

Palestine Capital Market Authority

Solvency Standards Instructions for Securities Companies

No. (4) For the year 2008

**Issued by the Board of Directors of the Palestinian Capital Market Authority in
reference to the Securities Law No. (12) For the year 2004 and article (11) of the
instructions of Securities Companies license issued by the PCMA**

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Definitions

Article (1)

1. The following words, wherever they appear in these instructions, have the specific meanings to be stated below unless the context indicates otherwise.

Law	Securities Law No. (12) for the year 2004, as amended
Market	Palestine Securities Market
Solvency	The Securities companies` ability to meet their financial obligations in due time
Company	Joint –stock Company or any foreign Company duly registered in Palestine according to the companies Law and the Securities Law. Such companies practice Trading of Securities for their own account, for others` and/ or any activities in accordance with Law and the instructions issued there under. These companies are authorized by the PCMA and are members of the PSE and the Center for Depository and Transfer
Conflict of Interests	Carrying out any activity those results in damage or benefit between Interests of Shareholders, Board of Directors members or managers of Securities companies, on one hand, and Interests of Clients, on the other hand, whether directly or indirectly.
Financial Consultant	The natural person, licensed by the PCMA, whose job is to advise and give consultations in Securities investment for Issuers and the Public either for his own account, the Securities Company`s account or for the Investment Consultant.
Investment Consultant	The natural person or the body corporate , licensed by the PCMA, whose job is to advise and give consultations for others in relation to Securities,

	investing in Securities, preparing reports, conducting researches and feasibility study related to Securities.
Issuance Agent	The natural person or the body corporate licensed by the PCMA to sell Securities in lieu of the Issuer.
Head Manager	Body corporate licensed by the PCMA who administers Securities issuance or their Marketing in lieu of the Issuer.
Underwriter	Body corporate licensed by the PCMA to Purchase Securities from the Issuer and re-sells them.
Financial Dealer	Any employee of the Member Company licensed by the PCMA and accredited by the PSE to trade in Securities for the Member Company's account. He also inserts Purchase and Sale Orders through the – Trading system in the PSE.
Client	The natural person or body corporate who Deals in Securities through the Securities Company and/ or through the Online Trading system adopted by the PSE.

2. The undefined words and expressions, in the following instructions, have their specific meanings in Law unless the context indicates otherwise.

Article (2)

These instructions are applicable on the following:

1. The Securities companies members in the PSE.
2. The branches of foreign Securities companies licensed by the PCMA and working in the PSE.

Article (3)

The Company complies with the following:

1. Protecting Clients' rights.
2. Raising the accounts receivables resulting from the price of Purchased Securities, if any, within 30 days from the date the receivable became due.
3. Discharging payables within three days from the date of executing the Deal, if the Client demands so.
4. Taking the necessary disbursement procedures in a way that guarantees discharging the payables for the Clients only.

Accounts debit receivable

Article (4)

In the case of not receiving an equivalent for the Securities value payable by the Client within 30 days from the date the receivable becomes due, the Securities Company has the right to sell these shares and claim the Client judicially in case the sum is not sufficient.

Separation of accounts

Article (5)

The Company shall not do the following:

1. Carrying out internal clearing or posting among Clients' accounts who are members of the same family, or between its accounts, on one hand, and the account of any other Client, on the other hand, unless there is a signed authorization thereby.
2. Using Clients' funds or their Securities in seeking special Interests that will benefit the Company or some other party in a way that does not contradict with lending and borrowing instructions.
3. Disposing of Clients' funds and Securities, put under its Control, for purposes other than the Trading related to Clients.

Article (6)

The Company shall open a sub- account for each Client, apart from other Clients' accounts.

Article (7)

In case the Company does not separate Clients' funds or Securities from its own accounts, PCMA has the right to take disciplinary and administrative procedures or impose fines on the Company according to the issued penalty Regulation.

Solvency Standards

Article (8)

1. The total sum of Clients' debit receivables resulting from selling and purchasing Securities, shall not exceed 200% from the net of the Company's Shareholders equity.

2. The total sum of liabilities to be paid by the Company shall not exceed 250% from the net of the Company Shareholders equity.

Partners` Current Accounts

Article (9)

1. Securities companies shall show all sums being withdrawn or deposited by partners or Owners under the Company`s current accounts.
2. The total overdraft shall not exceed 20% from the capital paid up to the Company.
3. The net equity shall not be less than 75% of the paid-up capital of the Company.

Article (10)

The Company shall keep liquid assets or assets transferable into liquidity in a month time that would cover not less than 100% from all short-term conditions provided that liquidity percentage is not less than 100% of all Trading commitments.

Article (11)

In Order to reach the liquidity sum pointed to in article (10), specific procedures are carried out on the Company`s Trading assets clause according to the following principles:

1. Money is counted in banks` funds and deposits (their total value), except retained deposits to achieve other purposes.
2. The following clauses are excluded from the debit receivables net (Clients` receivables):
 - a. The total sum of debit receivables that 30 days have passed from the date these became due.
 - b. A part of the Client`s debit receivables that exceed (5%) of the equity.
 - c. A part of the gross debit receivables of all Clients exceeding (200%) of the equity.
3. The Company`s Securities portfolio is assessed as follows:
 - a. Assessment of shares listed in the Securities portfolio according to Market prices and relying on the most recent closing price at the end of each month.

b. The total value of all blocked shares is excluded provided that these blocked shares are defined by the PSE.

c. Assessing the shares that are not totally paid according to the Market price and considering the unpaid charges.

d. The total value of shares in non - stock companies are excluded.

e. All mortgaged or retained Securities values are excluded.

f. Twenty percent of the Securities portfolio value is excluded after all clearings stated in clauses(a-c) above are carried out, as a precautionary measure to face a decline in Securities value.

