

BAHRAIN STOCK EXCHANGE LAW

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**DECREE - LAW 4/1987
WITH RESPECT TO THE ESTABLISHMENT**

AND ORGANIZATION OF THE BAHRAIN STOCK EXCHANGE

We, Hamad Bin Isa Al Khalifa, Deputy Amir of the State of Bahrain,
Having reviewed the Constitution,
And Amiri Order No. 4/1975,
And Amiri Order No. 3/1987,
And Legislative Decree No. 23/1973, with respect to promulgating the Law for the establishment of the Bahrain Monetary Agency.

The Legislative Decree No. 28/1975 with respect to promulgating the Commercial Companies Law, the amendments thereof, the Legislative Decree No. 15/1976 with respect to enacting the Penal Code, the Legislative Decree No. 6/1982 governing stockbroking, and upon the submission of the Minister of Commerce, and with the consent of the Council of Ministers,

HEREBY ENACT THE FOLLOWING LAW:

CHAPTER 1 **ESTABLISHMENT AND OBJECTIVES OF THE EXCHANGE**

Article 1

There shall be established in the State of Bahrain, a Stock Exchange which shall be a separate legal entity. The Exchange shall carry out its activities in accordance with the provisions of this Law.

Article 2

For the purpose of enforcing the provision of this Law, securities shall mean shares and bonds of Bahraini joint stock companies, and bonds and bills issued by the Bahraini Government, or public institutions and organizations, or any other Bahraini or non-Bahraini securities, approved for trading by the Stock Exchange Board. The By-Laws of the Stock Exchange shall set forth the rules and provisions governing the listing and admission to trade such securities.

Article 3

The Stock Exchange's objectives shall include in particular, the following:

1. Seek to develop the securities market in issuing and trading in securities, in a manner that is conducive to the realisation of the State's economic policy, to serve the development activities therein, and to enhance its economic position, both regionally and internationally.
2. Develop and rationalize trading methods at the Exchange, with a view to ensuring proper and sound dealings and to providing protection for investors.
3. Establish and promote ties and links with other Arab and international security exchange markets, and benefit from their methods of dealing, so as to accelerate the development of the Bahrain Stock Exchange.
4. Encourage savings and further citizens investment awareness, in a manner that will ensure that the savings are directed towards the economic sectors, for greater returns to the individual and society as a whole.

5. Oversee the organization and regulation of securities trading on the market.
6. Provide the necessary finance for supporting the requirements of economic and social development.

Article 4

Transactions in securities listed and admitted to trade on the Exchange, shall take place in accordance with the terms and conditions determined by the Stock Exchange Board. Such transactions shall be executed solely through the Exchange, and shall be through a stockbroker who is duly registered with the Exchange. However, if certain transactions are conducted outside the Exchange, then they shall be subject to the rules and instructions adopted by the Exchange's Board and issued from time-to-time.

In all cases, all transactions concluded with respect to such securities shall, upon the transfer of the ownership thereof, be registered in the Exchange's records. A company whose securities have been subject to transactions executed outside the Exchange, shall give notice to the Exchange's Board of the transactions that took place with respect to these securities.

The Exchange's regulations shall determine the cases to be exempt from trading on the floor of the Exchange.

Any trading in securities that is contrary to the provisions of this Article shall be deemed null and void.

CHAPTER 2

EXCHANGE ADMINISTRATION

Article 5

The Stock Exchange shall be administered by a Board, which shall be chaired by the Minister of Commerce and shall comprise of the following:

- 1- A member representing the Ministry of Commerce, who shall be the Deputy Chairman.
- 2- A member representing the Ministry of Finance and National Economy.
- 3- A member representing the Bahrain Monetary Agency.
- 4- Three members to be elected by the Bahrain Chamber of Commerce and Industry, from amongst experienced and competent figures.
- 5- Two members representing national banks and auditing firms, to be selected by the Chairman.

The membership of the Stock Exchange Board shall be determined by a Resolution of the Council of Ministers upon the submission of the Minister of Commerce, and the Board members term of office shall be three years, which is renewable.

The Board may invite any person concerned with the Stock Exchange to attend any of its meetings.

Article 6

The Stock Exchange shall have a Director, assisted by an adequate number of staff, technical personnel, administrators and employees, who shall be subject to the civil service laws and regulations, pending the issue of new rules and regulations applicable to them.

