place, and is subject to appropriate standards of regulatory oversight. An approved institution must conduct a new risk assessment of a custodian that holds client assets whenever an adverse material change occurs at the custodian.
- (3) An approved institution is responsible for a custodian's administration and safekeeping of all client assets that the institution places with the custodian. An approved institution must compensate each client for any losses of client assets resulting from a custodian's activities or from the receivership, bankruptcy or failure of the custodian, except if written evidence exists demonstrating that the client selected the custodian.
- (4) The requirements of this article apply to the use of foreign custodians. In carrying out a risk assessment of a foreign custodian, an approved institution must ensure that the custodian:
 - i) is rated at least A by a credit rating agency acceptable to the Authority, and
 - ii) is subject to regulatory obligations at least equivalent to those imposed on custodians in Lebanon.

3518. Client agreements

- (1) Before an approved institution provides custody services to a client, it must enter into an agreement with the client that must cover the following:
 - i) how the client assets will be registered,
 - ii) arrangements for the client to give instructions on the custody services,
 - iii) the approved institution's liability to the client for custody services,
 - iv) any lien or security interest in the client assets to be taken by the approved institution or another party,
 - v) the conditions in which the approved institution may sell client assets held as collateral to meet the client's liabilities,

- vi) how the approved institution will deal with dividends, commissions and other income and entitlements accruing to the client,
 - vii) how the approved institution will deal with corporate actions, such as the voting of shares, capital reorganizations and take-overs,
 - viii) the information to be provided to the client about client assets that the approved institution holds,
 - ix) provision of periodic statements to the client,
 - x) the fees and charges for the custody services, and
 - xi) whether the client's assets will be pooled with the assets of other clients and, if so, an explanation of the effect of that pooling.
- (2) A custody agreement may form part of the client agreement required by Part D of this Regulation.

3519. Custodian agreement

- (1) Before an approved institution holds client assets with a custodian, it must agree in writing with the custodian appropriate terms of business, which must cover the following:
- i) the title of any account for client assets indicates that the assets credited to the account do not belong to the approved institution,
 - ii) the custodian must not permit withdrawal of any client assets from the account other than to the approved institution or to another person as directed by the approved institution,
 - iii) the custodian will hold or record a client asset belonging to the approved institution's client separately from any securities or other assets of the custodian, and that it will treat the assets in the account as client assets,
 - iv) the custodian will deliver to the approved institution a statement as at a date or dates specified by the approved institution that details the description and amounts of all the securities credited to the account. The statement must be delivered to the approved institution within 7 days of the date of the statement.
 - v) The custodian will not claim any lien, right of retention or sale over the securities in any client account covered by the agreement, except:
 - (a) if the prior written consent of each client has been obtained, or
 - (b) to cover charges to that specific client for the custody services covered by the agreement.
- (2) The requirements of subarticle (1) apply to client assets placed in an account with a foreign custodian.

3520. Reconciliations

- (1) At least weekly, an approved institution must reconcile its record of client assets with statements from Midclear, other custodians and (if applicable) foreign custodians, as well as with statements from any other person that maintains a record of entitlement of client assets.
- (2) An approved institution must as often as necessary, but at least every six months, carry out:
 - i) a count of any client assets that it physically holds, and reconcile the results of that count to its own records, and
 - ii) a reconciliation between the approved institution's record of client holdings, and its records of the location of client assets.
- (3) The count and reconciliation in subarticle (2) must cover all of the approved institution's books and records, and must be performed by counting and reconciling all securities and other client assets as at the same date.
- (4) An approved institution must perform the reconciliations within 10 days of the date to which the reconciliation relates.
- (5) An approved institution must correct any discrepancy in a reconciliation within 3 days. If any discrepancy is a shortfall, it must within 3 days make good any shortfall, and if the discrepancy is not resolved within 7 days, report the matter to the Authority.

3521. Client account statements

- (1) An approved institution must provide each client with an account statement as of the end of every month, except if no activity has taken place in the account a statement must be provided at least every 3 months.
- (2) If a client's account is closed, an approved institution must send the client a closing account statement that confirms that the approved institution no longer holds any client assets or collateral for the client.
- (3) An account statement must list all client money, client assets, collateral and other assets owned by the client for which the approved institution is accountable. A statement must also:
 - i) show all activity for the account during the period, including transactions, payments received, payments made, deposits, withdrawals, transfers and any changes in the security positions,
 - ii) identify any securities registered in the client's name separately from those registered in another name,

- iii) show the original cost and the current market value of each security, as at the date of the statement,
 - iv) identify any securities that have been bought or sold but settlement of the trade has not been completed,
 - v) identify any securities and assets being used as collateral, or pledged to third parties, separately from any other securities or assets,
 - vi) show the market value of any collateral held, as at the date of the statement, and
 - vii) be based on information as of either the trade date or settlement date, which must be disclosed on the statement.
- (4) This article does not apply to a counterparty.

