

COALITION PROVISIONAL AUTHORITY ORDER NUMBER 74
INTERIM LAW ON SECURITIES MARKETS

Pursuant to my authority as Administrator of the Coalition Provisional Authority (CPA), and under the laws and usages of war, and consistent with relevant U.N. Security Council resolutions, including Resolutions 1483 and 1511 (2003),

Having worked closely with the Governing Council to ensure that economic change as necessary to benefit the people of Iraq occurs in a manner acceptable to the people of Iraq,

Acknowledging the Governing Council's desire to bring about significant change to the Iraqi economic system as necessary to improve the condition of the people of Iraq,

Determined to improve the conditions of life, technical skills, and opportunities for all Iraqis and to fight unemployment with its associated deleterious effect on public security,

Recognizing that some of the regulations concerning securities markets under the prior regime are not well-suited to a modern, efficient, transparent and independently regulated securities market,

Noting that Iraqi entrepreneurs and businesses will benefit from the revival of Iraq's capital markets,

Recognizing the CPA's obligation to provide for the effective administration of Iraq, to ensure the well being of the Iraqi people and to enable the social and economic functions and normal transactions of every day life,

Acting in a manner consistent with the Report of the Secretary General to the Security Council of July 17, 2003, concerning the need for the development of Iraq and its transition from a non-transparent centrally planned economy to a free market economy characterized by sustainable economic growth through the establishment of a dynamic private sector, and the need to enact institutional and legal reforms to give it effect,

Having worked closely with the Governing Council, international organizations, relevant Ministries and Iraqi business people in developing policies that will organize and facilitate fair, efficient, and orderly securities transactions in Iraq,

I hereby promulgate the following:

Section 1

Definitions

For the purposes of this law, the following terms shall be defined as follows:

- 1) "Commission" means the interim Iraq Securities and Exchange Commission.
- 2) "Commissioners" mean the members of the Iraq Securities and Exchange Commission.
- 3) "Exchange" means the Iraq Stock Exchange ("ISX") or such other exchange as the Commission, pursuant to its rules, may license under this Law.
- 4) "General Assembly" means the body consisting of all Exchange members and companies listed on the Exchange.
- 5) "Board of Governors" or "Board" or "Governors" means the Board of Governors of the Exchange or the Governors who sit on the Board.
- 6) "Governing Council" means the Governing Council of Iraq and, following the transfer of full governance authority to the Interim Iraqi Government, the body vested with national executive authority.
- 7) "Chair" means the Chair of the Exchange's Board of Governors of the Exchange; or Chair of the Securities and Exchange Commission, as the context indicates.
- 8) "CEO" means the Chief Executive Officer of the Exchange.
- 9) "Member" of the Exchange means a licensed Broker of the Exchange
- 10) "Broker" means a natural person licensed by the Board of Governors under Section 5(1) (a) of this Law to engage in securities transactions on the Exchange or a legal person so licensed under Section 5(1) (b). A bank may be accepted as a Broker if authorized to act in that capacity under the Banking Law.
- 11) "Bank" means an entity authorized by the Central Bank of Iraq to conduct banking operations in Iraq.
- 12) "Company" means a joint stock Company that is an issuer of securities subject to the provisions of this Law or a Company referred to in Section 5(1) (b) (ii) of this Law.

- 13) "Depository" means the Iraq Depository which will serve as the central clearing and settlement facility for all securities transactions.
- 14) "Licensed Securities Market" shall mean any securities market that is granted a license by the Iraq Securities Commission to conduct securities transactions.
- 15) "Securities" mean tradable interests representing financial value, including shares of corporate stock or mutual funds, bonds issued by corporations or the government, stock options, warrants and other derivative securities, limited partnership units and various other form "investment instruments".
- 16) "Government Securities" means Securities backed by the full faith and credit of, or guaranteed by, the Government of Iraq.
- 17) "Listed Companies" shall mean all companies that are listed for trading on a Licensed Securities Market.
- 18) "IASD" means the Iraqi Association of Securities Dealers, a trade organization for all brokers wishing to become participants in Licensed Securities Markets.
- 19) "Law" or "Interim Law" means this Interim Law on Securities Markets.
- 20) "Permanent Securities Law" means the successor law to this law, which will establish the comprehensive legal and regulatory framework for securities trading, oversight and securities markets in Iraq.

Section 2 Organization and Objectives

- 1) The Baghdad Stock Exchange shall cease operations. A new Exchange known as the "Iraq Stock Exchange" is hereby established under this Law.
 - a) The Exchange's headquarters shall be in Baghdad, with no prohibition against opening branch offices in other Iraqi cities.
 - b) Its corporate existence, including limitation of liability to its own assets and not those of its members, commences immediately.
 - c) The Exchange shall have no responsibility for any obligations of the Baghdad Stock Exchange.
 - d) The Registrar of Companies in the Ministry of Trade shall have no oversight authority over the Exchange and it need not register with the Ministry of Trade.

- c) References in the Company Law of 1997, No. 21, its amendments or other laws to the Baghdad Stock Exchange shall, subject to amendment of such laws, henceforth be read to mean licensed stock exchanges; or arrangements insofar as specified by Commission rules.
 - f) Upon liquidation of the Baghdad Stock Exchange, any monies remaining after discharge of its obligations shall go to the public budget.
- 2) The Exchange shall be a legal entity with financial and administrative independence, the right to submit claims before courts, judicial authorities or any other authority, and shall be represented by the Chair of the Board of Governors or a person authorized by the Chair.
 - 3) The Exchange shall be a not-for-profit, member-owned and self-regulatory organization. It shall be independent of the Iraqi Government and the Ministry of Finance. Its business with third parties is commercial in a manner not contradictory to this Law. Its internal governance and the disposition of its assets upon liquidation after payment of lawful claims shall be according to the terms of this Law and the Exchange's rules as authorized and approved hereunder.
 - 4) No stock exchange or other organized securities market may operate without a license from the Commission. The Exchange is hereby licensed and authorized by virtue of this Law to commence operations immediately, subject to regulatory oversight of the Commission. At such time as a new securities law is adopted, the Exchange shall be required to exist and operate in accordance with the terms and conditions of such law. No other interim exchange licenses shall be granted before the first anniversary of the effective date of this Law unless the Commission specifically finds that the interests of investors could not be well-served otherwise.
 - 5) Contracts for the purchase and sale of securities concluded on the Exchange shall be exempt from stamp fees. Companies whose securities are admitted to trading on the Exchange shall have no right to collect any fees with respect to the issuance or transfer of their securities except in such limited circumstances as the Commission may by rule define to promote the convenience or lower the expenses of investors.
 - 6) The Exchange aims to achieve the following:
 - a) To operate and regulate its members and listed companies in a manner that is consistent with the goal of protecting investors and promoting investor confidence in the market.
 - b) To promote the interests of investors in efficient, reliable, competitive, transparent and honest markets.

