

The Executive Bylaws  
Module Eight

**Conduct of Business**





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## Chapter One

### General Provisions

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#### Scope of Application

##### Article 1-1

Except for the provisions of Chapter Two and Chapter Eight, the general provisions applied in this Module shall apply to all Licensed Persons.

#### Acting Honestly, Fairly and Professionally

##### Article 1-2

A Licensed Person must act honestly, fairly and professionally, in order to fulfil the interests of its clients.

#### Compatibility

##### Article 1-3

When providing any recommendation or advice to a Client regarding Securities, a Licensed Person shall consider that such a recommendation or advice is compatible with the Client's interests and conditions.

#### Providing a Client with Conditions of Service

##### Article 1-4

A Licensed Person shall enter into an agreement with the Client before providing any services, which shall specifically include - according to the type of licensed activity - the following information:

1. Profile of the Licensed Person and the services he provides.
2. Profile of the Client which includes, at a minimum, a clarification of the Client's description and nature and the required deliverables from this contract.
3. Conditions of the services to be provided and the mutual obligations between the parties.
4. A report on the proposed investment strategies, including the necessary guidelines and precautions regarding the risks accompanying investments, or regarding specific investment strategies in case the Licensed Person shall manage the Client's Funds.
5. A report on the methodology and mechanism for providing advisory services and the financial and accounting foundations and standards on which the Licensed Person relies on within the deliverables of the services of the Investment Advisor's activity - according to the type of consultation required by the client -.
6. Information that enables the Client to understand the nature of the service and its risks.
7. The procedures that need to be followed in case of any error committed while executing the Client's orders, and mechanism for resolving such an error and the person responsible for such error, whether it was committed by the Licensed Person, one of its employees or a third party.
8. The departments entrusted with making decisions for the benefit of the Licensed Person's Client.
9. The related expenses, fees and charges for the services provided by the Licensed Person, and the method of its calculation.
10. A brief report on the mechanisms and procedures of the Licensed Person's business continuity in the event of an unexpected interruption or a suspension has occurred to its work.
11. The procedures followed in the event of license cancellation, suspension, or activity restriction.

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**Article 1-5** Any condition that releases a Licensed Person from the responsibility emerging from a breach in its liability towards the Client, as set out herein, shall be null and void; unless the Authority decides to exempt him from such responsibility in accordance with the conditions and regulations stipulated in these Bylaws.

#### **Benefits**

**Article 1-6** Without prejudice to the rights of a Licensed Person to collect commissions, charges and fees required for providing services as mentioned in the agreement entered with the Client, the Licensed Person, while practicing an activity involving Securities, shall not pay any fees or commissions, provide monetary or non-monetary benefits or gifts, whether directly or indirectly, to his clients. Furthermore, it shall not receive any of the mentioned except in the following cases:

1. Fees, commissions or non-monetary benefits that are not intended to encourage the Licensed Person to provide better service for its clients, such as symbolic gifts.
2. Any charges or monetary amounts incurred by the Licensed Person for providing services to its client such as, costs of safekeeping , commissions of settlement and clearing and fees that do not contradict in its nature with the duties of the Licensed Person to act honestly, fairly and professionally in a way that fulfils the interests of its clients.

The prohibition set out herein shall apply to employees of the Licensed Person.

#### **Sharing the Loss**

**Article 1-7** Prior to providing services or performing a transaction for a Client, a Licensed Person shall not offer to share any loss which the Client would be exposed to unless there is a joint investment agreement between the Client and the Licensed Person which provides for sharing in the benefits and losses of investment.

#### **Confidentiality of Information**

**Article 1-8** A Licensed Person shall adopt policies and procedures for maintaining confidentiality of available information or inside information it obtains in the course of practicing Securities Activities; more specifically, data and information related to its Clients and their investments, by taking all actions to ensure data and information remain confidential except in the following cases:

1. Disclosure requirements in accordance with the applicable law and especially, the Law and these Bylaws.
2. Disclosure based on judicial orders and judgments or investigation authorities.
3. If Clients approve such disclosure.

#### **Unfair Practices**

**Article 1-9** A Licensed Person (including its Board of Directors and employees) shall comply with the regulations set out by Law regarding unfair use or disclosure of Inside Information or involvement of unfair practices regarding Securities.

