

# Saudi Capital Market Rules and Regulations – Brokers

Edition 1

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exams from **1 February 2023** to **30 September 2026**



APPROVED WORKBOOK



Welcome to the Chartered Institute for Securities & Investment's Saudi Capital Market Rules and Regulations – Brokers study material.

This workbook has been written to prepare you for the Chartered Institute for Securities & Investment's Saudi Capital Market Rules and Regulations – Brokers examination.

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The questions contained in this workbook are designed as an aid to revision of different areas of the syllabus and to help you consolidate your learning chapter by chapter.

Workbook version: 1.9 (July 2026)

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It is estimated that this workbook will require approximately 50 hours of study time.

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## Chapter One

# Market Conduct Regulations

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This syllabus area will provide approximately 13 of the 25 examination questions





# 1. Prohibition of Manipulative and Deceptive Acts or Practices

## Learning Objective

On completion, the candidate should:

- 1.1.1 Know the regulations that govern the prohibition of manipulative and deceptive acts or practices (Market Conduct Regulations Part 2, Article 2)

Established financial markets are dynamic, responding rapidly to new information as it is received by investors and other market participants. Such information may relate to the whole market, a particular market sector or to a specific company or security. For example, an economic report may highlight the strength (or weakness) of a particular sector of an economy, leading investors to re-evaluate the value of companies within that sector.

Alternatively, a company may release new financial information, such as a trading update or annual results. Investors will carefully analyse such information in order to determine the value of the company's **securities** – good news will typically increase their value. Poor results, such as profit warnings, may cause investors to downgrade a company and hence lead to a fall in value.

Given its significance, it is clearly vital that investors are able to rely on the truth and accuracy of market information. Whereas in the past, flows of information were often slow and sporadic, perhaps requiring new information to be passed from one person to another individually, the development of new forms of technology has revolutionised the flow of market information. The internet, and similar technologies, make it possible for new information to be disseminated to a very wide audience almost instantaneously.

The wide availability of relevant and accurate market information helps to ensure market efficiency, since new information is rapidly assimilated by investors and other market participants and market prices respond accordingly – positive information tending to increase the value of related securities, negative information leading to a fall in value. However, there is also the potential for misleading or untrue information to be disseminated, resulting in the price of a particular security being manipulated. In other cases, a market participant may fail to disclose relevant information when they are required to do so.

All global markets face the same challenges to ensure that their markets are regarded by investors as clean and free from manipulation in the dissemination of information. This is not an issue unique to markets operating in the Kingdom of Saudi Arabia.

The specific obligations relating to these issues are set out in the Capital Market Law and the Market Conduct Regulations. This workbook will refer to the Capital Market Authority as 'the Authority' throughout. This chapter sets out some of the specific provisions relating to this topic which are contained within the regulations.

The Market Conduct Regulations prohibit any **person** (recognised under the laws of the Kingdom) to engage in, or to participate in, any manipulation or deceptive acts in relation to a transaction (including an order) in a listed security listed on an exchange in the Kingdom where they knew (or had reasonable grounds to have known) the nature of their act or practice.

In addition, it is prohibited for any person, either directly or indirectly, from entering into an order or to execute a trade in a security for the purpose of creating either of the following:

- A false or misleading impression of the level of trading activity or interest in a particular security or securities.
- An artificial price level (including bid/ask or executed price) in a particular security or securities.

Keeping markets clean and free from manipulation gives investors confidence and means more investors (both local and international) wanting to invest in securities listed on the Saudi Stock Exchange Company (the 'Exchange').

## 2. Manipulative, Deceptive Acts or Practices

### Learning Objective

On completion, the candidate should:

- 1.2.1 Know actions that are considered to be manipulative or deceptive acts or practices (Market Conduct Regulations Part 2, Article 3)

Following on from what activity is prohibited, the Market Conduct Regulations specify what acts of manipulation and/or deception are prohibited to be undertaken.

These requirements are not specifically unique to the Kingdom; these are the same type of actions and activities that are prohibited by regulators globally.

Persons are prohibited from entering into a fictitious trade or transaction which does not result in a change in beneficial ownership.

In addition, where a **Capital Market Institution** undertakes the following activities or carries out the following actions with the purpose of creating a false or misleading impression of trading activity or creating an artificial bid ask or trading price, then the following will be considered acts with the sole purpose of manipulating or deceiving and are, therefore, prohibited:

- entering into or providing an order or orders for the purchase or sale of a security or securities with the prior knowledge that an order or orders of substantially the same size, time and price for the sale of that security/securities, has been, or will be, entered into
- purchasing or making offers to purchase, a security or securities at higher prices or in a pattern of successively higher prices

- selling or making offers to sell a security or securities at lower prices or in a pattern of successively lower prices, or
- entering an order or orders for the purchase or sale of a security/securities in order to:
  - establish a predetermined sale price, ask price or bid price
  - affect a high or low closing sale price, ask price or bid price
  - maintain the sale price, ask price or bid price within a predetermined range, or
  - entering an order or a series of orders for a security or securities that are not intended to be executed.

## 3. Untrue Statements

### 3.1 Rumours

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#### Learning Objective

- 1.3.1 Know the regulations governing rumours (Market Conduct Regulations Part 4, Articles 7, 8 & 9)
- 

The internet and social media allow the fast spreading of false rumours and it is difficult, if not impossible, to identify the source. Therefore, they represent real challenges for regulators and exchanges.

The definition of a 'rumour' is an '*unverified story or report of uncertain or doubtful truth*'. Given the ease with which information can be spread in modern societies, rumours can be disseminated very quickly and if they include, or relate to, information which is relevant to the financial markets, the effect can be significant. Investors may decide to act on the rumour, resulting in market movements which have no basis in fact.

Of course, in some cases, persons spreading a rumour may do so innocently, believing that they are simply passing on market intelligence. However, there is clearly a risk that a rumour could be spread deliberately, with the intention of affecting the market. For example, an unscrupulous investor holding shares in a particular company could deliberately spread a rumour that the company is going to be purchased at a premium price by a larger competitor. If other investors believe the rumour, they may decide to purchase the company's shares in anticipation of a rise in value, and if enough investors do so, it may result in a sharp price rise, at which point the originator of the rumour would sell their shares at a profit.

## 3.2 Untrue Statements

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### Learning Objective

- 1.3.2 Know the circumstances in which a person would be considered to have made an untrue statement (Market Conduct Regulations Part 4, Article 9)
- 

The Market Conduct Regulations prohibit persons from making untrue statements of material fact, either verbally or **in writing**, where the purpose of the statement is to influence the price of the security to induce another person to enter into a transaction, or to refrain from exercising rights under a security.

Given this risk, the Market Conduct Regulations specifically prohibits a person from circulating (whether directly or indirectly) untrue statements of fact or a statement of opinion for the sole purpose of influencing the price or value of a security or securities, which also includes any other manipulative purpose.

