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Saudi Capital Market Rules and Regulations – Compliance and Anti-Money Laundering

Edition 1

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APPROVED WORKBOOK

Welcome to the Chartered Institute for Securities & Investment's Kingdom of Saudi Capital Market Rules and Regulations – Compliance and Anti-Money Laundering study material.

This workbook has been written to prepare you for the Chartered Institute for Securities & Investment's Saudi Capital Market Rules and Regulations – Compliance and Anti-Money Laundering examination.

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A learning map, which contains the full syllabus, appears at the end of this workbook. The syllabus can also be viewed on cisi.org and is also available by contacting the Customer Support Centre on +44 20 7645 0777. Please note that the examination is based upon the syllabus. Candidates are reminded to check the Candidate Update area details (cisi.org/candidateupdate) on a regular basis for updates as a result of industry change(s) that could affect their examination.

The questions contained in this workbook are designed as an aid to revision of different areas of the syllabus and to help you consolidate your learning chapter by chapter.

Workbook version: 1.1 (October 2022)

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Changes in industry practice, economic conditions, legislation/regulations, technology and various other factors mean that practitioners must ensure that their knowledge is up to date.

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Chapter One

Capital Market Institutions' Regulations

This syllabus area will provide approximately 5 of the 25 examination questions

1. Maintenance of Authorisation

1.1 Notification Requirements and Powers of Authority

Learning Objective

1.1.1 Know notification requirements for Capital Market Institutions (Capital Market Institutions' Regulations Part 3, Chapter 2, Article 15, Annex 3.2)

Capital Market Institutions must notify the Capital Market Authority (the Authority) in writing of relevant changes as outlined in the following table.

Timing	Type of change
At least 30 days before	Change in name, business name, or address of head office Entering into or material changing outsourcing arrangements
Within seven days after the occurrence	Change in material information with regard to a registered person, their reputation, or their behaviour Formation, acquisition, disposal or dissolution of subsidiaries, or holdings of more than 50% of the capital value of a company Changes related to branch offices, insurance agreements, activities in foreign countries, contracts and agreements for clearing and custody
Immediately upon occurrence	Winding up of an institution, subsidiary or controller Insolvency Disciplinary matters Conviction of any offences related to banking and financial services legislation General partner is becoming a limited partner Withdrawal or refusal of an application of membership of an exchange or clearing centre Appointment of investigators Misconduct or procedural errors Any material event or change in its business or operations
Prior to, or immediately after, the Capital Market Institution finds out about the change	Reorganisation Significant failure of systems or controls Any event that leads to material change in the capital adequacy

Timing	Type of change
Within two days after the resignation or dismissal of:	CEO or managing member of the board of directors, CFO or the employees providing clients with securities business activities Member of the board of directors or partner Senior executives and departments managers, directly related to securities business Compliance officer Money laundering reporting officer (MLRO) Financial director Staff providing securities business services

Once notification of a change has been received, the Authority may request any additional information they deem necessary to properly assess the notification. In addition, they may impose any conditions, restrictions or additional requirements. All notifications must be given in writing. The notification period required and whether it is required prior to, or after, the event depends on the event itself as detailed in the table above.

1.2 Controllers and Close Links

Learning Objective

1.1.2 Know requirements relating to (Capital Market Institutions' Regulations): controllers (Part 3, Chapter 2, Article 13); close links (Part 3, Chapter 2, Article 14)

A controller is anyone who has the ability to influence the actions or decisions of another person whether directly or indirectly, alone, or with a relative or affiliate:

- holding 30% or more of the voting rights in a company, or
- having the right to appoint 30% or more of the members of the governing body.

Any **Capital Market Institution** who intends to become, or ceases to be, a controller must inform the Authority at least 30 days prior to this happening or, if this is not possible, immediately after the Capital Market Institution becomes aware of the intention. The Authority must approve the controller and satisfy itself of its identity, integrity, regulatory status, business record and financial soundness of the controller.

A close link is a relationship between a person and any of the below persons:

1. a controller of that person
2. a company controlled by that person
3. a company controlled by a controller of that person, or
4. a company controlled by any combination of the above.

Any close links which are intended to be established or any person who is intending to establish close links must be reported to the Authority at least 30 days prior to the proposed effective date or, in case this is not possible, immediately after they become aware of any change in close links. The Authority must satisfy itself of the identity of the person with whom the Capital Market Institution proposes to establish close links, its integrity, regulatory status, business record and financial soundness. Close links may not be formed unless approved by the Authority.

1.3 Record-Keeping

Learning Objective

1.1.3 Know record-keeping requirements for Capital Market Institutions (Capital Market Institutions' Regulations Part 3, Chapter 2, Article 16)

It is the responsibility of the Capital Market Institution to ensure they keep appropriate records. Unless otherwise specified, records need to be retained for a period of ten years. The records may be kept in any form, provided they can be reproduced in printed form and must be maintained in an organised manner. The Authority may inspect the records directly or through a person it appoints for that purpose.

When a client, or a former client, requests any records to be made available during the regulatory retention period, the Capital Market Institution must make available, within a reasonable period, any of the following:

1. any written material or records which relate to that client and which the Capital Market Institution has sent, or is required to send, to that client, and
2. copies of any correspondence received from or sent to that client relating to securities business.

2. Withdrawing or Cancelling Authorisation

Learning Objective

1.2.1 Know the obligations of and the correct process for a Capital Market Institution seeking to cease carrying on securities business (Capital Market Institutions' Regulations Part 3, Chapter 2, Article 12)

1.2.2 Know the circumstances under which the Authority may: refuse a cancellation request; suspend a permission (Capital Market Institutions' Regulations Part 3, Chapter 2, Article 12)

In the event a Capital Market Institution wants to temporarily cease securities business, they must notify the Authority in writing of the date on which it intends to cease the securities business and the reasons for the decision. The notification needs to be given at least 45 days in advance. If this is not possible, for example because the temporary cessation of business is caused by an external event outside of the control the Capital Market Institution, the notification must be sent immediately on making the decision to cease to carry on securities business. Any outstanding business must properly be completed or

transferred to another Capital Market Institution. Clients must be given reasonable notice of the closing of the business.

Any cancellations of authorisation must be requested from the Authority in writing at least three months before cancelling the activities.

The Authority may:

- accept the cancellation
- postpone the date of the cancellation
- require other measures that it considers necessary for the protection of clients of the Capital Market Institution, or
- refuse a request to cancel if maintaining the authorisation is necessary to investigate any matter affecting the Capital Market Institution, to protect the interests of the Capital Market Institution's clients, or to impose a prohibition or requirements on such Capital Market Institution under the **Capital Market Law (the Law)** or its Implementing Regulations.

The Authority may suspend an authorisation on its own initiative if the Capital Market Institution does not undertake any securities business for a period of 12 months, or six months following the date on which a Capital Market Institution has ceased to undertake securities business after notification to the Authority.

A Capital Market Institution continues to be subject to the jurisdiction of the Authority for two years in respect of any act or omission that occurred before the cancellation.

3. Securities Advertisements

3.1 Prepared Securities Advertisements

Learning Objective

1.3.1 Know the general contents requirements for all securities advertisements (Part 5, Chapter 2, Article 33 & Annex 5.1)

A prepared securities advertisement is an advertisement for securities or securities activity, prepared in advance, for the purpose of inviting or inducing a person to engage in securities activity. It is communicated in writing, electronically or otherwise to one or more persons. Before an advertisement is distributed, the Capital Market Institution must make sure it meets the requirements for securities advertisements, and is approved by a designated officer. Any advertisement must be clear, fair and not misleading. Any advertisements that do not comply with the requirement must be withdrawn.

Advertisements that relate to specific securities must contain sufficient information to enable the recipient to make an informed assessment of the security it relates to.

The requirements for advertising fall into three main categories:

1. **General** – advertisements must clearly state the purpose, the nature or type of securities business and the type of securities being advertised. In addition, any statements, promises or forecasts must be clear, fair and not misleading. For any forecasts, the assumptions on which it is based need to be included. No false or misleading statements may be made, and the full name, address and regulatory status need to be mentioned.
2. **Promoting a specific security or securities related services** – there are a number of items to consider when promoting a specific security or securities related service, such as:
   - only mention guarantees if they are legally enforceable
   - any comparisons must be based on facts verified by the Capital Market Institution or stated assumptions, be fair and balanced, and not omit any material information
   - any material interest held by a Capital Market Institution or its affiliate in the security must be declared
   - past performance must be a fair representation, not exaggerate the performance of the Capital Market Institution, be verifiable, and warn that the past performance is not necessarily considered an indication of the future performance
   - any mention of *zakat* and taxation must include the assumed rate and any relief
   - advertiser benefits, and
   - any cancellation rights.
3. **Risk warnings** – reference must be made to fluctuations in value and income, suitability of the investment, volatility, liquidity, foreign currency risk, and any fees and charges.

3.2 Direct Communications

Learning Objective

1.3.2 Know the specific requirements governing direct communications (Part 5, Chapter 2, Articles 34 & 35)

A direct communication is any securities advertisement that is not a prepared securities advertisement as defined above. It is, for example, a meeting with a customer or potential customer, a telephone call, a presentation or any direct interaction with one or more persons.

The Capital Market Institution needs to make sure that the individual they are speaking with has given their consent to receive the information. If it is an existing customer, the information given to the customer must be in line with the relationship. Similar to prepared advertisements, the information:

- must be clear, fair and not misleading
- must not make any false or misleading statements, and
- must be clear regarding the communication's purpose.

Direct communications should not take place outside of business hours unless this is specifically agreed with the other party.

The Capital Market Institution's code of conduct must state that their staff or agents may not use undue pressure or make misleading statements when trying to win business.

When communicating with customers about non-retail investment funds or derivatives, the Capital Market Institution must make sure the securities are suitable for the customer.

4. Client Money and Assets

Learning Objective

1.4.1 Know (Capital Market Institutions' Regulations): the client money rules (Part 7, Chapter 2, Articles 71, 73, 74, 75, 76, 78); the rules regarding the amounts held in client money bank accounts (Part 7, Chapter 2, Article 79); the client asset rules (Part 7, Chapter 3, Articles 82, 83, 84, 85, 87, 88, 89)

4.1 Client Money Rules

Client money is all money that a Capital Market Institution receives from, or on behalf of, a client in the course of carrying out securities business.

Client money must be held separately from money of the Capital Market Institution, in segregated accounts. They need to be held with a bank in the **Kingdom**, and the Capital Market Institution has to undertake appropriate due diligence on the bank. The client must be explicitly notified if the bank used to deposit client money is part of the same group of companies as the Capital Market Institution. If the client objects to this, the Capital Market Institution is obliged to open their account with another bank.

Client money may be held in an overseas bank account if the client owns and transacts in securities listed on a foreign stock exchange. Any dividends or other income received from a client's foreign securities may be paid in a foreign account of the Capital Market Institution as long as the **funds** are transferred to a client account or paid to the client.

4.2 Amounts to be Held in Client Money Bank Accounts

On a daily basis, at the end of the business day, the aggregate balance on all client accounts must be reconciled with the client money requirement calculated according to the Authority's rules. Any shortfall must be paid into a client account, and any excess withdrawn. The reconciliation must be based on the amounts in the account of the Capital Market Institution, not the statement sent by the bank. In the event the Capital Market Institution is unable to perform the calculation required, they need to immediately inform the Authority.

4.3 Client Assets

Client assets are any assets owned by the client that are not client money and are held by a Capital Market Institution licensed to provide custody services. Like client money, client assets must be segregated from the Capital Market Institution's own assets, and may not be used for their own account or the account of another client unless prior consent has been obtained from the client.

The name of the account with the (overseas) custodian has to make clear that the assets belong to the client.

Securities that are eligible for the Depository Center must be held in an account in the client's name with the Depository Center. Documents of title to a client asset must physically be in the possession of the Capital Market Institution or held with a custodian in an account designated for client assets.

The title to a client asset must be registered or recorded in the name of the person that owns the asset. If the security is bought overseas, the title to the asset may be registered or recorded in the name of an overseas custodian or in the name of the Capital Market Institution, but only if it is not possible for the asset to be registered or recorded in the name of the client. The Capital Market Institution must make sure the client understands the potentially adverse consequences, and has to give written consent. One of the possible negative effects of registering the asset in the name of the Capital Market Institution occurs when the Capital Market Institution's assets are subject to claims from the creditors. In this case, the client's assets can also be seized.

4.3.1 Assessment of Custodian

When deciding or recommending a custodian to hold client assets, the Capital Market Institution has to undertake appropriate due diligence. Part of the due diligence is an assessment to ensure that the custodian has adequate arrangements in place to safeguard the assets, and is subject to appropriate standards of regulatory oversight. The custodian has to be reviewed periodically to ensure they remain appropriate to be used. The client must be notified if the custodian is part of the same group of companies as the Capital Market Institution, and has to give written consent.

Overseas custodians can only be used if it is necessary to purchase or hold securities outside the Kingdom. They are subject to the same due diligence requirements as custodians based in the Kingdom.

4.3.2 Client Agreements

All terms of business need to be agreed with the **customer** in writing before custody services can be provided. The agreement needs to outline how the client assets will be registered, how client instructions will be given and received, the liability of the Capital Market Institution to the client and any lien or security interest taken over the client's assets. In addition, the agreement needs to specify how the Capital Market Institution will deal with corporate actions, realising collateral, fees and charges, and pooling of assets.

4.3.3 Custodian Agreements

Holding clients with a custodian is subject to a written agreement between the custodian and the Capital Market Institution specifying the name of the account for client assets, record-keeping, a statement that the custodian will only act on instruction of the Capital Market Institution in relation to the account, segregation of assets, and periodic statement delivery.

Foreign custodians are subject to the same requirements.

5. Client Statements

Learning Objective

1.5.1 Know the rules regarding client statements (Capital Market Institutions' Regulations Part 7, Chapter 3, Article 91)

At least annually, each client for whom a client asset, collateral or other asset has been held at any time during the Capital Market Institution's financial year must be sent a statement, even if there are no assets at all.

There is no requirement to provide a statement where the client's account with the Capital Market Institution has been closed, and the Capital Market Institution has sent the client a closing statement showing that it no longer holds a client asset, collateral or other asset for the client. If agreed with the client, statements may be sent electronically. However, the Capital Market Institution must be capable of reproducing the statement and keep a record of it being sent.

