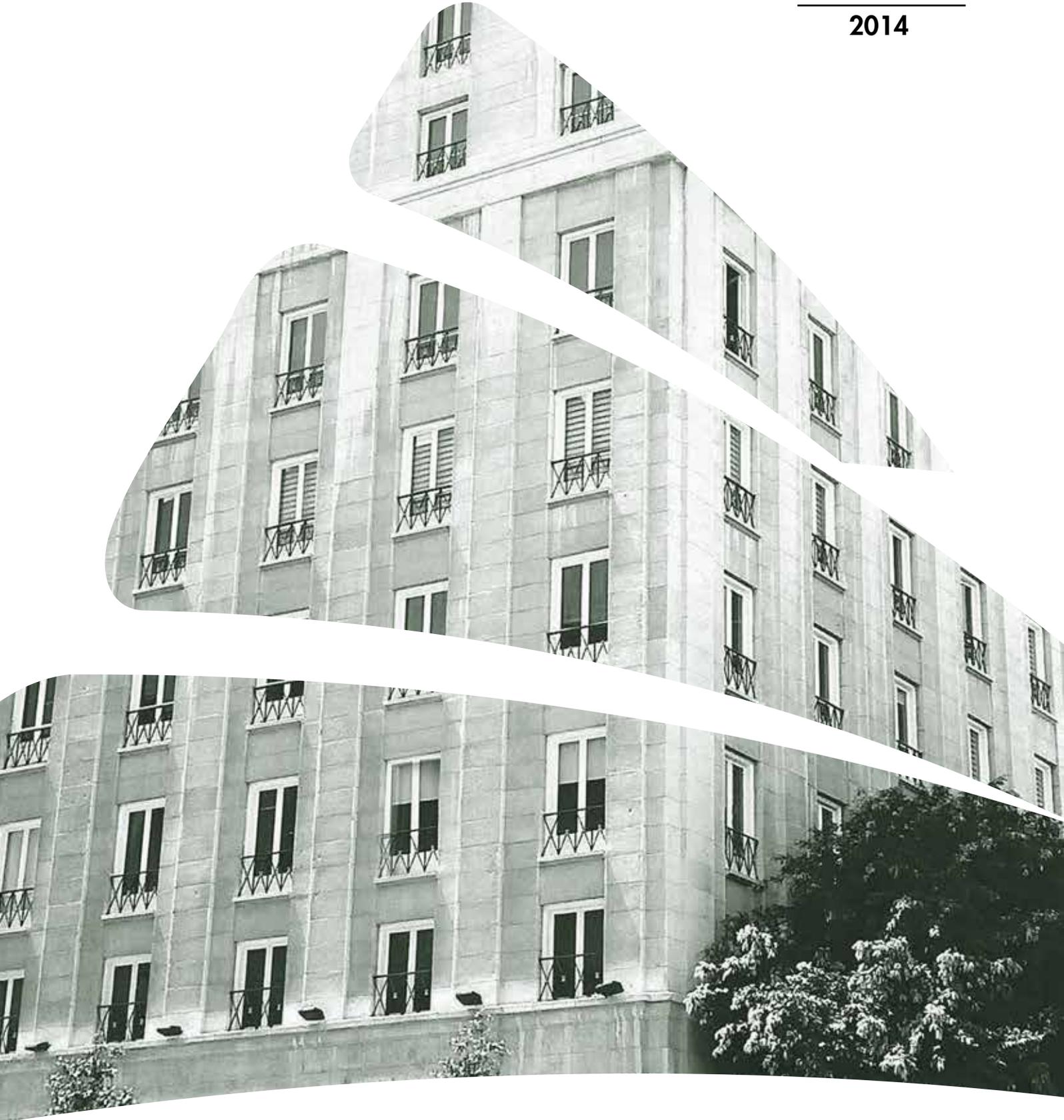


ANNUAL REPORT

2014



هيئة الاسواق المالية
CAPITAL MARKETS AUTHORITY



2014

ANNUAL

REPORT

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Chairman's Message

I am pleased to present the third annual report of the Capital Markets Authority (CMA) that showcases the main activities of the authority in 2014. The report clearly shows the results achieved by the CMA since its establishment in 2011, namely investigation and control operations aimed at regulating the work of capital markets and ensuring the absence of fraudulent actions that may harm the market reputation and the investors' interests. It also highlights the progress made by the CMA given the frequency and importance of the issues dealt with, which further contributed to regulating the work of financial institutions and increasing their transparency. To our comfort, markets have reacted to the work of the CMA with the same level of seriousness portrayed by the Authority, thus creating more comfort across the board. I expect 2015 to be, as the first half of the year shows, more productive and effective, ultimately leading to further development of capital markets in Lebanon.

The Year 2014 has been marked by the launching of the initial set of regulations on «Registration and Licensing», «Business Conduct» and «Market Conduct», in collaboration with the World Bank. To this end, the first consultative meeting was held in September 2014 with all concerned institutions, where we had the chance to listen to the views, ideas and suggestions of various representatives from the sector, further contributing to making these regulations more convenient to the characteristics of the Lebanese market, without, nevertheless, compromising its compliance with the best international standards. The said implementing regulations had been completed and the CMA Board will decide on the best timing for implementation. In doing so, the CMA is seeking to secure a favorable environment for the development of a distinct and reassuring capital market that would be the starting point through which it can achieve its strategic goals.

The CMA has also issued a number of regulations last year that contributed in defining the framework, mechanisms and obligations towards all persons and institutions dealing in capital markets. Those regulations cover the transactions on licensed instruments such as marketing financial instruments, securitization activities, and establishment of collective investment schemes among others. In addition, 2014 witnessed the conclusion of a number of Memorandum of Understandings with regional and international bodies in order to establish mutual relationships based on protecting investors, ensuring the integrity of markets, and the exchange of information that contribute to the detection of any manipulation in the markets.

As for the upcoming period, the CMA intends to complete all implementing regulations by end of 2015, again in consultation with the stakeholders in the market. We also seek - in parallel with the efforts we are deploying with the Lebanese Government to privatize the Beirut Stock Exchange and activate its work - to encourage institutions to grow their activities and business, particularly small and medium enterprises as well as small investors through creating an electronic trading platform involving banks, financial institutions and financial brokerage companies, allowing companies, particularly start-ups to find additional sources of medium and long-term financing through channeling the savings of the private sector into equity. The Central bank of Lebanon is a partner in this effort as it guarantees financing of companies by the banks. Establishing a new and focused electronic trading platform is supported by the financial sector and the knowledge sector that form together the basic pillars of the Lebanese economy. This would activate economic growth and create new job opportunities for the young generations in Lebanon.

We will continue to improve and develop the regulatory framework of the capital markets through upholding the best standards and guidelines to respond to the requirements of the markets. We will also make sure to invest in our human capital, and develop the CMA's potential and employee skills in order to further monitor the implementation of these regulations. We will keep on forging closer ties with the regulatory bodies in the region and the world, and continue to exchange information that would help build confidence in the Lebanese markets so that they become more attractive to Lebanese and foreign investors, once again confirming that Lebanon is an important financial hub in the region.

Sincerely,

Riad Toufic Salameh

Chairman of the Capital Markets Authority | Governor of the Central Bank of Lebanon (BDL)



Developing and regulating the Capital Markets Authority in Lebanon through encouraging local and international investors to invest in financial instruments issued by financial companies regulated by the Capital Market Authorities

Vision

- To revive Lebanon as a regional hub for financial services through permanent development of financial markets in Lebanon.
- To enhance economic efficiency and growth by directing capital towards productive uses.
- To establish confidence in the Lebanese financial markets by keeping them safe and appealing to investors.
- To protect investors from illegal, irregular or unfair practices, including the prohibition of direct or indirect insider trading, and provide access to any required information for investment.

