

Resolution No. (53) of 2021
Regarding
Amending Some Provisions of Module One (Glossary) and Module Eleven
(Dealing in Securities) of the Executive Bylaws of Law No. 7 of 2010

Having Perused:

- Law No. (7) of 2010 Regarding the Establishment of the Capital Markets Authority and Regulating Securities Activities and its Executive Bylaws, and their amendments; and
- Resolution No. (118) of 2019 Regarding Amending Some Provisions of the Executive Bylaws of Law No. (7) of 2010 Regarding the Establishment of the Capital Markets Authority and Regulating Securities Activities and their Amendments; and
- CMA Board of Commissioners Resolution passed in its meeting No. (15) of 2021 held on 21/04/2021.

The Following Was Resolved

Article (1)

Module One (Glossary) and Module Eleven (Dealing in Securities) of the Executive Bylaws of Law No. (7) of 2010 are hereby amended pursuant to Annex (1) attached to this Resolution.

Article (2)

The concerned bodies shall execute this Resolution, each within its jurisdiction. This Resolution shall come into force from the date of its issuance, and it shall be published in the Official Gazette.

Prof. Ahmad A. Al-Melhem

Issued on: 22/04/2021

Annex (1)

#	Module	Chapter	Article	Amending Type	Text before Amendment	Text after Amendment
1	One	-	Margin Trading Service Provider	Adding a Definition	-	a Person licensed to practice the activity of an Investment Portfolio Manager and is registered at the Clearing Agency as a Margin Trading Service Provider.
2	One	-	Margin Trading	Adding a Definition	-	financing from the Margin Trading Service Provider to his client at a percentage of the market value of the Securities financed on margin according to the agreement that regulates their relationship in this regard, by guaranteeing the Securities in the Margin Trading Account, or by additional collaterals stipulated in the Executive Bylaws.
3	One	-	Margin Trading Account	Adding a Definition	-	a client's account at the Margin Trading Service Provider for the purpose of Margin Trading. This account shall be managed by the client.
4	One	-	Initial Margin	Adding a Definition	-	a clients' ownership of cash and Securities deposited in the Margin Trading Account as a percentage of the market value of the Securities to be purchased. This percentage is specified in the Margin Trading Agreement.
5	One	-	Maintenance Margin	Adding a Definition	-	The minimum margin specified in the Margin Trading Agreement as a percentage of the client's ownership of the market value of the Securities in the Margin Trading Account, at any time after the purchase date.
6	One	-	Margin Trading Agreement	Adding a Definition	-	an agreement signed between the Margin Trading Service Provider and his client, which includes the terms and conditions that regulates the Margin Trading Service, without prejudice to the provisions of the Executive Bylaws.

7	Eleven	Eight	(8-12)	Adding an Article	-	<p><u>Requirements for Providing Margin Trading Service:</u> <u>The following are the requirements of providing the Margin Trading Service:</u></p> <ol style="list-style-type: none"> 1. The service provider shall be a <u>Licensed Person</u> authorized by the <u>Authority</u> to practice the activity of an <u>Investment Portfolio Manager</u>. 2. He shall be registered at the <u>Clearing Agency</u>, provided that the <u>Clearing Agency</u> shall notify the <u>Authority</u> of the registrants list. 3. The <u>Margin Trading Service Provider</u> shall have administrative and technical expertise as well as experience in systems, policies, and operational procedures sufficient to practice the <u>Margin Trading</u> service. 4. The <u>Margin Trading Service Provider</u> shall have the necessary financial resources to provide the service and shall consider the capital adequacy regulations stipulated in Module Seventeen of the <u>Executive Bylaws</u>. 5. Any requirements, conditions, or controls deemed by the <u>Authority</u>.
8	Eleven	Eight	(8-13)	Adding an Article	-	<p><u>Compatibility:</u> Taking into consideration the obligations mentioned in Module Eight (Conduct of Business), the <u>Margin Trading Service Provider</u> shall verify the client's position through the following:</p> <ol style="list-style-type: none"> 1. Study the credit status and financial solvency of the client by reviewing the client's data at the Credit Information Network (Ci-Net). 2. Ensure the client's ability to bear the risks resulting from <u>Margin Trading</u>.