The statements produced by, or on behalf of, a Capital Market Institution must list all client assets, collateral and other assets owned by the client for which the Capital Market Institution is accountable.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What is the notification period for a change in controller?
   Answer reference: Section 1.1

2. What does the Authority need to do prior to approving close links?
   Answer reference: Section 1.3

3. What is the retention period of records?
   Answer reference: Section 1.4

4. What is the notification period when a Capital Market Institution temporarily ceases undertaking securities business?
   Answer reference: Section 2

5. What is a prepared securities advertisement?
   Answer reference: Section 3.1

6. List the requirements for a prepared securities advertisement.
   Answer reference: Section 3.1

7. List the requirements for an individual who is making a direct communication on behalf of a Capital Market Institution.
   Answer reference: Section 3.2

8. What information are client money bank account reconciliations based on?
   Answer reference: Section 3.4

9. List the contents of a client statement.
   Answer reference: Section 5

Chapter Two

Investment Funds Regulations

This syllabus area will provide approximately 4 of the 25 examination questions

1. Investment Funds Regulations

1.1 Offering Document Requirements

Learning Objective

On completion, the candidate should:

2.1.1 Know requirements relating to the preparation of terms and conditions (Part 4, Article 33 & Part 5, Article 82) and (Part 4 Article 61 & Annex 1)

The public fund is established by the signing of the terms and conditions of the relevant fund between the first unitholders and the fund manager. The terms and conditions must contain certain information prescribed in the Investment Fund Regulations in Arabic and in a way that is comprehensible and easy for existing unitholders or potential unitholders to understand.

The importance of the terms and conditions is that they contain the basis upon which potential unitholders are to enter into contractual relations with the fund manager regarding the investment being offered to them. Before accepting an initial subscription to a public fund, the fund manager must ensure that the unitholder has received and signed a copy of the terms and conditions.

Similarly, for a private fund, the contractual relationship between a potential unitholder and the fund manager is established by them signing the fund's terms and conditions. The terms and conditions for a private fund must contain certain information prescribed in the Investment Fund Regulations.

As for public funds, the terms and conditions of a public fund must include certain minimum information:

Terms and Conditions

Cover Page

This must specify the name of investment fund, its class and type and the name of fund manager. For a Shariah-compliant investment fund, the following statement should also be included:

> *'(Name of fund) has been certified as being Shariah compliant by the Shariah Board appointed for the investment fund*'.

The cover page must also include a statement that the fund's terms and conditions, and all other documentation, comply with the Investment Funds Regulations and contain complete, clear, accurate and not misleading information on the investment fund.

A number of other points must be covered in the terms and conditions such as the following:

1. **The objectives of the investment fund**, including its investment policies and practices including a table showing the percentage of investment in each investment field, with its minimum and maximum limits.
2. **The duration of the investment fund**, if any.
3. Any investment **restrictions or limitations**.

4. **Fees, charges and expenses** including those relating to subscription and redemption charges and any special commissions.
5. **The fund manager** – their functions, duties and responsibilities.
6. **Custodian** – their functions, duties and responsibilities.
7. **Auditor** – their name, functions, duties and responsibilities.

1.2 Custodian

Learning Objective

2.1.2 Know regulations relating to the: appointment of a custodian (Part 3, Article 24); responsibilities of the custodian (Part 3, Articles 26 & 28) (Real Estate Investment Funds Regulations Article 29)

One or more custodians must be appointed by the fund manager to take custody of the assets of the investment funds which the fund manager manages. The custodian must be appointed pursuant to a written contract. The custodian has to be a Capital Market Institution authorised to undertake custody activity, and must be independent from the fund manager. However, custodians of feeder funds for public and private investment funds may become the fund manager, sub-manager, or an affiliate to the fund manager provided the following criteria are fulfilled:

1. they are investing the feeder fund's assets in another investment fund
2. they shall not impose any additional fees on the fund, and
3. the investment fund in which the feeder fund invests is a closed-ended fund.

The custodian must, in relation to each investment fund to which it acts as custodian, open a separate account in a local bank under its name with the account designated as being for the benefit of the relevant investment fund. The name of the account has to clearly specify the fund it is related to. If the investment fund is a Special Purposes Entity (SPE), the custodian must open a separate account in a local bank under the name of the SPE. If the investment fund is an SPE, the custodian has to ensure the SPE's assets are independently registered in the name of the SPE, and in all cases, the custodian must segregate each investment fund's assets from its own assets and from the assets of its other clients.

Custodians may delegate to a third party. However, they will remain responsible for compliance with the regulations, and will be liable for any damage related to fraud, negligence, misconduct, or default by the third party.

1.2.1 Real Estate Fund's Assets

Real estate assets of funds are treated separately and have to be registered in the name of a company fully owned by the custodian, or pledged to the entity providing a loan to the fund. The custodian must maintain all necessary records to support the performance of its contractual responsibilities.

1.3 Investment Areas and Limitations

Learning Objective

2.1.3 Know regulations regarding: investment areas (Part 4, Article 40); investment limitations (Part 4, Article 41); general rules and restrictions (Part 5, Article 86)

Investments made by a public fund must, at all times, be in accordance with the laws and appropriate regulations, and the terms and conditions outlined of the fund. Public funds may only invest in:

1. securities, but not those issued by the fund manager or their affiliate unless specifically permitted by the terms and conditions
2. money market transactions concluded with a party subject to the Saudi Central Bank's supervision or equivalent regulator abroad
3. bank deposits with a local bank or **institution** regulated by the Saudi Central Bank or equivalent regulator abroad
4. real estate assets, and
5. commodities.

As a general rule, fund assets or money may not be lent out. A closed-ended public fund may lend out securities, while an open-ended public fund may lend out securities to a maximum of 30% of net asset value (NAV).

Money and assets of a non-real estate closed-ended investment traded fund may not be invested in real estate.

The borrowing of a public fund must not exceed (15%) of its NAV.

Unless approved as a specialised public fund, or if a specific waiver has been obtained from the Authority, public funds may only invest in other investment funds in the Kingdom or in foreign countries with an equivalent regulatory regime. In addition, they are subject to the following restrictions:

Investment	Max % of NAV
Private funds or illiquid assets	10%
Units of another investment fund or a different investment fund issued by the same Capital Market Institution	25%
Units of another investment fund held for the benefit of a public fund	20%

Investment	Max % of NAV
Single issuer in any class of security	10%
All classes of a single issuer	20%
Exceptions to single issuer limitations on one type of security issued by a single issuer	• Investment in debt instruments issued by the Government of the Kingdom in the currency of the fund – 100% • Investment in debt instruments issued by the Government of the Kingdom in currencies other than that of the fund – 35% • Investment in debt instruments issued by sovereign issuers other than the Government of the Kingdom – 35% • Listed debt instruments – 20% • Public funds with a mandate to invest in listed shares – 10% of market capitalisation per single issuer with a maximum of 20% NAV of the fund • Per subcategory of a specific investable universe – 10%
Different parties belonging to the same group	25%
Derivatives	15%

In addition, public funds are prohibited from investing in securities where a call is expected for any unpaid amount unless the entire amount can be paid within five days.

The investments of a private fund may consist of assets of any type and description, however, the fund manager must clearly state the permitted investments together with the investment objective, investment policies and any investment restrictions or limitations in the fund's terms and conditions, and in the offering documents of the relevant private fund.

1.4 Notifications and Principle Transactions

Learning Objective

2.1.4 Know regulations regarding: notifications relating to substantial holdings in shares or convertible debt instruments (Part 4, Article 42); principal transactions (Part 4, Article 43)

1.4.1 Notifications Relating to Substantial Holdings

There are certain events that occur in relation to a public fund which require notification of the issuer and the Authority at the end of the trading day. Notifications include when the fund becomes the owner of 5% or more of a voting class or convertible debt instrument during a period not exceeding the end

of the third trading day following the execution of the transaction. Such a notification must include a list of persons with an interest in the shares or convertible debt instruments which they own or control. The notification must include the name of the persons who own or have the right to dispose of the instruments, details of the ownership process, and details of any loans or financial support associated with the ownership.

1.4.2 Principal Transactions

A fund manager or any of their affiliates may not deal as principal for their own account when transacting for public funds they manage. An exception to this is the dealing in money market funds provided that the exposure in a money market fund to the fund manager or any of their affiliates is not higher than 25% of the value of all assets of the money market fund.

A fund manager or fund sub-manager of a public fund (other than a money market fund as mentioned above) may not deal as principal with any other investment fund managed by the same fund manager or fund sub-manager, or with any unitholder whose total investment in the public fund exceeds 5% of the NAV of that public fund.

1.5 Breach of Investment Limitations

Learning Objective

2.1.5 Know regulatory requirements concerning a breach of investment limitations (Part 4, Article 59)

In the event a fund breaches the limitations in the rules, laws, regulations, or the terms and conditions due to an act of the fund manager or the fund sub-manager, the fund manager must immediately inform the Authority **in writing**, and take action to rectify the breach within five days.

If the breach is due to a change of circumstance that is beyond the control of the fund manager or the fund sub-manager, and the breach has not been rectified within five days from the date of the occurrence of such breach, the fund manager shall notify the compliance officer and/or compliance committee of such event immediately, indicating the rectification plan and ensure the rectification of the matter as soon as possible.

All breaches must be reported to the compliance manager, and/or the compliance committee and to the fund board and have to be included in the annual report.

1.6 Notification Requirements

Learning Objective

2.1.6 Know notification requirements for: fundamental changes (Part 4, Article 62); non-fundamental changes (Part 4, Article 63)

The unitholders must give consent to any proposed fundamental changes by way of an ordinary fund resolution. For a closed-ended investment fund, the unitholders must consent to a change in eligibility date or termination through a special fund resolution. Once unitholder approval has been obtained, the fund manager must obtain approval from the Authority for any fundamental changes.

In this context, a fundamental change is one which would, among others, likely cause unitholders to reconsider their investment, result in increased payments to the fund manager or a member of the fund board, introduces a new type of payment out of the closed public fund, or materially increases any other payments made.

Full details of the change must be included in the next fund report, and published on the website of the fund manager and any other website available to the public according to the controls set out by the Authority at least ten days prior to the date the change is due. Fundamental changes to traded funds do not need to be notified to unitholders as long as the announcements will be made on the fund manager's website and that of the Exchange.

Unitholders of an open-ended public fund have the right to redeem their units before a fundamental change is effective without incurring redemption fees.

The Authority and unitholders must be notified of any non-fundamental changes. Any non-fundamental change must be disclosed on the fund manager's website and on any other website available to the public ten days before the change becomes effective. Unitholders of an open-ended public fund have the right to redeem their units before any non-fundamental change takes effect without being subject to redemption fees (if any). The fund manager must obtain fund board approval prior to carrying out a non-fundamental change.

2. Real Estate Investment Funds Regulations (Public Funds)

2.1 Types and Objectives of Real Estate Investment Funds

Learning Objective

2.2.1 Know the types and objectives of real estate investment funds (Part 3, Chapter 1, Article 10)

Closed-ended real estate investment funds operate according to the following:

- Initial development then selling – this is achieved by owning a piece of raw land, developing it, dividing it into residential or commercial plots, then selling it and terminating the fund.
- Constructional development then selling – this is achieved by owning a piece of raw or developed land with the purpose of constructing residential or commercial units, then selling it and terminating the fund.
- Initial or constructional development with the intention of leasing it for a certain period of time then selling it and terminating the fund.
- Owning real estate that is constructionally developed with the intention of leasing it for a certain period of time then selling it and terminating the fund.
- Investing in constructionally developed real estate which is able to generate periodic rental income.

2.2 Authorisation Requirements

Learning Objective

2.2.2 Know the authorisation process (Real Estate Investment Funds Regulations): requirements (Part 2, Article 7 & Annex 3)

The Real Estate Investment Funds Regulations set out specific requirements relating to the authorisation of real estate funds. The firm applying for authorisation must be a Capital Market Institution authorised by the Authority to manage investments and operate fund activity. The applicant must meet any additional requirements imposed by the Authority.

The application for authorisation must include the following information:

- Details regarding the fund manager's organisational structure, including a description of the investment decision-making process of the fund manager, and the names and positions of any registered persons involved in those decisions.
- The name of the compliance officer.
- A feasibility study for the fund.
- The nominated developer for the fund.
- The fund's terms and conditions signed by the fund manager's CEO and the compliance officer.
- The type and purpose of the fund, and proposed launch date.
- Subscription and redemption forms.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. List the information that must be included in the terms and conditions of a public fund.
   Answer reference: Section 1.1

2. Describe the role of a custodian.
   Answer reference: Section 1.2

3. List the securities a public fund can invest in.
   Answer reference: Section 1.3

4. What is the exception when dealing as principal in money market funds?
   Answer reference: Section 1.4.2

5. Within how many days does a breach need to be reported?
   Answer reference Section 1.5

6. What are the possible impacts of a fundamental change?
   Answer reference: Section 1.6

7. How is 'initial development then selling' achieved?
   Answer reference: Section 2.1

8. List the information required in the application for authorisation for a real estate fund.
   Answer reference: Section 2.2

Chapter Three

Market Conduct Regulations

This syllabus area will provide approximately 3 of the 25 examination questions

Introduction

Established financial markets are dynamic, responding rapidly to new information as it is received by investors and other market participants. Such information may relate to the whole market, a particular market sector or to a specific company or security. For example, an economic report may highlight the strength (or weakness) of a particular sector of an economy, leading investors to re-evaluate the value of companies within that sector.

Alternatively, a company may release new financial information, such as a trading update or annual results. Investors will carefully analyse such information in order to determine the value of the company's securities – good news will typically increase their value; poor results, such as profit warnings, may cause investors to downgrade a company and hence lead to a fall in value.

Given its significance, it is clearly vital that investors are able to rely on the truth and accuracy of market information. Whereas, in the past, flows of information were often slow and sporadic, perhaps requiring new information to be passed from one person to another individually, the development of new forms of technology has revolutionised the flow of market information. The internet, and similar technologies, make it possible for new information to be disseminated to a very wide audience almost instantaneously.

The wide availability of relevant and accurate market information helps to ensure market efficiency, since new information is rapidly assimilated by investors and other market participants and market prices respond accordingly – positive information tending to increase the value of related securities, negative information leading to a fall in value. However, there is also the potential for misleading or untrue information to be disseminated, resulting in the price of a particular security being manipulated. In other cases, a market participant may fail to disclose relevant information when they are required to do so.

The specific obligations relating to these issues are set out in the Capital Market Law (as issued by the Council of Ministers) and the Market Conduct Regulations (as issued by the Capital Market Authority (the Authority)). The remainder of this chapter sets out some of the specific provisions relating to this topic which are contained within the regulations.

