Saudi Capital Market Overview

Information Memorandum for Qualified Foreign Investors
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Saudi Arabia as an Investment Market

Saudi capital market has a stable regulatory environment
<table>
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<tr>
<th>Key Market Entities</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Capital Market Authority (CMA)**        | • Responsible for regulating capital markets in Saudi Arabia, including Tadawul  
                                          | • Determines the QFI rules.                                                   |
| **Ministry of Commerce and Investment**   | • Responsible for Companies Law                                             |
                                          | • Responsible for regulating trade and its development and expanding the private sector and all relevant laws and rules |
| **Saudi Arabian Monetary Authority (SAMA)** | • The national central bank                                                 |
                                          | • Regulator of the banking, insurance, and other finance sectors in Saudi Arabia |
• Only authorized exchange in Saudi Arabia
• The most liquid equity market in Middle East and North Africa
• The highest market capitalization in Middle East and North Africa
• One of the top ten largest stock market among its emerging markets peers
• Includes more than 200 publicly listed securities
• Provides an array of trading services: that benefit all types of investors
• Today, Tadawul has one of the most sophisticated trading platforms that creates a seamless trading experience through full automation and processing. The trading platform has been designed to serve multiple types of orders that should satisfy investors’ needs. Needless to say, Tadawul offers negotiated deals for special deals and transactions
Securities Depository Centre (Edaa)

• Only authorized Depository Centre in Saudi Arabia

• Provides post trade services;
The Securities Depository Center (Edaa), offers a variety of post trade services including depository services, registry services for both listed and unlisted companies, securities pledging, transfer of securities ownership, securities ownership restriction and release, clearing & settlement related services, corporate actions, consolidated reporting, and asset servicing that benefit issuers, investors and members.

Other post trade services also include Independent Custody Services where the custodian is responsible for securing and administering investor’s assets while the trading is performed by separate trading members.
Market Operators and Provided Services

Central Counterparty Clearing House (CCP)

- Only authorized Clearing Centre in Saudi Arabia

- Provides clearing services; CCP centralizes counterparty risk management and ensures a safe and controlled post trade process. In an Exchange with an electronic order book, which matches buyers and sellers, the use of a CCP is to provide the brokers with the assurance that they are protected regardless of who the counterparty is. The CCP also protects its members through a centralized risk management process as well as CCP rules and procedures for managing a default of a counterparty. This provides a very high degree of legal certainty to the clearing and the centralized risk management processes. In addition, the CCP facilitates multilateral netting, which reduces the number of settlements in the market; providing a major operational benefits for the market and participants.
Market Structure
Exchange Information
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Saudi Riyal (SAR)</td>
</tr>
<tr>
<td>Time Zone</td>
<td>UTC + 3</td>
</tr>
<tr>
<td>Exchange and Depository</td>
<td>The Saudi Stock Exchange (Tadawul) is a joint stock company and the only entity authorized in the Kingdom to act as the Securities Exchange (the “Exchange”) carrying out listing and trading in securities. The Securities Depository Centre- Edaa, is a joint stock company and sole entity for depository and registrar of listed securities, responsible for deposit, transfer, clearing, settlement, and registry of ownership of securities traded on the Exchange. The legal status, duties, and responsibilities of the Exchange and Depository Center are explicitly defined in the Capital Market Law (the “CML”) issued by Royal Decree Number (M/30) dated June 16, 2003, and amended by Royal Decree Number (M/16) dated September 18, 2019. The Exchange and the Centre are also the official source of all market information. Tadawul affiliate members of International Organization of Securities Commissions (IOSCO), and a member of the World Federation of Exchanges, Arab Federation of Exchanges (AFE) and Africa and Middle East Depositories Association (AMEDA).</td>
</tr>
<tr>
<td>Trading System</td>
<td>In 2015, Tadawul has successfully deployed NASDAQ’S X-Stream INET trading system. The system is regarded among the top trading platforms globally. Securities listed on Tadawul are traded by way of order matching according to price, and then time priority. Transactions are executed through brokers, each on behalf of its clients or itself. Cash availability is required for buy orders. Securities availability is required for all sell orders. Trade finality and legal finality are simultaneously recorded on the trading and depository and settlement systems.</td>
</tr>
<tr>
<td>Depository and Settlement System</td>
<td>Equator CSD by NASDAQ.</td>
</tr>
<tr>
<td>Surveillance System</td>
<td>SMARTS Surveillance by NASDAQ.</td>
</tr>
<tr>
<td>Security Identifiers</td>
<td>ISIN (International Securities Identification Number).</td>
</tr>
</tbody>
</table>
Market Structure (cont’d)

Exchange Traded Instruments:
Equities:

<table>
<thead>
<tr>
<th>Opening Days</th>
<th>Opening Auction</th>
<th>Continuous Trading</th>
<th>Closing Auction</th>
<th>Trade-at-Last</th>
<th>Settlement Cycle</th>
<th>Minimum Lot</th>
<th>Max Total Trading Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunday - Thursday</td>
<td>09:30–10:00*</td>
<td>10:00–15:00</td>
<td>15:00–15:10*</td>
<td>15:10–15:20</td>
<td>T + 2</td>
<td>1 Share</td>
<td>15.5 bps</td>
</tr>
</tbody>
</table>

 Tradable Rights:

<table>
<thead>
<tr>
<th>Opening Days</th>
<th>Opening Auction</th>
<th>Continuous Trading</th>
<th>Closing Auction</th>
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<td>15:00–15:10*</td>
<td>15:10–15:20</td>
<td>T + 2</td>
<td>1 Right</td>
<td>15.5 bps</td>
</tr>
</tbody>
</table>

* + 30 seconds variable uncross

Tick Sizes

<table>
<thead>
<tr>
<th>Price Bands</th>
<th>Tick Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below SAR 10</td>
<td>SAR 0.01</td>
</tr>
<tr>
<td>SAR 10 to SAR 24.98</td>
<td>SAR 0.02</td>
</tr>
<tr>
<td>SAR 25 to SAR 49.95</td>
<td>SAR 0.05</td>
</tr>
<tr>
<td>SAR 50 to SAR 99.90</td>
<td>SAR 0.10</td>
</tr>
<tr>
<td>Above SAR 100</td>
<td>SAR 0.20</td>
</tr>
</tbody>
</table>

Fluctuation Limits

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Upper Limit (Main Market)</td>
<td>+10% from previous day’s closing</td>
</tr>
<tr>
<td>Daily Lower Limit (Main Market)</td>
<td>-10% from previous day’s closing</td>
</tr>
<tr>
<td>Daily Upper Limit (Nomu- Parallel Market)</td>
<td>+20% from previous day’s closing</td>
</tr>
<tr>
<td>Daily Lower Limit (Nomu- Parallel Market)</td>
<td>-20% from previous day’s closing</td>
</tr>
</tbody>
</table>
Market Structure (cont’d)

Market Indices

- **Tadawul All Share Index (TASI)**
  Tadawul equity main market structure consists of 21 industries that are based on the 2nd level of the Global Industry Classification Standard (GICS). Below are the industries with their relevant indices:

  1. Energy Index
  2. Materials Index
  3. Capital Goods Index
  4. Commercial & Professional Svc Index
  5. Transportation Index
  6. Consumer Durables & Apparel Index
  7. Consumer Svc Index
  8. Media Index
  9. Retailing Index
  10. Food & Staples Retailing Index
  11. Food & Beverages Index
  12. Health Care Equipment & Svc Index
  13. Pharma, Biotech & Life Science Index
  14. Banks Index
  15. Diversified Financials Index
  16. Insurance Index
  17. Software & Services Index
  18. Telecommunication Svc Index
  19. Utilities Index
  20. REITs Index
  21. Real Estate Management & Development Index

- **Nomu- Parallel Market Index**
- **Sukuk & Bonds Market Index**
Market Structure (cont’d)

Exchange Traded Instruments:
Real Estate Investment Traded Funds (REITS):

Real Estate Investment Traded Funds, or REITs, are financial instruments that allow all types of investors to obtain investment exposure to the Real Estate Market. This is achieved through collective ownership of constructed developed real estate qualified to generate periodic and rental income. REITs can invest locally, regionally and globally, where the total asset value outside the Kingdom shall not exceed 25% of the fund’s total asset value. REITs consist of units, where each unit represents ownership in the underlying real estate. REITs are traded on the Exchange just like equities during trading hours. In addition, REITs are required to distribute at least 90% of the fund’s net profits to the unit holders annually, as per the instructions issued by the CMA.

