

General Saudi Capital Market Rules and Regulations

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This workbook relates to syllabus version 1.0 and will
cover exams to **20 July 2023**



APPROVED WORKBOOK

Welcome to the Chartered Institute for Securities & Investment's General Saudi Capital Market Rules and Regulations study material.

This workbook has been written to prepare you for the Chartered Institute for Securities & Investment's General Saudi Capital Market Rules and Regulations examination.

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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 (September 2022)

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It is estimated that this workbook will require approximately 80 hours of study time.

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Chapter One

Introduction to the Capital Market Authority

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This syllabus area will provide approximately 7 of the 50 examination questions





Introduction

Although the Saudi Arabian Capital Markets have informally operated from 1950, the **Capital Market Law** (the Law) was introduced pursuant to Royal Decree M/30 dated 2/6/1424H (31/7/2003).¹

The aim of the Law is to create a transparent, fair and regulated market. The associated implementing regulations are continuously reviewed and, if applicable, updated to reflect developments in financial markets. The Law formally established the Capital Market Authority (the **Authority**) as a fully independent government organisation reporting directly to the Prime Minister. In addition, the Law covers the following:

- regulation and development of the capital market
- regulation of the issuance of **securities**
- supervision of securities transactions
- supervision of Capital Market Institutions licensed by the Authority, and
- protection of investors and citizens from illegal practices.

The function of the Authority is to regulate and develop the Saudi Arabian Capital Market. This is done via the issuance of rules and regulations implementing the provisions of the Law. The Authority's basic objectives are to:

- create an appropriate investment environment
- boost confidence
- reinforce transparency and disclosure standards in capital markets, and
- protect investors and dealers from illegal acts in the market.

In order to achieve these objectives, the Authority is entrusted with the following duties:

- regulate and develop the capital market and promote appropriate standards and techniques for all sections and entities involved in securities trade operations
- protect investors and the **public** from unfair and unsound practices involving fraud, deceit, cheating, manipulation, and **inside information** trading
- maintain fairness, efficiency, and transparency in transactions of securities
- develop appropriate measures to reduce risks pertaining to transactions of securities
- develop, regulate, and monitor the issuance of securities and under-trading transactions
- regulate and monitor the activities of entities working under the Authority, and
- regulate and monitor full disclosure of information related to securities and **issuers**.

The functions stipulated in the Law are being implemented through the issuance of rules, regulations, instructions and necessary measures needed to implement the provisions of the Law.

Throughout this workbook, institutions that have obtained authorisation to operate in the Capital Markets of the Kingdom are referred to as Capital Market Institutions.



1. Securities

Learning Objective

- 1.1.1 Know the types of securities specifically covered by the Capital Market Law (Chapter 1, Article 2)
- 1.1.2 Know the types of instruments not covered by the Capital Market Law (Capital Market Law Chapter 1, Article 3): instruments excluded from the definition of securities; securities listed or traded outside of the Kingdom (Chapter 3, Article 26)

In the context of capital markets, the term security covers a range of financial instruments. Similar to other international financial markets, the term is specifically defined in the Law to be any one of the following:

- a. convertible and tradeable shares of companies
- b. tradeable debt instruments issued by companies, the government, public institutions or public organisations
- c. **units** by **investment funds**, or
- d. any instruments representing profit participation rights and/or any rights in the distribution of assets.

As new instruments come to market, the Board of the Authority (the Board) will assess whether they fall under any of the existing categories, or whether an additional category may need to be added. The main consideration in the assessment is to ensure the safety of the market or the protection of investors. In addition, the Board may decide to exempt a specific instrument or rights from the definition if they believe doing so does not impact either the safety of the market, or investor protection.

The following instruments are not considered to be securities under the Law:

- commercial bills, such as cheques
- bills of exchange
- order notes
- documentary credits
- money transfers
- instruments exclusively traded among banks, and
- insurance policies.

Any securities listed or traded in a regulated market outside of the Kingdom are not subject to the Law even when the order for the purchase or sale is made from the Kingdom, unless this is otherwise agreed between the Authority and foreign authorities.

2. Capital Market Authority

Learning Objective

- 1.2.1 Know the extent of the Authority's responsibilities under the Capital Market Law and the methods that it may employ to achieve those objectives (Capital Market Law Chapter 2, Article 5)
- 1.2.2 Know the scope of the Authority's powers (Capital Market Law Chapter 2 Article 6)

The Law contains the legal framework for the Capital Markets in the Kingdom of Saudi Arabia (the **Kingdom**) and applies to all capital markets activity. The issuing of rules, regulations, and instructions to implement the Law is the responsibility of the Authority. The combined rules, regulations, and instructions apply to all market participants in the Kingdom, and includes, among others, regulations concerning the **listing** and trading of securities, licensing and supervision, and the operations of the Exchange itself.