- c) To organize and facilitate fair, efficient and orderly transactions in securities, including the clearance and settlement of such transactions.
- d) To regulate its members' dealings in securities-related services and transactions and define the rights and obligations of parties concerned and the means to protect their legal interests.
- e) To assist in capital-raising for companies which either are listed, or which desire to list on the Exchange.
- f) To engage, as appropriate, in investor education programs to educate potential investors about opportunities for investments at the Exchange.
- g) To collect, analyze and publish statistics and information necessary to achieve the goals stipulated in this Law.
- h) To establish and support contacts with the stock exchanges of Arab and international markets that may be beneficial to the development of the Exchange.
- i) To undertake other services and activities necessary to support its objectives.

Section 3 **Transactions on the Exchange**

- 1) No securities transactions shall take place on the Exchange unless the Company has listed that class of securities for trading on the Exchange and the transactions are conducted in accordance with the Exchange's rules.
- 2) The Exchange's rules regarding transactions in securities and other matters shall be adopted by the Exchange's Board of Governors and shall be subject to approval by the Commission.
- 3) Securities transactions shall be restricted as follows:
 - a) All transactions on the Exchange shall be restricted to those conducted by the Brokers authorized by the Exchange to engage in such transactions.
 - b) No Broker or person in the business of effecting transactions in securities for proprietary or client accounts shall engage in any such securities brokerage services off the Exchange, regardless of whether the securities involved in such transaction are admitted to trading on the Exchange, unless those securities are subject to other relevant regulation by the Commission.

- c) The restriction in subparagraph (b) of this paragraph 3 of Section 3 shall not apply to:
 - i). Public subscription for securities at issuance, provided there is compliance with the provisions of Company Law No. 21 of 1997, as amended, any successor laws or amendments and the rules of the Commission.
 - ii). Transfer by gift to relatives of the second degree (parents, parents-in-law, siblings, siblings-in-law, children, children-in-law) or transfer by inheritance or court order
 - iii). The restrictions in subparagraph (b) of this paragraph 3 of Section 3 shall not apply to the issuance of Government Securities, provided there is compliance with the rules of the Central Bank of Iraq and Ministry of Finance.
- d) The restrictions in subparagraph (b) of this paragraph 3 of Section 3 shall not apply in other circumstances that the Commission may by rule define regarding:
 - i). Transparent and competitive pricing and trading arrangements;
 - ii) Investor cost and convenience;
 - iii) Optimal interaction of supply of and demand for the security;
 - iv) Disclosure of issuer financial condition, ownership and control;
 - v) Reliable settlement arrangements; and
 - vi) Competent and reliable providers of investment services.
- 4) The Exchange shall have authority to invalidate any transaction in securities on the Exchange that is in violation of this Law, the rules of the Exchange, or the rules of the Commission.
- 5) The Exchange shall admit an Iraqi Company's securities for trading on the Exchange provided that the Iraqi Company complies with the Exchange's listing standards, which shall, at a minimum, require that:
 - a) The Company has held its most recent annual general assembly required by law;
 - b) The Company has submitted to the Exchange and made publicly available financial statements of the Company current as of a date not more than six months prior to the opening day of trading prepared in accordance with such requirements as to form, content and applicable accounting standards and accompanied by such assurances and explanations as the Exchange may require;
 - c) The Depository has certified to the Exchange that the Company's securities proposed to be admitted for trading on the Exchange are eligible for the Depository based upon such assurances that the Depository may require from

- the Company or the Company's registrar regarding the completeness and accuracy of information concerning the amount of the securities outstanding and the ownership of such securities;
- d) The securities offered for trading are not subject to any legal restriction on transfer;
 - e) The Company has agreed to make timely public disclosure of any information that might have a significant effect on the price of its securities to be admitted for trading, and has agreed to comply with such other requirements as the Exchange may impose as a condition for admitting the Company's securities for trading on the Exchange; and
 - f) The Exchange may (either pursuant to a Commission order or based upon its own determination) remove an Iraqi Company's securities from trading on the Exchange when the issuer fails to comply with Exchange rules or the securities law, or if its securities no longer meet the Exchange's listing requirements.
- 6) A Company with a class of securities admitted to trading on the Exchange pursuant to Section 3(5) shall be required to comply with the following requirements in order for such securities to continue to be admitted to trading from the opening of the Exchange onward.
- a) The Company shall file with the Exchange and the Commission and make publicly available not later than 60 days after the close of each of the first three quarters of the Company's fiscal year unaudited, quarterly financial reports that include summary balance sheets as of the close of the quarter and the most recent fiscal year and comparative quarterly and year-to-date summary statements of income and cash flow through the close of the quarter and for the comparable prior year periods. The quarterly reports shall be prepared in accordance with such requirements as to form, content and applicable accounting standards, and accompanied by such management assurances and explanations, as the Exchange and the Commission may require by rule. For the purposes of this Law, the first unaudited quarterly financial report will be due 60 days following the close of the second quarter of 2004 (on or before August 31, 2004).
 - b) The Company shall file with the Exchange and the Commission and make publicly available not later than 150 days after the close of the Company's fiscal year, financial statements that shall include a balance sheet as of the close of the fiscal year and statements of income, cash flow and changes in ownership equity for the fiscal year.

