



## A. What Is A Stockbroker?

A stockbroker is the middleman who takes the investor's buy or sell order and relays it to the market. In order to buy shares of stock, you need a stockbroker to help you with the transaction. The broker (also called a stockbroker) is the link between you and the stock exchange.



## B. Types of Brokers:

Investors can not buy/sell their stocks except through a broker, a traditional route of investing in the stock market. Brokers act as agents for buying and selling stocks, bonds, and mutual funds, and ARE regulated by the rules governed by the Cairo & Alexandria Stock Exchanges (CASE).

There are usually two different kinds of brokerage firms:

### 1. Full Member:

A member that can execute, clear and settle transactions on its own behalf and on behalf of its clients. The company can also extend margin facilities to its client base. A clearing member must meet certain requirements regarding net capital, capital adequacy, employment of a credit officer, etc.

### 2. Non Clearing/Introducing Member:

A member who can only buy/sell securities on behalf of its clients but can only carry out clearing and settlement of securities through the facilities of another (clearing) member.




## C. Key Considerations When Choosing A Broker:

### 1. Setting Your Investment Goals

Before you even begin the process of selecting a brokerage firm and individual stockbroker you should **determine your realistic investment needs and objectives**. Are you primarily interested in long term growth, a steady income stream, tax savings, quick profits or some combination of them? Your personal financial situation is your best guide to choosing an investment. If you have good income, or if you are relatively young and feel you are able to take more investment risks for larger gains down the road, "growth" through appreciation of capital might be your choice. Conversely, if you are living on a fixed or retirement income, your main goal might be regular income through dividends and interest while at the same time protecting your principal.

Be realistic in setting your investment goals. Remember that **no investment is risk-free** and, as a general rule, the greater the hoped-for return, the riskier the investment.



**Other questions to ask yourself are whether you can afford to lose the money you plan to invest**, whether you have adequate life insurance and whether you have sufficient cash reserves in a very safe place, which can be reached rapidly in case of a personal emergency. Even if you have substantial assets, it does not necessarily mean that every investment will be appropriate for you. You should make only investments you fully understand and are comfortable with. It is also important to realize that, once you have decided on your investment objectives, you have another task in selecting those you want to help you reach your financial goals. You may wish to consult with an accountant or financial advisor familiar with your financial status to help you in determining your financial objectives. Portfolio management firms and investment advisers should also be considered, depending on how much money you have to invest. As a general rule you will pay a fee for such services in addition to normal brokerage commissions.

## 2. Choosing Your Broker

The first thing to realize is that brokerage services are highly personal and the quality of the service you will receive will depend not only on the firm that you decide to do business with, but also on the particular sales representative you choose. Your goal should be to find a broker who will be able to understand and accommodate your particular investment status and goals.

The following is a **list of characteristics and qualifications** you should ensure in your choice of an account executive:

- **Easy to talk to.** You should feel comfortable with your account executive. The more your account executive knows about your financial situation and goals, the better your account will be served. You will be giving your account executive some very personal information. If you feel uncomfortable, you may not give your account executive as much information as might be needed to properly service your account.
- **Does not pressure you.** You need to keep in mind that your investments must please you, not just your account executive. A good account executive will take the time to find the investment strategy that is best for you and won't put you into a certain investment just because other customers are.
- **Pays attention and acts on what you say.** If you tell a good account executive that you don't want a certain degree of risk or a certain type of investment, then that account executive won't be constantly recommending that investment to you. On the other hand, a good account executive will try to find out why you don't want a particular investment and may even recommend the investment if he or she believes that such an investment is best for you.
- **Explains things until you understand.** The securities business is very complicated and can be difficult to understand, especially if things aren't explained properly. A good account executive will provide you with information and will take as much time as necessary to explain a proposed transaction until you understand. Remember that this is your investment—you have every right to



understand exactly what is going to happen with it.

- **Registered with the Regulator and CASE and does not have a history of customer complaints.** The CMA and CASE keep a register of all account executives and has their reported disciplinary history on file. While an occasional customer complaint may be inevitable, an account executive with a history of customer complaints should probably be avoided by the beginning investor.



