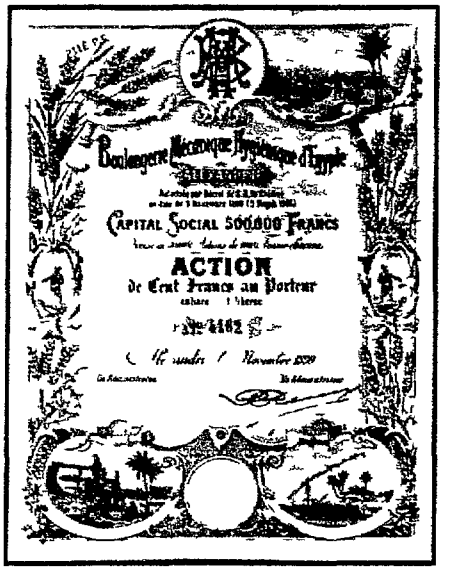
PN-ACF-396



Recommendations for an ECMA Code of Conduct

The Egypt Capital Markets Development Project

CHEMONICS INTERNATIONAL INC.

February 1999
USAID Contract No 263-C-00-98-00067-00

TABLE OF CONTENTS

EXECUTIVE SUMMARY		i
A	INTRODUCTION	1
B	THE PURPOSE OF AN INDUSTRY CODE OF CONDUCT	2
C	SECURITIES-INDUSTRY CODE FOR EGYPT	2
D	THE IOSCO PRINCIPLES	3
E	INTERNATIONAL STANDARDS	3
F	EGYPTIAN STANDARDS	3
G	DEALER-MARKET STANDARDS	4
H	ECMA CODE OF ETHICS AND RULES FOR PROFESSIONAL CONDUCT	4
I	RECOMMENDATIONS	4

APPENDICES

Appendix A	The IOSCO Principles
Appendix B	Standards and Rules Related to IOSCO Principles
Appendix C	Executive Regulations of the Capital Markets Law Part IV
Appendix D	Bond Market Association "Principles and Practices for Wholesale Financial Transactions"
Appendix E	ECMA Code of Ethics and Rules for Professional Conduct
Appendix F	Organizations

APPENDIX F

Organizations

Bond Market Association Inc
[formerly Public Securities Association]
40 Broad Street, 12/F, New York, NY 10004-2373
Phone (1-212) 809-7000 Fax 440-5260
http //www bondmarkets com

Egyptian Capital Market Association [ECMA]
26 Mohamed Mazhar Street, 3/F, Zamalek, Cairo, Egypt
Phone (20-2) 341-5163 and 340-5358 Fax 341-5163 and 340-5358

Emerging Markets Traders Association Inc
63 Wall Street, 20/F, New York, NY 10005
Phone (1-212) 293-5000 Fax 293-5093

Federation Internationale des Bourses de Valeurs [FIBV]
[International Federation of Stock Exchanges]
22 Boulevard de Courcelles, Paris, F-75017 France
Phone (33-1) 4401-0545 Fax 4754-9422
http //www fibv com

National Association of Securities Dealers Inc [NASD]
1735 K Street NW, Washington, DC 20006
Phone (1-202) 728-8000
http //www nasdaq com or www nasdr com

National Futures Association Inc [NFA]
200 West Madison Street, Suite 1600, Chicago, IL 60606-3447
Phone (1-312) 781-1300 Fax 781-1467
http //www nfa futures org

New York Stock Exchange Inc [NYSE]
20 Broad Street, New York, NY 10005
Phone (1-212) 656-3000 Fax 269-4830
http //www nyse com

EXECUTIVE SUMMARY

This document recommends to the Egyptian Capital Market Association (ECMA) Board of Directors that the seven principles of the International Organization of Securities Commissions (IOSCO) be accepted as the standards for an ECMA code of conduct

The ECMA Board of Directors adopted a Code of Ethics and Rules for Professional Conduct in June 1996, soon after ECMA's formation In November 1998, while preparing the Capital Markets Development (CMD) project First Year Work Plan, ECMA's directors requested a review of the code and rules The purpose of this review was to ensure that ECMA's standards were consistent with international standards and appropriate as a foundation for specific rules in the future

The recommendation that ECMA accept the IOSCO Principles is based on a detailed analysis of standards and rules from various sources, including the New York Stock Exchange Inc , a securities exchange and self-regulatory organization, National Futures Association Inc , an industry SRO, National Association of Securities Dealers Inc , an industry SRO, Emerging Markets Traders Association, an industry association, Bond Market Association, an industry association, and Federation Internationale des Bourses de Valeurs, an international organization of securities exchanges

The results of that analysis were tested against the standards of Ministerial Decree 39 of 1998, which adds to the executive regulations of the Capital Market Law (Law 95 of 1992) All of the standards stated in Decree 39 can be matched to one or more of the seven IOSCO Principles

The full text of the IOSCO Principles is reproduced as Appendix A to this document Appendix B, Appendix C, and Appendix D demonstrate that standards and rules from other sources can be expressed through the seven IOSCO Principles Appendix E is the full text of ECMA's current code and rules

RECOMMENDATIONS FOR AN ECMA CODE OF CONDUCT

A Introduction

The Egyptian securities industry has grown and matured since the legal reforms of 1992 Visible evidence of this development is the present institutional infrastructure the Capital Market Authority (CMA) as the government regulatory organization, the Cairo and Alexandria Stock Exchanges (CASE), and Misr for Clearing, Settlement, and Depository (MCSD) These institutions have made significant progress in their respective functions of regulation, transaction execution, and transaction processing

The current challenge for regulators and securities-industry leaders is to continue this development by improving the quality of investment-management and financial-transaction services offered to private and institutional investors The objective should be to achieve international standards of quality in the services provided by Egyptian investment-management companies and broker-dealers If this objective is to be achieved, it will require a commitment from and active participation by the directors and senior managers of companies which deliver services directly to the public The most effective way to mobilize and direct that participation is through a securities-industry self-regulatory organization (SRO)

The need to improve the quality of services offered to the public was recognized by securities-industry leaders more than three years ago As a result, they formed the Egyptian Capital Market Association (ECMA) in 1996 to raise the level of ethical standards and improve technical skills in the industry ECMA's directors are committed both to achieving international standards in the quality of services and to the concept of a securities-industry SRO ECMA's directors believe the performance of the association and its members will demonstrate that ECMA has the leadership and organizational capacity to assume formal responsibility for SRO functions

In preparing the CMD project's 1999 Work Plan, ECMA's directors requested a review of ECMA's current Code of Ethics and Rules of Professional Conduct to ensure that the code and rules are consistent with international standards and establish a foundation for the specific rules required by a securities-industry SRO The support requested was included in the work plan as Task SI-1 2 "Confirm the Code of Conduct and Ethical Business-Conduct Standards " The work plan was presented to the CMA Chairman and Deputy Chairman on December 12, 1998 During that presentation, the chairman acknowledged that international standards should be the basis for ECMA's Code of Conduct

This report defines and describes the purpose of a code of conduct and concludes with a recommendation It recommends that the ECMA Board of Directors accept the International Organization of Securities Commissions (IOSCO) Principles as the basic standards for a code of conduct This recommendation is supported by Appendix B, Appendix C and Appendix D, which provide additional information and may be used as a source for modifications of the seven IOSCO Principles Appendix A is the full text of the IOSCO Principles and Appendix E is the full text of ECMA's current code and rules

