

Ministry of Finance

Decree # 723 for 2002

(Executive Regulations for Decree # 480 for 2002)

“Primary Dealers System”

Article I.

The Regulations are issued in order to implement the Minister of Finance Decree # 480 for 2002 establishing the Primary Dealer System. The regulations are considered an inseparable part of said Decree.

Article II. General Provisions

- A. The Ministry of Finance is the regulator of the Primary Dealers regarding their rights and obligations vis-à-vis the Ministry of Finance.
- B. The Primary Dealers shall guarantee to underwrite the Primary Issuance of Government Securities and enhance Secondary market trading activities.
- C. Primary Dealer activities include the outright purchase and sale of Government Securities and enter into Repurchase Agreements with other Primary Dealers, non-Primary Dealer institutions and individuals.
- D. Primary Dealer banks will be authorized by the Central Bank of Egypt and in addition to a license from the CMA in order to apply to the Ministry of Finance for registration. "Licensed Bond Dealers" will be licensed by the Capital Market authority (CMA) to register with the Ministry of Finance. The Ministry of Finance shall review all applications and notify each applicant of the results of its review.

A Ministerial committee will recommend its acceptance / non-acceptance to the Minister of Finance.

E. Primary Dealer Criteria

1. The Central Bank of Egypt will approve banks to apply for Primary Dealer status based on their compliance with the criteria established by the Central Bank of Egypt.
2. Primary Dealers must fulfill criteria established by the Capital Market Authority (CMA) in order to participate in the Government Bond market.
3. Non-bank Primary Dealers must be Licensed Bond Dealers , approved by the CMA to apply for a Primary Dealer Status.
4. Non-bank Primary Dealers must have adequate credit facilities in order to finance its Government Securities inventories.

Article III. Primary Auctions and Secondary Markets

- A. Primary Dealers shall submit bids for their proprietary account.
- B. All non-primary dealer bids must be submitted through a Primary Dealer.
- C. Primary Dealer will trade Government Securities and notify the Stock Exchange of all trades.
- D. Only Primary Dealer may trade through “Intermediaries”.

- E. The Ministry of Finance will regularly scheduled meetings with Primary Dealers for the purpose of receiving advice and recommendations regarding future debt issuance.
- F. Primary Dealers are required to submit written debt management proposals and recommendations upon request by the Ministry of Finance.
- G. Primary Market Requirements
1. Primary Dealers shall abide by all primary issuance auction rules and requirements established by the Ministry of Finance and the Central Bank of Egypt.
 2. Each Primary Dealer will submit minimum bids for a percentage of the total nominal amount of each auction. This percentage will equal 150% of each dealer's proportional share of the security market.
 3. Primary Dealers must be allotted a total amount equal to 50% of their proportional share of all auctions over a six-month period.
 4. Primary Dealers will submit bids for non-Primary Dealer institutions and individuals at the request of the institution or individual. Primary Dealers will be expected to have customer bid submissions equal to at least 10% of their proportional allotment of each auction over a six-month period.
 5. Primary Dealer proprietary auction bids must conform to prevailing market levels for Government security being auctioned. No Primary Dealer or customer may be awarded more than of 30% of any auction .
 6. The Ministry of Finance in consultation with the Primary Dealers Association shall establish guidelines regarding bids which do not conform to prevailing market rates.
 7. The Ministry of Finance shall review all bidding activities of Primary Dealers and determine if individual dealers are fulfilling their bidding requirements. Non-compliance may result in the following actions:

- a. Suspension of Primary Dealer status.
- b. Revocation of Primary Dealer

H. Secondary Market Requirements

1. The Ministry of Finance is responsible for monitoring the activities in the secondary market for Government Securities.
2. Primary Dealers must make markets in Government Securities on request, following the “secondary market making rules” proposed by the Dealers Association and approved by the Minister of Finance.
3. Each Government Securities Dealer should maintain a minimum level of secondary market activity. The Minister of Finance, in consultation with the Primary Dealers Association will determine the minimum level of activity based on:
 - a. The percentage will be calculated on both the total nominal value of securities traded or the total number of trades.
 - b. Each Primary Dealer’s activity must equal 3% of either one of the measurements above.
4. Primary Dealers shall comply with the following:
 - a. Primary Dealers are prohibited from receiving or paying any fees or commissions for activities in the secondary open market.
 - b. Treasury-bills will be traded in the open market.
 - c. Government bonds shall be traded through the Stock Exchange or in the open market. All Open Market trades shall be reported to the Stock Exchange.
 - d. Open market trading is authorized between Primary Dealers and between themselves and Licensed –Bond Dealers and non-Primary Dealer institutions or individuals.