## D. What Should be Done Once You Have A Short-list of Brokers?

When you have made your decision as to one or more brokers that you may wish to deal with, you can start off by **asking each broker for a brochure** that describes the investment options offered by the firm, a list of the services provided, copies of the firm's specific recommendations over the past year, and a copy of the firm's commission rates. As to **commissions**, although firms have commission schedules based upon the number of shares sold and the price per share, firms are presently free to set their own commission schedules. Active investors may be able to negotiate lower than standard rates.

When you first go to a broker's office, you may wish to meet with the **office manager to discuss your investment goals**. He or she may be able to steer you to a broker particularly knowledgeable in your areas of interest. When you meet with a particular broker at the firm, treat the occasion as an interview. Don't be intimidated by an impressive office or a fast-paced, smooth, but superficial sales pitch. Discuss your investment objectives and financial capabilities fully with the broker. Ask questions and really listen to the answers you get. Remember there are no dumb or silly questions when it comes to understanding how your hard earned money is going to be invested. Make sure that the firm's services, recommendations and commission structure are compatible with your investment goals and that you are confident that the particular broker you have chosen will help you meet those goals.



## E. The Relationship - The New Account

Once you have decided on a particular broker, you will have to assist him in filling out a new account/ agreement form, which is used to ascertain and establish certain facts relative to you as a customer. Among other things, you may be asked questions about your address, telephone number, age, identification card, net worth, annual income, investment objectives, risk tolerance, tax bracket, where you work and the depth of your investment experience. Do not take this line of inquiry as an unnecessary intrusion into your private affairs.

Depending on the circumstances the broker is required by CASE to use "due diligence" in the opening and handling of the customer accounts. The broker is required to "know the customer".

This is an ongoing requirement which you should help your broker meet by continually updating

him or her whenever you experience a significant change in your financial situation or investment goals.

The more your broker knows about you, the better able he or she will be to make appropriate investment recommendations to you. Filling out the account form can provide an invaluable chance to discuss your needs and objectives in detail. The customer's account should also contain a copy of all orders that you entered, a copy of all execution reports, contracts signed between parties and all correspondences for a period of two years.

Another type of account is the **discretionary account** in which you give the broker complete authority to act without your permission. Discretionary accounts may be useful to some investors.

However, because a discretionary account may be open to significant abuse by the broker who receives commission based on transactions in the account, many firms refuse to accept discretionary power over an account or, at least, limit such accounts to their most senior sales personnel. While full discretionary authorization must be given in writing, it is possible to orally grant an account executive limited discretion as to the best time and price at which to buy or sell a specific security. The Chief Supervisory Officer of the firm is obligated by law to review transactions in a discretionary account at frequent intervals to ensure compliance. As a customer, you should always use caution in giving oral authority to trade.



## F. Sources of Information Before Taking An Investment Decision:

A wise investor is an informed investor. This is especially true in light of the numerous and complex financial instruments being offered today. Apply some effort to clearly understand what each investment is, how it is structured, what its inherent risks and benefits are, and whether it fits into your investment strategy.

Following are various sources of information that can be tapped into by the investor:

- **Brokerage House:** One source of information will be the brokerage firm and the individual broker. The brokerage firm will usually have several regular publications available from its research department to keep you up dated on market trends, good investment possibilities and other relevant financial information. When a broker recommends a security, he or she should do so on the basis of sound reasoning and have something more than a "hunch" or a "tip" to back it up. A recommendation should be made only when the broker has reasonable grounds to believe the investment is suitable in view of the customer's investment objectives, financial situation and needs, level of knowledge, and degree of sophistication. All this takes analysis-of both the security and the customer. Ask your broker to provide you with copies of the research or other materials used as a basis for recommending a specific security.
- **Good communication between you and your broker is essential for a profitable and continuing**



**relationship.** The kind of service, and the amount, depends on what you and the broker have established at the time you open your account. Essentially, the frequency with which your broker calls should be consistent with the size of your portfolio. For instance, if you hold a total of five stocks which are invested for long-term conservative growth, you probably will not need to talk to your broker more than once or twice a year. On the other hand, a larger account of 20 or 30 growth or speculative stocks requires closer supervision, and in this case an active broker may want to call you several times a week. You may ask your broker to call you periodically, if you wish, for maintenance of your account, but there is no definite standard that applies to every account. You will want to know as much as you can about any company in whose stock you are interested. Likewise, if you already own shares in a company it is smart to keep up with its current share price and any other developments relevant to its market performance.

