



هيئة الاسواق المالية
CAPITAL MARKETS AUTHORITY

Launching the initial Set of Market Regulations

“Developing the Capital Markets & Protecting the Investor”

September 17 -18, 2014

Phoenicia Intercontinental Beirut





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1. Welcome Note

It is our privilege to welcome you today to the launching of the first set of market regulations proposed by the Capital Markets Authority (CMA) under the patronage of H.E. Governor Riad T. Salamé, Chairman of the CMA.

As a newly established regulator, the CMA focuses on two key and highly important objectives; promoting and developing the Capital Markets in Lebanon, and protecting investors. To this end, and as part of our determination to further promote transparency and partnership in the regulatory process, the CMA is launching its first consultation process on a set of proposed regulations with various stakeholders from Banks, Financial Institutions and Financial Intermediary Institutions, Law firms, Auditors, and other financial Regulators.

The conference today aims to introduce three significant regulations to the market. These regulations are a direct result of good collaboration between the CMA and renowned international experts, as part of the World Bank "FIRST" Initiative.

The regulations are:

- Licensing and Registration
- Business Conduct
- Market Conduct

In the brochure, you will also find a brief description of each of these regulations, and a short professional profile of the technical experts who were directly engaged in their preparation. As shown in these bios, the experts have extensive experience in developing capital markets and building capacity to promote effective regulations through establishing a modern, efficient and transparent regulatory framework. Also, it is very important to highlight that the draft regulations are in accordance with International best practices and IOSCO (International Organization of Securities Commissions) objectives and principles of securities regulations and conform to Lebanese laws and regulations.

In this regard, we are confident that the regulatory standards proposed by the CMA and enriched by the comments, feedback, and suggestions of the participants in today's event would improve confidence in the Lebanese capital Markets and would help attract both foreign and local investments.

We take this opportunity to thank all those who have given us their observations and comments on the drafts that were shared with all stakeholders, and we look forward to receiving more comments during this consultation discussion which, we are sure, would help accomplish the objectives of the CMA and ensure its effectiveness.

It is the intention of the CMA to consult with all market participants on other regulations that will be introduced over the coming few months. We hope that this consultation will lead to a better outcome and a more effective regulatory environment that will be of benefit to all.

Thank you for attending this event, and we wish you a successful and productive discussion.

For additional information on regulations issued by the CMA or to follow our latest news or contact any of our team members, please visit our website at:
www.cma.gov.lb

2. About the CMA

Overview and Objectives

The Capital Markets Authority is an independent, autonomous regulatory body established by the Capital Markets Law No. 161, ratified on 17 August 2011. The CMA's main responsibility is regulating, supervising, licensing and monitoring the activities of the Lebanese Capital Markets as per the powers stipulated by the Capital Markets Law 161 / 2011.

The CMA has two main objectives that underline its strategic mission and vision: (I) **promoting and developing the Lebanese Capital Markets**; and (II) **protecting investors** from fraudulent activities, through issuing regulations that are in line with international best practices, and proper control and audit of all institutions that deal with financial instruments.

As per the law, the CMA issues regulations and supervises the financial markets in an effort to reduce Systemic Risk in the market while also aiming to develop and promote the use of capital markets in Lebanon. Risk management is conducted through promoting a transparent regulatory framework and a comprehensive oversight of the financial system, which allows the CMA to identify potential risks that may systemically damage the financial markets, and preemptively engage to mitigate them.

From the perspective of investor protection, the CMA recognizes that issuing diligent regulations on its behalf is highly important for a safe and efficient functioning of the market. As part of its mandate, the CMA also focuses on investor education with a view to enhancing public education and raising awareness about financial markets and the associated risks. This will not only help investors but will also improve the efficiency of capital markets, boost confidence, and reduce risk.

Core Functions

- **Investor protection and organization of professional activities**

1. Protect investors from illegal, irregular or unfair practices, including the prohibition of direct or indirect insider trading.
2. Organize the disclosure of information to persons who distribute Financial Instruments to the public.
3. Organize the professional activities of the persons who perform operations on Financial Instruments, and monitor their coiance with professional ethics.

- **Organize Capital Markets and Reduce Systemic Risks**

1. Organize and develop capital markets in Lebanon, and promote their use by investors and Issuers in Lebanon and abroad.
2. Reduce systemic risks in capital markets.