Mission

- To regulate and monitor the financial markets in order to ensure their expansion in line with the changes and the best local and international standards.
- To reduce Systemic Risk in capital markets.
- To follow up on the development of markets through constant communication with all stakeholders in all the productive sectors.
- To raise investment awareness among the Lebanese public and familiarize them with the advantages of the financial markets.
- To constantly seek the investor's protection and use of financial markets in Lebanon and abroad.
- To regulate access to information by people who distribute financial instruments to the public.
- To organize and define the framework and professional activities carried out by people who engage in business related to financial instruments and ensure their adherence to the code of ethics.



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The Capital Markets Authority issues appropriate regulations and legislations that are consistent with international standards to ensure regularity in the financial markets.

Chapter 1: Capital Markets Authority

1. The law establishing the Capital Markets Authority and its main goals

The Capital Markets Law No. 161 was ratified by the Lebanese Parliament on 17/8/2011. It stipulated the establishment of the Capital Markets Authority, «CMA». The full-time Executive Board Members were appointed on 10/7/2012 by the Cabinet of Ministers. The CMA aims to achieve two main goals: to promote and develop the financial markets in coordination with the various sectors concerned, and to protect private savings invested in financial instruments.

In this context, the law defines the mechanism of organization and promotion of financial markets focusing on establishing a culture centered on the importance of effective governance in financial institutions, and proper use of information. In this respect, the law aims to ensure absolute transparency in the sector due to its role in protecting investors and the capital. Accordingly, the law defines a mechanism to ensure accountability and sanction violators of the provisions of the law through legal frameworks, such as the Independent Sanctions Committee and the dedicated Special Court for Capital Markets.

The development of the capital markets is of great importance, since it does not only benefit the investors in financial instruments and in the private sector, but also the economy at large, because of the ability to find sources of long-term funding to direct savings to the appropriate investment. This said, the Capital Markets Authority sets appropriate regulations and legislation that are consistent with international standards to ensure regularity in the financial markets. The strict control it portrays shall help encourage local and international investors to invest in financial instruments issued by financial companies regulated by the Capital Markets Authority. This allows faster growth in this sector, which we hope will contribute to encourage companies operating in Lebanon to list their shares on the stock exchange and create job opportunities for young Lebanese.





2. Core functions of the Capital Markets Authority

Investor protection and organization of professional activities

- Protecting investors from illegal, irregular or unfair practices, including the prohibition of direct or indirect insider trading.
- Organizing the disclosure of information to persons who distribute financial instruments to the public.
- Setting the work environment and organizing the professional activities of the persons who perform operations on financial instruments, while monitoring their compliance with professional ethics.

Organizing capital markets and reducing systemic risks

- Organizing and developing capital markets in Lebanon, and promoting their use by investors and issuers in Lebanon and abroad.
- Reducing systemic risks in capital markets.

Licensing

- Granting licenses to brokers who provide services to investors and issuers.
- Granting licenses to financial rating agencies, and defining and regulating their functions and work process.
- Licensing collective investment schemes, including mutual funds that invest in securitization.

Organize and control the work of the stock exchanges

- Regulating and controlling the work of licensed stock exchanges, and the persons who provide deposit, clearing or settlement service.
- Setting the general regulatory framework for listing financial instruments and approving their trading on stock markets.

Legal control and accountability

- Sanctioning administrative violations of this law and its implementation rules.
- Initiating legal action against insider trading crimes, and against the circulation of false or misleading information about securities or financial instruments, or their issuers.

the Capital Markets Authority's goal is to develop the objective of the local market and to protect the investor

3. Institutions and private businesses subject to the supervision and control of the Capital Markets Authority

Law 161 defines all activities that are subject to the control and authority of the CMA. It includes all operations related to the issuing, purchase, sale, or promotion of financial instruments that are directly offered for Public Subscription, or that are purchased or sold on behalf of the public, in addition to Financial Instruments listed or traded on the stock exchange, and financial instruments and financial rights licensed by the Capital Markets Authority.

The law clearly defines all activities pertaining to financial instruments, as well as institutions that are subject to the authority and control of the financial markets as shown in the following table:

Parties subject to the supervision and control of the CMA

- Licensed individuals
- Companies listed on the Lebanese Stock Exchange
- Lebanese stock exchanges or institutions whose objective is to manage and conduct the business of stock exchanges, provided such institutions are established as Lebanese joint-stock companies
- Financial companies or licensed institutions and bodies including:
 - Collective investment schemes dealing in securities and other financial instruments institutions of financial intermediation and investment of funds
 - Investment schemes in securitization operations
 - Islamic investment and securitization schemes
 - Financial consultants and all other institutions providing services related to financial instruments
 - Financial rating agencies

Financial instruments and services subject to the supervision and control of the CMA

- Stocks, bonds or shares issued by a public or private company or entity.
- Debenture bonds, stocks, bonds, certificates of deposit, depositary receipts or treasury bills and bonds.
- Financial rights, options, futures, and all derivatives or structured financial products.
 - Investment and Securities Brokerage services
 - Portfolio Management and Book Keeping
 - Securities Custody
 - Underwriter
 - Underwriting process

4. Budget of the Capital Markets Authority

CMA 2014 expenses amounted to LBP 6.7 billion. Operating expenses represent 96% of the total, the greater part of which is allocated to staff wages and salaries.

Deloitte & Touche conducted the audit of the 2014 statements in accordance with International Standards on Auditing and found that the statements present fairly the financial position of the CMA as of December 31, 2013.

The CMA's expenses are expected to rise by LBP 3 billion in 2015, as per the budget approved by the Board of Directors, reflecting mainly the increase in salaries due to new recruitments and the rental increase resulting from the rent of an additional floor at its premises. Capital expenses will significantly increase due to the installation of new offices and hiring new recruits to fill vacant positions.



Budget 2014

(Million LBP)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Gross Total	383	562	632	383	463	698	438	424	849	432	444	835	6,743
Current Expenditures	383	519	632	383	463	698	433	419	827	432	429	835	6,456
Personnel Charges	281	408	534	296	388	623	358	348	749	358	348	715	5,406
Buildings Charges	58	58	58	58	61	61	61	61	61	61	62	99	763
Consumables Charges	11	1	9	2	4	6	5	2	6	4	4	9	63
Conferences & International Organizations		25	0	0	0	0	0	0	0	0	0	0	25
Telecommunications	8	8	9	8	8	8	9	8	8	9	8	8	99
Services & Administrative Installations	6	0	3	0	2	0	0	0	3	0	7	0	21
Consulting	19	19	19	19	0	0	0	0	0	0	0	4	80
General Statutory Reserve													194
Capital Expenditures	0	43	0	0	0	0	5	5	22	0	15	0	90
General Statutory Reserve													3

Budget 2015

(Million LBP)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Gross Total	925	572	1,014	1,005	490	940	675	489	1,113	636	568	1,336	9,762
Current Expenditures	778	525	841	946	463	790	645	465	968	617	551	912	8,501
Personnel Charges	420	395	785	735	415	739	415	415	922	494	499	857	7,091
Buildings Charges	300	25	20	185	21	26	204	26	22	98	22	26	975
Consumables Charges	26	10	9	9	9	8	10	7	8	9	13	9	127
Conferences & International Organizations	0	60	0	0	0	0	0	0	0	0	0	0	60
Telecommunications	8	9	9	9	9	8	8	8	7	7	8	8	98
Services & Administrative Installations	14	8	8	8	8	8	8	8	8	8	8	7	101
Consulting	10	18	10	0	1	1	0	1	1	1	1	5	49
General Statutory Reserve	23	16	25	28	14	24	19	14	29	19	17	27	255
Capital Expenditures	120	30	143	30	13	123	10	10	113	0	0	385	977
General Statutory Reserve	4	1	4	1	0	4	0	0	3	0	0	12	29

The year 2014 was successful in contributing to positioning the Capital Markets Authority as a modern and independent entity, aware of its supervisory and regulatory role and its impact on the development of the financial sector.