## Chapter Two

### Client Categorisation

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<b>Article 2-1</b>	<p><b>Scope of Application</b></p> <p>This Chapter shall apply to <u>Licensed Persons</u> for the following activities:</p>
	<ol style="list-style-type: none"> <li>1. <u>Investment Portfolio Manager</u>.</li> <li>2. <u>Collective Investment Scheme Manager</u>.</li> <li>3. <u>Subscription Agent</u>.</li> <li>4. <u>Custodian</u>.</li> <li>5. <u>Securities Broker</u> not registered in the <u>Securities Exchange</u>.</li> </ol>
<b>Article 2-2</b>	<p><b>Categories of Clients</b></p> <p>A <u>Licensed Person</u> shall categorise its <u>Clients</u> as either <u>Retail</u> or <u>Professional Clients</u>. <u>Professional Client</u> shall be divided into <u>Professional Client by Nature</u> and <u>Qualified Professional Client</u>. Each <u>Client</u> who is not professional shall be categorised as <u>Retail Client</u>.</p>
<b>Article 2-2-1</b>	<p>The services provided in relation to <u>Financial Derivatives</u> brokerage and its marketing services are limited to <u>Professional Clients</u> only.</p>
<b>Article 2-3</b>	<p><b>Notifying a Client with his Categorisation</b></p> <p>A <u>Licensed Person</u> must notify each <u>Client</u> of his categorisation at the beginning of dealing with him or when such categorisation is changed; and the <u>Client</u> must be informed of the following:</p> <ol style="list-style-type: none"> <li>1. The benefits and limitations of each category.</li> <li>2. The rights of the <u>Client</u> related to the change of his category.</li> </ol>
<b>Article 2-4</b>	<p>A <u>Licensed Person</u> shall re-categorise a <u>Professional Client</u> - upon his request - to a <u>Retail Client</u>.</p>
<b>Article 2-5</b>	<p>Re-categorisation of a <u>Client</u> shall not affect actions and transactions implemented under his original categorisation.</p>
<b>Article 2-6</b>	<p><b>Professional Client by Nature</b></p> <p>The following are considered <u>Professional Client by Nature</u>:</p> <ol style="list-style-type: none"> <li>1. A government, public entity, central bank or an international institution (World Bank or International Monetary Fund).</li> <li>2. <u>Licensed Persons</u> by the <u>Authority</u>, <u>Investment Funds</u> and other financial institutions that are subject to <u>Regulatory Bodies</u> inside or outside the State of Kuwait.</li> <li>3. Any company whose paid capital is at least One Million Kuwaiti Dinars or its equivalent.</li> </ol> <p>In all cases, a <u>Licensed Person</u> may agree in writing with a <u>Professional Client by Nature</u> to be categorised as a <u>Retail Client</u>.</p>

### Qualified Professional Client

#### Article 2-7

Any Client, who fulfils one of the following criteria, shall be considered a Qualified Professional Client:

1. The Client has carried out Securities' transactions, in significant size, at an average no less than KD 250,000 per quarter over the previous two years.
2. The size of the Client's funds and assets with the Licensed Person is no less than KD 100,000.
3. The Client works or has worked in the financial sector for at least one year in a Professional Position which requires knowledge of the transactions or services envisaged.

The Licensed Person shall take due care to ensure the fulfilment of the previous criteria.

#### Article 2-8

To categorise a Client as a Qualified Professional Client, the following procedures shall be followed:

1. The Client shall notify the Licensed Person in writing regarding its desire to be categorised as a Qualified Professional Client, either generally or in respect of a particular service, transaction or a specific kind of transaction or Securities. The agreement entered into with the Client shall include a declaration of its awareness and acceptance of the impacts of such categorisation.
2. The Licensed Person shall notify the Client in writing with the impacts of his categorisation as a Qualified Professional Client.

#### Article 2-9

If a Client no longer fulfils the conditions that made him eligible for categorisation as a Qualified Professional Client, the Licensed Person must re-categorise the Client as a Retail Client and notify that client of his new categorisation.

### Record of Client Categories

#### Article 2 -10

A Licensed Person shall prepare a specific record for Client categories including:

1. Category of the Client, and reasons and justifications of such categorisation.
2. Sample of notices, declarations and agreements related to the Client's category.

**Article 2-11**

**Information that shall be Provided to Retail Client**

A Licensed Person shall provide Retail Client with the following information:

1. The name, address and contact details of the Licensed Person.
2. The language in which the Client may communicate with the Licensed Person and receive information and documents.
3. The methods of communication to be used between the Licensed Person and the Client.
4. A statement indicating if the Licensed Person works with the Client in its capacity as an agent of an entity, the name of such an entity and its contact details.
5. The nature and timing of the reports on the performance of the services to be provided by the Licensed Person to the Client.
6. A summary of the conflicts of interest policy used by the Licensed Person, and any other additional details requested by the Client in this regard.

**Article 2-12**

Taking into consideration the rules set out in Module Seven (Clients' Funds and Assets) of these Bylaws, if a Licensed Person proposes to keep or manage funds or Assets of Retail Clients, it must provide these clients, in particular, with the following information:

1. Whether Client's funds and assets may be deposited with third party on behalf of the Licensed Person.
2. The limits of liability of the Licensed Person for any omission of the third party.
3. Whether Client's funds and assets may be held in an omnibus account by a third party, if applicable to such investment, and a prominent warning to the Client of the resulting risks.
4. Whether Client's funds and assets may be held with a third party to be separately identifiable from the funds and assets of that third party or of the Licensed Person.
5. The Licensed Person shall notify the Client with the competent courts and the applicable law in case of any dispute in relation to assets or funds of the Client outside the State of Kuwait.
6. A summary of the steps which the Licensed Person takes to ensure the protection of the Client's Assets or funds, including reference to any relevant investor compensation program applied by the Licensed Person.

**Article 2-13**

A Licensed Person must notify the Retail Client about the existence of any rights belonging to the Licensed Person or a third party in relation to seizing the Client's funds and assets deposited with the Licensed Person or third party.

**Article 2-14**

A Licensed Person, before entering into Securities financing transactions in relation to assets held by it on behalf of a Retail Client, must notify the Client in writing, provided that such notification must include all information on the Licensed Person's obligations and responsibilities, including transaction's terms and risks involved.