- e. Primary Dealers may place their bid and offer via the Stock Exchange.

Article IV. Reporting and Technical Requirements

A. Reporting Requirements

1. Primary Dealers must maintain records for their respective activities in Primary as well as Secondary Markets as required by their respective regulatory authorities.
 - a. Licensed bond dealers must follow the reporting procedures established by the Capital Markets Authority.
 - b. Banks must follow the reporting procedures established by the Central Bank of Egypt.
2. All Primary Dealers must provide reports to the Ministry of Finance.
 - a. Weekly position statements for the Primary Dealer's trading account based on total holdings, by trade date, of Government securities by the following categories:
 - i. Treasury-Bills less than 6-months to maturity.
 - ii. Treasury-Bills less than 12 Months to maturity.
 - iii. Treasury Bonds maturing in 2 years.
 - iv. Treasury Bonds maturing in 5 years.
 - v. Treasury Bonds with maturity longer than 5 years

- c. Weekly trading activities in the Primary Dealer's trading account based on the total amount traded:
 - i. Treasury-bills.
 - ii. Treasury Bonds.
- d. Daily trading activities in the Primary Dealer's trading account based on number of trades and total volume of trades by customers.
- e. Daily inventory financed through Repurchase Agreements.
- f. All other reports requested by the Minister of Finance.

B. Technical Requirements

1. A Primary Dealer should have a trading and sales office location.
 - a. Designated office space for trading and sales personnel.
 - b. Customer meeting location.
2. Communications equipment consistent with maintaining communications with other Primary Dealers and customers.
 - a. Interconnected telephone system with at least three (3) lines per trader and salesperson.
 - b. Fax machines.
 - c. Desktop computer and printer.
 - d. Financial Calculators or programs for calculating securities prices and Yield-To-Maturity.
 - e. Trading and data screens capabilities.
4. Internal technical capabilities for providing current information to management, traders, salesmen, the

Ministry of Finance and other regulatory authorities.
These reports will include but are not limited to:

- a. Daily inventory position.
- b. Daily profit and loss.
- c. Daily mark-to-market valuation.
- d. Trading and sales activity.
- e. Customer activity.
- f. Credit review of current open trades with customers.

Article V. Organizational Structure

A. Organization

1. Primary Dealers will provide the Ministry of Finance with an organization chart of its Primary Dealer department and the names of individuals with management responsibilities for trading activities. This list should include the following:
 - a. All individuals with oversight responsibilities for trading activities related to Government securities.
 - b. All individuals with authority to buy or sell Government securities, including the manager of the department. Any changes in individuals with trading authority must be reported to the Ministry of Finance with an updated list for the Primary Dealer department.
 - c. The Manager for clearing and settlement operations.
2. A Primary Dealer may employ no individual that has been officially censured or barred from securities investing, trading or sales activities by the CMA, the Central Bank or any other stock exchange.

B. Systems and Procedures:

1. Each Primary Dealer will establish and present its procedures for monitoring trading activities and risk limits with regards to institutional organization and policies. These should include:
 - a. Credit Policy that enumerates procedures for establishing limits on open trades with customers including limits on Repurchase Agreements on a per customer or counter-party basis.
 - b. Risk Policy procedures for establishing institutional position limits in Government Securities.
 - c. Departmental Risk Policy procedures for establishing individual trader position limits in Government securities.
 - d. Compliance Policy that establishes a system of monitoring institutional and individual compliance to regulations concerning sales and trading by the CMA, the Central Bank of Egypt and the Ministry of Finance.

Article VI. Benefits

- A. The Minister of Finance shall determine specific benefits that accrue to the Primary Dealers. The Minister of Finance may change these benefits on announcement.
- B. Primary Dealers will receive from the Ministry of Finance a commission on all customers winning bids. Customers are defined as all accounts that are not part of the Primary Dealer's company or bank. Commissions may be decreased or eliminated, at the discretion of the Minister of Finance, as market develops.

Treasury Bills	Commission per One Million
0 to 182 Days	LE 125
183 to 365 Days	LE 200
Treasury Bonds	
1 to 5 year Bond	LE 250
More than 5 yrs.	LE 500

Article VII. Primary Dealer Association

- A. Primary Dealers will establish a Primary Dealer Association.
- B. Each Primary Dealer must maintain an active membership.
- C. The Association will propose trading rules, procedures and changes to existing trading rules to the Minister of Finance for approval. These trading rules and procedures will include but not be limited to:
 - 1. Method of price quotations to other Primary Dealers in markets making,
 - 2. Standard amount,
 - 3. Maximum spread,
 - 4. Standard settlement, (T+0, T+1, etc.) for secondary market trades,
 - 5. Trading hours,
 - 6. Method of price quotations for non-standard transactions.
- D. The Association may propose and establish an inter-Primary Dealer Intermediary.

