



Examples of some violations of the Capital Market Law and its Implementing Regulations



Introduction

The Capital Market Authority was established to achieve a set of goals. The most important goal is to find a fair, transparent and organized financial market that protects investors from illegal practices that include fraud, scam, cheating or manipulation.

This handbook will include examples of some violations of the Capital Market Law and its Implementing Regulations to help in raising investors' awareness.

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

These Examples are to

- Help raise the investors' awareness regarding some deceptive and misleading practices that violate the Capital Market Law and its implementing regulations.
- Help in protecting investors from those violations.

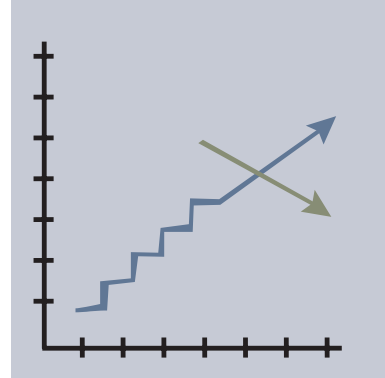


Influencing the Closing Price

Example

An investor buys/sells shares moments before the end of the trading session in order to affect the rise or fall of the stock price. The stock price will close on a fictitious price that reflects the false information about the performance of the stock and the value of investment portfolios. This behavior

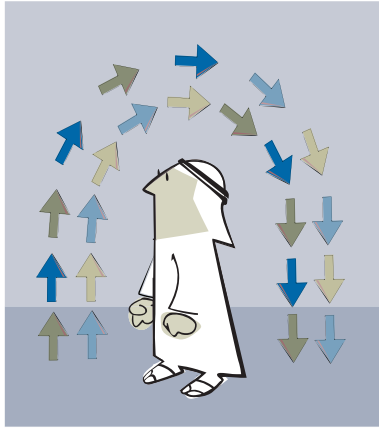
may lead investors to make unwise investment decisions which might affect the opening price of the following trading day.



Inflating the Stock Price and then Selling it

Example

An investor places an order or several orders to buy a security in order to artificially inflate its price level. This may give the other investors an impression that there is high demand on this stock, which could lead them to make unwise investment decisions in which the manipulator or manipulators benefit from this increase in the price level by selling their shares to the harmed investors.



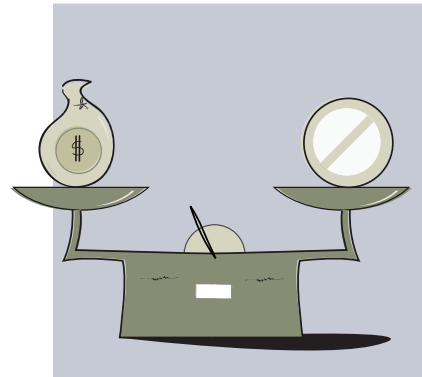
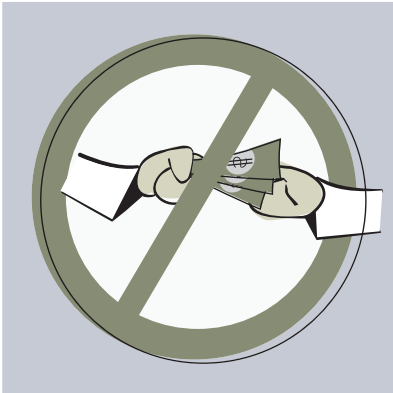
Creating a False Interest in the Purchase or Sale of the Security

Example

An investor places an order or orders to buy a security without having an intention to execute them. The investor would already have placed a sell order that he/she wants to execute. When the sell order is executed, the investor cancels the buy order/orders without executing them or after executing some of them.

Another Example

A group of investors place buying orders to affect the price of the stock. The price might increase to a fictitious price that does not reflect the real price of the stock. This will lead other investors to make the unwise investment decisions. After that, the group would sell their shares to benefit from this increase.



Influencing the Opening Price

Example

An investor places an order to buy or sell before the opening of the market without any intention to execute. Before the market opens, the investor cancels the order to affect the raise and fall of the stock price to reach a fictitious level. This would reflect wrong information on the stock's performance and thus could lead investors to take unwise investment decisions.

Trading Based on Insider Information

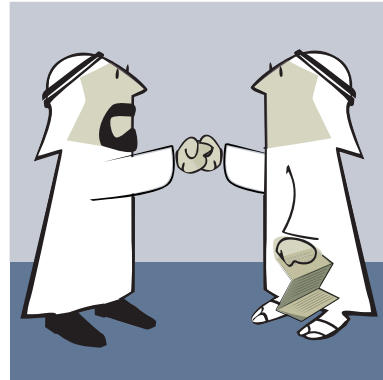
Example

An employee or a board member knows that the company he/she works for is considering an acquisition offer by another company. Before announc-



ing this news, the employee or the board member buys shares in the company or tells someone else about this information to benefit from it.