- **Issuer Financial Reporting:** You can find valuable information about companies from their annual reports. Your broker can also get copies of annual reports for you. The reports usually contain a statement of the company's earnings, its view of its past performance and prospects, as well as a discussion of new products and the status of industrial relations.
- **Media:** Many newspapers carry business and stock market information each day. The business or financial sections of daily papers carry stock tables that report daily price changes and other information, including yields, price earnings ratios and profiles of price movements, about stock listed on major exchanges and over-the-counter markets. They also report news about the corporate and financial world that may interest you and be relevant to investment decisions. Only after you have evaluated all the investment information available should you decide whether or not to buy a security.



## G. If You Have A Problem With Your Account

Most dealings between customers and brokerage firms are straightforward and trouble-free. Provided the investment was appropriate for you, was presented to you fairly and entered into by you with full knowledge of the risks involved, you cannot blame your broker if it is not as successful as you might like. In some instances, your expectation may have been excessive and unrealistic. Sometimes, however, problems between brokers and customers do arise. Some can be considered of an operational nature, such as the late delivery of a stock or money, and often may be resolved by dealing directly with the firm. Other problems are potentially more serious. They may involve sales practices where you may, in essence, have lost control of your account and the objectives and goals that you have set. Among the more severe problems are excessive trading in your account, unauthorized trading, unsuitable recommendations, and failure to execute trades or deliver securities.

Be sure that nothing happens in your account without your prior authorization, or that represents a deviation from your investment strategy. If there is anything that you do not understand or that is inconsistent with your intentions, bring the matter up with your broker immediately. Remember the broker is there to service your account. If the broker sends you confirmations of stock trades

you do not recall agreeing to, call him immediately. Erroneous trades usually can be straightened out without much difficulty if they are caught in time. If, however, you wait to see if stock mistakenly bought goes up and only try to cancel the trade when the shares perform poorly, your delay can be used as evidence that you accepted the trade.

In addition, make the effort to read and understand the monthly account statements that you receive from the firm. Assure yourself that these statements are in agreement with your confirmations. If there is any inconsistency between the two, notify the firm immediately.

If you have any of these problems or any other identifiable problem, or something just does not seem right about the way your account is being handled, you should, as stated above, discuss the situation immediately with your broker and, if necessary, with the office manager. If you still do not get a satisfactory response, notify CMA and CASE. At the same time, you may wish to send a letter detailing your problem to the Chief Compliance Officer of the broker's firm at the firm's office. You can get the Compliance Department's address from your broker, his office manager.



## H. Arbitration

If you do not achieve an acceptable resolution through these channels, you may wish to consider initiating an arbitration claim or legal action. Arbitration is a method of having a dispute between two or more parties resolved by impartial persons who are knowledgeable in the area of controversy. Arbitration offers a less costly and generally faster means of resolving a claim than traditional litigation. It is very important for you to realize, however, that arbitration awards are final. Arbitration decisions are subject to review by a court only on a very limited basis. By choosing arbitration as a means of resolving a dispute you effectively give up your right to pursue the matter through the courts. Arbitration in the financial securities area is not common in Egypt but is widely available in both developed and emerging markets. Usually investors in Egypt send their complaints to either the Exchange or the Capital Market Authority (Regulator).



## I. Conclusion

Chances are that if you follow the suggestions contained in this brochure, you would not ever need to bring an arbitration or legal action.

- Take your time in selecting a broker and take the time to establish a relationship of mutual trust, respect, and understanding with your broker.
- Be an informed and aware investor. Keep on top of the activity in your account. Never hesitate to ask your broker a question and do not be afraid to say "No" to a recommendation by your broker that is not compatible with your investment strategy.