With regards to control and supervision, similar to other investment vehicles, REITs adhere to the rules and regulations issued by the CMA and Exchange rules. REITs also abide by the high standards of transparency and disclosure that are already applied in the current equity market.
### Market Structure (cont’d)

**Exchange Traded Instruments:** (REITS):

<table>
<thead>
<tr>
<th>Opening Days</th>
<th>Opening Auction</th>
<th>Continuous Trading</th>
<th>Closing Auction</th>
<th>Trade-at-Last</th>
<th>Settlement Cycle</th>
<th>Minimum Lot</th>
<th>Max Total Trading Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunday - Thursday</td>
<td>09:30–10:00*</td>
<td>10:00–15:00</td>
<td>15:10–15:20</td>
<td>T + 2</td>
<td>1 Unit</td>
<td>15.5 bps</td>
<td></td>
</tr>
</tbody>
</table>

* + 30 seconds variable uncross

### Market Indices

- REITS
## Market Structure (cont’d)

### Exchange Traded Instruments: Sukuk and Bonds:

<table>
<thead>
<tr>
<th>Opening Days</th>
<th>Opening Auction</th>
<th>Continuous Trading</th>
<th>Settlement Cycle</th>
<th>Minimum Lot</th>
<th>Max Total Trading Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunday - Thursday</td>
<td>09:30–10:00</td>
<td>10:00–15:00</td>
<td>T + 2</td>
<td>Depends on Issue</td>
<td>Trading commission: 1 bps**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Brokerage services fees: no minimum or maximum fee</td>
</tr>
</tbody>
</table>

Note: Safekeeping fee of 0.4 bps per annum was introduced by Edaa.

**The trading commission is reduced to 0.5 bps for both the seller and the buyer until 31/12/2021, except where the seller/buyer are the Primary Dealers.

### Market Indices

- Sukuk & Bonds Market Index
## Market Structure (cont’d)

Exchange Traded Instruments: Exchange Traded Fund (ETF):

<table>
<thead>
<tr>
<th>Opening Days</th>
<th>Opening Auction</th>
<th>Continuous Trading</th>
<th>Settlement Cycle</th>
<th>Minimum Lot</th>
<th>Max Total Trading Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunday - Thursday</td>
<td>09:30–10:00</td>
<td>10:00–15:00</td>
<td>T + 2</td>
<td>1 Unit</td>
<td>15.5bps</td>
</tr>
</tbody>
</table>
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors
The objectives governing the outreach of the Saudi Capital Market have been identified by the CMA in May 2015;

“Opening the Saudi Capital Market and allowing qualified foreign financial institutions to invest in it does not focus on attracting capital or liquidity to the market. However, it aims to achieve several objectives on the short and long term as following:
Promote CMA’S efforts to increase institutional investment in the Saudi Capital Market which would contribute to market stability and reduce high volatility in prices through attracting the expertise of specialized foreign investors, with long term investment goals in the local market.

Transfer the knowledge and expertise to the local investors and financial institutions and to raise the level of professionalism of the market participants by attracting highly professional experts.

Enhance the market efficiency and motivate the listed companies and the specialized investment companies to raise their performance by improving the level of transparency, financial information disclosure and governance practices.

Strengthen the Saudi Capital market’s position to become a leading market, underpinned by the emerging markets classification under the global indices, led by Morgan Stanley Capital International (MSCI) index which many markets seek to be part of.

Raise the level of research, studies and evaluation done on the market in general and on the listed companies in particular which would provide more accurate information and more fair assessments.
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors

Eligibility Requirements for QFI Qualification are:

The current criteria for foreign financial institutions seeking QFI qualification are:

- **Type of financial institution**: The QFI applicant must be a financial institution that has a legal personality which falls within one of the entities mentioned below. All QFI applicants; including government and investment funds, must be licensed or regulated by a regulatory authority and incorporated in an approved jurisdiction recognised by the CMA, as per article 6.A.2, 6.a.3, 6.a.4, and 6.a.5of Qualified Foreign Financial Institutions Investment in Listed Securities ("QFI Rules").
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors (cont’d)

• **Bank**: a financial institution that has a legal personality which engages in banking business.

• **Brokerage and securities firm**: a financial institution that has a legal personality which engages in securities business, including portfolio managers.

• **Insurance company**: a financial institution that has a legal personality which engages in insurance business.

• **Government and Government related entities**: central banks and investment funds- including sovereign funds and funds which take the form of pension and endowment funds- fully owned (directly or indirectly) by a government fund.

• **Investment fund**: means any of the following legal persons:
  
  • A pension fund in which its main objective is to collect fees or periodic contributions from participants or for their interest, for the purpose of compensating them according to a specific mechanism.

  • Endowment fund with the principle purpose of making grants to organizations, institutions, or individuals for scientific, educational, cultural purposes, including university endowments fund.

  • A collective investment scheme aimed at providing investors therein with an opportunity to participate collectively in the profits of the scheme.

• Any other financial institution considered eligible by the Authority.
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors (cont’d)

• Banks, Insurance companies and Brokerage and securities firms must be licensed or otherwise subject to regulatory oversight by a regulatory authority and incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it.

• Government and government related entities and investment funds must be incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it.

• Size: For government and government related entities as per the regulation, the minimum size is not applicable. For investment funds, the minimum assets under management (AUM), must be SAR 1.875 Bln (US$500 Mln).

• Assets under management include:

  a) Assets owned by the applicant or its group for the purpose of investment; and in relation to the financial institution referred to investment funds, including assets owned by the foreign portfolio manager or it’s group, for the purpose of investment.

  b) Assets managed by the applicant or its group for the account of another person or persons, and in relation to the financial institution referred to investment funds, including assets owned by the foreign portfolio manager or it’s group, for the account of another person or persons.
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors (cont’d)

• Approved Jurisdictions:

The CMA provided Authorised Persons (APs) who have a dealing or custody licenses with the standards to determine jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues In regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering

Investment limitations applicable to QFI investors

• Each QFI may not own 10% or more of the shares of any issuer whose shares are listed or convertible debt instruments of the issuer.

• Collective Foreign Investor cap per company: The maximum proportion of the shares of any issuer whose shares are listed, or convertible debt instruments of the issuer, that may be owned by all foreign investors (in all categories, whether residents or non-residents, except the foreign strategic investors pursuant to the Instructions for the Foreign Strategic Investors’ Ownership in Listed Companies) in aggregate is 49%.

Investor compliance with the above stated stipulations is made possible through the mandated provision of share ownership records by listed issuers. All information related to total foreign ownership (maximum limit and actual) can be obtained from Tadawul’s website.¹

¹ Accessed on Tadawul’s website.
QFI: Saudi Arabia’s Scheme for Foreign Institutional Investors (cont’d)

QFIs Participation in IPOs

In line with Vision 2030 and market liberalization goals, the CMA has released instructions for IPO Book-Building Process and Allocation allowing QFIs investors to participate in initial public offerings in Saudi Arabia.

As changes unfold, more information on the status of foreign participation in IPOs in Saudi Arabia may be found on the CMAs’ website.²

Tax

The tax rates which are applicable to QFI Investors are set out below.

Tax Rates applicable for QFI Investors

<table>
<thead>
<tr>
<th>Investor return</th>
<th>Non-resident tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gains</td>
<td>0%</td>
</tr>
<tr>
<td>Dividends</td>
<td>5.0% withholding tax*</td>
</tr>
<tr>
<td>VAT on Trading Commission</td>
<td>5%</td>
</tr>
</tbody>
</table>

*For more information on Tax, please visit General Authority of Zakat and Tax (GAZT) website [www.gazt.gov.sa](http://www.gazt.gov.sa)

Enhancements to the Saudi Market
Enhancements to the Saudi Market

Transition from T+0 to T+2 Settlement Cycle:

The trade settlement cycle for listed companies has been changed from T+0 to T+2.

The changes went live on Sunday, April 23rd, 2017.