The Market Conduct Regulations set out the specific circumstances in which a person would be considered to have made an untrue statement. They include any of the following circumstances:

- making a statement that is false or inaccurate in a material respect
- persuading or causing someone to make a false or inaccurate statement
- making a statement that contains a misrepresentation of a material fact
- persuading or causing someone to make a statement that contains a misrepresentation of a material fact, or
- omitting a material fact when making a statement.

Note that, in this context, a material fact is any information relating to a security which, if the investor knew about, would have materially affected the price or value at which the investor purchased or sold the security.

## 3.3 Responsibility for Making Statements

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### Learning Objective

On completion, the candidate should:

- 1.3.3 Know the regulations outlining the responsibility for untrue statements (Market Conduct Regulations Part 4, Article 10)
- 

Given the significance of rumours and untrue statements, and their potential impact on the market in terms of prices of **listed** securities and investors' confidence in the market, market participants must be mindful of their responsibilities, and the potential for legal and other claims to be made against them if they make false and/or untrue statements.

Therefore, the Market Conduct Regulations make provisions for investors who have incurred losses as a result of untrue or omitted statements to claim damages in the following circumstances:

1. a person would be liable to pay damages to a claimant if they are found guilty of making an untrue statement of material fact that allowed them to make a profit or commercial benefit in relation to the purchase or sale of a security
2. a person who would be a claimant for damages under (1) must be able to establish and demonstrate that:
  - they were not aware the statement was untrue
  - they would not have purchased or sold the security, or securities, if they were aware of the untrue statement, or they would have done so at a different price
  - the person who made the untrue statement knew, or knew that there was a substantial likelihood, that the statement was untrue.
3. a person will be liable for damages if they are required to make a statement under relevant regulations (**Capital Market Law** or the **Implementing Regulations**) deposit center and fails to do so, provided that:
  - the claim for damages is in relation to the purchase or sale of a security or securities; and
  - what has been omitted relates to a material fact.
4. a claimant for damages under point 3 must show that:
  - they were not aware of the failure to make the statement, and
  - they would not have purchased or sold the security, or securities, had they known that the statement was omitted, or would have done so at a different price.

## 4. Insider Trading

### 4.1 Inside Information

#### Learning Objective

- 1.4.1 Know the definition of inside information (Market Conduct Regulations Part 3, Article 4, c)

Insider dealing is an issue that all major financial centres in the world, and regulators, struggle to grapple with and eradicate.

The Market Conduct Regulations follow the same definition that has been defined and used by other global regulators.

In the Kingdom, the term 'inside information' is defined as having information that:

- relates to a security (or securities), or orders entered, or to be entered
- has not been disclosed to the general **public**, and is not available to the general public, or
- a person would understand that, given the nature and content of the information in question, disclosing or making this information available to the public would have a material effect on the price or value of the security or securities.

Therefore, a person, acting on this information would be classed as insider dealing.

## 4.2 Interaction between Market Manipulation and Insider Trading

### Learning Objective

1.4.2 Know the interaction between market manipulation and insider trading (Articles 3 and 4)

Abuse of the financial markets can take many forms and can be categorised in different ways. However, a basic distinction can be made between two principal forms of market abuse, namely market manipulation and insider trading.

|                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Market manipulation</b> | <p>Trading in a security for the purpose of creating:</p> <ul style="list-style-type: none"> <li>• a false or misleading impression of trading activity or interest in the purchase or sale of the security, or</li> <li>• an artificial bid price, ask price or trade price for the security of or any related security.</li> </ul>                                                                                                                                             |
| <b>Insider trading</b>     | <p>Trading, whether directly or indirectly, in a security on the basis of inside information, meaning information:</p> <ul style="list-style-type: none"> <li>• that relates to a security</li> <li>• that has not been made public, and that is not otherwise made publicly available, and</li> <li>• that a normal person would realise that disclosing it or making it available to the public would have a material effect on the price or value of the security.</li> </ul> |

In simple terms, the principal distinction between the two relates to the use of inside information. Market manipulation involves employing trading techniques which will give other market participants a false impression of the supply, demand or value of a security. This includes, for example, trading which results in no change to the ultimate ownership of the security (perhaps by trading through separate accounts which are ultimately owned by the same individual). Such trading, sometimes known as 'wash' trading, can be used to give a false impression of the level of trading activity, and hence demand for a security.

By contrast, insider trading involves the misuse of inside information. For example, a senior manager within a **listed company** may have access to sensitive financial information which has not yet been released to the market (such as company annual results). Anticipating that the release of the information will cause a rise in the value of the company's shares, the managers could buy shares, gaining an advantage over other investors who are not aware of the information. Both forms of conduct are prohibited by the Market Conduct Regulations, as is disclosure of inside information (since this would allow the recipient of the information to commit insider trading).

In addition to being accountable for their own conduct, Capital Market Institutions also have certain responsibilities in relation to the conduct of their clients. The Market Conduct Regulations prohibit Capital Market Institutions from accepting or executing a client order if it has reasonable grounds to believe that the **client** is engaging in market manipulation or insider trading.

Where a Capital Market Institution decides not to accept or execute such an order, it must document the circumstances, the reasons for its decision, and notify the Authority of the decision within three days. They must retain records of its decision(s) for ten years.

## 4.3 Scope of Insider Trading Regulations

### Learning Objective

- 1.4.3 Know the types of security that fall under the scope of insider trading regulations (Market Conduct Regulations Part 3, Article 4, Sub Articles a, 1 & 2)

The scope of financial instruments that are covered by the insider dealing regulations in the Kingdom are all **traded securities**, which include any security whose price or value would be materially affected if the information was disclosed or made publicly available.

## 4.4 Directly Trading

### Learning Objective

- 1.4.4 Know when a person is considered to be directly trading (Market Conduct Regulations Part 3, Article 4, Sub-Article 4, (a–3) and (Part 5, 20))

A person who is in possession of 'inside information' is classified as an '**insider**', and they are prohibited from disclosing this information to another person.

In addition, where a person comes into possession, either directly (through their employment) or indirectly (they are given the information by someone else), they must not disclose this information to another person, as they would not be able to determine if that other person would use the **inside information** for their own benefit and enter into a transaction in the effected security or securities.

Therefore, once a person comes into the possession of inside information as a result of their employment, they should keep this information secure and only pass on in a 'needs to know basis'.



## 4.5 Indirectly Trading

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### Learning Objective

- 1.4.5 Know when a person is considered to be indirectly trading (Market Conduct Regulations Part 3, Article 4, (a–4))
- 

Trading indirectly refers to any of the following:

- executing a trade as agent for another person (including when acting as an attorney-in-fact for another person)
- arranging a trade in which a relative or other associated person, with whom they have a business or contractual relationship, is involved, or
- a person arranging for an agent or anyone else acting on his behalf to trade.

