

The Executive Bylaws
Module Four

**Securities Exchanges and
Clearing Agencies**





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Chapter One
General Provisions

1

Article 1-1

Scope of Application

Where no provision is provided, the provisions of this Chapter apply to the Exchange and the Clearing Agency which are licensed by the Authority. The provisions of Chapter 2 of this Module apply to the Exchange, while the provisions of Chapter 3 apply to the Clearing Agency.

The provisions of Chapter 4 of this Module apply to the Clearing Center and Central Securities Depository, while the provisions of Chapter 5 of this Module apply to the following:

1. Clearing Center.
2. Clearing Members.
3. Collateral provided by the Clearing Members.

Article 1-2

License Requirements

No Person may establish, operate, nor assist in the establishment or operation of an Exchange or a Clearing Agency or manage it or announce the said unless obtaining a license issued by the Authority under the Law and these Bylaws in accordance with the systems and regulations approved by the Authority. The Authority shall be solely authorized to issue a license to the Exchange and Clearing Agency, and this license shall be published in the Official Gazette.

Article 1-3

License Application

Article 1-3-1

Licensing of an Exchange or a Clearing Agency shall be in accordance with the following:

1. An application for obtaining an Exchange or a Clearing Agency license shall be submitted in accordance with the form specified by the Authority for that purpose, attached to it all the documents and information specified in these Bylaws, and the prescribed fees must be paid.
2. Following receipt of an application for Exchange license or Clearing Agency license that fulfils the requirements in clause (1) of this Article, the Authority may request additional information or documents as it considers necessary to determine the application.
If the applicant fails to submit documents and information within the notification period that is specified by the Authority, the application shall be deemed to have been withdrawn.
3. The Authority shall determine the license application within three months from the date of receipt of the application complete with all information and documentation specified in this Module and Article (1-2) of Module Six (Policies & Procedures of Licensed Persons) of these Bylaws.
For the approval of the license application, the applicant shall fulfil all the requirements and obligations stipulated in this Module and any other requirements set by the Authority.
4. The Authority shall inform the applicant of its determination regarding application to obtain an Exchange or Clearing Agency license. The Authority may reject granting the license for public interest reasons. In the event of a rejection of an application, the determination shall be justified.

Article 1-3-2

The Authority shall determine the minimum issued and paid-up capital of the Exchange and the Clearing Agency, and it shall determine the legal form of the company that practices the Exchange activity or any of the Clearing Agency's activities.

Article 1-3-3

The Authority may take any of the following decisions regarding the license application:

1. Grant a license to practice the activity/s required in the license application.
2. Issue a preliminary conditional approval subject to the completion of certain procedures or the fulfilment of specific criteria within a period of time set by the Authority for the license applicant. The Authority may extend this term as it deems necessary.
3. Reject the license application.

Article 1-4

License Term and Renewal

A license to practice the Exchange activity or any of the Clearing Agency's activities remains valid for a term of three years from the date of granting the license. The license may be renewed for a similar term/s based on an application submitted by the Exchange or Clearing Agency as follows:

1. A license renewal application shall be submitted three months prior to the license expiration date and in accordance with the Application for Renewing the Exchange activity or any of the Clearing Agency's activities set out in Appendix 1 of this Module, with payment of the prescribed fees.
2. The Authority may, at any time after receipt of the license renewal application, inform the applicant of the necessity to provide any additional information or documents. If the applicant fails to submit the required documents and information within the period stipulated by the Authority without an excuse acceptable to the Authority, the application shall be deemed to have been withdrawn.
3. The Authority shall determine a license renewal within two months from the date of receipt of this application attached with all required information and documents.
4. The Authority may reject the license renewal in the event that the Exchange or Clearing Agency fails to comply with the basic requirements stipulated in this Module.
5. The Authority shall notify the Exchange or Clearing Agency of its decision concerning the license renewal. In the event of rejection, the decision shall be justified.

Article 1-5

Crisis Intervention by the Authority

Article 1-5-1

In the event of any disaster, crisis and disturbance which may result in a serious impact on the market, and in the event that some traders have practiced connotations or misleading signals, the Authority may issue instructions that aim to restore justice, transparency, and efficiency to the market, and in particular, it may take any of the following measures:

1. Suspend trading at an Exchange or the trading of any listed Security for a limited period.
2. Cancel trading for a specific period or cancel transactions on certain Shares.
3. Issue decisions to dissolve all or part of an account balance or reduction thereof.
4. Amend the trading days and hours.
5. Amend or suspend any of the Exchange's rules or Clearing Agency's rules.

Article 1-5-2	<p>In the event of non-compliance by an <u>Exchange</u> or <u>Clearing Agency</u> with the decisions or instructions issued by the <u>Authority</u> stipulated under the preceding Article, the <u>Authority</u> may take appropriate measures for the following purposes:</p> <ol style="list-style-type: none">1. To achieve a fair settlement and efficiency in the commercial transactions of <u>Securities</u> or any of its types.2. To achieve regular trading or liquidate any position related to the <u>Securities</u>.
Article 1-6	Accounts and Reports
Article 1-6-1	<p>The <u>Exchange</u> and <u>Clearing Agency</u> shall appoint one or more external <u>Auditor</u> from the <u>Auditors</u> registered with the <u>Authority</u>.</p>
Article 1-6-2	<p>The <u>Exchange</u> and <u>Clearing Agency</u> shall apply comprehensive systems and controls of risk management enabling it to identify, assess, classify, manage and address the risk associated with its activities. The <u>Exchange</u> and <u>Clearing Agency</u> shall submit a risk report to the <u>Authority</u> every six months.</p>
Article 1-6-3	<p>The <u>Exchange</u> and <u>Clearing Agency</u> shall maintain an internal audit system in accordance with the international standards approved by the <u>Authority</u>.</p>
Article 1-6-4	<p>The <u>Authority</u> may appoint, by means of a written notice, an <u>Auditor</u> who is registered in the <u>Authority's</u> registry, to an <u>Exchange</u> or <u>Clearing Agency</u> at the expense of the <u>Exchange</u> or <u>Clearing Agency</u> (as the case may be) to examine and audit the accounts, data and records of the <u>Exchange</u> or <u>Clearing Agency</u>, as well as to prepare a general or a specific report regarding a specific matter, if the <u>Authority</u> deems it would be in the public interest.</p>
Article 1-6-5	<p>The <u>Exchange</u> and <u>Clearing Agency</u> shall submit to the <u>Authority</u> an annual report within ninety days from the end of its financial year that shall particularly include the following:</p> <ol style="list-style-type: none">1. A report that describes the activities that are performed throughout the previous year with regard to financial and human resources provided to it.2. Audited financial statements including the report of the external <u>Auditor</u>.3. Any other reports, data, or information that the <u>Authority</u> may specify.

Article 1-7

License Cancellation

Article 1-7-1

By virtue of a written notification to the Exchange, the Authority may cancel the license granted to it as of the date specified in the Authority's resolution in the following cases:

1. If the company is no longer able to meet any of the conditions by which it was qualified to obtain the license.
2. If operations in the Exchange have been suspended for more than five Business Days.
3. In the event of its the closure.
4. If it failed to comply with the Authority's instructions despite being notified thereon by the Authority.
5. If it failed to provide the Authority with the information requested by the latter or if it provided misleading or inaccurate information.

The Authority shall publish the decision of license cancellation and reasons thereof in the Official Gazette.

Article 1-7-2

By virtue of a written notification, the Authority may cancel a Clearing Agency's license granted to it according to the provisions of the Law, as of the date specified in the Authority's resolution in any of the following cases:

1. If the agency is no longer able to meet any of the conditions by which it was qualified to obtain a license.
2. If the agency ceases to undertake the duties to which it is assigned or licensed.
3. Liquidation of the agency.
4. Failure to fulfil any obligation required under this Law and these Bylaws.
5. Failure to provide the information requested by the Authority or providing incorrect or misleading information.
6. If the agency had made any amendments to its objectives in its Memorandum or Articles of Association without obtaining prior approval from the Authority.
7. If the agency requested cancellation of its license.

The Authority shall publish the decision of license cancellation and reasons thereof in the Official Gazette.

Article 1-7-3

The Authority may grant the Exchange or Clearing Agency a specific time extension, or may extend the period after the date of license cancellation, if the Authority deems it necessary for the public interest, or pursuant to the request of the Exchange or Clearing Agency to suspend its operations or handover its activities to another licensed Exchange or Clearing Agency. Moreover, the Authority may appoint a temporary supervisor, and define their duties, jurisdictions and specialities, to manage or follow up the Exchange or Clearing Agency's activity, and it may specify its tasks, authorities, and competences.

Article 1-7-4

Cancellation of the Exchange or Clearing Agency's license by the Authority shall not affect the Authority's ability to commence or take any disciplinary action against the violating Person prior to the license cancellation.

Article 1-8

Notice Requirements

The Exchange and Clearing Agency shall abide to the following:

1. Notify the Authority at least thirty days prior to the date of any change of address of headquarters or the chosen domicile to which notices or documents should be addressed.
2. Notify the Authority within five Business Days as of the date of incorporation, ownership, sale or dissolution of a Subsidiary Company, or in the event of any change in the information submitted to the Authority with regard to the branch offices through which the Licensed Person practices its activities either inside or outside Kuwait.
3. Notify the Authority within five Business Days from the date of appointment or resignation of its Auditor.
4. Hold its annual ordinary general assembly following the end of the financial year within two months from the date of providing the Authority with its annual audited financial statements.
5. Notify the Authority of the agenda and place of the ordinary and extra ordinary general assembly's meeting -attached with all documents relevant to the items listed on the agenda- at least ten Business Days prior to the commencement of the meeting.
6. Provide the Authority with a copy of the authenticated minutes of meeting of the ordinary and extraordinary general assembly -as the case may be-, in addition to a certificate of noting the amendment of the Company Contract in the commercial register within a maximum of two weeks from the date of the commencement of the meeting.
7. Obtain the Authority's prior approval on any amendment of the Company Contract.
8. Provide the Authority with updated copies of the policies, procedures, documents, information, services, and data relevant to granting the license within five Business Days from the date of their approval by the Board of Directors of the Licensed Person.
9. Provide the Authority with a copy of the updated supporting documents of the company's license issued by the Ministry within five Business Days from the date of this update.

Article 1-8-1

The Clearing Agency shall immediately notify the Authority of the following:

1. If it was revealed to it that any of its counterparties became unable to comply with any of the rules applicable to clearing and settlement or depository processes.
2. If it estimated that the financial position of any of its counterparties and its ability to fulfil its obligations has given signs of instability, or that its ability to fulfil its obligations has already become unstable.
3. Upon the use of the Default Fund.

The written notification shall particularly include a statement of the notification reason and nature of the case and a detailed description of the case or circumstance setting out the name of the counterparty, trading number, civil identification number, a statement of the due net amount of money or that there is no due balance, a statement of the name and number of the purchased or sold Securities as well as the procedure held in that concern. In addition, both the Exchange and the concerned entity shall be provided with a copy of that notification.

Article 1-8-2

The Exchange and Clearing Agency shall provide the Authority with any reports, data or information that may be required by the Authority.

Article 1-9

Acquiring or Disposing of 5% or more of the Exchange or Clearing Agency Capital

Article 1-9-1

Standard of Integrity and Honesty

Each natural Person willing to acquire or dispose of direct or indirect ownership of 5% or more of the capital of a company that practices the activity of an Exchange or any of the Clearing Agency's activities shall obtain prior approval from the Authority, noting that the Authority shall be provided with a Criminal Status Sheet and acknowledgment indicating the following:

1. Not having been convicted of a crime involving a breach of honour or trust, or a freedom-restricting penalty for a crime unless he has been rehabilitated.
2. Has a good reputation and manner.
3. Any other requirements the Authority may specify.

