



Saudi Stock Exchange (Tadawul)

DERIVATIVES EXCHANG TRADING AND MEMBERSHIP PROCEDURES

Approved by the Board of the Capital Market Authority Pursuant to its Resolution Number (2-137-2019) Dated 12/4/1441H Corresponding to 9/12/2019G

Arabic is the official language of the Exchange

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1 General Provisions

- 1.1 This document specifies the Derivatives Exchange Trading and Membership Procedures that Derivatives Exchange Members and Derivatives Exchange Registered Traders must follow to comply with the provisions of the Derivatives Exchange Trading and Membership Rules and the procedures followed by the Exchange related to the Listed Derivatives Product.
- 1.2 The Exchange may waive any person's obligations to the provisions of these procedures either based on a request from the relevant person or on its own initiative.
- 1.3 These procedures will enter into effect as per the Exchange's approval resolution.

2 Access to Derivatives Trading System

- 2.1 Derivatives Exchange Members must obtain technical Order Management System certification from the Exchange.
- 2.2 Derivatives Exchange Members must comply with the requirements prescribed by the Exchange from time to time when accessing the Derivatives Trading System.

3 Product Specifications

3.1 Index Futures:

3.1.1 Maturities Creation:

- 3.1.1.1 New maturity for Futures Contracts is made available for trading on the Sunday following the expiration of the current contract.
- 3.1.1.2 The expiration of the Current Contract maturity is the third Thursday of the month.
- 3.1.1.3 Maturities will include spot month, next month and the following two quarters.

3.1.2 Product Creation:

- 3.1.2.1 All Listed Derivatives Products Specification will be published on the Exchange's website.

4 Product Pricing

4.1 Index Futures:

- 4.1.1 **Open:** open of the market takes place by an auction for Futures Contracts. The auction shall be based on the bids and asks entered during the Opening Auction. The market will open and uncross on a variable basis between 09:30:00am and 09:30:30am every Trading Day.
- 4.1.2 **Intraday:** matching takes place based on price and time priority.
- 4.1.3 **Close:** Last traded price (LTP).
- 4.1.4 **Daily settlement price:** Daily settlement price of the futures contract shall be based on the VWAP (volume weighted average price) of last 10 minutes of the trading day, subject to a minimum of 10 trades in last 10 minutes. If there are less than 10 trades in last 10 minutes, the Exchange shall use the Theoretical Futures Price (TFP) to compute the fair value of the contract at the market close.

- 4.1.5 **Final settlement price:** The Final Settlement Value shall be the average value, rounded to the nearest 0.5 of an index point (values of 0.25 or 0.75 and above being rounded upwards), taken at every 15 seconds or at such intervals as may be determined by the Exchange from time to time from 14:00 to 15:00 plus one value after 15:10:30 of the index on the Final Trading Day excepting the 3 highest and 3 lowest values.
- 4.1.6 **Tick Size:** Minimum price fluctuation of the index Futures Contract will be specified by the Exchange in the Listed Derivatives Products Specifications, which will be published on the Exchange’s website.

5 Trading Times

- 5.1 Listed Derivatives products are traded from Sunday to Thursday, except for on official holidays in the Kingdom.
- 5.2 The Exchange trading calendar will be published by the beginning of each year.
- 5.3 Changes to the trading calendar will be published on the Exchange’s website.
- 5.4 Each Trading Day follows the sequence of sessions listed in the following table:

Table (1):

	Time Schedule for Listed Derivatives Products (as per the official time in the Kingdom)
First Session: Opening Auction	09:00 – 09:30
Second Session: Market Open - Trading	9:30 – 15:30
Third Session: Market Closed	15:30 – 16:00
Fourth Session: System Closed	16:00 – Till 9:00 next Trading Day

- 5.5 Derivatives Exchange Members may transmit, amend, and cancel orders during the First and Second sessions. When market is closed Derivatives Exchange Members may amend order validity and cancel orders; and they may deactivate outstanding orders during the Trading Day.
- 5.6 Orders at a given price level are displayed aggregated by price (market-by-price view) during the Pre-open.
- 5.7 Order matching occurs during the Second Session: Market Open - Trading.
- 5.8 The Exchange will determine the ending time for the First session randomly within a period of 30 seconds after the scheduled time as listed in Table (1) of these procedures.
- 5.9 The Exchange may suspend any session in case there is a need for maintenance, to ensure fair and orderly market conditions (e.g. unavailability of the underlying assets). Participants will be notified accordingly.