<b>Article 2-15</b>	<b>Information that shall be Provided to Professional Client</b> A <u>Licensed Person</u> , with whom funds and assets of a <u>Professional Client</u> are deposited, must provide such <u>Client</u> with the required information under paragraph (5), Article (2-12) and (2-13) of this Module.
<b>Article 2-16</b>	<b>Notifying a Client with Information</b> A <u>Licensed Person</u> must notify the <u>Client</u> - as applicable - in writing with the required information under Articles (2-10) to (2-14) of this Module before providing its services related to <u>Securities</u> activities and any changes that may occur.

## Chapter Three

### Conflicts of Interest

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#### Article 3-1

While providing its services, a Licensed Person must take all appropriate steps in order to limit cases of conflicts of interest that may occur between:

1. The Client and the Licensed Person, including its managers, employees, agents or any persons directly or indirectly linked to them by Effective Control.
2. The Client and another client of the Licensed Person.

#### Article 3-2

The following cases - including but not limited to - shall be construed among conflicts of interest:

1. Making financial gain, or avoid financial loss, at the expense of the client.
2. Carrying on the same business as the Client or receiving from a person other than the client an inducement or amount in relation to a service provided to the Client other than defined fees, commissions and expenses related to that service.
3. The Licensed Person, without reasonable motivation, gives preferential treatment to Securities issued by it or Securities issued by the Parent Company or Subsidiary Companies over other Securities listed in the Exchange; and in all cases, the Client's approval must be obtained before being involved in a transaction related to such Securities.
4. The Licensed Person shall not arrange transactions with the knowledge or capability of knowing that it shall be one of the involved parties in such transaction.

#### Article 3-3

A Licensed Person must keep and regularly update a record of the kinds of service or activity carried out by him or on behalf of that Licensed Person in which a conflict of interest has arisen resulting in harm to the interests of one or more Clients.

#### Article 3-4

A Licensed Person shall take precautionary measures in order to limit cases of conflicts of interest or resulting in harm to the interests of its clients.

#### Article 3-5

In relation to cases of conflicts of interest, if precautionary measures made by a Licensed Person under Article (3-4) of this Module are not sufficient to prevent harm to the interests of a client, then the Licensed Person shall disclose in writing to the Client about the cases of conflicts of interest before undertaking business for the client; such disclosure must include sufficient details on the nature of such cases and related persons.

In all cases, any transaction - in case of conflicts of interest - may be entered if the Client approves such transaction after disclosing all details related to cases of conflicts of interest and related persons.

Article 3-6	A <u>Licensed Person</u> must prepare policies and procedures in order to limit cases of conflicts of interest; provided that such policies and procedures are suitable for the nature and size of the <u>Licensed Person's</u> business, and if the <u>Licensed Person</u> is a member of a <u>Group</u> , such policies and procedures must take into consideration any cases of conflicts of interest resulting from the structure of the group as well as business activity of other members of the group.
Article 3-7	<p>Conflicts of interest policy set out in Article (3-6) of this Module must include the following:</p> <ol style="list-style-type: none"><li>1. Identifying the circumstances which constitute a conflict of interest resulting in harm to the interests of one or more <u>Clients</u>.</li><li>2. Defining procedures that must be followed and measures to be taken in order to manage cases of conflicts of interest.</li></ol>
Article 3-8	A <u>Licensed Person</u> may impose information barriers “Chinese Wall” in order to limit cases of conflicts of interest; and for this purpose it may oblige its employees or agents performing some <u>Securities Activities</u> to withhold the information held from any other employee or person working in favour of the <u>Licensed Person</u> in other activities.
Article 3-9	If a <u>Licensed Person</u> takes measures set out in Article (3-8) of this Module, it shall be construed as evidence that the <u>Licensed Person's</u> action shall not be regarded among cases of conflicts of interest; unless otherwise proven.

## Chapter Four

### Personal Transactions for Employees of a Licensed Person

#### Article 4-1

A Licensed Person must establish adequate arrangements aimed to limit cases of conflicts of interest between Members of the Board of Directors, its clients, employees or agents; or making use of the confidential information of those clients, in particular, the following cases:

1. Enter into Securities transactions in which one of the Licensed Person's clients is a party.
2. Enter into Securities transactions through using confidential information related to clients.
3. Provide inappropriate advice or recommendation to the Client in order to perform a process or to enter into a Securities transaction with the purpose of attaining a benefit for any of the Licensed Person's employees or agents.
4. Disclose any confidential information obtained by one of the Licensed Person's employees or agents, to another person with the purpose of entering into Securities transactions in which one of the Licensed Person's clients is a party, or provide inappropriate advice or recommendation to another person in order to enter into such a transaction.

It does not fall within the remit of conflict of interests to exempt the Investment Portfolio Manager from receiving their due fees from their employees for the management of the portfolios owned by them, provided that their policies and procedures manual includes provisions and procedures related to this matter.

#### Article 4-2

Cases set out in Article (4-1) of this Module shall be applied to transactions performed by any employee of a Licensed Person or for any of his Relatives, or a Subsidiary Company owned by him or owned by any of his Relatives.

#### Article 4-3

The measures set out in Article (4-1) of this Module must include, in particular, the following:

1. All the Licensed Person's employees shall be informed of the restrictions set out in Articles (4-1) and (4-2) of this Module in accordance with adopted policies and procedures.
2. The employee shall immediately inform the Licensed Person's Compliance Officer of any transaction performed for himself, any of his Relatives, or a Subsidiary Company owned by him or owned by any of his Relatives.
3. The Licensed Person shall define a list - to be periodically updated - of Securities not to be dealt with by its employees or agents.
4. The Licensed Person shall keep a record of transactions disclosed by its employees in accordance with item (2) of this Article; and if the Licensed Person refers any of its activities to another Person, then it must ensure that this person maintains the above-mentioned record.