- c) Commencing with the annual report for the Company's 2004 fiscal year, the financial statements shall be presented on a comparative basis with financial statements for the preceding fiscal year pursuant to the following guidelines
 - i) The financial statements included in the annual report shall be audited in accordance with international auditing standards by an independent auditor duly licensed in Iraq and shall be presented in accordance with international accounting standards to the extent permissible under the standards in force in Iraq.
 - ii) The financial statements shall be accompanied by a signed copy of the independent auditor's audit report indicating that they have been audited in accordance with international auditing standards to the extent permissible under the standards in force in Iraq and that they represent a true and fair view of the Company's financial results.
 - iii) The financial statements shall also be accompanied by such management assurances and explanations as the Exchange and the Commission may require by rule;
 - iv) The Commission may by rule allow additional time for the audit and audit report if conditions in Iraq indicate that this is necessary.
- d) The Company shall hold its annual general assembly not later than 60 days after the date that its audited financial statements are publicly available or such earlier date as may be prescribed by law; and
- e) The Company shall comply with such other requirements as the Exchange may impose as a condition for the continued trading of such securities on the Exchange. All information submitted by the Company shall be accurate and objective.
- 7) The Board of Governors may adopt separate rules regarding the listing, second market and third market trading of Securities.
- 8) Any joint stock company whose securities are not admitted to trading on the Exchange shall notify the Exchange or such other authority as the Commission may designate as to the dates, quantities, prices or other terms and parties to any transactions in its securities, according to such rules as the Commission may prescribe. By rule or order, the Commission may prescribe a requirement for joint stock companies to apply for admission to trading on the Exchange in order to conduct securities transactions.

Paragraphs 9 and 10 relate to transactions that were conducted after March 19, 2003 (after the closure of the Baghdad Stock Exchange and the opening of the Iraq Stock Exchange). Any transactions that fall under paragraphs 9 or 10 will be subject to specific Exchange regulation and stringent oversight to ensure that such transactions were not fraudulent or manipulative in nature.

- 9) Any transactions conducted outside of the Baghdad Stock Exchange following its closure on March 19, 2003 until the opening of the Iraq Stock Exchange, other than those transactions specified in paragraph 9 below, shall not be recognized by the Exchange and/or Commission as valid transactions, unless such transactions are executed at the Iraq Stock Exchange by a licensed Broker following the opening of the Iraq Stock Exchange.
- 10) Transactions resulting from transfer by gift to relatives of the second degree (parents, parents-in-law, siblings, siblings-in-law, children, children-in-law), transfer by inheritance or transfer by court order shall not be subject to the restrictions in paragraph 9 above.

Section 4 General Assembly

- 1) The General Assembly shall consist of the Brokers authorized to engage in securities transactions on the Exchange.
- 2) The General Assembly shall have authority to elect the members of the Exchange Board of Governors as further provided in the Exchange's rules, and to exercise such other powers as may be assigned under the Exchange's rules.
- 3) The Exchange's rules shall determine a date for meetings of the General Assembly and the procedures for holding such meetings.

Section 5 Brokers

- 1) A Broker authorized to do business on the Exchange shall be one of the following:
 - a) A bank authorized under the Banking Law, including foreign banks, subsidiaries and branches, to engage in securities operations in Iraq;
 - b) A Company established according to Company Law No. 21 of 1997, as amended, or its successor laws and amendments, that has a specialty in securities brokerage activities, investment management or investment advisory

work and whose authorized director satisfies the conditions set forth in Section 5(2), below; or

- c) A Partnership, established according to relevant law, that has a specialty in securities brokerage activities, investment management or investment advisory work and whose authorized director satisfies the conditions set forth in Section 5(2) below.
- 2) A director or representative of a Broker who is authorized to conduct securities transactions on the Exchange ("Representative") shall be a natural person who:
- a) is no less than 21 years old and is a legal resident of Iraq as defined by Iraqi law;
 - b) is of legal capacity;
 - c) is not an undischarged bankrupt;
 - d) has not been convicted of a felony in a court of competent jurisdiction;
 - e) has not been convicted of a misdemeanor related to financial fraud in a court of competent jurisdiction;
 - f) is a holder of a university diploma or its equivalent;
 - g) has at least five years experience in financial and commercial affairs as deemed acceptable by the Exchange;
 - h) shall conduct brokerage activities within Iraq or at other locations as authorized by the Exchange and approved by the Commission.
- 3). An associated person of a Broker ("Associated Person") who is authorized to assist in the brokerage business either on the Exchange or at a Broker's place of business shall be a natural person who:
- a) is no less than 18 years and is a legal resident of Iraq as defined by Iraqi law;
 - b) is of legal capacity;
 - c) is not an undischarged bankrupt;
 - d) has not committed a felony;

- e) has not committed a misdemeanor related to financial fraud or honor;
 - f) is a holder of a secondary school certificate or equivalent;
 - g) has appropriate references as deemed acceptable by the Exchange;
 - h) shall conduct brokerage activities within Iraq or at other locations as authorized by the Exchange and approved by the Commission.
- 4) A Broker shall be required to adopt and conduct business under a commercial name.
- 5) A Broker shall not be permitted to engage in securities transactions on the Exchange unless the Broker satisfies the following conditions:
- a) The Broker has been admitted to membership on the Exchange;
 - b) The Broker has been accepted as a participant in the Depository either directly or indirectly through another participant, including through a correspondent clearing participant of the Depository;
 - c) The daily trading limits for the Broker shall be determined pursuant to Exchange regulation based upon the Broker's net capital adequacy. The Broker's net capital adequacy shall be determined based upon the Depository's assessment of the Broker's ability to meet its trading obligations, as well as the advice from the settlement bank to the Depository; and
- 6) A Broker that was authorized to engage in securities transactions on the Baghdad Stock Exchange immediately prior to the closure of such exchange March 19, 2003, is hereby granted interim authority and an interim license to engage in securities transactions on the Exchange in accordance with this Law, provided that:
- a) Such Broker shall be required to comply with such additional rules applicable to the Broker under this Law as well as subject to such additional rules as may be prescribed by the Exchange, the Depository, the Board of Governors or the Commission.
 - b) Brokers holding interim or other authority to conduct securities transactions on the Exchange shall comply continuously with any licensing or other requirements necessary to conduct securities transactions in accordance with any revised terms and conditions.