According to the new model, settlement of cash and securities is conducted two days after the trading. However, purchasing and selling powers are granted immediately. For instance, purchased securities could be sold immediately, before settlement. The time window between trading and settlement could be used by the custodian to confirm trades (executed by an executing broker) with clients and submit rejections to Edaa accordingly.

Launching Nomu - Parallel Market:

Nomu is a parallel equity market with lighter listing requirements that serves as an alternative platform for companies to go public, and the investment in this market is restricted to Qualified Investors. Nomu provides an additional source of funding for issuers, especially SMEs, to access capital. The introduction of Nomu increases diversification opportunities and deepens the capital market. Nomu was Launched in February 2017.

As of January 2018, non-resident foreign investors are allowed to invest in Nomu-Parallel Market.
Adoption of enhanced Corporate Governance Regulations:
Enhanced corporate governance regulation have been issued by the Saudi Capital Markets Authority (CMA) in May 2019. The regulation enhance the rights of shareholders and board members and provide greater clarity and more transparency around determining commercial strategic planning, roles, responsibilities and oversight of corporate entities and third parties.

Adoption of Global Industry Classification Standard:
The Global Industry Classification Standard (GICS) was adopted to enhance comparability of corporates across markets and enable easier analysis of sector performance. The standard was formally adopted in January 2017.

Introduction of Delivery versus Payment (DvP) Model:
Settlement is conducted according to the BIS Model 2, where securities are settled on a gross basis but funds are transferred on a net basis. DvP Principle ensures that security delivery occurs only if the corresponding payment occurs and therefore eliminates principle risk.
Enhancements to The Saudi Market (cont’d)

Conducting Investors Relations Training:
As part of building the Investor Relations function within listed companies, training workshops are being held for 24 of Tadawul’s most liquid with the most international exposure, corporates. The program, will enhance transparency and disclosure and enhance the investor relations capabilities within Saudi listed companies.

Participation in IPOs:
Effective January 2017, QFIs are allowed to participate in IPOs.

Dropping Cash Prefunding Requirement:
The cash prefunding requirement has been dropped leaving the timing of cash availability to the contractual terms between the Authorized Person and the investor. This will align trading practice with good international standards, and standardize institutional investors’ trading processes, especially investment funds.

Introduction of new services; Securities Borrowing and Lending (SBL) and Covered Short-selling:
These services have enhanced the ease of trading and created new opportunities for both local and global market participants, many of whom use securities borrowing and lending to manage the settlement process.

Introduction of Fails Management Controls:
Since there is a pre-order validation of sell trades, the only source for potential securities shortage and therefore failed securities settlement is a sell trade rejection by independent custodian.
In order to settle failed trades, several fails management techniques are used by Edaa or by executing brokers, such as: Executing broker can cover securities shortage by transferring securities from principle account, borrowing securities via SBL functional, or buying securities on open market. Executing broker can also perform optional Buy-in (available from T+1 till T+4), and finally mandatory Buy-in (conducted at T+5) by Edaa.

Custody Controls

In order to mitigate assets safety risk, Tadawul is introducing ability for custodians to reject trades (available only under Independent Custody Model). Trades could be rejected from the moment of execution until cut off time at T+2. All rejections are irrevocable; they cannot be cancelled or reversed. As soon as trade is rejected, it is transferred from client account under custodian to the special broker rejection account and becomes an obligation for the Executing Broker.

Enhancement of Independent Custody Model:

The enhancement to the custody model enables custodians to reject the settlement of unconfirmed trades executed by the executing brokers. Further update to the Independent Custody Model (ICM) to enhance Qualified Foreign Investor access to the market by providing more flexibility in trading limits for ICM clients by which buy orders are being validated by Executing Brokers instead of Custodians. Along with this change, new procedures were introduced to mitigate credit risk associated with the settlement process for all participants.
Enhancements to The Saudi Market (cont’d)

Custodians, as members of Edaa

The Securities Depository Centre (Edaa) responsible to settle cash and securities obligations of their clients for trades executed by executing brokers appointed by custodians’ clients, are now able to open several access accounts for a client and restrict trading from these accounts to a specific Execution Broker(s). Allocation of the same account to the multiple Execution Brokers is permissible.

Independent custody

Members also have the ability to reject the settlement of unconfirmed trades executed by the executing brokers, therefore, custodians have the option to keep or drop the dual accounts structure (custody account and access account).

Aggregating Discretionary Portfolios’ Orders

Introducing a new optional model to allow asset managers to aggregate the orders of managed assets (discretionary portfolios “DPs” and investment funds), assuring best execution and fair allocation for their funds and clients;

Opening and Closing Mechanism

- Moving from a Volume Weighted Average Price (VWAP) to an auction method for determining closing prices for both the Main Market and Nomu parallel market
- Enhancing the opening price auction in line with practices adopted by most other major markets.
- This market enhancement was implemented in 27 May 2018.
Introducing Market Making

- Implementing a Market Making (MM) Program based on global best practices to enhance liquidity, facilitate orderly price formation, fortify the sukuk, bond and ETF markets and pave the way for ETPs and derivatives.
- This market enhancement will be implemented by 2019.

Listing Of The Debt Instruments Issued By The Government Of The Kingdom Of Saudi Arabia:

- As a step to achieve Vision 2030, and in an endeavor to develop the debt instruments market, and in order to introduce financial instruments that serve the needs of different investor categories, the CMA has approved the listing of debt instruments issued by the Government of the Kingdom of Saudi Arabia submitted by the Ministry of Finance.
- The new listing was implemented on Sunday April 9, 2018.

Saudi Stock Exchange Joins FTSE Global Equity Index Series:

- On 28 March 2018, FTSE Russell announced that Tadawul will be classified as a "Secondary Emerging" market in the FTSE Global Equity Index Series from its previous status as "Unclassified".
- Inclusion of Saudi Arabia into the FTSE Global Equity Index Series commenced in 2019 with 4 out of 5 tranches implemented, while the final tranche implementation is scheduled for March 2020.
Enhancements to The Saudi Market (cont’d)

Introducing Trade-at-Last

- Enabling a dedicated session for participants to fulfil their buying and selling at a formed price (closing price)
- The trade-at-last session will last for 10 minutes after the closing auction session, starting at 3:10pm ending at 3:20

The Commencement of the Central Counterparty (CCP) Company:

- On 2 May 2018, Tadawul announced the establishment of the Central Counterparty Clearing House ("CCP") for clearing of securities in the Saudi capital market as a closed joint stock company with a capital of (SAR 600,000,000). The CCP will be responsible for developing future clearing services in accordance with the best international risk management practices and standards.
- The Capital Market Authority (CMA), Saudi Arabian Monetary Authority (SAMA) and Tadawul have already initiated the required regulatory regime to activate the CCP function, in order to enable it to fully operate by the second half of 2019.

Saudi Stock Exchange Joins MSCI Emerging Market Index:

- On 21 June 2018, MSCI upgraded the Kingdom of Saudi Arabia to "Emerging Market" from its previous “Standalone Market” status in its Annual Market Classification Review.
• Tadawul has successfully completed its full inclusion into the MSCI Emerging Markets Index. Inclusion to the index were phased in two tranches, where the implementation of the first tranche took place in May 28, 2019 and implementation of the second tranche occurred in August 28, 2019.

Saudi Stock Exchange Joins S&P DJI Emerging Market Index:
• On 24 July 2018, S&P Dow Jones Indices (S&P DJI), upgraded the Kingdom of Saudi Arabia to “Emerging Market” from its previous “Standalone Market” country classification.
• Inclusion to the index were phased in two tranches, where the implementation of the first tranche took place in March 18, 2019 and implementation of the second tranche occurred in September 23, 2019.

Introducing MSCI Tadawul 30 Index
• On January 30 2019 The Saudi Stock Exchange and MSCI launched the MSCI Tadawul 30 Index (MT30).
• The index will provide investors with a useful benchmark of the largest companies in Saudi Arabia and serve as the basis for development of an index futures contract listed on Tadawul and can be licensed for other index linked financial instruments, including mutual funds, derivatives and exchange-traded products.
QFI Qualification Guideline
QFI Qualification Guideline

Qualification procedures

Application for Qualification

a) An application for qualification must be made to an assessing authorized person accompanied by the information and documents needed to prove the fulfillment of qualification conditions.

b) The assessing authorized person must assess the application in accordance with the criteria and procedures set out below in Determination of applications section.

c) All information and documents submitted by the applicant to the assessing authorized person must be complete, clear, accurate and not misleading.