- Understand the risks and benefits of every prospective investment before making a decision to buy or sell.
- Never buy on the basis of rumors or so-called hot tips. Keep your eyes open and act on fact rather than emotion.

# Margin Trading



## Overview

Margin trading transaction is a tripartite agreement between the custodian, one or more brokerage companies and the client to provide necessary finance for a portion of the purchased securities' value for the benefit of this client.

In other words, the investor when buying securities might finance this purchase fully from his own resources or might borrow part of their cost from a lender, which could be a bank or a broker. If the investor chooses to borrow the money from a broker he/she has to open a margin account.

"Margin", in this context, is borrowing money from a broker -with a certain interest- to buy securities, whereby the securities themselves are used as collateral for the borrowed money. Investors, who put up an initial margin payment for securities' purchase, are required, from time to time, to provide additional cash or securities if the market value of their "margin" portfolio falls to or below a certain level. This is called the maintenance level and is previously agreed upon with the broker. Conversely, if the portfolio's value (prices of the securities) rises, then cash can be withdrawn from the account to conform to the maintenance level.

Meanwhile the broker, which is also the lender, has the right -according to his agreement with the client- to sell all or part of the "margin" securities in case their market value breaks the maintenance level conditioned that the client fails to meet the "margin call", which is injecting his margin account with cash money or additional securities.

In markets that allow margin trading, investors generally use margin to increase their purchasing power so that they can enlarge their portfolios without fully paying for them, nevertheless this type of trading is an applicable example of "risk versus return" rule, as it exposes investors to higher losses when prices of the "margin" securities go down, however profits can mount quickly in case prices pick up.

Therefore, **margin traders should be aware of the following:**

1. Margin trading is very profitable in the bull market, while it's very risky in the bear market as investors might not only lose their initial investment but even more (the amount owed to the lender with interest)
2. Investors must be ready to deposit additional cash or securities in their accounts on short notice to cover market losses; i.e respond to margin calls
3. Brokerage firms may sell some or all the investors' securities without consulting them in order to pay off the margin loan in case margin calls are not satisfactorily met
4. Brokerage firms will charge investors with interest on the borrowed money, which in turn affects the total return on investments





5. Margin accounts tend to exaggerate market movements that could be a systemic problem when markets are spiraling down.

Thus investors should make sure (through consulting their brokers) that margin trading makes sense for them in the context of their financial resources, investment objectives and risk tolerance.

In this respect, it is also advisable for investors to carefully review the margin agreement -which explains the terms and conditions of the margin account- before signing it. This Agreement describes the method of calculating the loan's interest, the responsibilities assumed by the investor for repaying the loan and the legal framework of which the securities purchased on margin serve as collateral for the loan including the conditions under which the brokerage firm will sell the "marginated" securities to collect the borrowed money.

## Margin Trading on CASE

Originally the Capital Market Law No.95/1992 didn't allow margin trading, however banks were allowed to lend their clients to buy stocks against pledging shares, but the policies and rules of the lending bank were to govern such lending. In 2002 a new chapter (chapter 9) was added to the Executive Regulations of the Capital Market Law, promulgated by the Ministerial Decree No.533 and amended in 2005 by the Minister of Investment Decree No.192/2005, to organize and put the legal framework for margin trading activities. According to these amendments solely **custodians** may exercise this type of activities and only after getting **licensed by the CMA** based on the latter decision taken **within 2 weeks** after the custodian's submission of the following:

- A. A statement of the applicant's net capital and total liabilities as of the last business day of the month that precedes the application date on the form prepared by the Stock Exchange and approved by the Authority (CMA) duly signed by the applicant's legal representative or the Managing Director, as the case may be, along with a report by its Auditor.
- B. An outline of its information processing system and the existence of an electronic connection line between the applicant, CMA, SE and the Securities Central Depository and Registry Company that ensures control and monitoring, and the presence of a telephone calls recording system according to provisions of Article 263 of these Regulations
- C. Documents archiving System.
- D. Internal control and financial auditing systems and principles along with a certificate from the custodian's Auditor testifying that the accounting system applied involves full observance of the activity to be exercised.
- E. A list of names and CV's of the custodian's directors and staff in charge of the activity or transactions related thereto.