Article 1-9-2

Financial Soundness

Each natural Person or legal entity willing to acquire or dispose of direct or indirect ownership of 5% or more of the capital of a company that practices the activity of an Exchange or any of the Clearing Agency's activities shall obtain a prior approval from the Authority.

Article 1-9-3

The Authority may take all necessary procedures it deems appropriate to verify that the shareholder fulfils the conditions stated in Article (1-9-1) and Article (1-9-2) whether inside or outside the State of Kuwait, and that the change of ownership shall not affect monitoring and supervising of the Exchange or Clearing Agency or lead to its non-compliance with the Law and these Bylaws.

Article 1-9-4 In the event of the occurrence of any of the objections stipulated in Article (1-9-1) and Article (1-9-2) to the Person that acquired 5% or more of the capital of company that practices the activity of an Exchange or any of the Clearing Agency's activities, or if he performed tasks that affect the sound management of the Exchange or Clearing Agency, the Authority may issue a resolution on banning the shareholder from voting and taking a position on the Board of Directors for any of his owned Shares until the shareholder regularizes his position as stipulated in this Article.

Article 1-9-5 **Submission of the Application**

The application to obtain the approval of the Authority shall be submitted according to the following procedures:

1. The application shall be submitted in accordance with the form provided in Appendix No. (2) of this Module at least sixty (60) days prior to entering into the arrangements or agreements that lead to acquiring or disposing of 5% or more of the capital of a company that practices the activity of an Exchange or any of the Clearing Agency's activities. The period shall be calculated from the date of completing all required information or documents.
2. The Authority shall decide on the application within a maximum period of sixty (60) days from the date of its submission after fulfilling any information or documents required by the Authority, otherwise the application will be accepted.
3. If the Authority requested additional information, the applicant will be notified in writing within fifty (50) days from the date of its submission.
4. If the Authority rejected the application, the rejection decision must be justified.

Article 1-10 **Effective Control**

Those who wish to enter into arrangements or agreements that lead to Effective Control of the Exchange or Clearing Agency shall obtain the approval of the Authority before completion of such arrangements or agreements, according to the procedures stipulated in Article (1-10-1) of this Module.

A Person who is complying with the provisions of Module Nine (Mergers and Acquisitions) of these Bylaws shall be excluded from the provision of this Article.

Article 1-10-1

The application to obtain the Authority approval of Effective Control of the Exchange or Clearing Agency shall be submitted according to the following procedures:

1. The application shall be submitted in accordance with the form provided in Appendix (2) of this Module along with payment of the prescribed fees at least sixty (60) days prior to entering into the arrangements or agreements that lead to Effective Control of the Exchange or Clearing Agency. The period shall be calculated from the date of completing all required information or documents.
2. The Authority shall decide on the application within a maximum period of sixty (60) days from the date of its submission after fulfilling any information or documents required by the Authority. The Authority grants its approval on the application after ensuring that any Effective Control on the Licensed Person or the acquisition of Shares or capital shares shall not affect controlling and supervising them or their compliance to the Law and these Bylaws, and after payment of the prescribed fees. In the case of the Authority's refusal of the application, it must be reasoned.

Article 1-11

Registered Persons

Taking into consideration the provisions prescribed in this Module, the provisions of Chapter Two "Reviewing the Accounts of Licensed Persons, the Sharia Supervisory System for Licensed Persons to Operate in Accordance with Islamic Sharia" and Chapter Three "Registered Persons" of Module Five (Securities Activities and Registered Persons) of these Bylaws shall apply to the Exchange and Clearing Agency.

Chapter Two Exchange

Article 2-1

Exchange Management

Article 2-1-1

The Exchange runs a trading system designated to match Bid and Ask Offers for Securities that are listed on the Exchange. This system follows the procedures and rules set by the Exchange and approved by the Authority.

Securities that are listed in the Exchange shall not be traded outside this system. The Exchange may set provisions for certain transactions in the Exchange's rules, after the Authority's approval.

Article 2-1-2

The conditions that are related to fit and proper rules stipulated in Module Five (Securities Activities and Registered Persons) of these Bylaws shall be fulfilled by each Member of the Board of Directors of the Exchange during his tenure as a member.

Article 2-1-3

The Exchange shall be managed by a Board of Directors formed of a Chairman and a Vice Chairman, who shall replace the Chairman in case of the Chairman's absence, and six members who shall be elected and chosen by the general assembly of the company subject to the approval of the Board.

The Chairman of the Exchange's Board of Directors, or his authorized deputy, shall inform the Board of the names of candidates for the membership of the Exchange's Board of Directors at least thirty days prior to the date of the company's general assembly meeting for election of the Members of the Board of Directors.

Within fifteen days of being notified of such a nomination, the Board may object by a reasoned decision to any of such candidates for not fulfilling the required conditions. Such objection shall exclude the candidate from eligibility for membership of the Board of Directors. No candidate shall be nominated to the general assembly of the company if the Board has not been notified of that nominee, nor where an objection has been raised against a candidate as per the provisions of this Article.

The Board may request the Exchange's Board of Directors to displace any member who, during the tenure of his position, no longer meets any condition of those set out under the previous Article, or if such action is deemed appropriate to maintain the safety of investors' assets or is in the Exchange's interest. In case of failure to displace this member, the Board may issue a reasoned decision to terminate them from their position and notate that order in the Authority's records.

- Article 2-1-4** The Chairman of the Board of the Exchange shall represent the Exchange before others and the courts, in addition to other competences stated in the Company Contract, and shall also execute the Board of Directors' decisions. The Exchange shall have a Chief Executive Officer or more appointed by the Board of Directors pursuant to the controls specified by the Authority and after its approval. The Chief Executive Officer is entitled to manage the Exchange, and the Board of Directors shall specify his remuneration and authorities. It is prohibited to conjoin the position of the Chairman of the Board of Directors with the position of the Chief Executive Officer.
- Article 2-1-5** The Exchange shall prepare appropriate policies and procedures to prevent Members of the Board of Directors from gaining access to the information of the clients and members of the Exchange, and to prevent any conflicts of interest amongst Members of the Board of Directors of the Exchange and those clients and members. The aforesaid policies and procedures shall be submitted to the Authority for approval.
- Article 2-1-6** Employees of the Exchange are prohibited from participating as a Member of the Board of Directors or from accepting any position in a Listed Company or a Licensed Person or any related party.
- Article 2-1-7** Each employee and every Member of the Board of Directors of the Exchange, is obliged to disclose, as soon as being appointed, to the Compliance Officer of the Exchange the details of all Shares they own in the Listed Companies in the Exchange, including the ownership of their minor children under their custody, and any change that may occur to that ownership.
- The Exchange shall submit an annual report including the details of these disclosures to the Authority.
- Article 2-1-8** Each employee in the Exchange and every Member of the Board of Directors of the Exchange is obliged to keep the confidentiality of the data and inside information that they gain sight of, by virtue of their position or through their professional or personal relations, and they are not allowed to reveal such, or give advice on the basis thereof to another non-insider. They shall not sell, purchase or subscribe in listed Securities or those Securities that applied for listing unless under the circumstance and conditions stipulated in Article (2-1-9) of this Module.

Article 2-1-9

Without violating the provisions of Article (2-1-8) of this Module, employees of the Exchange and their minor children under their custody are not allowed to purchase, sell, or subscribe in listed Securities or those Securities that applied for a Listing Application, unless in the following cases:

1. Inheritance and will.
2. Execution of a court judgment.
3. Public Offering in companies allocated by the State, or offered from public entities and authorities, and subscribing to the Pre-emptive Right in increasing the companies' capital in which they own shares.
4. Obtaining prior permission from the direct manager, the Compliance Officer and the Chief Executive Officer of the Exchange to sell or purchase the listed Securities. In the event of approval, selling or purchasing shall be completed within two Business Days. Any Shares purchased after such an approval may not be sold before six months after taking possession.

The Exchange shall prepare a code of professional conduct for the Members of the Board of Directors of the Exchange which shall regulate the trading of the Exchange's Member of the Board of Directors in listed Securities and those Securities that applied for a Listing Application in the Exchange.

Article 2-2

Regulatory Requirements

Article 2-2-1

The Exchange shall abide by the following:

1. Set policies and procedures to ensure the fairness, transparency and efficiency of trading in listed Securities.
2. Ensure that management maintains proper awareness of the risks associated with its business and operations.
3. Set policies and procedures to determine and manage any conflicts of interest between the Exchange and its members or among shareholders or management.
4. Provide and operate its services in accordance with applicable laws and regulations.
5. Organize its operations, standards of practice and its members' behaviour in accordance with the rules, policies and procedures of the Exchange.
6. Set preventive measures to ensure the sound management of the technical operation of its systems, including the establishment of effective contingency arrangements to cope with the risks of system disruptions.
7. Provide its services in accordance with the most advanced automated systems and techniques in line with the international standards approved and set by the Authority.
8. Maintain sufficient financial resources to facilitate the performance of its business in a regulated form.
9. Maintain the confidentiality of all information under its custody with respect to its members, Issuers and clients. It is not permissible to disclose such information except to the Authority, or by its order or by a judicial order. It shall set policies and procedures to protect the information systems.
10. Follow the Authority's instructions.

Article 2-2-2

After obtaining the approval of the Authority, the Exchange shall prepare, and ensure adherence to, policies and procedures to preserve the confidentiality of the information and data related to trading in Securities or related to the Members of the Exchange or the Issuers. Moreover, Members of the Board of Directors of the Exchange and any unauthorized employee are not allowed to review such data unless to do so is within the limits of those policies and procedures.

Article 2-2-3

The Exchange shall not enter into any outsourcing agreement relating to the delegation of any of its functions to another person without obtaining the Authority's approval.

Article 2-2-4

Where an Exchange, because of the occurrence of any event or circumstances, is unable to operate any of its facilities or to provide any of its services within its regular working hours, it must immediately notify the Authority of that inability and provide further information as the Authority may require in that concern.

- Article 2-2-5** The Exchange company shall inform the Authority immediately on the occurrence of any of the following matters:
1. If it is found that one of its members cannot comply with any of the Exchange's rules or its financial resources' regulations.
 2. If it deemed there is a financial irregularity or any other situation that may indicate inappropriateness of a member or his incapacity to fulfil his obligations.
 3. Any disciplinary action is taken against any member, operator, or his subordinates.
- Article 2-2-6** The Exchange shall provide the Authority with any reports, data or information that may be required by the Authority.
- Article 2-2-7** The Exchange shall make public the prices, volume and time of the transactions executed in respect of listed Securities. The related information shall be available to the public at an appropriate financial charge.
- Article 2-2-8** The Exchange shall not suspend, cancel or amend any sale or purchase transaction in a Security except in accordance with the rules and instructions set by the Authority.

Article 2-3

Rules and Regulations of an Exchange

Article 2-3-1

No rule issued by an Exchange, or any amendment thereof through withdrawal, replacement or change thereof or addition thereto, shall be valid unless approved by the Authority. The Exchange shall submit the reasons and objectives for proposing such a rule or amendment thereof and set out its impact; thereupon, the Authority may give its approval, disapproval or amendment and shall notify the Exchange of its decision within a period not exceeding three months of the date of notification of the proposal.

