

# GENERAL REGULATIONS

## INDEX

### **Preamble**

#### **TITLE I : GENERAL PROVISIONS**

- Chapter 1 - LEGAL FRAMEWORK
- Chapter 2 - SECURITIES ACCEPTED
- Chapter 3 - MEMBERS
- Chapter 4 - AGENCY CONTRACTS

#### **TITLE II : REGISTRATION IN THE SECURITIES ACCOUNTS**

- Chapter 1. ACCOUNT HOLDERS
- Chapter 2. MANAGEMENT OF ACCOUNTS FOR SECURITY HOLDERS
- Chapter 3. BOOKKEEPING FOR HOLDERS OF SECURITIES ACCOUNTS
- Chapter 4. THE KEEPING OF MEMBERS' SECURITIES ACCOUNTS BY  
MIDCLEAR
- Chapter 5. MANAGEMENT OF SECURITIES TRANSACTIONS

#### **TITLE III : COMMISSIONS AND FEES CHARGED BY MIDCLEAR**

#### **ANNEXES**

- 1 - AGENCY CONTRACT BETWEEN TWO MEMBERS

*The purpose of these instructions is to govern relations between Midclear and its Members*

Beyrouth, July 1998

# **GENERAL REGULATIONS**

## **PREAMBLE**

The general regulations of the Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle East (Midclear S.A.L.) set forth the principles governing the operations of the Lebanese Central Depository and the obligations of its members.

The General Regulations of Midclear have been approved by its Board of Directors. The modalities for implementing them are specified, when necessary, in instructions issued by the General Management of Midclear.

Title I incorporates the general provisions related to Midclear, and to the financial instruments accepted in its operations and by its members. Title II deals with the registration in securities accounts and Title III describes Midclear services tariffication principles.

## **TITLE I - GENERAL PROVISIONS**

### **CHAPTER 1. LEGAL FRAMEWORK**

- Article 1. The Midclear Central Depository, a Lebanese joint stock company established on June 24th, 1994 governed by the provisions of the Lebanese Commercial Code performs services for holders of securities accounts in the areas safekeeping, clearing, settlement, circulation and management of tradable securities and financial instruments.
- Article 2. Any update of the present general regulations shall be transmitted to its members after approval by the Board of Directors of Midclear.
- Article 3. Regulations governing the relations, rights and obligations of Midclear and foreign entities having a similar purpose to that of Midclear are established in particular agreements.

### **CHAPTER 2. SECURITIES ACCEPTED**

- Article 4. For the purposes of the general regulations, the term “securities”, shall mean any securities of the same category, quoted or likely to be quoted on the market, issued by the same issuer and conferring by themselves identical rights on their holders. All rights detached from a security that are negotiable or likely to be so, shall be deemed equivalent to a security.
- Article 5. Securities that are traded on a regulated financial market in Lebanon shall be automatically accepted for Midclear operations. The acceptance of other securities shall be subject to approval by the Board of Directors of Midclear.

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Beyrouth, July 1998

## **GENERAL REGULATIONS**

### **CHAPTER 3. MEMBERS**

- Article 6. Financial intermediaries approved to trade securities on a regulated financial market in Lebanon shall be members of Midclear in their capacity as traders.
- Article 7. Financial intermediaries providing custodial and management services for securities may become members of Midclear in their capacity as custodial agents.  
Approval of the admission of such intermediaries shall be given by the Board of Directors of Midclear.
- Article 8. Issuers of securities that they manage themselves have the option of becoming members of Midclear in their capacity as issuers.
- Article 9. Midclear also accepts any financial intermediary as a member, when it is so required by law.
- Article 10. The membership of any other individual or corporation is subject to the approval of the Board of Directors of Midclear.