4. Any Trading assets are calculated within the Company`s account to calculate the monetary percentage in a period no longer that 30 days with the PCMA`s accord.

Article (12)

1. Clients` accounts receivables are exchanged from different currencies into one currency in the accountancy records using the daily exchange rate observed by the PSE.

2. For the calculation of Solvency standards, partners` receivables in the balance sheet are shown as follows:

a. Partners` debit receivables, where these are classified within the equity clause.

b. Partners` credit receivables, where these are shown in the long- term liabilities clause.

Notifying the PCMA and the PSE of the mortgage or retain of assets

Article (13)

The Company shall notify the PCMA as well as the PSE of any mortgage or retain procedures as soon as these take place, as well as notifying the PCMA and the PSE of any legal procedures that may affect the Company`s activities.

Clients` bank statement

Article (14)

The Company shall provide each Client with a bank statement whenever demanded.

Separation of Funds

Article (15)

1. All Clients` funds are deposited in the Company`s account at the branch Clients are known to, designated as the Clients` account, which is separate from the Company`s general account. This account is specific for depositing funds that the Company receives from Clients for Purchase purposes, and depositing funds coming from Securities companies to clear Clients` Sales.
2. The Company uses funds deposited in this account to clear payable commitments to the clearing bank, resulting from Clients` Purchase (Owners of these funds).
3. In case the customer did not deposit sufficient sums to cover Purchases or in case of a dud cheque issued by the Client, the deficit shall not be covered from other Clients` funds. It may be covered from the Company`s general account or transferred from the Company`s general bank account into the Client`s account.
4. Funds deposited in the Client`s account are used to pay off the payables in the Client`s receivables in case there`s a sufficient balance in this account.
5. Client`s deposited funds cannot be lent or used by the Company for any other purposes.
6. The Company may not use the Client`s deposited funds for mortgaging or for capital assurance purposes.
7. The Company shall transfer its Commissions, obtained as a result of Dealing in Securities, into the Company`s general bank account on a regular basis.

Article (16)

1. All the Company`s audited and unaudited financial reports shall include the following, in a clear, independent way:
 - a. All payables that should be paid both by and to Clients.
 - b. All deposited and withdrawn sums from the Company`s general account.
2. The Company shall provide the PCMA with all the following statements on a monthly basis within a week from the end of each month.
 - a. General trial balance
 - b. Securities portfolio statement.
 - c. Debit receivables balance statement.
 - d. Credit receivables balance statement.
 - e. The Company`s current balance accounts.

- f. Credit and debit receivables longevity statements.
- g. Financial ratios according to the instructions and form designed for the purpose.

Separation of Securities

Article (17)

1. The licensed Company cannot practice financial brokerage for its own account or for others`, and/ or manage portfolios, keeping Clients` Securities on its own behalf unless an organized contract has been signed by both the Client and the Company`s administration. The contract shall include the terms of account Management as well as a statement indicating whether the Securities are the Client`s or to another party.
2. The Company that keeps Clients` Securities on their own behalf shall keep accurate detailed accounts that would clarify each Client`s transactions that should be posted in the accountancy record within 24 hours of being done, provided that an accurate and thorough clearing should be done at least once a week.
3. The Company, authorized to practice the activities of the financial and/ or the Investment Consultant, shall not receive any sums from Clients except for Trading Commissions.

Conflict of Interests

Article (18)

The Company, authorized to practice investment and/ or Financial Consultant activities shall notify the Client when carrying out anything that results in a Conflict of Interests that can either directly or indirectly affect the Company`s ability in giving objective and unbiased recommendations.

Disclosure

Article (19)

The Company that practices financial brokerage for its own account shall make evident its portfolio to Clients whenever there is a material or moral Interest in the Dealings it executes for them. It shall also comply with the instructions issued by the PCMA accordingly.

Risks

Article (20)

The Company authorized to practice the investment and/ or the Financial Consultant activities shall take proper procedures to ensure that the recommended investments do not jeopardize its Clients.

Management of Securities Portfolios

Article (21)

The Company that practices Management of Securities portfolios may receive funds from Clients to complete the procedures of Securities Sale and Purchase Orders in the PSE according to the contract signed with the Client.

Financial Brokerage

Article (22)

1. Any employee of the Company may not trade in Securities except through the Company to which he is an employee, and directly via one account on his behalf in the Center for Depository and Transfer.
2. The chairman of the Company's Board of Directors or any members as well as partners may not trade in Securities in the PSE for their own or others' account except through an account on their behalf in the Center for Depository and Transfer.

Article (23)

All the Company's partners, employees, managers and Dealers shall inform the PCMA of the place and name of all the direct and indirect Trading accounts in the PSE that belong to their wives, husbands, minor children or private companies and institutions.

Article (24)

Any employee or Financial Dealer who wants to trade in Securities shall obtain a prior approval from the Company's director general.

Fines and Breaches

Article (25)

The PCMA is entitled, in case of not following any of the instructions, to take administrative and disciplinary measures, or impose a fine according to the penalty Regulation issued.

Article (26)

All Securities companies shall adjust their conditions according to these instructions within period of (6) months from their entry into force.

Article (27)

All competent parties, each according to its position, shall implement these instructions. These instructions shall be in force on 5/2/2008 A.D. and issued in the official newspaper.

Issued in Al-Bireh on 4/2/2008A.D.

Corresponding to 27, month of Moharram 1429 A.H.

Chairman of Board of Directors

Maher Al-Masri