						<p>3. Know the client’s experience and its relevance to <u>Margin Trading Service</u>.</p> <p>4. Ensure the competence and the legal capacity of each client, and in particular the following:</p> <ul style="list-style-type: none"> - A minimum of one year of experience in trading <u>Securities</u>. The <u>Professional Client</u> is exempt thereof. - No violation has been issued against the client by the <u>Disciplinary Board</u> of the <u>Authority</u> or the Violations Committee during the previous two financial years. <p>In all events, it is not permitted to authorize another person to trade on the margin account.</p>
9	Eleven	Eight	(8-14)	Adding an Article	-	<u>Margin Trading Agreement</u>
10	Eleven	Eight	(8-14-1)	Adding an Article	-	The <u>Margin Trading Service Provider</u> shall sign a <u>Margin Trading Agreement</u> with the client before providing the service.
11	Eleven	Eight	(8-14-2)	Adding an Article	-	<p>Subject to the provisions of Article (1-4) of Module Eight (Conduct of Business) and Article (5-1-9) of Module Seven (Clients’ Funds and Clients’ Assets), the <u>Margin Trading Agreement</u> shall include the following as a minimum:</p> <p>1. An introductory statement about the <u>Margin Trading</u> service and the risks that the client may be exposed to, including the following:</p> <ul style="list-style-type: none"> • The possibility of the client’s loss of part or all the funds and assets deposited in the <u>Margin Trading Account</u>. • It is permitted for the <u>Margin Trading Service Provider</u> to sell part or all of the <u>Securities</u>

						<p>deposited in the <u>Margin Trading Account</u>, in the event that the percentage of the <u>Maintenance Margin</u> falls below the limit specified in the agreement and if the client does not cover the shortfall to the <u>Maintenance Margin</u> during the specified period.</p> <ul style="list-style-type: none"> • It is permitted for the <u>Margin Trading Service Provider</u> to select a specific <u>Security</u> or more deposited in the <u>Margin Trading Account</u>, in order to be sold if the <u>Maintenance Margin</u> was not covered. • It is permitted for the <u>Margin Trading Service Provider</u> to use part or all of the cash funds deposited in the <u>Margin Trading Account</u> for the repayment of the value financed, if the <u>Maintenance Margin</u> was not covered. <ol style="list-style-type: none"> 2. The rules regulating <u>Shares</u> entitlement regarding <u>Securities</u> deposited in the <u>Margin Trading Account</u>, without prejudice to the provisions mentioned in this Chapter. 3. The amounts, commissions, and fees that the <u>Margin Trading Service Provider</u> will receive from his client, provided that the interest or profit of the funding submitted by the client is as determined by The Central Bank of Kuwait. 4. A detailed statement of the rights and obligations of both the client and the <u>Margin Trading Service Provider</u>. 5. Determine the percentages of the <u>Initial Margin</u> and the <u>Maintenance</u>
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						<p><u>Margin</u>, provided that these percentages shall not be less than the limits set in this Chapter. It is also permitted to determine a maximum limit for the financing amount granted from the <u>Margin Trading Service Provider</u> to the client.</p> <p>6. A detailed statement regarding the authority of the <u>Margin Trading Service Provider</u> in the event that the client breaches any of his obligations, in particular the procedures followed in case the <u>Maintenance Margin</u> percentage falls below the limit specified in the agreement, including the mechanism of notifying the client of this fall.</p> <p>7. Means of communicating with the client to provide him with the notifications and reports.</p> <p>8. Stating the cases for the termination of the agreement or the financing period, or their termination based on the wish of either of the parties. In addition to stating the mechanism of the rights' settlement and the commitments resulting from it, specifically regarding disposal of the margin financed <u>Securities</u>.</p>
12	Eleven	Eight	(8-14-3)	Adding an Article	-	<p>The <u>Margin Trading Service Provider</u> shall ensure that the client has submitted the following declarations and undertakings:</p> <ol style="list-style-type: none"> 1. The client's knowledge of the <u>Margin Trading</u> service and the associated risk. 2. The client's knowledge of the rules, provisions and regulations of the <u>Margin Trading</u>.