B The Purpose of an Industry Code of Conduct

An industry code is a set of standards which describe good conduct by natural persons and legal entities directly involved in the management and technical functions of a specific industry A securities-industry code relates to the management and technical functions of broker-dealer and investment-management entities, and the persons who perform those functions

A code is a set of standards, not rules The distinction between standards and rules is important A standard is a model for good conduct "Drive Carefully " A rule establishes a maximum or a minimum, or requires specific action "Maximum Speed 100km per hour " Driving carefully usually is good conduct, but it is not good conduct while driving at 120km per hour Standards provide a general model for good conduct, but rules are required to define the limits of good conduct This means that standards can remain the same for a long period of time, while rules change as often as necessary to reflect new circumstances

The purpose of a securities-industry code should be to provide a person with guidance toward good conduct, even if that person does not know the details of the relevant rules The code must be comprehensive and clear if it is to provide reliable guidance It is equally important for the code to be supported by specific and enforceable rules

C Securities-Industry Code for Egypt

There are variations from country to country, but many countries have securities-industry codes in one form or another Some have a number of codes for self-regulatory organizations (SROs), for unofficial associations, and for specialists in certain markets, such as emerging-market securities and currencies The substance of these codes may be very similar, and a number of codes may apply to different market activities within one financial intermediary The purpose is always the same to document a set of standards which professionals in the industry accept as a model for good conduct in transactions among themselves and between themselves and their customers

The purpose of a securities-industry code in Egypt is similar to the purpose in other countries In Egypt, however, the need for a code is substantially greater than in countries which have many years of experience with mature, efficiently-regulated markets The experience and "collective memory" of professionals in mature markets is not yet present in Egypt As a result, the Egyptian securities industry is at a disadvantage in attracting Egyptian investors and in competing with other countries for foreign investments

Egyptian regulators and securities-industry leaders recognize that a code is needed for two reasons First, for the traditional purpose of documenting good-conduct standards which are generally understood by experienced professionals in the industry Second, and equally important, for the purpose of educating both professionals and customers who have limited experience in securities markets and limited understanding of good-conduct standards

D The IOSCO Principles

IOSCO, based in Montreal, is an international organization of securities-industry regulators The organization's support for national securities regulators is similar to the support for national banking regulators provided by the Bank for International Settlements (BIS) in Basle IOSCO and BIS often cooperate on matters which are subject to banking laws in some countries and securities laws in other countries

The IOSCO Principles were established at a meeting in Santiago, Chile, November 12-15, 1990, when a resolution on the IOSCO Principles was approved The resolution asks all members of IOSCO to recognize the IOSCO Principles as "basic standards of business conduct" for financial firms, to implement them through their regulatory structure and supervisory arrangements, and to promote the principles in their own countries Each member is free to implement the principles in the form stated by IOSCO, or to modify the principles for local circumstances

These seven principles fulfill the general requirements for a securities-industry code of conduct, and have been accepted by securities-industry regulators or recommended to financial intermediaries in a number of countries

The full text of the IOSCO Principles is reproduced as Appendix A to this document

E International Standards

The IOSCO Principles reproduced in Appendix A have been expanded in Appendix B to include a sample of standards and rules related to each of the seven principles The IOSCO Principles, themselves, are international standards The flexibility and inclusiveness of these standards can be appreciated by matching the standards and rules of other organizations to the seven IOSCO Principles That is done in Appendix B to this document

The sources of the other standards and rules include the New York Stock Exchange Inc (NYSE), a securities exchange and SRO, National Futures Association Inc (NFA), an industry SRO, National Association of Securities Dealers Inc (NASD), an industry SRO, Emerging Markets Traders Association, an industry association, and Federation International des Bourses de Valeurs (FIBV), an international organization of securities exchanges

F Egyptian Standards

Egyptian securities-industry standards exist now in the Capital Market Law (Law 95 of 1992) A number of these standards are stated in Ministerial Decree 39 of 1998, issued by the Minister of Economy, which adds to the executive regulations of the Capital Market Law Appendix C to this document is a summary of selected articles from Decree 39

The purpose of Appendix C is to demonstrate that all of the standards stated in the various articles of Decree 39 can be matched to one or more of the seven IOSCO Principles It shows that all of the standards that currently exists, or which should be explicit securities-industry standards in Egypt, can be expressed through the seven IOSCO Principles

G Dealer-Market Standards

Appendix D to this document is the full text of "Principles and Practices for Wholesale Financial Market Transactions," published in 1996 by New York-based Bond Market Association (formerly the Public Securities Association) In this context, "wholesale" means dealer-to-dealer transactions and transactions directly between dealers and their institutional customers Some of these transactions can be complex, and increasingly they involve leverage and option-like features

Securities exchanges are not efficient mechanisms for transactions which require principal-to-principal negotiations As the Egyptian financial markets grow and diversify, the natural expansion path is for some types of transactions to be through dealer (principal-to-principal) markets Good-practice standards in this environment are not well established compared with broker transactions on exchanges The Bond Market Association's "Principles and Practices" should be helpful in anticipating some of these differences and in making provisions for them in ECMA's Code of Conduct and the supporting rules

H ECMA Code of Ethics and Rules of Professional Conduct

One of the first official actions by the board of directors of the newly-organized ECMA, in June 1996, was to approve a Code of Ethics and Rules of Professional Conduct The full text of the code and rules are reproduced as Appendix E to this document

The fact that the code and rules were developed voluntarily by securities-industry professionals is a strong indication of both the symbolic and the practical importance of a public commitment to good-conduct standards The substance of the code and rules is sound

I Recommendations

The ECMA Board of Directors should accept the IOSCO Principles as the "basic standards of business conduct" for a code of conduct that will apply to all investment-management, broker-dealer, and bookkeeper members of ECMA

The directors of ECMA should review each of the seven IOSCO Principles to ensure that they are appropriate for the Egyptian securities markets This review should compare the IOSCO Principles with standards from other sources, including ECMA's 1996 code and rules, the Bond Market Association's 1996 "Principles and Practices," and Ministerial Decree 39 of 1998, an addition to the Capital Market Law Based on this review, a code of conduct for ECMA members should be prepared according to the following process

1 The final draft of a code of conduct for ECMA members should be presented to the CMA for review and acknowledgment

2 The code of conduct, after CMA review and acknowledgment, should be adopted formally by the ECMA Board of Directors

3 The ECMA Board of Directors should implement a plan to prepare, review, and approve rules to support the general standards of the code of conduct

APPENDIX A

The IOSCO Principles

The principles recommended by IOSCO are

1 Honesty and Fairness

In conducting its business activities, a firm should act honestly and fairly in the best interests of its customers and the integrity of the market

2 Diligence

In conducting its business activities, a firm should act with due skill, care and diligence, in the best interests of its customers and the integrity of the market

3 Capabilities

A firm should have and employ effectively the resources and procedures which are needed for the proper performance of its business activities

4 Information about Customers

A firm should seek from its customers information about their financial situation, investment experience, and investment objectives relevant to the services provided

5 Information for Customers

A firm should make adequate disclosures of relevant material information in its dealings with its customers

6 Conflicts of Interest

A firm should try to avoid conflicts of interest, and when they cannot be avoided, should ensure that its customers are fairly treated

7 Compliance

A firm should comply with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of customers and the integrity of the market

APPENDIX B

Standards and Rules Related to IOSCO Principles

The principles recommended by IOSCO are listed below With each principle, a number of corresponding standards and rules from other organizations are listed