ANNEX 1**RULES OF PROFESSIONAL CONDUCT**

- (1) An approved institution must comply with the following rules of professional conduct, in accordance with article 51 of the Law and this Regulation.
- (2) An approved institution must adopt a code of professional conduct that includes at least the following requirements, in accordance with article 52 of the Law and this Regulation.
- (3) An approved institution must ensure that its registered persons and other employees recognize their obligations under the code of professional conduct, and sign a copy of the code with a statement that the individual is committed to complying with the code, including any amendments to the code.
 - 1) Carry on its business with honesty and integrity
 - 2) Carry on its business with due skill, care and diligence
 - 3) Give priority to its clients' interests and objectives
 - 4) Effectively identify and avoid any direct or indirect conflicts of interest between the approved institution, or any of its employees, and its clients, and effectively manage and disclose any conflict that cannot be avoided.
 - 5) Preserve its objectivity by refusing to accept or offer any gifts or other benefits or inducements.
 - 6) Preserve the confidentiality of information relating to each client, and prevent its disclosure or misappropriation by third parties.
 - 7) Make a thorough assessment of each customer's situation and investment objectives.
 - 8) Disclose to customers all information that is relevant to a proposed transaction, in particular the risks involved.
 - 9) Take reasonable care to ensure the suitability of advice and discretionary decisions for clients.
 - 10) Adopt clear rules on making investment recommendations to customers, including clearly distinguishing between facts and opinions.
 - 11) Ensure that investment recommendations and decisions are suitable for a customer, based on his investment objectives.
 - 12) Require that a client agreement be signed with each client that meets the requirements of this Regulation.
 - 13) Prohibit the use of any inside non-public information, directly or indirectly.

- 14) Prohibit the use of any manipulative or deceptive acts or practices, as prescribed in the Market Conduct Regulation.
- 15) Adopt a clear policy to ensure the fair distribution of securities amongst investors.
- 16) Compliance with the provisions of articles 3309 (duties to clients, including managing conflicts of interest) and 3311 (use of commissions and fees)
- 17) Comply with applicable laws and regulations.
- 18) Appoint a person responsible for compliance and monitoring, and investigating any complaints received.
- 19) Develop thorough written policies and procedures, and review them periodically to ensure they are up-to-date.
- 20) Authenticate the documents and records that cover investment decisions and recommendations, and transactions performed for clients.
- 21) Disclose to each client on a periodic basis the following:
 - the investment performance of its account,
 - the method used to take and execute investment-related decisions and recommendations,
 - all investment-related fees, expenses and commissions charged to its account, and the method of computation,
 - the institution's policies on trading in securities and allocating transactions among investors;
 - audit results in financial entities,
 - the method of computing returns on investment,
 - conflicts of interest,
 - the methods of assessing investments,
 - the value of any commissions, goods or services received by the institution in relation to the client's account and how they were used for the client's benefit.

ANNEX 2

CONTENT REQUIREMENTS FOR PREPARED SECURITIES ADVERTISEMENTS

A prepared securities advertisement promoting a specific security or securities or a specific securities service must contain the following information.

1) Guarantees

The advertisement must not describe a security as guaranteed unless there is a legally enforceable arrangement with a third party who undertakes to meet in full an investor's claim under the guarantee. If so, the advertisement must give details about both the guarantor and the guarantee sufficient for an investor to make a fair assessment about the value of the guarantee.

2) Comparisons of Securities

An advertisement that compares different securities or services must:

- be based either on facts verified by the approved institution or on assumptions stated in the advertisement
- be presented in a fair and balanced way
- not omit anything material to the comparison.

3) Material interest in securities

An approved institution must include a statement disclosing whether it or any of its associates:

- has or may have a position or holding (direct or indirect) in the securities concerned or in related securities, or
- is providing, or has provided within the previous 12 months, significant advice or securities business services to the issuer of the securities.

4) Past performance

Information about the past performance of securities or of an approved institution that is included in an advertisement must be a fair representation of the past performance of the securities or approved institution. The period of time covered by the past performance must not have been chosen in order to exaggerate the performance of the securities or approved institution. The advertisement must:

- state the source of the information,
- be based on verifiable information
- warn that past performance is not necessarily a guide to future performance.