Article 2-3-2

The Exchange shall prepare policies and procedures necessary to perform its activities after obtaining the Authority's approval. Those policies and procedures shall in particular cover the following:

1. Agreements concluded between the Exchange and Members of the Exchange or the Clearing Agency, Market Maker or Issuers of Securities admitted to trading in the Exchange including the acknowledgement of contractors with the Exchange and their adherence to the rules and procedures of the Exchange.
2. Announcement of disclosures and the publishing of such information.
3. Risk management.
4. Complaints.
5. Monitoring System.
6. Disciplinary actions.
7. Charges and fees.
8. Code of professional conduct applicable to Members of the Board of Directors of the Exchange and its employees.

Article 2-3-3

The Exchange shall prepare rules for trading in Securities that are listed in the Exchange in order to ensure that they are traded in a fair, efficient and transparent manner, after obtaining the Authority's approval thereof. The Exchange must have measures to verify that Issuers of Securities admitted to trading on the Exchange comply with their disclosure obligations under the Law and applicable regulations.

The Exchange is obliged, periodically, to ensure that the Securities admitted to trading are in compliance with the Exchange's requirements.

- Article 2-3-4** The Exchange must notify the Authority with any material Violations of its rules or regulations by Members of the Exchange or Traders. The Exchange must provide the Authority with any information required in this respect.
- Article 2-3-5** The Authority may request from an Exchange to prepare policies and procedures or specific rules or regulations within its scope of activities, or to amend it within a certain period. If the Exchange fails to abide by or to meet such a request within the specified period, the Authority may undertake such preparation or amendment on behalf of the Exchange at the expense of the latter.
- Article 2-3-6** Issuers of the Securities that are listed in the Exchange and Members of the Exchange shall adhere to the Exchange's rules and regulations.
- Article 2-3-7** The Exchange shall set, within its rules, the terms and conditions necessary for its membership, in addition to its members' obligations and rights, after obtaining the Authority's approval. The Exchange may also divide its membership into categories, in which certain conditions, rights or obligations will be applicable for each category of members. The Exchange shall ensure the compliance of its members with the provisions included within its rules.

Article 2-4**Violation's Committee****Article 2-4-1**

The Exchange shall form a committee consisting of at least three members specializing in examining the Violations committed by a Member of the Exchange, and it shall be headed by a judge delegated by the Judicial Council. The other members shall be nominated by the Exchange, and they shall not be from its employees or members of its Board of Directors or those related to it, and they shall be approved by the Authority. The members shall be experienced in financial, economic and legal affairs and not related to the Exchange.

The Exchange shall determine their rewards and the procedures of disbursing them. Membership term shall be three renewable years, and its secretariat shall be an employee of the Exchange.

Article 2-4-2

Each member of the Violations Committee is prohibited from having a direct or indirect interest, during his tenure, with any of the Exchange's Members.

Article 2-4-3

The secretariat of the Violations Committee shall be responsible for receiving the notifications concerning the Violations referred from the Authority or the Exchange as the case may be and shall submit them to the committee's chairman as well as notifying the stakeholders with the dates of the sessions and undertaking such other tasks as the committee chairman shall assign to the secretariat.

Article 2-4-4

The Violations Committee chairman may order an investigation to be conducted before submitting the Violation to the committee. Investigations shall be conducted either by the Exchange or by a committee formed by the committee chairman for that purpose for the Violations committed by the Exchange. The investigating entity shall submit its opinion to the committee chairman by submitting a memorandum including a detailed statement of the investigation procedures, summary of incidents of the Violation, proofs, evidence and recommendations. The committee may decide to dismiss the investigation.

Article 2-4-5

The secretariat of the Violations Committee shall notify the person referred to the Violations Committee with the date set by the committee to consider the alleged Violation and its content. Notification shall be at least three Business Days before the specified date. Notice procedures stipulated in Chapter Four of Module Three (Enforcement of the Law) of these Bylaws shall be followed. Notice shall be made in writing by the secretariat or through the electronic means of communication.

Article 2-4-6

The secretariat of the Violations Committee shall enable the person referred to the committee or their attorney to review all papers related to the Violation and shall provide them with a copy of the papers after the payment of the prescribed fees.

Article 2-4-7

The committee shall place before the person referred to the committee the alleged Violation and the relevant evidence in order to enable the alleged violator to defend himself in person or by appointed attorney.

Article 2-4-8	The committee shall hear the testimony of any person or consider his expertise by virtue of a decision it issues or a request from the person referred to the committee or his agent.
Article 2-4-9	The absence of the person referred to the Violations Committee, whose notification of the date was affirmed, shall not prevent the committee from considering the <u>Violation</u> and issuing a decision thereon.
Article 2-4-10	<p>This committee considers all <u>Violations</u> alleged to have been committed by any of the <u>Exchange Members</u>. The committee may impose the following penalties:</p> <ol style="list-style-type: none"> 1. Caution the <u>Violator</u> to discontinue committing the Violation. 2. Issue a warning. 3. Subject the <u>Violator</u> to further supervision. 4. Suspend the <u>Violator</u> from working or practicing the profession for a period not exceeding one year. 5. Impose restrictions on the <u>Violator's</u> activity or activities. 6. Suspend the trading of a <u>Security</u> for a specific period in the interest of the market. <p>In all cases, the committee may cancel transactions related to the <u>Violation</u> and the consequences thereof.</p>
Article 2-4-11	The secretariat of the Violations Committee shall notify the secretary of the <u>Disciplinary Board</u> on each <u>Violation</u> that is referred to the committee, setting out the parties and the nature and reason of the <u>Violation</u> .
Article 2-4-12	<p>The secretariat shall inform the <u>Authority</u> and the <u>Exchange</u> of all the decisions issued by the committee against any of the <u>Members of the Exchange</u>, details of the <u>Violation</u> committed, and the procedures taken, and the penalty imposed immediately after their issuance. The <u>Authority</u> shall be provided with all documents related to the subject within three <u>Business Days</u> from the date of issuing the decision.</p> <p>The management of the <u>Exchange</u> shall inform the <u>Authority</u> of any action taken against any of its violating Members and the details of the <u>Violation</u> committed immediately after taking it. The <u>Authority</u> shall be provided with all documents related to the subject within three <u>Business Days</u> from the date of taking the action.</p> <p>The <u>Authority</u> may, by virtue of a decision it issues or based on a grievance filed by a complainant within fifteen days of his receipt in writing of the notification of the decision, refer the subject to the <u>Disciplinary Board</u> to review the disciplinary action in accordance with its accredited review system. The <u>Disciplinary Board</u> may uphold the decision of the <u>Exchange</u> or the committee, or amend, or cancel the same by a reasoned decision.</p>

Chapter Three Clearing Agency

3

Article 3-1

Establishing and Licensing a Clearing Agency

Article 3-1-1

The Authority may license a Clearing Agency to undertake one or more of the following activities or services:

1. Providing one or all of the services related to settlements or clearing of Securities as part of the Securities Settlement System.
2. The service of safekeeping of Securities within a Central Securities Depository, transferring their ownership and registering the transactions related thereto including selling, purchasing, transfer of ownership, pledge, dividends distribution and other transactions.
3. Central Counterparty service.
4. The service of Central Counterparty for Derivatives Market.
5. Establish, own, and manage companies whose purpose is to practice any of the Clearing Agency's activities.
6. Any other services set by the Authority.

Article 3-1-2

In the event that a Clearing Agency is licensed for more than one of the activities set out in Article (3-1-1) of this Module, it shall practice such activities through companies with independent financial liability licensed by the Authority. A Clearing House is exempt from providing each of the settlement and clearing service, Central Counterparty service, and the service of Central Counterparty for Derivatives Market which can be practiced through a single entity.

Article 3-1-3

In the event of combining the service of Central Counterparty and service of Central Counterparty for Derivatives Market into one company with independent financial liability, the Licensed Person shall separate all operations of those services through various departments and prepare a separate policies and procedures manual for each one of them in accordance with the service provided. This manual shall include, in particular, preventative policies and procedures to prevent the leakage of information between those departments according to the services that will be provided.

The Authority may request the Clearing Agency to provide such services through companies with independent financial liability that are licensed by the Authority.

Article 3-1-4

The Authority shall grant the Clearing Agency a license after ensuring that the cases described below shall not hinder the oversight and supervision of the Clearing Agency or lead to its non-compliance with the Law and these Bylaws. These cases include the following:

1. The existence of any relation between the Clearing Agency and any Related Party.
2. Any Person that has a direct ownership up to 20% or more of the Clearing Agency.
3. The presence of a shareholder with a right to vote on up to 20% or more of the Clearing Agency.

Article 3-1-5

A Clearing Agency license may be granted only after the fulfilment of the following conditions:

1. All the requirements and conditions set out in Appendix No. (3) of this Module.
2. Provision of guarantees set by the Authority.
3. Intention to provide one or more of the services referred to in Article (3-1-1) of this Module.
4. Provide the Authority with a list of the Major Shareholders whose direct and indirect ownerships exceed 5% of the paid-up capital and specify the beneficial owner of the Shares and its total owned Shares.
5. Any other conditions set by the Authority.

Article 3-2

Clearing Agency Management Requirements

Article 3-2-1

The conditions that are related to fit and proper rules stipulated in Module Five (Securities Activities and Registered Persons) of these Bylaws shall be fulfilled by each Member of the Board of Directors of the Clearing Agency during his tenure as a member.

Without prejudice to the provisions of Article (2-2) and Article (2-3) of Module Fifteen (Corporate Governance) of these Bylaws, the percentage of independent members shall be one-third at least and not less than two independent members.

Article 3-2-2

The Clearing Agency shall prepare appropriate policies and procedures to prevent the Members of the Board of Directors from gaining access to information of the Clients and the Clearing Agency Members, and to prevent conflicts of interest amongst the Members of the Board of Directors of the Clearing Agency and those Clients and members.

In the event that the Clearing Agency is a Subsidiary Company of any other entity, the Clearing Agency shall prepare the aforesaid policies and procedures, taking into account any circumstances that may lead to cases of conflicts of interest arising as a result of the legal and organizational structure and the commercial activities of another entity related to the Clearing Agency. It shall include the following as a minimum:

1. Identifying the circumstances which constitute or may constitute a conflict of interest resulting in harm to the interests of one or more Member of the Clearing Agency or their Clients.
2. Defining procedures that must be followed and measures to be taken in order to manage cases of conflicts of interest.

The Clearing Agency shall submit the policies of conflicts of interest to the Authority for approval.

Article 3-2-3

Employees of a Clearing Agency are prohibited from participating as Member of the Board of Directors or from accepting any position in a Listed Company or a Licensed Person or any related party.

An exception is made from the provisions of the previous paragraph if the employees of the Clearing Agency are Members of the Board of Directors of a Subsidiary Company of the Clearing Agency, provided that the Subsidiary Company is licensed to practice any of the Clearing Agency's activities.

Article 3-2-4

Each employee and every Member of the Board of Directors of a Clearing Agency, is obliged to disclose, as soon as being appointed, to the Compliance Officer of the Clearing Agency the details of all Shares they own in the Listed Companies, including the ownerships of their minor children under their custody and any change that may occur to that ownership.

The Clearing Agency shall submit an annual report including the details of these disclosures to the Authority.

Article 3-2-5

Each employee in a Clearing Agency and every Member of the Board of Directors of a Clearing Agency is obliged to keep the confidentiality of the data and inside information that they gain sight of by virtue of their position or through their professional or personal relations, and they are not allowed to reveal such, or give advice on the basis thereof to another non-insider. They shall not sell, purchase or subscribe in listed Securities or those Securities that are under a Listing Application unless under the circumstance and conditions stipulated in Article (3-2-6) of this Module.

