

**CMA Chairman's Decision No. (49)**  
**Dated 14/5/2006**  
**Regarding The Requirements for Incorporation of the Brokerage Firms**  
**and Granting Them a Licenses to Exercise Activities**

**The Capital Market Authority Chairman**

After reviewing Capital Market Law No. 95/1992, its Executive Regulations and Executive Decrees,  
Securities Central Depository and Registry Law No. 93/2000, its Executive Regulations and Executive Decrees,  
The Chairman's approval issued during the board meeting of 12/4/2006, it was

**Decided**

(Article One)

Incorporation of securities brokerage firms and granting them a licenses from the CMA to exercise activities shall be subject to the terms and requirements for incorporation and licensing set forth in this Decree and the annexes attached hereto, and shall further be subject to the terms provided for in the Capital Market Law and the Executive Regulations thereof.

(Article Two)

Any person desiring to exercise securities brokerage activity shall fulfill the incorporation requirements and conditions stated in Annex no. (1) attached hereto , and shall be required to provide the minimum limit of issued and paid capital of not less than LE five million or the equivalent in any other foreign currency.

(Article Three)

Without prejudice to the stock exchange membership rules issued by virtue of the Chairman's Decree no. 42/2006, securities brokerage companies, after incorporation thereof, shall provide the licensing documents stated in Annex no. (2) attached hereto, and shall further fulfill the following licensing requirements and conditions:

1. The technical requirements of infrastructure, which are necessary to exercise securities brokerage activity whether at the head office or at the branches of the company, as the case may be, pursuant to the terms stipulated in Annex (3) hereto attached.
2. The technical specifications of infrastructure, which are required for the



head office and the branches of the company, as stated in Annex (4) attached hereto. The company shall submit an MCDR certificate proving due fulfillment of these requirements.

3. Requirements for automatic links between the company's head office and branches on one side, and the stock exchange trading systems and the central depository systems on the other side. The Company shall submit an MCDR certificate proving due fulfillment of these requirements.
4. Submission of a file including a list of the guidelines applied and the work procedures undertaken by the company in all fields of operation, which are required to undertake its activities, to meet its obligations toward customers and third parties and to keep, preserve and maintain their rights, pursuant to the provisions of Annex (5) attached hereto
5. Providing a clear plan regarding the company's activities and objectives, including the means of servicing customers, a plan for future resumption and development of the company's activity.
6. A description of the organizational structure of the company's head office and branches, including the job title and the job description of each position, as well as the qualifications and experience suitable thereto.
7. Recruitment of employees and fulfillment of licensing conditions required by the Capital Market Authority.
8. Submission of written undertaking signed by the company's chairman and managing director, regarding the company's due abidance, after the license is obtained, by the maximum limit of the value of transactions carried out and by payment of the insurance required, pursuant to Article 126 of the Executive Regulations of the Capital Market Authority and to the rules issued in this respect by virtue of a CMA Board Resolution. The Company, moreover, shall undertake to fulfill its obligations towards the settlement guarantee fund and the fund for insuring participants against non-commercial risks arising out of the company's activity.

#### **(Article Four)**

Securities brokerage companies licensed by the Capital Market Authority to undertake this activity shall submit an application to renew the license at most one month prior to the first of January of each year. Application shall be accompanied by documents proving the company's fulfillment of all requirements for resumption of activities, as well as settlement of the charges provided for in Article 134 of the Executive Regulations of the Capital Market Law.

#### **(Article Five)**

Companies licensed to undertake securities brokerage activities shall, upon due enforcement of this Decree, adapt itself to the terms, conditions and requirements stated therein and in the here to-attached Annexes prior to the end of March 2007.



**(Article Six)**

This Decree and the hereto attached rules shall be published in the Egyptian Gazette, shall be applicable from the day subsequent to publication thereof and shall be advertised on trading screens and all other means prepared for this purpose by the Cairo and Alexandria Stock Exchange.