Market participants also need to be aware that as well as being responsible for ensuring they do not breach the regulations, they potentially also have responsibility for the actions of others.

The Market Conduct Regulations relate to the liability for acts of others. This is where a person can be found to have breached the provisions of the Capital Market Law or the **Market Conduct Regulations** on market manipulation, insider trading or untrue statements while acting on behalf of another person, that other person would also be liable and subject to the same sanctions as the person carrying out the relevant acts.

For example, an investor could be held liable for the actions of its Capital Market Institution, or other agent acting on their behalf, if they have committed manipulation or insider trading. The only exception is where the person on whose behalf the act is carried out:

- took reasonable steps to prevent violation of the Capital Market Law and its Implementing, and
- did not authorise the acts in question.

It is, therefore, important that market participants take care to ensure that those carrying out transactions on their behalf are aware of, and committed to following, the relevant provisions of the law and regulations.

## 4.6 Insiders

### Learning Objective

- 1.4.6 Know the types of person who are considered to be 'insiders' (Market Conduct Regulations Part 3, Article 4b)

The Market Conduct Regulations define the following as 'insiders':

- a **director, senior executive** or an employee of the issuer of a security related to inside information
- a director, senior executive or an employee of a Capital Market Institution related to inside information
- a person who obtains inside information through a family relationship, including from any person related to the person who obtains the information
- a person who obtains inside information through a business relationship, including obtaining the information:
  - from the issuer of a security related to inside information
  - from any person who has a business relationship with the person who obtains the information, or
  - from any person who is a business associate of the person who obtains the information
- a person who obtains inside information through a contractual relationship, including obtaining the information:
  - from the issuer of a security related to inside information, or
  - from any person who has a contractual relationship with the person who obtains the information.

## 4.7 Disclosure of Inside Information

### Learning Objective

- 1.4.7 Know prohibitions regarding the disclosure of inside information (Market Conduct Regulations Part 3, Article 5)

The prohibition on the disclosure of inside information applies irrespective of whether the person is trading directly, or indirectly. In this context, trading directly refers to either executing a trade in the security or making an offer to buy or **sell** the security on an exchange in their own name or for an account that they have an interest in (ie, insider trading covers the trading in securities with non-public price-sensitive information and the person undertakes trading either directly in their name or indirectly).

## 4.8 Inside Information and Trading

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### Learning Objective

1.4.8 Know prohibitions regarding insider trading (Market Conduct Regulations Part 3, Article 6)

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A person who has, or has come into certain information about a security, or securities, that if this information was made public would have a material effect on the **share** price of the underlying security, or securities, is prohibited from entering into (including placing an order) any transaction – therefore, they are prohibited from engaging in insider trading.

In addition, a person is also prohibited from entering into insider trading if they obtain certain information from another person (who is an insider) and should have known that the information they have been provided with is considered inside information.

This captures the inside information being passed on by an insider, but they themselves do not enter into transactions using this information. Therefore, people have to be very careful about any specific and factual information that they receive, other than in the normal course of the dissemination of market-related news and information.





## End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What act or activity is considered to be market manipulation?  
*Answer Reference: Section 2*
2. What is 'market manipulation'?  
*Answer Reference: Sections 2 and 4.2*
3. How are untrue statements defined under the Market Conduct Regulations?  
*Answer Reference: Section 3.2*
4. In what circumstances, might an investor be able to claim damages from a Capital Market Institution which has omitted to make a required statement?  
*Answer Reference: Section 3.3*
5. How does the Kingdom define 'inside information'?  
*Answer Reference: Section 4.1*
6. What financial instruments are covered by the insider dealing regulations?  
*Answer Reference: Section 4.3*
7. What is the definition of an 'insider'?  
*Answer Reference: Section 4.6*
8. What is insider information?  
*Answer Reference: Section 4.8*
9. What restrictions apply to trading when you come into possession of inside information?  
*Answer Reference: Section 4.8*

## Chapter Two

# Capital Market Institutions' Conduct

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**This syllabus area will provide approximately 12 of the 25 examination questions**





Over the last five years, regulators globally have been concentrating their supervisory focus and efforts on 'conduct' matters – both on firms and individuals.

Some countries (notably the UK) have gone further by introducing a regime for authorised and regulated firms that not only focuses on senior management with specific accountability and responsibility requirements, but also includes all employees at the firm for conduct-related requirements (ie, the UK's Senior Managers & Certification Regime (SMCR)).

In essence, the concept of firms (Capital Market Institutions) and the senior management and certain individuals within those firms behaving in a professional and fair manner to their clients is not new. However, what has changed is the level of scrutiny that both firms and individuals are now under in relation to their behaviour towards their clients. Regulators are looking beyond whether firms complied with a set of rules/laws, rather they are assessing whether they are complying with the spirit of ensuring that the client has been treated fairly and any dealings with the firm is undertaken in their best interest.

## 1. Market Manipulation

### Learning Objective

- 2.1.1 Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in market manipulation (Market Conduct Regulations Part 5, Article 11)

A Capital Market Institution must not accept a client order, nor execute a client order, if they have reasonable grounds to believe that the client is engaging in market manipulation or would be engaging in market manipulation in another market if the Market Conduct Regulations applied to that market, or would be considered a breach of the law, regulations or rules applicable in the relevant market.

Where the Capital Market Institution has decided not to accept or execute a client order, they must document this and include all relevant information that enabled them to come to this conclusion. They must notify the Authority of this decision not to deal for a client within three days of making their decision.

Where the Capital Market Institution or a **registered person** accepts a client order, or executes a client order, and then afterwards becomes aware that, or believes on reasonable grounds that, the client is in breach of the Capital Markets Law, the Implementing Regulation or the Exchange's rules, then the Capital Market Institution must notify the Authority within three days of being aware of these circumstances.

The records relating to the decision, and the reasoning regarding not to deal for a client, must be retained for a period of ten years from the date of the decision.

## 2. Insider Trading

### Learning Objective

- 2.2.1 Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in insider trading (Market Conduct Regulations Part 5, Article 11)

A Capital Market Institution must not accept a client order, nor execute a client order, if they have reasonable grounds to believe that the client is engaging in insider trading in another market if the Market Conduct Regulations applied to that market, or would be considered a breach of the law, regulations or rules applicable in the relevant market.

Where the Capital Market Institution has decided not to accept or execute a client order, they must document this and include all relevant information that enabled them to come to this conclusion. They must notify the Authority of this decision not to deal for a client within three days of making their decision.

Where the Capital Market Institution or a registered person accepts a client order, or executes a client order, and then afterwards becomes aware that, or believes on reasonable grounds that, the client is in breach of the Capital Markets Law, the Implementing Regulation or the Exchange's rules, then the Capital Market Institution must notify the Authority within three days of being aware of these circumstances.