#### Article 4-4

A Compliance Officer shall prepare appropriate measures to monitor personal dealings of employees of a Licensed Person in relation to Securities in order to ensure compliance with the Law and these Bylaws.

#### Article 4-5

If a Licensed Person is acting as a securities Broker registered at an Exchange or as an Investment Portfolio Manager, or as a Qualified Securities Broker registered with an Exchange then the employees of a Licensed Person may not buy or sell Securities or establish Investment Portfolios unless performed through the Licensed Person, with the exception of services not provided by the Licensed Person.

## Chapter Five

### Best Execution of Client Orders

<b>Article 5-1</b>	When executing <u>Client's</u> orders, a <u>Licensed Person</u> must take due care to achieve the best possible result for its clients, taking into account the execution factors including transaction price, size, likelihood of execution and settlement as well as any other consideration.
<b>Article 5-2</b>	<p>When executing a client order, a <u>Licensed Person</u> must take into account the following criteria:</p> <ol style="list-style-type: none"> <li>1. Nature and needs of the Client.</li> <li>2. Client's categorisation as a <u>Retail Client</u> or <u>Professional Client</u>.</li> <li>3. Characteristics of the order to be executed.</li> <li>4. Characteristics of <u>Securities</u> subject of order, including type and nature.</li> <li>5. Characteristics of the execution venues to which that order can be directed.</li> <li>6. Execute orders with priority according to the order they were received by the Clients.</li> </ol> <p>If the transactions are executed based on the <u>Client's</u> orders, then the <u>Licensed Person</u> shall be released from the obligations mentioned in items (1) through (4) of this Article.</p>
<b>Article 5-3</b>	If a <u>Licensed Person</u> executes an order on behalf of a <u>Retail Client</u> , the best possible result must be determined in terms of the total consideration, representing the price of the <u>Security</u> and the costs related to execution, including expenses, fees, and commissions.
<b>Article 5-4</b>	In case there is more than one venue through which an order could be executed, then a <u>Licensed Person</u> must compare such venues while taking into consideration fees and other expenses related to the order execution.
<b>Article 5-5</b>	The <u>Licensed Person</u> may not receive any commissions in a way as to discriminate unjustifiably between execution venues.
<b>Article 5-6</b>	Without prejudice to the restrictions set out in the <u>Law</u> and these <u>Bylaws</u> , a <u>Licensed Person</u> shall execute any order or instruction that may be issued by a <u>Client</u> .
<b>Article 5-7</b>	A <u>Licensed Person</u> must set policies and procedures that enable it to provide the <u>Client</u> with the best service, in particular, policies and procedures related to orders execution and instructions of the clients.

<b>Article 5-8</b>	Order execution policies and procedures set out in Article (5-7) of this Module must include information related to different execution venues through which a <u>Licensed Person</u> shall execute its <u>Clients'</u> orders, in addition to factors affecting the choice of such venues.
<b>Article 5-9</b>	A <u>Licensed Person</u> shall provide its clients with any information that may be required by those clients regarding policies and procedures of executing their orders.
<b>Article 5-10</b>	A <u>Licensed Person</u> must review policies and procedures of executing its clients' orders regularly; such review must be performed in case of any material change that may affect such policies and procedures, and such review shall include evaluating these policies and to what extent they are complied with.
<b>Article 5-11</b>	<p>Upon execution of any purchase or sale of a <u>Security</u>, a <u>Licensed Person</u> must send to the <u>Client</u> a notification related to execution of such deal, as long as the <u>Client</u> waives such notification, according to the form prepared by the <u>Licensed Person</u>, and the notifications must particularly include the following:</p> <ol style="list-style-type: none"> <li><u>Client's</u> account number.</li> <li>Name of the <u>Licensed Person</u>.</li> <li>Name of the <u>Client</u>.</li> <li>Date of receiving the order from the <u>Client</u>.</li> <li>Date and time of order execution.</li> <li>Type of deal whether it is a sale or a purchase.</li> <li>Name of <u>Security</u> subject of the deal.</li> <li>Volume, price, commission, the net value and the total price of the deal.</li> <li>Mechanism of executing the deal, whether through a written order, phone call or an electronic mail.</li> <li>Currency in which the transaction was implemented.</li> </ol> <p>The <u>Licensed Person</u> must prepare notifications on executing <u>Securities</u> deals, and send them on the same day of the execution of the deal.</p>
<b>Article 5-12</b>	When executing orders on behalf of clients, a <u>Licensed Person</u> must apply policies and procedures which provide for the prompt and expeditious execution of client orders.
<b>Article 5-13</b>	Upon execution of clients' orders, the <u>Licensed Person</u> , must ensure that orders executed on behalf of clients are promptly and accurately specified and recorded.
<b>Article 5-14</b>	A <u>Licensed Person</u> is prohibited from making use of information related to clients' orders; thus, it must exert due diligence to prevent use of such information by its employees or agents.

## Chapter Six

### Maintaining Records

#### Clients' Records

##### Article 6-1

A Licensed Person must prepare and maintain accurate records for each executed deal or an offered service that it carries out for a period of no less than five years from the date of the transaction or service. All records must be updated at all times and are sufficient enough to demonstrate compliance with these Bylaws.

