



Insider Trading



Introduction

This booklet is prepared by the Capital Market Authority “CMA” of the Kingdom of Saudi Arabia to endorse continuous awareness efforts about breaches to the Capital Market Law and its Implementing Regulations, especially practices related to Insider Trading in the Saudi Capital Market.

It’s also part of the CMA’s efforts to develop the Saudi Capital Market and protecting the market and investors from unfair and unsound practices along with seeking to achieve fairness, efficiency and transparency in Securities transactions.

It should be noted that this handbook does not substitute, in anyway, the rules of the Capital Market Law and its Implementing Regulations.

What is Inside Information ?

Inside Information can be defined as any information that relates to a traded security and has not been disclosed to the general public, and that is not otherwise available to the general public; and that a normal person would realise that, in view of the nature and content of the information, disclosing it or making it available to the public would have a material effect on the price or value of the security.



How does Insider Trading Happen ?

Insider Trading occurs when an insider such as a board member, top executive, employees of the External Auditor of the Issuer accounts that issued the Security related to the Inside Information, any employee or member of a committee in that Issuer, or any person who obtains inside in-

formation through a family relationship including a person related to the person who obtains the information, or through a business or contractual relationship trades directly or indirectly based on that Inside Information.

Also, It includes a person who is not an insider, but trades directly or indirectly based on Inside Information obtained from another person, when he knows or should have known that this kind of information is Inside Information.

Insider Trading is considered to be one of the illegal practices to article No. (50) of the Capital Market Law issued pursuant to Royal Decree No. (M/30) dated 2/6/1424H.



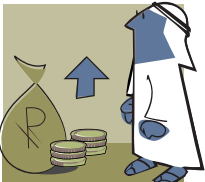


Insider Trading Penalty:

Insider Trading is prohibited to both insiders and non-insiders as it is considered to be one of the





criminal activities in the Kingdom of Saudi Arabia. Also, It should be noted that both investigation and prosecution of Insider Trading is one of the duties of the Saudi Bureau for Investigation and Prosecution; and so for being a criminal activity punishable by up to a prison.

Examples for Insider Trading:

1- Buy Transaction:

1		<p>An employee or a board member knows that the Issuer he/she works for will make an above expected profits.</p>
2	<p>Buy Transaction</p> 	<p>He/She buys the Issuer shares before profit announcement being published in order to benefit from the increase in price, or might disclose this information to another person who might benefit from.</p>
3		<p>This behavior does not bring justice to the market; because this person benefited from an inside information which is not available to the general public.</p>

2- Sell Transaction:

1		<p>An employee or a board member knows that the Issuer he/she works for might lose a contract with one of its major clients which might cause massive losses to the Issuer.</p>
2		<p>He/she deliver this information to any member of his/her family or friends who own shares in that Issuer, which make the other person an insider.</p>
3	<p>Sell Transaction</p> 	<p>Insider person sells his/her shares based on this inside information.</p>
4		<p>This behavior does not bring justice to the market; because if general public knew this information then they might not buy the Issuer shares.</p>

Negative Impacts of Insider Trading:

Insider Trading leads to several negative impacts including:

Affects securities' prices in unjustified way according to the current information available to the general public.



Damage investors' confidence toward the Capital Market



Generating unfair revenues.

The CMA Role In Terms of Prohibiting Insider Trading:

The CMA - as it's the agency responsible for issuing regulations, rules and instructions, and for

applying the provisions of the Capital Market Law and its Implementing Regulations - prohibits insider trading through enforcing Issuers not to disclose information and material developments to parties not bound by a confidentiality obligation and an obligation to protect such information along with enforcing them to take all necessary steps to prevent the leakage of any information and material developments before providing the CMA with such information and material developments and disclosing them according to related rules and regulations in that regard.

The CMA also - as it's the authority responsible for protecting citizens and investors in Securities from unfair and unsound practices or practices involving fraud, deceit, cheating or manipulation - monitors and analyzes trades that happened during listed companies announcements period by board members, top executives, committees members of the company, Insiders, or any other person related to insiders, along with monitoring and analyzing trades made by them before any major related announcements is expected and when any major changes happen towards average daily trading.

