



**Capital Markets
Authority in Lebanon
Who We Are**



هيئة الاسواق المالية
CAPITAL MARKETS AUTHORITY

About PIE

This informative brochure is part of PIE – Program for Investor Education – initiated by the Capital Markets Authority to increase awareness on the importance of investments and the risks associated with it.

Being a country with a vibrant banking sector, Lebanon does not score well with financial literacy and investor education. Our elementary and secondary educational system does not include ‘Financial investments’ as part of its curriculum. Consequently, studies have shown that only a minimal portion of the Lebanese plan their retirement, income investment and personal budgets.

At its core, the lack of investment knowledge is a major source of risk to potential investors. Whether you are buying real estate, an insurance policy, investing in commodities, or simply buying a share in a company you appreciate; investors need to understand the underlying risks and protect themselves. We at the CMA consider this as one of our main objectives; to increase awareness and protect you, the investor, and your life time savings.

THIS brochure serves to highlight to the reader the role of the Capital Markets Authority; an independent and autonomous regulator established by Law no. 161/2011. Considered to be one of the most important developments in the Lebanese Capital Markets, the CMA, and the wide mandate it holds aims to improve market conditions for a better performing capital markets in Lebanon. It will continue to thrive to raise the level of professionalism in the sector, upholding International best practices in the regulatory, oversight and control frameworks and standards it sets.

We hope that this simplified explanation of the role and duties of the CMA serves you well. Visit our website (www.cma.gov.lb) for more information about our investor education programs, and the latest developments at the CMA.



Development of Capital Markets

Why?

The development of capital markets is not only vital for private sector investors in financial instruments such as institutions, businessmen and individuals, but also generally positive for the economy as a whole.

In Lebanon, for instance, firms predominantly rely on bank lending to obtain extra capital, which in the absence of other options of funding, the Banking sector had to step in and play an important role in making credit available in the market.

However, there is a fundamental paradigm in bank-lending that business tries to avoid; credits are short-term and do not fulfill the needs of sectors that require access to long-term financing. In this respect, they look out for capital markets which are crucial to develop in order to ensure additional sources of funding, mainly long-term and sometimes risk-associated financing, to support the initiatives of the private sector and create employment opportunities that enables sustainable economic growth.

Channel savings towards the right investment to match up savers and creditors needs.

Simultaneously, developed capital markets offer savers diversified opportunities, allowing them to invest in different projects and various viable sectors capable of generating higher rates of return than those generated by interest income from bank deposits for instance, especially if these projects turn out to be economically feasible and commercially successful.



Investor Protection

How?

Institutions or individuals dealing with financial instruments may resort to various kinds of unfair and fraudulent practices - that might include scams or manipulations - with the aim of achieving fast profits. Such behaviour negatively affects investors and markets alike, be it directly or indirectly.

In order to protect investors, the CMA issues regulations aimed at improving the functioning of Capital Markets and the control of all licensed institutions and registered persons that deal with financial instruments in Lebanon.

Develop implementing regulations that are in line with international best financial market practices.

The key mission of the newly established Capital Markets Authority is to issue the implementing decisions and regulations necessary to instil transparency, efficiency and boost investor's confidence in the market, through ensuring that the regulatory framework is on par with international best practices. Such a regulatory approach will enhance a culture of transparency and further protect investors from illegal or fraudulent practices. However, regulations alone are not sufficient. Market oversight and control is of key importance.

Control is the core activity and backbone of the CMA

The main objective behind control is to ensure the compliance of financial institutions with the applicable standards and regulations, whether through conducting onsite visits, or by reviewing all necessary documentation required to be periodically sent to the CMA. The CMA reserves the right and takes responsibility for imposing on institutions whatever measures it deems necessary to ensure their compliance with regulations. It also has the right to impose sanctions, as stipulated in Law no. 161/2011.

For this purpose, the Law 161/2011 established an independent Sanctions Committee entrusted with imposing strict penalties on violators.

The Sanction Committee has the authority to impose penalties to ensure that participants adhere to regulatory requirements

The Sanction Committee has the authority to impose sanctions and monetary penalties upon the violation of the Capital Markets Law. Moreover, pursuant to the suggestions of the Sanctions Committee, the CMA Board may withdraw financial instruments from trade; revoke financial services licenses and dismiss the managers of the concerned financial institution. The decisions of the Sanctions Committee may be appealed before the Capital Markets Court, established under Law no. 161/2011.



Protecting the investor is an important objective.

But what about protecting the other members of the community?

The interconnection between growth and employment is considered a proven fact of economic theory. In other words, the protection of investors and the development of capital markets are ultimately beneficial for all community members, regardless of their financial capabilities or social status. The main purpose behind promoting safe and efficient capital markets is encouraging investments in general, and consequently enhancing economic growth whereby both the private and public sector are able to raise low-cost long-term capital which enables them to finance new projects.

Economic growth creates job opportunities for youth and reduces unemployment.