As part of their role, the Authority has the responsibility for the development and regulation of the Exchange, the way in which the Exchange operates, and the entities trading securities on the Exchange. The main objectives are to achieve orderly trading, and efficient and fair markets.

There are a number of risks associated with securities trading including, but not restricted to, failed trades, failed settlements, insider trading and market manipulation. In order to reduce those risks, the Authority has developed a number of procedures that apply to all market participants. In addition, the Authority is responsible for the following:

1. Regulate the issuance of securities. This includes the monitoring of securities at the time they are issued as well as ongoing monitoring as long as the securities are listed on the Exchange.
2. Regulation of market participants. All market participants in the capital markets of the Kingdom, including brokers and the Exchange, are regulated, supervised, and monitored by the Authority.
3. Protection of investors against unfair, and high-risk practices by market participants as well as fraud and cheating in any way including, for example, **insider** trading and market manipulation.
4. Ensure the market in securities transactions is fair, efficient and transparent.
5. Requirements in relation to the information that must be disclosed to the public. The Authority has set standards for the disclosure of information related to:
 - a. securities
 - b. issuers of securities, and
 - c. dealings of major **shareholders**, majority investors and anyone who has, or may have, inside or sensitive information.
6. Regulations related to pledging of securities as **collateral**.

In addition, the Authority has developed rules and regulations in relation to the trading of securities, initial public offerings (IPOs) of securities, as well as extensive requirements in relation to the special purposes entities (SPEs) including their use, registration, issuance of securities, funds transfers, legal standing and regulation.

When the Authority issues or amends rules, regulations, or instructions (here after referred to as the Regulations) they are usually first published in draft. Any new or amended Regulations clearly state the starting date (effective date).

In the case of a suspected breach of regulations, the Authority may investigate and enforce the Law. The members of the Authority and employees designated by the Board in this respect are empowered to:

- subpoena witnesses
- take evidence, and
- require the production of any books, papers, or other documents relevant to the subject of the investigation which the Authority requires.

The Authority can request related documentation regardless of who holds it. Any information they need to determine whether or not a provision of the Law and Regulations is, or will be, breached can be requested and must be provided to the Authority promptly and without delay.

The Authority has far ranging powers, all of which are derived from the Law and Regulations, and include, but are not limited to creating policies and plans, issuing and amending Regulations, approval of securities offerings, and providing advice and recommendations to the government entities responsible for market development and the protection of securities investments regarding issues related to capital markets. It is also in the power of the Authority to suspend securities trading on the Exchange for up to one business **day**, but suspension of more than one day must be approved by the Minister of Finance. Other powers include:

1. approval, cancellation, suspension of listing of any Saudi security issued by any Saudi issuer on the Exchange or any stock exchange outside the Kingdom
2. prohibit any security from listing, or suspend the issuance or trading of a security on the Exchange
3. set maximum or minimum brokerage commissions
4. approve fees and other commissions charged by the Exchange, the Depository Center, and the Clearing Center
5. define standards for auditors as well as the content of annual and periodical statements, reports and other documents
6. approve Regulations and policies of the Exchange, the Depository Center, and the Clearing Center
7. establish a clear mechanism for the reporting of a breach of any article or regulation related to Capital Markets in Saudi Arabia and determine the rewards and protection to be granted to whistleblowers
8. define the professional standards for brokerage firms and their agents, and
9. determine minimum capital and financial collateral for brokerage firms and the monitoring of their financial status, ability and resilience through regular inspections and reviews to ensure compliance with the regulations. Set out appropriate arrangements for the protection of deposited cash and securities at brokerage firms.

The Authority works closely together with the **Saudi Central Bank** on the procedures that it intends to undertake, and which may have an impact on the monetary situation.

3. The Exchange

Learning Objective

- 1.3.1 Know the role and objective of the Exchange (Capital Market Law Chapter 3)
- 1.3.2 Know the governance structure of the Exchange (Capital Market Law Chapter 3)
- 1.3.3 Know the scope of the Exchange's powers (Capital Market Law Chapter 3, Article 23)
- 1.3.4 Know the functionality of the Committee for the Resolution of Securities Disputes (the Committee) (Chapter 4, Article 30)

The Exchange is a stock exchange licensed to carry out trading related to securities in the Kingdom.

Any person who wants to undertake activities of securities must obtain a licence from the Authority.

Securities may be traded on a regulated exchange outside the Kingdom. Even though it is permitted to trade on the foreign market by placing **orders** electronically or by phone, the securities are not subject to Regulations in the Kingdom, unless otherwise agreed between the Authority and the foreign authority.