Chapter II: Main activities in the year 2014

The establishment of an independent regulatory authority concerned with the development of the capital markets, coupled with an advanced banking sector, is of a great importance. Thus, the launch of the Capital Markets Authority in mid 2012 was encouraging as it was characterized by an integral vision to achieving the goals for which the CMA was established. It therefore was a new model for the vital supervisory work in the capital markets.

Following the CMA's effective launch in 2013, the year 2014 scored many successes that contributed to positioning the Capital Markets Authority as a modern and independent body, aware of its supervisory and regulatory role and its impact on the development of the financial sector. The Capital Markets Authority had a distinctive activity in the year 2014 that will be showcased in the present report.

1.1 At the administrative level

At the administrative level, the CMA has completed its infrastructure developments, including information technology and offices setup. Moreover, it had recruited as part of its human resources a team of specialized persons in the field of financial control and audit. The CMA had identified several vacancies, and applicants who met the requirements set in the job description were asked to sit for the relevant examinations. This was achieved in cooperation with the "Takiim" foundation and the Ecole Supérieure des Affaires (ESA) for the second year in a row.

1.2 Human Resources development

The CMA Board has discussed the different procedures and mechanisms that lead to the development of human resources at the Authority, whereby it was consequently decided to authorize a study and a comprehensive assessment of the Authority's administrative and human resources systems. This study aims to map the internal organization structure according to set criteria, while highlighting the responsibilities of the CMA employees and administrative staff, as well as monitor their progress and ensuring that each department benefits from the experience of each staff member in the best possible way.

1.3 Development of staff abilities

The Capital Markets Authority conducted in 2014, albeit in a limited way, training sessions for its staff in view of enhancing their skills, whereby members of the Authority participated in regional and international training courses. The Head of the Financial Control Unit participated in the 20th training session for control and supervision of the markets, organized by the Training Institute at the «Securities and Exchange Commission SEC» in Washington, in the presence of SEC senior inspectors and experts from international stock exchanges and other regulatory bodies. The training session, which was held from 17 to 21 November 2014, focused on the development of practical techniques of controllers responsible for performing inspection and audit of financial institutions, brokerage firms, banks, funds, consultants and individuals supervised by regulatory bodies. This aimed to develop the control capabilities in order to detect market manipulation and fraud resulting from the fragility of disclosure due by the supervised companies.

In the context of the «Bilateral Exchange Program» between the Saudi CMA and the Union of Arab Securities Authorities (UASA), a training program was held in Riyadh – Kingdom of Saudi Arabia, on activating the supervisory role over financial markets. Two staff members representing the Lebanese Capital Markets Authority participated in the training that addressed several topics of interest including: investment funds regulation and surveillance, insider trading and attempts of market manipulation, applicable procedures in

the field of investigation and money laundering operations oversight.

In the same context, the International Financial Reporting Standards (IFRS) organized, in collaboration with the World Bank, a regional three-day workshop in Jordan during which were discussed the existing regulations and the ones to be adopted. Staff from the CMA's control unit participated in the workshop related to regulatory bodies in the Middle East and North Africa (MENA) and their role in keeping up with the IFRS latest international standards.

The CMA Secretary General participated in a number of international conferences, some of which focused on topics related to the role of regulatory bodies in protecting and educating the investors to mitigate risks from possible fraudulent activities they may be exposed to in the markets. His participation in the twenty-fifth conference of the «Securities and Exchange Commission SEC» in Washington USA, which was held from 16 to 26 March 2014, was of great importance to the CMA. The conference has, in fact, covered many topics related to financial supervisory bodies, including: effective detection and control, financing small and medium-term projects in the economic and strategic sectors, corporate finance and capital formation, promotion of investor awareness, organization of collective investment funds, detection of market manipulation and fraud, corporate governance and others. The conference also included visits to other supervisory organizations such as the FINRA, the Congress and others.

CMA staff testimonial

The workshop, which extended over a three-day period, was organized jointly by the World Bank and the IFRS Foundation MENA Region.

The workshop program offered an invaluable opportunity for me to get familiar with current and upcoming IFRS and related prudential requirements, more particularly, the workshop covered IAS 32, IAS 39, IFRS 4, IFRS 9 along with a proposed new standard that would replace IFRS 4.

Interestingly enough, the workshop had a major interactive element, in a sense that we used case studies designed to develop our understanding of the "Judgements and Estimates" that are necessary to apply IFRS. This is particularly helpful for audit missions where part of the tasks is to review financial statements using IFRS.

Mr. Aziz El Amm

Financial Control Unit

1.4 Information Technology

The Information Technology department set, over the past year, the principles and standards for a successful establishment of an IT and communication network. It was also keen on selecting efficient software in order to secure a safe operating environment through the following steps:

- Identifying the latest developments and trends in information technology
- Securing modern information and communication facilities including resources, programs, extensions and infrastructure.
- Developing plans and policies for the construction, development, operation, monitoring and maintenance of databases, data, hardware, software, networks, archiving and protection methods relating thereto.
- Providing technical advice and support to all departments.
- Modifying patterns, managing login permissions, applying the necessary security to ensure the proper functioning according to the best international rules and practices of compliance and organization.
- Developing CMA's website and e-services, allowing investors to submit complaints to the Capital Markets Authority; protecting investors and the public from illegal practices and educating them on the benefits and risks of capital markets through a special portal dedicated to investors' instruments.
- Developing the archiving system to save all the documents and information in a secure and easy way.

Among the projects undertaken by the CMA departments and units:

Beirut Stock Exchange Market Surveillance System

The General Secretariat, in cooperation with the Financial Control Unit (FCU) and the IT Department, worked on setting the framework to identify the most effective Market Surveillance system in order to allow the FCU to follow up on trading operations and perform the daily analysis on the trading operations on the Beirut Stock Exchange. Such a system will also allow for the preparation of periodic reports and control through the use of the latest control technology in the global markets, so as to ensure the compliance of market participants with the regulations and business code of conduct set by the Capital Markets Authority. The mentioned surveillance system primarily aims to provide the necessary protection for investors.

The importance of control over the trading process in any of the new systems that the CMA will choose is its possibility to engage in a daily analysis of the trading operations on the market, in addition to daily reporting and monitoring of the significant changes at the level of listed companies. This is done by conducting intensive research on trading and transactions through market data analysis, review and analysis of orders and trades executed. Any suspected malpractice is directly related to the CMA by issuance of an alert through the electronic

monitoring system (SMART) function.

The system will also allow its users to conduct ad-hoc regulatory inquiries concerning the trading behavior or practices of suspected violators of capital markets conduct or CMA regulations.