- 7) A Broker must be represented at the Exchange by one or more of its Representatives who satisfy the conditions set forth in Section 5(2) above and whom the Broker authorizes to conduct the Broker's business on the Exchange, or a person under the supervision and control of the Broker, and for whom the Broker assumes responsibility in accordance with such rules as may be prescribed by the Exchange.
- 8) The Board of Governors shall adopt rules regulating the circumstances under which a Broker may engage in securities transactions for the Broker's own account or related accounts.
- 9) A Broker shall act on behalf of the seller or purchaser of securities in a manner that complies with the rules adopted by the Board of Governors. Such rules will include, but not be limited to a requirement that each client provide a signed authorization of the brokerage relationship on appropriate account opening documents. Brokers may not engage in securities transactions for a client or request disbursement of client funds or securities without appropriate client authorization.
- 10) A Broker shall be required to:
 - a) Pay all fees related to the Broker's authorization to conduct business on the Exchange according to the Exchange's rules;
 - b) Keep and maintain books, registers and documents as specified by rules adopted by the Board of Governors of the Exchange or by the Commission.
- 11) A Broker shall not engage in a sale of securities on behalf of a customer unless the Broker has determined, in accordance with such rules as may be prescribed by the Exchange or the Depository, that the securities are in the custody of the Depository and that the customer has an appropriate ownership interest in the securities.
- 12) A Broker shall not engage in a purchase of securities on behalf of a customer unless the Broker has determined, in accordance with such rules as may be prescribed by the Exchange or the Depository that the customer has sufficient funds to pay for the securities.
- 13) A Broker shall be bound to do the following:
 - a) Protect confidential information regarding investors except where legally obligated to reveal such information;

- b) Act with honesty, integrity and adherence to the rules of the Exchange and commercial norms;
 - c) Act in the best interest of clients at all times, including placing the interests of clients ahead of the Broker's interests, protecting clients' rights and informing clients of all relevant information relating to clients' securities transactions;
 - d) Abstain from engaging in false or sham transactions, other forms of market manipulation and acts and practices that have the effect of misleading or deceiving investors or creating false or misleading impressions.
 - e) To act as a fiduciary for client funds and as such, to not co-mingle client funds or accounts with broker funds or accounts.
- 14) The Commission and the Exchange shall have the authority to gain access to any information relevant to enforcement of this Law or the rules of the Exchange or Commission from Brokers or their agents, employees or owners, without any need for notice or approval by that Broker, their Representatives or Associated Persons.
- 15) The Broker shall maintain a required level of cash or collateral in its account, as determined by the Board of Governors according to Exchange rules, which is to be held at the Depository or Depository settlement bank. If the required amount is deficient for any reason, the Broker shall complete it within a period specified by rules of the Exchange, the Depository or the Depository settlement bank, as applicable. The failure of the Broker to do so shall be grounds for prohibiting the Broker from engaging in further securities transactions until complete financial assurance is provided.
- 16) A Broker shall be required to disclose all fees, commissions and mark-ups charged to its clients prior to entering into any agreements or understandings with a customer. The Exchange may prescribe rules relating to maximum commission, mark-up and fee levels, as well as disclosure requirements, as approved by the Commission.

Section 6

Board of Governors

- 1) The Exchange shall be governed and operated under the direction of a nine-member Board of Governors whose members, during the period governed by this law, shall serve for the shorter of a one-year term or until the Permanent Securities Law is promulgated. Members of the Board of Governors are eligible but not guaranteed for re-appointment under the Permanent Securities Law.

- 2) The composition of the Board of Governors shall be as follows:
- a) The Chair of the Board of Governors. One or more nominees shall be proposed by the Board of Governors or a Nominating Committee of the Board of Governors.
 - b) The Chief Executive Officer of the Exchange, whose appointment shall be approved by the Administrator in consultation with the Board of Governors.
 - c) A member representing the companies whose securities are listed or admitted to trading on the Exchange, for which one or more nominees shall be proposed by the Board of Governors or its Nominating Committee.
 - d) A member who shall be a senior officer of the Iraqi Association of Securities Dealers (IASD) or a senior member of an IASD member firm, for which the IASD shall propose one or more nominees.
 - e) A member representing Brokers that are authorized to engage in securities transactions on the Exchange, for which the Board of Governors shall propose one or more nominees.
 - f) Four qualified public governors who are, and must remain, independent of the Exchange or any of its constituencies shall be proposed by the Board of Governors. One of these candidates shall have expertise in information technology matters, for which the independent members of the Board of Governors shall propose three or more nominees.
- 3) Except for the Chief Executive Officer, all members of the interim Board of Governors shall be appointed by the Administrator following consultation with the Governing Council. The interim term of these members shall commence on the effective date of this Law and shall expire at the sooner of the enactment of the Permanent Securities Law or one year after this law is promulgated. The members of the interim Board of Governors are eligible, but not guaranteed for reappointment.
- 4) Members of the Board of Governors will also be appointed under the Permanent Securities Law. Thereafter, the Board of Governors shall be elected by the General Assembly in accordance with the rules of the Exchange.
- 5) For the purposes of this law and for the expedient purpose of opening the Iraq Stock Exchange, Sections 6.1 and 6.2 above notwithstanding, for the initial term, the Board of Governors should, but is not required to be comprised of persons who meet the criteria specified in this Law.

