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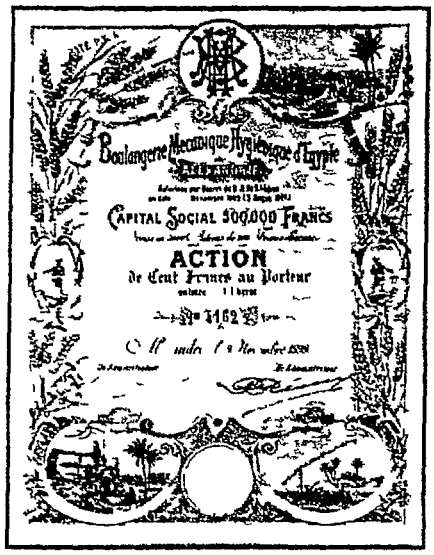

Self Regulation, Market Surveillance, and Codes of Conduct

The Egypt Capital Markets Development Project

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EXECUTIVE SUMMARY

This report, by Capital Markets Development (CMD) project subcontractor Frank Wilson, discusses and proposes implementation plans in three areas self regulation, market surveillance, and codes of conduct and ethics Many of the recommendations have been incorporated into the 1999 Work Plan

Section One discusses the most common elements of self regulatory organizations (SROs) in the securities industry The concept of self regulation is premised upon the idea that members of an industry take an active role in organizing and regulating their own operations, with the objective of increasing their professionalism and credibility in the eyes of the public Under a legal framework established by the government as well as continuing government oversight, many SROs serve as the primary regulatory bodies in the securities industry The functions performed by these SROs include administering qualification examinations, operating market surveillance systems, determining compliance or non-compliance with securities laws and regulations, ensuring fair dealing and professionalism, and monitoring the completeness and accuracy of financial reports

The second section of this report provides an action plan for improving Egypt's market surveillance system, one of the Capital Market Authority's (CMA) key objectives The section builds on analysis and suggestions in a 1997 report by the regulatory arm of the National Association of Securities Dealers (NASD-R) and U S Securities and Exchange Commission (SEC), and provides an action plan to implement the proposed changes during the current year Initially, the market surveillance system will be operated by the CMA, but as the Cairo and Alexandria Stock Exchanges (CASE) demonstrates the capacity to operate such a system, this responsibility will be transferred to it After the transfer, the CMA will assume an oversight role

The final section of this report outlines an implementation plan to produce both a code of conduct handbook for CASE members and a code of ethics handbook for CASE employees CASE requested assistance on both handbooks during the current year, and as a result, the project has included this activity in its 1999 Work Plan

SECTION I

Self Regulation in the Securities Industry

A Self Regulation Generally

On the world scene, self regulatory organizations (SROs) may be organizations which are marketplace operators (exchanges) and those which are not (usually associations) They may be both regulators and market operators (the U S mode) or those whose purpose and function is only regulation (the U K mode) The former are usually exchanges or operators of organized markets The latter are usually the associations Either concept is viable and has worked successfully in several countries Even when the functions are separated, market operators are still SROs in respect to the operation of their market places This is the case in the U K , where market operators are not SROs but they have the indicia of such in overseeing their markets

There may be one regulatory organization in a country or more than one If only one, its responsibility covers the whole industry If more than one, individual self-regulatory responsibilities are usually limited—for example, to members of an exchange or association, such as brokers or merchant bankers If the SRO were, say, for the brokerage or merchant banking segment of the industry (an association), it probably would not operate a marketplace but would closely coordinate its activities with marketplace operators (exchanges)

Having a single SRO is advantageous because it is cheaper for the industry to operate one, rather than more than one, organization, and the possibility for having uniform regulation is greater Nevertheless, while there may be benefits to a single SRO, such an outcome is not feasible everywhere for various reasons—e g , political and organizational considerations

Whatever the system, if there is to be self regulation, it is important that it cover the entire segment of the industry to which it applies In other words, if it is intended that the brokerage segment of the industry is to be governed by self regulation, all brokerage firms and their employees should be covered by one or more SROs If only a part or segment of an industry (rather than all of an industry) is brought under self regulation, a level playing field would not exist