Completing the transfer of financial data and statistics from BDL to CMA

In reference to the previously published statistics and economic & financial data related to activity on the Lebanese markets, the Communication and Research Department has become, as of February 2014, officially responsible for the preparation, analysis and distribution of said data related to the BSE, mutual funds and structured products issued or marketed by all financial institutions and brokerage firms and banks.

The Communication and Research Department therefore strives to continuously liaise with all the financial institutions concerning the required raw data for its analysis of market activity. This would ensure that the public would receive a comparative quantitative and qualitative research on the financial operations conducted in the market.

This has safeguarded the integrity of historical and future data, which is important for research and statistical analysis vis-à-vis the previous years, in addition to monitoring the growth of the market and the impact of capital market on the local economy.



Launching of the initial set of Market Regulations

1.5 At the legislation and regulation level

• Launching of the initial set of Market Regulations

The Capital Markets Authority inaugurated, in cooperation with the World Bank, the launching of the initial set of market regulations for developing the capital markets and protecting the investor. The consultation seminar was held at Phoenicia Hotel in Beirut on the 17th and 18th of September 2014, under the patronage of the CMA Chairman and BDL Governor H.E. Mr. Riad Salameh. The seminar was attended by industry professionals such as Chairmen of banks, financial institutions and financial brokerage firms, in addition to lawyers and auditing firms. After the opening remarks of the CMA Chairman, a technical session was conducted whereby the participants, which are the main parties concerned with the implementation of these regulations, openly shared their views, comments and suggestions to the panelists which was constituted by the heads of the FCU and legal affairs unit alongside a lead expert from the World Bank.

An in-depth analysis and dialogue was raised

on the newly introduced concepts; «Registration and Licensing», «Business Conduct» and «Market Conduct» regulations, where all market participants emphasized on the suitability and importance of their imminent launching in order to ensure proper market development, which reflects a more transparent and organized sector.

The three regulations, initially drafted in English, were put at the disposal of all relevant institutions so as to enable them to prepare for their implementation when officially issued by the CMA Board, i.e. published in the Official Gazette.

Overview of the initial set of market regulations introduced by the CMA in 2014, in view of being officially launched in 2015.

Licensing and Registration

In order to carry on a securities-related business, an institution must be licensed by the CMA under Law 161/2011. Similar to banking business, licensing is critical to protecting customers and ensuring the safety and soundness of institutions operating in the capital markets. Licensed institutions are hence subject to ongoing supervision by the CMA.

Therefore, and as a direct result of this regulation, banks, financial institutions and financial intermediaries with capital markets business will be “approved institutions” and subject to CMA regulations.

This regulation aims to identify the different categories of licenses required to carry out securities related business in Lebanon, identify exclusions from the requirements, and set the requirements for licensing institutions and registering individuals as registered persons. It also sets the conditions for the maintenance

of a license or a registration, and establishes the procedures of applications, approvals, changes and termination of a license or registration.

Business Conduct

“Business conduct” refers to how an approved institution governs and manages its business, its business operations, its systems and controls, and its dealings with clients. Business conduct regulations are critical to investor protection, and to ensure licensed institutions operate with integrity, sound management and effective controls. This regulation aims to establish the rules and code of conduct that an approved institution must comply with in carrying out securities business and dealing with clients. It also defines the policies and procedures, systems and controls that an approved institution must establish and implement. The regulation also sets out the rules for approved institutions on how to handle client money and client assets, while it sets the requirements to notify or report certain changes and events to the Capital Markets Authority. On the individual level, the business conduct regulation establishes the rules and code of conduct that a registered person must comply with.

Market Conduct

“Market conduct” refers to the standards of conduct applicable to trading by persons in securities markets. This regulation is critical to market integrity and to ensuring fair and efficient markets. This regulation aims to regulate the conduct of trading in the securities markets, and sets out the details of the prohibitions on insider trading and the prohibitions on market manipulation. The regulation also aims to cover the obligations of approved institutions when trading in the markets, as principal and for clients.

Launching the initial Set of Market Regulations

“Developing the Capital Markets & Protecting the Investor”

September 17 -18, 2014

Phoenicia Intercontinental Beirut

Salameh: “for increased coordination between the regulatory bodies to avoid systemic financial crises”

CMA Chairman, Governor of the Central Bank Riad Salameh, delivered a speech at the opening ceremony of the conference in which he stressed the importance of coordination between the relevant regulatory bodies in order to avoid financial crises similar to the “systemic financial crisis” that hit international markets in 2008. Consequently, many developed countries such as the UK, France and Belgium moved to establish their regulatory bodies around the Central Bank. Mr. Salameh added that, in Lebanon, the control process is strong and continues to improve thanks to the joint efforts of the Banking Control Commission, the Special Investigation Commission on Fighting Money Laundering and the Capital Markets Authority.

In his speech, Mr. Salameh underlined the important role of the CMA in directing savings towards productive placements which will contribute to economic development and the

creation of new job opportunities that Lebanon is in dire need of. To further strengthen the Lebanese economy, he pointed out the importance of the CMA's role in raising financial awareness and encouraging individuals to invest in capital markets.

Unlike companies in industrialized countries which rely on more than 60% of their activities on capital markets, the Lebanese private sector depends on individuals for funding. In this regard, the Chairman stressed the importance of building confidence in the capital markets which shall in turn encourage the establishment of local and international investment funds, and as a result generate more interest in the Lebanese markets.

In conclusion, the CMA Chairman pointed out that the Capital Markets Authority had an encouraging beginning, and wished that stakeholders cooperated with the CMA and dealt with it with the seriousness that it deserves. The chairman expressed his gratitude to the World Bank for its technical and financial support, and to the international experts for their contribution in the preparation of the draft implementing regulations, hoping that they would further instill trust and create liquidity in the markets.

CMA Secretary General:
 “We call for a balance between integrity, transparency and accountability on one hand and innovation and competitiveness on the other”

The CMA Secretary General, Dr. Saade Chami, indicated at the opening ceremony that the seminar is a first of its kind held by the CMA and other regulators, and shall serve as a prelude to similar events in the future. In his opening remarks, the Secretary General mentioned that the draft regulations, inspired by best international practices, respond to the particular needs of the Lebanese capital markets.