Article 3-2-6

Without prejudice to the provisions of Article (3-2-5) of this Module, employees of a Clearing Agency and their minor children under their custody are not allowed to purchase or sell listed Securities or those Securities that applied for a Listing Application, except in the following cases:

1. Inheritance and will.
2. Execution of a court judgment.
3. Public Offering in companies allocated by the State, or offered from public entities and authorities, and subscribing to the Pre-emptive Right in increasing the companies' capital in which they own Shares.
4. Obtaining prior permission from the direct manager, the Compliance Officer and the Chief Executive Officer of the Clearing Agency to sell or purchase the listed Securities. In the event of approval, selling or purchasing shall be completed within two Business Days. Any Shares purchased after such an approval may not be sold before six months after taking possession.

The Clearing Agency shall prepare a code of professional conduct for the Members of the Board of Directors of the Clearing Agency which shall regulate the trading of the Clearing Agency's Member of the Board of Directors in listed Securities and those Securities that applied for a Listing Application in the Exchange.

Article 3-2-7

The remunerations of the independent members and the other non-executive Members of the Board of Directors shall not be linked to the performance of the Clearing Agency.

Article 3-3

Regulatory Requirements

Article 3-3-1

A Clearing Agency shall abide by the following obligations:

1. Arrange for fair and effective clearing and settlement in relation to any commercial transactions in Securities.
2. Manage risks associated with its activity and operations at the highest levels of professionalism.
3. Prioritize the public interest and that of those who deal with the company above the company's own interests.
4. Manage its services according to the related rules approved by the Authority.
5. Maintain confidentiality of all information and data under its possession, except what is required by the Authority or the judicial authorities.
6. Provide its services with the most advanced technology and automated systems in line with the international standards adopted by the Authority or as requested or decided by the Authority.
7. In the event of a Clearing House, the requirements stipulated in Article (3-5) of this Module shall be complied with.
8. In the event of Central Securities Depository, the requirements stipulated in Article (3-6) of this Module shall be complied with.

Article 3-3-2

The Clearing Agency shall not disclose confidential information regarding the services it is providing except to the following Persons:

1. The account holder or their authorized representative in respect of his account information.
2. The Authority.
3. Judicial authorities of the State of Kuwait, or to any Person based upon a judicial order.
4. Governmental authorities and departments concerned in enforcing the laws and systems of anti-money laundering and combating terrorism financing or anti-corruption.
5. The Exchange or another Clearing Agency in order to fulfil its obligations pursuant to agreements concluded with such an Exchange or Clearing Agency subject to the Authority's approval.
6. If the disclosure of this information is necessary to comply with the applicable laws and regulations.

Article 3-3-3

Outsourcing

The Clearing Agency shall not enter into any outsourcing agreement relating to the delegation of any of its operating services or activities to another Person as a service provider without obtaining the Authority's approval.

Article 3-3-3-1

At all cases, the Clearing Agency shall not enter into outsourcing agreement to carry out any of the risk management tasks or whereby to transfer the exclusive rights of the Clearing Agency's data to the service provider.

Article 3-3-3-2

In the event that the Clearing Agency outsources any of its operating services or activities, it remains fully responsible to meet all obligations pursuant to the Law and these Bylaws, and it shall ensure the following at all cases:

1. Outsourcing will not lead to a delegation of its responsibility as a Clearing Agency.
2. Shall not affect the Clearing Agency's relation and obligations toward its members.
3. Will not lead to its Violation of any of its licensed terms and conditions.
4. Outsourcing will not obstruct the ability of the Authority to practice any of its supervisory and regulatory tasks.
5. It shall not lead to the Clearing Agency's prevention of the necessary systems and controls for its risk management.
6. The service provider shall implement the requirements of business continuity as requested by the Clearing Agency pursuant to the Law and these Bylaws.
7. The Clearing Agency maintains the necessary expertise and resources to assess the quality of the services, regulatory efficiency, and capital adequacy of the service provider, supervises the functions, services, or activities assigned to the service provider efficiently, and manages and follows-up the risks associated with it continuously.
8. The Clearing Agency has a direct access to relevant information related to the outsourced functions.
9. The assigned service provider cooperates with the Authority with regards to his assigned activities.
10. The assigned service provider protects any confidential information related to the activities of the Clearing Agency and its members and Clients.

Article 3-3-3-3

The Clearing Agency shall clearly allocate and determine its rights and obligations and the rights and obligations of the assigned service provider in a written agreement. The agreement shall include the following aspects as an example:

1. Detailed description of the outsourced service and service provider's services.
2. Mutual responsibilities, rights, and duties, which include data ownership rights, and in particular the rights of the Clearing Agency of inspection, instructions, and supervision.
3. Security measures that should be met by the service provider.
4. The service provider's compliance with the confidentiality and privacy requirements of the Clearing Agency's data.

Article 3-3-3-4

The Clearing Agency and the assigned service provider shall provide all the necessary information upon the Authority's request to enable it to assess its compliance with the requirements of the Law and these Bylaws.

Article 3-3-4 Business Continuity

Article 3-3-4-1

Without prejudice to the provisions of Chapter Six “Business continuity” of Module six (Policies & Procedures of Licensed Persons) of these Bylaws, the Clearing Agency shall set in place plans and procedures for business continuity to ensure its ability to maintain or restore its operations in the nearest time upon the occurrence of disorders and disasters. Such measures shall be documented and tested at least annually, and they shall include the following in particular:

1. Tasks, responsibilities, and authorities of the organizational units of the Clearing Agency and their business continuity plan.
2. Business impact analysis.
3. Disaster strategy and recovery plan.
4. Reporting, communication and training tasks.

Article 3-3-4-2

The Clearing Agency shall prepare an annual report to analyse the business impact which shall determine the objectives of the points and the time for recovery of vital processes to operate the Clearing Agency. The report shall be available upon the Authority’s request without delay.

Article 3-3-4-3

Where a Clearing Agency, because of the occurrence of any event or circumstances, is unable to operate any of its facilities or to provide any of its services within its regular working hours, it must immediately notify the Authority of that inability and to provide further information as the Authority may require in that concern.

Article 3-3-4-4

The Authority may issue instructions to the Clearing Agency to ensure fair, orderly and appropriate settlement of Securities transactions and to maintain the integrity and soundness of comprehensive risk management in Securities markets. The Authority may, in particular, issue instructions concerning the settlement of Securities contracts, and make amendments to the contractual obligations that may arise from the Securities contracts or any other matters deemed necessary by the Authority to implement the provisions of the Law.

Article 3-4

Rules and Regulations of a Clearing Agency

Article 3-4-1

The Authority shall require a Clearing Agency to prepare the rules and regulations related to the operations of clearing, settlement and registration of Securities and other activities that relate to the Clearing Agency’s business, or to amend the same within a certain period. If the Clearing Agency does not comply with the requirements within the specific period, the Authority may prepare or amend the said rules on behalf of the Clearing Agency and its expenses shall be reimbursed by the Clearing Agency.

Article 3-4-2

The Clearing Agency shall prepare rules and regulations necessary to perform its activities and conduct any amendments thereon according to the activity or service it is providing, after obtaining the Authority's approval. Those rules and regulations shall in particular cover the following:

1. Providing services of clearing and settlement related to Securities, and they shall include the obligations related to delivering the Securities and the procedures that facilitate settlement of Securities and Financial Derivatives' transactions in the Exchange on the specified settlement date, and they shall limit the traders' exposure to the counterparty and liquidity risks. Such procedures shall include additional procedures to prevent the settlement default or any other related services.
2. Providing services of Central Counterparty and any other related services.
3. Providing Securities depository services, which include the services of general assemblies that include the services of the general assemblies held through the Electronic System of Participation, and any related services.
4. Becoming a member of a Clearing Agency and the obligations of its members, in addition to cancelling or suspending the membership.
5. Monitoring system.
6. Specifications of the rights and obligations of parties to Securities transactions in respect of providing Clearing Agency's services or any other related services.
7. Information, data and records that the Clearing Agency must disclose, and those to which the public may have access and obtain copies thereof.
8. Information, data and records which are considered confidential, and the Persons authorised to access the same due to the nature of their work.
9. Determination of the time at which the rights of the creditors of parties to a Securities transactions arise, including the rights pertaining to the cash return or its equivalent and the relevant Securities as a result of sales, purchases or ownership transfer operations. This should be without prejudice to the provision of Article (3-6-6) of this Module, and the provisions of Articles (8-1), (10-1), and (10-1-1) of Module Eleven (Dealing in Securities) of these Bylaws.
10. Services, fees, commissions, charges, and expenses.
11. Code of professional conduct applicable to the Clearing Agency's Members of the Board of Directors and its employees.
12. Dealing with the complaints of the Clearing Agency Members and Clients.
13. Rules and procedures of risk management relevant to the transactions of Central Counterparty and Central Counterparty for Derivatives Market members, particularly the requirements of financial guarantees.
14. Procedures to be followed in the event that any person dealing with a Clearing Agency fails to deliver Securities or funds for the purposes of settling a transaction or other obligations within the clearing system.
15. Any other rules and regulations specified by the Authority.

The Clearing Agency shall prepare the policies and procedures required for implementing the matters included in the rules referred to in the first paragraph. The Authority may require the Clearing Agency to obtain the Authority's prior approval on the policies and/or procedures as it deems appropriate. In all events, the Clearing Agency shall submit all the policies and procedures to the Authority.

The Authority may exempt the Clearing Agency from some of the requirements or impose additional requirements according to the nature of the activity licensed to the Clearing Agency.

Article 3-4-3	No rule issued by a <u>Clearing Agency</u> nor amendments thereof, either by withdrawal, replacement or change, or addition thereof, shall be valid and effective unless accredited by the <u>Authority</u> . The <u>Clearing Agency</u> shall submit the reasons and objectives for proposing such a rule or amendment and set out its impact; thereupon, the <u>Authority</u> may give its approval, disapproval or amendment thereof and shall notify the <u>Clearing Agency</u> in writing of its decision within at latest one week of date of its decision.
Article 3-4-4	The <u>Clearing Agency</u> shall, where practical and available, use the system of the <u>Central Bank</u> for the settlement and clearing of the cash side of transactions in accordance with the conditions and policies set by the <u>Central Bank</u> . In the event of not using the system of the <u>Central Bank</u> , the necessary steps and procedures to limit the cash settlement risks must be taken.
Article 3-4-5	All Issuers of <u>Securities</u> that were admitted to trading on an <u>Exchange</u> and <u>Clearing Agency Members</u> shall comply with the <u>Clearing Agency's</u> rules once they are approved by the <u>Authority</u> and have come into effect.
Article 3-4-6	<p>The <u>Clearing Agency</u> shall have adequate resources for effective monitoring and enforcement of compliance with such rules. In the event that one of the traders does not comply with the clearing rules, the <u>Clearing Agency</u> may bind that trader to pay the fees resulting from his incompliance. The <u>Clearing Agency</u> should prepare a table setting out the stipulated fees regarding incompliance to the rules. The <u>Authority</u> shall approve the table or any amendment to it before it may be enforced.</p> <p>The <u>Clearing Agency</u> shall notify the <u>Authority</u> immediately upon the imposition of any fees under this Article, in addition to notifying the <u>Authority</u> about the incompliance incident related to those fees.</p>
Article 3-4-7	The <u>Clearing Agency</u> shall notify the <u>Authority</u> immediately of any case that leads to the occurrence of <u>Systemic Risks Expected to Occur in Securities Activities</u> .
Article 3-4-8	The <u>Clearing Agency</u> shall publish all rules, regulations, policies, procedures, fees, and commissions that it issues with respect to the method of dealing with its members and users of its services through its website.