The Capital Markets Authority sets the adequate implementing regulations in accordance with international best financial market practices, in order to ensure the good functioning of capital markets. These regulations, along with the strict control imposed by the CMA enable creditors and issuers of financial products (such as stocks and bonds) to attract more investors and therefore achieve faster growth. Ultimately, the growth in capital markets activity will further translate into enhanced economic growth, in turn adding more job opportunities in the economy. Such developments will attract more investments to the Lebanese capital markets, while encouraging institutions to public offering of ownership i.e. listing their shares on the Stock Exchange. As such, Lebanon will once again be able to attract foreign and regional institutions to be involved in its capital market



The investor has a primary role in protecting himself.

How?

There is no doubt that adequate regulations and efficient control play a vital role in the protection of investors. However, the Capital Markets Authority believes that enhancing financial literacy and raising public awareness on investment and capital markets is a crucial element for the immunity of investors.

Enhancing education and public awareness about capital markets is vital for an efficient investor protection.

An educated investor is better protected and more knowledgeable of the implications of investment decisions, which renders a more realistic approach to investing in capital markets. It is very important to note that it is absolutely not CMA's role to provide advice with regards to subscribing and investing in financial products. As a regulator, the CMA's role in this area is limited to educating investors and providing information that might reduce the educational gaps present, by holding public activities, conducting research and issuing publications, in addition to organizing conferences and seminars that help in educating investors before subscribing to any financial instrument.



Core functions of the Capital Markets Authority

Investor protection and organization of professional activities

Protecting investors from illegal, irregular or unfair practices, including the prohibition of direct or indirect insider trading.

Organizing the disclosure of information to persons who distribute Financial Instruments to the public.

Setting the work environment and organizing the professional activities of the persons who perform operations on Financial Instruments, while monitoring their compliance with professional ethics.

Regulating Capital Markets and Reducing Systemic Risk

Regulating and developing capital markets in Lebanon, and promoting their use by investors and Issuers in Lebanon and abroad.

Reducing systemic risk in capital markets.

Licensing

Granting licenses to brokers who provide services to investors and Issuers.

Granting licenses to financial rating agencies, and defining and regulating their functions and work process.

Licensing the securitization process which collective investment schemes, including mutual funds, invest in.

Regulate and Control the Work of Exchanges

Regulating and controlling the work of licensed Stock Exchanges, and the persons who provide deposit, clearing or settlement service.

Setting the general regulatory framework for listing Financial Instruments and approving their trading on stock markets.

Legal Control and Accountability

Sanctioning administrative violations of this Law and its implementation rules.

Initiating legal action against insider trading crimes, and against the circulation of false or misleading information about securities or Financial Instruments, or their Issuers.

Institutions and private businesses subject to the supervision and control of the CMA

The law 161 defines all activities that are subject to the control and authority of the CMA. It includes all operations related to the issuing, purchase, sale, or promotion of financial instruments that are directly offered for public subscription, or that are purchased or sold on behalf of the public, in addition to Financial Instruments listed or traded on the Stock Exchange, and Financial Instruments and financial rights authorized by the Capital Markets Authority.

The law defines clearly as well the activities related to financial instruments, and institutions that are subject to the authority and control of the financial markets as shown in the following table:

Parties Subject to the Supervision and Control of the CMA

Licensed Persons

Companies listed on the Lebanese Stock Exchange

Lebanese Stock Exchanges or institutions which object is to manage and conduct the business of Stock Exchanges, provided such institutions are established as Lebanese joint-stock companies

Financial Companies or Licensed Institutions and Bodies including:

- Collective investment schemes dealing in securities and other Financial Instruments
- Institutions of financial intermediation and investment of funds
- Investment schemes in securitization operations
- Islamic investment and securitization schemes
- Financial consultants and all other institutions providing services related to Financial Instruments
- Financial rating agencies

Financial Instruments and Businesses Subject to the Supervision and Control of the CMA:

Stocks, Bonds or shares issued by a public or private company or entity.

Debenture bonds, stocks, Bonds, certificates of deposit, depository receipts or Treasury bills and bonds.

Financial rights, options, futures, and all derivatives or structured financial products.

- Investment and Securities Brokerage services
- Portfolio Management and Book keeping
- Securities Custody
- Underwriter
- Underwriting process



About the Capital Markets Authority

- Established under Law no. 161 on the 17th of August, 2011, the Capital Markets Authority (CMA) became operational by virtue of the Council of Ministers' decision dated 07/10/2012.
- The CMA is an independent and autonomous regulatory body.
- Its Board of Directors is chaired by the Governor of the Central Bank of Lebanon.
- The Board is formed of three independent experts in Banking, Finance and Capital Markets, along with the Director General of the Ministry of Finance, the Director General of the Ministry of Economy and the Chairman of the Banking Control Commission.
- The objective of the CMA is to **promote the development** of capital markets and to **protect investors**.

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