B Regulatory Oversight

Irrespective of the system, it is imperative that there be close oversight of the operations of SROs by the government regulator, the CMA in the case of Egypt Close oversight by the government regulator adds to the credibility of the SRO and prevents those representatives of the membership currently in power from taking advantage of those who are in a different position In all known self-regulatory systems, the SRO is subject to oversight by the government securities regulator from which it generally receives the right to act as such in the first place The government regulator also usually has the authority to withdraw an SRO's registration if it fails to properly discharge its regulatory responsibilities

Government oversight of SROs is extremely important, not only to add to their credibility but also, and importantly, to guard against the pursuit of self interest in the discharge of regulatory responsibilities The regulatory activities of the government and the self regulators should complement each other, and they should work together in a spirit of cooperation

The idea behind self regulation is that it provides day-to-day regulation as a complement to a government securities regulator's broader responsibilities dealing with policy and egregious violations of law Therefore, an exchange SRO, among other things, administers qualification

standards, operates market surveillance programs directed toward uncovering abuses such as insider trading and market manipulation, and conducts periodic on-site inspections of its members' activities to determine compliance or non-compliance with the law, rules adopted thereunder, and its own rules It also closely monitors the capital adequacy of member firms (ensuring compliance with capital rules, if any) by, for example, requiring the periodic filings of financial reports and reviewing such reports in on-site inspections An SRO also monitors the accuracy of record keeping by members and other areas of conduct, such as customer protection and rules governing sales practices An SRO should also require on-site inspections of all members on at least an annual basis These same principles apply to self regulatory associations

In addition to exchanges and associations, organizations such as clearing corporations and depositories are designated as SROs in some countries This paper is limited to exchanges and securities industry associations, but the concepts are equally applicable to other areas of the industry

C Premise of Self Regulation

A fundamental premise of self regulation is protecting the public interest Inherent in this premise is that an SRO cannot operate for the primary benefit of the members of the organization Therefore, its guiding principle must be the protection of the public interest and investors

For self regulation to be successful, it must have the total support of the government—hopefully evidenced by a statutory grant of authority, or regulatory mandate, which also specifically delineates the responsibilities and obligations of the SRO(s), mandates that all securities organizations doing business with the public be members thereof, and lays out the relationship between the SRO and the government's regulatory authority

Important to the successful implementation of self regulation is that the close government oversight mentioned above is effectively, efficiently, and fairly administered, but that the government is not directly involved in the SRO, as this could stifle initiative and creative thinking In some countries, government representation on the SRO's governing board is either required or authorized, but this type of representation is not advisable in the long term and is antithetical the concept of self regulation However, in certain transitional situations, it may serve a short-term good

In addition, self regulation in the generally accepted international context embodies the premise that members of the industry set standards for their business conduct for the purpose of enhancing their industry's professionalism and stature in the eyes of the public The concept of self regulation also embodies the premise that the primary enforcement of ethical standards and provisions of the law is conducted by peers, not by a government body In this respect, the standards of conduct established by SROs often go beyond the currently established legal and ethical norms The important point here is that it is peers of the accused, schooled in the ways of the market, who sit in judgment, usually subject to an appellate process The rules and other standards are, for the most part, formulated by professionals knowledgeable in the nuances of the securities business, presumably experts in the subject area Nevertheless, government approval is required in nearly all situations Finally, the sanctions imposed on violators can, depending upon the severity of the violation, bar a firm from further involvement in the securities industry

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D Rules of SROs

Generally, SROs' rules are divided into four areas admission, marketplace, conduct, and procedural rules This section discusses the common aspects of these types of rules