CMA Chairman  
Dr. Hani Sarie-ElDin



**Annex (1)**  
**Procedures and Requirements for Incorporation of Securities Brokerage Companies**

Documents and procedures related to the incorporation and issuance of shares:

- A) Submission of an application by the attorney for founders in the form prepared by the Authority, stating the following:
- 1) Name of the company.
  - 2) Legal form of the company (Egyptian Joint Stock Company, Partnership Limited by Shares).
  - 3) The company's objectives, i.e., undertaking security brokerage activity.
  - 4) A statement of the names of founders.
  - 5) Issued and paid capital

The said application shall be submitted to the competent employee at the CMA's department assigned to receive applications. This is to obtain a certificate that the company's name is not confused with the names of other existing companies.

- B) Submission of an information sheet, the form of which was prepared by the CMA (and is available at the CMA's department that receives applications). This sheet shall include the main data of the company intended to be incorporated, and the following documents shall be attached:
- 1) A certificate stating that the company's name is not confused with names of other companies.
  - 2) Copies of the powers of attorney, which were issued by the founders to their attorney after reviewing the company's assets.
  - 3) Three copies of the company's preliminary contract and statutes (which are currently applied by the company and available at the CMA).
  - 4) A security clearance form, in case any founder or board member is a foreigner, whether a natural or judicial person. (The forms referred to are available at the CMA's department that receives applications).
  - 5) A document proving payment of issuance charges of 0.5/1000 of the company's issued capital, for a maximum amount of LE 10,000.
  - 6) A document proving payment of incorporation charges of 1/1000 of the issued capital, for a minimum amount of LE 5000 and a maximum amount of 15000.
  - 7) A certificate of bank deposit regarding the paid portion of the issued capital, provided that such certificate shall be issued by the head office of a bank authorized to receive subscriptions and shall be forwarded directly to the CMA by registered mail, return receipt requested (when requested by the CMA prior to convention of the incorporation committee to review the process of incorporation of the company).
- C) Studying the application and issuance of an approval for incorporation: The application for incorporation of the company and any attachments thereto shall all be studied by the CMA, and in case an approval for incorporation is issued by the CMA's competent committee and



relevant minutes were endorsed by the CMA Chairman, the following documents shall be delivered to the attorney for founders:

- 1) A copy of the company's preliminary contract and statutes both approved and stamped by the Authority's official seal.
  - 2) A letter to the attorney for founders regarding the approval for issuance of incorporation shares and establishment of the company. The CMA shall further advise concerned persons of the incorporation committee's resolution in this respect within three days from the date of approval of its minutes.
- D) Completion of incorporation procedures and publication:  
After obtaining the incorporation committee's approval and having it endorsed by the CMA Chairman, the attorney for founders shall undertake the following procedures:
- 1) To have the company's preliminary contract and statutes legalized, notarized and authenticated by the Bar Association, the competent Real Estate Publicity and Notarization Department and the Chamber of Commerce, and to have it then recorded in the Commercial Registry.
  - 2) To request the CMA to obtain a letter addressed to the Governmental Print Houses to have the company's preliminary contract and statutes duly published.



**Annex No. (2)**  
**Licensing Documents**

A licensing application shall be submitted to the CMA in the form prepared for this purpose which is available at the department receiving applications, and the following documents shall be attached:

- 1) Official extract/excerpt from the commercial registry of the company.
- 2) A statement of the board members and the managers' names and experience, as stated in the CMA's board resolution dated 6/8/1997, as amended on 17/8/1998, which stipulates that " The majority of board members, including the chairman and the managing director, shall have at least five years of experience in stock exchange and security market activities. This term of experience shall be reduced to four years with respect to those who successfully passed CMA certified training courses in the field of securities market. The term of experience required for a company's manager shall be four years. This term shall be reduced to three years for those who passed the training courses determined by the CMA.
- 3) A document stating that the company's head office is provided with the tools and devises required for undertaking activities, as well as the branches intended to be incorporated according to the incorporation committee's instructions.
- 4) The deed of possession of the Company's head office, with its date registered in the Real Estate Department or a title deed proving such ownership.
- 5) A document proving that there is a line linking between the company, the Stock Exchange and Misr for Clearing, Depository and Central Registry.
- 6) Founders, board members and managers shall have good reputations, and a document shall be submitted, stating that no judgments were rendered against any of them, ruling for punishments for perpetration of a felony or a misdemeanor for breach of trust or honor or for any other crime stipulated in the Companies Law, the Trade Law, the Capital Market Law, the Securities, Central Depository and Registry Law, and that no bankruptcy judgment was rendered, unless rehabilitated.
- 7) A document stating that licensing charges of LE 10,000 for brokerage activity have already been settled.
- 8) An undertaking that the company's share in the fund for securing participants against non-commercial risks shall be settled according to Premier's Decree No. 1764/2004.
- 9) A declaration from the managing director of the company that he shall be liable for actual management on a full time basis.
- 10) An undertaking that the company shall, within three months from the date of obtaining the license, takeout an insurance against any liability for loss or damage which may be incurred by its customers due to an error committed by the company, its managers or employees, or as a result of any loss, damage or robbery of any documents or property



owned by customers.

11) Declarations from the company's chairman that:

- 1) The data and the documents, by which the company has been incorporated, have not been amended. In case of amendment, a notice shall be served to the Authority in this respect.
- 2) The annual services charges are being paid on prescribed dates thereof.

The licensing request shall be studied in light of the documents and data duly provided. The company shall then forward a letter attached to a certificate to undertake activities. When the conditions and requirements for obtaining a license are all fulfilled, the minutes of the company's board of directors meeting or general assembly meeting, as the case may be, to be held for determination of the role of each board member, shall be approved by the CMA, provided that the company shall have the minutes endorsed in the Commercial Registry.



**Annex (3)**  
**Technical Infrastructure Required for a Brokerage Company**

Brokerage companies shall fulfill the main requirements for automated trading, according to the following:

First: The technical specifications of the infrastructure required for brokerage companies:

A brokerage company shall have an integrated work system to be supported by a complete electronic system to register and process customers' data and orders and to apply and handle these orders automatically. The two systems shall act in a complete and secure manner to provide the following services:

Customer Accounts

- Opening and managing a separate account at the company for each customer, including the handle of a relevant ancillary cash account.
- Issuance of a periodic statement for each customer regarding his/her/its cash accounts, security transactions carried out through the brokerage company, company's commissions, commissions and fees deducted from the customer account during settlement of his/her transactions in favor of other entities and relevant details.
- Settlement of the brokerage company's commissions, pursuant to the percentage rates agreed upon with customers.
- Daily settlement of customers' cash accounts at banks, their deposit and payment processes.

Automated Trading

- Receipt, registration and confirmation of customers' orders in a manner vitiating any attempt to deny an order by any of the two parties.
- Automated link with the trading system at the stock exchange as per the approved specifications, and obtaining operation license from the stock exchange.
- Automatically entering the order into the trading system, after approving the said order by the brokerage company.
- Automatically receiving the order and registering its trading status.
- Notifying the customer or any third party, automatically or by any other means of notice approved by the CMA, of the trading status of the order at the end of the trading session.

Risk Prevention Systems

- Autoamted link with custodians as per the specifications determined by Misr for Clearing, Depository and Central Registry.
- Verifying the existence of (cash, security) balances, as per the approved system for trading, set off and central depository.
- Confirming that the customer's order conforms to his/her/its permitted trading limits, pursuant to the risk policy approved by the brokerage company.



### Settlement

- Settlement of the customer's status, based on the clearance and settlement work cycle.
- Automatic or manual notification of settlement to the customer.
- Closure and settlement of daily status with the accounts and information of settlement, clearance and processes of transfer from/to the cash account of customers.