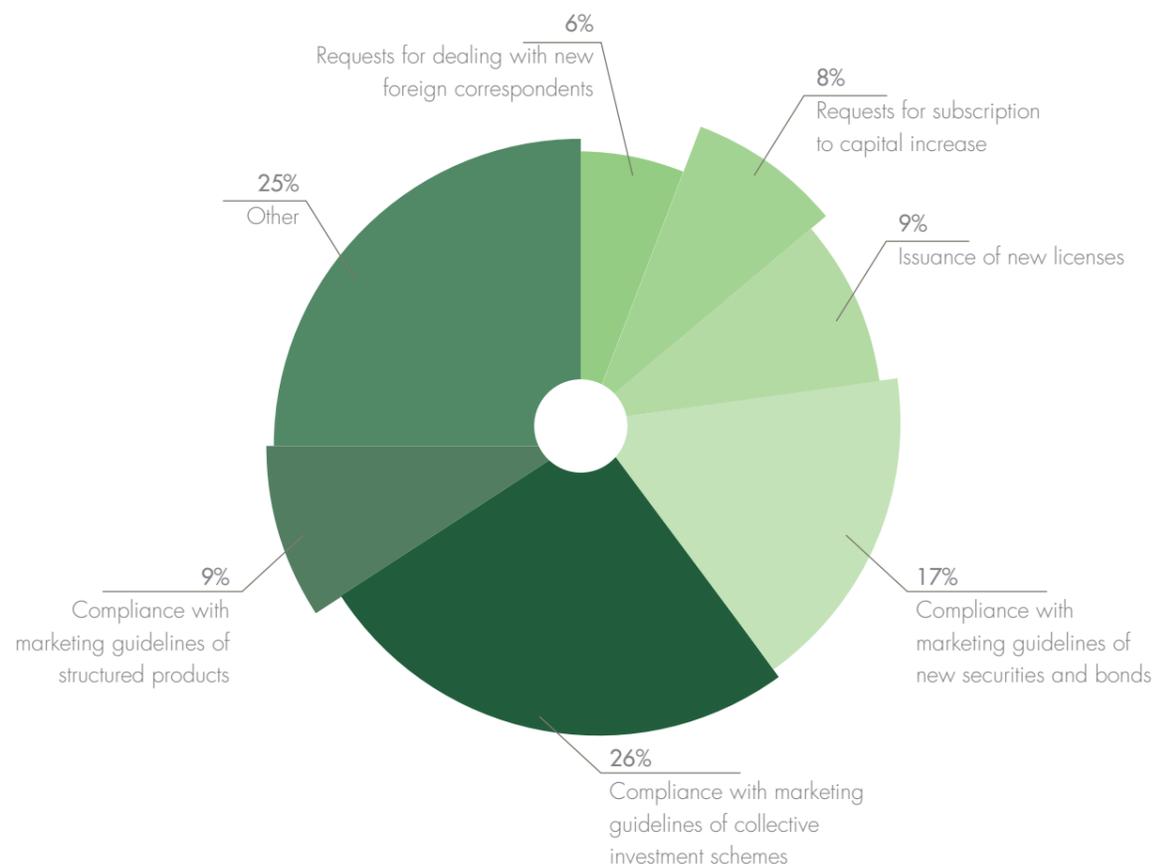
Dr. Chami emphasized the importance of monitoring the markets in order to protect investors and reduce risks. He stressed that control must not impede initiative and innovation in the private sector but rather should aim at striking a balance between integrity, transparency and accountability on one hand and innovation and competitiveness on the other. The new regulations, he said, have been drafted in accordance with best practices, which will help Lebanon join the International Organization of Securities Commissions (IOSCO)."



• **The Financial Control Unit** conducted investigations and inspections of financial securities companies to monitor any misconduct such as price manipulation, illegal use of information, intentional violation of disclosure requirements, in addition to its continuous cooperation with foreign regulatory and judicial authorities in view of reaching positive results in audit missions, among other relevant issues of importance. The FCU's activities and results were reported to the CMA's Board to take the necessary decisions.

In addition, the Unit examined applications submitted by financial companies, brokerage firms and banks, including requests for: dealing with new foreign correspondents, subscription to capital increase, issuance of new licenses, and compliance with marketing guidelines for new financial securities, shares, collective investment schemes and structured products. The chart below shows that the greater part of requests, i.e. 26%, is related to marketing guidelines of collective investment schemes vs. 17% for new securities and bonds. As for the compliance with marketing guidelines for structured products and the issuance of new licenses, they only represent 9% each of the grand total, whereas the lowest percentage is for the requests to deal with new foreign correspondents.

Percentage distribution of requests submitted by financial institutions, brokerage firms and banks



• Coordination with the Insurance Control Commission (ICC) at the Ministry of Economy and Trade

At the level of control, the CMA, represented by the Legal Affairs and the Financial Control Units, held several meetings with the Insurance Control Commission at the Ministry of Economy and Trade, in view of setting the framework for cooperation between both entities in order to regulate and protect investors that are engaging in investments connected to policies that are based upon financial instruments and investment funds. These bilateral talks will be pursued further in 2015, with the intention to sign an MOU to regulate the insurance sector monitoring and control process, taking into account the suggestions of the industry specialists.

At the regulatory level, the CMA issued a series of decisions that aim to regulate dealings in financial instruments and products, transactions in financial derivatives, in addition to financial brokerage and collective investment schemes. The CMA drafted its regulations up to international standards and in conformity with IOSCO Principles, in order to ensure investor protection and mitigate any risks that may impede the development of capital markets.

It is worth noting that the CMA Board is open to revision of regulations to ensure that they operate efficiently and continue to serve the purpose they have been issued for.

In this context, and in line with its continuous strive to keep up with the market's developments and needs to ensure the best practices, the CMA modified the provisions of some Board decisions as follows:

- Decision N°4 related to compliance
- Decision N°5 related to internal audit
- Decision N°10 related to financial intermediation activities
- Decision N°13 related to securitization
- Decision N°14 related to collective investment
- Decision N°16 related to financial instruments and products

As part of its responsibilities, the Legal Affairs Unit reviewed the submitted requests, gave its opinion with respect to issuing and marketing financial instruments, and contributed in drafting MOUs with a number of international bodies pursuant to the CMA's Board request.



Overview on the regulatory decisions issued by the CMA in 2014

Decision N°16

Financial instruments and products

By virtue of this decision, financial intermediation institutions, financial institutions, banks and collective investment schemes must obtain CMA's approval prior to releasing any financial instrument on the market. This decision also sets out some obligations that customers have to comply in terms of transactions on approved instruments.

Decision N°14

Collective investment schemes

This decision sets out the terms required to establish collective investment schemes and market shares of foreign schemes in Lebanon. It also defines the obligations and responsibilities of those involved in managing of collective investment schemes in addition to the reporting and disclosure requirements that should be complied with and the reports to be submitted to the CMA.

Decision N°13

Asset securitization

This decision includes additional conditions that should be met for the securitization of movable or immovable assets.

Decision N°12

Dealing in financial derivatives

This decision sets the rules and procedures regarding dealing in financial derivatives, mainly with respect to performing operations and transactions in financial instruments and derivatives by intermediaries, clearing and settlement of such operations between the

financial intermediary and correspondents, and the methods of calculating the required margins. The decision also sets out the obligations financial intermediaries have to comply with when performing transactions in financial instruments and derivatives, as well as the rules for choosing their correspondents.

Decision N°10

Financial intermediation

This decision defines the parties eligible to perform financial brokerage activities and sets out the terms required to establish financial intermediation institutions, in particular:

- Object of these institutions and allowed transactions
- Prior authorization from the CMA
- Capital requirements of financial intermediation institutions
- Branch opening requirements
- Liquidation of financial intermediation institutions

The decision also sets out the terms that financial intermediaries should comply with when performing transactions in favor of their clients as well as the rules related to clients' accounts and periodical reporting and disclosures to be provided to the CMA.

1.6 Coordination with local and international regulatory bodies

The Chairman of the CMA attended the International Monetary Fund and the World Bank annual meetings held in Washington, D.C. on October 10, 2014. In his several open and side-meetings with representatives of the IMF, the World Bank, the Treasury Department, international banks and investment funds interested in Lebanese securities, CMA chairman confirmed the compliance of Lebanon's financial supervisory institutions with international standards in their fight against money laundering.

In parallel, the CMA is striving to strengthen its regional and international presence by signing MOUs with various regulatory bodies. This initiative would expand the circle of knowledge and keep everyone abreast of the latest developments in the financial markets field. It is also a vital step towards Lebanon membership in the International Organization of Securities Commissions (IOSCO), which brings together 189 countries, unions and Stock Exchanges.

In this context, the Capital Markets Authority, and upon the Chairman's request, seeks to officially join the International Organization of Securities Commissions. Headquartered in Madrid, the IOSCO is the international body that supervises the world's capital markets and is recognized as the global standard setter for the securities sector. CMA's board members visited the IOSCO in Madrid and expressed Lebanon's wish to initiate the process of membership to the regulatory organization as an associate member first, and then continue to increase level of participation to ordinary member.