5) Cancellation rights

An advertisement for securities that cancellation rights apply to must contain details of such rights, including the period for exercise of the rights.

6) Fluctuations in value

If the securities can fluctuate in price or value, a statement must be made that prices, values or income may fall and, if applicable, a warning that the investor may get back less than he invested.

7) Suitability

If an advertisement contains or refers to a recommendation about a specific security or securities service, a statement must be made warning that it may not be suitable for all investors, and that investors should seek advice from their investment adviser.

8) Investment income

If a security is described as being suitable for an investor seeking income, if applicable to the security a statement must be made warning that:

- income from the security may fluctuate and is not guaranteed
- part of the capital invested may be used to pay a rate of return.

9) Foreign currency exposure

If a security is denominated in a foreign currency, an investor must be warned that changes in foreign exchange rates may have an adverse effect on the value, price or income of the security.

10) Illiquid or speculative securities

An advertisement for an illiquid or a speculative security must state that it may be difficult for the investor to sell the security or to obtain reliable information about its value or the degree of risk involved.

11) Sales charges and fees

If an advertisement relates to a security to which deductions for charges, fees, commissions or expenses apply at the time the initial investment is made or when it is sold, a warning that such charges apply must be included.

If an advertisement relates to a security that performance fees apply to, a warning that such charges apply must be included.

ANNEX 3**TERMS OF CLIENT AGREEMENTS****A. Agreements with Clients**

An approved institution's agreement to be entered into with a client must include the following terms (as applicable). Details may be included in an attachment to the agreement.

- 1) A statement that Law 234 requires a client agreement to be signed, and that its contents comply with the requirements of the Law 234 and the Regulations.
- 2) The name, address and contact information of the approved institution, and its license number
- 3) The regulatory status of the approved institution, including its categories of license from the Authority
- 4) The date of the agreement and the date it becomes effective
- 5) How the agreement may be amended or terminated, which must include a statement that either party may terminate the agreement at any time, provided that any transactions that have been completed or are in the process of being performed are binding.
- 6) Types of services that the approved institution will provide to the client
- 7) Any investment restrictions on the account
- 8) Details of fees, costs and other charges to be imposed by the approved institution, and the basis for calculating fees, costs and other charges
- 9) The arrangements for giving instructions relating to the account to the approved institution and for confirming those instructions
- 10) The arrangements for confirming transactions to the client
- 11) If the approved institution may act as principal in a transaction with the client,
- 12) The frequency of account statements to be sent to the client periodically, and the address for delivery
- 13) The obligation to provide best execution to the client
- 14) A statement warning that financial investments may expose a client to a significant risk of loss in value, especially an investment that is speculative in nature, together with a specific acknowledgement from the client that the client has received and understands the warning.
- 15) A statement that the approved institution may receive payments or benefits from a third party relating to transactions entered into for the client, or a

statement that the amount of any such payments or benefits will be separately disclosed in writing to the client.

- 16) A description of any right of the approved institution to sell assets of the customer, or to close out or liquidate positions on a failure to settle a transaction or to make payment on account.
- 17) A description of the arrangements for holding client money and the custody of client assets, including Midclear's services, registration of securities and the key terms governing the institution's holding of client money and client assets.
- 18) Notice that telephone calls relating to transactions in securities must be recorded.

B. Agreements with Professional Clients

An approved institution's agreement to be entered into with a professional client must include all of the items under A above, except item 14). In addition the agreement must include a statement that the approved institution is not responsible for ensuring that investments or recommendations are suitable for the client.

C. Agreements with Custodians

An approved institution's agreement to be entered into with a custodian must include the following items under A above: 4), 5), 9) and 10). The agreement must also state whether Part F of this Regulation will apply to the client, and if not that the client must provide its prior written consent.

D. Agreements covering Managing of Investments

If the approved institution acts as a manager of investments for a client, the agreement must also include the following:

- 1) a statement of the extent of the manager's authority to manage the client's investments, including the restrictions on that authority
- 2) how performance will be measured
- 3) how valuations of the portfolio will be calculated
- 4) the initial value of the managed portfolio
- 5) in the case of discretionary investment management services:
 - i) a statement that the approved institution is authorized to make transactions on behalf of the client on a discretionary basis
 - ii) the extent of the discretion to be exercised by the approved institution and any limitations on that discretion

- iii) any restrictions on the investments to be made, including limitations on any particular type or class of investment or holding, such as derivatives transactions (or a statement that there are no such restrictions),
- iv) any margin lending arrangements that are permitted and the terms of those arrangements.