### **CHAPTER 4. AGENCY CONTRACTS**

- Article 11. A member may authorize another member to manage his securities account. Midclear must be duly notified prior to such authorization comes into force. A specimen contract is annexed below. The authorizing member remains responsible for operations negotiated with his clients. The authorized member may not pass on his authorization to another member.
- Article 12. In case of repeated violations by members of their obligations, the Board of Directors of Midclear may require the offending member to transfer the management of his account to another member.  
The Board of Directors of Midclear may further take any other appropriate measures.

## **TITLE II . REGISTRATION IN THE SECURITIES ACCOUNT**

### **CHAPTER 1. ACCOUNT HOLDERS**

- Article 13. Financial intermediaries may accept securities from their clients and with their consent deposit them with Midclear. Financial intermediaries will register the securities in the securities accounts in which they will monitor the owners' rights.  
Issuing companies may also manage securities registered in securities accounts for security holders wishing them to do so.

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Beyrouth, July 1998

## **GENERAL REGULATIONS**

Article 14. The fact of being a holder of a securities account includes the obligation to abide by the common general rules of securities accounting procedures.

### **CHAPTER 2. MANAGEMENT OF ACCOUNTS FOR SECURITY HOLDERS**

Article 15. A securities account agreement, signed by the owner of the securities and by the intermediary he has selected shall define the relationships, rights and obligations of the parties. It shall specifically define the processing of market orders and securities transactions, the information given to the shareholder, the coverage and guarantees, the conditions for remunerating the services of the intermediary, and his responsibilities. When the account is managed, the provisions governing the agency contract shall be specified in a separate chapter.

Article 16. The information managed in the clients securities account are: the facts identifying the individual or corporation on whose behalf the account was opened, the legal nature of his rights, the designation of the securities held, the quantity of securities and the bookkeeping date. Where applicable, any restrictions or advantage the securities may bear shall be recorded.

Article 17. For all movements involving securities accounts held by them, holders of accounts shall be responsible for verifying the identity and legal capacity of the client who gave the orders as well as the legality of the said movements.

Article 18. Clients must be informed of any entry posted to their account by means of a written confirmation. Furthermore, a portfolio statement must be made available to clients at least once a year, indicating the balance of securities in the accounts opened in his name.

Article 19. All movements of securities requiring a debit to a client's securities account, may only be performed with written instructions signed by the client or his authorized representative. In general, all changes to an account require appropriate proof of acquisition or of the change of ownership, or any change in the rights or the civil status of the shareholder. Such proof may be in the shape of a signed form, an administrative or notarized deed, a court decision, or an official identification document.  
These proofs shall be properly filed and be easy to access.

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Beyrouth, July 1998

## **GENERAL REGULATIONS**

### **CHAPTER 3 - BOOKKEEPING FOR HOLDERS OF SECURITIES ACCOUNTS**

Article 20. The purpose of securities bookkeeping is to record and monitor the rights of shareholders. It covers all commitments.

Article 21. The principles upon which securities bookkeeping is based are:

- all bookkeeping entries must be justified and bear a reference;
- bookkeeping is done on a double entry basis;
- for the balance of each security with Midclear there is separate account holder bookkeeping;
- all operations that imply a change in the rights of a shareholder require an entry in his account when such a right has been recognized;
- similarly, all security operations involving a movement of the cash or the rights of a shareholder require security or cash entries or concomitant rights.

Article 22. Each holder of a securities account shall decide on and document how his accounts are to be arranged to record entries for his securities.

Article 23. The securities bookkeeping for holders of securities accounts consists of three categories of accounts, each of which includes, as needed, the following minimum nomenclature.