6 Order Channels

6.1 Orders must be submitted using only the following channels:

- 6.1.1 T Channel: A channel specifically designed for Derivatives Registered Traders to submit orders;
- 6.1.2 I Channel: A channel specifically designed for clients to submit orders via Derivatives Exchange Members' websites and online applications;
- 6.1.3 A Channel: A channel specifically designed for clients to submit orders via Automated Teller Machines;
- 6.1.4 V Channel: A channel specifically designed for clients to submit orders via telephone calls;
- 6.1.5 S Channel: A channel specifically designed for clients to submit orders via the short messages system protocol (SMS);
- 6.1.6 G Channel: A channel specifically designed for the submission of automated orders based on pre-defined calculated instructions (Algorithmic Trading);
- 6.1.7 Any other channel as prescribed by the Exchange from time to time.

6.2 Except for direct orders, Derivatives Exchange Members must apply the two-factor authentication standard when using the channel prescribed in (6.1.2).

7 Order Types

7.1 Limit Order

- 7.1.1 The Derivatives Trading System will improve the execution prices of limit orders (by reducing them for buyers or increasing them for sellers) whenever the price is better than the order's price limit on the opposite side (higher or lower as the case maybe). In the absence of a better price on the opposite side, the order will be executed at the limit price.
- 7.1.2 The execution price improvement mentioned in (7.1.1) of these procedures is subject to the Derivatives Trading System order entry priority.
- 7.1.3 The Derivatives Trading System can execute limit orders participating in the First session at the latest Theoretical Opening Prices. Such prices might be better than the specified limit prices of relevant orders.

7.2 Market Order

- 7.2.1 During the First Session, orders can be submitted but it will not be matched.
- 7.2.2 During the Second Session, the Derivatives Trading System will execute market orders partially or fully at one price, and convert the unmatched parts of partially matched market orders into limit orders at their traded prices.
- 7.2.3 Market orders participate in the Theoretical Opening Prices calculations.
- 7.2.4 The market-by-price view displays market orders. Market-by-order view will not be available during the First Session.
- 7.2.5 At the end of the Second Session, the Derivatives Trading System will cancel any outstanding day order, either unmatched or partially matched.

8 Order Conditions

8.1 Orders may bear one of the following conditions:

- 8.1.1 **Fill or Kill (“FoK”)** means the complete order quantity must be executed as soon as it becomes available for matching; otherwise the order will be immediately cancelled, taking into consideration the following:
 - 8.1.1.1 the condition is available for limit and market orders; and
 - 8.1.1.2 the condition is not available during the First and Third Sessions.

- 8.1.2 **Fill and Kill (“FaK”)** means the order must be at least partially executed as soon as it becomes available for matching; otherwise the order (or the unmatched part) will be immediately cancelled, taking into consideration the following:
 - 8.1.2.1 the condition is available for limit and market orders; and
 - 8.1.2.2 the condition is not available during the First and Third Sessions.

- 8.1.3 **Hidden Quantity** means the order will disclose a portion of its quantity. Each time the disclosed portion is fully matched, the order will disclose an equal portion of its quantity, taking into consideration the following:
 - 8.1.3.1 the full quantity of the Hidden Order participates in the Theoretical Opening Prices calculations; and
 - 8.1.3.2 the condition is available for limit orders.

9 Order Validity

9.1 The Derivatives Trading System determines order validity according to when orders enter the Derivatives Trading System, as follows:

- 9.1.1 **The First Session:** means that orders are subject to full execution at the end of the First Session, and they should be transmitted during the First Session of the same day.
- 9.1.2 **Day:** means that orders are subject to full execution until the end of the Second Session.
- 9.1.3 **Good till Cancelled (“GTC”):** means that orders are subject to full execution with a validity period of up to (30) days from the transmission of the order.
- 9.1.4 **Good till Date (“GTD”):** means that orders are subject to full execution until a specified expiry date. The expiry date can be set up to a maximum of (30) days from the transmission of the order.

10 Requirements for Transmitting Orders

10.1 Derivatives Exchange Members must ensure that orders transmitted to the Derivatives Trading System meet the following requirements:

- 10.1.1 **Tick size:** The price is a multiple of the applicable tick size (defined in section (4) of these procedures).
- 10.1.2 **Fluctuation limit:** The price of the order meets the daily fluctuation limit as specified in the relevant Listed Derivatives Product Specification.
- 10.1.3 **Lot size:** The order quantity size is one contract or one of its multiples.