1 Honesty and Fairness

In conducting its business activities, a firm should act honestly and fairly in the best interests of its customers and the integrity of the market

NFA Rule 2-4 Just and Equitable Principles of Trade

> Members and Associates shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business

NYSE Rule 401 Business Conduct

> Every member organization shall at all times adhere to the principles of good business practice in the conduct of its business affairs

NYSE Rule 435 Miscellaneous Prohibitions

> No member organization shall
>
> (3) Execute or cause to be executed the purchase or the sale of any security for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security which does not reflect the true state of the market in such security
>
> (4) Directly or indirectly participate in or have any interest in the profits of a manipulative operation or knowingly manage or finance a manipulative operation
>
> (5) Circulate in any manner rumors of a sensational character which might reasonably be expected to affect market conditions

NASD Rule 2110 Standards of Commercial Honor and Principles of Trade

> A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade

NASD Rule 2120 Use of Manipulative, Deceptive, or Other Fraudulent Devices

> No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance

2 Diligence

In conducting its business activities, a firm should act with due skill, care and diligence, in the best interests of its customers and the integrity of the market

NFA Rule 2-9(a) Supervision

> Each Member shall diligently supervise its employees and agents in the conduct of their activities for or on behalf of the Member Each Associate who has supervisory duties shall diligently exercise such duties in the conduct of that Associate's activities on behalf of the Member

NYSE Rule 342(b) Offices Approval, Supervision, and Control

> The general partners or directors of each member organization shall provide appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities' laws and regulations This person shall
>
> (1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control
>
> (2) establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised

NASD Rule 3010(a) Supervisory System

> Each member shall establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable laws and regulations, and the Rules of the Association Final responsibility for proper supervision shall rest with the member

3 Capabilities

A firm should have and employ effectively the resources and procedures which are needed for the proper performance of its business activities

NFA Rule 2-10 Recordkeeping

> Each Member shall maintain adequate books and records necessary and appropriate to conduct its business

NYSE Rule 440 Books and Records

> Every member organization shall make and preserve books and records as the [SRO] may prescribe

Report and recommendations to Federation International des Bourses de Valeurs (FIBV) General Assembly in Oslo, Norway, September 1992

In drafting these FIBV Principles, the format of the IOSCO Principles was followed

3 Capabilities Professional Qualifications At the very least, employees of members should be fit and proper persons without any record of dishonest or seriously fraudulent activities Professional training and competence appropriate to a person's [responsibilities] should be expected

NASD Rule 1120 Continuing Education Requirements

This Rule prescribes requirements regarding the continuing education of certain registered persons subsequent to their initial qualification and registration with the Association

4 Information about Customers

A firm should seek from its customers information about their financial situation, investment experience, and investment objectives relevant to the services provided

NFA Rule 2-30 Customer Information

(a) Each Member or Associate shall, in accordance with the provisions of this Rule, obtain information about its customers

(h) Each Member shall establish and enforce adequate procedures to review all records made pursuant to this Rule and to supervise the activities of its Associates in obtaining customer information

NFA Rule 2-18 Customer Complaints

With respect to all written customer complaints, each Member shall

(a) Retain all such written complains, and

(b) Make and retain a record of the date the complaint was received, the Associate who serviced the account, a general description of the matter complained of, and what, if any, action was taken in regard to the complain

NYSE Rule 405 Diligence as to Accounts

Every member organization is required through a general partner, a principal executive officer or a person or persons designated to

(1) Use due diligence to learn the essential facts relative to every customer

(2) Supervise diligently all accounts

(3) Specifically approve the opening of an account prior to or promptly after the completion of any transaction for the account of or with any customer The [person] approving the opening of the account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which is a part of the permanent records of his office or organization

12

NASD Rule 2310(a) Recommendations to Customers (Suitability)

In recommending to a customer a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and his financial situation and needs

5 Information for Customers

A firm should make adequate disclosures of relevant material information in its dealings with its customers

NFA Rule 2-29 Communications with the Public

(a) General Prohibition No Member or Associate shall make any communication with the public which

(1) operates as a fraud or deceit, or

(2) employs or is part of a high-pressure approach

(b) Content of Promotional Material No Member or Associate shall use any promotional material which

(1) is likely to deceive the public, or

(2) contains any material misstatement of fact, or omits a fact, which the Member or Associate knows makes the promotional material misleading

(d) Statements of Opinion Statements of opinion included in promotional material must be clearly identifiable as such and must have a reasonable basis in fact

NYSE Rule 409 Statements of Accounts to Customers

(a) member organizations shall send to their customers statements of account showing securities and money positions and entries

(e) Each statement of account sent to a customer pursuant to this rule shall bear a legend as follows

"A financial statement of this organization is available for your personal inspection at its offices, or a copy of it will be mailed upon your written request"

NASD Rule 2210 Communications with the Public

(d)(1)(A) All member communications with the public shall be based on principles of fair dealing and good faith and should provide a sound basis for evaluating the facts

(d)(1)(B) Exaggerated, unwarranted or misleading statements or claims are prohibited

6 Conflicts of Interest

A firm should try to avoid conflicts of interest, and when they cannot be avoided, should ensure that its customers are fairly treated

NYSE Rule 408(a) Discretionary Power in Customers' Accounts

> No member or employee of a member organization shall exercise any discretionary power in any customer's account without first obtaining written authorization of the customer

NYSE Rule 472 Communications with the Public

> 472 40 (2) Disclosure When a communication recommends the purchase or sale of a specific security, member organizations must disclose the following information
>
> (i) if the organization usually makes a market in the security being recommended or if some or all of the recommended securities are to be sold to or bought from customers on a principal basis
>
> (ii) if the member organization was manager or co-manager of the most recent public offering of any securities of the recommended issuer
>
> (iii) if the member organization or its employees may have positions in any securities of the recommended issuer
>
> (iv) if [an employee of the member] is a director of a corporation whose securities are being recommended

Emerging Markets Traders Association, Code of Conduct, June 20, 1993

> (3) Conflicts of Interest Each Member should establish, maintain and enforce appropriate policies, taking into consideration the nature of such Member's business, regarding the existence (and, where appropriate, disclosure) of any material conflict between the interests of such Member (and its employees) and the responsibilities to customers or counterparties

NASD Rule 2250 Disclosure of Interest in Primary or Secondary Distribution

> A member shall, at or before the completion of any transaction in any security [in] which such member is participating or is otherwise financially interested, give such customer written notification of the existence of such participation or interest

7 Compliance

A firm should comply with all regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of customers and the integrity of the market

Report and recommendations to Federation International des Bourses de Valeurs (FIBV) General Assembly in Oslo, Norway, September 1992

In drafting these FIBV Principles, the format of the IOSCO Principles was followed

7 Compliance Members should ensure that their partners or officers and directors are sufficiently active in the affairs of the firm to ensure their compliance with statutory and self-regulatory obligations Firms should develop systems for supervision of accounts and employees and compliance with applicable regulations

NFA Rule 2-5 Cooperation in NFA Investigations and Proceedings

Each Associate and person belonging to NFA shall cooperate promptly and fully with NFA in any NFA investigation, inquiry, audit, examination or proceeding regarding compliance with NFA requirements or any NFA disciplinary or arbitration proceeding

NFA Financial Requirements

Section 1 Minimum Financial Requirement Each NFA Member that is registered or required to be registered must maintain "Adjusted Net Capital" equal to or in excess of