Article 3-5

Detailed Requirements for the Clearing House

The provisions of sub-articles of this Article shall apply to the Clearing House.

Article 3-5-1

The rules and regulations of the Clearing House, in addition to the requirements stipulated in Article (3-4) of this Module, shall include the following:

1. Default Fund.
2. Default management.
3. Transfer of contractual positions and liabilities, netting and set-off.
4. Membership types, which include the legal, organizational, and technical and risk management arrangements regarding Clearing Members.

Article 3-5-2

Novation

The Clearing Members that conduct clear transactions on behalf of their Clients shall have the necessary financial resources and operational capacity to perform this activity. The Clearing House shall set the conditions and criteria required for the financial resources and operational capacity in its rules and regulations pursuant to article (3-4) of this Module.

The Clearing House shall deal with the Clearing Member as the principal for the settlement of all the obligations determined in the rules of the Clearing House, and his obligations towards the Clearing House remain effective and binding.

Article 3-5-3

Segregation of Funds, Assets, and Positions

Without prejudice to the duties of the Clearing Member in his capacity as a Licensed Person stipulated in Module Seven (Clients' Funds and Clients' Assets) of these Bylaws, the Clearing House shall maintain segregated records and accounts to determine the following:

1. Its own funds, assets, and positions from the funds, assets, and positions of its members.
2. The funds, assets, and positions held for the account of one Clearing Member from the funds, assets, and positions held for the account of any other Clearing Member.

The Clearing House shall maintain segregated records and accounts to enable each Clearing Member to perform the following:

1. Distinguish between the funds, assets, and positions of the Clearing Member and those reserved for the accounts of his Clients (omnibus client segregation).
2. Distinguish between the funds, assets, and positions held for the Client's account and those held for the accounts of the other Clients (individual client segregation).

Article 3-5-4

Portability of Funds, Assets, and Positions

In the event of a Clearing Member Default Event, the Clearing House shall set the rules and regulations that ensure the transfer of funds, assets, and positions held by the defaulted Clearing Member on behalf of its Clients to another Clearing Member.

In the event that the transfer of funds, assets, and positions was not performed during the specified periods by the Clearing House, the Clearing House may take all measures in accordance with its rules and regulations to ensure the transfer of the funds, assets, and positions of the Clients' accounts with the defaulted Clearing Member to another Clearing Member.

Article 3-5-5

Risk Management

Further to the requirements stipulated in Chapter Four (Risk Management) of Module Six (Policies & Procedures of Licensed Persons) of these Bylaws, the Clearing House shall have in place a system to determine, assess, manage, and monitor the risks, with respect to the following in particular:

1. Legal risks.
2. Settlement risks.
3. Any other relevant risks.

The Clearing House shall have in place rules that require the Clearing Members to have systems that ensure business continuity and limit the risks arising from themselves and from the Clearing House.

The Clearing House shall ensure the existence of effective procedures and systems for internal control which include compliance with the legal and internal business rules and regulations.

Article 3-5-6

Risk Management Procedures

The Clearing House shall monitor the Clearing Members Default Events, and shall establish the necessary procedures to address them and periodically test those procedures and have appropriate arrangements in place to respond to the Clearing Members Default Events.

The risk management models shall be subjected to frequent stress tests by the Clearing House to assess their resilience in different market conditions and shall perform back tests to assess the adopted methodology. The Clearing House shall notify the Authority of these tests' results and obtain the Authority's approval prior to adopting any material change in the approved models and parameters.

The Clearing House shall review the approved models and parameters to calculate the margin requirements, Default Fund contributions, collateral requirements, and other risk control mechanisms related to Clearing Members Default Events. Such revision shall be performed regularly, and at least quarterly.

Article 3-5-7

Risk Advisory Committee

Article 3-5-7-1

The Clearing House must establish a Risk Advisory Committee of no less than three members and whose representatives shall consist of:

1. Clearing Members.
2. Independent Members of the Board of Directors.

The majority of the committee shall be non-executive members, and it shall be chaired by a member of competent knowledge and practical experience, and is fully independent from the executive management of the Clearing House. The Risk Advisory Committee shall take its decisions independently without any influence of the management of the Clearing House.

The Risk Advisory Committee may invite the employees of the Clearing House and external independent experts to attend the meetings of the committee, without having voting right. The Authority may request to attend the meetings of the Risk Advisory Committee, and its representative may not have voting rights, and it shall be informed of the activities and decisions of the Risk Advisory Committee.

The advice of the Risk Advisory Committee shall be independent of any direct influence of the Members of the Board of Directors of the Clearing House.

Article 3-5-7-2

The Clearing House shall clearly determine the delegation mechanism, governance arrangements to ensure its independency, operational procedures, approval criteria, and the mechanism of electing the members of the Risk Committee, the membership terms of the committee's members, and its business model.

Article 3-5-7-3

The Risk Advisory Committee shall provide advice to the Board of Directors regarding all matters that may affect risk management at the Clearing House, such as significant or material changes to its risk forms, procedures for addressing defaults, Clearing Members acceptance criteria, clearing through new categories of financial instruments, or outsourcing.

In case of emergencies, the necessary due care and effort shall be made for discussion with the Risk Advisory Committee regarding the updates that may affect risk management at the Clearing House.

Article 3-5-7-4

The Clearing House and members of the Risk Committee shall maintain the committee's meetings confidentiality, the discussed matters, and the decisions taken or provided recommendations, and it is prohibited to disclose information related to the aforementioned unless in the circumstances determined by law or based on the Authority's approval.

Article 3-5-7-5 In the event that one or some of the committee's members has conflict of interest regarding an issue brought before the committee, such member shall not attend the committee's meeting or discuss an issue brought before the committee. At all cases, the member must disclose to the committee any case of conflict of interest.

Article 3-5-7-6 The Clearing House shall immediately notify the Authority in writing of any decision where its Board of Directors decides not to take the advice of the Risk Committee.

Article 3-5-8 **Margins**

The Clearing House shall impose and collect the margins -according to the approved methodology- to limit the credit exposure to the Clearing Members against the transactions that are settled or will be settled through the Clearing House. These margins shall be adequate to cover all potential exposures estimated by the Clearing House.

The Clearing House shall call and collect the margins as follows:

1. Within the period predetermined by the Clearing House in its rules and regulations.
2. In a method that ensures the sufficiency of the margins to cover all the risks resulted from the positions registered in each segregated account pursuant to Article (3-5-3) of this Module, in segregated records and accounts to distinguish between the assets and positions held for the account of one Clearing Member from the assets and positions held for the account of the other Clearing Members.

Article 3-5-9 **Collateral**

The Clearing House shall accept highly liquid collateral with minimal credit and market risks from the Clearing Members to cover its initial and ongoing exposures, taking into account the concentration risk on collateral assets.

The Clearing House shall determine the following in its rules and regulations:

1. Type of collateral that could be considered highly liquid .
2. Decreasing the collateral value (haircut) and its application methodology.

Article 3-5-10

Default Fund

The Clearing House shall maintain a pre-funded Default Fund to cover the losses that exceed the losses to be covered by the margin requirements set forth in Article (3-5-8) of this Module, which result from the Clearing Members Default Events. The Clearing House shall determine the following:

1. The minimum amount of the Default Fund.
2. The minimum size of contributions to the Default Fund and the criteria for calculating the contributions of the Clearing Members, taking into account that such contributions are proportionate to the risks of each member.
3. The contributions of the Clearing House to the Default Fund.
4. The order in which the Default Fund collaterals are exhausted (Risk Waterfall).

The Clearing House may establish more than one Default Fund for different classes of Securities.

Article 3-5-11

Clearing Member Default Event

In the event of a Clearing Member Default Event, the Clearing House shall take immediate measures to cover the resulted losses on the Clearing House, which include the use of margins and the contributions to the Default Fund and the other financial resources in accordance with the approved rules and procedures.

Article 3-5-12

Other Financial Resources

Further to the requirements of the Default Fund set forth in Article (3-5-10) of this Module, the Clearing House shall maintain sufficient pre-funded financial resources, such as funds or credit lines, to cover the potential losses that exceed the losses to be covered by the margin requirements.

The Clearing House may require from the non-defaulting Clearing Members to provide additional funds in the case of a Clearing Member Default Event.

Article 3-5-13

Record Keeping

The Clearing House shall maintain all the records of provided services and activities, and data of the information of all settled operations for a period of no less than 10 years from the date of execution or until settlement of any ongoing dispute between the Licensed Person and the Client, whichever is longer.

Article 3-5-14

Investment Policy

The Clearing House shall invest its financial resources in cash or in highly liquid financial instruments with minimal credit risk. These instruments shall be promptly liquidated with minimal adverse price impact.

The cash deposits of the Clearing House are held in standing deposits or other instruments provided by the Central Bank or through secure arrangements with local banks.

Article 3-5-15

Transparency

The Clearing House shall comply with the following transparency requirements:

1. The Clearing House and Clearing Members shall publish on their websites all fees and commissions related to their services for each service provided separately, including discounts and the conditions for benefiting from them. The Clearing House shall provide the Authority with an annual report on the revenues and expenses related to each service separately.
2. The Clearing House shall provide to the Clearing Members with the risks related to each of its services.
3. The Clearing House shall disclose to the Clearing Members and the Authority the price information used to calculate its end of trading day exposures for its members. The Clearing House is required to publish on its website the volumes of cleared trades for each class of Securities on an aggregated basis.
4. The Clearing House shall publish on its website the operational and technical requirements related to communication protocols, including the content and message formats with external parties.
5. The Clearing House shall publish on its website any Violations committed by the Clearing Members on any of the rules or regulations governing their membership, except in cases where the Authority considers that such disclosure would constitute a threat to the financial stability or to market confidence , or would seriously jeopardize the financial market, or cause damage that is disproportionate to the size of the Violation.

Article 3-5-16	Users Groups of Clearing House Services
Article 3-5-16-1	The <u>Clearing House</u> shall create <u>Users Committee</u> for the <u>Clearing House</u> services (<u>User Groups</u>), consisting of representatives from its members and users of its services.
Article 3-5-16-2	The <u>Users Committee</u> recommendations shall be independent of any influence from the <u>Clearing House's</u> management.
Article 3-5-16-3	The <u>Clearing House</u> shall notify the <u>Authority</u> immediately of any decision by its Board of Directors that do not follow the recommendations of the <u>Users Committee</u> , with an explanation for the reasons for the decision.
Article 3-5-16-4	The <u>Clearing House's</u> Board of Directors shall determine the term of membership of the <u>Users Committee</u> , working methods, and their management mechanisms by a decision issued by the <u>Clearing House's</u> Board of Directors.
Article 3-5-17	Policies and Procedures <p>The policies and procedures for implementing and managing the <u>Clearing House's</u> operational processes shall include, in particular, the following:</p> <ol style="list-style-type: none"> 1. Training programs for <u>Clearing Members</u>, requirements, and necessary documents. 2. Establishing and managing the <u>Users Groups</u> for the <u>Clearing House's</u> services. 3. Engaging external entities to perform some of the tasks it undertakes. 4. Investment Policy. 5. The IT systems used, structure, controls, supervision systems, and reporting methods. 6. Remuneration of <u>Board Members</u> and executive management, to promote sound and effective risk management. 7. Employee remuneration, to ensure the independence of the compensation of risk management, compliance, and internal audit staff from the <u>Clearing House's</u> financial performance . 8. Record keeping. 9. Members' operational processes, which define how members work with the <u>Clearing House</u> in accordance with the licensed service. 10. Reviewing the performance of the post-trade model for the <u>Central Counterparty</u> service to verify its performance and conduct stress tests or any other required tests. 11. Any other requirements set forth by the <u>Authority</u>.