Membership to the IOSCO is a great indicator to how eager the CMA is in positioning itself as a regulator of international business standards and awareness, especially as it works to enhance transparency and increase confidence in a bid to attract more investors, while utilizing a policy that highlights the interest of the Lebanese market along IOSCO guidelines.



Signing of Memorandums of Understanding (MOUs)

Memorandum of Understanding (MOU) with the AMF

May 5, 2014

Represented by its Chairman, Governor of Banque du Liban and in the presence of Mr. Sami Saliba, Executive Board Member, the CMA signed an MOU with the "Autorité des Marchés Financiers – AMF" represented by its Chairman Mr. Gerard Ramex at the AMF premises in Paris. The MOU shall promote the reputation of the capital markets and help ensure a favorable environment to protect the image of Lebanon, especially as international authorities praised the role of Lebanon in protecting the financial sector assets. Therefore, the CMA is preparing to sign similar MOUs with Arab counterparts, as well as European countries, and the United States.

Memorandum of Understanding (MOU) with the Egyptian Financial Supervisory Authority (EFSA)

November 25, 2014

The Lebanese Capital Markets Authority signed a Memorandum of Understanding (MOU) with the Egyptian Financial Supervisory Authority (EFSA), at the first Arab Capital Markets Conference held in Dubai on the 25th of November 2014. The purpose of the MOU is to provide the legal framework of cooperation between both authorities with the aim of boosting the competence of intermediaries, stakeholders, dealers and consultants, enhancing investor protection and ensuring integrity of markets supervised by

both authorities, as well as the cooperation in exchanging information to divulge any market manipulation, insider information and other fraudulent practices related to the markets supervised by both authorities. The MOU also lays the foundations of a technical assistance between both authorities in view of developing the control regulations in the Egyptian and Lebanese financial non-bank market.

MOU between the Capital Markets Authority and the Qatar Financial Centre Regulatory Authority

December 15, 2014

The CMA signed an MOU with the QFC regulatory authority on the 15th of December 2014, to promote collaboration between both authorities in order better protect investors through supervisory information sharing, which shall boost the efficiency of investigations resulting from suspected capital market dealings in Lebanon and Qatar.

COOPERATION WITH INTERNATIONAL INSTITUTIONS AND ORGANIZATIONS

The Ninth (9th) Assembly meeting of the UASA in Algeria

The Capital Markets Authority, represented by executive board member Mr. Sami Saliba, participated in the ninth Assembly meeting of the Union of Arab Securities Authorities that took place in Algeria on the 18th of February 2014 in the presence of presidents of Arab Capital Markets authorities and the Algerian Minister of Finance. The UASA board discussed various issues related to markets infrastructure; transparency and disclosure requirements in addition to prospects of cooperation and coordination among the Arab Securities Authorities. Moreover, participants discussed the UASA's annual report of 2014, reviewed the Union's financial statements and approved the budget and work plan for 2015.

In addition, presidents of Arab Capital Markets agreed upon re-assigning Jalil Tarif as UASA's General Secretary for the upcoming three years and entrusting the presidency of the Union to Egypt in the 2016 session, noting that Cairo will host the forthcoming UASA's annual assembly meeting.

World Bank delegation visits CMA

In the framework of the financial assistance provided by the World Bank to the Capital Markets Authority, a World Bank delegation visited Beirut from May 5 till May 9 and held various meetings with the CMA and capital markets and financial institutions representatives.

In this context, the delegation discussed with the CMA board members and head of departments the draft regulations related to licensing and registration, business conduct and investment funds. The World Bank delegation also held consultations with Capital Markets officials and representatives of the Union of Chambers, the Banking Control Commission, the BDL, Midclear and Beirut Stock Exchange. CMA will continue its cooperation with the World Bank to put the finishing touches on the regulations needed to enhance Lebanon's capital markets transparency and efficiency.

Lebanon, new member of the Institut Francophone de la Régulation Financière - IFREFI

On the international communication level, Lebanon was welcomed as new member of the IFREFI by the General Assembly of Presidents of the CMA's member states held in Abidjan, Côte d'Ivoire in June 2014. As a tribute to the role of the Lebanese Capital Markets Authority, the IFREFI decided to hold its upcoming 2016 annual meeting in Beirut.

1.7 Other activities

The year 2014 saw the participation of CMA representatives in various local, regional and international conferences and seminars. The Capital Markets Authority is aware of the importance of attending such activities and interacting with representatives of regulatory counterparts, particularly in the period that follows its establishment. Such activities contribute to the reinforcement of international relationships and exchange of expertise and expand the horizons on the CMA's staff, empowering them to better deal with the daily issues they face at work.

- **Cooperation with LIFE: Lebanese International Finance Executives Lebanese International Finance Executives (LIFE)**

As part of the CMA's activities with financial associations and institutions and in line with its continuous endeavors to expand its connections with Lebanese investors across the world, the Capital Markets Authority, represented by its Vice Chairman Mr. Firas Safieddine, participated in the gala dinner hosted by the Lebanese International Finance Executives (LIFE) on November 14th, 2014 in London, under the patronage of BDL Governor. The event was an opportunity to introduce the Capital Markets Authority to the audience and to share the latest developments of the Lebanese capital markets. Participants agreed upon enhancing and deepening cooperation in matters related to corporate governance, investor education and market business conduct, benefiting from the extensive expertise of LIFE members in international capital markets such as New York, London, Paris, Frankfurt and Singapore, noting that activities shall be pursued in 2015.

The Capital Markets Authority urges regulators to lead joint effort for regional 'Investor Education Programs' in the Arab World

Launch of the cooperation between Beirut Stock Exchange and NYSE-Euronext Beirut Stock Exchange

May 19, 2014

The Capital Markets Authority participated in the launch of the cooperation agreement between Beirut Stock Exchange and NYSE-Euronext. CMA Vice Chairman Firas Safieddine stated that this is a golden opportunity for Lebanon to recover its position as a hub for financial services in the region, and to gain the same momentum of Beirut Stock Exchange in the mid-20th century. He added that the Capital Markets Authority is involved in the significant development that Beirut Stock Exchange is expected to witness through its trading system launched in 2014. CMA Vice Chairman also revealed that the Authority is developing capital markets and enhancing their systems to further improve the stock exchange, calling for the BSE to be turned into a joint stock company, in conformity with the provisions of the Capital Markets Law. During the event held under the patronage of the President of the Republic represented by the Minister of Finance, Mr. Safieddine confirmed that the Stock Exchange is poised to regain its earlier momentum and is ready to have the private and public sector companies listed on the BSE. He invited concerned parties to seriously consider listing the main State-owned companies on Beirut Stock Exchange, mainly the two leading mobile operators, with the possibility of keeping the ownership of the majority of shares, so that their revenues contribute to the national economy.

First Arab Capital Markets Conference

Thomson Reuters with the collaboration of the Union of Arab Securities Authorities (UASA)

November 25, 2014

The CMA participated in the First Arab Capital Markets Conference hosted by Thomson Reuters and the Union of Arab Securities Authorities (UASA) at the Waldorf Astoria, Dubai, United Arab Emirates. The conference was held in association with the UAE Securities & Commodities Authority and Arab Monetary Fund and under the Patronage of the UAE Minister of Economy, H.E Sultan bin Saeed Al Mansouri. The UASA aims at enhancing cooperation and facilitating the sharing of market information among the Arab regulatory authorities to achieve the best international standards, including the implementation of the IOSCO principles. The conference brought together policy makers, leaders, regulators, stock exchanges officials, brokers, investors and senior finance and business leaders. The conference presented a perfect opportunity for regulatory authorities officials to coordinate and cooperate with a view to achieve fairness, efficiency, transparency and protect MENA capital markets investors.

