



Palestine Securities Exchange
سوق فلسطين للأوراق المالية

Highlights on Securities Law & Regulations

1
Securities Law

2
Listing
Regulation

3
Disclosure
Regulation

4
Membership
Regulation

5
Trading
Regulation

6
Dispute
Resolution
Regulation

June 2008

PSE Address

Head Quarter:	Ramallah Office:
Al-Qasr Building- Stock Market St.	Al-Jameel Center Bldg. - Al-Irsal St.
Rafidia - Nablus - Palestine	Al-Bireh - Palestine
Tel: (972) 9 234 5555	Tel: (972) 2 240 3903
Fax: (972) 9 234 1341	Fax: (972) 2 240 3902

Website: www.p-s-e.com

Email: pse@p-s-e.com



Introduction

The legal environment represents the infrastructure and basis for establishing an up-to-date stock exchanges sector in a manner that regulates and maintains the rights of the investors, shareholders and institutions operating in this sector. Since its inception, Palestine Securities Exchange (PSE) has devoted special efforts to this aspect. It has formulated several regulations and laws and completed the requirements of their implementation by preparing and issuing directives and executive regulations required for applying them. The PSE also realized the importance of raising the legal awareness among actors in this sector, given the fact that information constitutes the base for rational investment decisions and strategies, and beside that it is an important element for the stability of the Exchange.

This booklet aims at presenting a brief summary of the five basic regulations that regulate the PSE in addition to a summary of the Securities Law No. 12 of 2004. The booklet also seeks to expand the «Investor Education Program» and enhance transparency and right to know, which assist investors to build their investment decisions and strategies on better understandings of laws and investment information. Moreover, this booklet is a complementary loop for the information provided by the PSE about the investment environment in Palestine.

We hope that this booklet will achieve the expected benefits that form a brief summary of the PSE rules and regulations and an introduction to the legal framework. For more and detailed information, please see the Securities Law No. 12 of 2004 and the five applicable regulations at the PSE: Trading Regulations, Membership Regulations, Listing Regulations, Disclosure Regulations and Dispute Resolution Regulations posted on the PSE website: www.p-s-e.com.



Contents

A Summary of the Securities Law No. 12 of 2004	3
Listing Regulation.....	5
Disclosure Regulation	8
Membership Regulation.....	12
Trading Regulation	14
Dispute Resolution Regulation	15

1 A Summary of the Securities Law No. 12 of 2004

The chapters and articles of the Securities Law No. 12 of 2004 present specific regulatory issues of the capital market sector. The Law identifies the role of each of the PSE and the CMA.

The roles of the PSE include the following:

- Regulates, oversees and monitors the activities of members, issuers and listed companies regarding their securities
- Regulates dealing in securities to safeguard owners of securities, investors and the public from fraud, deception and unjust practices in accordance with the regulations issued by the CMA.
- Sets up rules of practice, surveillance and monitoring and execution procedures to guarantee the Exchange good organizing, operating, management and monitoring after obtaining the CMA's approval.
- The Exchange may set and impose fees on the member and listed companies for using its supplies and services including registration fees, membership fees, trading fees and listing fees after the CMA's approval.
- Applies and implements rules and procedures of monitoring on members including:
 - Financial status of member companies and requirements of financial auditing in accordance with the international standards.
 - Right of the Exchange to look into books and registries of members.
 - Send the CMA periodical reports on members' activities.
- Observes the profession's ethics approved and applicable in accordance with the directives issued by the CMA.
- Conducts investigations on member companies and listed companies and imposes fines in case they violate their rules, provided that the Exchange informs the CMA about the fines it imposes. These fines remain applicable unless the CMA revokes them.
- The Exchange, for justified reasons, shall have the right to ask the CMA to suspend dealing with traded securities or operations of any of its members for a period it deems suitable.



Roles of the CMA include the following:

- Provides adequate environment to achieve trading integrity in securities, regulates and develops monitoring, oversees the Exchange and the capital market in Palestine and protects the securities holders, investors and the public from fraud and deceit.
- To achieve that, the CMA takes over the following tasks:
 - Regulates and monitors issuance and trading of securities.
 - Regulates and monitors operations and activities of parties under the surveillance and oversight of the CMA including the PSE, CDS, investment funds, brokerage firms, public shareholding companies and agents of financial professions.
 - Regulates and monitors disclosure of information related to securities and issuers of securities and trading of insiders, senior shareholders and investors.
 - Organize public offers for buying stocks of the public shareholding companies.
 - Any other powers stipulated by the Securities Law or the Palestine Capital Market Authority.
 - In accordance with the Law, the CMA is the party having full powers to set up regulations, directives and rules related to the operations and activities of parties under its monitoring and surveillance so as to achieve their objectives stipulated in the Law and they may not violate the decisions of the CMA in this regard.