ANNEX 4**CONTENTS OF CONTRACT NOTES**

An approved institution must include the following information in a contract note sent to a client for every transaction:

- 1) the approved institution's name and address
- 2) whether the approved institution executed the transaction as principal or agent
- 3) the client's name, address, and account number
- 4) the date of the transaction
- 5) the serial number of the transaction
- 6) an exact description of the security or financial instrument purchased or sold
- 7) if a derivatives contract is included, details of the contract, series, strike price and expiry date of the contract
- 8) the serial number of the security or financial instrument
- 9) the number of shares, units or other amount sold or purchased
- 10) whether the transaction is a sale or purchase
- 11) the price or unit price of the transaction
- 12) the total amount paid or payable
- 13) the currency of the transaction, and if any foreign exchange conversion is involved, the foreign exchange rate
- 14) the settlement date for the transaction
- 15) the amount of commission or other fees charged by the approved institution, including the amount of any mark-up or mark-down of the price (whether contracted as a net price to the client or not), and any taxes or duties
- 16) the amount of any taxes, transactions fees or duties that apply and must be paid by the client directly
- 17) the market or securities exchange where the transaction was made (or over-the-counter if applicable)
- 18) accrued interest, in the case of a bond transaction.

ANNEX 5**KNOW YOUR CLIENT INFORMATION**

Customers must provide all information set out below to an approved institution before it opens an account for the customer.

Professional clients must provide the information set out in part A and B below (as applicable to the client) to an approved institution before it opens an account for the client.

This Annex does not apply to dealings with a counterparty.

A. Personal Information

- 1) Name:
- 2) Date of birth:
- 3) Identification documents:
- 4) Marital Status:
- 5) Number of dependants and age:
- 6) Citizenship:
- 7) Address for Correspondence:
- 8) Email address:
- 9) Home / primary telephone:
- 10) Mobile telephone:
- 11) Other telephone:
- 12) Employer's Name:
- 13) Employer's Address:
- 14) Employer's telephone:
- 15) Position / Title:
- 16) Length of employment:
- 17) Is the client a director or officer of a publicly listed company?

B. Financial Information

- 1) Approximate annual income:
- 2) Approximate net worth (excluding primary residence): *[require breakdown of assets and debt, including cash, investments, real estate]*

- 3) Primary bank:
- 4) Branch and address:
- 5) Main Account Number:

C. Investment Information and Objectives

- 1) Current investments and value:

(Identify Lebanese and foreign investments separately and indicate currency of holdings)

- Equity common shares
- Preferred shares
- Government bonds and other debt instruments
- Other bonds and debt instruments
- Investment funds (specify types of funds)
- Foreign exchange
- Real estate (for investment purposes)
- Bank deposits and certificates
- Structured products and notes
- Commodities
- Futures contracts (specify types of contracts)
- Options contracts (specify types of contracts)

- 2) Investment knowledge and experience:

(Specify by types of investments)

- 3) Investment objectives:

- Investment needs and goals
- Time horizon

(Specify percentages below)

- Safety - preservation of capital
- Income
- Growth of capital
- Speculative / high risk

- 4) Risk tolerance:

(Specify tolerance for losses of set percentages of portfolio)

- 5) Investment profile:

(Set out desired mix of investments and risk level for each)

ANNEX 6**CONTENTS OF PERIODIC STATEMENTS
FOR INVESTMENT PORTFOLIOS****A. Contents and value of portfolio**

- 1) Statement of all client money held in the account,
- 2) Description of each security held in the portfolio, and the number of shares, units or contracts held
- 3) The current market value of each security position
- 4) Amount of opening and closing cash balances
- 5) Total value of the portfolio
- 6) Change in the value of the portfolio since the last statement
- 7) A statement of the basis on which the value of each security has been calculated
- 8) If any securities are valued in a different currency than the portfolio, the relevant foreign exchange rates, as of the valuation date.

B. Transactions and changes in portfolio

- 9) Details of each transaction for the portfolio during the period
- 10) Details of pending (not yet settled) transactions
- 11) Total amount of money transferred into and paid out of the portfolio during the period
- 12) Details of any securities transferred into or out of the portfolio during the period
- 13) Total amount of interest, commissions, dividends and other income received by the portfolio during the period.