D1 Admission Rules

Admission rules govern the entry of persons or firms into the securities business and many times involve the passage of written qualification examinations to ensure professional fitness These admission requirements are often tailored to the jobs individuals wish to pursue in the industry—e g , salesman, trader, and principal of a firm Usually, the SRO determines the content of the qualification tests and ensures that this content is in keeping with the times, that test modules are routinely updated, etc Admission standards sometimes also impose educational, age, experiential, or other requirements generally, or on certain categories of employees

For securities firms, admission and continuing qualification standards often involve capital, books and record keeping, and maintenance requirements set by the government or the SRO Even when these rules are set by the government, they are often enforced by the self regulator The self regulator may also wish to set stricter capital standards for firms engaged in riskier businesses or for other reasons

D2 Marketplace Rules

Marketplace rules govern the operation of exchanges or organized markets and are usually divided into listing rules (including continuing compliance standards), trading rules (including requirements relating to customers, such as time-stamping orders when received and sending confirmations as to each order), rules ensuring transparency in the market, and clearance and settlement requirements Also, there are often rules governing the primary offerings of securities

Listing rules vary with the marketplace and may establish different standards for main and secondary boards Continuous-disclosure requirements mandate the disclosure by listed companies of certain information on periodic and other bases after listing This includes periodic financial reports and reports concerning material events Trading rules govern trading in the market These are important to the price-discovery and trade-execution processes and to protect against manipulation and other improper trading practices

SROs maintain systems for disseminating quotations and last-sale data, and for processing transactions This ensures transparency in the marketplace for the benefit of the public and investors Marketplaces also normally have rules governing clearing and settlement practices, and some SROs operate their own clearance and settlement systems Others do it in coordination with outside organizations such as clearing corporations, often owned by one or more SROs or banks

Finally, marketplaces should have in place an effective, automated market surveillance system These systems, often referred to as stock-watch systems, are designed to monitor the market for unusual price or volume movements Their purpose is to raise "red flags" as to the possibility of insider trading, manipulation, or other improper trading activity They also provide an audit trail of the activity of all securities in the market These systems are considered extremely important in advanced markets and are an essential element of effective regulation Their operation is based upon the input of quotation, transaction, and other information required by trading and other rules governing the marketplace In evaluating the "red flags" that are raised, this information is analyzed

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in combination with other company-specific and market information to determine if an investigation should be pursued

D3 Conduct Rules

Conduct rules establish generally acceptable business practices for firms and their employees when dealing with their customers, securities firms, and other organizations These involve standards relating to suitability, best execution, churning, fairness of markups/markdowns and commissions, unauthorized transactions, disclosure of interest in certain situations, prohibitions on guarantees against loss, communications to the public, customer priority when a dealer is dealing in the same security, and supervision practices of firms, among other things More egregious practices are also covered, such as false trading and rigging transactions, manipulations, false or misleading statements, fraudulently inducing persons to deal in securities, use of manipulative and deceptive devices, dissemination of information about illegal transactions, and insider trading Many times certain of these practices are direct violations of law and, in many countries, violations of criminal law

SROs often require that their member firms to have internal procedures to ensure proper supervision of employee activities, in particular those employees dealing with the public Finally, SROs often require firms to have a compliance director who is responsible for the proper implementation of these procedures

D4 Procedural Rules

Procedural rules can be of several types, the most common of which are surveillance and disciplinary procedures, arbitration procedures, and procedures for the operation of other systems the SRO has in place Surveillance, disciplinary, and arbitration procedures are discussed below

D4a Surveillance Mechanism

In addition to establishing rules, an SRO must establish a system to monitor compliance with these rules, as well as with other laws and regulations governing the securities industry Thus, it must have an enforcement mechanism This function involves, in addition to an automated market surveillance system, routine on-site and cause examinations of member firms' operations Routine examinations are conducted pursuant to a prescribed format, perhaps modular in nature, and cover all aspects of a firm's operations, including compliance with financial books and records rules, trading rules, conduct rules, supervision rules of the organization, and rules established by the government regulatory authority Any other area of a member firm's business considered pertinent may also be reviewed Routine examinations are usually periodic, perhaps no less frequent than once per year Cause examinations are conducted as necessary in response to complaints or other indications of improper activities coming to the SRO's attention, perhaps as a result of the operation of the market surveillance system or customer complaints

