

CMA Chairman's
Decision no. 106/2006
Regarding the Issuance of the Statute of the
Investor Protection Fund

CMA Chairman,

After reviewing the capital market law no. 95/1992,

The Prime Ministerial decree no. 1764/2004 regarding the establishment of an investor protection fund against non-commercial risks arising from activities of securities companies,

Decrees no. 77 and 138/2004 of the Minister of Investment regarding the formation of the fund's board,

And the proposal of the fund's board,

Decided:

(Article 1)

The attached statute shall be approved on as a statute for the investor protection fund.

(Article 2)

In application of the provisions of the decision hereto the following shall have the meanings and explanations attributed thereto

- 1- Fund establishment decision: the prime ministerial decision no. 1764/2004 regarding the establishment of the fund.
- 2- The Competent Minister: The minister of investment.
- 3- The Authority: The Capital Market Authority (CMA)
- 4- The Fund: Investor Protection Fund.
- 5- Insolvency: Inability of the member to meet his financial obligations arising from dealing in securities due to unavailability of needed financial resources to fulfill such obligations, either because of external reasons or poor management.

- 6- Financial loss: The loss that can be compensated through protection units which the member joins.
- 7- Bankruptcy: Issuing a judgement from the competent court declaring the bankruptcy of the member
- 8- Fraud: Using illegal , dishonest methods in dealing with clients for achieving illegitimate financial profits
- 9- Professional Duty: Undertaking the minimum practical procedures and commercial traditions required according to the stipulations of laws and legislations in the market.
- 10-Breach of trust: Any intentional misconception from the member or any of his employees, either solely or jointly with others. Manipulation of financial accounts or securities accounts of clients is considered betrayal because it leads to the loss of clients' rights.
- 11-The Employee: Any person working with the member on a permanent basis or in accordance with a temporary contract in return for a fixed salary or a commission or bonus.
- 12-Possessions (Property): Securities, financial notes, commercial notes, on condition that they are owned by others or in possession of the member, either in return for money or not, which he shall be legally responsible for. Property does not refer to any documents registered documents electronically or any copies of debit or credit accounts.

(Article 3)

This decision shall be valid from the date of its issuance. All related and concerned parties shall ensure its implementation.

CMA Chairman
Dr.Hani Sarie-ELDin

Statute of the Investor Protection Fund

Article (1)

Name and objective of the fund:

The fund aims at protecting dealers in securities against non-commercial risks arising from activities of securities companies listed on the official registers of the exchange, through covering financial losses of clients. The fund is allowed to participate through different means with parties undertaking similar responsibilities or those that assist it in achieving its aim.

Article (2)

Location of the fund:

The fund's location shall be Cairo

- Headquarters: 70, Al Gomhoreya Street, Cairo.

The board shall establish other branches after the approval of the CMA.

Article (3)

Members of the fund

Members shall be all licensed companies or parties working in the field of securities, particularly participating in the following activities:

- 1- Clearance, settlement and central depository
- 2- Portfolio management and investment funds
- 3- Brokerage
- 4- Intermediation
- 5- Custodians

The prime minister shall include any other activity relating to securities according to the proposal of the CMA's board.

Article (4)

Membership Contributions

Members' contributions consist of the following:

A- A membership contribution paid once at the beginning of subscription according to the following:

- Existing companies on establishment of the fund:
0,001% of the volume of the member's activity during the year preceding the establishment of the fund, with a minimum amount of L.E 5000.

- Companies that obtained license after the establishment of the fund:

The company pays a minimum amount of L.E 5000 on condition that it completes membership contribution if its value increases according to the activity of the company during the first year.