1. Capital Market Institutions' Conduct

Financial institutions which are authorised to operate in the financial markets, together with their employees, have particular obligations in relation to market conduct. These obligations relate not only to their own conduct, but also to the conduct of their clients.

1.1 Market Manipulation and Insider Trading

Learning Objective

3.1.1 Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in (Market Conduct Regulations): market manipulation (Part 5, Article 11); insider trading (Part 5, Article 11); liability for the acts of others (Part 5, Article 20)

Abuse of the financial markets can broadly be distinguished into two principal forms namely **market manipulation** and **insider trading**:

Market manipulation	Trading in a security for the purpose of creating: • a false or misleading impression of trading activity or interest in the purchase or sale of the security, or • an artificial bid price, ask price or trade price for the security or any related security.
Insider trading	Trading, whether directly or indirectly, in a security on the basis of inside information, meaning information: • that relates to a security • that has not been disclosed to the general public and that is not otherwise available to the general public, and • that a normal person would realise that disclosing it or making it available to the public would have a material effect on the price or value of the security.

In simple terms, the principal distinction between the two relates to the use of inside information. Market manipulation involves employing trading techniques which will give other market participants a false impression of the supply, demand or value of a security. This includes, for example, trading which results in no change to the ultimate ownership of the security (perhaps by trading through separate accounts which are ultimately owned by the same individual). Such trading, sometimes known as 'wash' trading, can be used to give a false impression of the level of trading activity, hence demand for a security.

By contrast, insider trading involves the misuse of inside information. For example, a senior manager within a **listed company** may have access to sensitive financial information which has not yet been released to the market (such as annual results). Anticipating that the release of the information will cause a rise in the value of the company's **shares**, the manager could buy shares, gaining an advantage over other investors who are not aware of the information. Both forms of conduct are prohibited by the Market Conduct Regulations, as is disclosure of inside information (since this would allow the recipient of the information to commit insider trading).

In addition to being accountable for their own conduct, Capital Market Institutions also have certain responsibilities in relation to the conduct of their clients. The Market Conduct Regulations prohibit a Capital Market Institution from accepting or executing a client order if it has reasonable grounds to believe that the client is engaging in market manipulation or insider trading.

Where a Capital Market Institution decides not to accept or execute such an order, it must document in writing, the circumstances and the reasons for its decision, and notify the Authority of the decision within three days. The Capital Market Institution must retain records of such decisions for ten years from the date of the decision.

1.2 Prioritisation of Clients and Front Running

Learning Objective

3.1.2 Know the conduct expected of Capital Market Institutions and registered persons in relation to: the prioritisation of client transactions (Market Conduct Regulations Part 5, Article 12); front running (Market Conduct Regulations Part 5, Article 12)

Orders received from a client must always be executed before an order for the same security for the own account of the Capital Market Institution. This also applies to a registered person or associated person. They may not execute any transaction for their own benefit, the benefit of another client, or the benefit of an account they have an interest in knowing a client order has been, or will be, entered into for the same security.

In addition, they should not disclose any information about client orders to any other person, particularly when they know, or should have known, the other person may trade in the security on the basis of that information. Any person who has received advance information about client orders from a Capital Market Institution is prohibited from dealing in the security (known as '**front running**') to which the information pertains if the purpose of the transaction is to benefit from the potential material effect of the order on the price of the security.

A person who is authorised to deal with the account of a Legal Person may not deal with the same securities for their own benefit or an account they have an interest in if the purpose of the transaction is to benefit from potential material effects of the Legal Person's orders. In addition, they are prohibited from disclosing any of the information in relation to the account of the Legal Person to others.

1.3 Execution

Learning Objective

3.1.3 Know the conduct expected of Capital Market Institutions and registered persons in relation to: timely execution (Market Conduct Regulations Part 5, Article 13); best execution (Market Conduct Regulations Part 5, Article 14); timely allocation (Market Conduct Regulations Part 5, Article 15)

Any client order accepted by the Capital Market Institution must be executed as soon as practical in the circumstances. If the Capital Market Institution deals with, or for, a client, they must provide best execution which means:

1. **when acting as agent** – ensure the order is executed at the best prevailing price in the relevant market or markets for the size of the order, or
2. **when acting as principal** – execute the transaction at a better price for the client than it would have obtained if it executed the order as soon as practicable.

When executing a transaction based on a client order, the Capital Market Institution must ensure that the transaction is promptly allocated to the client's account. A Capital Market Institution who executes a discretionary transaction must ensure that the transaction is promptly allocated to the account of the client for whom the Capital Market Institution decided to transact.

1.4 Aggregation of Client Orders

Learning Objective

3.1.4 Know the regulations governing the aggregation of client orders (Market Conduct Regulations Part 5, Article 17)

Capital Market Institutions need to have written policies in place outlining the methods of allocating trades to clients and principal orders. Client orders must not be aggregated with the orders of other clients or the orders of the Capital Market Institution's own orders traded on the Saudi Stock Exchange (or Tawadul), unless such aggregation is performed in accordance with any regulations, rules or procedures of the Authority or the Exchange.

For orders not traded on the Exchange, client orders may be aggregated with other orders provided the certain conditions are fulfilled, namely:

1. the Capital Market Institution has provided a written explanation to the client of the advantages and disadvantages of aggregation and obtained written consent from the client to aggregate orders
2. the Capital Market Institution ensures that no client will be disadvantaged by the aggregation of their orders, and
3. all client orders that are aggregated receive the average price of execution for all of the orders that are executed.

1.5 Dealing Ahead of Research or Contrary to Recommendations

Learning Objective

3.1.5 Know the conduct expected of Capital Market Institutions and registered persons in relation to: dealing ahead of research (Market Conduct Regulations Part 5, Article 18); dealing contrary to a recommendation (Market Conduct Regulations Part 5, Article 19)

In addition to imposing obligations relating to market manipulation and insider trading, the Market Conduct Regulations also include provisions relating to the issue of investment research and recommendations.

Many financial institutions issue investment research and recommendations to their clients, or to the wider market. Such material performs a valuable function in that it allows the specialist expertise of the institution to be shared with clients, either in exchange for a specific fee or as part of a broader package of products and services for which a client is charged. High quality investment research can help investors to understand the particular characteristics of a company's securities, including both the potential revenue and any associated risks.

However, there is a potential conflict of interest for Capital Market Institutions which issue such research, particularly for those larger Capital Market Institutions whose research and recommendations may be disseminated to a wide range of clients. If a Capital Market Institution issues research which, for example, is highly positive about a particular listed company and the potential value of its shares, then clients receiving the research may decide to buy the shares. A small number of such trades is unlikely to affect the market price, but if the Capital Market Institution has many clients, and its research has a reputation for being accurate, the resulting transactions may be sufficient to cause a significant change in the market price of the shares involved.

In such cases, the Capital Market Institution may be tempted to purchase shares prior to the issue of the research, anticipating that the price of the shares will rise once the research is released. However, such trading, known as 'dealing ahead', is specifically prohibited by the regulations since it would result in the Capital Market Institution benefitting at the expense of its clients and would effectively be a form of market manipulation.

A Capital Market Institution who intends to issue an investment recommendation, or research relating to a security, must not trade in that security for its own account until the clients for whom the recommendation or research is intended have had a reasonable opportunity to react to it. The only exception is where the recommendation or research could not reasonably be expected to affect the price of the security concerned, or any related security.

In addition to the prohibition on dealing ahead of research, the regulations also prohibit dealing in a manner which is contrary to a recommendation. It may not initially be obvious why such a prohibition is required – surely a financial institution would not choose to trade in a way that is contrary to its own recommendations. However, this is to avoid the potential conflicts of interest which can arise within a Capital Market Institution.

The regulations specifically prohibit a Capital Market Institution which issues research or an investment recommendation from trading contrary to the recommendation, whether for its own account or on behalf of clients, unless it has reasonable grounds to make the trade.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. Describe the difference between market manipulation and insider trading?
   Answer reference: Section 1.1

2. What is meant by insider trading?
   Answer reference: Section 1.5

3. What is front running?
   Answer reference: Section 1.2

4. Describe best execution when acting as principal.
   Answer reference: Section 1.3

5. Name the aggregation exceptions to client orders.
   Answer reference: Section 1.4

6. Why is dealing ahead prohibited by the regulations?
   Answer reference: Section 1.5

Chapter Four

Corporate Finance

This syllabus area will provide approximately 3 of the 25 examination questions

1. Rules on the Offer of Securities and Continuing Obligations

The **Capital Market Authority (or CMA, or the Authority)** laid out its Rules on the Offer of Securities and Continuing Obligations in 2017, with the latest amendments being made in January 2021. These cover the following activities within the Kingdom:

- issuing securities
- inviting the public to subscribe for securities
- the direct or indirect marketing of securities, and
- any statement, **announcement** or communication that has the effect of **selling**, issuing or offering securities.

For the purposes of these rules, securities do not include investment funds, which are covered by separate Authority rules, or preliminary negotiations or contracts entered into with, or among, underwriters. The Rules on the Offer of Securities and Continuing Obligations are the core Implementing Rules under the **Capital Market Law**, setting out the fundamental rules under which securities may be offered and **traded**.

Types of Offers of Securities

The Authority recognises four different types of offer:

- exempt offers
- **private placement** offers
- public offers, and
- parallel market offers.

Exempt Offer

The Rules of Offering of Securities and Continuing Obligations stipulate a number of rules and cases in which the offering is exempt from the requirements of these rules. These include, but are not limited to:

- if the securities are issued by the Government of the Kingdom
- if the offering is for contractual securities for qualified and institutional clients, or
- if the offeree is affiliated with the issuer (unless the offering is of a category listed in the market).

The Authority requires notification relating to when an exempt offer is made. This allows it to keep records of exempt offers without actually regulating them which helps it avoid a situation where a genuine exempt offer that has been offered to a narrow group of connected commercial investors morphs into a wider offering without complying with the additional regulatory requirements. The offeror or the Capital Market Institution (if carried out by the Capital Market Institution) must provide information which must be submitted to the Authority on a quarterly basis in respect of each exempt offer.

If the exempt offer is not complete at the time of the notification, additional information must be submitted detailing if it is an ongoing offer, or when it is expected to be completed.

1.1 Rules on the Offer of Securities and Continuing Obligations

Learning Objective

4.1.1 Know the requirements for (Rules on the Offer of Securities and Continuing Obligations): types of private placement (Part 3, Article 8); limited offers (Part 3, Article 9); private placement requirements (Part 3, Article 10); information to investors and private placement advertisements (Part 3, Article 12)

One advantage of a private placement is its relatively few regulatory requirements, and consequently lower costs. The key disadvantage is that due to the restrictions both in terms of number and type of investors, the **issuer** might face difficulties accessing investors who may be willing to offer a higher price for the securities.

A private placement offer is somewhat of a compromise between an exempt offer and a public offer, in terms of both level of protection and cost. Two types of private placement offer are recognised:

- the subscription is open to institutional and qualified clients, or
- the offer is a **limited offer**.

A limited offer may be made to no more than 100 offerees (excluding institutional and qualified clients) and the minimum amount payable per offeree does not exceed SAR 200,000. Securities of the same class may not be offered as a limited offer more than once in a 12-month period ending with the date of the offer in question.

A private placement may only be offered by Capital Market Institutions authorised to carry out arranging activities, and the Authority must be notified at least ten days prior to the proposed date of the offer.

Any material change in circumstances must be notified to the Authority after the submission of documents. The Authority has the right to reject any private placement offer, request additional information or to undertake any investigations it believes to be necessary for it to fulfil its regulatory role. After the offer has completed, the offeror or the Capital Market Institution must provide to the Authority, within ten days, a list of the categories of all persons who have acquired the securities and details of the total proceeds of the offer. Any extension or non-completion of the offer must also be notified to the Authority. For debt instrument issuance programmes, the details of total proceeds and issuance terms must be provided to the Authority within ten days of each issuance.

All private placement offers must ensure that the information provided to investors and in private placement advertisements must fulfil the following requirements:

- investors must be provided with sufficient information to enable them to make an informed investment decision
- private placement offering documents must contain a prominent statement regarding authorisation, responsibility and the monitoring of values as prescribed, and
- any advertisement must comply with the applicable requirements.

2. Public Offer

2.1 Conditions for a Public Offer of Shares

Learning Objective

4.2.1 Know the conditions for a public offer of shares (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 3, Article 23)

A public offering is the sale of equity shares or similar financial instruments to the **public**, accompanied by the admission to trading of the securities to a stock exchange or similar trading venue. The capital raised will, typically, be intended to cover working capital shortfalls, fund business expansion or make strategic investments. It is usually a pre-requisite for the issuing company to produce a **prospectus** or similar document explaining the terms and rights attached to the offered security, information on the company itself and its finances (except where an exemption is allowed).

There are various other regulatory requirements surrounding any public offering in the Kingdom. The issuer must be a joint stock company that has undertaken the main activity for at least three years and must be able to provide audited financial statements for at least three years. Additional financial statements will be requested if the latest audited financial statements are more than six months old. In the event the issuer has gone through material restructuring, an application may not be submitted until at least one financial year has passed since the material restructuring was completed. In this context, a material restructuring is defined as:

- disposing of assets contributing to 30% or more of revenue or net income
- acquiring assets with a value of 30% or more of net asset value (NAV), or
- acquiring a company with a shareholder equity of 30% or more of the issuer's shareholder equity.

In addition, the issuer must have sufficient working capital to continue operating for at least twelve months following the issue date.

The application has to be accompanied by a prospectus (unless exempt).

The Authority may accept the application, accept it with conditions, or reject it.

2.2 Conditions for a Public Offer of Debt and Convertible Securities

Learning Objective

4.2.2 Know the conditions for a public offer of (Rules on the Offer of Securities and Continuing Obligations): debt instruments (Part 4, Chapter 3, Article 24); convertible debt instruments (Part 4, Chapter 3, Article 25)

Certain different requirements need to be met for debt and convertible security offerings. These require:

- The issuance of debt instruments shall be the same as for a public offer of shares, with certain exceptions including having sufficient working capital.
- Any debt **issuance programme** must be detailed in a single prospectus which covers the maximium value of debt instruments to be issued under a maximum of a 24-month programme (since approval).
- Even if the registration and offer of debt instruments do not meet the requirements, the Authority may authorise it (if the Authority considers that the offering is in the **interest of informed investors)**.
- Convertible debt instruments may be registered and offered only if the **shares** into which they are convertible are already listed.
- A prospectus for convertible debt instruments, which would be converted into shares which are already listed on the **Exchange**, must be supplied.
- The Authority's approval of the **application for registration** and offer of a convertible **debt instrument** is regarded as approval of the issuance of the relevant share upon conversion.
- The issuer may not issue convertible debt instruments of the same class already issued unless such instruments have been registered and offered in accordance with public offer provisions.