- **Licensing**

1. Grant licenses to brokers who provide services to investors and Issuers.
2. Grant licenses to financial rating agencies.
3. Define and regulate financial rating agencies' functions and work process.
4. License collective investment schemes, including mutual funds that invest in securitization.

- **Regulate and Monitor the work of the stock exchanges**

1. Regulate and control the work of licensed Stock Exchanges, and the persons who provide deposit, clearing or settlement service.
2. Set the general regulatory framework for listing Financial Instruments and approve their trading on stock markets.

- **Oversight and Legal Accountability**

1. Sanction administrative violations of this Law and its implementation rules.
2. Initiate legal action against insider trading crimes, and against the circulation of false or misleading information about securities or Financial Instruments, or their Issuers.

3. Conference Agenda

Wednesday, September 17, 2014

8:30 am - 9:30 am **Registration**

9:30 am - 10:00 am **Opening Session**

Welcome Remarks
Dr. Saade Chami,
Secretary General of the CMA

Keynote Address
H.E. Mr. Riad T. Salamé,
Chairman of the CMA, Governor of BDL

10:00 am - 10:30 am **Coffee Break**

10:30 am – 11:00 am Opening Remarks

Mr. Firas Safieddine
CMA Vice Chairman/Executive Board
Member

The role of the World Bank and
introduction of experts:
Mr. Gabriel Sensenbrenner
World Bank Project Leader

11:00 am - 1:00 pm **Licensing and Registration Regulation**

Moderator:
Mr. Sami Saliba
CMA Executive Board Member

Presentation by
Mr. Khalil Ghalayini
Head of the Financial Control Unit

Me. Caline Aoun Maaroui
Head of the Legal Unit

Mr. John Carson
Lead International Expert

Open Discussion

Thursday, September 18, 2014

9:00 am - 9:15 am

Summary of the first day consultation and introduction to the second day discussion:

Mr. Raed Charafeddine

First Vice Governor of BDL, Alternate Chairman of the CMA.

9:15 am - 11:00 am

Business Conduct Regulation

Moderator:

Mr. Fadi Fakh

CMA Executive Board Member

Presentation by

Mr. Khalil Ghalayini

Head of the Financial Control Unit

Mr. John Carson

Lead International Expert

Open Discussion

11:00 am - 11:15 am

Coffee Break

11:15 am - 1:00 pm

Market Conduct Regulation

Moderator:

Mr. Sami Saliba

CMA Executive Board Member

Presentation by

Mr. Khalil Ghalayini

Head of the Financial Control Unit

Me. Caline Aoun Maaraoui

Head of the Legal Unit

Mr. John Carson

Lead International Expert

Open Discussion

4. Working Group and Technical Experts

The regulations presented at the conference today are a direct result of the efforts of a Capital Markets Authority Working Group and International experts on capital markets development. The technical team introduced here was heavily involved in conceptualizing, drafting and developing the regulations we are discussing today. We would like to take this opportunity to thank the World Bank team and the international experts for their assistance as part of the World

Technical Experts:

Mr. Gabriel Sensenbrenner World Bank Project Leader



Gabriel Sensenbrenner is currently lead macro-financial economist at the World Bank's Finance and Markets group, where he manages the financial sector portfolios of Lebanon and Morocco, as well as several regional engagements. He led the Lebanon FSAP in 2013, and designed and funded the technical assistance program of the World Bank to the CMA. Before 2012, he held various positions at the International Monetary Fund. He also worked at the Bank for International Settlements' Committee on the Global Financial System. Mr. Sensenbrenner earned a Ph.D. and Master's from Northwestern University and was born in Strasbourg, France.