B- Periodic Contributions:

Paid according to the volume of the member's activity as follows:

	Fund Members	Amount of periodic contribution
First	Clearance, settlement and central depositories	2% of the total returns of clearance and settlement activity
Second	Custodians	11 of 10000 percent of trading volume This is the market value of securities for custodians in Dec.31 of every year
Third	Portfolio Management	11 of 10000 percent of trading volume This is the market value of securities in Dec.31 of every year with a max. limit of L.E100000 for each share
Fourth	Investment Fund Management	11 of 10000 percent of trading volume This is the market value of securities for the fund in Dec.31 of every year
Fifth	Brokerage companies, margin trading, and intermediaries	2 of 10000 percent of the value of operations performed at the stock exchange

Article (5)

Duration and methods of paying periodic contributions

Periodic contributions due to the fund are paid according to the following: Regarding activities mentioned in items "first", "second", "third", and "fourth"; they are due on the first half of January every year.

As for activities referred to in item "fifth"; contributions are collected on every operation through a clearance and settlement system at MCDR in

the first half of every month in the currency used in trading. It is allowed to collect contributions after the settlement of every operation after getting the approval of the member.

Article (6)

In case of any delay in payment of membership contributions or periodic membership fees, the member is requested to pay through a letter with an acknowledgement of receipt.

If the member does not pay within 15 days, he is committed to pay a return for delay that is calculated according to the loan price and the announced discount from the central bank in addition to 3 percentage points starting from the day following the specified payment date. In case of delay in paying the fund's dues other than contributions mentioned in the previous paragraphs, the member is committed to pay any expenses made by the fund in addition to the dues mentioned.

Article (7)

The Fund's Board

Management of the fund is handled through a board of 11 members chosen according to what is stated in article (4) of the prime ministerial decree no. 1764/2004 regarding the establishment of the fund, and the ministerial decrees no. 77 and 138/2004 of the minister of investment.

- The board handles the management of the fund and has the right to take whatever decisions it sees necessary within the stipulations and legislations and related laws.
- It might delegate some of its responsibilities to a committee of its members or its director; it might also assign one of its members to a specific mission.

It can, in particular, undertake the following:

- 1) Managing all fund's operations and assets.
- 2) Setting procedures implementing the decision of establishing the fund and its statute.
- 3) Stating rules and means of extending the protection system
- 4) Stating rules for the members' right to obtain a specified percent of distributions according to the volume of contributions of each member in the fund's resources and his commitment to payment versus compensation during the year, taking into consideration that distribution does not affect the efficiency of the fund's resources.
- 5) Setting procedures of compensation requests and the documents enclosed.
- 6) Specifying the procedures and dates of contesting committee's decisions.
- 7) Setting procedures of reviewing records and documents related to the compensation requests.
- 8) Setting the procedures of reviewing records of membership and periodic contributions of members.
- 9) Preparing a manual explaining the details of protection provided by the fund for investors.
- 10) Setting rules for seeking assistance of experts and consultants.
- 11) Setting rules needed for the flow of work especially:
 - a) Regulations of human affairs including the system of incentives and bonuses
 - b) Allocation of a percent that does not exceed 5% from the net returns of investing the fund's money.
 - c) Financial regulations including purchases and inventory
- 12) Approval of the organizational structure identifying duties.
- 13) Acceptance of loans for the fund after notifying the CMA.

The fund might provide additional financing resources by the approval of the CMA.

Article (8)

Board Meetings

The board director manages responsibilities of the fund and represents it. He has the right to sign on behalf of the fund. The board director shall invite whoever he believes has experience to attend the meeting sessions, but without voting. The executive director shall also be invited to attend the meetings without voting. The board holds a meeting at least once every month with the attendance of 7 members. Decisions are taken by the majority of votes. A deputy might be chosen among members who shall replace the director during his absence in case of emergencies.

Article (9)

The minutes of the board meeting shall include a proof of attendance and a comprehensive summary of negotiations and decisions taken. These minutes are recorded on a regular basis after every session in a special record, and both are signed by the head of the session and amanuensis.

Article (10)

The Executive Director

The fund shall have an executive director assigned by a board decision on condition that he acquires qualification as well as financial and economic efficiency.

Article (11)

The fund's Committees

Such committees are formed by a board decision in order to study and examine compensation requests as well as examining all matters related to the fund's activity. Each committee is formed of at least 3 members headed by one of the board members. Its duration extends for a year to be renewed.