##### Article 6-2

A Licensed Person must prepare and maintain accurate records for its Clients' accounts and files according to the nature of the Securities Activity; provided that:

1. They clearly indicate, at all times, the Assets and liabilities of each Client and liabilities of all Clients collectively.
2. They include the necessary information to enable the Licensed Person to prepare a statement of the Assets and liabilities of each Client and details of the deals executed for his account.
3. They determine all Client's Funds and Assets for which the Licensed Person is responsible whether under his control or under the control of another person.
4. They accurately determine, at all times, the details of the Securities subject to the advice and evaluation, proposed deals, and the standards applied for providing such consultation or evaluation.

##### Article 6-3

A Licensed Person's records must include - according to the type of licensed Securities Activities - the following:

1. Details of all orders entered by any Client concerning a Security whether it was modified, cancelled, executed or not executed.
2. Details of all purchase and sale deals of any Securities performed by the Licensed Person for a Client or performed by the Licensed Person for its own account.
3. A record of income and expenses related to each Client along with an explanation of their nature.
4. Details of all received amounts and expenses from the Client's Funds and Assets.
5. A record of the Client's Funds and Assets.
6. Cases of conflict of interest relevant to the provision of services to the Clients for each deal or offered consultation.
7. Notification of a conflict of interest case issued to the Client - according to the notification mechanism agreed in the signed contract - and proof of their approval to complete the provision of the Securities Activities services.
8. A record of any transactions executed with third parties (supporting the Licensed Person) for each transaction or offered consultation.

Provided that the Licensed Person uses these records and data in its studies and procedures to determine the degree of the investment risks for each Client.

#### Maintaining and Inspecting Records

##### Article 6-4

A Licensed Person must register and maintain adequate information of Securities' activities performed by it in order to demonstrate compliance with these Bylaws.

The Authority may also define the nature and extent of information that must be recorded and maintained by the Licensed Person.

## Article 6-5

### Recording Telephone Conversations and Keeping Correspondence

A Licensed Person must take the necessary steps to record and maintain telephone conversations and electronic communications related to the Licensed Person's activities, made with, sent from or received on equipment provided by the Licensed Person to an employee or agent; or the use of which by an employee or agent has been permitted by the Licensed Person, to enable that employee or agent to carry out any of the following activities:

1. Receive Clients' orders.
2. Execute Clients' orders whether on the basis of the Client's instructions or on the basis of the Licensed Person's decision to enter into a deal on behalf of the Client.
3. Transmit Clients' orders to other entities for execution whether on the basis of the Client's instructions or on the basis of the Licensed Person's decision to enter into a deal on behalf of the Client.
4. Execute transactions on behalf of the Licensed Person or any other person in the Licensed Person's Group.
5. Exchange of information and documents relevant to provisions of Securities Activities services.
6. Deliver the requirements and deliverables relevant to provision of Securities Activities services.
7. Any correspondences related to Securities Activities that have a material impact on managing or reserving the Clients Funds' and Assets or the arrangements of providing consultation to the Client.

## Article 6-6

A Licensed Person must take the necessary steps in order to prevent any of its employees or agents to make, send or receive relevant telephone conversations and electronic communications on equipment, other than what is mentioned in Article (6-5) of this Module.

## Article 6-7

If a Licensed Person was unable to record a telephone conversation due to unforeseen circumstances, the Licensed Person may accept the Client's instructions in writing.

## Article 6-8

When receiving telephone calls from clients, a Licensed Person must undertake, particularly, the following:

1. Employee of a Licensed Person shall introduce himself to the client.
2. Confirm Client's identity.
3. Define type of order (Purchase – Sale – Cancellation – Modification), name of Security, volume, price, order period and date.

### Period of Maintaining Records, Telephone Conversations and Correspondence

## Article 6-9

A Licensed Person must maintain records, reports, telephone conversations and written and electronic correspondence as well as documents related to its activity; for no less than five years commencing from the date the record was created or until settlement of a dispute between the Licensed Person and the Client or any other Person; provided that they shall be valid for review on request during such a period, and that they shall remain subject to inspection and audit at all times by the Authority or anyone appointed for this purpose.



## Chapter Seven

### Financial Promotions

<b>Article 7-1</b>	No promotion or an invitation may be directed to any person encouraging him to become involved in an investment related to a <u>Security</u> , unless it is made through a <u>Licensed Person</u> and the content of the promotion must be approved by the <u>Licensed Person</u> .
<b>Article 7-2</b>	A <u>Licensed Person</u> must ensure the clarity of the content of the <u>Financial Promotion</u> and that it does not contain false, misleading or deceptive statements; and that such promotion includes a phrase, in clearly identifiable font, referring to that it was prepared for promotional purposes.
<b>Article 7-3</b>	If a <u>Licensed Person</u> becomes aware that a <u>Financial Promotion</u> no longer complies with the provisions set out in this Module, it must cancel it through the same means used by the <u>Financial Promotion</u> .
<b>Article 7-4</b>	<p><u>Financial Promotion</u> must include the following information:</p> <ol style="list-style-type: none"> <li>1. Name of the <u>Licensed Person</u> who issued the promotion or approved its content.</li> <li>2. The accurate information defining the investment benefits and risks.</li> <li>3. Sufficient information of investment provided that it must appear clearly in the promotion.</li> <li>4. Undertaking that it does not disguise, diminish or obscure important items from the investment subject of promotion.</li> <li>5. Or any data that may be required by the <u>Authority</u>.</li> </ol>
<b>Article 7-5</b>	If a <u>Financial Promotion</u> contains an indication of past or future performance of certain investment, a <u>Licensed Person</u> must include a warning in the promotion that the past performance is not a reliable indicator of future results.
<b>Article 7-6</b>	A <u>Licensed Person</u> must maintain an adequate record of any <u>Financial Promotion</u> it communicates or approves its content.