The conference featured an intervention by CMA Vice Chairman, Mr. Firas Safieddine, who emphasized the importance of consultation among the market stakeholders and the urgent need for regional coordination among Arab regulatory authorities, mainly with respect to investor education issues, proposing that a 'resource pooling' approach would be utilized by the leading financial regulators in the Arab World, in an effort to facilitate developing Investor Education programs for the less financially capable regulators in the region. The Vice Chairman pointed out also that the Law no. 161 that stipulated the establishment of the Capital Markets Authority is a modern law that took into account the developments of the financial crisis that hit international markets in 2008. From his part, the Secretary General of the International Organization of Securities Commissions (IOSCO) highlighted the importance of capital markets integration. He called for setting advanced executable regulations and stressed on the importance of sanctions, conflict resolution and investor's awareness in order to boost the role of capital markets. The conference discussions tackled the following main issues: (a) the importance of coordination among Arab regulatory authorities especially that 16 of them are members of the IOSCO; (b) creating balance between investors' protection and capital markets' development; i.e. there should be strict enforceable laws that allow innovation and development; (c) the need for regulatory bodies that keep up with the latest advancements, and therefore the need to create regional capital markets; (d) the crucial role of securities markets in creating liquidity; (e) enhancing transparency, disclosure and corporate governance in the region.

The Capital Markets Authority emphasized on the regulatory developments to protect against suspicious money laundering activities

The Governance, Risk & Compliance Summit Thomson Reuters and Banque du Liban,
November 19, 2014

The CMA participated in the Governance, Risk & Compliance Summit held by Thomson Reuters and Banque du Liban. Mr. Firas Safieddine and Mr. Fadi Fakih, CMA executive board members, highlighted the importance of capital markets in Lebanon and the significance of developing guidelines for good governance and procedures for transparent business conduct which will ensure proper decision making in companies supervised by the Authority. Both speakers, Mr. Safieddine and Mr. Fakih, highlighted the role of the CMA in ensuring a more proactive regulatory compliance among listed and non-listed companies.

Annual Forum for the Heads of AML and CFT Units

Union of Arab Banks,
October 28, 2014

The Capital Markets Authority participated in the opening ceremony of the annual forum for the Heads of Anti Money Laundering and Combating the Financing of Terrorism Units in financial institutions, which translated the Union of Arab Banks commitment to enhancing the Arab Banks' ability to keep up with the latest developments and international bank-related legislations. The forum recommendations focused on the danger that money laundering and financing of terrorism represent, and how such financial crimes entail serious repercussions on both the economy and the society. The CMA intervention at the forum, as presented by executive board member Mr. Fadi Fakih,

highlighted the new regulations set by the Capital Markets Authority in Lebanon, their relation with compliance and their role in protecting investors, and how the CMA aims to develop capital markets in Lebanon and acts to protect them from suspicious money laundering or activities pertaining to terrorism financing.

Banking Consumer Protection Conference

September 7, 2014

CMA Vice Chairman delivered a lecture at the Banking Consumer Protection Seminar held in Beirut on the 7th of September 2014. The Vice Chairman underlined that the Capital Markets Authority has strived to achieve its core objectives focused on the development of Lebanese capital markets and investment protection by ensuring a transparent regulatory framework favorable for investments, and by directing savings towards new long-term placements to support the private sector initiative. In addition, the Vice Chairman stated that the Capital Markets Authority has set new market regulations aimed at protecting investors and developing the activities of the issuers of securities to enhance transparency and awareness about the conditions of investment.

Public Awareness Seminars

Embarking on an initiative to educate university students about the role of the capital markets, the CMA board members along with the Head of the Financial Control Unit and the Head of the Legal Affairs Unit conducted a series of seminars targeting the students of Business Management Master's students at LAU Beirut and Jbeil campuses, USEK and USJ Beirut. These seminars resulted in introducing the CMA and its role defined in the Law no. 161/2011 on capital markets as main course in the syllabus of the USJ Master's Degree in Business Law.



The Capital Markets Authority will continue to reinforce its regional and international presence by continuing to sign memorandums of understanding with financial regulatory bodies.

Chapter III

Future Outlook for 2015

In addition to the ongoing supervisory role, the Capital Markets Authority will continue to collaborate with international experts in the framework of its cooperation with the World Bank through the 'FIRST' Initiative to launch the second set of implementing regulations. The launching will take place during a consultative seminar similar to the one held in 2014, and will be discussing regulations related to «Listing Rules» and «Offers of Securities».

It is worth mentioning that the agreement with the World Bank provides for cooperation in the launching of seven regulations, three of which had been carried out by the CMA in 2014, and the remaining to be completed by end of 2015.

Given the great importance of capital markets for the national economy, investors and issuers of financial instruments in the market, and given their importance as a key source of capital and growth funding, as well as being an important economic reform requirement, the CMA Chairman announced in late 2014 that the CMA will develop and license a secondary electronic trading platform, in an effort to stimulate securities trading in the Lebanese capital markets, pending the completion of the privatization process of the stock exchange. In case this was not achieved, the stock exchange will be independent and owned by the private sector. This initiative practically aims to attract start-ups and small and medium enterprises (SMEs) to list their shares for trading on the stock exchange market in order to provide liquidity, while also acting as a form of an exit strategy for start-up companies that choose to publicly list their shares. Such a development is extremely important on the economic and financial levels, as it will facilitate creating new job opportunities while ensuring the development of the market, especially after the Banque du Liban offered an incentive to encourage banks to finance the Lebanese start-up companies active in the Knowledge Economy.

In terms of communication with the international institutions and bodies, the Capital Markets Authority will continue to reinforce its regional and international presence by continuing to sign Memorandums of Understanding with similar bodies, in order to help introduce the latest developments in the world of capital markets control and management. Such a step is considered an important milestone towards facilitating the admission of Lebanon to the International Organization of Securities Commissions (IOSCO), which brings together about 189 countries, unions and stock exchanges.