						<ol style="list-style-type: none"> 3. The <u>Margin Trading Service Provider</u>'s access to the credit information through the Credit Information Network (Ci-Net). 4. The pledge of <u>Securities</u> and cash balance in the <u>Margin Trading Account</u> and the additional collaterals -if any- in favor of the service provider to guarantee payment of the amounts due by the client as a result of the <u>Margin Trading</u>. 5. The authority of the <u>Margin Trading Service Provider</u> – in the event of the client's breach – to sell the <u>Securities</u> pledged in the <u>Margin Trading Account</u>, notwithstanding the provisions stipulated in Articles (231) to (233) of the Commercial Law, as well as the provisions stipulated in Chapter Three of the Civil and Commercial Pleadings Law. 6. The client's coverage of the <u>Margin Trading Account</u> during the period specified in the agreement, in the event that the <u>Maintenance Margin</u> falls below the percentage specified in the agreement.
13	Eleven	Eight	(8-15)	Adding an Article	-	<p><u>The Tasks and Responsibilities of the Margin Trading Service Provider towards the Client</u></p> <p>The <u>Margin Trading Service Provider</u> shall comply with the following:</p> <ol style="list-style-type: none"> 1. Opening an account for the purpose of <u>Margin Trading</u> at the <u>Clearing Agency</u> for all or some of his clients. 2. Opening a <u>Margin Trading Account</u> for his client who wishes to receive

						<p>this service, taking into consideration the separation of this account from the client's other accounts.</p> <ol style="list-style-type: none"> 3. Ensuring that the client has deposited the <u>Initial Margin</u> in his account with the <u>Margin Trading Service Provider</u> according to the provisions of the <u>Margin Trading Agreement</u> before purchasing any <u>Securities</u> financed on margin. 4. Ongoing review of each client's <u>Margin Trading Account</u> and immediate notification should the <u>Maintenance Margin</u> falls below the limit specified in the <u>Margin Trading Agreement</u>, in order for the client to cover the shortfall in his account in cash or by submitting additional collaterals according to Article (8-17) of this Chapter during the period specified in the agreement, provided that this period shall not be less than two <u>Business Days</u> from the notification date. 5. Selling all or some of the <u>Securities</u> held in the <u>Margin Trading Account</u> immediately after the end of the period specified for the client to cover the shortfall in an amount that restores the percentage of the client's ownership to the percentage of the <u>Initial Margin</u> according to the market value of such <u>Securities</u> on the date of this sale. 6. Keeping copies of all registers and accounts of providing the <u>Margin Trading</u> service. 7. Maintaining the confidentiality of information available to him or the
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						<p>internal information that he obtains from practicing the <u>Margin Trading</u> service through taking all measures that ensure the necessary confidentiality in dealing with those data and information.</p> <p>8. Providing the client with a monthly statement showing the trading movement of the <u>Securities</u> in the account, and the percentage of his ownership in the account.</p> <p>9. Not to utilize client funds to provide <u>Margin Trading</u> facilities to another client or to himself, even if the <u>Margin Trading Service Provider</u> has obtained the client’s approval in this regard.</p> <p>In all cases, the suspension of trading a <u>Security</u> will result in the suspension of the period specified for coverage mentioned in Item (4) of this Article - with the continued obligation of the <u>Margin Trading Service Provider</u> to notify the client - provided that the period shall be completed after the end of the suspension period. This provision is not applicable in the event of more than one <u>Security</u> in the <u>Margin Trading Account</u>, whereby Items (4) and (5) of this Article must be applied.</p>
14	Eleven	Eight	(8-16)	Adding an Article	-	<u>Risk Management</u>
15	Eleven	Eight	(8-16-1)	Adding an Article	-	The <u>Margin Trading Service Provider</u> shall form a risk committee specializing in managing the risk related to providing the <u>Margin Trading</u> service, and in particular in following up on the obligations stipulated in Article (8-16-2). This committee may include in its membership one member or more from