Believing in the necessity of establishing a modern and up-to-date securities law, the Palestinian legislator set up the rules and principles of offering securities for public prescription through a number of strict controls that the issuers have to follow in offering their securities for public prescription. The Palestinian legislator has also earmarked special articles and regulations regarding the investment funds, local and international, for listing on the Exchange.

The Exchange has prepared and organized all the executive issues that enable it to list any investment fund at any time available. Moreover, the Law identified two types of these funds:

One: Open funds which may not be listed on the Exchange

Two: Closed funds which may be listed on the Exchange

Finally, to achieve the Law's desired purpose, fairness and equal opportunities for all the investors in the Exchange, the Palestinian legislator set up a number of deterrent and preventive penalties for violating the provisions of the Law. These penalties might sometimes be a fine amounting to a hundred thousand Jordanian Dinars (JD) or two-year imprisonment or both penalties.

2 Listing Regulation

Introduction

The listing experience of the PSE is unique in terms of the turning points and developments it went through. In 1996, the PSE embarked on preparing for launching the first trading session which took place on 18 February 1997 after approving a number of regulations including the Listing regulations when listing was voluntary. Some companies considered listing as a privilege and a development factor for the company while other companies had a different attitude from it.

In the beginning of 2005, the Securities Law No. (12) of 2004 entered into force. This law included legal articles which obligate the public shareholding companies to apply for listing their stocks on the Exchange, including article 103. On 15 July 2005, the Exchange amended the Listing regulations in light of the approval of the Securities Law and the Capital Market Authority Law. At the end of 2006, the Exchange conducted a second amendment to the Regulations.

Components of the Listing Regulations

The Listing Regulations include 78 articles under the following titles:

- General Provisions
- Listing Conditions
 - Listing the stocks of the Palestinian shareholding companies
 - Listing the stocks of the non-Palestinian shareholding companies
 - Listing of additional stocks: public secondary offering
 - Listing the Palestinian bonds
 - Listing the foreign bonds
- Listing stocks of companies transforming into shareholding companies
- Listing procedures
- Transfer, suspension and delisting of listing
- Clearing, Depository and Settlement Center (CDS)
- Listing & CDS fees
- PSE Liability



The Listing Regulations tackled, in details, the listing of stocks and bonds. Article 24 stipulated registration and listing of the investment funds by virtue of a regulation issued by the Exchange in this regard.

Listing Conditions

Listing of shareholding companies is of two levels: First Market and Second Market. Listing conditions of these two markets are different. Following are the requirements for listing each of them:

Listing conditions of the shareholding companies stocks on the First Market include:

- The subscribed capital of the company shall not be less than 2,000,000 (two millions) Jordanian Dinars and shall be fully paid.
- The number of the company's shareholders shall not be less than 150 shareholders.
- The share of the public shareholders (Free Float) in the company's subscribed capital shall not be less than 25%.
- The number of issued shares shall not be less than hundred thousand (100,000) shares.
- The company shall have actually started its activities, published its financial statement for at least two fiscal years, which are prepared in accordance with the International Accounting Standards, and gained net profits of not less than 5% of the paid capital before tax during the fiscal year that preceded the submission of the Listing request. As regards the newly established companies, such companies shall provide feasibility studies for the coming two years.
- The constitutional board or the general assembly of the company shall prove to convene at least once a year or/and the company shall pledge that.
- Members of the company's board of directors shall have demonstrated expertise of such company's business field, or such company has engaged in an agreement with a specialized and expert consultant in such company's field of activities.

Listing conditions of the shareholding companies stocks on the Second Market include:

- The subscribed capital of the company shall be fully paid.
- The share of the public shareholders (Free Float) in the company's subscribed capital shall not be less than 25%.
- The company shall have published its financial statements for at least one fiscal year prepared in accordance with the International Accounting Standards and the company shall pledge to publish its balance sheet and its works results in the local dailies before trading its stocks at the Exchange. As to newly established companies, such companies shall provide economic feasibility study.
- The constitutional board or the general assembly of the company shall prove to convene at least once a year or/and the company shall pledge that.
- The number of shareholders shall not be less than (50) shareholders.



3 Disclosure Regulation

Introduction

The PSE organized the disclosure process before the issuance of the Securities Law, by virtue of an agreement signed between every company and the Exchange. With the application of the Securities Law in 2005, the PSE issued new Disclosure Regulations in July 2005, that were amended at the end of 2006. The PSE has increased its efforts to provide a fair trading environment through insisting on sound and timely disclosure and developing e-disclosure system in 2006 using standardized disclosure forms for each sector. The Exchange took significant and striking steps to develop the disclosure file. This file started to be organized through the commitment of companies to disclosure requirements including commitment to submit data within the specific legal interval.