How Can I Contribute In Protecting Inside Information From Leakage ?

Policies and Procedures

- Create a list that includes all insiders and minimize it as much as possible.
- Set out several procedures for dealing with related external parties.
- Strengthen the Roles of both Compliance and Internal Audit departments.
- Prepare periodic reports that show the level of compliance towards policies and procedures related to protecting Inside Information from leakage.
- Set out a mechanism for evaluating risks related to leakage of Inside Information such as the Risk-Based Approach.
- Confidentiality Agreements.
- Protecting work-related documents and prevent carrying them out of their allocated work sites.

Disclosure of Securities Owned in the Issuer

Requiring employees to disclose the Issuer

securities that they own.

- Preventing employees from making any trades in the Issuer securities before informing related departments.

Promote Business Ethics

Information Technology

- Controlling access permissions to Inside Information.
- Prevent sharing any internal electronic communications with other external websites.

Continuous Training and Awareness

- Continuous warning of risks and consequences of leaking Inside information.
- Prepare periodic tests to measure awareness and understanding level of Inside Information concept.

Chinese Walls

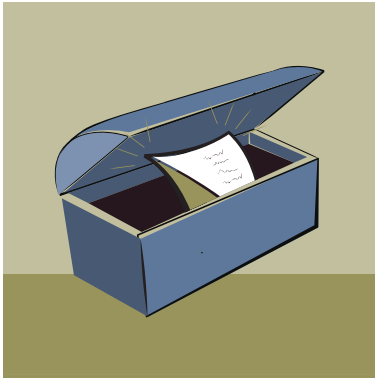
- limiting access permissions to departments exposed to Inside Information only to relevant employees.
- Prevent carrying out any documents outside these departments.

Promote Disclosure

How Can an Issuer Contribute in Protecting Inside Information From Leakage ?

1) Policies and Procedures:

Prepare written internal policies and procedures to ensure protecting Inside Information from leakage along with working on implementing and updating it in a periodic basis which determines access and protection of Inside Information throughout different meth



ods such as IT systems. In addition, the Issuer must ensure that all board members, top executives, employees and members of the Issuer committees are complying with them.

These policies and procedures shall cover different aspects such as dealing with external parties. Additionally, it has to be updated at least once a year in order to evaluate its efficiency and make any required amendments.

Creating a list that includes all insiders and minimize it as much as possible:

Throughout this method, the Issuer can create a list of all insiders who are directly or potentially exposed to Inside Information such as IT or Internal Audit employees and any external parties such as the External Auditor of the Issuer accounts. After that, the Issuer can assess how necessary they need to be exposed to Inside Information and work on minimizing the list as much as possible. The Issuer can, also, place certain criteria for any person to become part of the list and ensure that he/she well understand the consequences of leaking such information or benefiting from it in an unfair way.

Dealing with external parties:

The Issuer shall apply all necessary precautions when it comes to any necessary dealing with external parties exposed to Inside Information.

These policies and procedures may ensure that external parties, such as external auditor of the Issuer accounts, and legal or financial advisor, are bound by a confidentiality obligation and an obligation to protect such information from leakage, and pledge to prevent benefiting from such information in an unfair way, along with including such parties in the Insider list.

Strengthen the Roles of both Compliance and Internal Audit departments:

Compliance and Internal Audit departments exercise a major role in terms of ensuring compliance towards internal policies and procedures. The Issuer can contribute in protecting inside information from leakage through strengthen the roles of both departments in terms of placing several policies and procedures that would protect inside information from leakage and not benefiting from such an information in an unfair way as well as continuously monitor employees compliance towards such policies and procedures.

Prepare periodic reports that show the level of compliance towards policies and procedures related to

protecting Inside Information from leakage:

The Issuer may assign an independent party to prepare several internal policies and procedures that would protect inside information from leakage and prevent benefiting from such information in an unfair way. Moreover, this independent party shall continuously evaluate the level of compliance towards such policies and procedures by all board members, top executives, external auditor of the Issuer accounts, employees, members of the Issuer's committees, and any other external parties exposed to Inside Information throughout preparing periodic reports which shows the level of compliance towards such policies and procedures, and then, share these reports with the general public as part of promoting disclosure and transparency.