Determination of applications

Determination by the assessing authorized person

a) The assessing authorized person must not accept the application until after conducting the following:

- Ensuring that the application complies with the requirements prescribed by the Rules
- Ensuring that the applicant meets the applicable qualification conditions prescribed by the Rules.

b) The assessing authorized person must provide the foreign investor with a written notice of its determination upon his request. Where the assessing authorized person has rejected the application, the notice shall include a statement of the reasons for its determination. And if the assessing authorized person has accepted the application,
QFI Qualification Guideline (cont’d)

it shall submit to the foreign investor a written declaration with a minimum of the following:

• Confirming that the applicant meets the qualification conditions stated in the Rules.

• Confirming that the assessing authorized person has conducted all of the customer due diligence checks required by the Capital Market Law and its Implementing Regulations, including preparing (“KYC”) form, as required by the relevant laws and regulations.

• The assessing authorized person declaring that the draft form of Qualified Foreign Investor Assessment Agreement meets the minimum requirements specified below in QFI assessment agreement section.

c) The assessing authorized person must accept the QFI as a client in accordance with the Authorized Persons Regulations.

QFI assessment agreement

a) An assessing authorized person must agree with the applicant on a draft form of QFI assessment agreement meeting the minimum requirements.

b) A QFI assessment agreement must include the following minimum requirements:
• A representation by the applicant that it meets the qualification conditions stated in the Rules.
QFI Qualification Guideline (cont’d)

• Disclosure of any suspension or revocation by a regulatory authority of any license or permission in any jurisdiction or the imposition by a regulatory authority of any restriction or condition upon any such license or permission, if no suspension or revocation by a regulatory authority of any license or permission currently imposed on the applicant, a declaration by the applicant to this effect.

• An undertaking by the applicant to provide the assessing authorized person with all information and documents required under the Rules;

• An undertaking by the applicant to notify the assessing authorized person within a reasonable period of time not exceeding 30 days of any event or circumstance requiring such notification under the Rules;

• A confirmation by the applicant of its consent that the assessing authorized person may disclose to the Authority or the Exchange information or documents which the assessing authorized person receives under these Rules or the Capital Market Law and its Implementing Regulations, and that such information may also be disclosed to other government agencies of the Kingdom in accordance with the relevant laws; and

• An undertaking by the applicant to abide by the Capital Market Law and its Implementing Regulations and the rules of the Exchange and other relevant laws.

Further requirements following qualification

Commencement of trading
QFI Qualification Guideline (cont’d)

A QFI may not invest in any listed securities unless it:

• Holds a client account;
• Holds an account with the Depositary Centre; and
• Has satisfied any other conditions as may be imposed by the Authority.

Information and documents for Qualification check

1. Guidance list for information and documents for applicant’s qualification check:

The assessing authorized person can use the guidance list provided below or other information and documents proofing the fulfillment of qualification conditions:

• Details of the applicant’s legal form and jurisdiction of establishment or foreign portfolio managers (if applicable).
• A list of the QFI’s affiliates or foreign portfolio managers and their managed funds intends to qualify.
• In relation to the financial institution referred to above, Evidence of the applicant’s regulatory status.
• A copy of the most recent annual report and consolidated accounts of the applicant or its group or the foreign portfolio managers (if applicable).
• Disclosure of any suspension or revocation by a regulatory authority of any license or permission in any jurisdiction or the imposition by a
regulatory authority of any restriction or condition upon any such license or permission. If no suspension or revocation by a regulatory authority of any license or permission currently imposed on the applicant, a declaration by the applicant to this effect.

• Financial statements prepared and accredited by the applicant’s or its group auditors in accordance with accounting standards prescribed by the relevant authorities in the applicant’s jurisdiction of establishment.
• Such other documents or other evidence as may be sufficient to satisfy each of the qualification conditions under these Rules.

2. Information and documents to be provided by applicants under the Rules:
• A QFI assessment agreement.
• Where an applicant intends to engage with foreign portfolio managers to invest in listed securities, it must provide a list with all foreign portfolio managers intends to engage with.
Frequently Asked Questions on the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities

A. Introductory Questions:

1. What is the definition of a Qualified Foreign Investor (QFI)?

A QFI is a Qualified foreign investor to invest in securities listed in the Saudi Stock Exchange, in accordance with the Rules.

2. What are the securities that the Rules permit QFIs to invest in?

The Rules are governing the investment of foreign financial institutions in listed securities in the Saudi Stock Exchange, including equity, debt instruments, and listed funds.

3. Can a QFI invest in fund not managed by him and invest directly in the Saudi Exchange?

Yes, the QFI can invest directly in listed securities in the local market as well as invest in the following investment funds, according to the regulations set by the Authority:

• Foreign Investment Fund Qualified as QFI according to the Rules.

• Investment fund that invests in the Saudi Stock Exchange through the swap agreement.

• Approved local investment funds by the Authority.
4. How can non-resident foreign investors that do not qualify as QFIs be able to gain exposure to the Saudi listed securities?

Non-resident foreign investors that do not qualify as QFIs may enter the Saudi capital market through the Swap Agreements Framework or investment funds, in accordance with the procedures issued by the CMA in this regard.

5. How is investing through the QFI Framework different from investing through the Swap Agreements Framework?

The QFI Framework allows for legal ownership of Saudi listed securities under the name of the QFI, and participants in the Framework are able to exercise all rights as shareholders that are related to that securities including voting rights, appointing a representative to the board of directors of listed companies in accordance with the Companies Law, as well as trading rights during rights issues in accordance with CMA regulations. In contrast, the Swap Agreements Framework does not allow for legal ownership of the underlying securities. The investor only receives economic benefits from the securities under the Swap Agreements Framework.

6. Are QFIs subject to the Saudi Income Tax Law?

As per the Saudi Income Tax Law, QFIs are subject to a 5% withholding tax from the total dividends distributed by the listed company. Capital gains are not subject to tax. The Saudi Income Tax Law and its Implementing Regulations may be viewed through the following link: https://www.gazt.gov.sa/
7. Who is responsible for deducting the withholding tax on dividends distributed to QFIs?

Listed companies are responsible for deducting the withholding tax from dividends that they distribute to QFIs.

8. Can QFIs participate in Initial Public Offerings (IPOs)?

Yes, in accordance with the relevant IPO prospectus.

9. Can QFIs vote in general assembly meetings?

Yes, in accordance with the Companies Law.

10. Are QFIs able to vote by proxy in relation to the shares they own?

Yes, in accordance with the Companies Law.

11. Are QFIs able to vote electronically in respect of the shares owned by them?

Yes, in accordance with Tadawulaty system.

12. Can QFIs nominate representatives for the board of directors of listed companies?

Yes, in accordance with the Companies Law.
13. Can GCC citizens and foreign residents invest in listed securities through the QFI Framework?

No, GCC citizens and foreign residents are prohibited to invest in listed securities through the QFI Framework. Both GCC citizens and foreign residents, by virtue of the rights already offered to them, can invest directly in Saudi listed securities in accordance with regulations set by the Authority.

14. How do the Rules define GCC citizens?

The Rules define GCC citizens as citizen meeting either of the following conditions:

- A natural person holding the citizenship of one of the Cooperation Council for the Arab States of the Gulf countries.

- A legal person that (i) capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf, and (ii) holding the citizenship of one of the Cooperation Council for the Arab States of the Gulf countries.

15. Can a legal person that capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf (GCC) and holding the citizenship of foreign nationality, submit an application to be as a QFI?

Yes, the legal person that capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf (GCC) and holding the citizenship of nonGCC nationality can submit the application for qualification as QFI if it satisfies the conditions prescribed by the Rules,
because in this case, the definition of GCC citizens as referred to in paragraph (c) of Article 2 of the Rules, does not apply to the applicant. As described in the answer of question (14) of this document; the applicant must be a person that capital of which is majority owned by citizens or governments of the GCC and holding the citizenship of one of the GCC countries.