10.1.4 Orders must follow any additional requirements published by the Exchange from time to time.

11 Order Amendment, Cancellation, and Deactivation

11.1 Order amendment:

11.1.1 The Derivatives Trading System allows amendments to: (1) order price; (2) total quantity; (3) visible quantity; and (4) duration of transmitted orders.

11.1.2 Amended orders must adhere to the requirements prescribed in Section (10) of these Procedures.

11.1.3 Amending orders, as prescribed in Section (12) of these Procedures, affects order priority in accordance with the following Table:

Table (2):

Amended Field	Sessions	Consequences on Priority
Price	The First, Second	This will lose priority
Total Quantity	The First, Second	- Increase will lose priority - Decrease will not lose priority
Visible Quantity	The First, Second	- Increase will lose priority - Refresh will lose priority - Decrease will not lose priority
Duration	The First, Second, Third Session	No change in priority

11.2 Order Cancellation:

The Derivatives Trading System allows the cancellation of outstanding orders.

11.3 Order Deactivation:

11.3.1 The Derivatives Trading System allows the deactivation of outstanding orders.

11.3.2 Deactivated orders cannot be executed.

11.3.3 Deactivated orders will lose their assigned priority, as prescribed in Section 12) of these Procedures.

11.3.4 Deactivated orders remain in the Derivatives Trading System until activated by the relevant Derivatives Exchange Registered Traders. Upon activation, the orders must adhere to the requirements prescribed in Section (10) of these Procedures.

12 Order Execution

- 12.1 When Derivatives Exchange Members transmit orders to the Derivatives Trading System, the Derivatives Trading System sorts them by type (buy or sell), price, and entry time.
- 12.2 The Derivatives Trading System assigns order priority based on price and time of entry to the Derivatives Trading System. It gives the highest buy order prices the highest priority. Conversely, it gives the lowest sell order prices the highest priority.
- 12.3 The Derivatives Trading System always gives market orders the highest priority.
- 12.4 The Derivatives Trading System prioritizes orders transmitted with the same price by their time of entry into the Derivatives Trading System; it executes the orders transmitted earliest first.
- 12.5 Orders transmitted in the First or Second Sessions will contribute to the calculation of theoretical opening prices during these sessions.
- 12.6 The Exchange calculates the theoretical opening prices as follows:
- 12.6.1 The Derivatives Trading System will assign a price at which the maximum quantity of Listed Derivatives Products might be traded.
- 12.6.2 If the same quantity could trade at two or more prices, the Derivatives Trading System will assign the price that leaves minimum residual, which is the unmatched number of Listed Derivatives Products at that price.
- 12.6.3 If two or more prices have the same minimum residual, then the Derivatives Trading System will assign the price as follows:
- 12.6.3.1 the highest price if the imbalance of unmatched quantity is on the buy side only;
- 12.6.3.2 the lowest price if the imbalance of unmatched quantity is on the sell side only; or
- 12.6.3.3 the average price between 12.6.3.1 and 12.6.3.2 when the imbalance of the unmatched quantity is on both sides (buy and sell). The Derivatives Trading System will round average price to the closest valid tick size when applicable.

Table (3):

The following Example is for Theoretical Opening Price calculation (for the First Session):

Accumulated Buy Quantity	Buy Order Quantity	price	Sell Order Quantity	Accumulated Sell quantity	Maximum Traded Quantity	Minimum Residual
		1.08	300	600		
100	100	1.07	100	300	100	200
100	0	1.06	100	200	100	100
200	100	1.05	100	100	100	100
500	300	1.04				

The above example lists three prices that may produce the maximum number of trades of (100). The existence of multiple prices means that the Derivatives Trading System calculates the minimum residual to produce two prices, SAR (1.05) and SAR (1.06). Since the imbalance of the

unfilled quantity is not on the same side for both prices, the opening price will be the average of the prices, rounded to the closest applicable tick size $(1.06 + 1.05) / 2 = 1.055$ rounded to (1.06).