C. Fees and charges

- 14) Total amount of fees, charges, taxes and other costs paid out of the portfolio for purchases and sales of securities during the period
- 15) Total amount of fees, charges and other costs for managing the portfolio and any other services provided by the approved institution during the period
- 16) Total amount of interest or other charges for debit balances in the account
- 17) Details of any payments received by the approved institution from a third party relating to transactions entered into for the portfolio, or a statement that

the basis or amount of any such remuneration has been separately disclosed in writing to the client.

D. Securities pledged or charged

- 18) Details of any securities that have been pledged as collateral for or charged to secure borrowings on behalf of the portfolio, and the identity of the institution or the person the securities are pledged to
- 19) Total amount of any commission or other payments made in respect of such borrowings during the period.

E. Derivatives positions

- 20) Profit or loss on each transaction to close out a derivatives position during the period (including any commissions or other fees payable for the transaction)
- 21) Details of each open derivatives position on the valuation date, including:
 - the underlying securities, commodity, index or any other asset
 - the trade price and date of the opening transaction
 - the current market price of the derivatives contract
 - the current unrealized profit or loss on the position
 - the exercise price and expiry date of the contract.

ANNEX 7

PERSONAL ACCOUNT DEALING POLICIES AND PROCEDURES

An approved institution must establish written policies and procedures to apply to all employees' personal dealings in securities that meet the requirements of this Annex. In addition, it must provide each employee with a written notice of the requirements that apply to personal dealings, as prescribed by this Annex.

Each employee must provide a written undertaking to observe the institution's policies and procedures by signing a copy of the notice and returning it to the approved institution.

If in any doubt about the interpretation of this policy an employee must consult with [*the compliance officer or his deputy*].

1) Permission to deal in securities

An employee is permitted to buy and sell securities in the following categories without obtaining prior consent, unless the employee is on the *restricted dealing list*.

[Insert list of types of securities the institution permits employees to trade. Insert list of employees whose dealings are restricted based on the nature of their positions.]

An employee is prohibited from buying or selling any other securities unless he obtains the prior written consent of [*the compliance officer or other senior officer*].

The following transactions are strictly prohibited:

- Any transaction that conflicts with the institution's duties or obligations to a client, or with the interests of a client,
- Any transaction that would compete with a client's buy or sell transaction (such as a purchase of the same security at the same time),
- Any transaction that involves a purchase from, or a sale to, a client,
- Any transaction that involves the use of any information about a client or that is obtained from a client.

2) Rights issues, takeovers

The restrictions in this notice extend to making or accepting any formal or informal offer to buy or sell securities, taking up rights on a rights issue, exercising any conversion or subscription rights, and exercising any option.

The restrictions also extend to buying or selling securities pursuant any formal offer, including a takeover or tender offer, which is made to the public or all (or substantially all) holders of a security.

3) Agents and transactions for other persons

The restrictions in this policy extend to dealings by an employee for any other person, except only transactions made for the account of the approved institution in the course of an employee's duties.

The restrictions also apply to dealings by an employee as an executor of a will in which the employee or a family member of the employee has a significant interest.

4) **Managed accounts**

The restrictions in this policy do not extend to any transaction in a managed or discretionary account for an employee, if the transaction is made without consulting the employee or obtaining any kind of advice from the employee.

5) **Advising or counselling**

If an employee is prohibited from making a transaction in a security under this policy, the employee is also prohibited from advising, counselling or suggesting that any other person make such a transaction. An employee is also prohibited from communicating any information or opinion to any other person that is intended to, or that the employee has reason to believe will, lead another person to make such a transaction, or to advise or counsel someone else to do so. (This prohibition does not apply to actions that an employee takes in the course of his employment with the approved institution.)

6) **Reporting of transactions**

An employee must immediately report to the approved institution in writing the details of any purchase or sale of a security that the employee enters into outside of the approved institution. If the employee has made arrangements for the approved institution promptly to receive a copy of the contract note for the transaction, the employee does not have to report it separately.

7) **Dealing ahead of a research recommendation**

An employee is prohibited from dealing in a security that is the subject of an investment research report or recommendation from the approved institution until the report or recommendation has been issued and the clients who are to receive it have had at least 24 hours (on trading days) to react to it.

8) **Personal benefits**

If an employee's functions involve advising on securities, including the preparation of research reports or recommendations, or making transactions in securities for the approved institution's own account or clients' accounts, the employee must not accept any benefit or inducement that is likely to result in a conflict of interest with the employee's duties or obligations to the approved institution or any of its clients.

“Benefit or inducement” includes credit or any other financial benefits, money, entertainment, vacations, property or gifts, as well as provision of any services or facilities, or any opportunity to make, receive or increase a gain or revenue or to avoid or reduce a loss or expense.