هـيـئـة الأســواق الـمـالـيـة
CAPITAL MARKETS AUTHORITY

Announcement No. 14

On the Amendment of Decision no. 12 of 10/2/2014 (on the Regulations on Financial Derivative Transactions)

Pursuant to Law 161 of August 17, 2011 on Capital Markets,

And pursuant to the Decision of the Capital Markets Authority's Board, taken in its meeting of 9/3/ 2015,

Please be informed of the following:

First: the Decision no. 12 of 10/2/2014 (on the Regulations on Financial Derivative Transactions) has been amended as follows:

1. The title of said decision was cancelled and replaced with the following:
   "Decision no. 12 of 10/2/2014 (on the Regulations on Financial Securities and Derivative Transactions)"

2. Article one of the regulation attached to said decision was cancelled and replaced with the following text:

Article 1: Under this Regulation, the terms hereunder shall have the meaning ascribed to them below:

"Financial Securities and Derivatives": Any securities and financial products (shares offered to the public or contracts and securities whose value is linked to an underlying asset (real assets, financial assets, indexes, rates…).

Or programs, securities, financial instruments, contracts, derivatives, certificates or structured financial products …), including the instruments whose revenues or repayment of capital are related to:

- Shares, bonds or deposit certificates including the financial flows resulting therefrom or at the level of the prices of the said shares, bonds or certificates.
- Debts, corporate bonds, certificates or government bonds or debt instruments including the financial flows resulting therefrom or at the level of the prices of the said bonds or certificates.
- Currency and precious metals exchange rate.
- Interest rates.
- Commodities prices.
- Indexes or financial derivatives.

"Financial Intermediary": financial intermediation institutions, financial institutions, or banks performing activities related to financial instruments in Lebanon.

“Correspondent”: A non-resident party which performs for the Financial Intermediary’s account or on behalf of its clients, transactions on securities and financial derivatives or an Off-Exchange Retail Forex transaction outside the country.

3. Article two of the regulation attached to said decision was cancelled and replaced with the following text:

Article 2: “The financial intermediary” is prohibited from performing, for its own account or on behalf of its clients, a transaction on financial derivatives or an Off-Exchange Retail Forex transaction with a correspondent, except when the latter is:

1- A correspondent that carries out activities in the United States or is a resident of the United States, on condition that it is a member of the National Futures Association (NFA) and licensed by the Commodity Futures Trading Commission (CFTC).

2- A correspondent that carries out its activities outside the United States or is not a resident of the United States, on condition that this party has a credit rating of “BBB” and is licensed to trade in financial derivatives by the relevant regulatory authorities in countries with a sovereign rating of BBB and above, in accordance with the ratings of Standard and Poor’s or with similar ratings adopted by other international rating agencies.
The Capital Markets Authority’s Board may make, for each case considered separately, an exception for a correspondent that has a rating below BBB or is not rated, on condition that this correspondent is licensed to trade in financial derivatives by the relevant regulatory authorities in countries with a sovereign rating of BBB and above.

4. Article three of the regulation attached to said decision was cancelled and replaced with the following text:

Article 3: The financial intermediary must:

1- Confirm, pursuant to clients’ orders, all transactions performed for clients with correspondents, including those related to financial securities and derivatives, listed or unlisted in the financial markets, with the exception of market makers’ transactions or acting as principal and liquidity providers’ transactions at the best price.
2- Require the client to pay the whole premium on long option contracts.
3- Require the client to constitute an initial margin when opening a position for financial securities and derivatives, on condition that the said position is revalued daily, one time at least.
4- Require the client to rebuild the initial margin when the equity drops to the maintenance margin level, which shall be no less than 75% of the initial margin, and, in case of the client’s refusal, the financial intermediary must immediately liquidate enough positions to cover the

equivalent of the value of equity drops under the required margin. The institution shall determine to the client in advance the basis according to which the positions to be closed are chosen in this case (e.g. FIFO or LIFO).

5- Pay the margins to the correspondents not on a net but on a gross position basis, and build a margin for each long or short position separately, knowing that clearing long positions with short positions is prohibited.

6- Determine the initial and maintenance margins for the positions held on listed and unlisted financial securities and derivatives, in the following manner:

   a. <u>Concerning futures contracts:</u> for each long or short position, margins must be no less than the margin required from the correspondent or the margin required from the concerned stock exchange, whichever is higher.

   b. <u>Concerning short options:</u> margins must be no less than the margin required from the correspondent and the margin required from the concerned stock exchange, whichever is higher, until the liquidation or maturity date of the concerned short option. A guarantee formed of underlying assets may be given, on condition that it can be liquidated immediately in case of a sell call option.

   c. <u>Margins do not apply to options if underlying assets are in the client's portfolio at the financial intermediary.</u>

7- Determine the initial and maintenance margins for the other positions held on financial securities and derivatives listed and unlisted in organized and OTC markets, so that these margins are no less than the amount required from the correspondent.

8- Concerning the transactions related to financial securities and derivatives performed through an electronic platform,:

   a. - It is prohibited for the Financial Intermediary or electronic platform's operator to hold with one another, whether directly or indirectly, the majority of voting or ownership rights, or controls the majority of voting rights in the other's Board of Directors, or possess influence over the other's managers, or is empowered to manage the other's financial or operational policies.

   - The Capital Markets Authority's Board may, on justified grounds, exempt any of the correspondents from meeting all or some of the conditions included in the obligation stipulated in this Paragraph.

   - The electronic platform's operator must ensure that there will be no potential shortage in the margins on clients' accounts or portfolios, by adopting an auto liquidation mechanism that closes out positions in case of a margin call, i.e. when the account's balance becomes lower than the margin call.

b. The initial and maintenance are determined as follows: The margins adopted by the correspondent and the following percentages, whichever is higher:

- 2% of the notional value of transactions performed on major currencies (British pound, Swiss franc, Canadian dollar, Australian dollar, Japanese yen, Euro, New Zealand dollar, Swedish krone, Norwegian krone, and Danish krone).
- 5% of the notional value of transactions performed on secondary currencies and cross currencies.

c. The electronic platform's operator must ensure, on the basis of a written commitment, that the Financial Intermediary and its clients are protected from risks and losses arising from market rapid fluctuations, particularly in case of price gaps, and undertakes to cover all losses resulting from the Financial Intermediary clients' negative accounts as a consequence of the abovementioned cases, and thus guarantees that neither the Financial Intermediary nor its clients shall bear any responsibility or losses due to any related balance deficit.

d. In case the financial intermediary is at the same time the electronic platform's operator (acting as principal), it must commit to the obligations and provide the guarantees required from the correspondent as stipulated in Article 8.

9- Separate cash accounts, including clients' margin accounts linked to financial derivatives, from the accounts of the financial intermediary.

10- Ensure, through daily matching, that the clients' credit balance remaining with the financial intermediary is no less than the clients' credit balance deposited with correspondents.

Second: Attached is Decision no. 12 of 10/2/2014 (on Regulations on Financial Derivative Transactions) amended as per the above.

Beirut, on March 23, 2015.
CMA Chairman/ Governor of the Central Bank of Lebanon

Riad Toufic Salame (signature)