Article 7

The Board of Directors shall exercise all the powers required for the administration of the Exchange, and in particular the following:

- 1- Drawing up the overall policies and strategies of the Exchange.
- 2- Laying down the rules regulating trading in securities on the Exchange, and supervising the enforcement thereof, as well as supervising transactions and trading in the said securities. In all cases, any transactions concluded with respect to such securities shall, upon the transfer of the ownership thereof, be registered on the Exchange's records. A company whose securities have been subject to transactions executed outside the Exchange, shall give notice to the Exchange's Board of the transactions that took place. The Exchange's regulations shall determine the cases to be exempt from trading on the floor of the Exchange. Any trading in securities that is contrary to the provisions of this Article shall be deemed null and void.
- 3- Examining applications for the registration of stock brokers, listing shares of Bahraini joint stock companies, or any other securities on the Exchange, and adopting decisions in respect thereof.
- 4- Approving the Exchange's annual budget estimates and final accounts, and appointing the Auditors.
- 5- Proposing the Exchange's internal rules and regulations, which shall be promulgated by a Resolution issued by the Minister of Commerce.
- 6- Taking the appropriate action towards suspicious transactions, in accordance with the provisions of the Internal Regulations.
- 7- Ordering a temporary suspension of trading on the Exchange, or in the shares of one company or several companies, in the event of exceptional circumstances threatening the proper and regular conduct of business.
- 8- Forming specialised committees from amongst the Board members or others, whether on a permanent or temporary basis, as may be deemed fit by the Board.
- 9- Any other matters necessary for ensuring the proper and regular conduct of business at the Exchange, with a view to attaining its objectives.

Article 8

Without prejudice to the provisions of the preceding Article, the Exchange's Board may, in the event of an occurrence of serious circumstances, decide by a two-thirds majority vote of its

members to determine a minimum and a maximum price for the securities at the close of the day preceding such a decision.

The decision shall be notified on the same day to the Minister of Commerce, who may repeal the decision, suspend its execution, or uphold it. In such a case he may then prescribe the manner of determining prices and maintaining control over the work of the Exchange.

The Minister of Commerce may, from his own initiative in the aforementioned circumstances, take any action he deems fit by a Ministerial Resolution to be issued by him in this respect.

Article 9

The Chairman of the Board shall have the authority and powers as determined by Law and those specified in the Internal Regulations of the Exchange. The Chairman of the Board shall submit to the Council of Ministers a bi-annual detailed report about the Exchange's work and the state of investors. This report shall contain information on the performance of the Exchange in light of the general State policy.

Article 10

The Director of the Exchange shall implement the Resolutions of the Exchange's Board, and he may submit to the Board the proposed regulations and directions he deems appropriate. He shall have the power to supervise all the Exchange's technical, administrative and financial units, and to issue the necessary instructions for the discharge of his duties, in accordance with the responsibilities and authorities entrusted to him by the provisions of the Exchange's Internal Regulations, as stipulated by a Resolution of the Board.

The Director shall be the legal representative of the Exchange before the Court and in its relations with others. He shall have the power to sign on behalf of the Exchange.

Article 11

The Exchange's employees shall be appointed pursuant to the nomination of the Director of the Exchange and the approval of the Board.

The Exchange's administration shall endeavour to develop, train and qualify the required personnel for the proper operation of the Exchange, according to the latest administrative and technical methods. This shall apply also to the stockbrokers, market makers and other such related parties, and to promote investment awareness among investors in securities.

Article 12

The Board shall establish the necessary specialized technical bodies for the performance of the Exchange's functions, including the following:

1. A trading, clearing and settlement department.

2. A price monitoring department, which shall monitor and analyse the movements of the securities listed or admitted for trading on the Exchange.
3. A futures sales department that will be responsible for monitoring and evaluating future transactions, and the relationship of such transactions with spot sales.
4. A department responsible for information compilation, data analysis and publications relevant to the Exchange, traded securities, and listed companies.
5. A monitoring and investigation department.
6. A research, studies and development department.
7. An administrative and finance department.

Article 13

An arbitration panel shall be established at the Exchange by a Resolution of the Exchange's Board, and shall consist of a judge who shall be nominated by the Minister of Justice & Islamic Affairs as chairman, and two members, one of whom shall be a non-board member. The panel shall be responsible for settling all disputes relating to transactions concluded on the Exchange.

Trading on the Exchange shall be deemed as an acceptance of arbitration and this fact shall be recorded in the documents of the transactions. The awards passed by the panel shall be binding upon both parties of a dispute.

The Exchange's regulations shall set forth the procedures to be followed for reference and settlement of disputes and remuneration of the panel members.

Article 14

The Exchange shall have a disciplinary board which shall be responsible for deciding on violations of the provisions of this law, regulations and resolutions regulating the Exchange, as well as any violation affecting the proper conduct of business and order therein.

The disciplinary board shall consist of three members appointed by a Resolution of the Chairman of the Board, and shall be presided over by the Director.

The disciplinary board shall be empowered to inflict the following penalties:

1. Reprimand
2. Warning
3. Confiscating all or part of the bank guarantee provided by the stockbroker.
4. Suspension of trading in respect of the violating company, for a period not exceeding four months.
5. Striking off listed and unlisted companies from the Exchange, or conversion of a listed company into an unlisted company whose securities are admitted for trading.
6. Suspension of the activities of stockbrokers, market makers and other parties of similar status, for a period not exceeding four months.
7. Cancellation of the membership of stockbrokers, market makers and others from the Exchange.