One of the main objectives of the Exchange is to ensure a fair, efficient, and transparent market in securities trading. This applies to the listing requirements, trading rules, technical methods, and information. The Exchange is not permitted to distribute cash or dividends in kind unless this is approved by the Board.

The Exchange specifies the conditions and requirements for membership of the Exchange including any conditions and requirements. Members of the Exchange's Board have to be approved by the Authority prior to their election. The Exchange's regulations include requirements of membership, code of conduct, dispute handling, listing rules, and other related issues.

3.1 Dispute Resolution

Disputes related to public and private actions in the Capital Markets are governed by the Committee for the Resolution of Securities Disputes (the Committee). The Committee is established by the Authority and has the power to investigate and settle claims, to issue subpoenas, order the production of evidence and documents, issue decisions, and impose sanctions. The Committee consists of one or more circuits with each circuit consisting of three regular members and one substitute member, one of whom acts as Head.

The Committee's jurisdiction covers the Authority, the Exchange, the Depository Center and the Clearing Center. They have the right to reward damages and request reversion to the original status, or to issue any other decision that guarantees the rights of the person who brings the claim.

3.1.1 Committee Members

Members of the Committee are appointed by Royal Decree for a renewable term of three years. Members must have expertise and qualifications in commercial and financial affairs, and securities. To ensure independence, committee members and their families to the fourth degree must not have any (in)direct financial or commercial interest with the parties who brings the complaint or the suit.

3.1.2 Timeline

Complaints must first be filed with the Authority, and unless otherwise permitted by the Authority, can only be filed with the Committee once 90 days have passed. The Committee needs to start considering a claim within 14 days of the date it was filed.

3.1.3 Appeals

Any party may appeal the Committee's decision before the Committee. Appeals need to be raised thirty days from the date the decision was notified. The Appeal Committee for Securities Disputes consists of one or more circuits, each consisting of three regular members and one substitute member. Members of the Appeal Committee are subject to the same requirements as Committee Members (see section 3.1.1 above).

The decisions of the Appeal Panel are final.

3.1.4 Enforcement

Final decisions are enforced through the government agency responsible for the enforcement of judicial judgments.

3.1.5 Admissible Evidence

Evidence in securities cases shall be admissible in all forms including electronic or computer data, telephone recordings, facsimile messages and electronic mail.

4. The Securities Depository Center

Learning Objective

- 1.4.1 Know the functionality of the Center (Capital Market Law Chapter 4, Article 27)
- 1.4.2 Know what action may be taken by the Center in the event of an error in, or any doubt over, the information held by the Center (Capital Market Law Chapter 4, Article 27)

The Securities Depository Center is responsible for the registration of ownership of securities traded on the Exchange.

The Depository Center maintains records of the following in relation to all securities traded on the Exchange:

- ownership
- settlement
- clearing, and
- **pledges** or other claims.

The Depository Center is the only entity to register the ownership of securities traded in the Exchange and their related rights. This record is conclusive evidence and proof of ownership. Ownership registration is effective once the Depository Center has verified the authenticity of the ownership documents. Any changes in ownership will be registered by the Depository Center promptly and without delay. In the event there is doubt surrounding the ownership or in the event the Depository Center is notified that registration will cause damages to third parties, the Depository Center has the option to register ownership on a preliminary basis. The Depository Center will immediately following the preliminary registration start the process to decide how the final registration for the security will be affected.

Requests for the corrections of error in the information entered into the registry must be **in writing**, addressed to the manager of the Depository Center, or the person specifically appointed to deal with such requests. Once the validity of the request is confirmed, the person shown as the owner in the register will be notified of the proposed changes for review and comment.

The Depository Center is liable for any monetary damage suffered by an investor that results an error cause by proven negligence or misconduct of the Depository Center's employees. Any compensation due for the damage may be reduced or even eliminated if the claimant has contributed to causing the error in registration or if the error could have been avoided.



End of Chapter Questions

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

1. What is the definition of securities?
Answer reference: Section 1
2. List the responsibilities of the Authority.
Answer reference: Section 2
3. What are the powers of the Authority in relation to investigations?
Answer reference: Section 2
4. List the objectives of the Exchange.
Answer reference: Section 3
5. What is the composition of the Committee for the Resolution of Securities Disputes?
Answer reference: Section 3.1.2
6. At whose discretion are Appeal Panel decisions enforced?
Answer reference: Section 3.1.4
7. From which date is the registration of ownership effective?
Answer reference: Section 4

Chapter Two

Securities Business Regulations

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This syllabus area will provide approximately 6 of the 50 examination questions