Mr. Khalil Ghalayini

Head of the Financial Control Unit, CMA



Prior to his appointment as Head of Financial Control Unit at the Capital Markets Authority, Khalil worked as the CEO of Qinvest in Qatar between 2010 and 2012, Head of private banking services at Bank Audi (Saudi Arabia) between 2008 and 2010, and Head of private banking services at BankMed (Lebanon) between 2006 and 2008. Khalil has worked for 25 consecutive years at the Canadian Imperial Bank of Commerce (CIBC) in Canada, which underwent a large number of mergers and acquisitions. During this period, he played a key role in the management of the Canadian Imperial Bank of Commerce, where he served as Branch Manager - Senior Vice President, and at Merrill Lynch, Resident Vice President in Canada, and regional sales manager for the Middle East and Africa. He has also held various management positions at Midland Walwyn Capital, which was eventually purchased by Merrill Lynch Canada. Khalil Ghalayini holds a Master of Science from the American University of Beirut, and several certificates of specialization in the field of securities.

Mr. John Carson

International Expert



John Carson is Managing Director of Compliax Consulting Inc. in Toronto, Canada. He is a capital markets expert with extensive international experience in the operation and regulation of financial markets and capital markets development, particularly in emerging markets. He was a lead advisor to the Saudi Arabia CMA in developing its first set of new regulations. A securities lawyer and regulator by background, Mr. Carson has degrees in Law and Commerce & Finance from the University of Toronto. Recently Mr. Carson's work has focused on development of regulatory organizations and programs, development and demutualization of securities exchanges, and securities dealer compliance. Before launching his international consulting practice in 2001, Mr. Carson was well known in the Canadian securities industry as the TSX's Senior Vice-President of Listings and Market Regulation, responsible for all of the Exchange's Listings, dealer regulation, market regulation and policy operations when the TSX was Canada's primary SRO. He was the TSX's management director for landmark studies into the quality of corporate disclosure, corporate governance in Canada, and equities market structure.

Mrs. Caline Aoun Maararoui

Head of the Legal Affairs Unit, CMA



Prior to her appointment as Director of Legal Affairs Unit, Caline worked for the Central Bank of Lebanon (Banque Du Liban) from 2003 to 2012, advising on securitization and Islamic Finance operations and on the legal structuring of financial products. Caline was among the teams responsible for drafting and advising on various banking and financial agreements, drafting legal opinions on various issues, studying and processing applications for the issuance/marketing of financial products, and contributing to the drafting and updating of regulatory banking and financial regulations. Caline also worked in Gide Loyerette Nouel and Simmons & Simmons: Paris between 1999 and 2000 as International legal counsel / International law - Commercial law, and as a lecturer at the University of St. Joseph (Beirut) from 2009 to 2013. Caline Aoun Maararoui holds an Executive Masters in Financial Management from the Rotterdam School of Management, and an Executive Masters in Islamic Financial Management from the ESA-RSM. She also holds a Masters in International Trade, University of Paris II ASSAS, and a Degree in Lebanese Law (JD equivalent) from the Saint Joseph University.

5. Scope & Objective of the implementing Regulations

LICENSING AND REGISTRATIONS REGULATION

In order to carry on a securities related business, an institution must be licensed by the CMA under Law 161 / 2011. Similar to banking business, licensing is critical to protecting customers and ensuring the safety and soundness of institutions operating in the capital markets. Licensed institutions are hence subject to ongoing supervision by the CMA.

Therefore, and as a direct result of this regulation, Banks, financial institutions and financial intermediaries with capital markets business will be “approved institutions” and subject to CMA regulations.

Purpose of the Licensing and Registrations Regulation:

This regulation aims to identify the different categories of licenses required to carry out securities related business in Lebanon, identify exclusions from the requirements, and set the requirements for licensing institutions and registering individuals as registered persons. It also sets the conditions for the maintenance of a license or a registration, and established the procedures of applications, approvals, changes and termination of a license or registration.

The 5 categories of license required to carry out securities related business in Lebanon are:

- Dealing
- Advising
- Arranging
- Managing
- Custody

An approved institution must:

1. Be a fit and proper person to carry on the securities business.
2. Demonstrate that it has sufficient expertise, experience and resources.
3. Commit to conducting business with honesty and integrity, and due regard for its customers' interests.
4. Demonstrate that it has established adequate systems, policies and procedures covering corporate governance, finance, risk management, compliance, operations and controls to meet and comply with business and regulatory requirements.
5. Identify and ensure the appropriate management of any conflicts of interest between the approved institution and its clients.

BUSINESS CONDUCT REGULATION

“Business conduct” refers to how an approved institution governs and manages its business, its business operations, its systems and controls and its dealings with clients. Business conduct regulations are critical to investor protection, and to ensuring licensed institutions operate with integrity, sound management and effective controls.