3. Continuing Obligations and Dealing Restrictions

3.1 Clarity of Disclosures and Disclosing Material Developments

Learning Objective

4.3.1 Know the articles regarding (Rules on the Offer of Securities and Continuing Obligations): complete, clear, accurate and not misleading disclosures (Part 7, Chapter 1, Article 60); obligation to disclose material developments (Part 7, Chapter 1, Article 61)

Once an issuer's securities are listed on the Exchange, it is vital that investors are kept fully aware of developments at the issuer.

The Listing Rules mainly aim to regulate public offering, registration and admission of securities to listing on the Exchange, as well as a company's continuing obligations post-listing. Most of these rules provide protection to investors in the market and enhance ongoing disclosure obligations.

The Continuing Obligation Rules ensure that this happens. All disclosures made by an issuer must be complete, clear, accurate and not misleading. Taking the natural meaning of these words, this means any disclosure should:

- be comprehensive (complete)
- be easy to understand (clear)
- be free of error and balanced (accurate), and
- not disguise, omit, diminish or obscure important information (not misleading).

They must comply with the Exchange's **Listing Rules**. The Continuing Obligation Rules apply in full to those issuers whose securities are listed on the Main Market, and with certain relaxations (described later in this section) where the issuers securities are listed on the Parallel Market.

If an issuer believes disclosure would be detrimental and its omission not likely to mislead, they may apply to the Authority for a waiver or permission to delay.

In the strictest confidence, the issuer must request and explain to the Authority the reasons for such a waiver or delay, and the Authority may approve or reject such requests. Despite any approval, the Authority may, at any time, require the issuer to disclose any information in relation to the waiver or delay.

An issuer must determine the need to publish a disclosure to the public in response to rumours related to any material developments, and the Authority may require such publications to be made by the issuer as it sees appropriate.

There is an obligation to disclose material developments impacting an issuer and the price of the listed security. A Special Purposes Entity (SPE) must disclose to the Authority and the public without delay any material developments in its sphere of activity which are not public knowledge, and which may affect the

assets and liabilities or financial position or the general course of business of the issuer or its subsidiaries and which may reasonably lead to movements in the price of the issuer's listed securities or significantly affect an issuer's ability to meet its commitments in respect of listed debt instruments. In determining whether a development is material, an issuer must assess whether a prudent investor would be likely to consider information about the development when making their investment decisions.

3.2 Disclosure of Specific Events and Financial Information

Learning Objective

4.3.2 Know the articles regarding the disclosure of (Rules on the Offer of Securities and Continuing Obligations): specific events (Part 7, Chapter 1, Article 62); financial information (Part 7, Chapter 1, Article 63)

The obligations relate to the disclosure of specific events regardless of the 'materiality' threshold noted above. In this case, the issuer must immediately and without delay disclose to the Authority and the public any of the specific developments.

The Authority also sets requirements for the timing of the release of financial information to ensure that investors are not relying on information that is old and, therefore, increasingly irrelevant.

The annual financial statements and the first, second, and third interim financial statements of an issuer must be disclosed to the Authority and the public upon their approval and prior to their publication to shareholders or third parties. Where the issuer is an SPE, such entity must disclose its annual financial statements to the Authority and the public upon their approval and prior to publishing it to third parties. Interim financial statements are considered to be approved once they are:

a. approved by the board of directors, and
b. signed by:
    i. a director authorised by the board of directors
    ii. by the CEO, and
    iii. the chief financial officer (CFO).

Annual financial statements are deemed approved when they comply with any applicable requirements under the Companies Law and Corporate Governance Regulation. The issuer shall disclose its interim and annual financial statements through the electronic system specifically designated for such purpose by the Exchange.

The issuer must prepare its interim and annual financial statements in accordance with the accounting and auditing standards adopted by the Saudi Organization for Certified Public Accountants (SOCPA). They must disclose them to the public within a period not exceeding 30 days for interims, and three months for annual financial statements after the end of the financial period included in such financial statements. Furthermore, the issuer must disclose these annual financial statements not less than 21 calendar days before the date of convening the issuer's annual general meeting (AGM).

The certified public accountant or the accounting firm that audits the issuer's financial statements must be registered with the Authority in accordance with the Rules for Registering Auditors of Entities Subject to the Authority's Supervision. It is the responsibility of the issuer to ensure that the certified public accountant or the accounting firm that audits its financial statements and any of their partners comply with the SOCPA rules and regulations in relation to the ownership of shares or securities of the issuer, or any of its subsidiaries, in order to ensure the independence of the certified public accountant or the accounting firm and any partner or employee of that firm.

If the issuer is an SPE, the sponsor shall provide the SPE with its interim and annual financial statements, and the report of the board of directors in a timely manner to enable the SPE to fulfil its obligations.

4. Parallel Market Offering

Learning Objective

4.4.1 Know (Rules on the Offer of Securities and Continuing Obligations): the required conditions for issuers seeking approval to make a Parallel Market offer (Part 8, Article 74); continuing obligations for issuers of securities listed on the Parallel Market (Part 8, Article 89)

The **Parallel Market** (also known as Nomu) provides a simplified process compared with the Main Market. It is a parallel equity market with lighter listing requirements that serves as an alternative platform for companies to go public.

The investment in this market is restricted to qualified investors. Its objectives are:

- being an additional source of funding for issuers to access capital, and
- offering increased diversification, therefore, deepening the Saudi capital market.

Its main characteristics are:

1. a market with lighter requirements
2. restricted to qualified investors, and
3. has the possibility of transitioning to the Main Market after obtaining needed approvals from regulatory authorities.

Issuers whose securities listed on the Parallel Market rather than the Main Market must comply with Continuing Obligation Rules set out in section 2 above, subject to the following variations:

1. The issuer does not need to produce three quarterly interim financial statements, but instead produce half-yearly interim financial statements.
2. The issuer must disclose its interim financial statements within 45 days.

Qualified investors are defined by the Authority (as set out in the Glossary of Defined Terms used in the Regulations and Rules of the Capital Market Authority) as any of the following:

1. Capital Market Institutions acting on their own account.
2. Clients of a Capital Market Institution permitted by the Authority to conduct managing activities, provided the Capital Market Institution has been appointed as an investment manager on terms which enable it to make decisions concerning the acceptance of an offer and investment in the Parallel Market on the client's behalf without obtaining prior approval from the client.
3. The Government of the Kingdom, any government body, any supranational authority recognised by the Authority or the Exchange, and any other stock exchange recognised by the Authority or the Securities Depository Center.
4. Government-owned companies, either directly or through a portfolio managed by a Capital Market Institution authorised to carry out managing activities.
5. Companies and funds established in a member state of the Cooperation Council for the Arab States of the Gulf.
6. Investment funds.
7. Non-resident foreigners permitted to invest in the Parallel Market and who meet the requirements stipulated in the Guidance Note for the investment of Non-Resident Foreigners in the Parallel Market.
8. Qualified foreign financial institutions.
9. Any other Legal Persons allowed to open an investment account in the Kingdom and an account at the Depositary Center.
10. Natural Persons allowed to open an investment account in the Kingdom and an account at the Depositary Center, and fulfil any of the following criteria:
    a. has conducted transactions in security markets of not less than SAR 40 million, in total, and compromising of not fewer than ten transactions in each quarter during the last 12 months
    b. their net assets are not less than SAR 5 million
    c. works, or has worked for, at least three years in the financial sector
    d. holds the General Securities Qualification Certificate which is recognised by the Authority, and
    e. holds a professional certificate that is related to securities business and accredited by an internationally recognised entity.
11. Any other persons prescribed by the Authority.

The general requirements for a Parallel Market offer are similar to that of a public offer on the Main Market (as set out in the previous section) being subject, but not limited to, the following variations:

- the business needs to have only been operating for a minimum of one year rather than three
- audited financial statements are only required for a minimum of one year rather than three
- no necessity to show 12 months working capital at the date of the offer, and
- no necessity to demonstrate appropriate management expertise.

This makes a Parallel Market offer more suited for a less established, fast-growing company than the Main Market.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What are the main activities covered within the Rules on the Offer of Securities and Continuing Obligations?
   Answer reference: Section 1

2. What is an exempt offer?
   Answer reference: Section 1

3. What are the requirements for private placement offers?
   Answer reference: Section 1.1

4. What are the conditions for a public offer of shares?
   Answer reference: Section 2.1

5. What are the aims of the Listing Rules and the Continuing Obligation Rules?
   Answer reference: Section 3.1

6. List the requirements for the internal auditor.
   Answer reference: Section 3.2

7. What are the main differences in requirements between the Parallel Market and the Main Market?
   Answer reference: Section 4

Chapter Five

Investment Accounts Instructions

This syllabus area will provide approximately 2 of the 25 examination questions

1. Opening an Investment Account

Learning Objective

5.1.1 Know requirements relating to accepting clients (Part 2, Article 3)

5.1.2 Know what information is required in an account opening investment (Investment Accounts Instructions Part 2, Article 4)

5.1.3 Know the required provisions for opening investment accounts for: Natural Persons (Part 2, Article 6); Legal Persons (Investment Accounts Instructions Part 2, Article 7)

In accordance with the Investment Accounts Instructions, when accepting a new client, a Capital Market Institution should not enter into any services or transaction until the account opening agreement has been signed by the client. The client will also be provided with the **terms of business**. The account opening agreement needs to contain at a minimum the following information:

- client identification (know your customer (KYC)) including address, contact information, occupation and (for Legal Persons) main business activity
- acknowledgement by the client signifying their understanding of the terms and conditions of the investment account opening agreement, and that all data and information provided to the Capital Market Institution are correct, complete, valid and not misleading
- undertaking by the client that they commit to update their data and information or confirm, upon the Capital Market Institution's request, that there are no changes to the information. The information verification needs to include renewed identification documents when the original is expired. This needs to be done periodically, and at least every three years. In the event the client fails to provide updated information, their account will be frozen until they have either provided updated information or confirmed no information has changed
- unless the company is listed on an exchange, the investment account opening agreement signed with any company must include an undertaking to immediately notify the Capital Market Institution of any change to any of the documents, information or data that were previously provided when opening the investment account and undertaking to adhere to the Capital Market Law and its Implementing Regulations and other laws and other regulations in the Kingdom.

As noted previously, when opening an investment account, the Capital Market Institution may rely on a third party to carry out **customer due diligence (CDD)**.

When an account is opened and operated on behalf of another, the Capital Market Institution must verify the actual relationship between the client and any Natural Persons who act on their behalf such as guardians, agents, trustees, or authorised signatories.

If the client provides a copy of an original document, this needs to be independently verified from a reliable source. For clients with higher risk profiles, the Capital Market Institution must determine if original copies of any of the documents should be checked in order to verify their validity.

When opening an account for a Natural Person, the Capital Market Institution must obtain a specimen signature and verify their ID. The type of ID information required depends on the type of Natural Person as identified in the table below.

Type of Client	Information required
Saudi Natural Person	• valid national identity card
Citizens of the Gulf Cooperation Council (GCC)	• valid passport or national identity card
Foreign Residents of the Kingdom	Depending on the type of resident, the following: • valid *iqama* or resident identity information • for holders of a five-year residence card: the five-year residency card • valid diplomatic identity card and identification letter from the embassy
Foreign Natural Person not residing in the Kingdom	• valid passport for their resident country
Person under 18 (*Hijri* calendar) (account opened in the name of the person, operated by a guardian)	Valid ID for: • the account holder, and • the guardian
Person under 15 (*Hijri* calendar) (account opened in the name of the person, operated by a guardian)	• valid family card, and • valid ID of guardian
Person who is blind or unable to read	• valid national ID • valid national ID of the person who is a personal referee, and • fingerprint or personal stamp instead of a signature
Incapacitated person (account opened in the name of the person and operated by a guardian)	• valid national ID • copy of a final decision issued by the competent court stating the client is incapacitated • valid national ID of the guardian, and • undertake CDD on the client and their guardian
Person unable to write and sign	• valid national ID, and • fingerprint or personal stamp instead of signature
Interdicted person (account opened in the name of the person and operated by a guardian)	• valid national ID • copy of the decision issued by the competent court, and • valid national ID of the guardian • undertake CDD on the client and their guardian

Clients who are blind or unable to read are permitted to a personal referee in attendance at the account opening process to explain the procedures as well as the terms and conditions. The referee must be a Natural Person with full legal capacity and must personally know the client.

The referee must present a valid ID. Clients who are blind or unable to read may not use telephone or online banking to manage their account until an employee of the Capital Market Institution or the client's personal referee has read them the terms and conditions related to the services and the Capital Market Institution obtains a written and signed agreement from the client stating their understanding of the risk involved. When opening an investment account for Legal Persons such as companies or partnerships, the requirements vary based on the country of incorporation and the type of customer as outlined in the table below.

Customer	Account Opening Requirements
Companies from the Kingdom and other GCC member states	• Incorporated in accordance with Companies Law or fall within the scope of a GCC Legal Person. • Resolution permitting the company to invest in securities • In addition, information from the guidance list of documents may be requested, such as company-related information including articles of association, commercial register and a list of the board of directors.
Qualified foreign investors	Obtain and verify any combination of documents from the guidance list to be able to verify the person. Examples from the guidance list are: • bylaws or a copy of the articles of association • list of names of managers and to sign on behalf of the client in relation to the account • delegation from board of directors to sign on behalf of the client in relation to the account.
Funds owned by a governmental entity	• Fully owned by the government of the Kingdom or other GCC member states. • Obtain and verify copies of bylaws, resolution outlining the authorised signatories, articles of association or other documents outlining capital and management, and a list of the board of directors.
Non-profit organisation (NPO) in the Kingdom	Obtain and verify the following: • licence issued by a competent authority • bylaws showing express permission to invest in securities, and • resolution of the board to open an investment account.
Endowments	Obtain and verify the deeds of endowment and trusteeship, national ID card of the (board of) trustees, and resolution approving the opening of the account and authorised signatures. The deed of endowment must include a provision permitting the investment in a security, or an approval letter from the governmental authority that supervises the endowment.