The records relating to the decision, and the reasoning regarding not to deal for a client, must be retained for a period of ten years from the date of the decision.

## 3. Handling Client Orders

### 3.1 Client Order Handling

#### Learning Objective

- 2.3.1 Know the conduct expected of Capital Market Institutions and registered persons in relation to the prioritisation of client transactions (Market Conduct Regulations Part 5, Article 12)

A Capital Market Institution must execute client orders for a security before executing any order in the same security for any of their own accounts.

## 3.2 Timely Execution

---

### Learning Objective

- 2.3.2 Know the regulatory requirements for Capital Market Institutions in relation to client orders (Market Conduct Regulations): timely execution (Part 5, Article 13)
- 

When a Capital Market Institution receives an **order** from a client, and accepts that order, then it must execute that order as soon as practically possible in the circumstances prevailing in the market.

## 3.3 Execution

---

### Learning Objective

On completion, the candidate should:

- 2.3.3 Know best execution requirements for a Capital Market Institution acting as (Market Conduct Regulations): agent (Part 5, Article 14), principal (Part 5, Article 14)
- 

When dealing with, or for, a client, a Capital Market Institution has a duty to obtain for the client best execution. This duty to obtain best execution applies in the following circumstances:

- where the Capital Market Institution is acting in an agency basis: it must ensure that the order is executed at the best prevailing price in the relevant market or markets for the size of the order
- where the Capital Market Institution is acting in a principal basis: the client should receive a price better than the prevailing market price, because the Capital Market Institution is acting on its own account (principal basis) rather than going into the market.

Therefore, where the Capital Market Institution believes that they can obtain a better price for the client, it may do so by acting as principal in the transaction – meaning the client deals directly with the Capital Market Institution.

Otherwise, the Capital Market Institution must act as agent and obtain the best price in the prevailing market at that time.



## 3.4 Allocation

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### Learning Objective

- 2.3.4 Know regulatory requirements for timely allocation (Market Conduct Regulations Part 5, Article 15)
- 

On receipt of a client order, and successful execution, the Capital Market Institution must make sure that the transaction is promptly allocated to the account of the underlying client.

In respect of a discretionary order for a client, the transaction must be allocated to the account of the client for whom the transaction was carried out.

## 3.5 Churning

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### Learning Objective

- 2.3.5 Understand examples of churning (Market Conduct Regulations Part 5, Article 16)
- 

The term 'churning' is globally understood to be the process of excessive dealing to generate commissions and/or fees for the firm (Capital Market Institution). This type of activity would not be acting in the client's best interest.

An example definition of churning from a global perspective is set out by the UK's Financial Conduct Authority's (FCA's) Conduct of Business rules. It defines churning as:

*'...a series of transactions that are each suitable when viewed in isolation yet may be unsuitable if the recommendation or the decisions to trade are made with a frequency that is not in the best interest of the client.'*

The US Securities and Exchange Commission (SEC) has a similar approach and understanding of the term where:

*'the actions that are considered excessive trading on behalf of clients' accounts where the firm acts in a discretionary capacity.'*

Therefore, a Capital Market Institution should pay regard to a client's agreed investment strategy in determining the frequency of transactions.

Regulators always take great interest in this type of behaviour by firms in respect of discretionary managed relationships.

Capital Market Institutions must, therefore, not advise, or solicit, a client to **deal** if the dealing would be considered as contrary to the best interest of the client.

Likewise, where the Capital Market Institution has discretion over a client account, they must not abuse this discretion by excessive dealing in order to generate commission and fees – which would be contrary to acting in the client’s best interest.

In order to determine what level of dealing would be contrary to acting in the client’s best interest, the Capital Market Institution must pay regard to the number and frequency of trades relative to the client’s investment objective, financial situation as well as the size and character of their investment account.

There is no right or wrong number of dealings that is proportionate – rather, the client’s individual circumstances (size of account and investment objectives) should be taken into account. Dealing on a weekly basis on a small account could be seen as being excessive, but not so for a much larger value account.

## 3.6 Aggregation of Client Orders

### Learning Objective

2.3.6 Know the regulations governing the aggregation of client orders (Market Conduct Regulations Part 5, Article 17)

A Capital Market Institution is not permitted to aggregate a client order with those of other clients or with their own orders, if the order is for a security that is listed and **traded** on the Exchange – unless the aggregation is performed in accordance with the relevant regulations, rules or procedures issued by the Authority or the Exchange.

Where the security is not listed and traded on the Exchange, the Capital Market Institution may aggregate a client order with those of other clients, or with their own orders where the following is fulfilled:

- They have provided a written explanation to the client of the advantages and disadvantages of aggregation and obtained written consent from the client that they can aggregate orders.
- They ensure that no client will be disadvantaged by aggregation of their orders.
- Client orders that are aggregated receive the average price of execution for all orders that are executed.

To ensure that they are acting in the client’s best interest, Capital Market Institutions must have in place a written policy setting out their method of allocating trades to either clients or own account orders (ie, principal orders).

This policy must be consistently reviewed to ensure that it remains appropriate and that there are no conflicts of interest between the Capital Market Institution and their clients.

## 3.7 Dealing Ahead of Research and Investment Recommendations

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### Learning Objective

- 2.3.7 Know the conduct expected of Capital Market Institutions in relation to the publication or announcement of research or an investment recommendation (Market Conduct Regulations Part 5, Article 18)
- 

Where a Capital Market Institution produces and/or publishes investment research, then they must put in place certain procedures and processes to ensure that they do not gain any financial advantage by 'front running'.

Therefore, when a Capital Market Institution intends, or knows that an **affiliate** intends, to issue to a client an investment recommendation, or research, study or analysis relating to a security, they are prohibited from trading on its own account in the security concerned or in any related security until the client or clients for whom the recommendation or research was intended has had reasonable opportunity to react to the information.

This is to prevent Capital Market Institutions from 'front running' (often also called 'dealing ahead') its research publication by buying securities in advance of client orders that it anticipates following the publication of its research. This prevents firms from publishing research and gaining an advantage by undertaking transactions ahead of clients.

The only exception available to Capital Market Institutions is where they may deal for their own account in the security concerned, or any related securities, where they consider that the recommendation, research, study or analysis could not reasonably be expected to affect the price of the security concerned or any related security.

This is a difficult test for Capital Market Institutions to rely on, as the purpose of the research publications or investment recommendations is to generate some form of interest from clients in dealing in the security or securities.

## 3.8 Prohibition

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### Learning Objective

- 2.3.8 Know conduct that is prohibited while an investment recommendation is in place (Market Conduct Regulations Part 5, Article 19)
- 

When a Capital Market Institution, or any of its affiliates, issues an investment recommendation, research, study or analysis relating to a security, it is prohibited from providing advice to clients or undertaking a transaction for the client that is contrary to the recommendation unless prior to providing the advice or making the trade, they disclose the recommendation and the potential conflict of interest to the client.