Purpose of the Business Conduct Regulation:

This regulation aims to establish the rules and code of conduct that an approved institution must comply with in carrying out securities business and dealing with clients. It also defines the policies and procedures, systems and controls that an approved institution must establish and implement. The regulation also sets out the rules for approved institutions on how to handle client money and client assets, while it sets the requirements to notify or report certain changes and events to the Capital Markets Authority. On the individual level, the business conduct regulation establishes the rules and code of conduct that a registered person must comply with.

The Regulation covers the key principles that apply to the business conduct of approved institutions. Therefore, An approved institution must:

1. Conduct its business with honesty and integrity, and due regard for its clients' interests.
2. Conduct its business with due skill, care and diligence.
3. Ensure sound management of its business, including effective policies and systems for corporate governance, risk management and compliance.
4. Ensure the financial soundness of its business, including maintaining adequate financial resources and controls.
5. Ensure that client money and client assets are adequately protected and subject to effective controls.
6. Communicate with its clients in a manner that is clear, fair and not misleading.
7. Take reasonable care to ensure the suitability of advice and discretionary decisions for clients.
8. Effectively identify and minimize conflicts of interest with its clients, and effectively manage and disclose any conflict that cannot be avoided.

MARKET CONDUCT REGULATION

"Market conduct" refers to the standards of conduct applicable to trading by persons in securities markets. This regulation is critical to market integrity and ensuring fair and efficient markets. It applies to all persons involved in trading, except for item 4 below, which only applies to approved institutions.

The purpose of the Market Conduct Regulation:

This regulation aims to regulate the conduct of trading in the securities markets, and set out the details of the prohibitions on insider trading and the prohibitions on market manipulation. The regulation also aims to cover the obligations of approved institutions when trading in the markets, as principal and for clients.

6. CMA Issued Regulations

Decision Number	Date of Issuing	Topic	Summary
1	11/6/2013	Disclosure Policy	Disclosure Policy required from some companies and organizations working in Lebanon in order to ensure compliance with the best practices of corporate governance
2	11/6/2013	Disclosure required from companies and organizations working in Lebanon towards their shareholders	Disclosure of all the information that will enable shareholders to exercise their rights to the fullest in some companies and organizations operating in Lebanon
3	11/6/2013	Crowd-funding	Setting the framework and rules of the work and establishment of "crowd-funding" companies in Lebanon.
4	14/8/2013	Compliance	The Compliance Department which certain Joint Stock companies must establish and the regulations that govern its work
5	14/8/2013	Committees, units and departments that certain joint stock companies should have	Internal Audit department that certain Joint-stock companies must establish.
6	20/11/2013	Insider Trading	The Prohibition of Exploitation of non-Public Information when trading in the Capital Markets
7	3/12/2013	License documents, annual data and various provisions relating to the brokerage firms	Procedures, guidelines and general conditions relating to the establishment of brokerage firms

Decision Number	Date of Issuing	Topic	Summary
8	27/12/2013	Regulated functions	All the documents and information required from all the organizations and entities conducting business securities in Lebanon for their customers and/ or for their own account.
9	27/12/2013	Required Info	All the documents and information required from all organizations and entities conducting business securities in Lebanon for their customers and / or for their own account.
10	9/1/2014	Brokerage Firms	All procedures, measures and conditions approved by the Capital Markets Authority related to brokerage firms.
11	9/1/2014	List of brokerage firms	A list of duly registered brokerage firms, issued annually by the CMA.
12	10/2/2014	The Regulation of operations on financial derivatives	Provisions that govern the operations on financial derivatives.
13	10/2/2014	Securitization of assets	Conditions required for granting a license to a securitization transaction.
14	10/2/2014	Collective investment Schemes	Conditions for the licensing, establishment and activity of the collective investment schemes in Lebanon.
15	13/2/2014	Islamic Collective investment Schemes	Provisions relating to the establishment and activity of the Islamic collective investment schemes in Lebanon.
16	13/2/2014	Financial products and Instruments	Various provisions and conditions relating to the issuance and promotion of financial products and instruments in Lebanon.

Capital Markets Authority

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