### Internal Control Reports and Inspection

- A comprehensive report of the trading volume of the brokerage company on a daily, weekly, monthly, quarterly and annual basis.
- Comparing the trading volume of the brokerage company with its net capital, and calculation of the capital adequacy rates during the periods prescribed by the Laws, Regulations and Decrees issued in this respect.
- The possibility to review and obtain the information recorded electronically by control authorities.

### Safety and Security of the System

- To protect the confidentiality of customers' accounts with relevant data and information.
- To prevent amendment of any data or information upon registration thereof or processing same through this system.
- To specify the user's authorities to obtain data and information, as per the policies determined by the brokerage company and approved by the responsible internal department, and to prevent any person exceeding the limits of his/her/its authorities.
- To register any use, attempt to use or to have access to the system.

### Systems and Rules of Keeping and Maintaining Documents

Registries and documents shall be kept, maintained and preserved for a period of five years from date of closure of customer's account. The company, in case of legal dispute, shall keep, maintain and preserve all documents and registries until settlement of the dispute or issuance of a final court judgment therein.

### Second: Work System at the Brokerage Company

The System must consider the following:

#### 1) The Brokerage Company's Relationship with Third Parties

The brokerage company shall:

- 1) Provide the infrastructure required for the latter to be connected automatically with the trading system at the stock exchange, as per the technical specifications set out by the stock exchange. The brokerage company shall further obtain a document proving due approval and operation of the said infrastructure.
- 2) Provide the infrastructure required for an automatic link between the central depository and custodians systems, as per the MCDR technical



specifications.

3) Provide the infrastructure required for automatic exchange of information with a settlement bank.

4) Sign the contracts, required for due commencement of trading activities, opening and dealing on accounts, with the custodian, the settlement banks and the customers- Annex No. 6.

5) Conciliate between the data for the transaction carried out, the central depository, the settlement and the customer's accounts at the brokerage company.

2) The rules for opening and management of customers' accounts at brokerage companies:

The Brokerage Company shall:

1) Open and manage a separate account at the company for each customer, and handle an ancillary account thereof.

2) Receive/deliver cash from/to customers of the company and register these processes in their accounts.

3) Issuance of a periodic statement for each customer regarding his/her/its cash and security accounts dealt thereon through the brokerage company, the brokerage commissions, all other commissions and charges deducted from the customer's account during settlements of his/her/its transactions in favor of other entities and relevant details.

4) Deduct brokerage commissions according to the percentage rates agreed upon with customers.

5) Close and settle daily status with customers' cash accounts at the bank as well as the process of deposit and payment to customers.

3) Conditions Required to Deal on cash accounts

1) The brokerage company shall separate accounts (whether debit or credit) from customer's cash accounts.

2) The brokerage company's handling of customers' cash funds shall be limited to the following purposes:

- Feeding the account daily with the cash received by the company from customers.
- Transferring cash to the "Settlement Account" to pay for customers' purchases.
- Issuance of cheques, payment orders or transfers in favor of the customers and owners of the account.
- Deduction of commission by virtue of a debit note, pursuant to the percentage rates agreed upon with the customer.

3) Customers may directly add funds to cash accounts through bank transfer or monetary deposit in favor of their cash accounts at the brokerage company, provided that the customer shall provide the company with a copy of the funds deposit receipt.



4) Requirements regarding the systems of receiving customer orders, whatever the means of receiving orders are:

- 1) Disclosure to the customer about the means of receiving orders, and obtaining customer's written approval to use same in the course of dealing with the company.
- 2) Verifying the capacity and identity of the customer prior to receiving orders.
- 3) Receiving, recording and confirming customers' orders, in a manner vitiating any attempt to deny the order by any party.
- 4) The means of receiving orders shall allow for retroactive inspection and supervision regarding the period of time during which registries and documents were required to be kept, maintained and preserved.

