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**Series 4000**

**MARKET CONDUCT REGULATION**

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**Series 4000**

**MARKET CONDUCT REGULATION**

**Part A – Introduction**

**4001. Purpose**

- (1) The purpose of this Regulation is to:
  - i) Regulate conduct in the securities markets,
  - ii) Set out details of the prohibitions on insider trading and market manipulation,
  - iii) Set out details of approved institutions' obligations in carrying out transactions in the market.
- (2) This Regulation applies to trading in, and conduct related to dealing in, traded securities.

**Part B – Prohibition of Insider Trading**

**4101. Definition of inside non-public information**

- (1) For purposes of this Regulation, “inside non-public information” means information that:
  - i) relates to one or more traded securities or to one or more issuers of a traded security,
  - ii) has not been made public,
  - iii) is of a precise and accurate nature, and
  - iv) is material information.
- (2) Information is deemed to be material and of a precise and accurate nature if:
  - i) it concerns facts that exist, or may reasonably be expected to come into existence, or an event that has occurred, or may reasonably be expected to occur, and
  - ii) it would be likely to have a significant effect on the price of one or more traded securities or of any related security, if the information was made public, or
  - iii) it would be considered relevant to an investor in making a decision to buy or sell a traded security.
- (3) Inside non-public information includes, but is not limited to, the following types of information relating to an issuer or its securities:

- i) profits or losses,
- ii) mergers, acquisitions, take-over bids, or joint ventures,
- iii) changes in the value of significant assets,
- iv) innovative products, processes, or discoveries,
- v) new licenses, patents, registered trademarks, or regulatory approvals or rejections of a license, patent, trademark or product issued by any entity, authority or body,
- vi) developments regarding customers or suppliers (e.g., the acquisition or loss of a contract),
- vii) changes in the governing body or senior management,
- viii) a change in an auditor's notification or a qualified opinion,
- ix) events or changes relating to the issuer's securities, including non-payment of interest or debt securities, repurchase plans, stock splits, changes in dividends, changes to the rights of security holders, public or private sales of additional securities, and changes in credit,
- x) receivership or bankruptcy,
- xi) significant legal disputes,
- xii) an order for a large trade in a security of the issuer before it is executed.

#### **4102. Definition of security**

- (1) For the purposes of this Part only, a security or securities means any of the following financial instruments:
  - i) shares, debt securities or units issued by a joint stock company or a collective investment scheme,
  - ii) any certificates or other instruments whose income, dividends or interest are linked to another security or other securities,
  - iii) any structured product, derivative, or indicator related to another security or other securities, or resulting from any type of securitization, and
  - iv) any structured product, certificates or other instruments that give the holders the right to buy, sell or underwrite a security listed in clause i).

#### **4103. Prohibition on trading on inside information**

- (1) An insider is prohibited from making a trade, directly or indirectly, in a traded security or a related security to it, while in possession of inside non-public information relating to that traded security.

- (2) An insider is prohibited from using inside non-public information to acquire, attempt to acquire, dispose, or attempt to dispose, directly or indirectly, of a traded security that such information relates to.
- (3) Any person (other than an insider) is subject to the prohibitions in subarticles (1) and (2) if the person knows, or reasonably should know, that the information is inside non-public information.
- (4) In this Regulation, a person is deemed to make a trade directly in a security if (but not limited to):
  - i) he executes a trade for an account in which he has an interest, or
  - ii) he makes a bid or offer for the security.
- (5) In this Regulation, a person is deemed to make a trade indirectly in a security if (but not limited to):
  - i) he arranges a trade for another person,
  - ii) he executes a trade on behalf of another person, or
  - iii) he arranges for or directs an agent or any other person to execute a trade.

#### **4104. Prohibition on disclosing inside information**

- (1) An insider who is in possession of inside non-public information must not:
  - i) disclose that information to another person, except in the necessary course of business, or
  - ii) counsel or give advice to another person in relation to a trade in a traded security or a related security that the information concerns, or in relation to acquiring or disposing of any rights in such securities.
- (2) Any person (other than an insider) is subject to the prohibitions in subarticle (1) if the person knows, or reasonably should know, that the information is inside non-public information.

#### **4105. Exceptions**

- (1) The prohibitions in articles 4103 and 4104 do not apply to:
  - i) a transaction made by a public authority for purposes relating to Lebanese monetary policy and public debt management, or
  - ii) a transaction made exclusively for the purpose of maintaining the stability of the price of a security issued for a period of two months or less, provided that the Authority is given advance notice of the transaction.