F. A model agreement to be conducted by the activity parties as referred to in the preceding article.

Once accepted, the licensed custodian should daily -through the electronic line- notify both, the CMA and the Stock Exchange, of its net capital and total liabilities and should every day maintain a **net capital of at least 15 % of its total liabilities with a minimum of LE 750,000**. If this ratio/amount drops below the illustrated levels, the custodian has to inform the Exchange within 2 days in writing, of the reasons thereof and means of tackling the situation. The custodian has only 30 days, at the utmost, to raise its net capital to the required levels, during which it is obliged to stop accepting any new margin trading requests. If it fails to do so, the CMA board has the right to consider revoking practice of activity or taking any necessary action.

It's worth mentioning that supporting loans can not be considered or taken into account in calculating net capital unless they meet the following conditions:

- A. Maturity date of the loan should not be before 12 Gregorian months.
- B. Loan should be fully paid in cash.
- C. Loan should not have collateral from the custodian or preference except over other supporting loans.
- D. Loan payment should not lead to a drop in net capital below levels set in the previous Article.

Furthermore, the custodian has to comply with the following provisions while undertaking margin trading activities:

1. Total amounts due to a custodian from margin trading in one security or what it maintains as collateral, should not exceed 15% of total amounts available for margin trading with the exception of treasury bills offered as collateral.
2. A client's indebtedness with the custodian shall not exceed 10% of the amounts available for margin trading.
3. The maintenance level is 60% for securities and 85% for government bonds for each client.
4. The custodian has the right to sell the client's securities -to bring the percentage of the client's indebtedness to 50% for securities and 80% for government bonds or less- in the 2 following cases:
  - a. If the client does not meet the margin call within two days after notification date (either in cash or additional collaterals).
  - b. If his indebtedness reaches 70% of the securities market value.




On the other hand, margin traders should conform by the following rules:

1. The cash payment should not be less than 50% unless stated otherwise by the CMA.
2. The client has to sign an agreement with the custodian illustrating all the terms and conditions, fees, maintenance levels, margin calls, methods of adding collaterals .. etc, which is considered a declaration from the client that he is aware of all margin trading rules and risks.
3. The methods of reducing clients indebtedness are either cash payments or collateral, which are assessed as follows:
  - a. 100% of unconditional bank guarantee letters issued by banks and branches of foreign banks that are under the supervision of the Central Bank of Egypt.
  - b. 100% of current value of Treasury Bills.
  - c. 90% of the bank deposits.
  - d. 70% of other securities market value acceptable to the licensed custodian provided that they meet the conditions included in Article 293 of these regulations.

Last but not least, not all securities are allowed to be traded on according to the margin trading system, only those who meet the required criteria as follows:

1. The securities must be dematerialized and normal stocks.
2. The minimum trading days of the stock should not be less than 95% of the working days per year.
3. The average number of brokerage companies, which execute transactions on the stock, must be at least 50 companies over the year.
4. The average daily number of transactions executed on the stock should not be less than 200 transaction (excluding the big deals).
5. The minimum free float should be 15% of the total listed shares.
6. The market capitalization should not be less than LE 1 billion.
7. The turnover of the stock should be at least 15%.

It is the responsibility of the Stock Exchange to regularly review the securities traded through margin in order to verify compliance with the standards required in that manner.



Finally, Misr Clearing, Settlement, Depository and Registry (MCDR) shall perform clearing and settlement transactions on the trades done according to this system with coordination with the custodian and according to the prevailing provisions included in the Executive Regulations of the Central Registry and Depository of Securities Law, promulgated by the Minister of Foreign Trade decree no. 906 of 2001.

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For more detailed provisions and information, please check CASE website:  
[www.egyptse.com](http://www.egyptse.com) / CASE / Rules and Regulations / Margin Trading