## Chapter Eight

### Controls for Providing Investment Services

#### Article 8-1

This Chapter applies to persons licensed to practice the activity of an Investment Advisor.

#### Article 8-2

An Investment Advisor must take the necessary arrangements to ensure that the following restrictions are satisfied:

1. The Senior Investment Advisor and the Investment Advisor activity representatives based on the advisory for their own account or on behalf of another Person must not trade in Securities that are subject of one of the provided advisory services, except after delivering the deliverables of the investment services to the Clients in a manner that does not conflict with the recommendations offered to Clients.
2. The Licensed Person and its employees, including the Securities Activities representatives and other Persons involved in the provision of the advisory services, may not obtain any benefit from those with material interest in the service.
3. The Licensed Person, the Senior Investment Advisor, the representatives of the Investment Advisor's activity, or other persons involved in preparing an investment research at the Client's request for any purpose, must not make promises to him to issue research that achieve his interests.
4. Neither the Client nor any other Person may review the draft of the investment research or the result of the evaluation of Securities before its publication, except in the cases where the Client can verify the Licensed Person's compliance with its legal obligations, if the research includes a recommendation or an expectation that targets a specific price.
5. The Licensed Person, when providing its services to the Client, shall clearly mention in the investment research or the Security evaluation that the research is related to a specific purpose - for example - a marketing operation or for the purpose of studying the possibility of entering into operations that are subject to the provisions of Module Nine (Mergers and Acquisitions) or Effective Control.
6. The Licensed Person, when providing its services, shall comply with international standards approved for the Asset Valuation, such as the standards issued by the International Valuation Standards Council (IVSC), the Royal Institution of Chartered Surveyors (RICS), and the generally accepted professional rules.
7. The Licensed Person shall comply with any instructions issued by the Authority regarding determining or updating the standards related to the services provided through such activity.
8. The Licensed Person and his employees, including the representatives of the Securities Activities, shall comply with the requirements of providing services and controls as well as the provisions stipulated in Module Nine (Mergers and Acquisitions) and Module Fourteen (Market Conduct).
9. The Investment Advisor, when providing his services to his Clients or to the public, must clearly disclose any cases of conflicts of interest mentioned in this Module.
10. An Investment Advisor shall comply, when providing valuation services for Securities, with the provisions of Appendix (1) "Minimum Requirements for the Valuation or Assessment of the Impairment of Assets" of Module Eleven (Dealing in Securities) of these Bylaws in preparing valuation reports for Securities.

The Investment Advisor of the Collective Investment Scheme, is exempt from any of the Items mentioned above which conflict with his acquired rights in accordance with the provisions of Module Thirteen (Collective Investment Scheme) of the Executive Bylaws.

### Article 8-3

In circumstances in which a Licensed Person is to practice the activity of an Investment Advisor, publishes or prepares investment research for marketing purposes based on a request submitted by the Issuer, the investment research or evaluation must include the following:

1. Clearly identifies the fact that the investment research or evaluation was prepared for marketing purposes based on a request by the Issuer and in accordance with a fee contract.
2. A clear statement that the investment research considers the necessary conditions that ensure the independence of the Licensed Person that issues the investment research, and to disclose any cases of conflicts of interest.
3. The details, information, and results must be clear, accurate and fair, whilst considering integrity and impartiality and not exaggerating the results of the investment research or evaluation.

### Article 8-4

A Licensed Person to practice the activity of Investment Advisor must exercise the care of a prudent person to ensure that all produced recommendations and evaluations are clear and fair, and it shall comply with the following, as a minimum, when providing its services:

1. Facts in the recommendation is clearly distinguished from interpretations, expectations, and opinions referred to in the same recommendation.
2. State the methodology of the recommendation and evaluation, and the applied standards that form the interpretations, expectations, and evaluations in the recommendation and the proposed result.
3. The sources of the recommendation are reliable and clearly referred to, with their dates.
4. The projections and target prices in a recommendation are clearly labelled and the material assumptions made in producing them are in line with the approved international standards indicated in the same recommendation.
5. A clear explanation of the evaluation and recommendation made to “buy”, “sell” or “hold” and the associated risks.
6. The recommendation, if prepared for the purposes of Module Nine (Mergers and Acquisitions) of the Executive Bylaws, shall reflect the fair and thorough evaluation relevant to the companies subject to the provisions of Module Nine (Mergers and Acquisitions) of the Executive Bylaws.
7. The date of preparation of the recommendation or evaluation.

### Article 8-5

The Licensed Person must clearly disclose in the recommendation any relationships or circumstances that may impair the objectivity of the recommendation, especially in the event that there is a direct or indirect financial interest in any Security for which an investment research or evaluation is issued, and in particular its relationship with its Parent Company or its Subsidiary Companies of the Securities subject matter to the research or evaluation.