The deliberations of the disciplinary board shall be held in camera, and its decisions shall be passed by a majority vote, and shall be notified to the persons concerned by a registered letter, with an acknowledgement slip.

The Internal Regulations shall set forth the procedures to be followed on the disciplinary board.

Article 15

The decisions passed by the disciplinary board referred to in sub-articles 4-7 of the preceding Article, may be appealed to the Disciplinary Board of Appeal, which shall be presided over by a judge to be selected by the Minister of Justice and Islamic Affairs.

The Chairman of the Exchange Board shall pass a resolution for the constitution of the Disciplinary Board of Appeal.

The Resolution issued for the formation of the Board shall put forth the procedures to be followed therein.

CHAPTER 3 **MEMBERSHIP OF THE EXCHANGE**

Article 16

Members of the Exchange shall include the following:

1. Individual stockbrokers and corporate stockbroking firms.
2. Individual market makers and market-making corporations.
3. Any individual or corporate entity who is granted membership by the Exchange's Board.

The Exchange's members shall pay the registration fees and annual membership fees, in accordance with the provisions of the Exchange's Internal Regulations.

Article 17

The Exchange's Internal Regulations shall regulate the affairs of the stockbrokers, market makers and any other such persons and conditions for granting membership to the Exchange, as well as procedures for their registration and the registration of their assistants. The regulations shall also lay down rules to regulate and control their activities.

CHAPTER 4 **ADMISSION TO LISTING AND TRADING**

Article 18

Joint stock companies whose shares are admitted for trading on the Exchange, shall be classified into two categories:

- i) Listed companies.

b) Unlisted companies, whose securities are admitted for trading on the Exchange.

Trading on the Exchange shall be exclusively permitted to the securities of the following companies:

1. Bahraini joint stock companies, which offer their shares for public subscription.
2. Non-Bahraini joint stock companies, subject to the approval of the Exchange's Board.
3. Any other companies approved in the Exchange's Board.

The Internal Regulations shall regulate all matters regarding the listing of joint stock companies, unlisted companies whose securities are admitted for trading on the Exchange, and the procedures for the registration thereof. The abovesaid regulations shall set forth rules to regulate and control all its business activities.

Listed companies and unlisted companies whose securities are admitted for trading on the Exchange shall pay the annual registration fee, listing fee and admission for trading fee, as determined by the Exchange's Internal Regulations.

CHAPTER 5

STOCK EXCHANGE FINANCE

Article 19

The Exchange shall have a balance sheet, which shall be prepared in accordance with the rules set forth in the Internal Regulations.

The financial year of the Exchange shall commence on the first day of January, and shall end on 31 December of each year.

The Exchange's regulations shall provide for the rules and financial procedures for disposing of its funds and the books to be maintained for the control of transactions and the manner of auditing its accounts.

Notwithstanding the provisions of this Article, the first financial year of the Exchange shall commence on the effective date of this Law, and shall end on the 31 December of the following year.

Article 20

The Exchange's revenues shall consist of the following:

1. Revenues of the services offered by the Exchange.
2. Proceeds of investment of Exchange funds.
3. Proceeds of fines or penalties imposed, in accordance with the provisions of this Law.
4. Fees levied in favour of the Exchange.
5. Any other revenue approved by the Exchange's Board.

The Internal Regulations shall set forth the rules and procedures for determining and collecting such revenues and fees, and the manner of investing the Exchange's funds.

CHAPTER 6

GENERAL PROVISIONS

Article 21

The Exchange's Internal Regulations shall be issued by and pursuant to an order of the Minister of Commerce, upon a recommendation from the Exchange's Board. Pending the issue of the Exchange's Internal Regulations, the Minister of Commerce shall be empowered to issue provisional orders regulating the work at the Exchange.

Regulations shall, in particular, determine the authority of the Chairman of the Board, the Exchange's Director, procedures for the convention of the Exchange's Board meetings, procedures for deliberations, the necessary quorum for the valid convention of such meetings, and adoption of its resolutions, registration and membership fees.

Article 22

Stockbrokers, market makers, other persons of similar status, their assistants, Exchange employees, auditors and any person concerned with executing transactions on the Exchange, shall not divulge the secrets of their business and shall refrain from disclosing the names of clients, in accordance with Article 371 of the Penal Code, otherwise they shall be liable to the penalties laid down therein, in addition to the disciplinary penalties according to Article 14 of this Law.

Article 23

All provisions conflicting with the provisions of this Law shall be repealed.

Article 24

The Ministers, each in his respective capacity, shall implement this Law which shall come into force from the date of its publication in the Official Gazette.

Hamad Bin Isa Al Khalifa
Deputy Amir of the State of Bahrain
Issued at Rifa'a Palace

26th Jumadi A1Akhira, 1407 Hijria
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