Scope of Disclosure Regulations

The provisions of the applicable Disclosure Regulations issued by the PSE and approved by the Capital Market Authority (CMA) are applied to the following categories:

- Listed companies and companies seeking to be listed
- Related persons and parties
- PSE Members (Brokerage Firms) and companies seeking membership
- The PSE

Periodical Disclosures

The periodical disclosures of the shareholding companies listed on the Exchange include the following financial statements:

Disclosure of preliminary annual financial statements, audited by the company's internal auditor, within forty five (45) days from the end of the fiscal year of the company.

- Disclosure of the annual financial statements audited by the legal auditor within a maximum period of three (3) months from the end of the fiscal year of the company.
- Disclosure of the semi-annual financial statements reviewed by the legal auditor within forty five (45) days of the end of the first half of the fiscal year of the company.
- Disclosure of the quarterly financial statements audited by the company's internal auditor within a month of the end of every three months. Disclosure shall be for the first and third quarters.

Components of the Disclosure Regulations

The Disclosure Regulations consist of 81 articles included in four chapters as follows:

- **Chapter One: Definitions and General Provisions**

This chapter consists of seven Articles: Article 1 includes definitions of terms and glossary used in the Regulations. The other six articles include general provisions such as parties to which the Regulations are applied, disclosure currency, general summary of the disclosures required from the listed companies, necessity to abide by the International Accounting Standards, general summary of the disclosures of the member companies, related persons and parties, duties and obligations of the Exchange in receiving, following-up, publication and verification of disclosures and dealing with the parties that violate the Regulations.

- **Chapter Two: Listed Companies and Companies Requesting to be listed**

This chapter includes the largest number of articles (47 Articles from Article 8 to Article 54), which is corresponding to 58% of the Regulations articles. This chapter presents the obligations and prohibitions of the listed companies, nature of information necessary to disclose, language and timing of disclosure and the Exchange right to disseminate or verify the disclosure.



Article 15 was allocated to identify what the companies that apply to be listed on the Exchange have to disclose. This chapter points out the disclosure of the preliminary annual financial statements.

Article 19 deals with the annual report that the listed companies have to submit within three (3) months from the end of the fiscal year.

This Article also specifies the information and topics that should be included in the report such as the listed company business, future outlook, research and development, names of the Board of Directors and the Executive Management, holdings of the listed company, legal procedures and issues, investment policy and risks, nature and volume of the trading market, control over the listed companies, dividends, and other topics.

Articles 37 and 38 tackle disclosure of the periodical quarterly reports (First and third quarters) and the semi-annual report during the fiscal year. The final 16 Articles of this chapter speak about the continuous disclosure of the core issues including timing and nature of disclosures. Article 39 stipulated that the company shall have to disclose all the developments and changes that occur on the business, management and its financial position during the fiscal year, which directly or indirectly, impact the price of the listed company's securities, within a maximum period of one working day from knowing the changes and developments. This includes information submitted by the company to its shareholders, decisions of the company's general assembly meetings, new securities issuances the company intends to issue, changes on the board of directors, auditors and executive management, decisions issued by the board of directors meetings, effective major transactions, changes or cessation of the company's business and other infrequent matters such as infrequent operations, disasters, sudden losses, legal actions, entry of a strategic partner, studies concerning the company's performance, other disclosures such as strong criticisms by the legal auditor or existence of preventives for disclosure and public offer issues directed by the company for acquisition at a certain percentage in addition to any amendments on the company's bylaws.

- **Chapter Three: Related Persons and Parties Disclosure**

Chapter three includes nine articles regulating the disclosure process of related persons and parties to prevent insider trading by the related persons and parties seeking to achieve illegal gains.

This chapter also focuses on mechanisms of insiders' disclosures and cases in which dealing with securities is prohibited as well as cases of disclosure exemption.

- **Chapter Four: Disclosure of Member Brokerage firms and Companies Requesting Membership**

Chapter Four includes 16 articles allocated to the member companies' disclosures. After referring to the necessity of taking the PSE Membership Rules into consideration, these articles presents the periodical and continuous disclosure of the member companies. This chapter also addresses publishing the disclosures and providing the CMA with copies of them, language of disclosure and cases of disclosure prohibition. Article 73 was allocated for the annual report that the member company has to submit while Article 74 discussed the semi-annual report. This chapter also tackles the other reports required such as monthly reports and the board of director, management staff and employees' dealings with securities, in addition to reports on names of brokers and credited brokers. It also states that the member company has to disclose any person having any relation with the company through his/her membership in the board of directors of the shareholding companies in addition to disclosing any considerable changes that may occur on the member company.