						the entity that finances the <u>Margin Trading Service Provider</u> for this purpose.
16	Eleven	Eight	(8-16-2)	Adding an Article	-	<p>The <u>Margin Trading Service Provider</u> shall, on an ongoing basis, adhere to the following:</p> <ol style="list-style-type: none"> 1. The capital adequacy regulations mentioned in Module Seventeen of the <u>Executive Bylaws</u>. 2. The amounts used to finance the <u>Margin Trading</u> of one <u>Security</u> for all clients shall not exceed 25% of the total amounts specified for the <u>Margin Trading</u> service. 3. The margin financing amounts granted for one client shall not exceed 10% of the total funds specified for <u>Margin Trading</u> by the <u>Margin Trading Service Provider</u>. 4. The <u>Initial Margin</u> shall not be less than 50% of the market value of the <u>Securities</u> to be financed on margin. The service provider may set a higher percentage for the <u>Initial Margin</u> within the <u>Margin Trading Agreement</u>. 5. The <u>Maintenance Margin</u> shall not be less than 25% of the market value of the <u>Securities</u> in the <u>Margin Trading Account</u> at any time after the transaction date. The service provider may set a higher percentage for the <u>Maintenance Margin</u> within the <u>Margin Trading Agreement</u>. 6. Equality for all clients when setting the <u>Initial Margin</u> and the <u>Maintenance Margin</u>. 7. Submitting weekly reports to the <u>Capital Markets Authority</u> regarding the percentages specified in Items (2)

						<p>and (3) of this Article, in addition to any other requirements determined by the <u>Authority</u>.</p> <p>8. Submitting reports to the Central Bank of Kuwait on the credit amount granted to clients on a weekly basis.</p>
17	Eleven	Eight	(8-16-3)	Adding an Article	-	<p>The <u>Margin Trading Service Provider</u> may draw a list of the <u>Securities</u> permitted to be traded on margin and amend this list from time to time after notifying the clients. The <u>Margin Trading Service Provider</u>, at the time of selecting the shares included in the mentioned list, shall consider the aspects of liquidity and soundness of the financial conditions of companies whose shares are selected. Unlisted <u>Securities</u> may not be included in this list.</p>
18	Eleven	Eight	(8-17)	Adding an Article	-	<p><u>Collaterals of Margin Trading Account</u></p> <ol style="list-style-type: none"> 1. It is permissible to accept collateral in the <u>Margin Trading Account</u>. Such collaterals may be <u>Securities</u> or cash balances deposited in the <u>Margin Trading Account</u>. 2. With the exception of the Item above, the <u>Margin Trading Service Provider</u> may accept additional collaterals in the <u>Margin Trading Account</u> in the following two cases: <ol style="list-style-type: none"> a. The continuous decline in the market value of a <u>Security</u> in the <u>Margin Trading Account</u>, as a result of extraordinary circumstances occurring to the <u>Security</u> or the <u>Exchange</u>. b. Suspending trading of a <u>Security</u> on margin for more than five <u>Business Days</u>.

						<p>3. <u>Securities</u> financed on margin may not be pledged other than the pledge decided in favor of the <u>Margin Trading Service Provider</u>. In addition, transferring the ownership of these <u>Securities</u> from the <u>Margin Trading Account</u> to any other account of the client may not be implemented until the approval of the <u>Margin Trading Service Provider</u> is granted.</p>
19	Eleven	Eight	(8-18)	Adding an Article	-	<p><u>Margin Trading Regulations</u> <u>Margin Trading</u> is subject to the following regulations:</p> <ol style="list-style-type: none"> 1. The <u>Securities</u> purchase process shall not exceed the purchase ceiling that shall be equal to the total amounts of cash and <u>Securities</u> deposited by the client as <u>Initial Margin</u> and the financing amount granted by the <u>Margin Trading Service Provider</u>. 2. When the client purchases <u>Securities</u> at an amount less than the purchase ceiling, he may use the remaining amount to purchase other <u>Securities</u> in the <u>Margin Trading Account</u>, provided that it shall not affect the <u>Initial Margin</u>. 3. The client may withdraw cash from the amounts deposited in the <u>Margin Trading Account</u> or transfer them to his other accounts at the <u>Margin Trading Service Provider</u>, if its value exceeds the <u>Initial Margin</u>. 4. The client may, after the approval of the <u>Margin Trading Service Provider</u>, exchange all or part of the margin financed <u>Securities</u> with other <u>Securities</u> financed on margin, provided that this shall not affect the