1. The Securities Business

Learning Objective

- 2.1.1 Know the definition of dealing (Securities Business Regulations Chapter 1, Article 2)
- 2.1.2 Know the definition of dealing as an agent (Securities Business Regulations, Definitions)
- 2.1.3 Know the definition of dealing as principal (Securities Business Regulations, Definitions)
- 2.1.4 Know the definition of arranging (Securities Business Regulations Chapter 1, Article 2)
- 2.1.5 Know the definition of managing (Securities Business Regulations Chapter 1, Article 2)
- 2.1.6 Know the definition of advising (Securities Business Regulations Chapter 1, Article 2)
- 2.1.7 Know the definition of custody (Securities Business Regulations Chapter 1, Article 2)

A security activity shall mean any of the following activities:

1. **Dealing** – a person deals in a security as principal or as agent, and dealing includes to **sell, buy**, manage the subscription or underwrite securities.
2. **Arranging** – a person introduces parties in relation to the offering of securities or arrangement of their underwriting, or advises on corporate finance business.
3. **Managing** – a person manages a security belonging to another person in circumstances involving the exercise of discretion, or operates investment funds.
4. **Advising** – a person advises another person in relation to a security, which includes advising on the merits of that person dealing in it, exercising any right to deal conferred by it or in financial planning or wealth management advice.
5. **Custody** – a person safeguards assets belonging to another person which include a security, or arranges for another person to do so, and custody includes taking the necessary administrative measures.

If you are buying and selling on:

- your own account, you are acting as principal, or
- if on behalf of another person, you are acting as agent.

2. Exclusions from Authorisation

Learning Objective

- 2.2.1 Understand the rules governing activities within groups and joint enterprises (Securities Business Regulations Chapter 1, Article 8)
- 2.2.2 Understand the circumstances when securities activities might be excluded from authorisation (Securities Business Regulations): exempt persons (Annex 1); activities carried out in the course of non-securities business (Chapter 2, Article 9); sale of goods and supply of services (Chapter 2, Article 10); executors (Chapter 2, Article 11); sale of a company (Chapter 2, Article 12)

A security that is sold between two parties that are members of the same group or participants in a **joint enterprise** (and the transaction is for the purpose of the joint enterprise) is not required to be licensed. There are a number of other exemptions from authorisations.

2.1 Exempt Persons

A limited number of persons are exempt from having to obtain authorisation to undertake securities activities. These are:

1. the Government of the Kingdom
2. Saudi Central Bank
3. the Exchange and any other stock exchange approved by the Authority
4. clearing house
5. Depository Center, and
6. any supranational authority recognised by the Authority.

An insolvency practitioner is exempt in relation to activities they undertake in this capacity. An **insurance company** is exempt in relation to its insurance activities regulated by the Saudi Central Bank.

2.2 Activities Carried Out in the Course of Non-Securities Business

A non-securities business that undertakes a **securities activity** as a necessary part of their business is exempt from authorisation provided the profession or business does not otherwise constitute carrying on securities business. For example, when a law firm or accountancy firm arranges or advises on a security in the ordinary course of their business, the firm is exempt from authorisation. However, if the same firm holds themselves out as providing securities activities, they will need to obtain a licence to do so. The same applies to executors of a will who undertake securities activities in their capacity of an executor.

In the same way, in a securities activity between a supplier and a **customer** that is necessary or ancillary to the sale or supply of goods, there is no requirement for authorisation.

2.3 Activities in Connection with the Sale of a Company

Entering into a transaction is excluded from dealing, if the purpose of the transaction is to acquire or dispose of 50% or more of the voting shares in a company whose shares are not listed on the Exchange.

3. Securities Advertisements

Learning Objective

- 2.3.1 Know the scope of regulation in relation to securities advertisements (Securities Business Regulations Chapter 3, Articles 16, 17, 18, 19, 20)

Securities advertisements cover a broad range of marketing material including written (journals, newspapers), verbal (radio, television, conferences), and electronic (email, websites) for the purpose of inviting or inducing a person to engage in securities activity.

Advertisements in relation to securities may only be made by Capital Market Institutions, and the content must be approved by a Capital Market Institution. This does not apply to advertisements that are not made or communicated to a person in the Kingdom if they are directed only at persons outside the Kingdom.

Any advertisement related to securities activity that is exempt from authorisation is not subject to the advertisement restrictions, for example, any advertisement aimed at exempt persons, or related to exempt activities. In addition, any journalistic piece, reports required to be made under the Law of the Kingdom and the Implementing Regulations, or aimed at persons who own securities issued by the person making the advertisement, are also exempt.