This behavior does not bring justice in the market; because the investor who sold the stocks will not do so if he knew of this acquisition offer. The other person who received the information beforehand regarding the acquisition offer would likely benefit from it and obtain unfair profits.



Another Example

An employee or a board member knows that the company he/she works for might lose the contract with one of its major clients. The employee or board member would then sell his shares in the company based on his evaluation or prediction that the company would definitely lose this contract. He/ she might also disclose this information to someone else that might benefit from it.

This behavior does not bring justice in the market; because the investor who bought the shares of the board member or the employee would not have gone through with his purchase if he knew that the company might lose one of its major clients.

Another Example

A board member or one of the executives knows that the company will make profits that exceed the expectations. The board member or one of the executives would buy stocks before announcing the profits so he/she can benefit from the rise in the price after the announcement. He/she might also disclose this information to someone else that might benefit from it.

This behavior does not bring justice in the market; because the investor who sold his shares would not have gone through with the selling order if he knew that the company would make these unexpected profits that could affect and raise the stock price.



Spreading Rumors (Pump and Dump)

Example

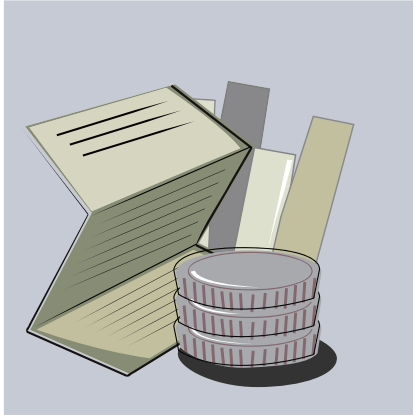
A person publishes untrue and misleading information regarding an acquisition offer by one company to another although he/she knows that this information is not true but spread it anyway to affect the stock price.

This behavior might lead to a rise or fall in the price of the stock and thus some investors might base their unwise investment decisions on it.

Another Example

A person buys stocks in a company and then spread some misleading rumors to create the illusion that the price of that security will rise. This may lead to a misleading impression that the security price will rise so that investors may take

unwise investment decisions that help in actually raising the price of that security; which therefore gives the manipulator the chance to benefit from this increase in the price level by selling his/her shares to the harmed investors.



Practicing Brokerage without Obtaining a License

Example

A person, who is not authorized by CMA to be a broker, obtains the information to enter the investors' portfolios and trade through them for a percentage of the portfolio's profits or a fixed fee.

Another Example

A person, who is not authorized by CMA to be a broker, provides recommendations to buy or sell the stocks of the listed companies in the Saudi Exchange to other people.



To Advertise Securities without Obtaining a License

Example

A person advertises on (websites- blogs- social networks- SMS- newspapers- Television channels or any other mean of publication) to provide recommendations or invitations to subscribe in recommendations to sell or buy stocks of listed companies in the Saudi Exchange without obtaining a license from CMA.

Another Example

A person announces on (websites- blogs- social networks- SMS- newspapers- Television channels or any other mean of publication) that he/she provides the service of managing investment portfolios in the Saudi Exchange without obtaining a license from CMA.



What should I do if I knew or thought I knew that there are some violating practices of the Capital Market Law and its implementing regulations?

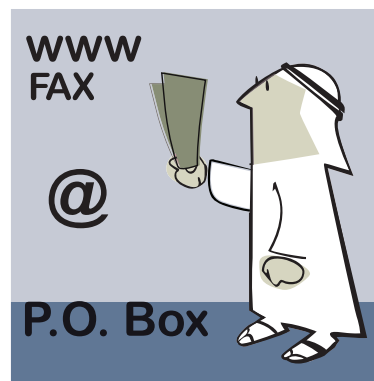
In case you knew about any misleading practices or violations of the Capital Market Law and its implementing regulations, reporting these viola-

tions would have a huge effect to protect you and other investors from such practices. We would appreciate reporting any misleading practices or violations via email or telephone.

- Email: info@cma.org.sa
- Toll-Free: 8002451111
- Telephone: 0112053000
- Fax: 0112797006

How can I get more information on the practices that violate the Capital Market Law and its implementing regulations?

You can get your copy of the Capital Market Law and its implementing regulations by visiting CMA's official website: www.cma.org.sa or by calling: Toll-Free: 8002451111, Telephone: 0112053000 or Fax: 0112797006.





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Capital Market Authority