Set out a mechanism for evaluating risks related to leakage of Inside Information such as the Risk-Based Approach:

The Issuer can evaluate the level of risks associated with leakage of insider information based on certain criteria such as determining departments or individuals highly exposed to Inside Informa-

tion or any other criteria. This approach can enable the Issuer to focus more on placing several policies and procedures that would contribute in protecting inside information from leakage and prevent benefiting from such an information in an unfair way based on their level of risks.

Confidentiality Agreements:

When it is necessary to deal with parties related to Inside Information, the Issuer can contribute in protecting inside information from leakage along with not benefiting from such an information in an unfair way throughout the Confidentiality Agreements, especially such parties that are not bound by a confidentiality obligation and an obligation to protect such information.

Other procedures:

The Issuer can prepare and implement a written policies and procedures relates to ensure that all board members, top executives, external auditor of the Issuer accounts, employees and members of the Issuer committees and any other external parties exposed to Inside Information must protect hard and soft documents related to inside information in secure and safe places or passwords, along with preventing carrying them out of their

allocated work sites.

2) Disclosure of Securities Owned in the Issuer:

The Issuer can require its employees to disclose the securities that they own in the Issuer, and prevent any employee from making any trades in such securities before informing related departments and gaining the necessary approvals after such departments would ensure that there is no such breach of policies and procedures relates to protecting inside information from leakage and not benefiting from such information in an unfair way.

3) Promote Business Ethics:

The Issuer plays a major role in regards to promoting concepts of business ethics among employees throughout providing such an environment that would encourage them to adopt those concepts. The Issuer can, also, endorse such concepts among employees through periodic tests that assess the level of awareness and understanding of work ethics concept. these practices and others similar can indirectly help minimizing the possibility of inside information leakage or benefiting from such information in an unfair way. It can be, also, a tool to discover the weaknesses in terms of understanding such concepts, and over-

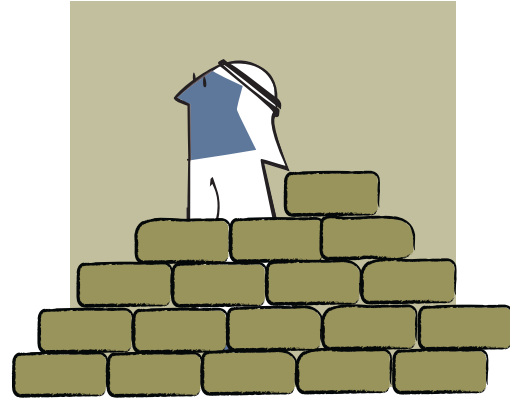
come those weaknesses through different related training courses.

4) *Information Technology:*

The Issuer can place several IT systems that can contribute in protecting Inside Information from leakage through determining access permissions to such information, along with placing several policies and procedures in regards to preventing sharing any internal electronic communications with other external websites.

5) *Continuous Training and Awareness:*

The Issuer shall continuously inform its employees about importance of protecting Inside Information from leakage and not benefiting from such an information in an unfair way as its considered to be a criminal activity. Within addition, the issuer may prepare several periodic tests that assess the level of awareness and understanding of inside information protection methods along with risks and consequences associated from trading based on such information. Furthermore, the Issuer can simplify policies and procedures related to protecting inside information from leakage in a way that leads to better understanding among its employees and share these simple forms of policies and procedure through all possible means.



6) *Chinese Walls:*

The Issuer can contribute in protecting Inside Information from leakage and prevent benefiting from such an information in an unfair way through limiting access permissions to departments exposed to Inside Information only to relevant employees along with preventing carrying out any documents outside of such departments.

7) *Promote Disclosure:*

The Issuer compliance to clear, fair and not misleading disclosure to the general public without delay of any material developments in its sphere of activity in accordance with the relevant rules and regulations In that regard can minimize the possibility of inside information leakage and benefiting from such information in unfair way.

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