Customer	Account Opening Requirements
Governmental entities (in the Kingdom and GCC member states)	Obtain and verify the main documents of the entity as well as the official approval from the Ministry of Finance (or equivalent) and authorised signatories to open the investment account.
International organisations and institutions	For international organisations and institutions with premises in the Kingdom, the Capital Market Institution must obtain and verify the association agreement and/or bylaws, official agreement with the Kingdom's government to be permitted to invest, and the authorised signatories (guidance list).
Investment funds established in the Kingdom or a GCC member state	Obtain and verify any combination of documents from the guidance list to be able to verify the person. Examples from the guidance list are: • commercial register • bylaws or articles of association • authorisation from the Authority, or • official resolution to open the investment account and its signatories.

For any Legal or Natural Person not mentioned in the tables above, the Capital Market Institution must obtain permission from the Authority before opening the account.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. List the minimum information required in an account opening agreement.
   Answer reference: Section 1

2. When must a Capital Market Institution verify the relationship of an account?
   Answer reference: Section 1

3. Name the requirements and ID required to open an account in relation to foreign residents of the Kingdom.
   Answer reference: Section 1

4. In relation to investment funds established in the Kingdom which verification combination of documents can be used to verify a person?
   Answer reference: Section 1

Chapter Six

Anti-Money Laundering

This syllabus area will provide approximately 5 of the 25 examination questions

Introduction

Over recent decades, there has been a growing awareness of the threat to the financial system, and wider society, posed by both money laundering and terrorist financing. Kingdom of Saudi Arabia (the Kingdom) law includes specific provisions relating to both issues and imposes significant obligations on Capital Market Institutions. Penalties for breaching these legal and regulatory obligations are potentially severe and it is vital that Capital Market Institutions operating within the Kingdom, and their employees, have a full understanding of the risks relating to these issues, and the corresponding obligations.

The financial services sector is undoubtedly exposed to a high risk of being used for the purpose of money laundering since a large proportion of money laundering activity will, at some stage, utilise products or services provided by one or more financial institutions. As a result, Capital Market Institutions are subject to a range of obligations requiring them to implement **anti-money laundering (AML)** measures which are intended to reduce the risk of a Capital Market Institution being used for this purpose by criminals. Yet the scale of the problem is huge – whilst it is impossible to be certain of the amount of money that is laundered, the International Monetary Fund's (IMF's) estimate of between 2% and 5% of global GDP is the most commonly quoted.

How is Money Laundered?

Money laundering has traditionally been described in terms of three stages:

1. **Placement** – the introduction of illegally obtained funds into the financial system.
2. **Layering** – a series of transactions to disguise the origin of the funds.
3. **Integration** – the re-entering of the funds into the legitimate economy.

Whilst some **money laundering offences** still follow this approach, there is growing recognition that money laundering has become increasingly sophisticated in recent years. This has been, in part, due to increased scrutiny by financial institutions and regulatory authorities, meaning that 'simple' methods of money laundering are now more difficult to accomplish successfully. There is also growing evidence that money laundering is becoming more professional – in many cases, the money launderers are specialists – who have had no involvement in the underlying criminal activity. These increasingly sophisticated methods of money laundering present particular challenges for both financial institutions and their regulators.

The Implementing Regulations (the Regulations) to the **Anti-Money Laundering (AML)** Law apply to financial institutions and Designated Non-Financial Business and Professions (DNFBPs).

1. Preventative Measures

Learning Objective

6.1.1 Know policies, procedures and controls that should be adopted to assess, manage and mitigate money laundering risk (Anti-Money Laundering Law Articles 5 and 14/1)

Capital Market Institutions must ensure that they reduce the risk of business, products and services being used for the purpose of money laundering. The AML Implementing Regulations of the AML Law sets out a number of preventative measures that will assist with reducing the risk of a Capital Market Institution being used for money laundering.

In line with international best practice, the Kingdom requires Capital Market Institutions to adopt a 'risk-based approach' (RBA) which means that the Capital Market Institution's AML controls should be tailored to reflect the money laundering risk to which they are exposed. The risk assessment must be documented, periodically reviewed and, if necessary, amended to ensure it is kept up to date.

The risk factors to be considered in the assessment are as follows:

- customers
- countries or geographic areas
- products and services
- transactions, and
- delivery channels.

The level of risk for each of the factors is dependent on the Capital Market Institution's business.

To make sure new products, business practices, or technology cannot be abused for money laundering purposes, risk assessments have to be undertaken before implementation.

Capital Market Institutions shall:

a. have in place, and effectively implement, internal policies, procedures and controls against money laundering aimed at managing and mitigating any risks identified in the AML law. The policies, procedures and controls shall be proportionate to the nature and size of the Capital Market Institution's business and shall be approved by senior management and shall review and enhance them as needed, and
b. apply its internal policies to all of its branches and majority-owned subsidiaries.

2. Due Diligence

2.1 Minimum Due Diligence Required

Learning Objective

6.2.1 Know when due diligence measures are required and their minimum composition (Implementing Regulation to the AML Law 7/1, 7/2, 7/3, 7/4, 7/6)

One of the most important parts of the risk management process is customer due diligence (CDD) and **know your customer (KYC)**. The CDD process ensures the Capital Market Institution knows who their customer is, where they are located, their sources of income, and the types of activities they are planning to use their accounts for. The level of CDD that needs to be undertaken depends on the risk level of the customer. For a high-risk customer, the Capital Market Institution will need to undertake what is known as enhanced due diligence (EDD).

CDD is not just undertaken when the customer is new to the Capital Market Institution, but must be reviewed periodically as follows:

1. When onboarding a new customer (before opening an investment account).
2. Before carrying out a transaction for someone who the Capital Market Institution is not in a business relationship with.
3. Before executing a **wire transfer** for someone who the Capital Market Institution is not in a business relationship with.
4. At any point when the Capital Market Institution suspects the customer may be involved in money laundering.
5. At any point when the Capital Market Institution has reason to believe the information they have on the customer is not complete or incorrect.

The Capital Market Institution decides the extent of CDD required based on their risk assessment. At a minimum, however, the CDD information held on a customer must include the following:

1. Customer Identification. This must be verified using reliable, independent source documents, data or information:

Type of Client	Information Required
Natural Person	• Full name • Residential or national address • Date and place of birth • Nationality
Legal Person	• Name and legal form of the entity • Proof of its existence • Names of directors, senior managers or trustees • Address of the registered office and principal place of business • Identity of beneficial owner

2. If the client is represented by an agent, the identity of the agent must be verified. Equally important, however, is to make sure the beneficiary has agreed to be represented by the agent.
3. What is the purpose of the account or the activities of the company? This is needed to be able to spot any unusual activity in the account which may be an indicator of money laundering.

2.2 Factors that Determine the Level of Due Diligence

Learning Objective

6.2.2 Know the factors that determine the application of due diligence or enhanced due diligence measures (Anti-Money Laundering Law Articles 7 and 11)

The Capital Market Institution should verify the identity of the beneficial owner before or within the period of starting a business relation or opening an account. It is important to know who the beneficial owner is and to verify their identity to make sure they are not using the corporation to hide their identity and to use the Capital Market Institution's services for money laundering purposes.

Beneficial owners:

- any Natural Person who ultimately owns or controls 25% or more of the legal entity's shares
- any person exercising control over the legal entity, or
- if there is doubt over the identity of the beneficial owners, as a last resort, the Capital Market Institution should identify and verify the person who holds the position of senior managing official.

2.2.1 Enhanced Due Diligence (EDD)

For high-risk customers or transactions, the standard level of CDD is not sufficient, and they need to be subject to additional due diligence which is known as EDD. For example, customers based in countries classified as high-risk countries by the AML permanent committee, or politically exposed persons (PEPs) pose a higher risk of money laundering and, therefore, need to be subject to more scrutiny. An example of a high-risk country is a country with political instability, or countries where the regulations are not as sophisticated.

2.3 Reliance on Third Parties

Learning Objective

6.2.3 Know the circumstances under which a financial institution may rely on another party to perform identification and verification checks (Implementing Regulation to the AML Law 7/10, 7/11, 7/12, 7/13)

A Capital Market Institution may rely on another Capital Market Institution to perform identification and verification of the customer, identification and verification of the beneficial owner and to take the necessary measures to understand the nature and intended purpose of the business relationship.

If a Capital Market Institution places reliance on another party, they shall do the following:

1. immediately obtain all necessary information
2. take measures to satisfy that copies of identification data and other relevant documentation relating to the due diligence measures will be made available and without delay
3. ensure that any Capital Market Institution relied upon is regulated, supervised and has measures in place for compliance with due diligence and record-keeping requirements in line with the requirements stipulated under the Law and Implementing Regulation, and
4. take into account information available from the Anti-Money Laundering Permanent Committee (AMLPC) and the Directorate of Financial intelligence with regard to any high-risk countries identified.

The ultimate responsibility to meet all requirements lays with the requesting Capital Market Institution. When a financial institution is being relied upon by another domestic or foreign financial institution, confidentiality requirements under the Kingdom's law shall not preclude a financial institution from exchanging information as required for the reliant party to determine whether the relied upon financial institution has applied the appropriate standards.

A Capital Market Institution that relies on a party that is part of the same financial group may consider that the Capital Market Institution relied upon meets the requirements outlined in the regulations provided the group applies due diligence and record-keeping requirements. These must be in line with the regulations provided the implementation of such policies is supervised at group level by a competent authority and any higher-risk country is adequately mitigated by the group's policies and controls.

2.4 Not Carrying Out Due Diligence

Learning Objective

6.2.4 Know the circumstances where a financial institution may opt to not carry out due diligence measures (Implementing Regulation to the AML Law 7/9)

In the event a Capital Market Institution suspects a customer is involved with money laundering, they would usually review their CDD. However, if they think this will tip off the customer, the Capital Market Institution may choose to submit a suspicious transaction report to the General Directorate of Financial Intelligence instead. The report must include the reasons for not undertaking CDD.

As per the Implementing Regulations to the AML Law, each of these cases must be reported to the General Directorate of Financial Intelligence.

3. Enhanced Due Diligence (EDD)

Learning Objective

6.3.1 Know the types and required treatment of politically exposed persons (PEPs) (Implementing Regulation to the AML Law): prominent public functions (8/1a); senior management positions (8/1b); close associates (8/4); family members (8/3); foreign politically exposed persons (8/5)

6.3.2 Know systems requirements regarding beneficial ownership and relationships with prominent public functions (Anti-Money Laundering Law Article 8)

In addition to relationships or transactions associated with high-risk countries, the Implementing Regulation to the AML Law requires Capital Market Institutions to undertake EDD in relation to customers with prominent public functions. This is on the basis that, while most individuals in such positions do not engage in any criminal behaviour, their public position increases the risk that they might be involved in, or associated with, bribery or corruption including misuse or embezzlement of state assets. The requirement for EDD is, therefore, intended to ensure that the Capital Market Institution has sufficient information about the customer to be confident that the funds and transactions associated with the customer relationship are legal and legitimate.

Capital Market Institutions are required to determine whether a customer, or beneficial owner in the case of a legal entity, holds a prominent public function, either within the Kingdom or a foreign country, or in an international organisation. Such individuals are typically described as **politically exposed persons (PEPs)**, and the Regulations define them as follows:

- heads of state or of government, senior politicians, senior governments, judicial or military officials, **senior executives** of state-owned corporations and important party officials, and
- directors, deputy directors and members of the board or equivalent function of any international organisation.

In addition to the individuals performing these roles, the rules on PEPs extend to their family members and close associates:

Family members of a PEP	• Any individual who is related to a PEP by blood or marriage to the second degree.
Close associates of a PEP	• Any person who has joint beneficial ownership of a legal entity or who is in a close business relationship with a PEP. • Any person who has beneficial ownership of a legal entity set up for the benefit of a PEP.

Whilst PEPs are recognised as higher-risk clients, a Capital Market Institution can still take them on as a client as long as they:

- obtain senior management approval before establishing or continuing the relationship
- take reasonable measures to establish the source of wealth and the source of funds of the PEP, and
- conduct enhanced ongoing monitoring of the business relationship.

4. Cross-Border Correspondent Relationships

Learning Objective

6.4.1 Know preventative measures relating to correspondent relationships (Anti-Money Laundering Law Article 9, Implementing Regulation to the AML Law 9/1, 9/2)

In addition to typical relationships with individual and corporate customers, some financial institutions enter into correspondent relationships with other financial institutions. Such relationships, typically, allow a financial institution in one country to facilitate cross-border transactions for its clients, by means of a relationship with a correspondent financial institution in another country. Such arrangements are common and a legitimate part of international transactions, but can also expose a financial institution to increased risks related to money laundering.

Correspondent relationships can expose a financial institution to increased risks relating to money laundering. This risk occurs because they carry out transactions on behalf of clients of another financial institution. In correspondent financial services, the financial institution does not have a relationship with the underlying client, and so must have confidence that the originating financial institution has carried out sufficient due diligence to manage any money laundering risk associated with the client relationship.

Before entering into a cross-border correspondent relationship, a financial institution has to carry out a range of measures (set out in the Regulations) to manage the money laundering risk associated with such a relationship. These measures include:

1. obtaining a full understanding of the nature of the respondent's business. This includes a review of publicly available information on the reputation of the institution, quality of supervision, and whether the respondent institution has been subject to a money laundering investigation or regulatory action
2. assessing the respondent institution's anti-money laundering controls
3. obtaining approval from senior management before establishing new correspondent relationships, and
4. clearly understanding the respective anti-money laundering responsibilities of each institution.

In addition, historically, some banks have entered into correspondent relationships with so-called 'shell' banks, namely banks which may be legally registered in a particular country, but have no physical presence there. Such financial institutions are associated with very high money laundering risks, and hence the AML Law prohibits financial institutions within the Kingdom from entering into a correspondent relationship with a shell bank.

5. Detecting Suspicious Activity

Learning Objective

6.5.1 Understand how to detect suspicious activity (Implementing Regulation to the AML Law 15/1, 15/3)

Capital Market Institutions play a crucial role in the fight against money laundering due to the preventative measures they have in place and in their response to suspicious activity should it occur. Although clear proof of money laundering activity is usually not available, there may be various circumstances in which a financial institution comes to suspect that a transaction or client account may be being used to facilitate money laundering.

Money laundering is not something that is only observable at the start of the relationship. A legitimate client can, over time, be used for money laundering activities. Capital Market Institutions should implement indicators of suspected acts of money laundering. These indicators should be updated on a continuous basis according to the development and diversity of methods used to carry out such acts, while complying with the publications of supervisory authorities in this regard.

In order to meet these requirements, Capital Market Institutions will typically implement a range of measures depending on the nature of the customer relationship and the transactions being carried out. For example, in relation to high volume but low value transactions monitoring may primarily be carried out by automated systems which are designed to 'flag' any suspicious or unusual transactions or patterns of transactions.