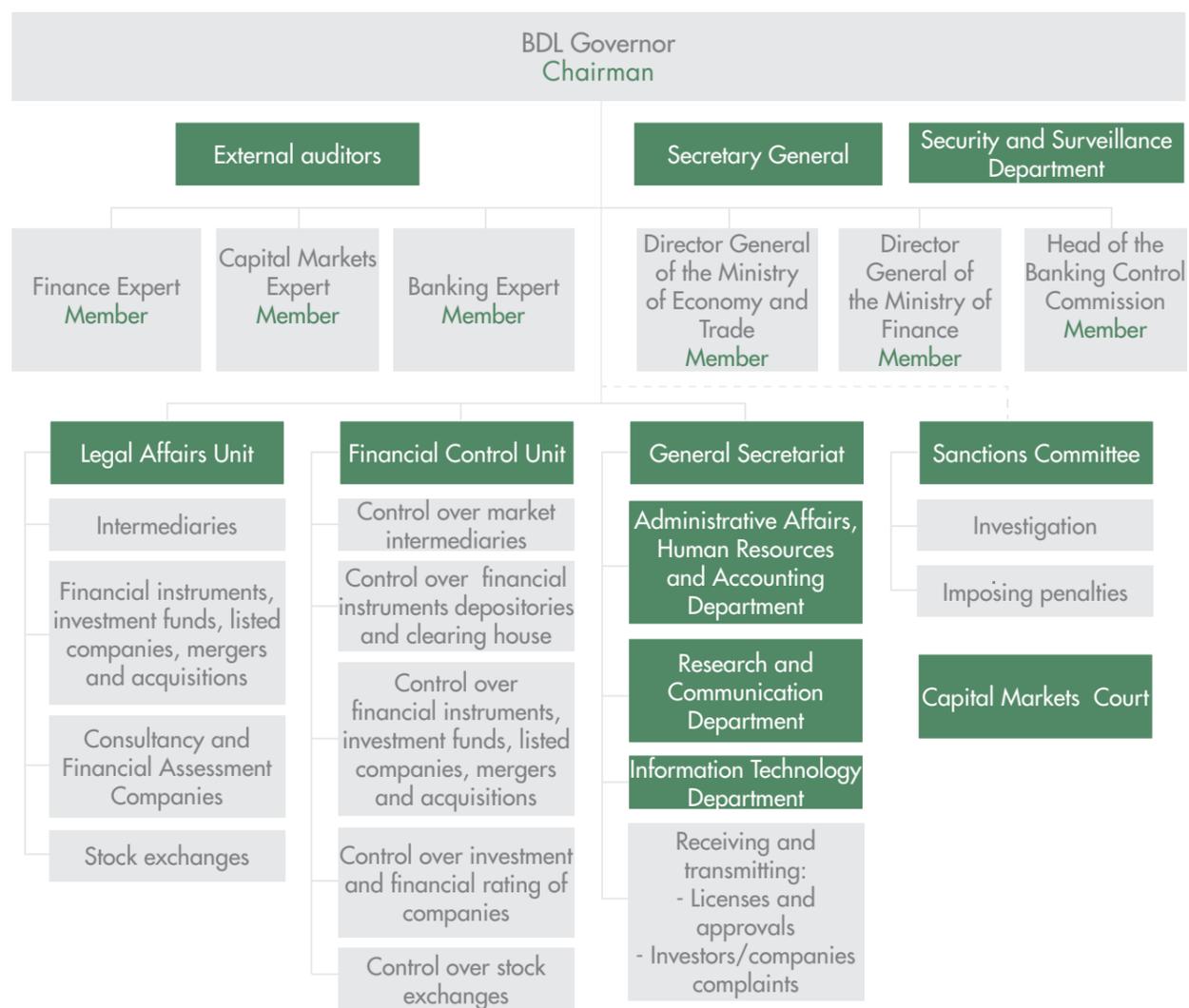
Appendix 1

About the Capital Markets Authority

1. Organizational Structure

Since the CMA was recently established, it is necessary to review the organizational structure and powers of its units, which shall serve as a brief to the public, in the effort to facilitate contacting the staff of CMA when needed.

After the recent amendments made to its structure, the CMA consists now of four main units: the General Secretariat, the Financial Control Unit, the Legal Affairs Unit, and the Independent Sanctions Committee; in addition to the following Departments: Administration, Human Resources and Accounting, Information Technology, Communication and Research, and Security and Surveillance.



2. Chairman and Executive Board Members

The management of the Capital Markets Authority is entrusted to a Board formed of seven members and chaired by the Governor of Banque du Liban. The Board comprises three full-time members experts in banking and financial affairs, and three part-time members representing ministries and departments directly involved in the work of the CMA: the Director General of the Ministry of Finance, the Director General of the Ministry of Economy and Trade and the Chairman of the Banking Control Commission.

The Board has extensive powers that may enhance investor protection and promote investment in the financial markets. It has the power to establish general regulations concerning the establishment and management of stock exchanges, the regulations concerning the establishment and functioning of financial intermediation institutions which manage investment funds for the public. It also sets the code of conduct to be followed by stock exchanges and their employees, as well as by financial service providers and their employees. The Board of Directors has the power to regulate governance related issues, such as the obligations of financial instrument Issuers to publish and disclose to the public price-sensitive information.

In the same context, the Board has the power to license the establishment and functioning of financial intermediation institutions, and securitization; ratify (or cancel previous ratification of) the decisions taken by the administration of each stock exchange concerning the registration of securities and financial instruments; and approve the regulations set by the administrations of stock exchanges concerning the transactions undertaken on such stock exchanges. Moreover, the Board of Directors is mandated by law to issue consultations and opinion on draft laws and decrees related to the work and development of the capital markets

3. Secretariat

The role of the Secretariat is crucial since it is the administrative body of the CMA and its work affects, and is affected by, the work of other units and the Board. The Secretariat will ensure that the decisions taken by the Board are executed and suggest to the Board investigations and inspections regarding the violations of Law 161 or any of the CMA regulations.

The Secretariat shall also transmit the complaints to the Board, while also communicating to the Board the decisions taken by the Sanction Committee, and notify these decisions to the concerned parties. It shall submit the CMA Reports to the Board and ensure that the Board regulatory decisions and general directives or instructions are published. The Secretariat shall also suggest to the Board the establishment or amendment of the provisions and regulations relating to capital markets.

4. Financial Control Unit

The Financial Control Unit (FCU) monitors the compliance of capital markets to the rules and procedures put forward by the CMA, and ensures that financial institutions are abiding by the set regulations and detailed instructions, and trading conditions stipulated under the law are applied.

The Financial Control Unit may request from the external auditors of the concerned institutions, or from independent experts, to further audit and analyze the operations of these institutions, and to perform compliance investigations and collect evidence for detecting violations detrimental to the functions of a sound capital market.

It ensures that the companies and institutions whose securities and financial instruments are traded on stock exchanges are disclosing information to the public on a periodic basis, as stipulated in the laws and regulations. It also ensures the accuracy and quality of the published information and the timely dissemination of price-sensitive information in relation to the company itself, or any of its securities and financial instruments.

The control unit may require that these companies and schemes provide additional information, and make amendments deemed necessary to the information published, if it finds that the information published is incomplete or inaccurate.

It is worth mentioning that the audit and control activities of the CMA constitute the backbone of the functions of the Authority. In this regard, it secures the proper functioning of financial institutions and imposes transparency in the market that aims to protect the investor, through the adoption of best international standards in this area.

5. The Legal Affairs Unit

The Legal Affairs Unit at the Capital Markets Authority is entrusted with three essential roles. (1) It supports the various units and divisions of the CMA by providing them continuously and in a timely manner with legal guidance necessary to successfully achieve their objectives; (2) it drafts the regulations that will be issued by the CMA in fulfillment of its task of regulating the capital markets in Lebanon; and (3) it reviews applications for licensing for market institutions and intermediaries and product and various other requests, and submits its recommendations to the CMA Board.

The Legal Affairs Unit also drafted several legal opinions in order to provide the proper legal framework for the projects related to other units, such as a legal study on the possible financing of the CMA, or a legal memo on the different legal backgrounds related to the CMA scope of work.

Therefore, developing legal frameworks and making sure that all the regulatory systems adopted by the CMA do not conflict with the Lebanese laws in force are an essential part of the work of the CMA.

6. The Sanctions Committee

The Sanction Committee is expected to be formed in the near future so that the CMA can take necessary measures against anyone who violates the laws and regulations that govern the functioning of CMA. The Sanction Committee shall examine violations transmitted by the Board, and take the necessary decisions. It shall have the authority to impose administrative sanctions and monetary penalties on all parties, entities and natural persons who deal with financial instruments and services.