Section 4 Compliance with Financial Requirements Each Member must be in compliance with these financial requirements at all times and must be able to demonstrate such compliance to the satisfaction of

NYSE Rule 325(a) Capital Requirements General Provisions

Each member or member organization subject to Rule 15c3-1 under the Securities Exchange Act of 1934 shall comply with the capital requirements prescribed therein

NYSE Rule 416(a) Reports

Each member organization shall submit to the [SRO] as such times as may be designated in such form and within such time period as may be prescribed such information as the [SRO] deems essential for the protection of investors and the public interest

NYSE Rule 418 Audit

The [SRO] may at any time require any member organization to cause an audit to be made by an independent public accountant of its accounts in accordance with

APPENDIX C

The Executive Regulations of the Capital Market Law Part VI

The following executive regulations to the Capital Markets Law (Law 95 of 1992) were added by Decree Number 39 of 1998, issued by Minister of Economy In this appendix, the articles are matched to the corresponding IOSCO Principles

Chapter 1 General Provisions

Article 213

The term "Company," in applying the provisions of the First and Fifth Chapters of this Part, shall mean "Securities Portfolio Formation and Management Companies" and "Stock Brokerage Companies," according to the activity as licensed for each of them

Article 214

The Company shall exercise the activity as licensed for, according to the provisions of the Law, the Statutes, and the decrees issued for their implementation, the conditions and controls on the basis of which the license is issued, and through observing trade practices and conventions in this respect and the principles of honesty, justice and equality, as well as caring for the clients' interest which shall be realized by the Company's exertion of discretion and a prudent man's attention

Related IOSCO Principles All

Article 215

The Company shall [establish] an organization for itself, before the lapse of one month from the date of licensing, to exercise its activities, to guarantee the proper and sound selection of its directors, representatives and the rest of its workers, and to ascertain the proper and good conduct of each of them as well as his experience in the field of work to be entrusted thereto, in the light of the controls to be set by the Authority in this respect The Company shall follow up that these controls are adhered to and not deviated from, and shall notify the Authority by providing it with a copy of this organization as well as [notice of departures from the Company] by its directors and representatives

Related IOSCO Principles 2 Diligence, 3 Capabilities

Article 216

The Company shall maintain the financial solvency necessary for exercising its activities and for securing the fulfillment of its obligations along with observing the rules to be set by the Authority in this respect The Company when licensed to exercise more than one activity shall [appoint] separate and independent management for each activity, and shall completely separate between the managements in a way [to ensure] the avoidance of [conflicts] of interests, as prescribed in Article 234

Related IOSCO Principles 2 Diligence, 3 Capabilities, 7 Compliance

Chapter 2 Internal Statutes and Control System

Article 217

The Company shall [establish] internal written statutes before the lapse of one month from the date it is licensed, to exercise its activities The statutes shall comprise the system of work in the Company and the procedures to be adhered to by the directors and the workers of the Company, along with notifying the Authority by providing it with a copy of these internal statutes within one week from the date of the Company's approval thereof The Company shall change the provisions of these internal statues to agree with any amendment in the law or the statutes and shall notify the Authority thereof within one week from the date the amendment is enforced

Related IOSCO Principles 2 Diligence, 3 Capabilities, 7 Compliance

Articles 218, 219, and 220

Related IOSCO Principles All

Chapter 3 Announcement

Article 221

Each announcement to be issued by the Company shall be qualified by its honesty and precision It shall comprise all information required to be explained or which is considered necessary according to the subject of the announcement and the nature of the public to whom it is addressed, in order to enable understanding it and evaluation of its subject The Company shall not conceal any facts or substantial information in a way that might affect [sound decision-making] by its clients or by any individual among the public to whom the announcement is addressed or create any type of confusion within the public The announcement shall not comprise any exaggerated statement or suggestion with a misleading effect

The announcement is meant to address to the public information or materials intended to be published or circulated in any form and on any occasion via an audio or visual local, foreign, written or broadcast media, or carried through any electronic or other methods The "public" shall mean persons that are not defined beforehand and those having no link with the Company, its directors, or its workers by former relations, or with learning about any announcement made by the Company

Related IOSCO Principles 1 Honesty and Fairness 5 Information for Customers

Articles 222, 223, 224, 225, and 226

Related IOSCO Principles 5 Information for Customers 7 Compliance

Chapter 4 Data of Company and the Right of Access

Article 227

The Company shall maintain books [and records] which indicate its financial situation, accounts, registers, documents, and correspondence in compliance with the laws and statutes in force It shall send to its clients, upon their request, the periodical financial data related thereto according to the last approved financial statements

Related IOSCO Principles 3 Capabilities 5 Information for Customers

Article 228

The Company shall maintain a list of the names of all its clients, and a file for each client comprising the data prescribed in the following Article, a statement of the securities for which dealing is carried out for account of the client, and the contracts signed between [the client] and the Company, as well as the correspondence exchanged between them for at least two years

Related IOSCO Principle 4 Information about Customers

Article 229

The file the Company holds for each client shall comprise at least the following

Related IOSCO Principle 4 Information about Customers

Article 230

The Company shall maintain absolute confidentiality of its clients' data and shall not divulge any information about them or their dealings to third parties, without their prior written approval, and within the limits of this approval, with the exception of the cases in which specific information shall be submitted to the stock exchange, or to the Control or Judicial authorities, as prescribed in the laws The Company shall [establish] procedures [to ensure] that the [Company's] directors and workers [comply with] the obligation to maintain the confidentiality of these data and information In all cases, the Company shall not use these data or information for realizing any kind of special gain for itself or any of its other clients without obtaining prior written approval thereof from the party possessing the data or information

Related IOSCO Principle 4 Information about Customers

Chapter 5 Incompatibility [Conflicts] of Interests and Use of Information

Article 231

In its dealings with its clients, the Company shall adhere to the principles of honesty, attention to [the clients'] interests, and equality between those having similar nature and situations of their dealings with the Company It shall avoid whatever is likely to offer privileges, bonuses and incentives, or special information to some of them without the rest, whether directly or indirectly It shall not perform any work liable to cause harm to any of them

Related IOSCO Principles 1 Honesty and Fairness 6 Conflicts of Interest

Article 232

Related IOSCO Principles 1 Honesty and Fairness 6 Conflicts of Interest

Article 233

In its exercise of securities-related activity, as authorized therefore, the Company shall avoid incompatibility [conflicts] of interests, nor shall it exercise an activity comprising such [conflicts] except after expressing it to its clients or to the public whose decisions might [be] affected by such [conflicts] with regard to dealing in securities, and obtaining a written approval from the person in whose name or for whose account the dealing is done

Related IOSCO Principle 6 Conflicts of Interest

Article 234

Incompatibility [conflicts] of interests shall mean each situation wherein the interest of the company or any of its directors or workers, when exercising its licensed activity, may prove incompatible with the interest of the client, or the interests of the clients for whose account the company is carrying out the transactions in a way that could give precedence to the interests of those clients over another client's interest, or may affect the neutrality of the Company whether in carrying out or refraining from carrying out a work, or when expressing a view or adopting a conduct which is likely to affect the decisions of the clients or the public

Related IOSCO Principle 6 Conflicts of Interest

Articles 235, 236, 237, 238, 239, 240, 241, and 242

Related IOSCO Principles 6 Conflicts of Interest, 7 Compliance

Article 243

The Company shall be prohibited to follow and apply any methods in its work comprising fraud or deceit, and particular the following