Article 3-6	Detailed Requirements for Central Securities Depository
	The provisions of the sub articles apply to <u>Central Securities Depository</u>
Article 3-6-1	<p>Each <u>Issuer</u> shall have a special register kept with the <u>Central Securities Depository</u>. The register shall contain the names, nationality, domicile, and number of <u>Securities</u> owned by each holder, the type and the capital paid in for each <u>Securities</u>.</p> <p>The register shall be updated by any changes required to be registered and which are received from the <u>Issuer</u> or the <u>Central Securities Depository</u>. Any party with a relevant interest may request the <u>Issuer</u> or the <u>Central Securities Depository</u> to provide them with such information from the register.</p>

Article 3-6-2

3

After obtaining the approval of the Authority, the Central Securities Depository shall prepare the policies and procedures of offering the services of the general assembly that shall include the following as a minimum:

1. The procedures of verification of proxies or the powers of attorneys for attendance and participation of shareholders and holders of other Securities or their representatives in the general assemblies and the authorities of the holders of those Securities in order to ensure the legal and fair representation in the attendance and participation, and to apply any legal or contractual restrictions concerning the voting rights.
2. The mechanism of the Custodian's participation by requesting access to the data on the Electronic System of Participation for all the accounts of their shareholder Clients.
3. The participation mechanism of the Clients of portfolio accounts, the electronic trading accounts managed by the Clients and the portfolios managed by the companies of the Licensed Persons. A participation mechanism shall be specified in compliance with the internal systems of the Licensed Persons providing the service.
4. Providing special forms to the shareholders or their representatives and the Issuers to participate in the general assemblies, whether in the assembly's headquarters or through the electronic systems.
5. The mechanism followed in the event that the general assembly's meeting was postponed due to the lack of a quorum for participation.
6. The mechanism followed in transferring the data of the shareholders' registries to the general assemblies' systems.
7. The mechanism followed to allow each shareholder or his representative to use the Electronic System of Participation in the general assemblies through accessing and viewing the documents submitted by the Issuer, and attending and participating in the voting on the general assembly's resolutions in which he only participates.
8. The mechanism followed to participate in the voting on items of the meeting and verifying the vote through the Electronic System of Participation.
9. The mechanism followed by the shareholder or his representative to express approval or objection of the items, in addition to inquiries through the Electronic System of Participation window prior to or during the general assembly.
10. The mechanism followed to activate the feature of transmitting the events of the general assembly meeting through audio and video.
11. The mechanism used to facilitate the process of the counting of the votes in the general assemblies and the authorities of the Securities' holders.
12. The mechanism for calculating the quorum and the results of attendance or participation.
13. The reports on the quorum and the results of voting on the items of the meeting issued through the Electronic System of Participation of the general assemblies.
14. The reports of the notices and reservations of the shareholders or their representatives from the participants in the Electronic System of Participation.
15. Reports to be provided to the Authority, including the data on the attendance at the general assemblies, the authorities of the Securities' holders and the percentages of voting on each of the agenda items.

Article 3-6-3

The deposited listed Securities shall be registered and the obligations resulting from them shall be settled through the Central Securities Depository. It is not permissible to deal in those Securities or to obtain any consequential rights except through registration in the Central Securities Depository's registers.

The Central Securities Depository shall carry out the procedures for registering the ownership transfer of Securities in the Central Registry of Securities in accordance with the Central Depository Rules approved by the Authority.

The Central Securities Depository may reject to register ownership of Securities in any of the following cases:

1. Any dealing in Securities that violates the provisions of Article (3-6-6) of this Module;
2. Any transaction that requires prior approval from the Authority, the Exchange, or the Central Securities Depository, and the applicant has not obtained such approval;
3. If there is a ruling, order, or decision issued by a judicial authority prohibiting the dealing of shares.

Article 3-6-4

With consideration to Article (3-6-10) of this Module, the owners of Securities, whose holdings are registered at the Central Securities Depository may request it to issue a statement of holding, showing their names and number of owned shares.

The Central Securities Depository shall issue to the Omnibus Account Operator such statement against its registered holding.

Article 3-6-5

The depository receipts issued by the Central Securities Depository is considered prima facie evidence of title at the time of issuance of the Securities holder's shareholding if it conforms to the registers held by the Central Securities Depository.

Article 3-6-6

Rights and obligations arise for anyone who trades in listed Securities by selling or purchasing by executing transactions through the Exchange's trading system with settlement pursuant to the rules adopted by the Clearing Agency. The Exchange's rules may include provisions for certain transactions after the Authority's approval.

The title of the Securities that are listed in an Exchange shall only be transferred by virtue of completing the entries in the designated registers at the Clearing Agency, unless such transfers are in Violation of the laws, regulations, or rules or the contract of the company that issued such Securities.

Article 3-6-7

Securities that have been permanently cancelled from trading shall be excluded from the Central Securities Depository system, whatever was the reason of the cancellation.

Article 3-6-8	The <u>Central Securities Depository</u> shall provide the Issuers of the <u>Securities</u> that are deposited in it with the requested reports in accordance with the Central Depository's rules which are approved by the <u>Authority</u> .
Article 3-6-9	Any pledge, attachment, redeeming a pledge, cancellation of attachment, transfer of title or any other action concerning a <u>Security</u> shall be recorded in the <u>Central Securities Depository's</u> registers concerning that <u>Security</u> .
Article 3-6-10	If the <u>Securities</u> are registered in the <u>Central Securities Depository</u> under the name of a bank, a company that manages portfolios of a third party, a <u>Qualified Securities Broker</u> registered with an <u>Exchange</u> or an <u>Omnibus Account Operator</u> , then that registration must state that the title belongs to the company or to the bank or to third party's account.
Article 3-6-10-1	<p>An <u>Omnibus Account Operator</u> is responsible for complete and accurate record-keeping and safekeeping of <u>Securities</u> in <u>Omnibus accounts</u>.</p> <p>The <u>Omnibus Account Operator</u> shall hold and have available at all times a quantity of <u>Securities</u> in the <u>Omnibus Account</u> with the <u>Central Securities Depository</u> or with another <u>Omnibus Account Operator</u> in a quantity and kind equal to the total of <u>Securities</u> deposited in the <u>Securities</u> accounts of its <u>Clients</u> holding <u>Securities</u> with the <u>Omnibus Account Operator</u>.</p> <p>If the total number of <u>Securities</u> in the <u>Omnibus Account</u> falls short of the total number of <u>Securities</u> registered with the <u>Central Securities Depository</u> or with another <u>Omnibus Account Operator</u>, the <u>Omnibus Account Operator</u> must without delay purchase the missing <u>Securities</u> at his own expense and deposit it in the <u>Securities</u> account or accounts.</p>
Article 3-6-10-2	<p>The <u>Central Securities Depository</u> shall, in accordance with its rules and regulations, include the following:</p> <ol style="list-style-type: none"> 1. Oblige the <u>Depository Members</u> to conduct a reconciliation of records regarding their positions and transactions with the records of the <u>Securities</u> holders' register maintained by the <u>Central Securities Depository</u> pursuant to Article (3-6-1) of this module on an ongoing basis, at least daily, and submit the results of this reconciliation to the <u>Central Securities Depository</u>; 2. Oblige the <u>Depository Members</u> to resolve any reconciliation differences before the commencing of trading on the next <u>Business Day</u>.

Article 3-6-11

Issuers of Securities that are listed in the Exchange shall submit to the Central Securities Depository a copy of their shareholders registers, that includes the names of the holders of those Securities, information about their identities, nationalities and addresses, once these Securities are issued, or any update on the shareholders information.

The Central Securities Depository must take the reconciliation procedures for the Securities register maintained pursuant to Article (3-6-1) of this Module to verify that the number of Securities issued by the Issuer, or a part of a Securities issuance, is equal to the sum of Securities registered in the Securities accounts of Depository Members and in the Securities holders' accounts maintained by the Central Securities Depository. Such reconciliation procedures must be conducted at least daily.

Securities overdrafts, debit balances, or Securities creation in excess of the number of Securities issued in the register maintained under Article (3-6-1) of this Module are not permissible.

Article 3-6-11-1

When reconciliation reveals an unjustified excess in the creation or deletion of Securities, and the Central Securities Depository fails to resolve this excess or shortfall by the end of the next Business Day, the Central Securities Depository must suspend the issuance of the relevant Securities for settlement and any further entries to the Securities account until this issue is resolved.

The Central Securities Depository must resume settlement once the unjustified creation or deletion of Securities has been resolved.

Article 3-6-12

The Securities' register shall be subject to the supervision and control of the Authority. The Central Securities Depository may refuse to record any event in its registers if there was a Violation of laws or regulations that are applicable to the Central Securities Depository or to the Exchange.

Article 3-6-13	Users Groups of the Central Securities Depository's Services
Article 3-6-13-1	The <u>Central Securities Depository</u> shall create <u>Users Committee</u> for the <u>Central Securities Depository</u> services (User Groups), consisting of representatives from its members and users of its services.
Article 3-6-13-2	The <u>Users Committee</u> recommendations shall be independent of any influence from the <u>Central Securities Depository's</u> management.
Article 3-6-13-3	The <u>Central Securities Depository</u> shall notify the <u>Authority</u> immediately of any decision by its Board of Directors that do not to follow the recommendations of the <u>Users Committee</u> stating the reasons of the decision.
Article 3-6-13-4	The <u>Central Securities Depository's</u> Board of Directors of the shall determine the term of membership of the <u>Users Committee</u> , working methods, and their management mechanisms by a decision issued by the Board of Directors of the <u>Central Securities Depository</u> .
Article 3-6-14	Policies and Procedures <p>The policies and procedures for implementing and managing the <u>Central Securities Depository</u> operational processes shall include, in particular, the following:</p> <ol style="list-style-type: none"> 1. Establishing and managing the <u>Users Groups</u> for the <u>Central Securities Depository's</u> services. 2. Outsourcing some of its tasks to external parties. 3. The IT systems used, structure, controls, supervision systems, and reporting methods. 4. Remuneration of <u>Board Members</u> and executive management, to promote sound and effective risk management. 5. Employee remuneration, to ensure the independence of the compensation of risk management, compliance, and internal audit staff from the <u>Central Securities Depository's</u> financial performance. 6. Record keeping. 7. <u>Members' operational processes</u>, which define how members work with the <u>Central Securities Depository</u> in accordance with the licensed service. 8. Any other requirements determined by the <u>Authority</u>.

Article 3-7	Clearing Agency Members: Members of the Clearing House and Members of the Central Securities Depository
Article 3-7-1	<div>Membership</div> <div>The <u>Clearing Agency</u> shall, after the <u>Authority</u>’s approval, establish within its rules the terms and requirements for membership, as well as the obligations and rights of its members. The <u>Clearing Agency</u> may divide its membership into categories, with each category of member subject to special conditions for membership, or specific rights and obligations. The <u>Clearing Agency</u> shall ensure that its members adhere to the provisions contained in its rules.</div>
Article 3-7-2	<div>Admission Criteria</div> <div>The <u>Clearing Agency</u> shall determine the admission criteria for each category of <u>Clearing Agency Members</u>. The admission criteria must be fair, clear, and objective. The <u>Clearing Agency</u> shall ensure that all its members have sufficient financial resources and operational capacity to meet the obligations arising from their membership.</div> <div>The <u>Clearing Agency</u> shall ensure that the admission criteria are met before accepting a member and that the member continues to meet those standards.</div> <div>The <u>Clearing Agency</u> must conduct a comprehensive review of its members’ compliance at least once a year. This review shall be available to the <u>Authority</u> upon request.</div>

Article 3-7-3

Clearing Members

The Clearing House, after consulting the Risk Advisory Committee and obtaining the Authority's approval, shall establish membership requirements for its Clearing Members and the obligations of its members, including procedures for suspending or canceling Clearing Members. The Clearing House may reject an applicant for membership in writing, provided that the rejection is justified and based on a risk analysis.