Although Capital Market Institutions could be conflicted by acting on behalf of a client that differs from what it is recommending to other clients in its research publication, the individual circumstances of a client could determine that the dealing activity is appropriate. Therefore, the individual circumstances of clients need to be taken into account when undertaking an assessment to ascertain if the Capital Market Institution has acted in the client's best interest and managed their conflicts of interest.

In addition, a Capital Market Institution, or any of its affiliates, is prohibited from undertaking a transaction on its own account in the security that is contrary to the recommendation unless reasonable grounds exist to make the trade.

## **4. Conduct of Business**

### **4.1 Gifts and Inducements**

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#### **Learning Objective**

- 2.4.1 Know the regulations regarding gifts and inducements (Capital Market Institutions Conduct Part 5, Chapter 1, Article 27)
- 

Capital Market Institutions are not permitted to induce a client to engage in any transaction by offering or giving gifts or inducements, or accepting gifts or inducements, if doing so would lead to a conflict to a material extent with any duty to which it owes to a client.

In addition, a Capital Market Institution must not participate or offer to participate in any losses made by a client.

The Authority will regard any gift or inducement given or received by an affiliate of a Capital Market Institution or by a third party at the direction of a Capital Market Institution as being given or received by the Capital Market Institution itself.



## 4.2 Confidentiality

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### Learning Objective

2.4.2 Know regulatory requirements with respect to confidentiality (Capital Market Institutions Conduct Part 5, Chapter 1, Article 29)

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Capital Market Institutions must keep any information that they receive from clients confidential.

The only exception to this obligation is under the following conditions:

- Disclosure is required by the Capital Market Law or its Implementing Regulations or applicable Laws of the Kingdom.
- The client has given its consent for the information to be disclosed to a third party.
- The disclosure by the Capital Market Institution is reasonably necessary in order for them to perform or undertake a particular service for the client.
- The Capital Market Institution considers, to the best of its knowledge and understanding, that the information is no longer confidential.

## End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. When can a Capital Market Institution decline to carry out/execute a client order or instructions?  
*Answer Reference: Section 1*
2. When must a Capital Market Institution execute an order that it receives from a client?  
*Answer Reference: Section 3.1*
3. When is best execution owed to clients?  
*Answer Reference: Section 3.3*
4. Under what trading capacity does best execution apply to a client order?  
*Answer Reference: Section 3.3*
5. What is 'churning'?  
*Answer Reference: Section 3.5*
6. What would be considered as churning?  
*Answer Reference: Section 3.5*
7. What is 'front running'?  
*Answer Reference: Section 3.7*
8. Under what circumstances, can a Capital Market Institution deal ahead of any forthcoming research that it will publish?  
*Answer Reference: Section 3.7*
9. Is a Capital Market Institution permitted to undertake own account transactions that are contrary to a recommendation that it has sent to clients? How may inside information be disclosed?  
*Answer Reference: Section 3.8*
10. What restrictions apply when a Capital Market Institution is about to send a recommendation to a number of clients?  
*Answer Reference: Section 3.8*
11. What restrictions, if any, apply to a Capital Market Institution in relation to gifts and inducements received from, or provided to, a client?  
*Answer Reference: Section 4.1*



# Glossary





**Affiliate**

A person who controls another person or is controlled by that other person, or who is under common control with that person by a third person. In any of the preceding, control could be direct or indirect.

**Capital Market Institution**

A person authorised by the Authority to carry out securities business.

**Capital Market Law**

The Capital Market Law issued by Royal Decree Number M/30 dated 2/6/1424H.

**Client**

A person for whom a capital market institution executes securities transactions.

**Deal**

To buy, sell, subscribe for or underwrite a security.

**Director**

In relation to a joint stock company, it includes a member of the board of directors and in relation to any other company includes any manager or other senior executive who makes and implements the company's strategic decisions.

**Implementing Regulations**

Any regulations, rules, instructions, procedures and orders issued by the Authority relating to the implementation of the Capital Market Law.

**Inside Information**

Has the meaning specified at Article 4(c) of the Market Conduct Regulations.

**Insider**

Has the meaning specified at Article 4(b) of the Market Conduct Regulations.

**In Writing**

Or other similar term, wherever it appears, in relation to a communication, notice, approval, agreement or other document, means in legible form and capable of being reproduced on paper, irrespective of the medium used.

**Listed**

In relation to any type of securities, means the securities admitted to listing on the Exchange.

**Listed Company**

Any company with securities of any kind listed on the Exchange.

**Market Conduct Regulations**

The Market Conduct Regulations issued by the Board of the Capital Market Authority.

**Order**

In relation to an order from a client:

1. an order to a capital market institution from a client to execute a transaction as agent, or
2. any other order to a capital market institution from a client to execute a transaction in circumstances giving rise to similar duties as those arising from an order to execute a transaction as agent.

'Order' shall include any decision by a capital market institution to execute a transaction in exercise of discretion for a client, an investment fund that it manages or for the purpose of aggregating orders for its clients in accordance with the Market Conduct Regulations. The definition of order shall not include any requests for purchasing a new security issue.

**Person**

Any natural or legal person recognised as such under the laws of the Kingdom.

## **Public**

As defined in the Rules on the Offer of Securities and Continuing Obligations, the Instructions on the Price Stabilisation Mechanism in Initial Public Offerings and the Instructions on Issuing Depositary Receipts Out of the Kingdom, as persons other than the following:

1. affiliates of the issuer
2. substantial shareholders of the issuer
3. directors and senior executives of the issuer
4. directors and senior executives of affiliates of the issuer
5. directors and senior executives of substantial shareholders of the issuer
6. any relative of persons described at (1), (2), (3), (4) or (5) above
7. any company controlled by any persons described at (1), (2), (3), (4), (5) or (6) above, or
8. persons acting in concert, with a collective shareholding of (5%) or more of the class of shares to be listed.

## **Registered Person**

A person who is registered with the Authority to perform a registrable function.

## **Securities**

Means any of the following:

1. shares
2. debt instruments
3. warrants
4. certificates
5. units
6. options
7. futures
8. contracts for differences
9. long-term insurance contracts, and
10. any right to or interest in anything which is specified by any of the points (1) through (9) above.

## **Sells or Selling**

In relation to a security, includes selling the security for consideration, surrendering, assigning or converting rights under a security or assuming a corresponding liability.

## **Senior Executives**

Any natural person to whom the governing body of the firm, or a member of the governing body of the firm, has given responsibility, either alone or jointly with others, for management and supervision and either reports to:

1. the governing body directly
2. a member of the governing body, or
3. the CEO.

## **Share**

Share of any company wherever incorporated. The definition of 'share' includes every instrument having the characteristics of equity.

## **Traded**

Traded on the Exchange.

## **Traded Security**

A security traded on the Exchange.