Related IOSCO Principles 1 Honesty and Fairness 7 Compliance

Article 244

Related IOSCO Principles 1 Honesty and Fairness 7 Compliance

Chapter 6 Provisions Concerning the Formation and Management of Securities Portfolio Companies

Article 245

In applying the provisions of this Chapter, the term "Company" shall mean "Securities Portfolio Formation and Management Companies,"

Article 246

The Company shall be prohibited to promise in any announcement which will be issued thereby, the realization of any specific financial results when dealing for any of the securities, or to confirm the validity of any expectations, presume the repetition of gains that were previously realized, or suggest anything of that

Related IOSCO Principle 5 Information for Customers 7 Compliance

Article 247

The Company shall send a detailed account statement to each of its clients providing as a minimum, the transactions carried out and the balance of securities as well as the cash balance of the client during the period covered by the statement of account

Related IOSCO Principle 5 Information for Customers

Articles 248, 249, 250, 251, 252, 253, and 254

Related IOSCO Principles 2 Diligence, 3 Capabilities, 4 Information About Customers

Chapter 7 Provisions Concerning Stock Brokerage Companies

Article 255

The term "Company," in applying the provisions of this Chapter shall mean "Stock Brokerage Companies,"

Article 256

The Company shall conclude with each of its clients an agreement on opening an account it shall [include] the following

2 Determination of the client's investment purposes

3 Determining whether the client wishes to buy foreign securities

Related IOSCO Principle 4 Information About Customers

Article 257

Related IOSCO Principle 7 Compliance

Article 258

Subject to the provisions of Articles 221 through 226, the Company, in giving its recommendation to is clients concerning dealings in securities, shall observe the [suitability] of these recommendations to the [circumstances] of each [client] and [each client's] financial conditions, as well as [the client's] experience in dealing in securities, based on the information provided by the client to the Company

Related IOSCO Principles 4 Information About Customers, 5 Information for Customers

Articles 259, 260, 261, 262, 263, 264, 265, 266, 267, and 268

Related IOSCO Principles All

APPENDIX D

Bond Market Association, "Principles and Practices for Wholesale Financial Market Transactions," New York NY, February 6, 1996

Table of Contents

Introduction

1 Purpose of Principles and Practices

- 1 1 Applicability
- 1 2 Nature of Principles
- 1 3 Supplementary Nature of Principles

2 Participants—Financial Resources

- 2 1 Financial Resources

3 Participants—Policies and Procedures

- 3 1 Policies and Procedures
- 3 2 Supervision and Training of Employees
- 3 3 Control and Compliance
- 3 4 Risk Management
- 3 5 Independent Risk Monitoring
- 3 6 Valuation
  - 3 6 1 Valuation of Transactions
  - 3 6 2 Obtaining External Valuations
  - 3 6 3 Evaluating External Valuations
  - 3 6 4 Providing Valuations to Other Participants
- 3 7 Credit Risk
- 3 8 Legal Capacity and Authority to Transact

4 Relationships Between Participants

- 4 1 Fair Dealing and Professional Standards
- 4 2 Relationships with Counterparties
  - 4 2 1 Decision-Making Capability
  - 4 2 2 Reliance on Investment Advice
  - 4 2 3 Transaction Information
  - 4 2 4 Other Activities of Counterparties
  - 4 2 5 Role as Agent or Broker
- 4 3 Confidentiality

5 Considerations Relating to Relationships Between Participants

5 1 Introduction
5 2 Counterparty Decision-Making Capability
5 3 Notifying Counterparties of Nature of Relationship
5 4 Providing Additional Information to Counterparties

6 Mechanics of Transactions

6 1 When Transactions are Binding
6 2 Confirmations
6 3 Payment and Settlement Instructions
6 4 Documentation
6 5 Complaints and Settlement of Differences

7 Standards for Transactions

7 1 Misuse of Market Terminology and Conventions
7 2 Manipulative Practices
7 3 Bribes and Outside Fees and Commissions
7 4 Rumors and False Information
7 5 Money Laundering and Other Criminal Activities

Introduction

These Principles and Practices for Wholesale Financial Market Transactions are the result of a joint effort by several groups that represent participants in the over-the-counter financial markets These Principles were prepared in order to confirm the relationship between Participants and to articulate a set of best practices with respect to over-the-counter financial markets transactions between Participants

Representatives of the Emerging Markets Traders Association, the Foreign Exchange Committee of the Federal Reserve Bank of New York, the International Swaps and Derivatives Association, the New York Clearing House Association, the Public Securities Association and the Securities Industry Association participated in the preparation of the Principles The preparation of the Principles was coordinated by the Federal Reserve Bank of New York

1 Purpose of Principles and Practices

1 1 Applicability

These Principles and Practices for Wholesale Financial Market Transactions (the "Principles") are intended to provide guidance for the conduct of wholesale transactions in the over-the-counter financial markets between Participants ("Transactions")

"Participant" means any corporation, partnership, trust, government or other entity that engages regularly in one or more types of Transactions The term "counterparty" as used in the Principles means a Participant that is the other party to a Transaction with a Participant

The Principles reflect principles and practices in the United States of America and may not reflect principles and practices in other countries

1 2 Nature of Principles

The Principles confirm the arm's-length nature of Transactions and describe the assumptions that Participants may make about each other The Principles also articulate a set of best practices that Participants should aspire to achieve in connection with their Transactions It is intended that the Principles (especially those contained in Section 3) will continue to evolve over time as business practices change The Principles do not create any legally enforceable obligations, duties, rights or liabilities

Adherence to the Principles is strictly voluntary A Participant may implement the Principles as it deems appropriate Any policies or procedures implemented or other actions taken by a Participant based on the Principles should be appropriate for the size, nature and complexity of the Participant and its Transactions as well as its business activities generally

It should not be assumed that an entity that is within the definition of Participant necessarily adheres to the Principles Nevertheless, because the Principles confirm the nature of the relationship between Participants, an entity that is within the definition of Participant should be aware that Participants will make certain assumptions when entering into Transactions with that entity

1 3 Supplementary Nature of Principles

The Principles are intended to supplement, and are not intended to replace or modify, applicable statutes, governmental regulations, exchange, board of trade or self-regulatory organization rules and industry practices (including those embodied in applicable codes of conduct)

2 Participants—Financial Resources

2 1 Financial Resources

A Participant should maintain adequate financial resources, including capital, liquidity or other sources of support, to manage the material risks associated with its Transactions and meet its Transaction commitments

3 Participants—Policies and Procedures

3 1 Policies and Procedures

With respect to policies and procedures of the types identified in the Principles, a Participant should have policies approved by its board of directors, a committee thereof or an appropriate level of senior management An appropriate level of senior management should approve controls and procedures to implement these policies All policies, controls and procedures should be appropriate to the size, nature and complexity of the Participant and its Transactions, and should be reviewed as business and market circumstances change

3 2 Supervision and Training of Employees

A Participant should maintain internal policies and procedures for supervising and training appropriate officers, employees and representatives of the Participant with respect to conduct related to Transactions

3 3 Control and Compliance

A Participant should maintain and enforce internal control and compliance procedures designed so that its Transactions are conducted in accordance with applicable legal and regulatory requirements, internal policies and any specific requirements contained in any agreements applicable to its Transactions