By contrast, larger or more complex transactions may be reviewed by specialist staff with particular knowledge of money laundering methodologies and risks. Importantly, the AML Law does not specify the exact measures which Capital Market Institutions must undertake in relation to specific relationships of transactions, rather it is the responsibility of the Capital Market Institution to implement comprehensive and robust measures as part of a risk-based approach to AML.

6. Suspicious Activity Reporting

Learning Objective

6.6.1 Know suspicious reporting requirements (Implementing Regulation to the AML Law 15/1, 15/3, 15/4)

Furthermore, the requirement for ongoing monitoring of client activity reinforces the need for appropriate diligence measures to be applied at the outset of the relationship. In particular, it is vital that a Capital Market Institution has a full understanding of the purpose and intended nature of the business relationship (one of the principal elements of the due diligence requirements, as set out previously). In the absence of proper understanding of the types of transaction that a client is expected to carry out, it will be very difficult for the Capital Market Institution to determine whether transactions on a client's account are consistent with expectations. Poor or incomplete due diligence at the outset of a relationship is, therefore, likely to lead to inadequate monitoring of the account.

Generally speaking, it is rare for a financial institution to have clear proof that a particular transaction or customer account is being used for the purposes of money laundering. Criminals seeking to launder the **proceeds of crime** will typically disguise their money laundering activity, making it difficult for both financial institutions and the authorities to identify particular funds as the proceeds of crime. However, there may be various circumstances in which a financial institution comes to suspect that a transaction or client account may be being used to facilitate money laundering. As a result, the AML Law and the Regulations, in line with international best practice, requires Capital Market Institutions to report activity which gives rise to the suspicion of money laundering, even where the Capital Market Institution has no specific proof of criminality.

In the event a money launderer becomes aware that a particular transaction has been reported to the authorities as suspicious, the money launderer is likely to attempt to hide or disguise their involvement further, perhaps by moving their funds or seeking to destroy incriminating evidence. Therefore, the fact that a particular transaction or account has been identified as suspicious should be treated as confidential. The AML Law specifically prohibits a Capital Market Institution from disclosing to the client, or any other person that a report has been made to the authorities.

In certain circumstances, it is possible that reporting a client's activity to the authorities could have negative consequences for a Capital Market Institution. The AML Law provides protection for the Capital Market Institution from any such liability where suspicions have been reported to the authorities in good faith (in other words, where there was genuine suspicion, even if the suspicion was ultimately mistaken).

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. What are the stages of money laundering?
   Answer reference: Section Introduction

2. Name two of the risk factors to be considered in a risk assessment.
   Answer reference: Section 1

3. List when a Capital Market Institution needs to undertake due diligence.
   Answer reference: Section 2

4. List the minimum required due diligence measures.
   Answer reference: Section 2

5. What are the rules when relying on a third party for due diligence?
   Answer reference: Section 2.3

6. What are the main categories of a politically exposed person (PEP)?
   Answer reference: Section 3

7. List the risk mitigation measures related to cross-border correspondent relationships.
   Answer reference: Section 4

Chapter Seven

Countering Crimes of Terrorism and the Financing of Terrorism

This syllabus area will provide approximately 3 of the 25 examination questions

1. Risk Assessment

Learning Objective

7.1.1 Know the factors to consider when assessing the risk of terrorist financing (Implementing Regulations of the Law of Combating Terrorist Crimes and its Financing Article 16), (Combating Terrorism Crimes and its Financing Law, Article 63)

Capital Market Institutions shall identify, assess, understand and document its financing of terrorism risks, taking into account a wide range of risk factors, including those relating to its customers, countries or geographic areas, products, services, transactions and delivery channels, and provide its risk assessment report to the supervisory authorities upon request. The risk assessment shall include an assessment, prior to their use, of the risks associated with new products, business practices and technologies.

2. Due Diligence

2.1 Application of Due Diligence Measures

Learning Objective

7.2.1 Know how due diligence measures should be applied (Implementing Regulations of the Law of Combating Terrorist Crimes and its Financing Article 17, Sub-articles 1–5)

It is vital that a firm's customer due diligence (CDD) policies and procedures reflect the results of the risk assessment completed. In particular, firms with high levels of risk in relation to terrorist financing need to ensure that they implement extensive and robust CDD procedures to reflect the high level of risk exposure to **terrorist crime**.

The Regulations specify the particular circumstances in which such measures must be applied:

- before establishing a new business relationship or opening a new account
- before carrying out a transaction for a customer with whom the financial institution is not in an established business relationship, whether a single transaction or a series of apparently linked transactions
- before carrying out a wire transfer for a customer with whom the financial institution is not in an established relationship
- whenever there is a suspicion of terrorism financing, regardless of the amount involved, or
- whenever the financial institution has doubts either about the veracity or adequacy of previously obtained customer information or identification data.

Due diligence measures need to be in accordance with the type and level of risk, and suit the specific risks posed by the other party as well as the presence or absence of a suspicion of terrorism financing. This means that when the risk is high, due diligence needs to be strict, but when the risk is low, due diligence can be eased.

Due diligence measures must, at a minimum, include the following:

a. The firm must identify the customer and verify the customer's identity using reliable, independent source documents, data or information:

Information relating to individuals would include:	• Full name • Address • Date and place of birth • Nationality
Information relating to legal entities would include:	• Name and legal form of the entity • Proof of its existence • Names of directors or senior managers • Address of the registered office and principal place of business

b. The firm must verify that any person acting on behalf of the customer is authorised by the customer to do so, and must identify and verify that person as above.
c. For legal entities, the firm must identify the beneficial owner and take reasonable measures to verify their identity.

Beneficial owners:

- any Natural Person who ultimately owns or controls 25% or more of the legal entity's shares
- any person exercising control over the legal entity, or
- if there is doubt over the identity the beneficial owners, as a last resort, the firm should identify and verify the person who holds the position of senior managing official.

d. The firm must understand and obtain additional information on the purpose and intended nature of the business relationship.
e. In relation to legal entities, the firm must understand the ownership and control structure of the customer.

Provided the firm has effective measures in place to control the risk of terrorism financing, they may postpone the process of identifying the client or the real beneficiary until the relationship has started.

All due diligence needs to be applied on an ongoing basis during the relationship with the client in accordance with the risk level the client poses. For this purpose, all documents and information need to be kept up to date. In addition, the firm needs to audit transactions and other operations during the relationship to assure they confirm the client's information, activity and potential risks.

2.2 When Due Diligence Cannot be Completed

Learning Objective

7.2.2 Know what to do when due diligence measures cannot be applied (Implementing Regulations of the Law of Combating Terrorist Crimes and its Financing Article 17, Sub-article 6)

In the event the firm is not in a position to apply due diligence, they must not do any of the following:

1. open an account or establish a relationship with a new client, nor carry out any operations for their benefit, or
2. terminate a relationship that connects it with that client or the existing client.

In all cases, they shall report to the General Directorate of Financial Intelligence.

3. Suspicious Activity Reporting Requirements

Learning Objective

7.3.1 Know suspicious activity reporting requirements (Countering Crimes of Terrorism and Financing of Terrorism Law Chapter 6, Article 70)

When a Capital Market Institution suspects, or has reasonable grounds to suspect, that funds or parts thereof are related, linked to, or being used for the financing of terrorism, including attempts to initiate such a transaction, the Capital Market Institution shall take the following measures:

1. Promptly and directly report the transaction to the General Directorate of Financial Intelligence and provide a detailed report including all available data and information on such transaction and relevant parties.
2. Respond to requests from the General Directorate of Financial Intelligence for additional information.

4. Tipping Off

Learning Objective

7.4.1 Know prohibitions relating to tipping off (Countering Crimes of Terrorism and Financing of Terrorism Law Chapter 6, Article 71)

Capital Market Institutions, as well as the members of their board of directors, directors, members of its executive or supervisory management, and employees are prohibited from disclosing to a customer or any other person the fact that a report under the Law or related information will be, is being, or has been, submitted to the Directorate, or that a criminal investigation is being, or has been, carried out. This shall not preclude disclosures or communications between directors and employees, or communications with lawyers or the competent authorities.

End of Chapter Questions

Think of an answer for each question and refer to the appropriate section for confirmation.

1. When must customer due diligence (CDD) procedures be implemented?
   Answer reference: Section 2

2. What are the due diligence measures in relation to legal entities?
   Answer reference: Section 2

3. When due diligence cannot be applied, what can the firm do?
   Answer reference: Section 2.2

4. Who must a Capital Market Institution report a suspicious transaction to?
   Answer reference: Section 3

5. What are the prohibitions relating to tipping off?
   Answer reference: Section 4

Glossary

Anti-Money Laundering (AML) Law

The Anti-Money Laundering Law issued by Royal Decree No. M20 05/02/1439H.

Associate

1. in relation to a senior executive, director or substantial shareholder, someone who is:
   a. that individual's spouse or minor children (together 'the individual's family'), or
   b. any company in whose equity shares the individual or any member or members (taken together) of the individual's family or the individual and any such member or members (taken together) are directly or indirectly interested, so that they are able:
      - to exercise or control the exercise of 30% or more of the votes at the general meeting on all, or substantially all, matters, or
      - to appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters.
2. In relation to a substantial shareholder which is a company:
   a. any other company which is its subsidiary, parent or fellow subsidiary of the parent
   b. any company whose directors are accustomed to act in accordance with the substantial shareholder's directions or instructions, and
   c. any company in the capital of which the substantial shareholder, and any other company under (a) or (b) taken together, are directly or indirectly interested, so that they are able:
      - to exercise or control the exercise of 30% or more of the votes at the general meeting on all, or the majority of, matters, or
      - to appoint or remove directors holding a majority of voting rights at board meetings on all, or the majority of, matters.

Board Director

In relation to a joint stock company, includes members of the board of directors. In relation to any other company, includes any manager or other senior executive who makes and implements the company's strategic decisions.

Capital Market Institution

A person authorised by the Authority to carry out securities business.

Capital Market Law (the Law)

The Capital Market Law issued by Royal Decree Number M/30 dated 2/6/1424H.

Client

A person for whom a Capital Market Institution executes securities transactions.

Control

The ability to influence the actions or decisions of another person, 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. The term 'controller' shall be construed accordingly.

Customer

In the Authorised Persons Regulations, a customer is defined as a client who is not a counterparty, whether it is an individual or a juristic person.

Debt Instrument

Tradeable instrument creating or acknowledging indebtedness issued by companies, the government, public institutions or public organisations, but excluding:

- an instrument creating or acknowledging indebtedness for the consideration payable under a contract for the supply of goods or services, or for money borrowed to defray the consideration payable under a contract for the supply of goods or services

- a cheque, a bill of exchange, a banker's draft or a letter of credit
- a banknote, a statement showing a balance on a bank account, a lease contract or any other evidence of disposition of property, or
- a contract of insurance.

Employee

In relation to a person, includes a director or manager of a company, a partner in a joint liability or any other individual employed under a contract or service and whose services are placed at the disposal of, and under, the control of that person.

Illiquid Assets

Means any of the following:

1. fixed assets
2. financial resources which are not readily realisable, or
3. deposits not available for withdrawal within three months or less.

Institution

1. Any company which owns, or which is a member of a group which owns, net assets of not less than SAR 10 million.
2. Any unincorporated body, partnership or other organisation which has net assets of not less than SAR 10 million.
3. A person acting in the capacity of director, officer or employee of a Legal Person and responsible for its securities activity, where that Legal Person falls within the definition of paragraphs (1) or (2).

Listed Company

Any company with securities of any kind listed on the Exchange.

Listing

Listing securities on the Exchange either on the Main Market or on the Parallel Market, or, where the context permits, the application for listing.

Main Market

The market of the Exchange where securities, that have been registered and offered pursuant to Part 4 of the Rules on the Offer of Securities and Continuing Obligations are traded.

Parallel Market

The market of Exchange where shares, that have been registered and offered pursuant to Part 8 of the Rules on the Offer of Securities and Continuing Obligations are traded.

Person

Any Natural or Legal Person recognised as such under the laws of the Kingdom.

Registered Person

A person who is registered with the Authority to perform a registrable function.

Securities

Means any of the following:

1. shares
2. debt instruments
3. warrants
4. certificates
5. units
6. options
7. futures
8. contracts for differences
9. long term insurance contracts, and
10. any right to, or interest in, anything which is specified by any of the paragraphs (1) through (9) above.

Senior Executives

Any Natural Person to whom the governing body of the firm, or a member of the governing body of the firm, has given responsibility, either alone or jointly with others, for management and supervision and either reports directly to:

1. the governing body directly
2. a member of the governing body, or
3. the CEO.

Share

Share of any company wherever incorporated. The definition of 'share' includes every instrument having the characteristics of equity.

Terms of Business

A written statement, provided to a client, of the terms on which a Capital Market Institution will conduct securities business with, or for, the client.

The Kingdom

The Kingdom of Saudi Arabia.

Unit

The share of any owner in any fund consisting of units or a part of it. Each unit shall be treated as a common share in the net assets of the fund.

References

Chapter 7, Section 1

1. Fatf-gafi.org. (2009). Money Laundering – Financial Action Task Force (FATF). [online] Available at: https://www.fatf-gafi.org/faq/moneylaundering/.

Multiple Choice Questions

The following additional questions are for learning and revision purposes. Whilst they are based on the syllabus, they do not necessarily replicate actual examination standard questions and are included to test your knowledge and understanding of the relevant sections of the workbook.

1. A Capital Market Institution is completing their firm's money laundering risk assessment. In addition to customers and products, which other factor is the MOST necessary for consideration?

   A. The ownership of a specific corporate client
   B. The types of transactions the firm carries out
   C. The firm's corporate governance structure
   D. The politically exposed person (PEP) status of the firm's CEO

2. Under the Market Conduct Regulations, Capital Market Institutions must ensure clients receive the average price of execution when:

   A. acting as agent
   B. aggregating orders
   C. dealing with qualified clients
   D. acting as principal

3. With the exception of institutional and qualified clients, what is the MAXIMUM number of offerees that a limited offer can be made to?

   A. 10
   B. 25
   C. 50
   D. 100

4. If a Capital Market Institution cannot undertake due diligence, it must report the matter to the:

   A. Authority
   B. Exchange
   C. Financial Action Task Force
   D. General Directorate of Financial Intelligence

5. A Capital Market Institution is opening an account for a non-profit organisation (NPO) in the Kingdom. Which documentation would they check to ensure the application has express permission to invest in securities?