- 6) The Board of Governors shall perform or may authorize directors, officers or managers of the Exchange to:
- a) Establish the general policy and organizational framework of the Exchange.
 - b) Create the Exchange's rules and submit them to the Commission for approval, including rules to prevent conflicts of interest from influencing the work of the Board and the Exchange and providing for the withdrawal of Governors from voting when a conflict of interest arises.
 - c) Establish other rules related to transactions in securities, to be filed with the Commission.
 - d) Implement financial, administrative and accounting rules necessary to regulate the Exchange's operations, subject to Commission approval.
 - e) Review and approve, approve subject to conditions, or disapprove, applications for admission of securities to trading on the Exchange, including procedures for removing securities from admission to trading.
 - f) Review and approve, approve subject to conditions or disapprove, applications of persons who seek to become Brokers authorized to engage in securities transactions on the Exchange.
 - g) Verify and approve the budget and final accounts of the Exchange, enclosed with a report of an independent auditor, and submit them to the Commission and the General Assembly.
 - h) Take necessary measures with regard to suspicious operations according to the Exchange rules, this Law, and the rules of the Commission.
 - i) Conduct oversight of all activity at the Exchange, stop the Exchange activity if necessary for the protection of investors and ban trading in securities for a period not exceeding five business days and, with the Commission's approval, for any additional period.
 - j) Stop trading in securities of a particular Company for the protection of investors for a period not exceeding ten business days and, with the Commission's approval, for any additional period.
 - k) Check and inspect Brokers' registers, records, books, and business, and require members to furnish documents or witnesses under their control for the investigation or adjudication of disciplinary or arbitration matters.

- l) Engage in internal discipline of a formal or informal nature including imposing fines and suspensions pursuant to rules of the Exchange and this interim Law.
- 7) The Board of Governors shall authorize the CEO to have the authorities mentioned in Section 6(5) (i) through (l), above, according to the limits it decides.
- 8) The Board of Governors may delegate other authority of the Board and the Chair to the CEO, other officers of the Exchange or a Committee of the Board as deemed appropriate, provided that such delegations shall be reflected in rules of the Exchange. The Board, its delegates, and all Exchange officers shall act diligently in the best interests of the Exchange, its members and the investing public and shall strive to effectuate the purposes and provisions of this Law.
- 9) The Administrator, in consultation with the Commission and notification to the Governing Council, may remove a Governor prior to the expiration of his or her term only for cause, which shall be defined to mean conviction of a violation of this Law or another law, other than minor infractions, physical inability to perform his or her duties, or gross incompetence.

Section 7 **Exchange Finance**

- 1) The Exchange's finances shall consist of the following:
 - a) Fees paid by companies for admission of their securities to trading and for continued trading on the Exchange.
 - b) Fees paid by Exchange members related to authorization of the members and their employees and agents to engage in securities transactions on the Exchange, including but not limited to, an entry fee and annual dues.
 - c) Commissions or fees based upon the volume of trading taking place on the Exchange.
 - d) Fines imposed by the Exchange on those persons subject to the Exchange's jurisdiction who violate this Law or the rules or regulations of the Exchange or the Commission.
 - e) Revenues from the sale of Exchange transaction data, statistics and publications, subject to rules of the Commission assuring the dissemination of basic information.

- f) Donations and loans to the Exchange, which shall be subject to Exchange and Commission rules.
 - g) Revenues from investment of Exchange funds.
 - h) Other revenue sources authorized by the Board of Governors, subject to Commission approval and consistent with relevant laws, including Orders of the Coalition Provisional Authority.
- 2) The Board of Governors shall establish the above-mentioned fees, commissions and charges for services offered by the Exchange, subject to Commission approval, recognizing that the continued operating and development needs of the Exchange shall be taken into consideration, but that accumulation of unnecessary surplus funds is to be avoided.
 - 3) The Exchange's final accounts and annual report shall be subject to approval by the Board of Governors and then shall be filed with the Commission as soon as practicable, regardless of whether or not they have been presented to the General Assembly. Any amendments to the final accounts and annual report shall be timely filed with the Commission. The final accounts and annual report shall be presented to the General Assembly at its annual meeting, which shall be scheduled in accordance with the Exchange's rules.
 - 4) The Exchange's financial year shall commence on the first of January of each year and end on the last day of December, provided, however, that the initial financial year shall begin upon the commencement of Exchange operations and shall concluded December 31, 2004.

Section 8

Exchange Operations and Oversight

- 1) The Government of Iraq shall have no ownership interest in the Exchange or any revenues or assets of the Exchange, provided, however, that nothing contained in this Law shall prevent an otherwise qualified legal entity owned in whole or in part by the Government of Iraq from being a member of the Exchange or Depository and participating in the General Assembly.
- 2) All governing instruments and rules of the Exchange shall be subject to approval, supplementation and abrogation by the Commission, which shall have authority to inspect all operations of the Exchange and impose appropriate disciplinary sanctions in the event that the Exchange fails to enforce any provision of this Law for which it is responsible or any rule or regulation of the Exchange.

- 3) The Board of Governors may form committees to address the needs of the Exchange. The Exchange's rules shall specify the work of these committees. Such committees may include, but not be limited to the following:
 - a) Executive Committee
 - b) Compliance Committee
 - c) Business Conduct Committee and a Sub-Committee of Member Officials (on-floor rulings)
 - d) Finance Committee
 - e) Membership Committee
 - f) Marketing/Public Relations Committee
 - g) Arbitration Committee
- 4) All Exchange Governors, officers and employees shall be required to agree to and sign a Code of Conduct which will include but not be limited to, full disclosure of all financial dealings of those individuals, potential conflicts of interest and such additional components according to the rules of the Exchange.

Section 9 **Depository – Clearance and Settlement**

- 1) There is hereby established a securities depository known as the Iraq Depository. Subject to the further provisions of this Section, the Depository shall be a division of the ISX open to participation by any member of the Exchange subject to such terms and conditions as the Director of the Depository shall specify by rule, subject to the approval of the Board of Governors and the Commission. The Depository aims to:
 - a) Promote the timely, safe and efficient settlement of securities transactions in accordance with the terms of those transactions;
 - b) Promote open and non-discriminatory access to clearance and settlement services.