3 4 Risk Management

A Participant should maintain (i) policies and procedures that clearly delineate lines of responsibility for managing market, credit and other risks, (ii) adequate systems for measuring risks, including, where appropriate, systems for developing stress scenarios to measure the impact of market conditions that might reduce liquidity or cause extraordinary changes in price or volatility, (iii) appropriately structured limits on risk taking, (iv) policies and procedures designed for comprehensive and timely risk reporting, and (v) policies and procedures for reviewing the adequacy of internal measures of credit risk, market risk and valuation

3 5 Independent Risk Monitoring

A Participant should have knowledgeable individuals responsible for risk monitoring and control who are independent of the individuals that conduct the Transactions that create the risk exposure

3 6 Valuation

3 6 1 Valuation of Transactions

A Participant should maintain policies and procedures for the valuation of Transactions at intervals appropriate for the type of Transaction in question, regardless of the accounting methodology employed by the Participant These policies and procedures should address the specific methodology used for valuation, including as appropriate the use of market or model based valuations with reserves and adjustments

3 6 2 Obtaining External Valuations

If a Participant does not have the internal capability to value a Transaction and a price or market valuation of a Transaction is not publicly available or otherwise readily ascertainable, then the Participant should (i) ascertain the availability of external valuations (which may include valuations from its counterparty) prior to entering into the Transaction and (ii) obtain an external valuation of the Transaction at intervals appropriate for the type of Transaction in question

When a Participant requests an external valuation for a Transaction, the Participant should clearly state the desired characteristics of the requested valuation (eg, mid-market, indicative or firm price)

3 6 3 Evaluating External Valuations

In assessing any external valuation received, it is essential that the Participant consider the circumstances in which the valuation was provided, including criteria such as whether the party providing the valuation is a counterparty to the Transaction, the time frame within which the valuation was provided and whether the party supplying the valuation was compensated for its services Participants should understand that a valuation of a particular Transaction may include adjustments for, among other factors, credit spreads, cost of carry and use of capital and profit, and may not be representative of either (i) the valuation used by a counterparty for internal purposes or (ii) other market or model-based valuations

3 6 4 Providing Valuations to Other Participants

Entering into a Transaction does not obligate a Participant to provide valuations of that Transaction to its counterparty However, if a Participant does provide valuations of Transactions, it should maintain policies and procedures concerning the provision of valuations Such policies and procedures should require the Participant to clearly state the characteristics of any valuation provided (eg, mid-market, indicative or firm price) In those markets with specific conventions regarding valuations, Participants should supply valuations using those conventions, unless otherwise agreed

3 7 Credit Risk

Before entering into a Transaction involving credit exposure to a counterparty, a Participant should assess its counterparty's ability to meet its payment obligations

As credit relationships depend upon the existence of a legal relationship between parties, Participants should recognize situations where special steps may be necessary to assure that Transactions are enforceable against the party on whose credit the Participant is relying, particularly when dealing through third parties such as agents, brokers or investment advisors acting for undisclosed principals

3 8 Legal Capacity and Authority to Transact

Before entering into a Transaction, a Participant should take measures reasonable under the circumstances to satisfy itself that its counterparty has the legal capacity and authority to enter into the Transaction A Participant should recognize that Transactions with governmental units and regulated counterparties (such as depository institutions, mutual funds, pension plans, trusts and insurance companies) may require additional scrutiny to establish the scope of the counterparty's legal capacity and authority Special scrutiny also should be given to the scope of a third party agent's authority to act for its principal

4 Relationships Between Participants

4 1 Fair Dealing and Professional Standards

A Participant should act honestly and in good faith when marketing, entering into, executing and administering Transactions A Participant should act in a manner designed to promote public confidence in the wholesale financial markets In addition, a Participant should show its counterparties professional courtesy and consideration

4 2 Relationships with Counterparties

4 2 1 Decision-Making Capability

A Participant should satisfy itself that it has the capability (internally or through independent professional advice) to understand and make independent decisions about its Transactions That capability includes the experience, knowledge and ability to analyze the tax and accounting treatment as well as the legal, credit, market and liquidity risks of each Transaction

Absent a written agreement to the contrary, a Participant should expect that its counterparty will assume that the Participant has the capability to understand and make independent decisions about its Transactions and will act accordingly

4 2 2 Reliance on Investment Advice

The character and level of risk that is desirable for a particular Participant is a business judgment that is appropriately made by the Participant's governing body or management, in accordance with any applicable statutory or regulatory constraints, based on an evaluation of the totality of its particular circumstances and objectives

A Participant may communicate to its counterparty economic or market information relating to Transactions and trade or hedging ideas or suggestions All such communications (whether written or oral) should be accurate and not intentionally misleading Absent a written agreement or an applicable law, rule or regulation that expressly imposes affirmative obligations to the contrary, a counterparty receiving such communications should assume that the Participant is acting at arm's length for its own account and that such communications are not recommendations or investment advice on which the counterparty may rely

In any case where a Participant does not wish to make independent investment decisions regarding a Transaction and instead wishes to rely on a counterparty's communications as recommendations or investment advice, the Participant should, prior to entering into a Transaction with that counterparty involving such reliance, (i) put its counterparty on notice in writing that it is relying on the counterparty, (ii) obtain the counterparty's agreement in writing to do business on that basis, and (iii) provide the counterparty with accurate information regarding its financial objectives and the size, nature and condition of its business sufficient to provide such recommendations or investment advice The extent of the counterparty's obligations to provide recommendations and investment advice then will be determined by that written agreement and any applicable law, rule or regulation that imposes affirmative obligations on the counterparty Certain laws, rules or regulations expressly provide that, in some situations, an oral agreement or the facts and circumstances of a

relationship alone may give rise to an advisory or fiduciary relationship, in some cases even in the presence of a written agreement purporting to negate such a relationship Nonetheless, to avoid misunderstandings and disputes, the steps outlined above should be followed

4 2 3 Transaction Information

A Participant should ensure that it identifies and reaches agreement on all material terms and conditions of each Transaction it enters into In some cases it may be useful for the parties to exchange a written outline of the principal terms and conditions of a Transaction prior to its execution A Participant should either ask questions and request additional information or seek independent professional advice when it does not have a full understanding of either the risks involved in a Transaction or the fit between a Transaction and its desired risk profile A counterparty should answer such questions and respond to such requests for additional information in good faith, and the information provided should be accurate and not intentionally misleading A Participant should expect that, if it does not expressly ask questions or request additional information with respect to a Transaction, its counterparty will assume that the Participant understands the Transaction and has all the information it needs for its decision-making process

4 2 4 Other Activities of Counterparties

A Participant should be aware that in the over-the-counter financial markets it may be customary for a counterparty to (i) take positions in instruments that are identical or economically related to a Transaction that has been or will be entered into with the Participant, or (ii) have commercial relationships with the issuer of an instrument underlying a Transaction that has been or will be entered into with the Participant

4 2 5 Role as Agent or Broker

A Participant that represents itself as generally acting as a "broker" in Transactions should act only as agent for both parties or (in those markets where it is customary to do so) as riskless principal, unless it discloses clearly to all parties before executing a Transaction that it is acting in another capacity

A Participant that represents itself as generally acting as a principal may on occasion agree to act as an agent for a counterparty, to assist the counterparty to execute a Transaction with other Participants on a "best execution" basis or at a specified level, or to effect a Transaction directly if and when the Participant is prepared to do so at a specified level A Participant acting as an agent should avoid misusing its knowledge of the terms on which the counterparty is prepared to execute a Transaction to take unfair advantage of the counterparty