   A. Accounts
   B. Resolution of the board to open an investment account
   C. Terms and conditions
   D. The organisation's procedures manual

6. Which document details the contractual relationship between unitholders and the fund manager?

   A. Issuer application
   B. Information memorandum
   C. Key information summary
   D. Terms and conditions

7. When a Capital Market Institution intends to control another person by increasing their stake in the company to 30% of the voting rights, they are required to:

   A. inform the Authority 30 days prior to this happening
   B. inform the Exchange 20 days prior to this happening
   C. inform the Authority immediately upon acquiring the additional shares
   D. inform the Exchange within 30 days of acquiring the additional shares

8. Issuers are only allowed to issue convertible debt instruments if:

   A. the debt is already listed
   B. the shares are already listed
   C. the issuer has been trading for at least five years
   D. the issuer has five years' working capital

9. If a fund exceeds its investment limitations, it must take remedial action within a MAXIMUM of:

   A. 24 hours
   B. 3 days
   C. 5 days
   D. 10 days

10. In addition to customer due diligence (CDD) being performed, when the Capital Market Institution thinks the customer may be involved in money laundering, it is also required at which of the following times?

    A. Transactions that exceed SAR 10 million
    B. After a wire transfer is completed for any customer
    C. When carrying out any transaction for a current customer
    D. Prior to opening a new account

11. The definition of insider trading includes which of the following?

    A. The information is only known to ten people or fewer
    B. If disclosed, it would cause a price rise of at least 5%
    C. It relates to a security
    D. The person receiving the information buys or sells shares on an exchange

12. For which of the following may a firm rely on the due diligence undertaken by another firm?

    A. Wire transfers
    B. Customer identification
    C. Legal agreements
    D. Contract signing

13. When a firm is not able to complete due diligence in light of CFT, they need to file a report with which one of the following?

    A. Financial Action Task Force
    B. Authority
    C. Government
    D. General Directorate of Financial Intelligence

14. If a Capital Market Institution has submitted a suspicious transaction report, it is entitled to discuss the matter with:

    A. any person
    B. the customer only
    C. any Capital Market Institution
    D. a lawyer

15. Under which of the following circumstances is a Capital Market Institution exempt from undertaking due diligence?

    A. It may raise the client's suspicions
    B. The client is aggressive
    C. The client is related to senior management
    D. The client is a Legal Person

16. When a Capital Market Institution provides custody services for a customer, the mandatory written agreement must explain how the Capital Market Institution will deal with:

    A. computer failure
    B. corporate actions
    C. market corrections
    D. customer dissatisfaction

17. A consul at a foreign embassy is a:

    A. politically effective person
    B. politically influenced person
    C. politically connected person
    D. politically exposed person

18. A Capital Market Institution is about to send research relating to a listed company to all of their clients. If they personally purchase shares in the company at the same time they send the research, they are MOST likely to breach which Market Conduct Regulation?

A. Money Laundering
B. Market manipulation
C. Dealing ahead
D. Rumours

19. A change of controllers needs to be reported to the Authority at LEAST how many days before the proposed effective date?

A. 7
B. 15
C. 30
D. 45

20. An application for authorisation for a real estate investment fund must include a copy of its terms and conditions signed by:

A. the fund's chief executive officer and compliance officer
B. an independent valuer and the fund's chief executive officer
C. the fund's compliance officer and its custodian
D. the fund's custodian and an independent valuer

21. Any debt issuance programme is required to detail the total amount it is raising over a maximum period of:

A. one year
B. two years
C. three years
D. five years

22. A Capital Market Institution's daily reconciliation of client money balances has shown an excess of SAR 2,000. What action must, therefore, be taken?

A. Withdraw exactly SAR 2,000
B. Withdraw at least SAR 2,000 by the next business day
C. Withdraw exactly SAR 2,000, but only if the next reconciliation shows the same figure
D. Withdraw up to SAR 2,000, but only if the finance manager authorises the withdrawal

23. What MAXIMUM percentage of a public fund's net asset value (NAV) is permitted to be invested in derivatives?

    A. 15%
    B. 20%
    C. 25%
    D. 35%

24. When can direct communications between a Capital Market Institution and a client take place?

    A. Only when the Exchange is open
    B. Only when the Authority is open
    C. At any time if the client agrees
    D. At any time agreed by the fund manager

25. Financial institutions within the Kingdom are forbidden from entering into a correspondent relationship with:

    A. qualified clients
    B. heads of state
    C. politically exposed persons
    D. shell banks

Answers to Multiple Choice Questions

1. B Chapter 6, Section 1

Firms need to identify, assess, and document their money laundering risks and keep it up to date, taking into account a wide range of risk factors, including those relating to:

- customers
- countries or geographic areas
- products and services
- transactions, and
- delivery channels.

2. B Chapter 3, Section 1.4

All client orders that are aggregated receive the average price of execution for all of the orders that are executed.

3. D Chapter 4, Section 1.1

A limited offer may be made to no more than 100 offerees (excluding institutional and qualified clients).

4. D Chapter 7, Section 3

In all cases, they shall report to the General Directorate of Financial Intelligence.

5. B Chapter 5, Section 1

An NPO in the Kingdom must obtain and verify the following:

1. A licence issued by a competent authority.
2. Bylaws showing express permission to invest in securities.
3. Resolution of the Board to open an investment account.

6. D Chapter 2, Section 1.1

The terms and conditions detail the contractual relationship that will exist between the unitholder and the fund manager.

7. A Chapter 1, Section 1.2

A controller is anyone who has the ability to influence the actions or decisions of another person due to the fact that they (in)directly own 30% or more of the voting rights, or have the right to appoint at least 30% of the members of the governing body alone or with a relative affiliate. Any person who becomes, or ceases to be, a controller must inform the Authority at least 30 days prior to this happening or, if this is not possible, immediately after the Capital Market Institution becomes aware of the intention.

8. B Chapter 4, Section 2.2

Convertible debt instruments may be registered and offered only if the shares into which they are convertible are already listed.

9. C Chapter 2, Section 1.5

In the event a fund breaches the limitations in the rules, laws, regulations, or the terms and conditions due to an act of the fund manager or the sub fund manager, the fund manager must immediately inform the Authority in writing, and take action to rectify the breach within five days.

10. D Chapter 6, Section 2.1

CDD is not just undertaken when the customer is new to the Capital Market Institution, but must be reviewed periodically as follows:

- When onboarding a new customer.
- Before carrying out a transaction for someone who is not a customer.
- Before executing a wire transfer for someone who is not a customer.
- At any point when the Capital Market Institution thinks the customer may be involved in money laundering.
- At any point when the Capital Market Institution has reason to believe the information they have on the customer is not complete or incorrect.

11. C Chapter 3, Section 1.1

Insider trading is trading, whether directly or indirectly, in a security on the basis of inside information, meaning information:

- that relates to a security
- that has not been disclosed to the general public, and that is not otherwise available to the general public, and
- that a normal person would realise that disclosing it or making it available to the public would have a material effect on the price or value of the security.

12. B Chapter 6, Section 2.3

A Capital Markets Institution may rely on another Capital Markets Institution to perform identification and verification of the customer, identification and verification of the beneficial owner, and to take the necessary measures to understand the nature and intended purpose of the business relationship.

13. D Chapter 7, Section 2.2

In the event the firm is not in a position to apply due diligence, they shall report to the General Directorate of Financial Intelligence

14. D Chapter 7, Section 4

Capital Market Institutions, as well as members of the board of directors, members of their executive or supervisory management, and employees are prohibited from disclosing to a customer or any other person the fact that a report under this Law or related information will be, is being, or has been, submitted to the Directorate, or that a criminal investigation is being, or has been carried out. This shall not preclude disclosures or communications between directors and employees, or communications with lawyers or competent authorities.

15. A Chapter 6, Section 2.4

In the event that a Capital Market Institution suspects a customer is involved with money laundering, they would usually review their CDD. However, if they think this will tip off the customer, the Capital Market Institution may choose to submit a suspicious transaction report to the General Directorate of Financial Intelligence instead. The report must include the reasons for not undertaking CDD.

16. B Chapter 1, Section 4.3.2

All terms of business need to be agreed with the customer in writing before custody services can be provided. The agreement needs to outline how the client assets will be registered, how the client instructions will be given and received, the liability of the Capital Market Institution to the client, and any lien or security interest taken over the client's assets. In addition, the agreement needs to specify how the Capital Market Institution will deal with corporate actions, realising collateral, fees and charges, and pooling of assets.

17. D Chapter 6, Section 3

Capital Market Institutions are required to determine whether a customer, or beneficial owner in the case of a legal entity, holds a prominent public function, either within the Kingdom or a foreign country, or in an international organisation. Such individuals are typically described as politically exposed persons (PEPs), and the Regulations define them as follows:

- heads of state or of government, senior politicians, senior governments, judicial or military officials, senior executives of state-owned corporations and important party officials, or
- directors, deputy directors and members of the board or equivalent function of any international organisation.

18. C Chapter 3, Section 1.5

In such cases, the Capital Market Institution may be tempted to purchase shares prior to the issue of the research, anticipating that the price of the shares will rise once the research is released. However, such trading, known as dealing ahead, is specifically prohibited by the regulations since it would result in the Capital Market Institution benefitting at the expense of its clients and would effectively be a form of market manipulation.

19. C Chapter 1, Section 1.2

Any person who becomes, or ceases to be, a controller must inform the Authority at least 30 days prior to this happening or, if this is not possible, immediately after the Capital Market Institution becomes aware of the intention. The Authority must approve the controller and confirm its identity, integrity, regulatory status, business record and financial soundness of the controller.

20. A Chapter 2, Section 2.2

The application for authorisation must include the following information:

- The fund's terms and conditions signed by the fund manager's CEO and the compliance officer.

21. B Chapter 4, Section 2.2

Any debt issuance programme must be detailed in a single prospectus which covers the maximum value of debt instruments to be issued under a maximum of a 24-month programme (since approval).

22. A Chapter 1, Section 4.2

On a daily basis, at the end of the business day, the aggregate balance on all client accounts must be reconciled with the client money requirement calculated according to the Authority's rules. Any shortfall must be paid into a client's account, and any excess withdrawn.

23. A Chapter 2, Section 1.3

Derivatives 15%

24. C Chapter 1, Section 3.2

Direct communications should not take place outside of business hours unless this is specifically agreed with the other party.

25. D Chapter 6, Section 4

The AML Law prohibits financial institutions within the Kingdom from entering into a correspondent relationship with a shell bank.

Syllabus Learning Map

Syllabus Unit/ Element		Chapter/ Section

Element 1	Capital Market Institutions' Regulations	Chapter 1
1.1	**Maintenance of Authorisation** On completion the candidate should:	
1.1.1	Know notification requirements for Capital Market Institutions' (Part 3, Chapter 2, Article 15, Annex 3.2)	1.1
1.1.2	Know requirements relating to: • controllers (Part 3, Chapter 2, Article 13) • close links (Part 3, Chapter 2, Article 14)	1.2
1.1.3	Know record-keeping requirements for Capital Market Institutions (Part 3, Chapter 2, Article 16)	1.3
1.2	**Withdrawing or Cancelling Authorisation** On completion the candidate should:	
1.2.1	Know the obligations of and the correct process for a Capital Market Institution seeking to cease carrying on securities business (Part 3, Chapter 2, Article 12)	2
1.2.2	Know the circumstances under which the Authority may (Part 3, Chapter 2, Article 12): • refuse a cancellation request (Part 3, Chapter 2, Article 12) • suspend a permission (Part 3, Chapter 2, Article 12)	2
1.3	**Securities Advertisements** On completion, the candidate should:	
1.3.1	Know the general contents requirements for all securities advertisements (Part 5, Chapter 2, Article 33 & Annex 5.1)	1.3.1
1.3.2	Know the specific requirements governing direct communications (Part 5, Chapter 2, Articles 34 & 35)	1.3.2
1.4	**Client Money and Assets** On completion, the candidate should:	
1.4.1	Know: • the client money rules (Part 7, Chapter 2, Articles 71, 73, 74, 75, 76, 78) • rules regarding the amounts held in client money bank accounts (Part 7, Chapter 2, Article 79) • the client asset rules (Part 7, Chapter 3, Articles 82, 83, 84, 85, 87, 88, 89)	4
1.5	**Client Statements** On completion, the candidate should:	
1.5.1	Know the rules regarding client statements (Part 7, Chapter 3, Article 91)	5

Syllabus Unit/ Element		Chapter/ Section

Element 2	Investment Funds Regulations	Chapter 2
2.1	**Investment Funds Regulations** On completion, the candidate should:	
2.1.1	Know requirements relating to the preparation of terms and conditions (Part 4, Article 33 & Part 5, Article 82) & (Part 4, Article 61 & Annex 1)	1.1
2.1.2	Know regulations relating to the: • appointment of a custodian (Part 3, Article 24) • responsibilities of the custodian (Part 3, Articles 26 & 28) (Real Estate Investment Funds Regulations Article 29)	1.2
2.1.3	Know regulations regarding: • investment areas (Part 4, Article 40) • investment limitations (Part 4, Article 41) • general rules and restrictions (Part 5, Article 86)	1.3
2.1.4	Know regulations regarding: • notifications relating to substantial holdings in shares or convertible debt instruments (Part 4, Article 42) • principal transactions (Part 4, Article 43)	1.4
2.1.5	Know regulatory requirements concerning a breach of investment limitations (Part 4, Article 59)	1.5
2.1.6	Know notification requirements for: • fundamental changes (Part 4, Article 62) • non-fundamental changes (Part 4, Article 63)	1.6
2.2	**Real Estate Investment Funds Regulations (Public Funds)** On completion, the candidate should:	
2.2.1	Know the types and objectives of real estate investment funds (Part 3, Chapter 1, Article 10)	2.1
2.2.2	Know the authorisation process: • requirements (Part 2, Article 7 & Annex 3)	2.2

Element 3	Market Conduct Regulations	Chapter 3
3.1	**Capital Market Institutions' Conduct** On completion, the candidate should:	
3.1.1	Know the conduct expected of Capital Market Institutions and registered persons when there are reasonable grounds to suspect that a client is engaging in (Market Conduct Regulations): • market manipulation (Part 5, Article 11) • insider trading (Part 5, Article 11) • liability for the acts of others (Part 5, Article 20)	1.1
3.1.2	Know the conduct expected of Capital Market Institutions and registered persons in relation to: • the prioritisation of client transactions (Market Conduct Regulations Part 5, Article 12)	1.2

