

## **Exchange Traded Funds Rules**

Exchange Traded Funds (ETFs) are open funds that issue certificates, traded on the stock exchange, against a portfolio of securities, the majority of which, track the performance of one of the exchanges' price indices.

Companies willing to issue an ETF, should submit an application to the CMA, including and attached to it the following:

- The name of the underlying index taken as basis for the ETF issuance.
- Acceptance of the entity, the index is registered under its name.
- The expected issuance size and its currency.
- The number of certificates expected to be issued and their par value.
- What proves that a contract has been made with at least two Market Makers.

The CMA issues its approval to the application within one week of receiving the required documents.

The Fund's capital is to be raised entirely by the issuer or by partnering with others or through a public offering.

The prospectus of the Fund must include the following information, in addition to data stipulated in Article (154) of the executive regulations of Capital Market Law no 95 of the year 1992:

- The name of the fund manager.
- The name of the underlying index taken as basis for the ETF issuance.
- The name of the two market makers contracted for the establishment of the fund.
- The par value of the certificate ranging from a minimum of L.E 10 and a maximum of L.E 1000.
- The methodology used for the valuation of the ETFs using the net asset value.

The company issuing the ETF has to contract with at least two market makers and the contract has to include the rights and obligations of each party especially the regulations governing the creation and redemption of ETFs. Market makers main responsibilities include:

- Create a portfolio consisting of securities in the index, representing a certain percentage of total portfolio of the fund, using the money available at establishment and keeping the rest of the money raised in a liquid form, according to the rules made by CASE and approved by the CMA.
- Deposit the securities of the portfolio at a custodian in the name of Fund.
- The market maker in relation to issuance of ETFs, collects the securities constituting the index and reflecting the portfolio composition of the ETF, depositing them at the custodian under the name of the Fund, whereby the fund manager will create ETFs in the amount of the creation unit (5000 certificates) or its multiples, at a price equivalent to the certificate's share from the net assets of the Fund.

- The market maker in relation to redemption of ETFs, collects the ETFs traded in the market, in the amount of the creation unit (5000 certificates) or its multiples, depositing them at the custodian under the name of the Fund, whereby the fund manager will receive securities corresponding to the ETF certificates, at a price equivalent to the certificate's share from the net assets of the Fund.
- During the redemption and creation of ETFs, small differences can be covered by cash, provided it does not violate the percentage of the components of the portfolio.
- Transfer of ownership from the fund to the market maker and vice versa is done through the Depository and Central Registry company.

The Exchange Traded Funds are listed on CASE upon the company's request and according to the Exchange's Listing Rules.

The Fund manager should conform to the following:

- Maintaining permanently a specific correlation coefficient between the trading price of the ETF and the index value, according to the rules stipulated by the Exchange and approved by the CMA.
- Ensuring permanently that the portfolio consisting of securities in the index does not fall under a certain percentage of the total securities of the portfolio, according to the rules stipulated by the exchange and approved by the CMA.
- Calculating the net asset value of the Fund and disclosing it to the exchange and the CMA on a daily basis .
- Disclosing to the Exchange and the CMA amounts and dates of dividends.
- Informing the Exchange and the CMA, in writing, with any projected modification in the number of certificates, temporary suspension for creation and redemption, any corporate actions affecting the activity of the Fund or leading to the liquidation, merging the fund, or any other stock split or reverse splits.