**4106. Filings by issuers and insiders**

- (1) An issuer that has issued a traded security must maintain and keep up to date a list of each person who is a director (or member of the governing body), member of senior management, or auditor of the issuer
- (2) The issuer must file a copy of the list with the Authority, and a copy of each update to the list, within 10 days of the date of any change.
- (3) A person who is a director (or member of the governing body), member of senior management, or auditor of an issuer that has issued a traded security must notify the Authority in the prescribed manner of all transactions that he has made, directly or indirectly, in a traded security of that issuer or in a related security to that traded security, within 10 days of the date of the transaction.

**4107. Blackout periods of issuers**

- (1) A director (or member of the governing body), member of senior management, or auditor of an issuer, and any closely related person of such persons, is prohibited from making a trade, directly or indirectly, in a traded security of the issuer, or in any related security to it, for a period of 10 days prior to the release until two days following the release of:
  - i) the issuer's annual and quarterly financial results; and
  - ii) the issuer's complete financial statements.
- (2) In subarticle 1) "release" means making an announcement to the public in accordance with requirements in the Regulations for disclosure of the information.
- (3) An issuer must establish written policies and procedures to ensure compliance with subarticle (1) and with this Part.

**Part C – Prohibition of Market Manipulation****4201. Definition of certain manipulative or deceptive acts or practices**

- (1) Manipulative or deceptive acts include, but are not limited to, the actions set out in this article.
- (2) The following actions are deemed to be manipulative or deceptive acts unless the contrary is proved:
  - i) making a fictitious trade in a traded security, or
  - ii) making a trade in a traded security that involves no change in the beneficial or economic ownership of the security.

- (3) The following acts constitute a manipulative or deceptive act if the act is for the purpose of creating (i) a false or misleading impression of trading activity, supply of, demand for or price of a traded security, or (ii) an artificial bid price, ask price or trade price for a traded security:
- i) entering an order or orders for the purchase of a traded security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the sale of that security, has been or will be entered,
  - ii) entering an order or orders for the sale of a traded security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the purchase of that traded security, has been or will be entered,
  - iii) making purchases of, or offers to purchase, a traded security at successively higher prices or in a pattern of successively higher prices,
  - iv) making sales of or offers to sell a traded security at successively lower prices or in a pattern of successively lower prices, or
  - v) entering an order or orders for the purchase or sale of a traded security in order to:
    - a) establish a predetermined sale price, ask price or bid price,
    - b) effect a high or low closing sale price, ask price or bid price, or
    - c) maintain the sale price, ask price or bid price within a predetermined range, or
  - vi) entering an order or a series of orders for a traded security that are not intended to be executed.

#### **4202. Prohibition of manipulative or deceptive acts or practices**

- (1) A person is prohibited from engaging in or participating in the use of any manipulative or deceptive act or practice that the person knows or reasonably should know:
- i) results in or contributes to, or may result in or contribute to, a false or misleading impression of the trading activity, supply of, demand for, or price of a traded security,
  - ii) creates or is likely to create an artificial bid price, ask price or trade price for a traded security, or
  - iii) perpetrates a fraud on any person relating to a transaction in a traded security.
- (2) A person participates in the use of a manipulative or deceptive act or practice under subarticle (1) if that person colludes with, or acts in concert with, another person that engages in such conduct.



- (3) A person is prohibited from, directly or indirectly, entering an order or executing a trade in a traded security for the purpose of creating:
- i) a false or misleading impression of trading activity, supply of, demand for, or price of a traded security, or
  - ii) an artificial bid price, ask price or trade price for the traded security or a related security.

## **Part D – False and Misleading Statements**

### **4301. Prohibition on untrue statements**

- (1) A person is prohibited from making or disseminating a false or misleading statement, information or forecast relating to a traded security for the purpose of:
- i) influencing, or creating a false impression of, the price or value of the security,
  - ii) inducing another person to buy or sell a security,
  - iii) inducing another person to exercise or refrain from exercising rights under a security,
- if that person knows or reasonably should know that the statement, information or forecast is false or misleading.
- (2) A statement, information or forecast is false or misleading if:
- i) it is false or inaccurate in a material respect,
  - ii) it contains a misrepresentation of a material fact,
  - iii) a material fact is omitted, or
  - iv) it presents an opinion as a fact.
- (3) In this article, a material fact means any information relating to a security:
- i) that would be likely to have a significant effect on its price or value if it was known to investors, or
  - ii) that would be considered relevant to an investor in making a decision to buy or sell the security.