### Article 8-6

The Licensed Person that issues a recommendation on a Security must clearly disclose any interest it has in the Issuer’s capital for such Security, or any conflicts of interest with it in this regard, or any agreements with the Issuer.

#### Article 8-7

The Licensed Person to practice the activity of an Investment Advisor shall maintain reports on all the investment services offered to the Clients, provided that such reports include the following:

1. Client's name and basic information.
2. Contract's date and termination.
3. The representative of the Investment Advisor activity of the service.
4. Type of the contracted service and details of the Client's requirements in regards with the consultation in accordance with the scope of work of the Investment Advisor.
5. Type of the consulted Security.
6. Recommendation or evaluation, and details of the deliverables of the consultation provided by the Investment Advisor, and the systems, mechanisms, standards and methodology used in providing the service.
7. Statement of conflicts of interest.
8. Reasons of termination before the date specified in the contract signed between the Licensed Person and the Client.
9. Any other remarks or information the Licensed Person deems important to clarify.

The Authority may request a copy of these reports whenever it deems necessary.

#### Article 8-8

It is prohibited for any Person to broadcast, promote, publish, republish, or give misleading, incorrect, incomplete, or unannounced information, data or statements that may affect the following:

1. The price of a Security.
2. The decision of any Person related to the purchasing, selling or the disposal of Securities.
3. The reputation of any Issuer.

**Article 8-9**

Without prejudice to the Authority's right to take any of the procedures prescribed by the Law or Bylaws or any other law, the Authority may take any of the following procedures upon detecting and verifying the practice mentioned in the previous Article:

1. Publication of a warning to the public through the Authority's website or any other means the Authority deems appropriate.
2. Referral to the concerned party or the public prosecution, according to the circumstances and competence.

**Article 8-10**

The Persons licensed to manage Clients' Funds and Assets and their financial analysts, and the persons concerned in managing Clients' Funds and Assets, when preparing the investment research related to their work directed to their Clients, must take into consideration the provisions stipulated in this Chapter.

**DISCLAIMER:**

This “translation” of the Bylaws of the Capital Markets Authority from Arabic into English is provided solely for reference. No translation can exactly reflect every aspect of an original text and accordingly this “translation” may be used for guidance but not for legal purposes. Only the Arabic original shall be considered for legal proceedings and legal actions before the competent courts of jurisdiction and in any arbitration mechanism agreed upon by contracting parties to any transaction made under the Law and the Bylaws thereof. The Capital Markets Authority shall not be responsible for any mistake, error and/or misinterpretation made or given by any party based on that party’s interpretation of the Law and the Bylaws whether arising from a reading of the Arabic text or, specifically in the context of this document, the English “translation”. The original Arabic versions, as approved and accordingly published by the Authority, shall constitute the only source of the provisions and regulations of the Law and its Bylaws.

## **Appendix 1**

### **Standards of Record Keeping Systems**

**First: Scope of Application:**

The provisions of this Appendix apply to Licensed Persons practicing any of the following Securities Activities:

1. Investment Portfolio Manager.
2. Securities Broker registered with an Exchange.
3. Securities Broker not registered with an Exchange.
4. Qualified Securities Broker not registered with an Exchange.
5. Custodian.

**Second: Means of receiving clients' orders, and mechanism of keeping them:****1. Telephone Conversations:**

The Licensed Person shall receive clients' orders through telephone conversations to execute clients' orders to purchase or sell Securities or any instructions of the client regarding his assets and funds, and shall record them pursuant to the following controls and technical requirements as minimum:

**a) The Licensed Person shall prepare a recording system of telephone conversations, and shall use it according to the following specifications:**

1. The Licensed Person must receive and record all telephone conversations made with the clients that are relevant to orders of purchase and sale of Securities, or any instructions of the client regarding his assets and funds through a device provided for that purpose, and linked with the telephone recording system.
2. Record all telephone conversations made by the Licensed Person to the clients regarding executing their orders.
3. Save the time of receiving the client's order to ensure that the execution of the order is according to the priority of its issuance, and shall not permit amending the time of the call which is received from the Licensed Person's clients.
4. Set the recording device according to the local time of the State of Kuwait.
5. Show the recorded conversations through the number of the caller or the number of the person receiving the call or the date and time of the call. The remarks shall be added to the received calls and saved.
6. The system must not permit the deletion of any order received through a telephone call and registered on the system.
7. The files resulting from the system shall be encrypted, and may only be listened to through the same program.
8. Show the telephone conversation and transmit them to other extensions to facilitate listening to them on another computer, provided that the employee of the Licensed Person who is responsible for the system is aware of such matter.

**b) Every Licensed Person shall specify the responsibility of managing the system according to the following:**

1. Appoint one of his employees to be responsible for the conversations recording system, and implement the controls of the telephone conversation system.
2. The telephone conversations recorded in the system may only be listened to upon the approval of the Board of Directors of the Licensed Person or whom they authorize.



**d) The Licensed Person shall:**

1. Take all necessary and sufficient measures to verify the identity of the calling client, and only receive orders through the telephone conversations' device after ensuring that such orders are issued by the account's owner or whom he authorized (taking into consideration the authorization controls).
2. Register all details relevant to the client's order issued through the telephone conversations and put them in records, as minimum the following:  
(Name and capacity of the order issuer, name of Security, type of order whether purchase, sale, cancellation or modification, volume, price, order period and date, client's account number, state of the order "executed/not executed").