Findings of noncompliance result in disciplinary procedures being pursued against the violator, and in cases where wrongdoing is found, sanctions are imposed The important point to stress here is that rules alone do not make for a well-regulated market There must also be a process in place which enforces those rules and which is able to identify and sanction those who do not follow them A market that is not well regulated is not credible, and without credibility a marketplace has little to offer On the other hand, a well-regulated market, one that is not operated for the primary benefit of its members, will have a better chance of attaining international acceptance

D4b Disciplinary Mechanism

To impose sanctions on wrongdoers, an effective disciplinary mechanism must be in place Such a system should be structured for efficiency and afford respondents adequate due process Thus, it should provide for notification of the charges brought, the opportunity to respond, the right to a hearing, and the right to representation by counsel Some kind of appeal mechanism should also be provided for respondents dissatisfied with the findings of the body with original jurisdiction

To have efficient and effective enforcement and disciplinary mechanisms, a highly professional, thoroughly trained staff is essential The training of this staff should be conducted in countries that routinely perform these functions and are highly experienced in their operation This point cannot be emphasized too strongly

D4c Arbitration Procedure

Establishing a fair dispute-resolution system is an important complementary process to the regulatory function of an SRO An arbitration procedure is designed to provide final adjudication of disputes between members and the public and between members and other members, without the necessity of going to court Arbitration programs have worked very effectively in SROs in advanced markets and are considered an important service to members Important here is that the arbitration system be available not only to SRO members but also to customers who have grievances against a firm or person with whom they have done business

The procedures established must also be fair, allow public representation on the arbitration panel in cases involving customers, and permit representation by counsel Determinations should be final, with little or no opportunity for appeal (absent egregious situations, such as demonstrable fraud on the part of the arbitrators) In this context, the arbitration code adopted should be consistent with the arbitration law of the country of domicile

In Egypt, Article 57 of the Capital Market Law (No 95 of 1992) requires that disputes be adjudicated exclusively by arbitration It also specifies that the ' arbitration body" shall be formed by decree of the Minister of Justice, under a deputy president of the Courts of Appeal Part 5 of the Executive Regulations of the Capital Market Law implements these provisions The extent of the coverage of those regulations is unclear as to disputes between parties, in particular, those involving customers, and consideration should be given to amending the law to provide for arbitration by customers with grievances against brokers

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E Code Of Ethical Conduct For Employees

An SRO has a special responsibility to establish an internal code of ethical conduct governing the activities of its employees The necessity for such is emphasized by the nature of their activities, which are often sensitive in nature and involve the handling of confidential or market-sensitive information

It has been said that the rules pertaining to employees of SROs must go beyond those of the regulated, in order that the integrity and credibility of the organization, as well as its reputation for fair dealing, is not compromised In this context, it is important that employees maintain exceptionally high standards of honesty, integrity, and impartiality in their conduct It is also important that they have a conscious awareness of the need to avoid situations which could result in actual misconduct or conflicts of interest as well as those most likely to raise the appearance of impropriety, and its is appropriate that these employees conduct their professional and personal relationships in a manner which commands the respect and confidence of both the securities industry and the public

To avoid even the perception of unfairness in the discharge of their activities, therefore, internal standards should specify what is expected of employees in a variety of areas, such as conflicts of interest, confidentiality of information, business dealings with others (especially those in the industry), securities transactions, outside or private employment, and the acceptance of gifts or gratuities

F Conclusion

The guidelines and suggestions presented in this report are intended to raise some of the issues which should be considered when establishing SROs The bottom line, however, is that the necessary criteria and guidelines for all those organizations seeking to establish SROs should be formalized by the appropriate governmental authorities