End of Chapter Questions

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

1. List the activities that are securities activities.
Answer reference: Section 1
2. When is a person dealing as an agent or a principal?
Answer reference: Section 1
3. Which persons are exempt from authorisation requirements?
Answer reference: Section 2.1
4. Under which conditions are securities activities excluded from authorisation?
Answer reference: Section 2.2
5. What are the conditions for the making or communication of a securities advertisement?
Answer reference: Section 3

Chapter Three

Authorisation

3

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This syllabus area will provide approximately 2 of the 50 examination questions





Introduction

The authorisation process is regulated by the Capital Market Institutions which apply to authorised and registered persons. The regulations specify the procedures and conditions for obtaining a licence as well as the requirements in order to maintain the licence or the registration. In addition, the Capital Market Institutions contain the rules of conduct, systems and controls, and provisions related to **client money** and assets.

3

1. Acquiring Authorisation

Learning Objective

- 3.1.1 Know the information required in relation to applications (Capital Market Institutions Part 3, Chapter 1, Article 6, Annex 3.1)
- 3.1.2 Know minimum capital requirements for (Capital Market Institutions Part 3, Chapter 1, Article 6): advising; arranging; dealing; managing; custody

1.1 Application

Any person who intends to undertake **securities business** in the Kingdom must apply for authorisation before they can undertake the activities. All companies applying for a licence to undertake any aspect of the securities business must be established in the Kingdom, with their management and Head Office in the Kingdom. To undertake the **arranging** or **advising** activities, there are no restrictions to the legal form of incorporation. However, companies that wish to undertake securities **dealing, custody** and managing can only be incorporated as one of the following:

1. a subsidiary of a **local bank**
2. a joint stock company
3. a subsidiary of a Saudi joint stock company that is engaged in financial services business, or
4. a subsidiary of a foreign financial **institution** that is licensed under the Banking Control Law.

In the event there are any **close links** with other persons, the Authority must be satisfied of said person's integrity, systemic status, business record and financial soundness. In addition, the Authority will need to make sure that said person does not impact on the effective supervision of the applicant.

The applicants become subject to the Capital Market Institutions Regulations as soon as the application is submitted.

The application needs to contain the detailed information regarding controllers, third parties with close links, proposed operations and services, financial statements, and **registered persons**.

1.2 Minimum Capital Requirements

The paid-up capital of the applicant must be at least:

Activity	Minimum Paid-up Capital
Dealing	SAR 50 million
Custody	SAR 50 million
Managing	- Managing investments and operating funds – SAR 20 million - Managing investments – a capital that covers the expected expenses for a year
Arranging and advising	Capital that covers the expenses for the year

2. Maintaining Authorisation

Learning Objective

- 3.2.1 Know how Capital Market Institutions comply with the ongoing requirement to be fit and proper (Capital Market Institutions Part 3, Chapter 2, Article 9)

2.1 Fit and Proper

In order to maintain the authorisation, a Capital Market Institution must, at all time, be fit and proper to carry out the securities business which it is authorised to carry out. The skills, experience, competence and integrity of employees, officers or agents is an important factor in assessing whether it is fit and proper. This includes adequate qualifications and professional experience, sound judgment, and diligence. In addition, they should not have committed fraud or any other dishonest offence or contravened any securities law.



End of Chapter Questions

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

1. What are the general requirements for authorisation?

Answer reference: Section 1.1

2. What are the fit and proper criteria?

Answer reference: Section 2.1

Chapter Four

Regulated Activities

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This syllabus area will provide approximately 13 of the 50 examination questions





1. Capital Market Institutions

Learning Objective

- 4.1.1 Know the principles that provide a general statement of the fundamental obligations of Capital Market Institutions (Capital Market Institutions Part 2, Article 5)
- 4.1.2 Know the fiduciary duties that a Capital Market Institution owes to its customers (Capital Market Institutions Part 5, Article 40 & Annex 5.4)
- 4.1.3 Know the restrictions placed on a Capital Market Institution's dealings with its customers when undertaking activities that involve risk (Capital Market Institutions Part 5, Article 42)

Similar to other jurisdictions, the Authority subscribes to the universal code of conduct to identify how they expect Capital Market Institutions to behave. The following 11 principles apply:

1. Conduct business with integrity – be honest and have strong moral principles.
2. Conduct business with due skill, care and diligence.
3. Efficiency of management and control – take reasonable care to organise the business' affairs responsibly and effectively, with adequate risk management policies and systems.
4. Financial prudence – maintain adequate financial resources in accordance with the rules issued by the Authority.
5. Observe standards of proper market conduct.
6. Ensure adequate protection of clients' assets.
7. Cooperate with regulators – including disclosing to the Authority any material event or change in the Capital Market Institution's business operations or organisation.
8. Communications with clients must be clear, fair and not misleading.
9. Treat customers fairly and pay due regard to their interests.
10. Resolve conflicts of interest by dealing with them fairly both between the institution and its clients as well as between a client and another client.
11. Take reasonable care to ensure the advice given to clients, decisions made on their behalf in relation to discretionary portfolio management, and any other services are suitable.