The Clearing House may impose specific additional obligations on its members, such as participating in auctions for Client positions in the event of another Clearing Member's default. These additional obligations must be proportional to the risks posed by the Clearing Member and must not restrict participation to certain categories of Clearing Members.

Article 3-7-3-1

The Clearing House is committed to supervise its members' continued compliance with membership requirements and to provide timely access to information relevant to the membership. It shall also conduct an annual review to ensure its members' compliance with these requirements. The Clearing House shall include, among its requirements, the technical, operational, and financial standards necessary for membership.

The Clearing House shall establish rules that enable Clearing Members who settle transactions on behalf of their Clients to gather relevant basic information to identify, monitor, and manage risks related to these services. They shall also have additional financial resources and operational capacity to enable them to perform this service. The Clearing Member shall be responsible for ensuring that Clients comply with their responsibilities.

Article 3-7-4

Depository Members

The Central Securities Depository shall, after the Authority's approval, determine the types and obligations of Depository Members and the requirements for membership.

Chapter Four
Recovery

Article 4-1

Preface

This Chapter explains the rules and procedures related to the recovery plan for the Clearing House and the Central Securities Depository.

Article 4-2

Recovery Plan

The Clearing House and the Central Securities Depository must prepare a recovery plan that specifies the measures to be taken in cases of financial and non-financial defaults that may affect the financial position of the capital market system. The recovery plan and any subsequent amendments thereto are subject to prior written approval by the Authority.

The recovery plan shall allow the Clearing House or the Central Securities Depository to restore its sound financial position without the direct involvement from the Authority, and to continue providing essential main services following a significant decline in its financial position, the potential for such decline, or the risk of violating the capital and prudential requirements under the Law and these Bylaws.

Article 4-3

Contents of the Recovery Plan

The recovery plan shall include, depending on the licensed activity or service, at least the following:

1. Identified risks in various circumstances, including possible liquidity shortfall.
2. The criteria, events, and corporate powers that will trigger the implementation of part or all of the recovery plan.
3. A description of the losses resulting from potential financial and non-financial defaults.
4. In the event of losses resulting from financial defaults, ensuring the full allocation of losses to Clearing Members and the Clearing House, taking into account the public interest.
5. A description of loss-absorbing arrangements for each stakeholder that may arise from non-financial defaults.
6. A description of the possibility of financial defaults that could cause financial losses covered by the risk waterfall, including the event of default of one or more Clearing Members, whose combined defaults could consume a significant portion of the Default Fund.
7. Means to enable the renewal of the Clearing House's financial resources in the event of financial default to a level sufficient to meet its obligations and support the continuous and timely operation of the Clearing House's critical services.
8. A framework that includes indicators specific to the Clearing House or Central Securities Depository that identify the circumstances in which the measures included in the recovery plan should be initiated and implemented.
9. Procedures for obtaining liquidity and replenishing financial resources, including replenishing the Default Fund.

Article 4-4

Authority Notification

Article 4-4-1

The Clearing House or Central Securities Depository shall immediately notify the Authority if the recovery plan is activated, specifying the nature and extent of the default (whether financial or non-financial) and indicating the recovery or other measures it intends to take to address the situation, including the expected timeframe for each measure.

Article 4-4-2

The Authority may request the Clearing House or Central Securities Depository to make specific changes to the recovery plan within a specified period. If the Clearing House or Central Securities Depository does not submit an amended plan, or if the deficiencies identified by the Authority are not addressed, the Authority may, within a specified period, request the Clearing House or Central Securities Depository to take the following actions:

1. Request the Clearing House or Central Securities Depository to refinance its capital and prudential requirements in a timely manner.
2. Review and amend the Clearing House's or Central Securities Depository's strategy.
3. Making changes to the Risk Waterfall, recovery measures, and other loss allocation arrangements to improve resolvability and the resilience for critical functions.
4. Making amendments to the governance of the Clearing House or Central Securities Depository.
5. Any other measures the Authority deems necessary.

Chapter Five
Settlement Finality

Article 5-1

Transfer orders and Settlement

Article 5-1-1

When a Person is subject to the provisions of insolvency, bankruptcy, or liquidation, or when a receiver is appointed over their assets, the Clearing Agency's clearing and settlement procedures shall have priority over any ordinary procedures or debts.

Article 5-1-2

If the court or bankruptcy judge issues a ruling or decision regarding the procedures stipulated in Law No. 71 of 2020 Promulgating the Bankruptcy Law and its amendments, or when approving a protective settlement proposal or restructuring plan, or issuing a bankruptcy declaration against a Clearing Member, the issuance of such rulings or decisions shall not affect the following clearing and settlement procedures in any way:

1. Transfer Order.
2. Net Settlement, including the Condition of Concluding the Final Liquidation.
3. Settlement of the Transfer Order in accordance with the rules of the Clearing House.
4. Any transaction related to Securities or funds, or the transfer of ownership of Securities pursuant to a Transfer Order.

Transfer Orders shall be legally enforceable and may not be revoked or canceled in accordance with any provisions of the Bankruptcy Law. They are binding in the following cases:

1. If the Transfer Order is entered prior to the issuance of any of the decisions or rulings stipulated in the Bankruptcy Law, provided that the order is final in accordance with the rules of the Clearing House or the rules of the Central Securities Depository.
2. If the Transfer Order is executed on the Business Day specified in accordance with the rules of the Clearing House and the Transfer Order coincides with the same day on which the ruling or decision regarding the preventive settlement, restructuring, or declaration of bankruptcy is issued, and it is proven that the Clearing House was not aware of the measures taken regarding the preventive settlement, restructuring, or declaration of bankruptcy.

Article 5-1-3

The Clearing House shall specify the time of receipt of the Transfer Order in its rules, and clearly regulate the following:

1. The time the Transfer Order came into force in the relevant systems.
2. Specify the status in which the Transfer Order has been entered into the system and has become irrevocable by the Clearing Member or others.
3. Prohibiting the cancellation of a Transfer Order by a Clearing Member or others, effective from the case specified in Item (2) of this Article.

The Central Securities Depository shall clearly regulate the following in its rules:

1. Rules regulating the prohibition of nullifying or canceling a transfer of ownership or any other action related to Securities registered in its records.
2. Rules regulating the prohibition of nullifying or canceling the registration of any debt or detain on deposited Securities, or the cancellation of a debt or the detain related to a Security.

Article 5-2

Net Settlement

Article 5-2-1

The Net Settlement, including the Condition of Concluding the Final Liquidation, shall be legally enforceable in accordance with its terms and may not be suspended, invalidated, or restricted by any action or decision issued in accordance with Law No. 71 of 2020 Promulgating the Bankruptcy Law and its amendments as a result of any Clearing Member being subject to bankruptcy, preventive settlement, or restructuring procedures.

Article 5-2-2

The Net Settlement becomes effective in accordance with its terms and conditions and is binding on others if Transfer Orders were entered into the relevant systems of the Clearing House prior to the decision coming into force to initiate bankruptcy, protective settlement, or restructuring proceedings against a Clearing Member.

Article 5-2-3

The issuance of a ruling or decision by the court or the competent bankruptcy judge to initiate bankruptcy, protective settlement, or restructuring proceedings against a Clearing Member shall not prejudice the Clearing House's right to take the following actions:

1. Implement the Net Settlement for all obligations owed by or to the Clearing Member that have accumulated up to the Business Day, including the day on which the court order declaring the Clearing Member bankrupt is enforced.
2. The Net Settlement made by the Clearing House and any payment made by the Clearing Member related to the Net Settlement shall not be revoked under bankruptcy, protective settlement, or restructuring proceedings.

Article 5-3

Guarantees Granted to the Clearing House

Article 5-3-1

Any action, ruling, or decision issued pursuant to Law No. 71 of 2020 Promulgating the Bankruptcy Law shall not prejudice the rights of the Clearing House or Clearing Members to the guarantees provided to them as safekeeping for the Clearing House's operations, whether such guarantees are provided by any Clearing Member or by any third party.

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

Application For Renewing Securities Exchange or Clearing Agency Activities License

Contents

Instructions

1. Information of the Applicant
2. License Intended for Renewal
3. Major shareholders
4. Attachments and required documents
5. Appendix A – Declaration
6. Appendix B – List of Registered Employment Positions

INSTRUCTIONS

- This form shall be submitted after the payment of the fee depending on the type of license to be renewed according to the schedule of fees, and three months before the license expiration date according to the Executive Bylaws of Law No.7 of 2010 and its amendments.
- The Authority shall review the application within two months from the date of the receipt of the application fulfilling all the requirements and documents required for approval of the license renewal.
- Licensed Person may resort to the Authority's arbitration rules to solve a dispute concerning securities activities.
- Applicant shall send the application or any inquiries concerning this form to the licensing and registration department in the Capital Markets Authority at the address below:

Capital Markets Authority – 20th floor Al-Hamra Tower – Sharq – Kuwait
P.O. Box 3913 Safat 13040 Kuwait lrd@cma.gov.kw

2-Information of the Applicant

2.1 Information of the Applicant

Name of Licensee:

License Number:

Date of Issuance of License:

Date of Expiration of License:

2.2 Information of Liaison Officer

Name:

Phone Number:

Mobile Number (individual):

E-mail Address:

3-License Intended for Renewal

3.1 License Intended for Renewal

- ☐ The Exchange. ☐ The Clearing Agency- Securities Depository Service
- ☐ The Clearing Agency – Central Counterparty Service.
- ☐ The Clearing Agency- Clearing and Settlement Service.
- ☐ The Clearing Agency- Establishing, Owning, and managing companies whose purpose is to carry out any Clearing Agency Activities

3.2 Company's Legal Form

- ☐ Shareholding Company
- ☐ Shareholding Holding Company

4-Major Shareholders

4.1 Major Shareholders*

	Major shareholders	Share	Nationality
1			
2			
3			

- The Authority shall be provided with names of major shareholders who own 5% or more from the company's capital pursuant to the latest update of data approved by the Clearing Agency.

4.2 Capital

5. List of Required Documents and Attachments

5.1 Required Attachments

#	Attachment/ Required Document	Status		Notes
1	Copy of Fees Payment Receipt	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	
2	Copy of License Certificate	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	
3	Copy of the license issued by the Ministry of Commerce and Industry.	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	
4	Updated and valid certificate to whom it may concern indicating Board Members issued by Ministry of Commerce and Industry.	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	
5	List of Names of Officers filling Positions required for Registration**	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	
6	Declaration as per the attached form – Appendix.	<input type="checkbox"/> Available	<input type="checkbox"/> Not applicable	

- * If the state of the appendix is not applicable for the applicant, please provide the Authority with a separate document to indicate the reasons why it is not applicable.

- ** List to be prepared as per the schedule attached to Appendix (7-B).

Applicant

Application Reviewer (For Office Use)

Date:././....

Date:././....