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SECTION II

Action Plan for an Improved Market Surveillance System

A Background

In 1997, a report entitled "Towards Improved Market Surveillance and Enforcement in Egypt" (the Report) was produced by representatives of the regulatory arm of the National Association of Securities Dealers Regulation (NASD-R) and the U S Securities and Exchange Commission (SEC), upon the request of the Egyptian Capital Market Authority (CMA) The Report reviews in depth the market surveillance program in place in Egypt and makes a series of recommendations for designing a new system The Report is referenced hereafter and used as the basis for implementation of the action plan outlined below Its premise is that most of the information needed for effective market surveillance is currently available from the Cairo and Alexandria Stock Exchanges (CASE) in electronic form is accepted, as are its recommendations for improvement This action plan is designed to establish an impetus to implement those recommendations and to establish timelines for the CMA to complete the changes within the coming year It does not address the development of such a system at CASE, but the objectives and principles referred to in this document can be applied equally well there As the procedures discussed herein progress, consultations should also be held with officials at the exchange

The objective of the Capital Market Authority (CMA) and the concept and operation of market surveillance systems generally are briefly reviewed in this document

B Objective of Capital Market Authority (CMA)

The CMA's objective is to create a highly efficient, automated market surveillance system designed to detect improper practices, such as insider trading, market manipulation, illegal marriages, and front running The CMA intends to operate the system until CASE demonstrates an ability to do so

C Definition and Background of a Market Surveillance Operation

C1 Definition

Market surveillance systems in developed markets are usually designed to provide surveillance of market activity by utilizing a computer or computers programmed to identify aberrations in securities prices or volume that may indicate improper activity reflective of insider trading, market manipulation, or other fraudulent activities, with the aberrations that are identified followed up by specially-trained analysts and investigators and, where warranted, prosecution or disciplinary action A market surveillance function can also be performed manually in a market where volume is not great

A well-developed market surveillance system has an automated on-line and off-line stock-alert process employing statistical models that take into consideration security-specific parameters, market behavior, and news occurrences It is also capable of storing news stories by stock symbol and providing a complete audit trail of timed quotations and transactions Other systems with data bases storing related information complement this type of system-e g , data bases of company information, officers and directors, suspicious persons, and published news about listed companies

An efficient market surveillance system necessarily adds to the credibility of a market and the perception in the minds of investors that it is fair Illegal or improper trading has the opposite effect

C2 Limitations of a Market Surveillance System

An efficient, properly organized and operated market surveillance system is not a panacea, however All it does is raise "red flags" as to the possibility of improper activity, and this is the case irrespective of the sophistication of the system There is always the necessity to develop additional data to support subsequent disciplinary action or prosecutions This can be obtained only by follow up and, in most cases, by field investigation after the "red flag" has been raised Thus, it is necessary to have an adequate complement of competent, well trained professionals to perform the follow-up function

D Operation of Market Surveillance System

Normally, a market surveillance system is operated by an exchange or marketplace, rather than a government regulator, which exercises merely an oversight function The government regulator will, however, receive data from the exchange system to assist in discharging its oversight responsibilities

In Egypt's case, however, the CMA operates the system because it feels CASE presently lacks the ability and technical expertise to do so CASE is in the process of addressing this issue and a transition is planned When the transition occurs, the CMA will exercise only an oversight function Therefore, the CMA should operate the system in the short term, with CASE taking over, when it has demonstrated the necessary technical expertise to do so In the interim, the two institutions' relationships with one another and the scope of their respective responsibilities should be clearly understood and agreed upon A written summary of those responsibilities may be helpful in avoiding future misunderstandings

D1 Responsibility for Operation

Year 1 During this period, the CMA will operate the system, and CASE, in coordination with the CMA will educate and properly organize itself in preparation for the second, joint-operation phase

Year 2 During this period, the two institutions will operate the system jointly Joint operation will enable CASE to develop the expertise and skill necessary to operate the market surveillance system by itself

Year 3 and thereafter CASE will operate the system subject to CMA oversight

If CASE demonstrates the capacity to operate the system earlier than is suggested in this timeframe, the transition could and should occur earlier, and if it does not demonstrate such a capacity, the CMA should continue to operate the system until CASE's capabilities are convincingly shown