1.1 Fiduciary Duties

The financial industry is built on trust and it is, therefore, important that Capital Market Institutions always act in good faith and in the interest of the customers. Any conflicts of interest must be managed carefully (see also chapter 7, section 1 of this workbook).

A Capital Market Institution cannot use anything that belongs to the customer to make a profit. This is not restricted to the customer's money or other assets, but also applies to information they hold about the customer. The only time the Capital Market Institution may use the customer's assets or information for their benefit is if the customer has specifically given approval for this and it is fully disclosed.

It is the responsibility of the Capital Market Institution to ensure they act with the care, skill and diligence that can reasonably be expected from anyone in the same position of trust and with their knowledge and experience.

1.2 Risk

Due to their position, Capital Market Institutions should always make sure the customer understands the nature and risk involved with any transaction, taking into consideration education and knowledge level, field of work, and experience of the client. Capital Market Institutions must not deal, advise, or manage for a customer in high-risk securities such as derivatives, non-retail investment funds, or illiquid securities unless they can enable said client to understand the nature of the risks involved.

2. Investment Funds and Collective Investment Schemes (CISs)

Learning Objective

- 4.2.1 Know the definition of investment fund as described in the Glossary of defined terms used in the Regulations and Rules of the CMA
- 4.2.2 Know how investment funds are established pursuant to Investment Funds Regulations and Real Estate Investment Funds Regulations
- 4.2.3 Know the different types and classifications of investment funds
- 4.2.4 Know the main related parties to the investment fund and their duties pursuant to Investment Funds Regulations and Real Estate Investment Funds Regulations

An investment fund is a collective investment scheme (CIS) aimed at providing investors therein with an opportunity to participate collectively in the profits of the scheme which is managed by a fund manager for specified fees.

A real estate investment fund is a collective real estate investment scheme aimed at providing investors therein with an opportunity to participate collectively in the profits of the scheme which is managed by a fund manager for specified fees.

A fund manager is a person who is responsible for the following:

- management of the assets of an investment fund
- management of the business of the investment fund, and
- offering of units of the investment funds.

The Authority may specify, in the rules that it issues, exemptions to the above to achieve the safety of the market and the protection of the investor. Fund managers must be licensed and the Authority may waive some or all of the regulations on application. The Authority may impose a fee on fund managers and distributors.

Fund managers must act in the best interest of the investors in the fund, and are subject to the Capital Market Institutions' regulations, and their responsibilities include fund management, fund operations, offering of fund units, and ensuring accuracy of terms and conditions of the fund. Although the fund

manager may delegate their responsibilities and duties to a third party, they remain responsible for any losses incurred caused by fraud, negligence, misconduct or wilful default.

Public funds are established once the terms and conditions between the first potential unit holders and the fund manager are signed. The terms and conditions contain information about the fund such as the name of the fund and the fund manager, governing laws, main risks and how they are managed, fees, valuation, pricing, and distribution. The terms and conditions govern the ongoing relationship between the fund manager and the unitholders.

The unit holder of an exchange-traded fund (ETF), a closed-ended investment traded fund, or a real estate investment trust (REIT) shall be deemed to have read and accepted the fund's terms and conditions upon purchasing any unit of an ETF from the Exchange.

Investment funds can be divided into categories based on the following criteria:

- client type who can subscribe to the investment fund
- changing capital of the investment fund, or
- the objective of the investment fund.
- **Types of investment funds based on client type who can subscribe to the fund:**
 - **Public Fund** – an investment fund which is established in the Kingdom and the units in which may be offered by the fund manager to investors in the Kingdom otherwise than by way of a private placement.
 - **Private Fund** – an investment fund which is established in the Kingdom and which is not a public fund, and the units in which may be offered by the fund manager to investors in the Kingdom.
- **Types of investment funds based on the changing capital of the fund:**
 - **Open-Ended Investment Fund** – an investment fund with changing capital, the units of which would increase with the issuance of new units, and decrease with redemption by unitholders of some or all of their units. Unitholders are entitled to redeem the value of their units at their net asset value on dealing days set in the fund's terms and conditions.
 - **Closed-Ended Investment Fund** – any investment fund which is not an open-ended investment fund.
- **Types of investment funds based on the objective of the fund:**
 1. **Specialised Public Fund:**
 - **Money Market Funds** – an investment fund with the sole objective of investing in short-term securities and money market transactions.
 - **Feeder Funds** – an investment fund whose primary investment objective is to invest all of its assets in another investment fund.
 - **Fund of Funds** – an investment fund the main objective of which is to invest all of its assets in other investment funds.
 - **Capital-Protected Funds** – an investment fund whose primary investment objective is to protect and return the capital invested by unit holders at a pre-determined date in the future.
 - **Endowment Funds.**

2. **Non-Specialised Public Fund** – any other public investment fund that is not a specialised fund, and is subject to the investment limitations set forth in the Investment Funds Regulations.