# Multiple Choice Questions





## Multiple Choice Questions

The following additional questions are for learning and revision purposes. Whilst they are based on the syllabus, they do not necessarily replicate actual examination standard questions and are included to test your knowledge and understanding of the relevant sections of the workbook.

1. A person's stockbroker recently told them some unverified information about some shares which they own. Which market conduct rule is his broker MOST likely to have breached?
  - A. Insider trading
  - B. Dealing ahead
  - C. Rumours
  - D. Trading contrary to recommendation
2. A Capital Market Institution has been found to have no liability for paying damages to a client to whom it made an untrue statement concerning certain securities. This is due to the fact that the client could not show that:
  - A. He was unaware the statement was untrue
  - B. The value of the trade exceeded SAR 1,000
  - C. He already owned the securities concerned
  - D. The Capital Market Institution was insider trading
3. The definition of inside information includes which of the following?
  - A. The information is only known to ten people or fewer
  - B. If disclosed, it would cause a price rise of at least 5%
  - C. It relates to a security
  - D. The person receiving the information buys or sells shares on the Exchange
4. A person has arranged a trade in which one of his relatives is involved. This type of trading is known as:
  - A. dealing ahead
  - B. indirect trading
  - C. insider trading
  - D. market manipulation
5. An investor is not being held liable for insider trading carried out by a Capital Market Institution. What is the MOST likely explanation for this?
  - A. The trade was carried out on the Exchange
  - B. The information had not been disclosed to the public
  - C. The transaction was below the threshold for action by the Authority
  - D. He did not authorise the transaction

6. Which of the following would be considered to be an attempt at market manipulation?
  - A. A person told ten of his friends about the performance of one his investments
  - B. A transaction does not result in a change of beneficial ownership
  - C. A person needs to sell part of his portfolio holdings for personal reasons, which are well known to family and friends
  - D. Leaving an order with a specific price level, which is 5% less than the current share price
  
7. A Capital Market Institution declined an order from an existing and highly regarded client, who was a Natural Person, which of the following is true?
  - A. The Capital Market Institution considered that they were trying to engage in insider dealing
  - B. The Capital Market Institution knows that the Natural Person is an employee of the security that it wished to place an order to buy shares
  - C. The Capital Market Institution must record this decision and provide details to the Authority within 24 hours
  - D. The order was left after the Exchange had closed
  
8. Which of the following is true in relation to 'front running'?
  - A. This is term used where a client wants to undertake a transaction prior to the Exchange's opening
  - B. A Capital Market Institution would be able to delay the completion of client orders in order to satisfy its own account transactions
  - C. A Capital Market Institution must obtain the Authority's approval to undertake an own account order at the same time as client orders
  - D. A Capital Market Institution must have adequate policies and procedures to ensure that information on client orders is not shared with third parties
  
9. When is a Capital Market Institution permitted to disclose confidential client information to a third party?
  - A. The disclosure is necessary for the Capital Market Institution to carry out the service
  - B. The Capital Market Institution has offered to participate in any losses made by the client
  - C. The Capital Market Institution obtains prior approval from the Authority
  - D. The confidential information is not considered sensitive
  
10. Which of the following is correct in respect of the term and meaning of 'churning'?
  - A. High frequency trading by a Capital Market Institution
  - B. Frequent dealing by a Capital Market Institution when it has a discretionary mandate, with the aim to generate commission
  - C. Acting in the client's best interest does not apply when the Capital Market Institution deals on a principal basis
  - D. A Capital Market Institution dealing on a client's portfolio, when it has a discretionary mandate, more than once a week

11. A client has just instructed a Capital Market Institution to purchase some shares, which of the following is correct?
- A. The Capital Market Institution can delay allocation to the clients account until after the Exchange has closed
  - B. Allocation must be undertaken prior to execution for the client where the Capital Market Institution has discretion over the client's account
  - C. Following execution, the Capital Market Institution must promptly allocate the trade to the client's account
  - D. The Capital Market Institution is not permitted to aggregate the order from the client with an identical order from another client
12. A Capital Market Institution is about to send research relating to a listed company to all of their clients. If the Capital Market Institution purchases shares in the company at the same time as sending the research, the Capital Market Institution is MOST likely to breach which market conduct rule?
- A. Trading contrary to recommendation
  - B. Market manipulation
  - C. Dealing ahead
  - D. Rumours
13. Two clients both instructed a Capital Market Institution simultaneously to carry out a transaction in the same shares. Which of the following is correct?
- A. The order can be aggregated without any notification to the clients because the underlying share is listed on the Exchange
  - B. Where the orders are of the same size and one is a purchase and the other a sale, the Capital Market Institution can match without executing on the Exchange
  - C. The rules on aggregation of orders do not apply to securities listed on exchanges outside the Kingdom
  - D. Aggregation of orders for securities listed on the Exchange are permitted if they follow rules laid down by the Exchange
14. Person X received some information from his brother Rohan, who is the chief financial officer (CFO) of Capital Market Institution B. The information contained details of successful merger talks with Capital Market Institution C, which will be published the next day. Which of the following is the correct course of action to take?
- A. Do nothing and do not encourage others to undertake transactions in either Capital Market Institution B or C
  - B. Advise his fellow workers of this information
  - C. Place an order with his broker to purchase shares in Capital Market Institution B at a specific target price
  - D. Advise his brother that he will be buying shares in Capital Market Institution C Investments

15. Which of the following would be defined as an 'insider'?
  - A. Any employee of the company subject to the 'insider information', no matter their role within the company
  - B. Investors who obtain information from publicly available information
  - C. Any employee working in the financial services sector who is also a shareholder
  - D. A person who obtains 'insider information' through a business relationship
  
16. Under the Market Conduct Regulations, the prohibition of manipulative and deceptive acts or practices extends to:
  - A. transactions only
  - B. any type of order or transaction only
  - C. any order or transaction in any security only
  - D. any order or transaction in a security listed on an exchange in the Kingdom
  
17. A Capital Market Institution has declined a client order as it suspects insider trading. Within what MAXIMUM period must it notify the Authority of this decision?
  - A. 24 hours
  - B. 48 hours
  - C. Three days
  - D. Five days
  
18. A person would be considered to have made an untrue statement if they:
  - A. persuade someone to make an inaccurate material statement
  - B. cause someone to make a misrepresentation of any type of fact
  - C. make an immaterial inaccurate statement
  - D. make a statement that is a misrepresentation of any type of fact
  
19. Under the Market Conduct Regulations, which statement is correct in relation to client order handling? Capital Market Institutions should:
  - A. declare their own position in a security before accepting a client order in it
  - B. clear their own position in a security before accepting a client order in it
  - C. execute client orders before executing in the same security for their own account
  - D. execute client orders against their own account where possible
  
20. Which term is used to describe a situation where the price of a security is artificially inflated?
  - A. Indirect trading
  - B. Insider trading
  - C. Market manipulation
  - D. Money laundering