16. What is the process to submit a waiver from any of the provisions of the Rules in whole or in part?

In accordance with Article 3 of the Rules, an applicant, a QFI, or an AP can apply for a waiver from any of the Rules provisions in whole or in part by sending a request for a waiver along with justifications to CMA’s Chairman. The CMA will study the request to reach a decision to whether accept or reject it. The decision will be sent to the applicant of the waiver with explanation of rejection or the process to be followed if the request is approved.

B. Qualification Conditions for QFIs:

17. What are the QFI qualification conditions set out in the Rules?

a. The applicant must be a financial institutions that has a legal personality which falls within one of the following types:

1. Banks
2. Brokerage and securities firms
3. Insurance companies
4. Government and government related entities
5. Investment funds
6. Any other financial institution considered eligible by the Authority b. With the exception of government and government related entities, the applicant must have assets under management or custody of SAR 1,875,000,000 one billion eight hundred and seventy five million Saudi Riyals (or an equivalent amount) or more. c. The financial institutions in sub-paragraphs (1), (2), (3) of paragraph (a) of this answer must be licensed or otherwise subject to regulatory oversight by a regulatory authority in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it. d. The financial institutions in sub-paragraphs (4), (5) of paragraph (a) must be incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it. e. The affiliates of a QFI or a foreign portfolio manager who meets the requirements stated in paragraph (b) of Article 6 of the rules, and the managed funds by them, shall be considered as a qualified foreign investor without applying for a separate application conditioned by meeting paragraph (a) of Article 6 of the rules.

18. Is it required for Investment Funds to be licensed by a regulatory authority in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it to fulfill the conditions of qualification?

No, investment funds need only to be incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it.

19. What are the jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA or acceptable to it?
The CMA provided Authorised Persons (APs) who have a dealing or custody licenses with the standards to determine jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues In regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering.

20. Can newly established Financial institutions submit an application to qualify as a QFI?

Yes, conditioned by the fulfillment of the qualification requirements specified in the Rules, given that the minimum asset under management requirement apply on the assets of the applicant or the group. If the applicant is an investment fund, this include also the assets of the foreign portfolio manager or its group.

21. Are affiliates and managed funds of a QFI or foreign fund manager will be qualified to invest in listed securities as a separate QFI?

Yes, after qualifying affiliates and managed funds of a QFI or foreign fund manager who fulfilled the requirements of paragraph (b) of Article 6 of the Rules, the affiliates and managed funds will be considered as an independent QFI and continuous obligation requirements in section 3 in the Rules will apply on them.
22. Does the cancellation of qualification of the QFI will cancel the qualification of the affiliates and managed funds as well?

No, this will not cancel affiliates and managed funds qualification as they will be considered as an independent QFI.

23. Is it required to qualify the foreign financial institution before qualifying its affiliates and managed funds?

No, the foreign financial institution can be qualified with its affiliates and managed funds in one application.

24. Is it required for foreign fund manager to be qualified to be able to qualify affiliates and managed funds?

No, if the foreign fund manager fulfilled paragraph (b) of Article 6, then they are able to qualify their affiliates and managed funds by only providing a list of them accompanied by a proof of fulfilling paragraph (a) of Article 6 of the Rules.

25. What is the requirement for qualifying affiliates and managed funds of a QFI or foreign fund managers in one application?

The affiliates and managed funds of a QFI or foreign fund managers are required to fulfill paragraph (a) of article (6) of the Rules.
26. What is the procedures for directly qualifying an affiliates and managed funds of a QFI or foreign fund managers?

The assessing authorized person and the QFI or foreign fund manager can determine the appropriate procedure.

27. Does the CMA require the assessing authorized person to use a specific form for determination letter?

No, the CMA does not require the assessing authorized person to use a specific form for determination letter given that the minimum requirements stated in paragraph (b) of Article 9 of the Rules are met.

28. Does the CMA require the assessing authorized person to use a specific form for assessment agreement?

No, the CMA does not require the assessing authorized person to use a specific form for assessment agreement given that the minimum requirement stated in paragraph (b) of Article 10 of the Rules are met.

29. What do assets under management or under custody include?

Assets under management include:

• Assets owned by the applicant or its group for the purpose of investment. And in relation to investment funds, including assets owned by the foreign portfolio manager or its group for the investment purposes; and

• Assets under custody by the applicant or its group for the account of another person or persons.
• Assets managed by the applicant or its group for the account of another person or persons. And in relation to investment funds, including assets owned by the foreign portfolio manager or its group for the account of another person or persons.

The term “group” is defined in the in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "in relation to a person, means that person and each affiliate of it". It defines the term “affiliate” as: "a person who controls another person or is controlled by that other person, or who is under common control with that person by a third person. In any of the preceding, control could be direct or indirect". The Glossary of Defined Terms Used in the Regulations and Rules of the CMA also defines the term “control” as: “the ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate (a) holding 30% or more of the voting rights in a company, or (b) having the right to appoint 30% or more of the members of the governing body; “controller” shall be construed accordingly”.

30. How are investment fund assets will be calculated in the event of not fulfilling the minimum assets under management requirement and has appointed more than one foreign portfolio manager?

If the investment fund or its group does not fulfil the minimum assets under management requirement and has appointed more than one foreign portfolio manager, the investment fund or its group with one of the appointed portfolio
managers or their group must have the assets under management of SAR (1,875,000,000) or more, and this condition is continuously met excluded from that any decline in the assets under management for market conditions or funds redemption reasons, and any decline for these reasons will not be considered a violation of the qualification conditions under Rules.

31. What are the government related entities?

The government related entities mean central banks and investment funds—including sovereign funds and funds that take the form of pension funds and endowments—that are fully owned directly or indirectly by a government entity.

32. Are there any conditions that must be met by the foreign portfolio manager?

Yes, the foreign portfolio manager must have a legal personality which manages the assets of clients and must be licensed or otherwise subject to regulatory oversight by a regulatory authority and incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it and in which engages or intend to engage with the QFI or the applicant for the purpose of investing on its behalf in listed securities in the Saudi Stock Exchange.

33. Is it required for the foreign portfolio manager to be a QFI?

The foreign portfolio manager is not required to be qualified, it is sufficient to provide a list of all the foreign portfolio managers to the AAP in which the QFI
intends to deal with them and to be accompanied by the proofing information and documents in accordance with the Rules. Taking into account the required additional documents that must be submitted by the applicant who intends to deal with the foreign portfolio managers to invest in the Saudi market if they are not a QFI, as stipulated in the paragraph (b) of Annex 2.1 of the Rules.

34. Can QFI deal with a GCC portfolio manager?

Yes, the QFI can deal with a GCC portfolio manager for the management of its investments in the Saudi Stock Exchange.

35. Can a portfolio manager be an AP licensed by the Authority?

Yes, the QFI can deal with portfolio manager who is licensed by the CMA.

36. Can a QFI deal with more than one portfolio manager?

Yes, the QFI can deal with more than one portfolio manager at the same time, either if it was an AP authorised from the CMA or a foreign portfolio manager which includes a GCC 9 portfolio manager, though, the QFI must notify the AAP when dealing with a new portfolio manager in accordance with Annex (3.1) of the Rules.

37. Is it possible for QFI to deal with another QFI to manage his investments in listed securities?

Yes, the QFI can deal with another QFI to manage his investments in listed securities and that does not prejudice the responsibility to abide by the law and its implementing regulations and market rules and its regulations, and other rules that are related.
38. Do assets under management include the assets of the funds managed by the applicant even if such funds did not satisfy the conditions required to be qualified as QFI?

Yes, assets under management include assets of the funds managed by the applicant even if such funds did not satisfy the conditions required to qualify as QFI.

C. Qualification Process:

39. Who is an AAP?

is an authorised person “AP” by the CMA to conduct custody or dealing activities, and has agreed with an applicant to assess its application for qualification. to invest in the Saudi Stock Exchange. For the List of APs, please refer to the CMA website through the following link:

https://cma.org.sa/Market/AuthorisedPersons/Pages/default.aspx

40. What is the role of the AAP?

The AAP will assess the QFI’s qualification request to ensure that the application complies with the requirements prescribed by the Rules. Then, the AAP will provide the determination regarding the application whether accepted or rejected.
41. When will the applicant becomes a QFI?