5) Manage Orders and Forward Same (automatically) to the Trading System

- 1) To confirm that there are (cash or security) balances for the customer, pursuant to the central trading and depository approved rules.
- 2) To confirm that a customer's order conforms to the trading limits determined by the brokerage company for this customer, pursuant to the risk policy applied by the brokerage company.
- 3) To automatically enter the order into the trading system after the brokerage company's (automatic or semi-automatic) approval is issued.
- 4) To receive and register the status of the order in the automatic trading system at the stock exchange.
- 5) To notify the customer of the status of the order in the automatic trading system at the end of the trading session.



**Annex (4)**  
**Technical Specifications for the Infrastructure Required for Brokerage Companies**

**First: Systems to Receive Customer Orders and Service Customers**

1) The following requirements shall apply to the systems that receive customer orders and to service customers through customer service channels provided by the brokerage company, which particularly include:

- Directly receiving customer orders during his/her/its presence at the head office or any branch of the company.
- Receiving orders by phone.
- Receiving orders by fax.
- Receiving orders through the Internet.

2) Customer's order should be registered and confirmed, prior to execution of any trading order on customer's accounts and securities, using a system providing the following:

- Verifying the identity of the customer and his/her/its capacity to dispose.
- Registering the information exchanged between the customer and the brokerage company.
- Registering customer's orders and stamp same with a seal inscribing the date of receipt of the order.
- Confirming with the customer regarding the nature, volume and conditions of the order.

3) Recording the time of dispatch of the customer's order for execution.

4) During the period in which customer's order is executable, the system must provide the following to the customer:

- Information about the status of the order.
- Issuing an order for cancellation for any previous trading order (and notifying the customer that cancellation of the order is conditional upon non-execution thereof at the stock exchange prior to receipt of the cancellation order). Cancellation shall be subject to the other terms and conditions governing execution orders.

5) The system of receiving orders and servicing customers shall notify the customer of the order status upon partial or total execution thereof. Notification shall be made, by the means of communication agreed upon with the customer, upon issuance of a trading order or upon contracting with the brokerage company.

**Second: Automatic Systems for Management of Brokerage Companies:**

The system consists of a number of applications and databases regarding all transactions undertaken by the Brokerage company with customers. This system should be provide by one of two sources:

- 1) A specialized company supplying and selling systems conforming to the CMA's approved requirements.
- 2) A specialized company licensed to provide services to brokerage companies.



### Third: Financial Information Exchange System

This system must forward orders automatically to both the stock exchange and Misr for Clearing, Depository and Central Registry. The system must also receive the status of previously forwarded orders, as to whether or not these orders shall be applicable.

#### 1) Communication System

- Two lines, at a speed of not less than 2 Mega, with both the Stock Exchange and Misr for Clearing, Depository and Central Registry.
- Reciprocal communication line with disaster sites for both the Stock Exchange and Misr for Clearing, Depository and Central Registry.

#### 2) Communication Protection System

- Protection Systems (firewall) regarding communication from the brokerage company to various market authorities

A firewall system must be provided to all external communication net works, either through the internet or the networks connected to various market authorities, to the Stock Exchange or to Misr for Clearing, Depository and Central Registry.

#### 3) Operation Protection Systems

The brokerage company shall provide the following operation protection systems:

- Messages Receipt and Dispatch System (FIX 4.2).
- Secured and highly operational database system.
- Modern operation systems allowing for the use of central servers.
- Operation systems acting as application servers
- Disaster recovery site, in which copies of each server device and alternative copies of the data and the applications are available and instantly updated.

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#### 4) Central Computers

- Central computers acting as a server for databases, in which all permanent activities are continuously available (Fault, Tolerant, Hot-Standby or Cluster).
- Independent server for the operation of messages receipt and dispatch system (Fix).



## 5) Operation Procedures

- All systems, equipment and operation methods shall be subject to external control and inspection, as per the rules set forth by the Capital Market Authority, the Stock Exchange and Misr for Clearing, Depository and Central Registry.
- The company's systems shall not accept any unimportant or excessive requests or messages through the messages dispatch and receipt system (FIX).
- The company's information technology department shall have specialists in the following fields:
  - Database official.
  - Operations system official
  - Communications network official
  - Information security systems official

Specifications of all devices, central computers and other communication equipment must be inspected by the control authorities specialized for granting licenses and approve these devices prior to use. Moreover, a study regarding the forecasted number of customers and the volume of the used databases shall be prepared.