A Participant should be aware that its agent may be engaging in other activities as described above in Section 4 2 4

4 3 Confidentiality

A Participant expects that its involvement in a Transaction will be handled in confidence by its counterparty Accordingly, a Participant should not, except with express permission, disclose or discuss, or request that others disclose or discuss, information relating to its counterparty's involvement in a Transaction except to the extent required by law or required or requested by a regulatory authority

5 Considerations Relating to Relationships Between Participants

5 1 Introduction

A Participant (particularly one that is holding itself out as a dealer in a particular wholesale financial instrument) should maintain policies and procedures that identify and address circumstances that can lead to uncertainties, misunderstandings or disputes with the potential for relationship, reputational or litigation risk A Participant should consider including in such policies and procedures provisions designed to address the particular circumstances described in this Section 5 Maintaining and complying with such policies and procedures should be regarded as steps taken by the Participant for its own protection Accordingly, neither the maintenance nor compliance with such policies and procedures should be construed as giving rise to duties to others

5 2 Counterparty Decision-Making Capability

A Participant may wish to evaluate (based upon information in its possession) its counterparty's capability (internally or through independent professional advice) to understand and make independent decisions about the terms and conditions of its Transactions A Participant may, without limitation, consider the following factors in evaluating a counterparty's capability the nature of the counterparty's business, the financial size and condition of the counterparty, the counterparty's prior dealings or experience in Transactions, and the nature, complexity and risks of a proposed Transaction A Participant should be aware that if it holds itself out as a dealer for a certain type of Transaction, other Participants will assume that it has the capability to understand and make independent decisions regarding that type of Transaction

A Participant may wish to maintain policies and procedures for identifying (based on information in the possession of the representative of the Participant executing the Transaction on the Participant's behalf) and addressing exceptional situations (which may pose relationship, reputational or litigation risks to the Participant) where its counterparty either (i) does not have the capability (internally or through independent professional advice) to understand and make independent decisions regarding a particular Transaction or a type of Transaction being proposed by the Participant or (ii) has the capability to understand and make independent decisions regarding a Transaction, but where (a) the amount of risk to the counterparty involved in the Transaction appears to be clearly disproportionate in relation to the size, nature and condition of the counterparty's business or (b) the counterparty appears to assume incorrectly that it may rely on the Participant for recommendations or investment advice

A Participant may wish to consider taking such steps, if any, as it may deem appropriate in the circumstances to address these types of exceptional situations, including, without limitation, (i) providing or obtaining additional information to or from the counterparty, (ii) involving additional qualified personnel internally, (iii) involving additional qualified personnel of the counterparty, (iv) entering into a written agreement specifying the nature of the relationship or (v) not entering into the particular Transaction or type of Transaction with that counterparty This list of steps to consider for exceptional situations is neither exhaustive nor mandatory because any appropriate response will be based upon the facts and circumstances of a specific situation

5 3 Notifying Counterparties of Nature of Relationship

A Participant may wish to inform some or all of its counterparties of the nature of the relationships between Participants Such information may, without limitation, take the form of (i) communications to a counterparty that are designed to put the counterparty on notice about the Participant's assumptions regarding the counterparty's capability to understand and make independent decisions and non-reliance concerning Transactions with the Participant (which communications may include sending a copy of the Principles to the counterparty), or (ii) representations or disclosures to be acknowledged by a counterparty that are designed to confirm that the Participant's assumptions regarding the counterparty's capability to understand and make independent decisions and non-reliance concerning Transactions with the Participant are correct

5 4 Providing Additional Information to Counterparties

For a Transaction in which the payment formula is particularly complex or which includes a significant leverage component, a Participant may wish to assist a counterparty in its decision-making process by providing more information (such as loss scenarios) to a counterparty than is typically provided for other types of Transactions Where loss scenarios are part of the information voluntarily provided to a counterparty, or where loss scenarios are prepared at a counterparty's request and the counterparty does not stipulate some or all of the assumptions to be used in making the calculations, the Participant should attempt in good faith to use assumptions that provide information that is reasonable under the circumstances

6 Mechanics of Transactions

6 1 When Transactions are Binding

A Transaction should be considered final and binding when entered into in accordance with applicable market practice, whether by oral, written or electronic means

6 2 Confirmations

Transactions should be confirmed as soon as possible and in accordance with applicable market practice For most types of Transactions, a confirmation (whether sent by mail, telex, facsimile, electronic or other means) provides a necessary final safeguard against errors All confirmations should be dispatched promptly by one or both parties and reviewed carefully by the receiving party, even when oral checks of the Transactions have been undertaken The dispatch and checking of confirmations also should be carried out or reviewed independently from those who conduct the Transactions

6 3 Payment and Settlement Instructions

A Participant should provide its counterparty with standing payment and settlement instructions, and any modifications to those standing instructions should be communicated as quickly as possible to facilitate prompt settlement of Transactions

6 4 Documentation

A Participant should use, to the greatest extent practicable, standardized or master agreements or comparable arrangements that apply to multiple Transactions, in order to provide standardized terms governing Transactions and to provide for the netting or offset of credit exposures and payment obligations A Participant should review and where appropriate modify the documentation it uses in connection with Transactions periodically in light of changes in market practice or law

6 5 Complaints and Settlement of Differences

A Participant should notify its counterparty promptly of any dispute or complaint involving a Transaction in order to mitigate any damages to itself or its counterparty A Participant should attempt to resolve promptly and fairly any such dispute or complaint A Participant should ensure that all complaints involving Transactions are promptly and fairly investigated, wherever practicable, by employees or representatives of the Participant who were not directly involved with the disputed Transaction Such investigations should be construed as an act of prudence to reduce the risk of loss resulting from the dispute, and not as an admission of liability by the Participant

In addition, upon receiving information that a complaint or dispute involving a Transaction may create market exposure, the Participant should consider all available methods to reduce potential losses from that exposure Any such steps taken should be construed as an act of prudence and not an admission of liability by the Participant

7 Standards for Transactions

7 1 Misuse of Market Terminology and Conventions

Traders, brokers, and other employees or representatives of a Participant should use clear and unambiguous language when negotiating Transactions Recognizing that each type of Transaction may have its own unique terminology, definitions and calculations, a Participant should, prior to engaging in a Transaction, familiarize itself with that type of Transaction's terminology and conventions, and, where necessary, inform its personnel of differences in terminology, conventions and specific terms that may be particularly susceptible to misinterpretation In addition, no Participant should abuse deliberately market procedures or conventions to obtain an unfair advantage over, or to unfairly prejudice, its counterparties

7 2 Manipulative Practices

A Participant should not engage in any trading practices that constitute fraudulent, deceptive or manipulative acts or practices under applicable laws and regulations

7 3 Bribes and Outside Fees and Commissions

No employee or representative of a Participant should offer or solicit explicit inducements to or from employees or representatives of other institutions in exchange for conducting business It is recognized, however, that entertainment and gifts in reasonable amounts are offered and accepted in the ordinary course of business, and do not necessarily constitute inducements A Participant should maintain policies and procedures that provide guidance on the provision and receipt of entertainment and gifts by staff

7 4 Rumors and False Information

A Participant should not spread any rumors or misinformation that the Participant knows or believes to be false or misleading In addition, a Participant should not disseminate any information that falsely states or implies governmental approval of any institution or Transaction

7 5 Money Laundering and Other Criminal Activities

A Participant should take measures designed to satisfy itself that its Transactions are not being used to facilitate money laundering or other criminal activities