21. Which of the following is correct in respect of the gifts and inducements rules for a Capital Market Institution?
- A. A Capital Market Institution can make good losses on a client investment account
  - B. They are not permitted to induce a client to undertake a transaction by offering them a reduction in their fees and charges for operating their investment account
  - C. A gift made by an affiliated company of a Capital Market Institution can be made to a client with an investment account
  - D. The giving of a gift or an inducement by a Capital Market Institution is not considered a conflict of interest with their duty to act in the best interest of their client
22. Any Capital Market Institution that receives a client order is expected to execute it:
- A. immediately
  - B. as soon as is practically possible
  - C. together with all other client orders
  - D. after it has cleared its own position
23. A financial instrument can only fall under the scope of the insider dealing regulations if it is:
- A. listed in the Kingdom
  - B. a traded security
  - C. actively traded
  - D. traded by an employee
24. A Capital Market Institution is dealing as an agent for a client. What is one of the best execution criteria the Capital Market Institution must follow?
- A. Clients should receive better than market prices
  - B. Clients should receive the best prevailing price
  - C. The Capital Market Institution should always complete its own business first
  - D. The Capital Market Institution should always fulfil orders via its own account
25. Which term is used to describe the situation where an individual purchases a number of securities in their own name?
- A. Direct trading
  - B. Indirect trading
  - C. Market manipulation
  - D. Insider trading

## Answer References

**1. C Chapter 1, Section 3.2**

Option C is correct because the information provided did not come from a verified and legitimate source. Therefore, what the person was told was nothing more than rumour.

**2. A Chapter 1, Section 3.3**

Option A is correct because the claimant was unable to demonstrate that the Capital Market Institution knew the information and statement were untrue and that they would have acted in the same manner regarding the buying/selling of the underlying security.

**3. C Chapter 1, Section 4.1**

Option C is correct because the legislation defines inside information as non-market and price sensitive that relates to a security listed on the Exchange.

**4. B Chapter 1, Section 4.5**

Option B is correct because the person and a relative are involved in the transaction.

**5. D Chapter 1, Section 4.5**

Option D is correct because where an authorised legal person commits insider dealing in the name of another (ie, one of its clients), the client is not guilty as they would not have acted on insider information.

**6. B Chapter 1, Section 2**

Option B is correct because the Regulations define that market manipulation is action undertaken by a person where they either enter into a fictitious trade and/enter into a transaction where there is no change of beneficial ownership.

**7. A Chapter 2, Section 1**

Option A is correct because a firm must not carry out an order for a client where it has reasonable grounds to believe that they are either attempting to undertake insider dealing or undertake market manipulation.

**8. D Chapter 2, Section 3.7**

Option D is correct because a Capital Market Institution must not disclose client orders with another person, where they believe that person may use the information and undertake a transaction in the affected security themselves.

**9. A Chapter 2, Section 4.2**

Capital Market Institutions must keep any information that they receive from clients confidential.

The only exception to this obligation, is under the following conditions:

- The disclosure by the Capital Market Institution is reasonably necessary in order for them to perform or undertake a particular service for the client.

**10. B Chapter 2, Section 3.5**

Option B is correct because the term churning means excessive dealing in order to generate commission for the Capital Market Institution. However, there is no right or wrong number of transactions that would define whether a Capital Market Institution is churning a client's account, as it depends on the individual client's investment objectives, financial position and the size of their account.

**11. C Chapter 2, Section 3.4**

Option C is correct because a Capital Market Institution must allocate to a client, an order executed where they have discretion, order once it has been executed in a prompt manner, without delay.

**12. C Chapter 2, Section 3.7**

Option C is correct, for there not to be a breach of the conduct rule then a Capital Market Institution could only carry out a transaction once clients receiving the research have had sufficient time and opportunity to read the research and make decisions based on its content and recommendations.

**13. D Chapter 2, Section 3.6**

Option D is correct, there are limited circumstances that the aggregation of a client order is permitted where the underlying security is listed on the Exchange.

**14. A Chapter 1, Section 4.8**

Option A is correct. Person X has just been made aware of information about a security listed on the Exchange, that if this information was made public, it would have a material effect on the share price of the security – therefore, he is prohibited from entering into (including placing an order) any transaction. He must also refrain from passing on this information to others or encouraging them to undertake transactions.

**15. D Chapter 1, Section 4.6**

Option D is correct. The Market Conduct Regulations define the following as 'insiders':

- a director, senior executive or an employee of the issuer of a security related to inside information
- a person who obtains inside information through a family relationship, including from any person related to the person who obtains the information
- a person who obtains inside information through a business relationship, including obtaining the information:
  - from the issuer of a security related to inside information

- from any person who has a business relationship with the person who obtains the information, or
- from any person who is a business associate of the person who obtains the information
- a person who obtains inside information through a contractual relationship, including obtaining the information:
  - from the issuer of a security related to inside information, or
  - from any person who has a contractual relationship with the person who obtains the information.

**16. D Chapter 1, Section 1**

The Market Conduct Regulations prohibit any person (recognised under the laws of the Kingdom) to engage in, or to participate in, any manipulation or deceptive acts in relation to a transaction (including an order) in a listed security listed on an exchange in the Kingdom where they knew (or had reasonable grounds to have known) the nature of their act or practice.

**17. C Chapter 2, Section 1**

Where the Capital Market Institution has decided not to accept or execute a client order, they must document this and include all relevant information that enabled them to come to this conclusion. They must notify the Authority of this decision not to deal for a client within three days of making their decision.

**18. A Chapter 1, Section 3.2**

The Market Conduct Regulations set out the specific circumstances in which a person would be considered to have made an untrue statement. They include any of the following circumstances:

- making a statement that is false or inaccurate in a material respect
- persuading or causing someone to make a false or inaccurate statement
- making a statement that contains a misrepresentation of a material fact
- persuading or causing someone to make a statement that contains a misrepresentation of a material fact, or
- omitting a material fact when making a statement.

**19. C Chapter 2, Section 3.1**

A Capital Market Institution must execute client orders for a security before executing any order in the same security for any of their own accounts.

**20. C Chapter 1, Section 4.2**

|                            |                                                                                                                                                                                                                                                                                                                                      |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Market manipulation</b> | <p>Trading in a security for the purpose of creating:</p> <ul style="list-style-type: none"> <li>• a false or misleading impression of trading activity or interest in the purchase or sale of the security, or</li> <li>• an artificial bid price, ask price or trade price for the security of or any related security.</li> </ul> |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**21. B Chapter 2, Section 4.1**

Option B is correct because Capital Market Institutions are not permitted to induce a client to engage in any transaction by offering or giving gifts or inducements, or accepting gifts or inducements, if doing so would lead to a conflict to a material extent with any duty to which it owes to a client. In addition, a Capital Market Institution must not offer to participate in any losses made by a client.