Article (12)

A contract shall be signed between the fund and the member; referring to the rights and obligations of both parties and means of settling disputes.

Article (13)

Disclosure

The member explains to his clients the nature of protection offered by the fund and its limits, as well as rules and procedures of submitting compensation requests and contesting fund's decisions according to the stipulations of the prime ministerial decree no. 1764/2004

Article (14)

Fund's Records

The fund shall keep records that help in achieving its duties and aims, especially the following:

- A record for every member including his name, address and date of membership.
- A record for claims and appeals of clients including the date of each and the name of the client and his address.
- A special record for contests submitted to the fund's board.

Article (15)

The range of protection offered by the fund

The fund covers the financial loss of clients against non-commercial risks associated with their activities. Such risks include the following:

- 1- Bankruptcy and insolvency of the member.
- 2- The member not abiding by the contract between him and the client and violation of rules, regulations and decisions.

This includes:

- Financial losses of which the member is responsible as a result of the following:
 - Trading or keeping illegal securities that bear a false signature.
 - Being deceived by the identity of anyone on buying and selling securities.
- 3- Error, negligence or fraud from the member or the legal representative.
- 4- The member breaching the professional duty.

This includes:

- Financial loss from which the member's client suffers as a result of breaching trust.
 - Loss of property of the member's clients.
 - Fraudulent orders and instructions that cause loss to clients resulting from trading or possessing securities, or transferring, paying or receiving money or property, or offering credit or deducting from any account depending on written orders directed to the member giving him the power or informing him with the transfer, receipt or delivery of the money or property, and discovering that such instructions and orders are fake as if they were:
- Delivered by another person other than the client or financial institution.
 - They have been amended without the knowledge and approval of the client or the financial institution. The fund shall investigate all governmental and non-governmental authorities to collect data and information needed to determine if the member is insolvent or not. Therefore the following risks are not included within the fund's protection range:
 - Any claim resulting from a wrong behavior or distraction taking place totally or partially outside Egypt.
 - Total or partial allegations to courts outside Egypt including any court orders from such courts to execute a verdict issued in another place.
 - Any responsibility the member bears in the following cases:
 - In accordance with the rules and conditions of any contract or agreement
 - By virtue of any conditions releasing (exempting) any third party from responsibility
 - Any responsibility for loss or waste of property or money possessed by the member, which he is actually or implicitly responsible of.
 - Any responsibility resulting from the intentional breach (violation) of rules, regulations and laws related to members' duty and activity.
 - Any responsibility resulting from a situation where a third party, other than the member's clients, claims compensation.

- Any claim from another party whom the member takes upon himself to fulfill his instructions out of influence and power over him.
- Any claim resulting from an error or omission or a case that has taken place before the fund started its action.
- Any claim resulting from a situation which acknowledging it makes it enough for any ordinary person to anticipate that it might lead to a claim.
- Any multiplied penalties and sanctions or compensations with the exception of the actual compensative value of risks preceding this multiplication.
- Any claim resulting from instructions of any governmental entity.
- Any responsibility arising from the omission of the member to offer the needed finance
- Any responsibility arising from an advice or explanation or financial expectation
- Any responsibility arising from the delay of payment.
- Any responsibility arising from commercial operations
- Any responsibility resulting from decisions and instructions of the securities exchange or any organizational authority or governmental institution with the exception of the legal responsibility of the member.
- Any loss or deprivation of income or revenues as well as loss of interest, returns on shares, commissions and the like.
- Any loss resulting from failure of any financial institution to retrieve or deliver money or property in its guardianship
- Indirect or subordinate loss
- Direct or indirect losses resulting from abrupt change in market values or delay in execution from the member's side.
- Direct or indirect losses due to commercial activities with the exception of covered losses. This is exception is not applied on the ability of the member to execute any (buy/sell) operations.
- Any loss resulting from orders or mails sent to the member through Pcs or any other equipment used to receive, print and display data.
- All fees and expenses endured by the client to determine the volume of the covered loss.