#### **Class 1 Accounts - Customers Accounts**

Heading 11 - Regular Individual Accounts

Subheading 111 - Regular Individual Accounts

Subheading 112 - Blocked Individual Accounts

Heading 12 - Individual Collateral Accounts

#### **Class 2 Accounts - Treasury Accounts**

Heading 21 - Available Assets Accounts with Midclear

Subheading 211 - Regular Central Depository Accounts

2110 Accounts - Regular Midclear Account

2111 Accounts - Incoming postings awaiting confirmation by Midclear

2112 Accounts - Outgoing postings awaiting confirmation by Midclear

Subheading 212 - Midclear accounts in transit for trading

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Beyrouth, July 1998

## **GENERAL REGULATIONS**

Heading 22 - Accounts for movements being effected by Midclear

Subheading 221- Accounts for securities receivable

2211 Accounts - Accounts for securities receivable from a regulated market

2212 Accounts - Accounts for registered securities receivable from the issuer

2213 Accounts - Accounts for securities receivable from banks

Subheading 222 - Accounts for securities for delivery

2221Accounts - Accounts for securities for delivery to the regulated market

2222 Accounts - Accounts for securities for delivery to banks

### **Class 3 Accounts - Other Accounts**

Heading 31 - Voluntary suspense accounts

Subheading 311 - Accounts for securities pending

3111 Accounts - Accounts for individual transactions to be verified

3112 Accounts - Account for miscellaneous transactions with securities

Subheading 312 - Accounts for securities during a transaction

Heading 32 - Adjustment accounts

Heading 33 - Technical suspense accounts

Subheading 331 - Accounts for movements pending adjustment

3311 Accounts - Accounts for securities receivable pending adjustment

3312 Accounts - Accounts for securities for delivery pending adjustment

Article 24. The bookkeeping documents to be used are the general journal of transactions, the general ledger, and the securities balance sheet. Regardless of the method utilized, whether by hand or computer, these documents must be clear, legible and readily available.

The daily journal posts securities individually and is kept in chronological order. It is closed on a daily basis and covers all operations involving the securities accounts. Each line shows the account concerned and the offset account. The description of the operation should be sufficiently detailed as to permit easy access to the necessary supporting documentation. The daily journal can be used to authenticate, search for, and control transactions.

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Beyrouth, July 1998

## **GENERAL REGULATIONS**

The general ledger consists of all securities accounts opened. Each account lists in chronological order all credit and debit entries posted and shows the new balance on each accounting day.

The securities balance sheet places debit and credit entries in parallel, thereby making it possible to see the account balance for each security.

Article 25. All securities entries posted after a purchase or a sale on a regulated financial market are recorded in the individual ordinary account of the holder with the corresponding cash entries and within a maximum of two business days after the transaction takes place.

When the rights of attribution or subscription are exercised, the debit of rights to the shareholder's account and, if necessary, in cash, takes place concurrently with the posting of the new corresponding securities to his account.

All other transactions affecting the securities account of a shareholder are posted to it within the deadline that is the common practice of the market concerned.

Article 26. The available assets account at Midclear opened for each security records on the debit side the credit balances of the Midclear member. The offsetting credit entry shows in the individual holder's account. This accounting balance must be checked each time, taking due account of any adjustment operations in progress supported by accounting records.

### **CHAPTER 4. THE KEEPING OF MEMBERS' SECURITIES ACCOUNTS BY MIDCLEAR**

Article 27. The Central Depository, Midclear, shall open securities current accounts for its members' tradable securities that they deposit or receive for credit: Midclear keeps the accounts counts for the holders of the securities accounts.

What each member holds in his account at Midclear represents very specifically the securities held by his customers and those owned by the members himself.

Article 28. A securities account at Midclear bears the name of the member, the security in question and the type of account. Midclear credits the accounts it opens for its members with the securities that they deposit after due verification for authenticity as well as security deposits of which they are the named beneficiaries. Withdrawals of securities by members as well as transfers that they initiate are debited to their accounts provided the credit balance is sufficient.