Annex (5)  
Work Manuals and Procedures at all Brokerage Companies

1) Procedures manual for Opening Accounts

This manual includes:

1. Introduction
2. Determination of Responsibilities
3. Procedures

2) Anti-Money Laundering Procedures Manual

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures, including:
  - Know your customer
  - Obtaining complete data regarding the customer, and periodically updating same.
  - Reporting any money laundering activity.
  - Permanently undertaking money laundering control activities, pursuant to the applicable laws, regulations and instructions.
  - Training and educating employees.

3) Procedures Manual for Registration and Management of Orders and for Execution of Transactions

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

4) Procedures Manual for Settlement and Confirmation of Transactions

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

5) Procedures Manual for Keeping, Maintaining and Preserving Data

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

6) Procedures manual for Notifying Customers- Customer Reports

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures



#### 7) Activity Plan

This manual includes:

- 1) Introduction
- 2) Company's policy
- 3) Description of Company's Activities
- 4) Official Location of the Company
- 5) Plan for dealing with the cash and banknote balances.
- 6) Plan for dealing with customers' data, and automatically maintaining original and additional copies thereof.
- 7) Assessment of financial and operational processes at the company
- 8) Plans for keeping and maintaining the relationship between the brokerage company, the Capital Market Authority, the Stock Exchange, Misr for Clearing, Depository and Central Registry, customers, employees and self regulatory organizations.
- 9) The relationship with banks and other institutions dealing with the company.
- 10) Periodic reports to control authorities.
- 11) Disclosure of the work plan.
- 12) Periodic update of the company's work plan.

#### 8) Procedures Manual for Complaints and Disputes

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

#### 9) Employees Code of Ethics

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

#### 10) Manual for Abiding by Applicable Rules and Regulations

This manual includes:

- 1) Introduction
- 2) Responsible Officials
- 3) Continuously abiding by licensing terms
- 4) Registered and licensed employees.
- 5) Conduct of Business
- 6) Work systems and control

#### 11) Manual for Management of Internal Control

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures



## 12) Manual for Internal Review Committee

This manual includes:

- 1) Introduction
- 2) Determination of Responsibilities
- 3) Procedures

## 13) Manual for Describing the Automatic Link Systems with the Trading System at the Stock Exchange and the Clearance, Settlement and Central Depository System

This manual includes:

- 1) Introduction
- 2) Description of the automatic link system
- 3) Determination of Responsibilities
- 4) Procedures

## 14) Manual for Risk Management

- 1) Introduction
  - Definition of the risks and examples thereof
  - Objectives of the Risk Management
- 2) Principles Organizing the Risk Management
- 3) Organizational and Functional framework of risk management
- 4) Risks measurement, follow up and control
- 5) Determinants of risk management process
- 6) Operation Risks
- 7) Risks related to laws, regulations and control systems:
  - Responsibilities of the Board of Directors and General Managers
  - Preventing the effects of these risks
- 8) Risks related to the Company's reputation:
  - Responsibilities of the board of directors and general managers.
  - Preventing the effects of these risks
- 9) Risks arising from disasters
  - Preventing the effects of these risks
- 10) Risks related to other parties and competitors:
  - Preventing the effects of these risks
- 11) Risks arising from non-performance of one's due diligent conduct:
  - Preventing the effects of these risks.
- 12) Risks related to gross negligence:
  - Preventing the effects of these risks
- 13) Information Technology Risks
  - Preventing the effects of these risks.



Annex (6)  
Typical Form of Contracts

Typical Form of Contracts Regulating the Relationship between:

- 1) The Brokerage company and the customer
- 2) The Brokerage company, the bank and the custodian
- 3) The brokerage company and Misr For Clearing, Depository and Central Registry, pursuant to Article 22 of Law no. 93/2000.