D2 Limitations on Exchange Operation of a Market Surveillance System

In cases where the exchange operates the market surveillance system, there are many regulatory situations where it may not have jurisdiction over some or all of the perpetrators of the wrongdoing For instance, in almost all insider-trading cases, people over whom an exchange does not have jurisdiction are involved In those cases and regardless of the fact that the system is operated by the exchange, it will hand the case over to the government regulator after suspicious activity has been flagged and the exchange has investigated to the limits of its jurisdiction The government regulator usually has subpoena authority and jurisdiction over all citizens and can more effectively carry the investigation forward from that point It is often advisable that the

exchange's investigators remain involved in the case to help the government regulator in its continuing investigation

In Egypt, CASE has jurisdiction over its members and, presumably, can take disciplinary action against them for improper conduct However, the extent of this jurisdiction is uncertain, as Presidential Decree No 51 requires CASE to refer violations of laws, regulations, and rules to the CMA The CMA has subpoena authority, however to date, it has not taken significant action in cases involving serious violations The CMA is apparently uncertain as to how to proceed and there exists no history as to how to confront company officials in difficult situations These factors will be addressed by other aspects of the CMD project

E Components of Market Surveillance Operation

The essential components of a market surveillance system are data, reports, analysis, investigation, and appropriate action subsequently being taken against rule violators It also involves several physical elements, such as, hardware and software (necessary for information gathering), report production and data analysis, and personnel who are educated and well trained to perform analyses and conduct investigations

F Organizational Structure of CMA Market Surveillance Department

F1 Personnel

Current Situation

There are currently 11 personnel in the market surveillance department operating in cramped quarters with inadequate equipment

- 5 analysts
- 3 attorneys
- 2 managers
- 1 general manager

The analysts, managers, and general manager apparently all perform the work of 'analysts"—their gradation is determined by government pay scales, with little difference in functions

Three attorneys do not appear to be necessary in this department from the standpoint of its market surveillance activities Their function is primarily to consult with brokers from CASE to review their order books for content, and to consult with customers and address their complaints Their function does not include analyzing data to look for improper market activity Broker and customer consultations are conducted in the presence of analysts doing surveillance work This situation is not good, and consultation with the attorneys should be transferred to a different location

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Proposed Changes

The Report suggested that the market surveillance department maintain 11 personnel Its recommendations (which included 7 analysts and 1 technician) are modified as follows

- 6 analysts/investigators, which may be too many at the outset
- 1 attorney, to provide legal advice to the analysts on an as-needed basis (part time at the outset unless investigative volume indicates otherwise)
- 2 technicians
- 1 administrative person
- 1 manager, whose responsibility will be to run the department

F2 Physical Premises

The market surveillance department's physical premises should be in a secure location, adequate in size for the functions to be performed and properly organized This is not the case today In addition, all information should be fully accessible at each analysts/investigators' workstation Thus, each analyst should have a PC and telephone at his desk There should also be at least two printers, a fax machine, photocopier, and access to news retrieval readily available in the department Today, the personnel are in different locations and, in one case, on different floors The size of the office space should be sufficient for growth as volume on the exchange increases, the staff becomes more expert in their jobs, demands on their time become greater, and to accommodate a library as suggested in the Report The chairman of CMA has made assurances that additional space will be made available and that he is merely awaiting recommendations as to the required size

An office-layout diagram, with suggested size, has been requested by CMA Advice from a professional space designer may assist in best utilizing the available space

F3 Department Structure

The report suggests that the department be divided into two sections, each with the following responsibilities

On-Line Section The person or person's function in this section will primarily involve real-time surveillance of CASE trading This will also involve real-time follow up with company officials and others when unusual, unexplained activity occurs When adequate explanations are not forthcoming, further analysis and investigation will be conducted by the off-line section

Off-Line Section The persons in this section will be primarily responsible for analyzing and investigating instances of suspected improper activity forwarded by the on-line section