*The purpose of these instructions is to govern relations between Midclear and its Members*

Beyrouth, July 1998

## **GENERAL REGULATIONS**

- Article 29. Each member is accountable toward Midclear for the validity and legality of all securities deposited by him. He shall be responsible for any apparent or concealed irregularities, whenever such irregularities are detected.  
Any securities found to be false or irregular after being deposited shall be automatically debited to the member's account. If the said account does not have a sufficient credit balance, the member shall be required to replace the false or irregular securities immediately, failing which, a forced repurchase will be imposed.
- Article 30. Transfers of securities accepted by Midclear shall be made between members by means of transfers from one account to another.
- Article 31. For each security it approves for its transactions, Midclear shall, on duly authenticated written instructions from issuers, open an issues account, which shall include the number of shares legally issued, the offsetting entry of which shall be contained in an account for securities in the process of being entered into the accounts. All security deposits to or withdrawals from the Central Depository shall be posted to the account of the member who making the transaction, and also to the account for securities in the process of being entered into the accounts.
- Article 32. Midclear checks the balance of the accounts daily for each security it accepts between the issues account, on the one hand, and the sum of the holdings of its members plus the balance of the account for securities in the process of being entered into the accounts, on the other.
- Article 33. Under current legislation and regulations, Midclear is responsible for ensuring that its members follow the rules governing securities accounting procedures.
- Article 34. The management of Midclear will inform a member immediately of any infraction he may have committed. If the infraction is sufficiently serious, the management of Midclear may submit a report on the matter to its Board of Directors, which will initiate any necessary action.
- Article 35. After proper verification that the balances of their securities current accounts are adequate, Midclear records deposits and withdrawals of security certificates as well as transfer orders requested by members, transfer requests in connection with buying and selling orders received from regulated financial market with whom Midclear has a working contract.  
For each movement in account, Midclear sends a statement of account to the members concerned.

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Beyrouth, July 1998



## **GENERAL REGULATIONS**

Article 36. Cash movements relating to the delivery of securities corresponding to trade executed on regulated markets are authorized simultaneously by Midclear on the cash accounts that its members have at the bank in charge of settlements and for which they have given explicit instructions to Midclear.

### **CHAPTER 5. MANAGEMENT OF SECURITIES TRANSACTIONS**

Article 37. When an issuer carries out a transaction involving a transfer affecting Midclear members, upon the instructions from the issuer, Midclear opens in its books a specific amount to represent the transfer and credits each of its members on the basis of the original position of securities held on account.

Similarly, when payment is required in connection with a security accepted for transactions, Midclear opens in its books on the date fixed for payment, a specific amount to represent the right to payment and credits each of its members on the basis of the original position of securities held on account.

When issuers so wish, Midclear can encash the sums due to its members for the accounts of their clients. These amounts are then immediately credited to the accounts of members at the bank in charge of settlements and the rightful beneficiaries must be credited without delay.

Article 38. In order to execute the security transactions requested by issuers and following their instructions, Midclear opens subsidiary accounts:

- Withdrawal accounts, which the account holders credit, on their customers' instructions, with securities, rights, or coupons that they wish to present for processing;
- Provisioning accounts, by debiting which the centralizing institution
- distributes new securities.

Article 39. As needed and upon request, Midclear can issue certificates attesting to the number of shares held by members in their accounts. These registered certificates can be used only by the beneficiary member and when issued the corresponding securities account is debited.

Article 40. Members commissioned by issuers to carry out their securities transactions have different accounting procedures from that of their customers and which are in compliance with the rules detailed in Chapter 3 above.

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## **GENERAL REGULATIONS**

### **TITLE III. COMMISSIONS AND FEES CHARGED BY MIDCLEAR**

- Article 41. The General Regulations of Midclear define its tarification principles. The Board of Directors determines the applicable fees for each financial year.  
Midclear sends a notice to its members advising them of these charges.
- Article 42. On joining Midclear, each intermediary pays a registration fee.
- Article 43. Each member pays an annual membership fee.
- Article 44. Each member must pay an asset safekeeping fee to Midclear based on the average capitalization of the securities in his account. This fee, the rate of which is digressive, is semiannual.
- Article 45. Each member must pay a fixed charge per movement, payable monthly, for all movements in their accounts.
- Article 46. The reports and statements of account prepared by Midclear for its members are billed separately on monthly basis.

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