**22. B Chapter 2, Section 3.2**

When a Capital Market Institution receives an order from a client, and accepts that order, then it must execute that order as soon as practically possible in the circumstances prevailing in the market.

**23. B Chapter 1, Section 4.3**

The scope of financial instruments that are covered by the insider dealing regulations in the Kingdom are all traded securities, which include any security whose price or value would be materially affected if the information was disclosed or made publicly available.

**24. B Chapter 2, Section 3.3**

When dealing with, or for, a client, a Capital Market Institution has a duty to obtain for the client best execution. This duty to obtain best execution applies in the following circumstances:

- where the Capital Market Institution is acting in an agency basis: it must ensure that the order is executed at the best prevailing price in the relevant market or markets for the size of the order.

**25. A Chapter 1, Section 4.7**

In this context, trading directly refers to either executing a trade in the security or making an offer to buy or sell the security on an Exchange in their own name or for an account that they have an interest in.



# Syllabus Learning Map





| Syllabus Unit/<br>Element |                                                                                                                                                           | Chapter/<br>Section |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Element 1</b>          | <b>Market Conduct Regulations</b>                                                                                                                         | <b>Chapter 1</b>    |
| <b>1.1</b>                | <b>Prohibition of Manipulative and Deceptive Acts or Practices</b><br>On completion the candidate should:                                                 |                     |
| 1.1.1                     | Know the regulations that govern the prohibition of manipulative and deceptive acts or practices (Market Conduct Regulations Part 2, Article 2)           | 1                   |
| <b>1.2</b>                | <b>Manipulative and Deceptive Acts or Practices</b><br>On completion the candidate should:                                                                |                     |
| 1.2.1                     | Know actions that are considered to be manipulative or deceptive acts or practices (Market Conduct Regulations Part 2, Article 3)                         | 2                   |
| <b>1.3</b>                | <b>Prohibition of Untrue Statements</b><br>On completion the candidate should:                                                                            |                     |
| 1.3.1                     | Know the regulations governing rumours (Market Conduct Regulations Part 4, Articles 7, 8 & 9)                                                             | 3.1                 |
| 1.3.2                     | Know the circumstances in which a person would be considered to have made an untrue statement (Market Conduct Regulations Part 4, Article 9)              | 3.2                 |
| 1.3.3                     | Know the regulations outlining the responsibility for untrue statements (Market Conduct Regulations Part 4, Article 10)                                   | 3.3                 |
| <b>1.4</b>                | <b>Insider Trading</b><br>On completion the candidate should:                                                                                             |                     |
| 1.4.1                     | Know the definition of inside information (Market Conduct Regulations Part 3, Article 4, c)                                                               | 4.1                 |
| 1.4.2                     | Know the interaction between market manipulation and insider trading (Market Conduct Regulations Articles 3 and 4)                                        | 4.2                 |
| 1.4.3                     | Know the types of security that fall under the scope of insider trading regulations (Market Conduct Regulations Part 3, Article 4, Sub Articles a, 1 & 2) | 4.3                 |
| 1.4.4                     | Know when a person is considered to be directly trading (Market Conduct Regulations Part 3, Article 4, (a-3))                                             | 4.4                 |
| 1.4.5                     | Know when a person is considered to be indirectly trading (Market Conduct Regulations Part 3, Article 4, (a-4))                                           | 4.5                 |
| 1.4.6                     | Know the types of person who are considered to be 'insiders' (Market Conduct Regulations Part 3, Article 4, b)                                            | 4.6                 |
| 1.4.7                     | Know prohibitions regarding the disclosure of inside information (Market Conduct Regulations Part 3, Article 5)                                           | 4.7                 |
| 1.4.8                     | Know prohibitions regarding insider trading (Market Conduct Regulations Part 3, Article 6)                                                                | 4.8                 |

| Syllabus Unit/<br>Element |                                                                                                                                                                                                                               | Chapter/<br>Section |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Element 2</b>          | <b>Capital Market Institutions' Conduct</b>                                                                                                                                                                                   | <b>Chapter 2</b>    |
| <b>2.1</b>                | <b>Market Manipulation</b><br>On completion the candidate should:                                                                                                                                                             |                     |
| 2.1.1                     | Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in market manipulation (Market Conduct Regulations Part 5, Article 11) | 1                   |
| <b>2.2</b>                | <b>Insider Trading</b><br>On completion the candidate should:                                                                                                                                                                 |                     |
| 2.2.1                     | Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in insider trading                                                     | 2                   |
| <b>2.3</b>                | <b>Handling Client Orders</b><br>On completion the candidate should:                                                                                                                                                          |                     |
| 2.3.1                     | Know the conduct expected of Capital Market Institutions and registered persons in relation to the prioritisation of client transactions (Market Conduct Regulations Part 5, Article 12)                                      | 3.1                 |
| 2.3.2                     | Know regulatory requirements for Capital Market Institutions in relation to client orders (Market Conduct Regulations): timely execution (Part 5, Article 13)                                                                 | 3.2                 |
| 2.3.3                     | Know best execution requirements for a Capital Market Institution acting as (Market Conduct Regulations): agent (Part 5, Article 14), principal (Part 5, Article 14)                                                          | 3.3                 |
| 2.3.4                     | Know regulatory requirements for timely allocation (Market Conduct Regulations Part 5, Article 15)                                                                                                                            | 3.4                 |
| 2.3.5                     | Understand examples of churning (Market Conduct Regulations Part 5, Article 16)                                                                                                                                               | 3.5                 |
| 2.3.6                     | Know the regulations governing the aggregation of client orders (Market Conduct Regulations Part 5, Article 17)                                                                                                               | 3.6                 |
| 2.3.7                     | Know the conduct expected of Capital Market Institutions in relation to the publication or announcement of research or an investment recommendation (Market Conduct Regulations Part 5, Article 18)                           | 3.7                 |
| 2.3.8                     | Know conduct that is prohibited while an investment recommendation is in place (Market Conduct Regulations Part 5, Article 19)                                                                                                | 3.8                 |
| <b>2.4</b>                | <b>Conduct of Business</b><br>On completion the candidate should:                                                                                                                                                             |                     |
| 2.4.1                     | Know the regulations regarding gifts and inducements (Capital Market Institutions Conduct Part 5, Chapter 1, Article 27)                                                                                                      | 4.1                 |
| 2.4.2                     | Know regulatory requirements with respect to confidentiality (Capital Market Institutions Conduct Part 5, Chapter 1, Article 29)                                                                                              | 4.2                 |

## Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

| Element Number | Element                              | Questions |
|----------------|--------------------------------------|-----------|
| 1              | Market Conduct Regulations           | 13        |
| 2              | Capital Market Institutions' Conduct | 12        |
| <b>Total</b>   |                                      | <b>25</b> |



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