**Part E – Market Conduct of Approved Institutions****4401. Market manipulation and insider trading by clients**

- (1) An approved institution or a registered person must not accept or execute a client order if evidence exists that the client is engaging in market manipulation or insider trading (as defined in this Regulation).
- (2) If an approved institution or registered person declines to accept or execute an order under subarticle 1) the institution must document the circumstances of and reasons for the decision and must promptly notify the Authority of the decision.
- (3) If an approved institution or a registered person has reasonable grounds to believe that a client has made a trade, directly or indirectly, that involves market manipulation or insider trading (as defined in this Regulation), the institution must notify the Authority of the details of the transaction within 5 days.
- (4) An approved institution must retain any records made under this article for ten years from the date of the record.

**4402. Client priority**

- (1) An approved institution or a registered person must execute a client order for a security before executing any order for its or his own account in that security.
- (2) This article applies to an order that is the same type of order (buy or sell), in the same security, and at an equivalent price, as the client order.

**4403. Timely execution**

- (1) If an approved institution accepts a client order or decides in its discretion to execute an order for a managed account, it must execute the order as soon as is practical in the circumstances, unless otherwise agreed with the client.

**4404. Best execution**

- (1) An approved institution that executes a client order must provide best execution of the order.
- (2) An approved institution is considered to provide best execution if:
  - i) when acting for a client, it ensures that the order is executed at the best overall price available in the relevant market or markets for the size and nature of the order,
  - ii) when acting for a client, it executes the transaction in a manner directed by the client,

- iii) when acting as principal with a customer only, it executes the transaction at a better price for the customer than it would have obtained if it executed the order as agent in accordance with subparagraph i), or
- iv) another entity is responsible for execution of an order and that entity has agreed to provide best execution.

#### **4405. Records of orders and transactions**

- (1) An approved institution must promptly make a record of the details of all orders received from a client, all orders entered when acting with discretion for a managed account, and all orders entered for its own account.
- (2) An approved institution must promptly make a record of the details of all transactions executed for a client, for a managed account and for its own account.
- (3) An approved institution must promptly make a record of the details of all orders sent to another person, including a foreign entity, for handling or execution.
- (4) A record required by this article may be generated automatically in a system provided that all records must be retrievable, producible in printed form, and retained for a minimum of ten years.

#### **4406. Timely allocation**

- (1) An approved institution that executes a transaction based on a client order must ensure that the transaction is promptly allocated to the account of that client.
- (2) An approved institution that executes a discretionary transaction for a managed account must ensure that the transaction is promptly allocated to the account of the relevant client.

#### **4407. Churning**

- (1) An approved institution must not advise or solicit a customer to enter into transactions, or make transactions when managing investments for a customer, if the frequency, number or size of the transactions would reasonably be regarded as excessive based on the customer's investment objectives, financial situation and the size and nature of his account.

#### **4408. Allocation of orders**

- (1) An approved institution must not aggregate a client's orders with those of other clients or with the approved institution's own orders, except with the written consent of the client.
- (2) An approved institution must establish a written policy setting out its method of

allocating trades in the same security among client orders, and between client orders and orders for its own account.

#### **4409. Trading ahead of client orders**

- (1) An approved institution, and any person employed by or acting for it, is prohibited from making a trade, directly or indirectly, in a traded security or a related security to it, in order to profit from non-public information about a client's order to make a trade in that traded security before the client order is executed.
- (2) A person is deemed to make a trade in order to profit from non-public information about a client's order if that order would reasonably be expected to change the market price of the traded security.

#### **4410. Trading ahead of research**

- (1) If an approved institution or one of its corporate group intends to issue an investment recommendation or a research report or analysis relating to a traded security, the approved institution and its corporate group must not knowingly make a trade for its own account in that security or any related security until the clients who receive the recommendation or research have had at least 24 hours during trading days to act on it following its release.
- (2) The restriction in subarticle (1) does not apply if the recommendation or research would not reasonably be expected to affect the price of the subject security or any related security.

#### **4411. Trading contrary to a recommendation**

- (1) An approved institution must not advise a client, or make a trade on behalf of a client, in a traded security that is contrary to any of that institution's current research recommendations, unless it discloses the recommendation to the client before providing the advice or making the trade.
- (2) Subarticle (1) does not apply to a trade made for an execution-only account.
- (3) An approved institution must not make a trade for its own account in a security that is contrary to any of its current research recommendations, except if it:
  - i) is acting as a market maker,
  - ii) is providing liquidity to an unsolicited client order, or
  - iii) is unwinding a position it assumed when acting as a market maker or providing liquidity to an unsolicited client order.

**Part F – Enforcement**

**4501. Enforcement by the Authority**

- (1) The Authority may impose administrative sanctions on any person who violates the provisions of this Regulation, in accordance with the sanctions that may be imposed under Law 160 of 17/8/2011 or Law 161.