						<p><u>Initial Margin</u>, and that the market value of the purchased <u>Securities</u> shall not exceed the value sold.</p> <p>5. Without prejudice to the right to subscribe in the share capital increase of companies issuing <u>Securities</u> held in the <u>Margin Trading Account</u>, the <u>Margin Trading Account</u> shall not be used to subscribe in new issues of <u>Securities</u>.</p> <p>6. The service provider shall add the profits and shares to the <u>Margin Trading Account</u>, in the event that cash dividends or bonus shares are distributed.</p>
20	Eleven	Eight	(8-19)	Adding an Article	-	<p><u>Procedures of Monitoring and Covering the Maintenance Margin</u></p> <p>1. The <u>Margin Trading Service Provider</u>, at the end of every <u>Business Day</u>, shall calculate the market value of the <u>Margin Trading Account</u> and notify the client immediately of any shortfall of the <u>Maintenance Margin</u> from the minimum limit.</p> <p>2. In the event the client is notified of the shortfall of the <u>Maintenance Margin</u> from the minimum limit, the client shall add cash or <u>Securities</u> to the <u>Margin Trading Account</u> in the amount necessary to restore his ownership of the <u>Initial Margin</u> during the period stipulated in the <u>Margin Trading Agreement</u>, provided that this period shall not exceed two <u>Business Days</u> from the notification date.</p> <p>3. If the client is unable to cover the <u>Maintenance Margin</u> during the period stipulated in the previous Item, the <u>Margin Trading Service</u></p>

						<u>Provider</u> may sell all or part of the <u>Securities</u> deposited in the <u>Margin Trading Account</u> .
21	Eleven	Eight	(8-20)	Adding an Article	-	<p><u>Selling the Securities in the Event of Client’s Breach</u></p> <p>The <u>Margin Trading Service Provider</u> – in the event of the client’s breach – may sell the <u>Securities</u> pledged in the <u>Margin Trading Account</u> in accordance with the applicable rules, notwithstanding the provisions stipulated in Articles (231) to (233) of the Commercial Law, as well as the provisions stipulated in Chapter three of the Civil and Commercial Pleadings Law.</p> <p>The sale shall only include what is sufficient to fulfil the right of the <u>Margin Trading Service Provider</u>. He shall, upon sale of pledged <u>Securities</u> take due care in the disposal of his funds. Attachment procedures taken after the date of purchasing <u>Securities</u> on margin shall not prevent the sale as per the provisions of this Chapter. In such case, the right of the <u>Margin Trading Service Provider</u> shall be fulfilled within the limit that meets his debt. The attachment shall affect the amounts which exceed the right of the <u>Margin Trading Service Provider</u>.</p>
22	Eleven	Eight	(8-21)	Adding an Article	-	The <u>Margin Trading Service Provider</u> has the right to pledge the <u>Securities</u> purchased by the client through <u>Margin Trading</u> , and has the right to apply for the fulfillment of the right attached to him in those <u>Securities</u> over other creditors, even if they have a private or public preferential rights.
23	Eleven	Eight	(8-22)	Adding an Article	-	The <u>Margin Trading Service Provider</u> may close the <u>Margin Trading Account</u>

						<p>and determine his entitlements related to <u>Securities</u>, without referring to the client, in the following cases:</p> <ol style="list-style-type: none"> 1. The client is placed under liquidation and bankruptcy procedures according to Insolvency Law. 2. The attachment of the <u>Margin Trading Account</u>. 3. The client's death.
24	Eleven	Eight	(8-23)	Adding an Article	-	<p>The <u>Margin Trading Service Provider shall</u>, upon the occurrence of any of the cases referred to in Article (8-22) of this Chapter, notify the <u>Authority</u> and the <u>Clearing Agency</u> with a statement that includes the client's name, description of the case that led to closing the client's account, the number and type of <u>Securities</u> owned by the client, and the amount of the cash balance related to the financed <u>Securities</u> within a period that does not exceed two <u>Business Days</u> from the date of his knowledge of the occurrence of the case.</p> <p>The <u>Margin Trading Service Provider</u> may -after that- sell the <u>Securities</u> related to his right in an amount that is sufficient to satisfy the balance due to him, without the need to obtain an authorization to do so.</p>
25	Eleven	Eight	(8-24)	Adding an Article	-	<p>The <u>Margin Trading Service Provider</u> shall be liable for the damages caused to his client or third parties, if he uses the authority granted to him in an illegitimate manner or based on incorrect data.</p>