The Commission may by rule require fair access to the Depository by persons who are not members of the Exchange but whose securities holdings or activities are

such as to make their direct participation beneficial to the efficient functioning of the market or who should be able have access through a member.

- 2) The Depository shall be governed and operated under the terms and conditions of its rules, as approved by the Board of Governors and the Commission.
- 3) All securities transactions taking place on the Exchange shall be required to be cleared and settled through the facilities of the Depository on a book-entry basis. Once securities have been deposited in the Depository, they may not be withdrawn or subsequently transferred in physical form. Depository rules shall provide for evidence of ownership of securities. The Commission may adopt rules regarding the necessity of depositing at the Depository for book-entry transfer other securities not admitted to trading on the Exchange but that have been or shall be offered for public subscription.
- 4) Securities transactions on the Exchange or as otherwise provided by Commission rules that are cleared and settled through the facilities of the Depository shall be entitled to a presumption of finality. This section shall supersede Article 66, first paragraph, of Company Law No. 21 of 1997. Lawful transfers on the books of the Depository of deposited securities shall supersede the provisions of Article 68 of the Company Law.
- 5) Securities registered at the Depository in the names of others for holding and transfer in book-entry form shall not be regarded as property of the Depository or the Exchange or be subject to the claims of their creditors.
- 6) Liabilities or assets acquired by the Depository as central counterparty, maintainer of a settlement guarantee fund or otherwise purely in the course of settling trades and transfers shall not be subject to third-party claims disruptive of the settlement process.
- 7) The Depository or Exchange may establish a guarantee fund for the settlement of trades or transfers. This fund shall not be available for any other use by the Depository or Exchange or be subject to claims of their creditors, except claims arising from the rules of participation in such fund or the settlement provisions of those rules. This section shall supercede bankruptcy law.
- 8) The Depository is hereby authorized to commence operations at the same time that the Exchange commences operations. All governing instruments and rules of the Depository shall be subject to the approval of the Exchange and the Commission.

Section 10
Principal Holders of Securities and Control Transactions

- 1) "Affiliated Persons" for purposes of this Section 10 shall mean two or more persons working together for the purpose of holding or exercising practical control over the affairs of a company, but shall in all cases include at least persons with the following relationships if one is aware of the holdings of another in a subject company:
 - a) Spouse, minor children or other persons living in the same household or any other relatives to the fourth degree (parents, parents-in-law, siblings or siblings-in-law, children and/or paternal and maternal cousins);
 - b) When one is a legal person and the other is its officer, director or employee or an owner of 10% or more of the votes from shares or quotas in it.
- 2) Any Person or Affiliated Persons who, at the time this Law comes into effect or thereafter own or have a right to own 10% or more of the shares entitled to vote in a joint stock company:
 - a) Shall inform the Exchange and the Commission in writing;
 - b) Shall inform the Exchange and the Commission about any dealing or conduct that leads to an increase in this percentage as soon as such dealing occurs;
 - c) Shall report any decrease in such ownership to below 8%.

All of the above disclosures shall be made public by the Exchange and the Commission.

- 3) It shall be unlawful for a Person or Affiliated Persons to acquire or seek to acquire a right to more than 30% of the shares entitled to vote of any joint stock company unless the person or persons, whether natural or legal, identify themselves and disclose their holdings to the Exchange and the Commission and comply with such rules as the Commission may prescribe with respect to such transactions and the protection of minority owners. Such reports shall be made public by the Exchange and the Commission. This provision shall apply also to persons holding such positions at the time this Law comes into effect.
- 4) Each joint stock company's registrar and the Depository shall report to the Commission the holdings of any owner in its records having more than 10% of a joint stock company's shares entitled to vote.

Section 11

Disciplinary Matters

- 1) The Exchange shall have a Business Conduct Committee ("BCC") that, pursuant to Exchange rules, will have authority to make decisions binding upon members and listed companies with respect to violations of this Law, Exchange rules and Commission rules applicable to the Brokers' activities on the Exchange or a Company's compliance with obligations for admission to trading.
- 2) The BCC shall be appointed by the Board of Governors and its by-laws shall be set forth in Exchange rules. The BCC shall be comprised of public and industry members; with the Chair of the BCC being the Chief Regulatory Officer of the Exchange, or the CRO's delegate.
- 3) Pursuant to Exchange rules, the BCC may delegate to officers or members of the Exchange the authority to resolve disputes arising at the Exchange in the normal course of business, provided that the delegate comply with the Exchange's rules in resolving such disputes.
- 4) The procedures of the BCC shall provide any member, member organization or associated person it may discipline with notice of the charges against the person and reasonable opportunity to present evidence and arguments in the person's favor. Further procedures relating to the disciplinary process will be set forth in the rules of the Exchange. Temporary action may be taken in advance of full hearing but only in exigent circumstances according to the rules of the Exchange.
- 5) The BCC may make findings with respect to matters it considers, which may include but not be limited to a dismissal of the charges, or a finding that the charges are substantiated, along with a finding of appropriate penalties.
- 6) Imposition of penalties by the BCC will be set forth in Exchange rules, including:
 - a) A Letter of Warning;
 - b) Letter of Consent with Compliance Undertakings;
 - c) Financial fine, restitution or disgorgement of profits;
 - d) Suspension of a Broker, a Broker's Representative or Associated Person from work for a period of time;
 - e) Suspension or halt of trading in securities of a Company for a period of time;

- f) Revocation of a Broker's authorization to trade securities on the Exchange;
 - g) Removal of a Company's securities from admission to trading on the Exchange.
- 7) BCC disciplinary decisions may be appealed in accordance with the rules of the Exchange. In general the appellate process shall be to the:
- a) Board of Governors, and if the appellant is not satisfied, to the Commission.
 - b) Decisions of the Commission are final when issued unless appealed in accordance with Section 13(2), below.