E-Disclosure System

The E-disclosure is a complementary part of the disclosure Regulations. The first version of the e-disclosure system was first used in the disclosures of the third quarter of 2006. In 2007, the second version was issued and used by the listed companies in the semi-annual disclosure of 2007. The listed companies disclose in accordance with a standardized form allocated for each sector: banks, insurance, investment, industry and services in addition to a special form for the Islamic banks.

Fines and Penalties List

It was necessary for the PSE to set up mechanisms to prevent certain companies from underestimating the Securities Law and the Exchange's rules derived from that Law. Accordingly, in 2007 a penalty and fine Rules was set to use it against the companies violating the PSE regulations including the Disclosure Regulations. The list of penalties and fines emphasized the Exchange determination to obligate the companies to disclose in accordance with principles in terms of shape and time. This list contributed to establishing full commitment to the disclosure requirements.



4 Membership Regulation

Introduction

With the commencement of its operations, the Exchange focused on three elements: listed companies, member companies and rules regulating their works. The Exchange approved Membership Regulations on which basis the membership of a number of companies were accepted. At the end of 1997, the number of member companies was five and it reached nine at the end of 2007. On 15 July 2005, the Membership Regulations were amended and obtained the approval of the Palestine Capital Market Authority. The PSE Board of Directors approved the Regulations amendment in its fourth session of 2006 held on 3 August 2006 while the CMA Board of Directors approved the amendment in its 20th session held on 18 December 2006 by decision No. (2/20).

Membership Regulations Components

The applicable Membership Regulations address the membership conditions at two levels: first, the requirements of preliminary approval of membership and second, the requirements of post-preliminary approval of membership.

The requirements of preliminary approval of membership stipulate submitting a license application to the CMA, establishment and registration in Palestine, right of a foreign company to apply for membership if it has a branch, affiliate, holding company or partner company in Palestine, objectives and works of company according to the articles of association, paid company's capital, matters related to the company's board of directors and place of main premises of the company.

Requirements of post-preliminary approval of membership are related to obtaining the CMA license, opening a settlement account with the settlement bank, contributing for any joint funds or insurance established by the exchange, providing coverage and guarantee letters specified by the Exchange, complying to the conditions of the main premises specified by the Exchange, appointing a number of administrative positions in the company and providing a number of guarantees and commitments.



5 Trading Regulation

Introduction

Prior to the first trading session held on 18 February 1997, the PSE established a regulation for trading securities, which organizes all related issues to trading, settlement and monitoring operations. On 15 July 2005, the Trading Regulation was updated and approved by the PSE Board of Directors and the Capital Market Authority (CMA).

Components of the Trading Regulation

The Trading Regulation articulates that trading is executed through an electronic system approved by the PSE. The regulation includes the following:

- Trading mechanism and relevant parties that are allowed to use it.
- Times and days of trading sessions, formal holidays, and relevant parties that is authorized to modify trading times. It also classifies trading phases.
- Cases in which stocks of listed company are halted from trading.
- Types of trading accounts, types of clients in addition to needed requirements for these accounts.
- Types of orders and description of each type. It also classifies mechanisms for receiving and executing orders using the electronic trading system and cases in which orders are rejected.
- Priorities of orders execution.
- Trading procedures that organize functions of member companies (brokerage firms)
- Electronic restrictions related to validating securities ownership, transfer of securities ownership, depositing certificates, and settlement.
- Cases in which trading prices are changed and correction procedures.
- Sell of securities by Public Auction.

6 Dispute-Settlement Regulation

Commercial transactions happen rapid and require flexibility in dealing. Thus, the PSE has worked since its establishment to employ an integrated system to settle all types of disputes that may arise between parties relevant to transactions in the capital market. This initiative aims to facilitate problem solving between relevant parties that may occur. One of the important items that Dispute-Settlement Regulation articulates is the formation of two types of committees: The first is the violation-control committees and the other is arbitration committees which are competent to settle disputes that arise between:

- **First: Disputes that may occur as a result of trading by member securities companies (brokerage firms) including:**
 - Two member companies of the Exchange.
 - Two staff members from different member firms at the Exchange.
 - A member brokerage firm and a staff member who works for another brokerage firm.
- **Second: Disputes that may arise from settlement of trading securities including:**
 - The Exchange and the Settlement Bank,
 - The Exchange and a member company,
 - A member company and the Settlement Bank
 - A member company and another member company.



- Third: Disputes that may arise as a result of investment in securities including:
 - A client and a member company or a person who works in a member company,
 - A client and a listed company,
- Fourth: Civil disputes that may arise as a result of providing inaccurate or misleading information or documents in the process of listing or membership applications or any other conditions.

The Dispute-Settlement Regulation allows the PSE the right to monitor and call listed companies and their employees for investigation if needed. The regulation forces the companies and their employees to abide by the PSE directions in this respect. Accordingly, the PSE has sufficient competences to conserve the stability of the securities sector through providing equal opportunities for all investors.