Article (16)

Protection limit offered by the fund

The fund fulfills the value of the compensation stated by the fund for the losses that the client bears. The protection limit is L.E 100000 at most for every security. In all cases the fund does not take upon itself

compensating clients for any financial losses resulting from the change in the value of shares or loss of investment opportunities.

Article (17)

The fund is committed to compensate clients' losses according to the no. of protection units in which the member participates in.

The fund shall procure his rights before members from their dues for the fund or the settlement guarantee fund as well as any other money due from securities trading.

Article (18)

Rules and procedures for submitting compensation requests

First: Compensation request and supporting documents:

The claim shall be submitted after fulfilling all supporting documents and data within 30 days from discovering the incident. It shall not exceed 3 months from the day it occurred.

Second: Procedures of examining compensation requests:

- Compensation requests are registered in a special record
- The committee addresses the member to state his opinion regarding the claim within a week at most from being notified.
- The request and attached documents shall be submitted to a specialized committee to make sure that all documents and data are fulfilled.
- The committee notifies the client either with the acceptance of his claim within a period that does not exceed 15 days.
- Contesting the committee's decision is allowed according to the provisions of the fund establishment decision. In most cases, the contesting client shall claim his dues and notify the CMA before submitting the compensation request to the fund.

Article (19)

Contests

- 1- The fund shall prepare a record for all contests submitted to it. Contests are registered with a serial no. according to the date of submission.
- 2- Any concerned party might contest the decisions of compensation committees within 15 days from being notified with the decision and shall include the reasons supporting his contest.
- 3- The specialized employee marks a copy of the contest signifying its receipt, stating the register no. and the day of receipt.
- 4- The fund's board shall take a decision regarding the contest within 15 days from the submission date.
- 5- Both the member and investor are notified with the board's decision within a week from its issuance.
- 6- The investor or the member has the right to object to the board's decision at the CMA within 15 days from being notified of it.

Article (20)

If the fund discovers, when examining a client's claim, a crime committed by the executive department of the member, it should immediately notify the CMA to take the necessary legal measures regarding this member.

Article (21)

The fund sets an internal surveillance and inspection system for all its activities, committees and employees to ensure the application of laws, rules and procedures regulating the fund's action. This system ensures the freedom and independence of employees.

Article (22)

The fund's resources

The fund's resources consist of:

- 1- Membership contributions and periodic membership fees.
- 2- Loans approved by the fund's board after notifying the CMA of such loans.

3- Returns on investing the fund's money.

Article (23)

Rules for investing the fund's resources:

A special department is established to invest the fund's financial resources according to what its board decides as well as the investment committee formed for this purpose, taking into consideration the following:

- 1- The expense principle in managing the fund's needs.
- 2- Not investing the fund's resources in real-estate assets except after the approval of the CMA
- 3- Avoiding non-economic and non-planned investments
- 4- Avoiding high-risk investments

Article (24)

The fund's accounts

The fund has its own accounts at the central bank or any other approved bank. The no. of these accounts and means of managing them shall be determined through a board session.

Article (25)

The fund's fiscal year

It starts at the beginning of July and ends at the end of June of the following year.

Article (26)

Fund's auditors and financial statements

Two auditors are assigned to manage the fund's accounts, their duties are specified by a decision from the CMA board of directors. The fund shall prepare its financial statements within 60 days from the end of the fiscal year.

The CMA shall be notified with the annual and periodic financial statements within 15 days from their preparation to state its comments according to the provisions of the law and the nature of the fund's activity. In addition to the annual financial statements the fund shall submit to the CMA quarterly reports on its activity.

Article (27)

The fund shall prepare the following reports:

- 1- An annual report: covering the fund's activities submitted to the CMA and distributed over the members.
- 2- Semi-annual reports: including a summary of clients' claims; referring to the amount of compensations paid by the fund during the period of the report. The report shall be distributed over the members.