An applicant becomes a QFI from the date of the AAP accepting the applicant according to the Rules.

42. In the case that a request for Qualifying a foreign investor is rejected, can an applicant reapply?

Yes, the applicant can re-apply and there is no specific time period which must lapse before the applicant can resubmit the application.

43. Can a QFI delegate the foreign portfolio manager to process the application for qualification and sign the assessment agreement with the AAP?

Yes, the QFI may delegate the foreign portfolio manager to process the application for qualification and sign the assessment agreement with the AAP, providing a proof of such delegation to the AAP when submitting the application.

44. Can an AAP rely on a third party to conduct Know Your Client “KYC” process?

Yes, the AAP can rely on a third party to conduct Know Your Client “KYC” process in accordance with the relevant laws and regulations.
45. Is it required that the terms of business agreement to be signed between the authorized person and the qualified foreign investor?

In accordance with CMA Board’s resolution issued on 23/11/2017, paragraph (b) of Article (38) of Authorised Persons Regulations does not require that the terms of business with the clients be signed between the authorized person and the investor as a legal person or the qualified foreign investor directly. The agreement may be indirect, provided that the terms of business define the basis for conducting securities business with the client or for his account. For example: a qualified foreign investor may delegate a third party to sign the terms of business agreement with the authorized person, or the authorized person may sign a master agreement with a third party covering the terms of business to the qualified foreign investor introduced by that party.

46. Is it permissible to rely on a third party to verify the documents required to open an investment account as per the Investment Accounts Instructions?

Yes, taking into consideration the provisions of reliance on third parties to conduct customer due diligence procedures as per the relevant laws and regulations.
47. Is the AP when opening an investment account for a QFI, or relying on a third party for opening an investment account for a QFI, required to obtain copies of identifications of the QFI’s owners, managers, authorized signatories and persons authorized to manage the account?

As per the CMA Board resolution issued in this regard, the Authorised Person (AP) when opening an investment account for a QFI is not required to obtain copies of the identification of the QFI’s owners, managers, authorized signatories and persons authorized to manage the account, without prejudice to the AP’s obligation to identify and verify their identity using reliable, independent source documents, data or information in accordance with the related laws, regulations and instructions. This includes cases in which the AP rely on a third party for opening an investment account for a QFI, without prejudice to the AP’s obligation to take adequate steps to ensure that copies of identification documents and other relevant documentation relating to the CDD requirements will be made available from the third party promptly upon request in accordance with the related laws, regulations and instructions.

48. Is the QFI required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in securities listed in the Saudi Stock Exchange?

The QFI is not required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in securities listed in the Saudi Stock Exchange.
49. Is the foreign portfolio manager required to obtain authorisation by the CMA in relation to carrying on managing activity when managing listed securities belonging to a QFI in the Saudi Stock Exchange?

The foreign portfolio manager is not required to obtain authorisation by the CMA in relation to carrying on managing activity when managing listed securities belonging to a QFI in the Saudi Stock Exchange.

50. Is the foreign custodian required to obtain authorisation by the CMA in relation to carrying on custody activity when safeguarding listed securities belonging to a QFI?

The foreign custodian is not required to obtain authorisation by the CMA in relation to carrying on custody activity when safeguarding listed securities belonging to a QFI without prejudice to appoint local custodian authorised by the CMA.
51. Is the foreign advisor required to obtain authorisation by the CMA in relation to carrying on advising activity when providing advice to a QFI?

The foreign advisor is not required to obtain authorisation by the CMA in relation to carrying on advising activity when providing advice to a QFI.

D. Trading:

52. When can a QFI start trading listed securities?

A QFI may commence trading in any listed securities upon satisfying the following:

- Holding a client account.
- Holding an account with the Depositary Center.
- Any conditions as may be imposed by the CMA. The term “client account” is defined in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: “an account at a local bank which is in the name of an authorised person and fulfills the conditions required by the Client Money Rules”.
53. How can the applicant satisfy the qualification requirements, the client account opening requirements and the requirements for opening an account with the Depository Center?

The CMA worked in coordination with the relevant authorities to facilitate the establishment of a unified platform [One-Stop -Shop] for the account opening requirements and the requirements for opening an account with the Depository Centre and bank account, to facilitate the fulfillment of such requirements, and the applicant will only need to provide the required information and documents in this regard to the AAP, provided that the concerned AAP takes the necessary actions in accordance with the procedures issued by the CMA in this regard.

54. What are the procedures to open a client account?

The concerned AP shall open a client account for the QFI pursuant to the applicable procedures set forth by the CMA and the Saudi Arabian Monetary Agency, which may be viewed through the following link:


55. What are the procedures to open an account with the Depositary Center?

The concerned AP shall open an account with the Depositary Center for the pursuant to the applicable procedures set forth by the CMA and the Saudi Stock Exchange, which may be viewed through the following link:

56. Is there a specific period to open an account with the Depositary Center after being qualified to invest in Saudi listed securities?

No, there is no specific period to open an account with depositary after being qualified to invest in Saudi Stock Exchange.

57. How can the QFI’s investment account be linked to a bank account in the name of the QFI, and how could the authorized person ensure that the money transferred to the investment account is received from an account that belongs to the QFI?

The bank account is considered to be in the name of the QFI (belonging to the QFI) as indicated in the electronic record kept by the authorised person, that is based on the information provided by the QFI to the authorised person whether in the beginning of their contractual relationship or during such relationship. Such information may include the information obtained by the authorised person from an international bank (commercial or investment banks, brokerage and securities institutions including custodians) on behalf of the QFI, such as, a written statement to the authorised person confirming that the money transferred to the QFI investment account belongs to the same client.

Taking into consideration the authorised person’s compliant with the client money rules in the Authorised Persons Regulations, and its obligation to take all necessary steps to ensure that the obtained information are true.
58. Should each QFI open a separate account in the Depositary Center?

Yes, every QFI shall open an independent account. After that, the QFI can open several investment portfolios that are linked to the account.

59. Who is the competent authority responsible for the resolution of disputes resulting from trading?

The Committee for the Resolution of Securities Disputes (CRSD) has the jurisdiction over the disputes falling under the provisions of the Capital Market Law, its Implementing Regulations, and the regulations, rules and instructions issued by the CMA and the Exchange, with respect to public and private actions, including any trading disputes that may arise among all parties subject to the Rules. The CRSD’s decision may be appealed before the Appeal Panel that is formed by a Council of Ministers’ resolution. The Appeal Panel shall have the discretion to refuse to review the decisions of the CRSD, to affirm such decisions, to undertake a de novo review of the complaint or suit based on the record developed at the hearing before the Committee and to issue such decision as it deems appropriate in relation to the complaint or the suit. The decisions of the Appeal Panel shall be final. The decisions issued by these committees are published in both Arabic and English on the Committees for the Resolution of Securities Disputes’ website, and those decisions can be viewed through the following link:

http://www.crsd.org.sa/
60. Can a QFI send trading orders through an international broker that is not qualified as a foreign investor?

If the international broker's role is limited to sending orders issued by the QFI to the AP, then the international broker is not required to qualify as a QFI, provided that the international broker must have the authority to send such orders.

61. Can a QFI establish a discretionary portfolio management (DPM)?

A QFI can establish a DPM with an AP in relation to its investments.

62. Are existing Swap Agreement’s ultimate beneficiary allowed to invest as a QFI?

Yes, provided that the ultimate beneficiary satisfies the conditions prescribed in the Rules to be qualified as a QFI. In Addition, a foreign investor who wants to invest in the Saudi Stock Exchange as a QFI can retain a swap agreement account for not more than twelve months from the opening of the QFI account, afterward, all securities underlying the ultimate beneficiary swap account must be transferred to the QFI account. The ultimate beneficiary is defined as “non-resident foreign investor that receives the economic benefits of the securities listed on the Saudi Stock Exchange through swap transactions executed under the Swap Agreements”.

63. Can the foreign investor transfer owned securities from the ultimate beneficiary swap account to the QFI account within the twelve months period?
Yes, the foreign investor is allowed to transfer some of the securities from the ultimate beneficiary swap account to the QFI account and vice versa during the twelve months period.