In addition, investments can be listed and traded in the Saudi Stock Exchange pursuant to the Investment Funds Regulations and Real Estate Investment Funds Regulations, the following represent the main types of traded funds:

- **ETF** – an index fund – the units of which are traded on the Main Market or the Parallel Market.
- **Closed-Ended Investment Traded Fund** – a closed-ended investment fund – the units of which are traded on the Main Market or the Parallel Market.
- **Real Estate Investment Fund** – the units of which are traded on the Main Market or the Parallel Market, and whose primary investment objective is to invest in constructionally developed real estates, able to generate periodic and rental income, and distribute a specified percentage of the fund's net profit in cash to the unitholders in said fund during its operation period (at least annually).

Fund managers, investment advisors and other key staff need to have the appropriate professional qualifications, be suitable for the position, and show financial responsibility. The main parties related to investment funds are as follows:

1. **Fund Manager** – the Capital Market Institution carrying out the management of the assets of an investment fund or a real estate investment fund. In addition, they manage the business and the offering of units.

The fund manager acts for the benefit of unitholders in accordance with the regulations, and has primary responsibility for ensuring the fund complies with all regulations. The fund manager must develop policies and procedures to detect and treat risk including annual risk assessments. All disclosures must be complete, clear, accurate and not misleading. The fund manager compiles and annual report of complaints and actions against the firm.

2. **Unitholder** – a person who owns units in an investment fund or a real estate investment fund, which represents a common share in the net assets of the fund.
3. **Fund Board** – the fund directors appointed by the fund manager to oversee and supervise the relevant fund manager's conduct.

Main Duties:

- a. Approve material contracts, decisions and reports involving the public fund.
 - b. Approve a written policy in regards to the voting rights.
 - c. Overseeing, approving or ratifying any conflicts of interest.
 - d. Meeting at least twice annually with the fund manager's compliance.
 - e. Confirming the completeness and accuracy of the Terms and Conditions and of any other document.
 - f. Ensuring the fund manager carries out its obligations in the best interests of the unitholders.
 - g. Reviewing the performance assessment and quality of services provided.
4. **Custodian** – a person who is authorised under the Capital Market Institutions' Regulations to conduct the custody of securities.

A fund manager must appoint one or more custodians in the Kingdom pursuant to a written contract. When the custodian delegates any duties to third parties, they remain fully responsible for compliance with the Regulations. The custodian shall be held responsible to the fund manager and unitholders for any losses caused in the investment fund due to custodian fraud, negligence, misconduct or wilful default. The custodian shall be responsible for taking custody and protecting the fund's assets on behalf of unitholders, and taking all necessary administrative measures in relation to the custody of the fund's assets.

5. **Fund Operator** – the fund manager licensed to carry out the activity of managing investments and operating funds or the Capital Market Institution appointed to operate investment funds.

Key duties:

- Operating the fund.
- Distribution of profits to unitholders.
- Execution of subscriptions and redemption of units.
- Valuating the assets of the fund
- Pricing of units and responsibility for any wrong evaluations or pricings.

6. **Auditor** – fund managers must appoint an auditor when establishing a private or public fund. The auditor must be registered with the Authority, and has to be independent.

Audits must be conducted:

- by the end of the first full calendar year for private funds (at the latest), and
- at the end of the first full calendar year for public funds if the fund has been operating for more than nine months, or at the end of the second full calendar year if the public fund has been operating for less than nine months.

The audit fees of the auditor shall be determined by the fund manager with the approval of the fund board.

3. Prospectus Disclosures

Learning Objective

- 4.3.1 Know what information and statements must be contained in a prospectus relating to the issue of securities (Capital Market Law Chapter 7, Article 42)
- 4.3.2 Know submission requirements for issuers (Capital Market Law): offering securities to the public (Chapter 7, Article 45); who currently have securities traded on the Exchange (Chapter 7, Article 45)

3.1 Information Required for a Prospectus

3.1.1 Prospectus

A **prospectus** is a formal document describing the security that is being offered to potential buyers. It includes information regarding the company issuing the shares describing the nature of their business, the key senior staff members and board of directors, prospects of the issuer, and the financial position of the firm. In addition, the prospectus will provide a full description of the securities, how many will be issued, at what listing or offering price, whether they are normal, preference, or convertible shares and any obligations, rights, powers and privileges attached to them, and any commissions as appropriate.

The prospectus must be submitted to the Authority for approval before the securities may be offered to investors.

3.1.2 Annual and Quarterly Financial Reporting

Any issuer who is offering securities to the public or whose securities are traded on the Exchange must submit their financial reports to the Exchange every quarter. These need to include balance sheet, profit and loss statement, and cashflow statement. In addition, the financial statement needs to include a description of the business, information on the board of directors and key staff members, an overview of how the issuer has performed over the past period and an outlook for the coming period. The financial statement needs to be audited.