This breakdown by formalized sections may or may not be necessary at this time, considering the small number of daily transactions—about 1500, only a small portion of which would ever trigger an investigation for potential violations Even if not broken down into sections, the two functions would remain Both functions could possibly be performed by each of the analysts, but some separation may be advisable when full investigative follow up is initiated

F4 Written Procedures-Market Surveillance Procedures Manual

The department's current written procedures are minimal and not conducive to the efficient operation of a market surveillance system Preparation of written procedures and checklists to

follow up on alerts and the development of a market surveillance procedures manual should commence promptly The Report makes reference to procedures and checklists utilized by the NASD Market Surveillance Department (p 8) These procedures could be modified for use by the CMA Market Surveillance Department The suggested manual should be divided as follows and cover each area of improper activity for which surveillance is conducted

- Administrative
- Analytical, by type of improper activity
- Investigative, by type of improper activity
- Action to be taken, by each category of improper activity

The administrative section of the manual should be constructed by department personnel, with the assistance from outside consultants The consultants should take the lead in developing the suggested analytical, investigative, and referral procedures based on the NASDAQ procedures referred to above

G Action Plan

I Hardware

1 Determine hardware needs (See recommendations in the Report, pp 24-26 The recommendations include providing each analyst/investigator with a PC and telephone, and providing photocopiers, a fax machine, and printers to the department Also see CMA requests)	January 15, 1999
2 Hardware Acquisition (Initial steps to acquire the hardware)	January 31, 1999

II Software

1 Determine software requirements (See recommendations in the Report, pp 11-21 and 24-26 Some of the Report s recommendations have already been put in place)	January 15, 1999
2 Software acquisition (Initial steps to acquire commercial off-the-shelf items should be made immediately Some items are already in place)	January 31, 1999
3 Modifications of existing programs	
a) Identify programs and determine the extent of needed modifications	January 15, 1999
b) Meet with technical people and prepare schedule for implementation	January 30, 1999
4 Determine additional reports needed (See recommendations in the Report, pp 12-21)	January 15, 1999

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5 Meet with technical people to prepare schedule for implementation	January 31, 1999
III New data bases (company information, officers and directors of companies, published reports of listed companies, and others)	
1 Determine needs as to new data bases, specify their purpose and content, and develop programs for accessing them (See the Report, pp 13-21)	January 31, 1999
2 Meet with technical people and develop schedule for implementation	February 15, 1999
IV Additional recommendations from the Report (customer complaints, 5+/- price caps, trading halts by department, public education program, training program for analysts, See the Report, p 27)	
1 Discuss with CMA and determine feasibility	February 1, 1999
2 Meet with technical people and develop schedule for implementation	February 15, 1999
V Physical premises	
1 Determine space needed (including space for a library)	January 15, 1999
2 Assess space availability with the CMA	January 15, 1999
3 Design layout	January 31, 1999
4 Space acquisition	February 15, 1999
5 Space renovation	February 15, 1999
VI Relocation/equipment installation	February 28, 1999
VII Personnel	
1 Determine number/qualifications needed (See suggested qualifications in the Report, p 11)	February 28, 1999
2 Evaluate current personnel	March 31, 1999
3 Retain new personnel, if needed	April 30, 1999

VIII Training

1 Determine scope, content, and location of training programs	April 30, 1999

Training should be focused on the following

- Detection and investigation of insider trading, market manupulation, and other potentially improper activities
- Software programs used to conduct reviews and investigations
- On-site training in the market surveillance department or one of the more developed markets, e g , NYSE or NASD

2 Local training in system software and analytical and investigative procedures	Ongoing
3 Workshop training by experienced investigators from developed markets	August 30, 1999
4 International training at NYSE or NASD surveillance department	September 30, 1999

IX Market surveillance procedures manual

1 Determine content, format, and violations to be addressed	January 31, 1999
2 Completion of market surveillance procedures manual	December 31, 1999