Article VIII. Customer Requirements

- 1. Customers are all non-Primary Dealer institutions or individuals that purchase, sell or engage in Repurchase Agreements in Government securities

with a Primary Dealer. The primary contact with a customer should be through a trained salesperson. The Primary Dealer is responsible for the actions of its salesmen.

2. Primary Dealers shall comply with the following rules for customer activities:
 1. All information concerning customer activity are confidential and should not be provided to any party outside the individual Primary Dealer with the exception of fulfilling the appropriate reporting requirements.
 2. Activities between a Primary Dealer and its customer are confidential and may not be disseminated outside the Primary Dealer department with the exception of fulfilling the appropriate reporting requirements.
 3. Primary Dealers shall not refuse a customer's request for a bid or an offer for a Government Security, unless it has good reason to do so . Salespersons will make requests for customers bids or offers to the appropriate traders. They will relay the prices given by the traders to the customer and immediately provide the customer's response back to the trader. The flow of prices and information should be without delay. The salesperson represents the customer and must accurately reflect all requests and responses to the traders in a timely fashion.
 4. A salesperson is not allowed to trade for a customer's account. Standing orders may be placed by the customer and be subsequently filled by the dealer but the completion of the trade must be immediately reported to the customer and details confirmed. All customer requests for bids, offers or orders must come directly from an individual, authorized to act for the customer.

5. Customers must provide financial information to the Primary Dealer in order for the salesman to make a judgment as to the type and amount of business the customer is willing to engage in . It is the responsibility of the Primary Dealer's credit committee to decide credit limits for each customer.
6. Each customer will provide the dealer with a file which will specify;
 - a. The person authorized to enter into transactions on the customer's behalf.
 - b. The customer's investment objectives including the type of instrument, maturity and maximum amounts per transaction.
 - c. Any other forms or information required by the Primary dealer, the CMA or the Central Bank of Egypt.
7. Primary Dealers should determine whether a customer's activities are appropriate. Primary Dealers should not make decisions for customers but may decide not to participate in a specific transaction on the basis of appropriateness. Salesmen are responsible for knowing their customer, its financial strength and its investment objectives. A refusal to participate in a trade should be made with the knowledge of the dealer's management. A Dealer may refuse any transaction that is above the customer's credit limit.
8. Commissions and fees will not be charged on Government securities transactions in the open market with either other Primary Dealers or customers.

Article IX. Restrictions on Activities

- A. Primary Dealers and their personnel are restricted from making any statements or engaging in any activities which could negatively impact the pricing of Government securities. The following activities are considered restrictive and in violation of this rule. Other activities, not stated here, which inhibit the functioning of the market are likewise forbidden.
1. Market Misrepresentation - Primary Dealers personnel should not disseminate rumors or false information about the market, price levels or market participants.
 2. Customer Inducements – Customers and Primary Dealers personnel are forbidden to receive any form of compensation, monetary or otherwise, as inducement to complete a trade.
 3. Manipulation – Neither Primary Dealers nor any other market participant may engage in activities, which are intended to manipulate market prices or obstruct the efficient functioning of the market.
 4. Personal Trading - Primary Dealer’s personnel are restricted from any personal trading or investment activity in Government securities without prior notice being given to and approval received from the Compliance Officer. Ownership of equities, bonds, mutual funds or other financial instruments should be reported to the dealer’s compliance officer.
 5. Collusive Activities - Traders and Salespeople are strictly prohibited from activities with other dealers, customers, individuals within the Primary Dealer resulting in transactions that do not reflect proper market conditions.
- B. Any actions, which jeopardize the efficiency of the marketplace, will be prosecuted to the highest degree, including possible loss of the individuals right to work in the Government securities market and the loss of the institutions Primary Dealership license.

Article X. Ministry of Finance and Central Bank of Egypt

- A. The Ministry of Finance or the Central Bank may request that a Primary Dealer comment or make recommendations on policies, market conditions or other matters that relate to the Government securities market. Dissemination of such requests outside the Primary Dealer department is forbidden.
- B. Non-public information concerning any government statistics or policies is highly confidential and may not be made public.
- C. The receipt of confidential information from any unauthorized source must be reported to the Primary Dealer management and immediately reported to the Ministry of Finance by the appropriate Primary Dealer's officer.
- D. Failure to comply with these mandates or the dissemination of confidential information may result in disciplinary action through by Ministry of Finance or the appropriate authorities.

June 12,2002

The Minister of Finance