APPENDIX E

ECMA Code of Ethics and Rules for Professional Conduct

A Code of Ethics

The members of the Egyptian Capital Market Association, after studying the present and the future of their profession have stated among themselves, and are committed to the following principles and rules that govern their inter-relationships, and their relations with others

- The member of the Association must perform the duties of his profession with honesty, allegiance, and objectivity, whether in the matters related to the public, the clients, his superiors, employees, or colleagues

- The member of the Association must perform and encourage others to perform their duties in accordance with the conventions of the profession, and the ethical foundations, which is a privilege to himself and his profession

- The member of the Association must perform his duties with efficacy and competence, and must maintain and increase his, and his associates' professional standards

- The member of the Association must be able to anticipate the consequences of his deeds, therefore he must not act on impulse or pretend knowledge And his estimates must be based on unbiased, objective and independent opinions

- The best way to establish the market virtues is to implement them, and to announce them So if an Association member encountered an incorrect conduct he is to correct it directly, for there should not be any compromise in the right, and no over-looking of the wrong

- The market is for all Each dealer has a fair chance to have his operations conducted in turn according to priority, as competently and as efficiently

B The Rules of Professional Conduct

1 It is essential that the employees should inform their superiors with the Code of Ethics, and the Rules of Professional Conduct

- The Association member is committed to inform his employees and superiors by his membership in the Association and his obligation to Code of Ethics, and the Rules of Professional Conduct, and that he is subject to penalties in the case of violation of such Rules He is also committed to deliver a copy of the Code and Rules to them

2 Commitment to the General Laws, the Code of Ethics, and the Rules of Professional Conduct

- The Association member should be committed to the entire laws and regulations stated by the Nation, or by any inspection organization regulating its activities locally or externally, and he is also obliged to the articles of the Association's Code of Ethics, and Rules of Professional Conduct

- The member of the Association should be committed not to perform or participate in any operation which entails the violation of any of the laws or regulations stated by the Nation, or any of the organizations regulating its activities, or in contradiction with the Association's Code of Ethics, and Rules of Professional Conduct

- The member of the Association is not permitted to benefit, himself or his client, from any undisclosed secret information, which he encountered as a result of being an employee, a manager, a member in the board of directors, or a counselor at a given company

- The Association member should not participate in illegitimate operations, which when proven evident, indicate his lack of sincerity and his inadequacy as a member of the community of capital market services

3 Research and Investment Recommendations

The member of the Association is committed to the following

- to be cautious, and to scrutinize the information to ensure its adequacy prior to the presentation of a recommendation upon an investment decree, or prior to the execution of other investment decrees

- to gain the minimum data which enables him to give his recommendations

- when writing his research, or presenting a given operation to his clients, the member must demonstrate the objective facts separate from his personal analysis of such facts

- during conducting an investment decision for one of his clients, the decision made must be in the interest of the client, and should be suitable for the demands and circumstances

- to announce the sources of the information he presents to his superiors, employees or the public, showing the name of the writer and the publishing agency, except when such information is in the form of raw data published in the financial and statistical circles In such case, the member is not obliged to announce the source

- to avoid the provision of any oral or written statements characterized by being insufficient or misleading as regards the services that the member or his company are capable to perform in the interests of clients, the qualifications and past experience of the member or his company, the expected revenues from any of the recommended investments or the [services] he offers to perform in the interests of his clients

- the member must not mention any investment guarantees or revenues that [are] not mentioned in the conditions of the stock itself

- the presentation of correct and precise information pertaining to the operations conducted, to present and potential clients

- the member who is managing his clients' portfolios must disclose to them the general rules of the managing operation, the method of stock selection, and the process of portfolio formation

4 Execution of the Operations

- The Association member is obliged to give priority to the operations he undertakes for the interests of his clients, than the operations he undertakes for his own interests, either by a direct or an indirect manner

- The Association member should be truthfully and clearly expressive during the communication with his job associates and clients

5 Disclosing Conflicts of Interests

- The Association member is obliged to notify his superiors and employees upon the declaration of his recommendations, or the execution of an investment operation in their interests, which could entail a conflict of interests between the member and those dealing with him, which could influence the member's impartiality in the process of decision making

- The member should follow any laws or regulations issued by any governmental inspection party pertaining to the conflict of interests

6 The Declaration of Additional Sources of Income

- The Association member is obliged to inform his clients and superiors of any commissions, fees, or privileges he receives from other sources as a result of the operations he executes for his clients

- The Association member is obliged to inform his potential client about any commissions or privileges that he might pay to others, as a result of his assignment to that client

- The Association member is obliged to avoid the performance of any independent work, or the provision of any additional service by which he competes with the company he works for, except after obtaining a written permission from the company he works for, and from the person to whom he provides the additional service

7 Inter-Relationships

- The Association member is committed to preserving the secrecy of the information confided in him by his client

- The Association member is committed to maintain his independence and impartiality in his relationship, and his work with the stock-issuing party

- The Association member must refrain from accepting any money he doubts is of legitimate source

- All the members, each in his location should assure that the charge required in return for the services performed for others is a fair charge, according to the nature of the work and the effort exerted, without exaggeration neither in excess nor in deficiency, and that the charge should be proportional to the overall cost of the operation, and that it covers an appropriate income margin which ensures suitable living standards for the employees, and for conducting research efforts and financial analysis

8 The Utilization of The Egyptian [Capital Market] Association Title

The Association Member is allowed to use the title "Member of the Egyptian Capital Market Association" during his membership term, on the condition that he has paid the Association's dues, and that he is not suspended from the Association

9 Penalties

In the case when an Association member has been proven to violate any of the articles stated in this Code, the Association is entitled to impose one of the following penalties

(1) Forewarning,

(2) Suspension from the membership of the Association for a term not exceeding one year, or

(3) Expulsion from the Association

The violations are investigated by the Membership Committee and the legal counselor of the Association, who submit their recommendations to the Board of Directors, which holds the authority of final decision making pertaining to this matter The inquiries and investigations should be carried out in a confidential manner

APPENDIX F

Organizations

Bond Market Association Inc
[formerly Public Securities Association]
40 Broad Street, 12/F, New York, NY 10004-2373
Phone (1-212) 809-7000 Fax 440-5260
http //www bondmarkets com

Egyptian Capital Market Association [ECMA]
26 Mohamed Mazhar Street, 3/F, Zamalek, Cairo, Egypt
Phone (20-2) 341-5163 and 340-5358 Fax 341-5163 and 340-5358

Emerging Markets Traders Association Inc
63 Wall Street, 20/F, New York, NY 10005
Phone (1-212) 293-5000 Fax 293-5093

Federation Internationale des Bourses de Valeurs [FIBV]
[International Federation of Stock Exchanges]
22 Boulevard de Courcelles, Paris, F-75017 France
Phone (33-1) 4401-0545 Fax 4754-9422
http //www fibv com

National Association of Securities Dealers Inc [NASD]
1735 K Street NW, Washington, DC 20006
Phone (1-202) 728-8000
http //www nasdaq com or www nasdr com

National Futures Association Inc [NFA]
200 West Madison Street, Suite 1600, Chicago, IL 60606-3447
Phone (1-312) 781-1300 Fax 781-1467
http //www nfa futures org

New York Stock Exchange Inc [NYSE]
20 Broad Street, New York, NY 10005
Phone (1-212) 656-3000 Fax 269-4830
http //www nyse com