64. What is the following procedure after the elapse of twelve months of opening a qualified foreign investor account while retaining ultimate beneficiary swap account?

After the elapse of twelve months of opening a QFI account, the Assessing Authorized Person (AAP) must ensure that the QFI closed one of the accounts and transferred all securities from the account which the foreign investor is intending to close to the account that foreign investor is intending to continue his investments through.

65. How securities are transferred from a Swap Agreement account to a QFI account?

The transfer operation is done according to the following:

1. QFI submits—through the AAP—a detailed transfer request of all securities underlying the Swap Agreement, where the ultimate beneficiary of such securities is the QFI, to his account with the Depositary Center, according to the form prepared by the Exchange for this purpose.

2. Submitting the transfer request, referred to in paragraph (1) above, must be done as soon as a request is submitted to open an account with the Depositary Center.
3. The Exchange takes the necessary procedures to execute the transfer operation from Swap Agreement account in relation to the QFI as stipulated in the circular issued in this regard.

4. The transfer operation shall be executed after ensuring that there are no obligations (such as: a pledge or a seizure of the securities) or outstanding buy and sell orders, regarding the securities requested to be transferred.

66. What are the costs of transferring securities from a Swap Agreement account to a QFI account?

The cost of transferring is 20 SAR for the securities of each listed company (not per security).

67. Does transferring securities from a Swap Agreement account to QFI account affect the market value of such securities?

Transferring securities from a Swap Agreement account to a QFI account does not affect the market value of the securities.

68. How long does it take to transfer securities from a Swap Agreement account to a QFI account?

The shares shall be transferred within 2 business days from the date on which all the requirements were completed.

69. Can a QFI be the Foreign Counterparty under a Swap Agreements Framework?

Yes, a QFI can be the Foreign Counterparty in Swap Agreements.
**E. Investments limit:**

70. **Does the ownership limit of 49% of the issued shares or convertible debt instrument of any listed company include the Foreign Strategic Investors in such company?**

No, Foreign Strategic Investors can own more than 49% as per the QFI rules and Foreign Strategic Investors rules.

71. **How can the information on ownership limits in listed companies stipulated in the Rules be obtained?**

The Saudi Stock Exchange (Tadawul) shall publish on its website statistical information reflecting ownership percentage as per the paragraphs (a/2) of Article 14 of the Rules. In addition, according to the information received from listed companies, the Saudi Stock Exchange shall also publish on its website the limits stated in paragraphs (a/3) and (a/4) of Article 14 of the Rules.

72. **What are the responsibilities of APs and QFIs with regard to the ownership limits in listed companies stipulated in the Rules?**

- APs must comply with the relevant rules set out in the Capital Market Law and its Implementing Regulations, in particular the Authorised Persons Regulations, Market Conduct Regulations and the Rules.

- QFIs must comply with the ownership limits specified in sub-paragraphs (a/1), (a/3), and (a/4) of Article 14 of the Rules for investments in their account. It should be noted that the Saudi Stock Exchange (Tadawul) will automatically control the ownership limits specified in Article 14 of the Rules. An automatic
control of a limit means that the Saudi Stock Exchange’s (Tadawul) systems will reject orders that are not considered to be compliant with the ownership limits in listed companies stipulated in the Rules.

73. Who is responsible of complying with the investment limits and disclosure requirements when the QFI engages with foreign portfolio manager?

The QFI is responsible of complying with investment limits and disclosure requirements and abide by the Capital Market Law and its Implementing Regulations and the rules of the Exchange and other relevant laws.

74. What are the ownership limits in listed companies stipulated in the Rules that will be automatically controlled by the Saudi Stock Exchange (Tadawul)?

The following ownership limits will be automatically controlled by the Saudi Stock Exchange:

- Each QFI may not own 10% or more of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer.

- The maximum proportion of the share of any issuer whose shares are listed or convertible debt instrument of the issuer that may be owned by all foreign investors (in all categories, whether residents or non-residents) in aggregate is 49%.
75. Can the foreign investor own a percentage that exceed 10% through his QFI account and his ultimate beneficiary swap account within the first twelve months after the opening of a QFI account while retaining an ultimate beneficiary swap account?

No, foreign investor ownership through the QFI account and the ultimate beneficiary swap account shall not exceed 10% of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer for both accounts aggregated. Foreign investor must comply with the investment limitations provisions in the Capital Market Law and its Implementing Regulations, as well as the Rules and Regulations of the Exchange and other relevant laws.

76. What are the consequences for non-compliance of qualified foreign investor with the ownership limits in listed companies stipulated in the Rules?

In the case of non-compliance with the ownership limits, the foreign investor is considered in breach of the Rules, and the CMA can take the action it sees fit in accordance with Article (20) of the QFI Rules which includes the action stipulated in sub-paragraph (7/a) that enables the CMA to exercise any of its other powers under the Capital Market Law specifically the power stipulated under paragraph (a) of Article (59) of the Capital Market Law that states: “If it appears to the Authority that any person has engaged, is engaging, or is about to engage in acts or practices constituting a violation of any provisions of this Law, or the regulations or rules issued by the Authority, or the regulations of the Exchange, the Authority shall have the right to bring a legal action before the Committee to seek an order for the appropriate sanction. The sanctions
include the following: (3) obliging the person concerned to take the necessary steps to avert the violation, or to take such necessary corrective steps to address the results of the violation".

**F. Ongoing Obligations:**

77. Is the QFI required to provide the CMA with notifications?

Where a notifiable event, as set out in Annex 3.1 of the Rules, has occurred and the QFI reasonably believes that disclosure of the event to the AAP in accordance with paragraph (a) of Article 16 of the Rules would materially prejudice the operations and businesses of the QFI or a third party, the QFI may make a notification to the CMA in substitution for notifying the AAP.

78. What is the required period of time for the QFI to notify the AAP if any of the notifiable events occurs?

A QFI must within a reasonable period of time not exceeding 30 days notify the AAP engaged by it if any of the notifiable events occurs as set out in Annex 3.1.

79. Are the QFI required to provide the Exchange with notifications regarding their ownership in listed companies?

Yes, the QFI is required to notify the Exchanger as per the events stipulated in article 68 of Rules on the Offer of Securities and Continuing Obligations which are as follow:

a) Any person must notify the Exchange if such person becomes the owner of, or is interested in, 5% or more of any class of voting shares or convertible debt instruments of the issuer at the end of the third trading day following
the execution of the transaction or the occurrence of the event which results such ownership or interest; The person notification to the Authority shall also include a list of persons, in which those persons, have an interest in the shares or convertible debt instruments which they own or control”.

b) The person referred to in paragraph (a) of this Article must notify the Exchange in the event of any change to the list of persons referred to in paragraph (a) of this Article including any event which requires the inclusion of a person to that list or the exclusion of any person who has been previously included in that list. Such notification must be made at the end of the third trading day following the occurrence of the relevant event.

c) For the purposes of this Article, in calculating the total number of shares or convertible debt instruments in which a person is interested, that person will be deemed to be interested in any shares or convertible debt instruments owned by or controlled by any of the following persons: 1) a relative of that person; 2) a company controlled by that person; or 3) any other persons with which that person has agreed to act in concert to acquire an interest in or exercise voting rights in the shares or in the convertible debt instruments of the issuer.

d) The notices referred to in this Article shall be in accordance with the form prepared for this regard. The notice referred to in paragraph (a) of this Article must contain at least the following information:

1) the names of the persons who own or have the right to dispose of the subject shares or convertible debt instruments;
2) details of the ownership process;

3) details of any loans or financial support for the ownership process that the person has received from any other persons

80. What is meant by a person who is interested in shares or convertible debt instruments?

A person will be deemed interested in any shares or convertible debt instruments owned or controlled by any of the following persons:

a. A relative of that person;

b. A company controlled by that person;

c. Any other persons with which that person has agreed to act in concert to acquire interest in or exercise voting rights in the shares or in the convertible debt instruments of the issuer.

The term "person" is defined in the in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "any natural or legal person recognised as such under the laws of the Kingdom".

81. Is there a special notification form with regards to the ownership in listed companies?

Yes, the notification shall be in accordance with a form prepared by the Exchange, which may be viewed through the following link:

82. Can a QFI engage with more than one AAP at the same time?

Yes, a QFI may engage with more than one AAP at the same time.