- 12.7 The Exchange may, as it deems appropriate, implement the necessary amendments to the opening price of the market or a specific Listed Derivative Product.
- 12.8 The Exchange will disseminate each theoretical opening price together with a theoretical opening and closing volume, meaning the quantity of Listed Derivatives Products that might be traded at that price.
- 12.9 The last Theoretical Opening Price of the First Session will be the Opening Price, provided that it is formed with orders that, when matched, result in at least one Normal Trade. If no Theoretical Opening Price can be formed, the Opening Price will be the reference price as specified in paragraph (15.2) of these Procedures.
- 12.10 The Derivatives Trading System will reject orders transmitted during the matching period between the First and the Second Sessions.
- 12.11 When a Derivatives Exchange Member transmits a new order during the Second Session, the Derivatives Trading System checks if there is an opposite order to match it with. If the order is immediately executable, the Derivatives Trading System generates one or more transactions. To be immediately executable, an order must be:
 - 12.11.1 market order, with available orders on the opposite side;
 - 12.11.2 a buy limit order at a price at or above the lowest offer; or
 - 12.11.3 a sell limit order at a price at or below the highest bid.
- 12.12 The Derivatives Trading System can execute orders fully or partially. Limit orders may generate several partial transactions at different prices whenever the new limit order does not find enough quantity at the first opposite price level, provided that the second price level remains within the limit price. This process continues as long as the next level price remains within the order's limit price.
- 12.13 Limit orders can also generate multiple executions at different points in time. For example: an order may generate a partial execution upon entry, while the Derivatives Trading System might execute the remaining portion at a later stage before its expiry.
- 12.14 The following examples concern price determination in the Second Session:

12.14.1 Scenarios with sufficient volume on the opposite side:

Table (4):

The following scenario exemplifies full execution at best price level:

In this scenario, the bid side has only limit orders when a Derivatives Exchange Member transmits a sell Market Order for (100) Listed Derivatives Products.

Bid		Offer	
Quantity	Price	Quantity	Price
200	85		
400	84		
1,000	83		

Result: The Derivatives Trading System will execute the sell order against the highest bid resulting in the following execution: Sold (100) at SAR (85).

Table (5):

This scenario exemplifies full execution at different price levels:

In this scenario, the bid side has only limit orders when a Derivatives Exchange Member transmits a sell order for (1,000) Listed Derivatives Products at SAR (83).

Bid		Offer	
Quantity	Price	Quantity	Price
200	85		
400	84		
1,000	83		

Result: The sale of (200) Listed Derivatives Products at SAR (85) and (400) Listed Derivatives Products at SAR (84), with the remaining (400) Listed Derivatives Products sold at SAR (83).

12.14.2 Scenarios with insufficient volume on the opposite side:

Table (6):

Example: in the following scenario, the bid side has only limit orders when a Derivatives Exchange Member transmits a market order to sell (2,000) Listed Derivatives Products.

Bid		Offer	
Quantity	Price	Quantity	Price
200	85		
400	84		
1,000	83		

Result: Sold (200) Listed Derivatives Products at SAR (85); once volume available for execution at the best price level runs out, the Market Order will convert the remaining (1,800) contracts to a limit sell order of (1,800) at SAR (85).

Table (7):

Example: in the following scenario, the bid side has only limit orders when a Derivatives Exchange Member transmits a Market Order to sell (2,000) Listed Derivatives Products at SAR (82).

New order to sell (2,000) Listed Derivatives Products at SAR (82)

Bid		Offer	
Quantity	Price	Quantity	Price
200	85		
400	84		
1,000	83		

Result: Sold (200) at SAR (85), Sold (400) at SAR (84), Sold (1,000) at SAR (83); once volume available for execution runs out, the limit order will place the remaining (400) contracts on the sell side at SAR (82).

13 Requirement for Positions Limits

The Exchange could impose position limits, per single account of the trading participant, as defined in the relevant Listed Derivatives Product Specification.

14 Open Positions

- 14.1 The Exchange, has the right at any time to request one or multiple Derivatives Exchange members to report all Open Positions, with a defined level of detail.
- 14.2 The Exchange has the right to request the closing out by the Derivatives Exchange Members of the identified Open Position in the following cases (including but not limited to):
 - (a) In case of exceeding position limits specified in the Listed Derivatives Product specifications;
 - (b) In case of corporate action that would require closing out of positions; and
 - (c) In case the Exchange or the Clearing House have identified any breach in any risk parameter on a Derivatives Exchange Members or investors level.
- 14.3 The request made by the Exchange to disclose open positions on an individual customer level have to be provided to the Exchange within a time frame to be determined by the Exchange.