Syllabus Unit/ Element		Chapter/ Section
3.1.3	Know the conduct expected of Capital Market Institutions and registered persons in relation to: • timely execution (Market Conduct Regulations Part 5, Article 13) • best execution (Market Conduct Regulations Part 5, Article 14) • timely allocation (Market Conduct Regulations Part 5, Article 15)	1.3
3.1.4	Know the regulations governing the aggregation of client orders (Market Conduct Regulations Part 5, Article 17)	1.4
3.1.5	Know the conduct expected of a Capital Market Institution in relation to: • dealing ahead of research (Market Conduct Regulations Part 5, Article 18) • dealing contrary to a recommendation (Market Conduct Regulations Part 5, Article 19)	1.5

Element 4	Corporate Finance	Chapter 5
4.1	**Rules on the Offer of Securities and Continuing Obligations** On completion the candidate should:	
4.1.1	Know the requirements for: • types of private placement (Part 3, Article 8) • limited offers (Part 3, Article 9) • private placement requirements (Part 3, Article 10) • information to investors and private placement advertisements (Part 3, Article 12)	1.1
4.2	**Public Offers** On completion the candidate should:	
4.2.1	Know the conditions for a public offer of shares (Part 4, Chapter 3, Article 23)	2.1
4.2.2	Know the conditions for a public offer of: • debt instruments (Part 4, Chapter 3, Article 24) • convertible debt instruments (Part 4, Chapter 3, Article 25)	2.2
4.3	**Continuing Obligations** On completion the candidate should:	
4.3.1	Know the articles regarding: • complete, clear, accurate and not misleading disclosures (Part 7, Chapter 1, Article 60) • obligation to disclose material developments (Part 7, Chapter 1, Article 61)	3.1
4.3.2	Know the articles regarding the disclosure of: • specific events (Part 7, Chapter 1, Article 62) • financial information (Part 7, Chapter 1, Article 63)	3.2

Syllabus Unit/ Element		Chapter/ Section
4.4	**Parallel Market** On completion the candidate should:	
4.4.1	Know (Rules on the Offer of Securities and Continuing Obligations): • the required conditions for issuers seeking approval to make a Parallel Market offer (Part 8, Article 74) • continuing obligations for issuers of securities listed on the Parallel Market (Part 8, Article 89)	4

Element 5	Investment Accounts Instructions	Chapter 6
5.1	**Opening an Investment Account** On completion, the candidate should:	
5.1.1	Know requirements relating to accepting clients (Investment Account Instructions Part 2, Article 3)	1
5.1.2	Know what information is required in the account opening agreement (Investment Account Instructions Part 2, Article 4)	1
5.1.3	Know the required provisions for opening investment accounts for: • Natural Persons (Investment Account Instructions Part 2, Article 6) • Legal Persons (Investment Account Instructions Part 2, Article 7)	1

Element 6	Anti-Money Laundering	Chapter 7
6.1	**Preventative Measures** On completion the candidate should:	
6.1.1	Know policies procedures and controls that should be adopted to assess, manage and mitigate money laundering risk (Anti-Money Laundering Law Articles 5 and 14/1)	1
6.2	**Due Diligence** On completion the candidate should:	
6.2.1	Know when due diligence measures are required and their minimum composition (Implementing Regulation to the AML Law 7/1, 7/2, 7/3, 7/4, 7/6,)	2.1
6.2.2	Know the factors that determine the application of due diligence or enhanced due diligence measures (Anti-Money Laundering Law Articles 7 and 11)	2.2
6.2.3	Know the circumstances under which a financial institution may rely on another party to perform identification and verification checks (Implementing Regulation to the AML Law IR 7/10, 7/11, 7/12, 7/13)	2.3
6.2.4	Know the circumstances where a financial institution may opt to not carry out due diligence measures (Implementing Regulation to the AML Law October 2017 IR 7/9)	2.4

Syllabus Unit/ Element		Chapter/ Section
6.3	**Enhanced Due Diligence** On completion the candidate should:	
6.3.1	Know the types and required treatment of politically exposed persons (PEPs) (Implementing Regulation to the AML Law October 2017): • prominent public functions (8/1a) • senior management positions (8/1b) • close associates (8/4) • family members (8/3) • foreign politically exposed persons (8/5)	3
6.3.2	Know systems requirements regarding beneficial ownership and relationships with prominent public functions (Anti-Money Laundering Law Article 8)	3
6.4	**Cross-Border Correspondent Relationships** On completion the candidate should:	
6.4.1	Know preventative measures relating to correspondent relationships (Anti-Money Laundering Law Article 9, Implementing Regulation to the AML Law 9/1, 9/2)	4
6.5	**Detecting Money Laundering** On completion the candidate should:	
6.5.1	Understand how to detect suspicious activity (Implementing Regulation to the AML Law 15/1, 15/3)	5
6.6	**Suspicious Reporting Requirements** On completion the candidate should:	
6.6.1	Know suspicious reporting requirements (Implementing Regulation to the AML Law 15/1, 15/3, 15/4)	6

Element 7	Countering Crimes of Terrorism and the Financing of Terrorism	Chapter 8
7.1	**Risk Assessment** On completion the candidate should:	
7.1.1	Know the factors to consider when assessing the risk of terrorist financing (IR, Article 16), (Law on Combating the Financing of Terrorism, Article 63)	1
7.2	**Due Diligence** On completion the candidate should:	
7.2.1	Know how due diligence measures should be applied (IR Article 17, sub-articles 1–5)	2.1
7.2.2	Know what to do when due diligence measures cannot be applied (IR Article 17 sub-article 6)	2.2
7.3	**Suspicious Activity Reporting** On completion the candidate should:	
7.3.1	Know suspicious activity reporting requirements (Chapter 6, Article 70)	3

Syllabus Unit/ Element		Chapter/ Section
7.4	**Tipping Off** On completion the candidate should:	
7.4.1	Know prohibitions relating to tipping off (Chapter 6, Article 71)	4

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Element Number	Element	Questions
1	Capital Market Institutions' Regulations	5
2	Investment Funds Regulations	4
3	Market Conduct Regulations	3
4	Corporate Finance	3
5	Investment Accounts Instructions	2
6	Anti-Money Laundering	5
7	Countering Crimes of Terrorism and the Financing of Terrorism	3
Total		**25**

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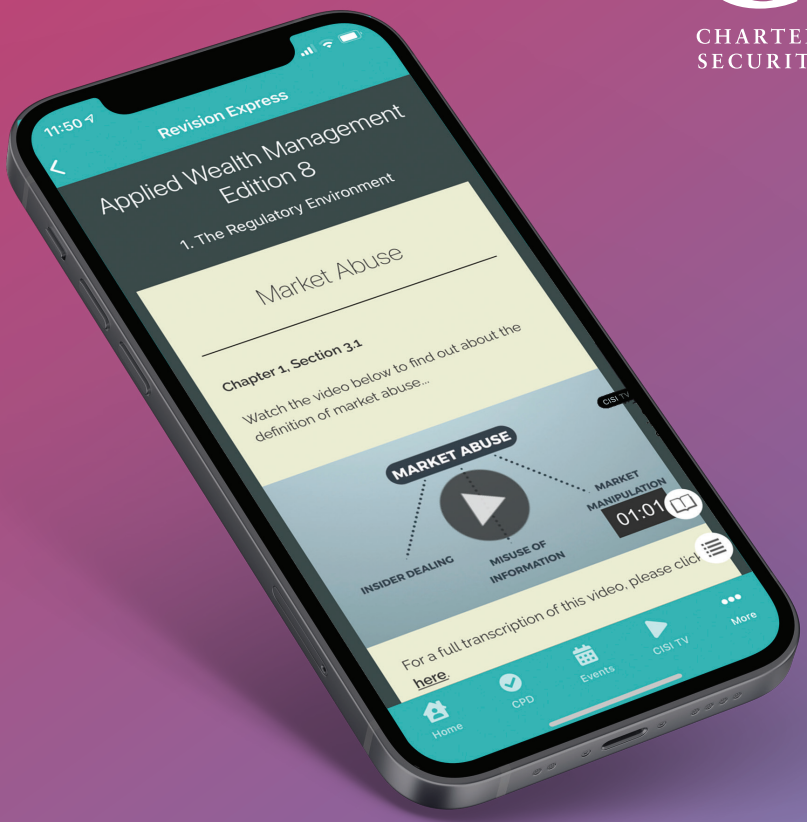

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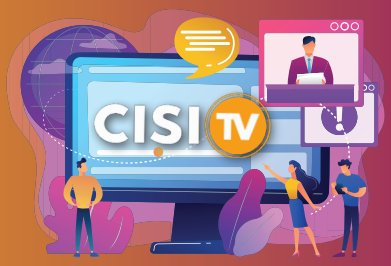

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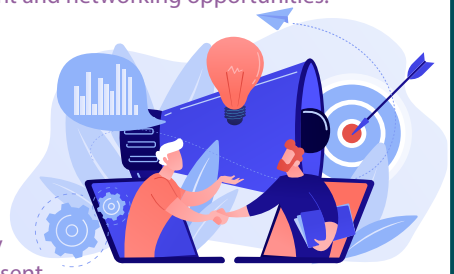

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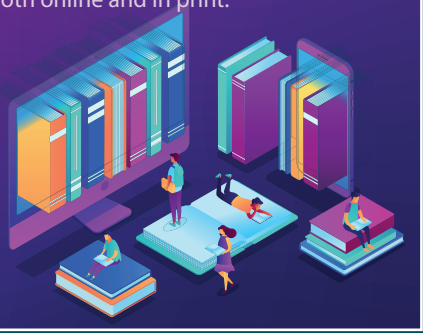

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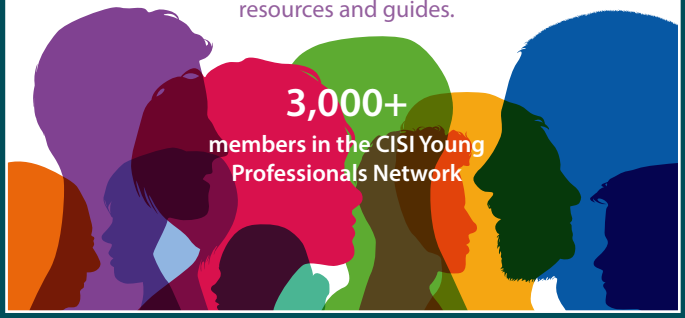

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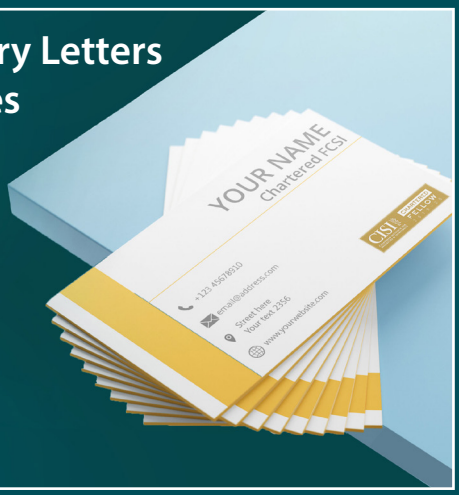

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Aim to take ethical and sustainable investment principles a step further through intentional investment.

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Examine offences, penalties, safe harbours, reporting obligations and the relationship with other offences.

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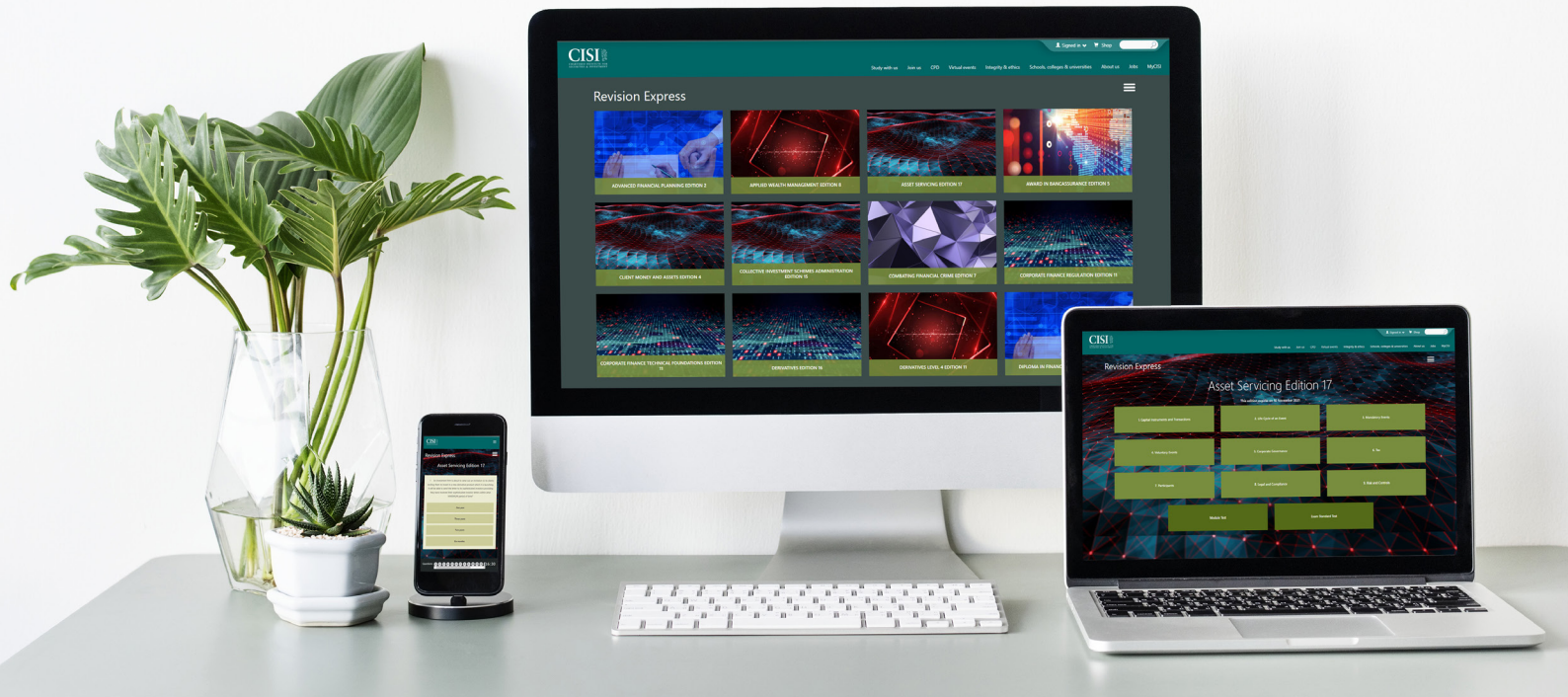

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