Section 12

Interim Iraq Securities Commission

- 1) There is hereby established an interim Iraq Securities Commission comprised of five Commissioners including a Chair, whose members shall be appointed by the Administrator following consultation with the Governing Council. The Chair may, from time to time, designate a Vice Chair to assume the Chair's responsibility in the event that the Chair is unable or unavailable to perform the required duties.
- 2) The positions of Chair and one other Commissioner shall be full-time positions, whereas the other three Commissioners may hold other employment.
 - a) No Commissioner shall, however, participate, directly or indirectly, in any brokerage business, or transactions of a character subject to regulation by the Commission pursuant to this Law, nor accept anything of value from any person involved in the trading or distribution of securities, their auditors or the affiliates of any of them, except in the ordinary course of business on terms available to the general public and in conformity with the code referred to in Section 12(7) below.
 - b) No Commissioner shall participate in the consideration of a matter in which he or she has a direct or indirect personal financial interest, subject to the provisions of the code referred to in Section 12(7), below.
- 3) The term of the Commission and the Commissioners shall expire on the first to occur of:
 - a) The effective date of a Permanent Securities Law that provides for the establishment of a permanent Securities and Exchange Commission or equivalent regulatory body; or

b) The second anniversary of the effective date of this Law.

The Administrator in consultation with the Governing Council may remove a Commissioner prior to the expiration of his or her term only for cause, which shall be defined to mean conviction of a violation of this Law or another law, other than minor infractions, physical inability to perform his or her duties, or gross incompetence.

- 4) The Commission shall have a legal personality and shall have the right to sue and be sued, and may be represented in legal proceedings by the Government of Iraq or any attorney the Commission appoints for such purpose.
- 5) The Commission shall be accountable to and shall submit an annual report of its activities to the executive branch of the Government of Iraq not later than ninety days after the close of the Commission's fiscal year. The Commission's books, records and accounts shall be subject to inspection and its financial statements shall be subject to audit in the same manner as provided for other agencies or authorities of the Government of Iraq.
- 6) The salaries, benefits, and all financial entitlements of the Commissioners shall be presented to the Administrator for his approval in consultation with the Governing Council. The Commission is authorized to fix the compensation of such officers, attorneys, accountants, examiners, economists and other experts or employees as may be necessary for carrying out its functions under this Law
- 7) The Commission shall adopt and publish a written code of conduct applicable to the Commissioners and all employees of and consultants to the Commission, which shall address conflicts of interest and potential misuse of nonpublic information that may arise in connection with such persons' duties with the Commission and define related restrictions on such persons holdings of or trading in securities.
- 8) Notwithstanding the fact that any nonpublic information in the possession or within the knowledge of Commissioners, officers and employees of the Commission shall be deemed confidential and that any unauthorized disclosure of such information may be subject to punishment by the Commission or under other laws and regulations, the Commission shall be authorized to use and make public disclosure of such information as it deems necessary for enforcement of the provisions of this Law and consistent with the public interest and the protection of investors.
- 9) No Commissioner, employee or agent of the Commission, or any person appointed by the Commission under this Law to carry out any function under this Law shall be personally liable in damages for any act or omission taken in the discharge or purported discharge of official functions within the scope of his or her authority,

employment or engagement under this Law, absent a finding of malice and intentional abuse of office. The Commission shall indemnify any person referred to in the preceding sentence against any legal costs incurred in the defense against a legal action brought against such person in connection with the discharge or purported discharge of official functions within the scope of the person's employment or engagement under this Law, provided that no such indemnification shall apply if the person has been convicted of a crime arising out of the activities that are covered by such legal action.

- 10) The Commission's budget shall be determined annually as part of the overall budget process of the Government of Iraq. Any fines or monetary penalties that may be imposed by the Commission in enforcing the provisions of this Law shall not be retained by the Commission, but shall be paid into the general treasury of the Government of Iraq.
- 11) The Commission may issue, amend or repeal rules, regulations and orders only as authorized by specific provisions of this Law. The Commission's rules, regulations and orders may classify persons, securities, transactions or filings, and prescribe different requirements for different classes. The Commission may issue a declaratory ruling as to the applicability of this Law or any rule or order under this Law to any person, security or transaction.

For purposes of Section 12, paragraph 12 et.al, below, any references to the "Exchange" shall also be deemed to apply to any other Licensed Securities Markets approved by the Commission

- 12) The Commission is authorized to:
 - a) Review the actions of and approve, disapprove or, where necessary and upon notice and opportunity for comment, supplement or abrogate the governing instruments and other rules of the Exchange and the Depository under this Law;
 - b) Require the Exchange, the Depository, and Brokers authorized to engage in securities transactions on the Exchange to maintain such records and make such reports on their financial condition and business related to securities transactions as the Commission deems necessary to implement the provisions of this Law;
 - c) Inspect the operations of the Exchange, the Depository and any Broker or other person authorized to effect securities transactions directly on the Exchange or to participate directly in the Depository.
 - d) Notwithstanding any provisions of the Banking Law, inspect Brokers who are banks including their securities operations and related personnel and records;

- e) Issue subpoenas for the production of documents or witnesses;
 - d) Inspect the operations of Companies who have any class of securities listed for trading on the Exchange.
 - e) Promulgate rules for disclosure of information and reports required to be made publicly available by companies whose securities are or have been offered for public subscription or distribution or admitted to trading on the Exchange; review such information and reports, and require revision of such information and reports where the information provided is materially incomplete, false or misleading, notwithstanding any provision of the Law on Companies of 1997, No. 21 as amended, or any successor law to the contrary;
 - f) Promulgate rules related to the disclosure of major holdings and for acquisition of control-affecting blocks of securities in joint stock companies;
 - g) Promulgate rules relating to investment management and investment advisory activities for Brokers, Banks or other Companies or Partnerships.
 - h) Enforce this Law, any rules adopted under this Law and any rules of the Exchange or the Depository; and take appropriate disciplinary action against any person who violates such Law or any such rules ; and
 - i) Exercise all of the other duties and rights given the Commission by this Law.
- 13) The Commission shall act in a timely manner upon rule filings and other relevant requests from the Exchange or any other Licensed Securities Market. In the event that the Commission does not respond to any such rule filing or request no later than 120 days from the date of receipt of such request; the request or filing shall be deemed to be approved.
- 14) The Commission shall have the powers to bring civil and criminal actions relating to this Law and the rules hereunder, including Exchange and Depository rules. Any person from whom the Commission requests information or documents, on the basis of its reasonable belief that such information or document is relevant to a possible such violation, shall provide such information or documents. If any person refuses to provide such document or information, the Commission may seek relief in a court of competent jurisdiction.
- 15) If the Commission finds, after notice and opportunity for hearing, that any person has violated, is violating or is about to violate any provision of this Law or any rule hereunder, the Commission may:

- a) Enter an order requiring such person to cease and desist from committing the violation and any future violation of the same provision or rule. Such an order also may require such person to comply with the provisions or rules upon the terms and within the time that the Commission may specify in such order.
 - b) Impose an administrative penalty upon such person, payable to the Treasury of the Government of Iraq, of up to 50 million dinars for any violation involving fraud, deceit or willful or reckless disregard of a regulatory requirement, or of up to 25 million dinars for any other violation.
 - c) In exigent circumstances, the Commission may, upon such notice as is practical in the circumstances, provisionally order a person to cease and desist where the evidence indicates that awaiting resolution by a full hearing of the matter carries a more serious risk of harm than issuing a provisional order. No provisional order may remain in force more than ten business days without further opportunity for hearing and presentation of evidence by the persons subject to the order.
- 16) Appeal and enforcement of the orders and decisions of the Commission shall follow the procedures applicable to appeal of orders of a court of first instance. Orders that are not appealed in such manner may not be challenged in proceedings to enforce them. An appeal of an order or decision of the Commission shall not stay or suspend the imposition of any sanction or penalty levied by the Commission unless the Commission or the court of appeals takes affirmative action to stay or suspend such sanction or penalty.
- 17) If in its opinion the public interest and the protection of investors so require, the Commission is authorized by order to:
- a) Summarily suspend trading in any security admitted to trading on the Exchange or that has been offered for public subscription for a period not exceeding ten business days; and,
 - b) Suspend or revoke the Exchange's listing or authorization of trading of a security, if the Commission finds, on the record and after notice and opportunity for hearing, that the issuer of such security has failed to comply with any provision of this Law or the rules hereunder.

Section 13

General

- 1) The Commission shall ensure that rules of the Exchange and the Depository provide fair and open access to membership, facilities and services and impose no

burdens on competition except insofar as required to promote transparency, efficiency and financial responsibility in the trading of securities, and that such rules provide for fair and reasonable procedures for the denial, revocation or restriction of access to such membership, facilities or services.

- 2) Commission decisions regarding appeal of a Board of Governors decision to impose a sanction or penalty specified in Section 11(5) of this Law may be appealed to a court of appeals within 30 days of the final Commission decision. An appeal of such a decision of the Commission shall not stay or suspend the imposition of any sanction or penalty levied by the Commission unless the Commission or the court of appeal takes affirmative action to stay or suspend such sanction or penalty.
- 3) During the course of any investigation by the Exchange, or disciplinary proceeding by the BCC, the Board of Governors or the Commission, if the evidence indicates that a crime may have been committed, the appropriate body, as applicable, shall transmit the evidence of the crime to a public prosecutor or court that would have jurisdiction to prosecute or adjudicate the crime. Such criminal reference, however, shall not constitute grounds for a stay or suspension of any investigation or proceeding undertaken by the Exchange, the BCC, Board of Governors or Commission, as applicable.
- 4) The rules of the Baghdad Stock Exchange shall be applicable to the Iraq Stock Exchange, but only to the extent consistent with this interim Law and the rules hereunder.
- 5) Persons authorized to engage in securities transactions according to this Law shall not, unless they are banks, be required to be licensed under the Banking Law as to securities-related dealing or brokerage, investment advisory or investment management activities.
- 6) Following the transfer of full governmental authority to the Iraqi Interim Government, the duties of the Administrator and the Governing Council under this Order shall be assumed by the body vested with national executive authority unless otherwise provided in this Law.

Section 14 Arbitration

- 1) The Exchange may adopt rules providing for arbitration of disputes between members and between members and such of their customers who shall consent to arbitration. The Exchange may delegate the authority for arbitration to another

organization approved by the Commission, provided that all arbitration rules shall be subject to approval, supplementation and abrogation by the Commission.

- a) The Commission shall monitor, and obtain reports, from time to time, from the Exchange's arbitration committee.
 - b) The arbitration committee's mandate, as set forth in Exchange rules, shall be to arbitrate disputes that may arise between two or more Brokers; or between Brokers and customers that are:
 - i). Related to securities transactions effected on the Exchange;
 - ii) Subject to clearance and settlement through the DepositoryConducting transactions in securities on the Exchange shall be considered an acknowledgement by a Broker to subject any disputes to arbitration.
- 2) The Exchange arbitration procedures shall be set forth in Exchange rules and approved by the Board of Governors, then submitted to the Commission for approval.
- a) With respect to disputes between Brokers, the arbitration committee decisions shall be binding on all parties, subject to such provision for appeal as the Commission, for the protection of investors, may see fit to adopt by rule.
 - b) With respect to disputes between Brokers and clients, either party may appeal the decision to the Board of Governors of the Exchange; and, if still dissatisfied, to the Commission. The Commission's decision shall be binding and not subject to further appeal.

Section 15

Penalties

Persons who willfully violate the provisions of this Law or a lawful order of the Commission or who fail to comply with the Commission's lawful demand for information or documents under this Law, as well as persons who knowingly and substantially assist such conduct, shall be subject to fines and penalties as specified by law, which may include imprisonment upon a conviction by a court of competent jurisdiction.

Section 16
Entry into Force

This Order shall enter into force upon signature.

A handwritten signature in black ink, appearing to read "L. Paul Bremer 4/15/04".

L. Paul Bremer, Administrator
Coalition Provisional Authority