Signature

Signature

Seal

Seal

6. Appendix A

Declaration

I, the undersigned, hereby declare that no changes have been made to the information and documents pertaining to granting the license, as submitted to the Authority, and undertake to report any changes that might occur in this regard and to provide the Authority with copies of such modified information and documents.

Approval of declaration

Applicant name	
Applicant capacity	
Signature	
Date	
Seal of the company	

7. Appendix B

List of Registered Employment Positions

The table shall be filled in with all the names of officers who perform registered employment positions, taking into account the following:

- All registered employment positions required according to the type of activity.
- All names of officers, in the event of more than one officer in a Registered Employment Position, by way of adding entries to the position in the table provided below.
- All names of external entities that are assigned to undertake Registered Employment Positions (if any).
- "N/A" shall be used in the event the company does not carry out a Registered Employment Position as per the licensed activities.

Registered Employment Position	Name of Employee/ External Entity	Occupational Title	Civil ID No.	Phone No. (Direct)	Phone No. (Mobile)	Email Address
Chief Executive Officer						
Senior Executive Officers						
Chief Financial Officer						
Compliance Officer						
Risk Management Officer						
Internal Audit Officer						

Appendix 2

Application for Obtaining Approval of Effective Control or Ownership or Disposal of 5% or more of the Capital of the Exchange or the Clearing Agency

Table of Contents

- Instructions

1. Required documents from the applicant
2. Documents of Effective Control
3. Standards of financial integrity and soundness (for a natural person)
4. Declaration
5. Attachments and required documents

INSTRUCTIONS

- Kindly complete this form and ensure that all the necessary documents related to this form are attached.
- This application must be submitted by anyone who desires to enter into arrangements or agreements that lead to Effective Control or Ownership or Disposal of direct or indirect ownership of up to 5% or more of the Capital of the Exchange or the Clearing Agency in accordance to the provisions of this Module.
- A person who is complying with the Provisions of Module Nine (Mergers and Acquisitions) of these Bylaws shall be excluded from the provision of this Article.
- Must comply with the Securities Exchange rules and the rules of trading unlisted Securities at Boursa Kuwait.
- The application shall be submitted at least sixty (60) days prior to entering into the arrangements to Effective Control or Ownership or Disposal of direct or indirect ownership of up to 5% or more of the Capital of the Exchange or the Clearing Agency .
- The Authority reserves the right to request any additional information and documentation or clarifications from the applicant when processing the application.
- The applicant should send the application or any inquiry regarding the completion of this form or any related topic to the Licensing and Registration Department at the Capital Markets Authority at the address below:

Capital Markets Authority – 15th floor Al-Hamra Tower – Sharq – Kuwait
P.O. Box 3913 Safat 13040 Kuwait lrd@cma.gov.kw

1.Information of the Applicant

1.1 Applicant Details

☐ Natural Person

Name:

Nationality:

Civil ID Number:

Passport Number (for Non- Kuwaitis):

Current Address:

Current Job:

Phone Number:

Mobile Number (individual):

☐ Corporate Person. *

Name:

Commercial Register Number:

- Is the applicant a licensed person at the Authority? ☐ Yes ☐ No

For foreign entities only

Country of establishment:

Organizing party:

Are registered in a country that applies FATF recommendations? ☐ Yes ☐ No

* Please complete Items 1.2,1.3,1.4,1.5,1.6 from the Information of the Applicant

1.2 Liaison Officer Details

Name:

Status:

Phone Number:

Mobile Number (individual):

E-mail:

1.3 Application Legal Form

- ☐ Shareholding Company ☐ Commercial Bank
☐ Foreign Company Branch ☐ Limited Liability Company
☐ Other.....

-Does the applicant practice his activities according to Islamic Sharia? ☐ Yes ☐ No

-Is the applicant subject to the supervision of the Central Bank? ☐ Yes ☐ No

1.4 Major Shareholders*

#	Major shareholders	Share in percentage %	Nationality
1			
2			
3			
4			
5			

- The Authority shall be provided with names of major shareholders who own 5% or more of the shares of the company's capital.

1.5 Capital

Paid-up Capital:

Issued Capital

1.6 Members of the Board of Directors*

#	Members of the Board of Directors	Share/ Ownership	Represented Entity	Nationality
1				
2				
3				
4				
5				

2.Effective Control Information**2.1 Licensed Person Information**

Name:

Activity:

- ☐ The Exchange. ☐ The Clearing Agency- Securities Depository Service
☐ The Clearing Agency – Central Counterparty Service.
☐ The Clearing Agency- Clearing and Settlement Service.
☐ The Clearing Agency- Establishing, Owning, and managing companies whose purpose is to carry out any Clearing Agency Activities

2.2 Effective Control Percentage

- ☐ Effective Control ☐ Ownership/Disposal
 - Current ownership percentage (if the applicant is a current shareholder):
 - Target Ownership Percentage:
 - Purpose of Control/ Ownership:
 * Please complete Items 2.3 and 2.4 from the Information of Effective Control.

2.3 How to achieve Effective Control

- ☐ Purchase Shares
- ☐ Increase of issued capital
- ☐ Other, please mention:

2.4 Reasons of Effective Control

- Please state the basis of which will lead to Effective Control:

- Is there an approach to appoint a majority of members of the Board of Directors of a Licensed Person? ☐ Yes ☐ No

When the answer is yes, please answer the following:

- Target Date:
- Will the appointment be made during the current Board cycle or after it is completed?
- Number of seats targeted for appointment, and how:

3. Standards of Financial Soundness (for a natural person)*

1.	Are you currently standing trial or have you previously been convicted locally or abroad in cases related to crimes against honor or integrity, money laundering, financing terrorism, capital market crimes, or corruption crimes?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2.	Have you ever, in the course of your employment, refrained from adherence to the provisions of the compliance with the regulations, monitoring requirements or professional standards, or have you obstructed procedures or been misleading or dishonest in your cooperation with the regulatory bodies?	<input type="checkbox"/> Yes <input type="checkbox"/> No
3.	Have you ever been convicted or penalised or issued a disciplinary punishment by a professional or regulatory entity?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4.	Have you ever been dismissed from your position or job or prohibited from applying for a vacant position or job in an entity?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5.	Have you ever been a partner in the ownership or was a Member of the Board of Directors or had an executive position in an entity that was prohibited from registration or licensing to practice an activity, or cancelled by the Authority or any other regulatory entity?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6.	Has an entity managed by you or where you have been performing in a senior position been subject to liquidation or declared bankrupt?	<input type="checkbox"/> Yes <input type="checkbox"/> No
7.	Have you ever refrained from payment of any amounts owed by you to the banking or financial sector or any other entity, whether local or foreign?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8.	Has a judgment of bankruptcy ever been rendered against you, whether in Kuwait or abroad?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9.	Have you ever entered into a settlement with your creditors? Have you executed such settlement whether locally or abroad?	<input type="checkbox"/> Yes <input type="checkbox"/> No
10.	Do you own more than 1% of a company's capital, whether locally or abroad?	<input type="checkbox"/> Yes <input type="checkbox"/> No

* Please provide details in the attached statement if any question was answered with "Yes".

4.Declaration

- I hereby declare that I have reviewed of the Capital Market Authority's Law No. 7 of 2010 and its Executive Bylaws as amended and all regulations, decisions, and instructions.
- I hereby declare that all information set out in this form and the related attachments thereto are accurate and complete, as well as the accuracy of the facts provided, I, furthermore, declare that my knowledge of the laws and bylaws of the CMA related to the penalties resulting from providing any false or misleading representations in this form or in any of the related attachments.
- I undertake that I will notify the Authority of any changes that may occur, other than all information and data provided to the Authority in this form.
- I declare that I am aware of the Capital Markets Authority's right to take any disciplinary action against anyone who submits incorrect or misleading statements in this form.

This is a declaration and undertaking to said effect.

Applicant

Date:././....

Signature

Seal

5. Required Attachments and Documents

5.1 Required Attachments

Number	Attachment/required document	Status of the Attachment*	Comments
1.	A detailed investment plan to indicate the objectives of effective control and information on the structural, financial and management changes to be made by the Licensed Person and the reasons for such changes.	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
2.	Disclosure of the shareholders who have shown preliminary approval of the sale and the percentage of their ownership	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
3.	Prior Approval from the Central Bank in case applicant is subject to its surveillance	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
4.	Approval of the Board of Directors to the applicant (for corporate person)	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
5.	Copy of the memorandum of association and articles of association and commercial register of the applicant (for a natural person)	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
6.	Copy of the license certificate (for Licensed Person)	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
7.	A copy of the identification number and the passport (in the event the applicant is non-Kuwaiti) (for a natural person)	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
8.	A certificate of criminal clearance (for a natural person) * *You are required to apply to the Authority to request the issuance of a criminal clearance certificate with a copy of the civil ID, so that we can provide you with a letter addressed to the Criminal Evidence at the Ministry Department at the Ministry of Interior to issue the certificate according to Appendix No. (1) of this application.	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
9.	Legal opinion from an external legal firm regarding cases or a group of cases which has a significant impact on the financial status of the company, whether filed by it or against it, or its subsidiary companies, and if possible the estimated amount of such cases. (for a corporate person)	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	
10.	The applicant's legal status and the financial position of the financial center in accordance with the financial statements for the last three years after approval by the regulatory body	<input type="checkbox"/> Available <input type="checkbox"/> Not Applicable	

* If the attachment is not applicable for the applicant, please provide the Authority with a separate document indicating the reasons why the attachment does not apply.

Appendix 3

Capital Requirements and Legal Form of the Clearing Agency's Activities and Services

Article One: The following table sets out the required minimum paid up capital and legal form of Persons Licensed to carry on the activities and services of the Clearing Agency, according to the activity type:

#	Activity Type	Legal form	Capital (KWD)
1.	Clearing Agency- Securities Depository Service	Shareholding Company	10,000
2.	Clearing Agency- Clearing and Settlement Service	Shareholding Company	10,000
3.	Clearing Agency- Central Counterparty Service	Shareholding Company	10,000

Article Two: A Clearing Agency must have at least a primary, permanent, and existing paid-up capital, according to the table set forth in Article 1, to be licensed according to these Bylaws. The actual Eligible Regulatory Capital of the Clearing Agency, in accordance with the requirements of Chapter Three of Module Seventeen of these Bylaws, must cover the risks arising from the Clearing Agency's activities and must be equivalent to the nature of its activities and the type of asset classes cleared by the Clearing House. It must be in excess on an ongoing basis to ensure the orderly liquidation of activities within an appropriate period of time, in accordance with the requirements of Chapters Four, Five, and Six of Module Seventeen of these Bylaws.

The Eligible Regulatory Capital of the Clearing Agency must be in excess on an ongoing basis to adequately protect against the risks set forth in Chapters Four and Six of Module Seventeen. Additional capital must also be maintained to cover the costs of voluntary business termination, restructuring, or crisis recovery for financial market infrastructure entities, in accordance with the requirements of Chapter Five of Module Seventeen.

Article Three: The Clearing Agency must have procedures in place to comply with the Capital Adequacy Regulations stipulated in Module Seventeen of the Executive Bylaws, including identifying all sources of risk that may affect its ongoing functions and services, considering the potential negative impacts of its services and functions on its revenues or expenses, and ensuring its regulatory capital adequacy level meets those risks and requirements.

If the capital adequacy percentage—according to the requirements of Module Seventeen of these Bylaws—falls less than 110%, or if the amount of paid-up capital held by the Clearing Agency is less than 110% of the amount specified in the table in Article One, the Clearing Agency must immediately notify the Authority and keep it updated at least weekly until the amount of capital held by the Clearing Agency is back above the notification edge.