**2. Electronic Correspondence:**

The Licensed Person shall receive orders issued to him by clients through electronic correspondence (including but not limited to the following: fax, email) to execute sale or purchase deals of securities or any instructions of the client regarding his assets or funds, and he shall keep them pursuant to the following controls and technical requirements as minimum:

**a) The Licensed Person shall set a system for electronic correspondence in which he specifies the email address or fax number for receiving clients' orders according to the following specifications:**

1. Automatically show the date and time.
2. Does not allow change or amendment of time and date.
3. Set the system according to the local time of the State of Kuwait.
4. Specify the email address and fax number in the agreements signed with the client.
5. Confirm the signatures shown on orders sent by fax by clients along with their signature as they appear in the agreements signed with them.

**b) Unify the data that shall be included in the client's order as minimum. They are as follows:**

(Name of the order issuer and capacity, type and name of the security subject of the order, type of order whether purchase, sale, cancellation or modification, volume, price, order period, client's account number, letter's date, signature), or any additional data regarding the client's instructions of his assets and funds.

**c) Such correspondence is subject to the provisions of Law No. (20) of 2014 concerning Electronic Transactions and its Executive Bylaws.****d) Add all details of the electronic order issued by the client (which include the requirements mentioned in item b) in the records, and clarify the state of the order (executed, not executed).****3. Electronic Trading:**

The Licensed Person shall receive the orders issued by clients through the electronic trading system to execute sale and purchase deals of securities, and he shall keep them pursuant to the controls set by the Exchange and approved by the Authority.

#### 4. Direct Orders (Inside the Premises of the Licensed Person)

The Licensed Person shall receive clients' orders in his premises directly to execute the sale and purchase deals of securities, or any other instructions of the client regarding his assets or funds. He shall record them in audio and video, pursuant to the following controls and technical requirements as minimum:

- a) **The Licensed Person shall set an audio and video recording system in the specified place in his premises in order to record and save the audio and video when receiving the clients' orders. The system shall have the following specifications:**
  - 1. Specify a room or place for receiving orders from clients. He shall not accept or execute orders issued by clients outside the specified place.
  - 2. The recording system shall cover the entire place of receiving orders in order to clearly show the voice and image of the client and employee.
  - 3. The recording system shall only work during the official working hours of the Licensed Person continuously.
  - 4. Does not permit deletion of any video recordings.
  - 5. Set the recording system according to the local time of the State of Kuwait.
  - 6. The recording system shall not accept change or amendment in the time and date of the recording.
- b) **Licensed Persons' employees are only permitted to play the video and audio recording upon the approval of the Licensed Person's Board of Directors or whom he authorizes.**
- c) **All details of the issued order of the client shall be recorded through the video recording and shall be added to the records, as minimum the following:**  
(Name of the order issuer and capacity, type and name of the security subject of the order, type of order whether purchase, sale, cancellation or modification, volume, price, order period, client's account number, state of the order "executed/not executed").

#### 5. Written Orders:

The Licensed Person shall receive orders through written letters from clients to execute sale and purchase deals of securities or any instructions of the client regarding his assets and funds, and he shall keep them pursuant to the following controls and technical requirements as minimum:

- a) **The Licensed Person shall set a central system to receive such letters. It shall include the following specifications:**
  - 1. The central system shall include the characteristic of giving an electronic serial number (monthly or annually) for every letter received from the client.
  - 2. The central system shall show the date and time automatically.
  - 3. The system shall only permit change or amendment of time and date through the company that provided the system. If an amendment is required, prior approval of the of the Licensed Person's Board of Directors must be obtained, along with the relevant reasons. The Authority must be provided with a statement regarding the same.
  - 4. The central system of incoming letters must be set according to the local time of the State of Kuwait.

- b) **The written order of the client shall include the following data as minimum:**  
(Name of the order issuer and capacity, type and name of the security subject of the order, type of order whether purchase, sale, cancellation or modification, volume, price, order period, client's account number, date of the letter, signature), or any additional data relevant to the client's instructions of his assets and funds.
- c) **Written orders of clients must be received and kept in the central system before their execution.**
- d) **All details relevant to the written order issued by the client (which include the controls stipulated in the item b) must be added to the records, and the state of the order must be mentioned (executed/ not executed).**

**Third: General Requirements:**

In all cases, the Licensed Person must use one medium or more for receiving clients' orders. He shall:

- 1. Update or prepare the policies and procedures of the record keeping systems of clients' orders as per the provisions of this Appendix.
- 2. Set out new systems of keeping all types of records and archiving them daily, which allow speed and ease in retrieving any document or recording for each medium of receiving clients' orders.
- 3. Keep a backup copy of all types of recordings on storage media far from the limits of the device serving each medium, for a period not less than the ones mentioned in this Bylaws, provided that a room or place must be specified for keeping them. An employee must be assigned for such room, and no other employee is permitted to enter.
- 4. An item must be added to the agreements signed with clients or notify them, pursuant to the provisions of the contract signed with each client separately, which states that all orders issued by them shall be recorded and kept, and may be retrieved upon the request of the Authority, or in the cases stipulated by the law.
- 5. In case of any malfunction or problem in any system of receiving clients' orders, another media mentioned in item (Second) of this Appendix shall be used before entering and executing such orders.