X System modification and implementation complete	January 1, 2000

XI Legal consideration

1 Determine statutory shortfall	June 1, 1999
2 Propose modifications (See the Report, pp 30-37, for some suggested modifications)	June 30, 1999

SECTION III

Codes of Conduct and Ethics for CASE Members and Employees

A Introduction

The CMD project plans to develop an organizational handbook covering institutional rules and codes of conduct for CASE members The types of rules which such a handbook should cover are delineated below The handbook will eventually be published, in print and on the Internet, and CASE and CMA staff members will be provided with training in its components through professional seminars and workshops co-sponsored by the CMA, CASE, and possibly, the Egyptian Capital Market Association (ECMA)

In addition to a handbook covering a code of conduct for CASE members, the project has been informed that a handbook covering basic ethical standards for CASE employees needs to be prepared Similar standards could also be utilized by the CMA Such standards of ethical conduct are not unusual in developed capital markets

This section of the report outlines the basic elements of the two handbooks, one a code of conduct for CASE members and the other, as discussed above, a code of ethics for CASE employees

B Code of Conduct for CASE Members

Among other aspects, the code of conduct should include rules covering the areas listed below CASE's current regulations have not been reviewed, thus it is possible that some of the following recommendations may already be in place Therefore, before developing a handbook, the exchange's current regulations should be reviewed and discussed with CASE officials

- Ethical standards generally
- Business conduct generally
- Books and records and financial condition
- Financial responsibility
- Financial and operational examination procedures
- Treatment of customers
- Transactions with customers
- Responsibilities to other brokers
- Supervision
- Employment of disciplined persons
- Outside business activities
- Settlements
- Trading generally
- Arbitration procedures
- Other

C Code of Ethics for CASE Employees

Among other aspects, the ethical code of conduct should establish standards of conduct in the areas listed below Some of these areas may already be covered by current law or regulations, or be in place at the exchange Before developing the handbook, current law and CASE rules should be reviewed and discussed with CASE officials

- Actions that would impugn the reputation of the exchange
- Actions in respect to the business of the exchange which could result in
  - Providing preferential treatment to or receiving it from any member
  - Impeding the expeditious processing of exchange actions
  - Losing independence, impartiality, or objectivity
  - Adversely affecting the confidence of members of the public in the integrity or credibility of the exchange
  - Permitting personal financial circumstances and transactions to jeopardize independence of judgment or adversely affect job performance
- Knowingly violate any of the provisions of the securities laws
- Engage in any criminal, dishonest, or other conduct prejudicial to the exchange
- Conflicts of interest or potential conflicts of interest
- Confidentiality of information
- Other

D Action Plan for Development of Code of Conduct

The action plan for developing the code of conduct for CASE members calls for work to begin during March 1999 and be completed by October 1, 1999 The following timetable is suggested

Review existing CASE rules	March 30, 1999
Meet with exchange officials to review needs	March 30, 1999
Draft appropriate rules	April 30, 1999
Review draft with CASE and CMA	May 15, 1999
Final draft of rules	May 31, 1999
Exposure for membership comment for 30 days	May 31, 1999
Review comments	July 15, 1999
Prepare final draft for review with CASE and CMA	August 1, 1999
Publish code of conduct handbook for members	September 1, 1999
CASE/CMA declare rules effective	October 1, 1999

E Action Plan for Development of Code of Ethics

Like the code of conduct, this report suggests that work begin on the code of ethics during March 1999 and be completed, somewhat earlier, on July 1, 1999

Draft appropriate rules	March 30, 1999
Review draft with CASE and CMA	March 30, 1999
Prepare final draft of rules	April 15, 1999
Review final draft with CASE and CMA	May 15, 1999
CASE disseminates draft handbook to staff	May 15, 1999
Discussion with staff in open meeting	June 15, 1999
Finalize handbook and CASE declares it effective	July 1, 1999

F Level of Effort

Both handbooks will require about three weeks level of effort each, by a short-term regulatory advisor All of this work does not have to be performed in Egypt Drafting the document can be done in the U S Final work, however, should be conducted in Egypt