83. Can a QFI become a client of another AP for the purpose of investing in listed securities?

Yes, a QFI can be a client of any other AP when investing in listed securities.

84. Can a QFI change its AAP?

Yes, the QFI can change its AAP at any time. In case the QFI is engaged only with one AAP, a QFI can find a replacement for AAP within 30 days after the lapse or termination of the QFI assessment agreement with the replaced AAP.

85. Can the QFI trade listed securities during the 30 day period after the lapse or termination of the QFI assessment agreement?

Yes, the QFI can trade listed securities during this period, provided that it adheres to its responsibilities to comply with the Rules.

86. When should an AAP notify the CMA when the QFI no longer meets the qualification conditions?

If an AAP finds at any time that a QFI by which it is engaged with no longer meets the applicable qualification conditions stated in the Rules or has breached any of its obligations under the Rules, the AAP must report such findings to the CMA in writing without delay.
87. Is the QFI required to notify the AAP in the event in which the QFI no longer engages with the foreign portfolio manager?

Yes, the QFI must notify the AAP in the event in which the QFI no longer engages with the foreign portfolio manager. Also, the AAP must notify the CMA in writing without delay in case that considered a breach of the qualification conditions as explained in Annex3.1.

88. Can the QFI apply for cancellation of QFI qualification?

Yes, The QFI may submit a cancellation request to an AAP.

89. Does a QFI need to be aware of other laws or regulations?

QFIs must be aware of the relevant provisions of the Capital Market Law and its Implementing Regulations, the rules and the regulations of the Saudi Stock Exchange and any other relevant laws. This includes the Rules of Offering Securities and Continuing Obligations, the Market Conduct Regulations, the Authorised Persons Regulations, and the Merger and Acquisition Regulations.
G. Others:

90. What is the settlement cycle for securities listed in the Saudi Stock Exchange?

The settlement cycle for trading listed securities in the Saudi Stock Exchange is two business days after executing the transaction (T+2), and the prefunding condition is subject to the contractual arrangement with the concerned securities broker and is not a regulatory requirement.

91. What are the trading hours of the Saudi Stock Exchange?

Trading is open for one session from 10:00 am – 3:00 pm, Sunday through Thursday. The Saudi Stock Exchange is closed during all official holidays.

92. Will the Depository Center allow APs who are licensed to conduct custody activities, but who do not have a dealing license, to be connected with the Depository and Settlement System, in order to enable them to offer independent custody services for investors in Saudi listed securities?

Yes, the Depository Center allows APs with custody licenses to be connected with the Depository and Settlement System, so that they can offer custody and all related services to the investors. Therefore, investors in Saudi listed securities are able to appoint an independent custodian different than the broker who executes their trades.

93. Can QFIs receive financing from local banks to fund their investments?

Yes, pursuant to the applicable procedures set forth by the CMA and the Saudi Arabian Monetary Agency, QFIs can receive financing from local banks to fund their investments.
94. What protection is available to minority shareholders in relation to Merger and Acquisition transactions?

The provisions of the Companies Law and Merger and Acquisition Regulations included a number of protection means for minority shareholders, such as:

First: The Companies Law Article 94:

- An extraordinary general assembly meeting shall not be valid only if attended by shareholders representing at least one half of the company’s capital, unless the company’s bylaws provide for a higher proportion provided that such proportions shall not exceed the two-thirds.

- If this quorum has not been obtained at the first meeting in accordance with above paragraph, a notice shall be sent for a second meeting in the manner prescribed in Article (91) of the Companies Law. However, the second meeting may be held after an hour from the end of the period fixed for holding the first meeting. The notice sent for the first meeting must include an indication to the possibility of holding a second meeting. In all cases, such meeting shall be valid if attended by a number of shareholders representing at least one quarter of the company’s capital.

- If this quorum has not been obtained at the second meeting, a notice shall be sent for a third meeting in the manner prescribed in Article (91) of the Companies Law, and such third meeting shall be valid regardless of the number of shares represented thereat, after the approval of the competent authority.
• Resolutions of an extraordinary general assembly shall be adopted by a two-thirds majority vote of the shares represented thereat. But if a resolution pertains to an increase or decrease in capital, or to extension of the term of the company, or to termination of the company prior to expiry of the term specified in its bylaws or to merger of the company into another company or firm, it shall be valid only if adopted by a three-fourths majority vote of the shares represented at the meeting.

• The Board of Directors must publish, in accordance with the provisions of Article (65) of the Companies Law, the resolutions adopted by an extraordinary general assembly meeting if such resolutions included an amendment of the company’s bylaws.

Second: Merger and Acquisition Regulations:

• Paragraph (c) of Article 3: In the case of an offer, All shareholders of the same class of an offeree company must be treated equally by an offeror.

• Paragraph (e) of Article 3: During the course of an Offer, or when an Offer is in contemplation by the Offeree Company, neither an Offeror, nor the Offeree Company, nor any of their respective advisors may furnish information to some shareholders which is not readily made available to all shareholders. This principle does not apply to the following: 1) the furnishing of information in confidence by the Offeree Company to a bona fide potential Offeror or vice versa in the context of an Offer; or 2) the furnishing of information in confidence by the selling shareholder and/or Offeree Company to an Offeror in the context of a Private Transaction.

• Paragraph (j) of Article 3: In case the board of the Offeree Company has
reason to believe that a bona fide Offer might be imminent, the board of the Offeree Company may not take any action in relation to the affairs of the company, that may cause the rejection of the offer or preventing shareholders from making a decision on it, without the approval of the shareholders convened in a general assembly.

• Paragraph (o) of Article 3: A director shall not vote at a meeting of board or of its committees or a general assembly meeting on any resolution concerning an offer subject to these Regulations or any other relevant matter where the director, any relative or representative of his/her has a conflict of interest. In this context such a conflict of interest would arise if the director has, directly or indirectly, an interest related to the offer or the potential offer or the director is a shareholder in the Offeror and at the same time he/she is a director of the Offeree Company board, or vice versa. If the director is a director of the Offeror board and at the same time he/she is a board member of, or a manager in the Offeree Company, or vice versa.

• Paragraph (a) of Article 23: Where a person (or persons Acting in Concert with it) increase an aggregate interest in shares through a restricted purchase of shares or restricted Offer for shares so that such person's ownership (individually or collectively with persons Acting in Concert with it) becomes 50% or more of a given class of shares listed on the Exchange carrying voting rights, the Board shall have the right to exercise its discretionary power in accordance with Article 54 of the Capital Market Law to order such person (and any person or persons Acting in Concert with it) to Offer to purchase the shares of the same class it does not own of the Offeree Company on the terms set out in this Article and in accordance with the other relevant provisions of these Regulations. When an obligation to make a general Offer...
is incurred under this Article, it is not necessary for the Offer to extend to treasury shares in the Offeree Company.

• Paragraph (a) of Article 24: Any person obtaining shares (or have control over them) by a deal or number of deals (in owned or controlled shares, or which is controlled by persons acting in concert with it) that represent 40% or more of a specific class of shares that carry voting rights, may not have control over its shares during the following 6 months of obtaining such percentage without the Authority’s approval and in accordance with the conditions it specifies.

• Paragraph (a) of Article 35: Information about the Offer, including announcements, statements, presentations, circulars and information concerning companies involved in an Offer must be made equally available to all shareholders as nearly as possible at the same time and in the same manner, including publication on the website of the Offeror and Offeree Company, through the exchange or other Regulatory Information Service Providers (as applicable), no later than the end of the trading day.

• Sub-paragraph (2/b) of Article 36: Any break-up fee that is proposed must be of a minimal size (no more than 1% of the Offer value) and the Offeree Company board of directors and its Independent Financial Advisor must confirm to the Authority in writing that the fee is in the best interests of the Offeree Company’s shareholders. Any break-up fee arrangement must be fully disclosed in the Offer Document and in the announcement made under paragraph (e) of Article 17.
Contact Us

Should you wish to acquire further information on any aspect of the QFI framework contact Tadawul and/or CMA via the following contact details:

**Tadawul**

**Working hours:** Sunday to Thursday: 8 a.m. to 4 p.m. [GMT +3]

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**Website:**
CMA

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800-245-1111

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