15 Fluctuation Limits

15.1 Daily Settlement Price

The VWAP (volume weighted average price) of last 10 minutes of the trading day, subject to a minimum of 10 trades in last 10 minutes. If there are less than 10 trades in last 10 minutes, then the Exchange shall use the Theoretical futures price (TFP) to compute the fair value of the contract at the market close.

15.2 Daily Fluctuation Limits:

- 15.2.1 Subject to the requirements prescribed in Section (12) of these Procedures, the Exchange only allows order execution on Listed Derivatives Products at a price within the daily fluctuation limits. The Exchange sets these limits against the reference price and they remain valid during the Trading Day.
- 15.2.2 The reference price for the first day of any new contract is the last closing price of the underlying assets.

- 15.2.3 The reference price for any other Trading Day is the previous Trading Day's daily settlement price, including any other adjustments, when applicable.
- 15.2.4 The Derivatives Trading System sets the upper and lower daily fluctuation limits before the start of the First Session using preconfigured percentages.
- 15.2.5 The Derivatives Trading System sets daily fluctuation limits as follows:
 - 15.2.5.1 20% for Index Futures Contracts.
- 15.2.6 The Exchange may adjust the daily fluctuation limit parameters for Listed Derivatives Products.

16 Negotiated Deals

16.1 Introduction

- 16.1.1 Negotiated Deals occur when both sellers and buyers determine the quantity and price of the Listed Derivatives Product contract involved in the transaction.
- 16.1.2 Negotiated Deals are allowed according to the minimum volume thresholds prescribed by the Exchange.
- 16.1.3 Negotiated Deals does not impact, the highest and lowest contract price, the opening and closing prices, as well as the calculation of the indexes.

16.2 Negotiated Deal Execution Mechanism

16.2.1 If the buyer and seller are clients of two different Derivatives Exchange Members, the following steps must be followed:

- (a) The seller's Derivatives Exchange Member will transmit an order to execute the transaction to the Derivatives Trading System, as determined by the Exchange.
- (b) The seller's Derivatives Exchange Member must immediately notify the Exchange, in the form prescribed by the Exchange, after placing the order mentioned in sub-paragraph (a) of this paragraph.
- (c) The buyer's Derivatives Exchange Member will receive a notification to accept the order mentioned in sub-paragraph (a) of this paragraph in the Derivatives Trading System.
- (d) The buyer's Derivatives Exchange Member must immediately notify the Exchange, in the form prescribed by the Exchange, after accepting the order received as per the notification mentioned in sub-paragraph (c) of this paragraph.

16.2.2 If the buyer and seller are clients of the same Derivatives Exchange Member, the following steps must be followed:

- (a) The Derivatives Exchange Member will transmit an order to execute the transaction for the seller and buyer in the Derivatives Trading System, as determined by the Exchange.
- (b) The Derivatives Exchange Member must immediately notify the Exchange, in the form prescribed by the Exchange, after submitting the order mentioned in sub-paragraph (a) of this paragraph.

16.3 Negotiated Deal Execution Notification:

- 16.3.1 Derivatives Exchange Members will receive a confirmation through the Derivatives Trading System upon the execution of the transaction.
- 16.3.2 The Exchange's website will display the executed transaction information.

16.4 Negotiated Deal Requirements:

- 16.4.1 Before transmitting an order to execute a transaction to the Derivatives Trading System, the Derivatives Exchange Member must ensure the following:

- (a) the transaction minimum volume will be specified for each Listed Derivatives Product in the Listed Derivatives Product Specification published on Tadawul Website.
- (b) the transaction complies within the price range prescribed by the Exchange as specified for each Listed Derivatives Product in the Listed Derivatives Product Specification published on Tadawul Website; and
- (c) the requested transaction is genuine and not for the purpose of direct or indirect restriction on the Listed Derivatives Products relevant to the transaction (the Derivatives Exchange Member and its client are fully liable if proven otherwise).

16.4.2 The Derivatives Exchange Members of buyers and sellers in Negotiated Deals must, at all times:

- (a) follow the Negotiated Deal mechanisms in accordance with this Section;
- (b) ensure the accuracy and completeness of all information entered and accepted; and
- (c) satisfy any other applicable requirements set out in the Derivatives Exchange Trading and Membership Rules and the Derivatives Exchange Trading and Membership procedures.