Any information contained in the annual report must be kept confidential until it has been audited and disclosed to the Authority.

4. Rules on the Offer of Securities and Continuing Obligations

Learning Objective

- 4.4.1 Know the various ways securities may be offered in the main and secondary markets: exempt offers (Articles 3 & 6); private placement (Article 3); public offer (Article 3); Parallel Market offer (Article 3)

There are four ways in which securities may be offered in the Kingdom:

1. An **exempt offer** of securities is an offer that is exempt from the Rules on the Offer of Securities and Continuing Obligations, and includes, for example, government issued securities, offers of contractually-based securities, provided that the offer of unlisted contractually-based securities shall be limited to any of the following cases where:
 - a. all offerees are investors under the categories of Institutional and Qualified Clients
 - b. all offerees are employees of the issuer or of any of its affiliates, and
 - c. the total value of issued securities is below SAR 10 million.
2. A **private placement** is an offer that is restricted to Institutional and Qualified Clients, or is a limited offer.
3. A **public offer** is an offer open to all investors.
4. A **parallel market** offer is an offer of shares listed on the Parallel Market and limited to the categories of Qualified Investors.

5. Issuer Representatives

Learning Objective

- 4.5.1 Know the requirement for an issuer to appoint representatives to act on its behalf before the Authority (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 1, Article 18)

An issuer must appoint two representatives to deal with the Authority, one a director, the other a **senior executive**.

The representative of the special purposes entity (SPE) shall be from board members, the sponsor's representatives are a board member and a senior executive.

Details of the representatives need to be made available in writing.

6. Advisors to the Issuer

Learning Objective

- 4.6.1 Know the role of the financial advisor, its obligations and duty of care (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 2, Article 21)
- 4.6.2 Know the role of the legal advisor, its obligations and duty of care (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 2, Article 22)

6.1 Requirements and Obligations of the Financial Advisor

A financial advisor is the main point of contact for the Authority regarding an application for the registration and offer of securities. The financial advisor must be authorised to carry out arranging activities and any other securities business related to the services which the financial advisor agreed with the issuer to provide by the Authority. The financial advisor must undertake to ensure the issuer (or SPE and sponsor if applicable) has satisfied all conditions for the registration and offer of securities and other related requirements. In addition, they must provide any information or clarification to the Authority when requested.

6.2 Requirements and Obligations of the Legal Advisor

The legal advisor for an offer of securities must be licensed to practise their profession in the Kingdom.

7. The Rules for Special Purposes Entities (SPEs)

Learning Objective

- 4.7.1 Know the definition of the Special Purposes Entity (SPE), the main purposes of establishing a special purposes entity, and types of debt instruments issued by special purposes entities

The **Special Purposes Entity (SPE)** is an entity established and licensed from CMA under the Rules for Special Purposes Entities for debt instruments or investment units, and shall have legal personality and financial autonomy, and it shall cease to exist with the end of the purpose for which it was established.

Main Purposes of Establishing an SPE:

1. Financing through an alternative source other than loans from bank and financial institutions, by issuance of debt instruments through an SPE.
2. Assigning the issuance of debt instruments to an entity established for this purpose and it shall cease to exist with the end of the purpose for which it was established.

3. Provide the legal personality for the investment fund.
4. Protecting the rights of investors in an SPE from bankruptcy of related parties such as the sponsor in the event of issuing debt instruments or the investment fund manager in the event of issuing investment units.

Types of Debt Instruments Issued by the SPEs:

- **Asset-backed debt instruments** – means a debt instrument issued by an SPE under whose terms:
 1. The entitlement of holders of the debt instrument to a return is wholly dependent on the returns generated by the SPE's assets.
 2. The sponsor is not obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay any amounts.
- **Asset-linked recourse debt instruments** – means a debt instrument issued by an SPE under whose terms:
 1. The entitlement of holders of the debt instrument to a return is defined by the ratio of the returns generated by the SPE's assets.
 2. The sponsor is obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay all amounts due on the debt instrument.
- **Debt-based recourse debt instruments** – means a debt instrument issued by an SPE under whose terms:
 1. The entitlement of holders of the debt instrument to a return is not determined by the returns generated by the SPE's assets.
 2. The sponsor is obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay all amounts due on the debt instrument.
 3. Par value to be paid to the holders of the debt instrument at, or before, the maturity of the security.

8. Corporate Governance Regulations

Learning Objective

- 4.8.1 Understand the rights of shareholders of companies listed on the Exchange (Part 2, Chapter 1, Article 5)
- 4.8.2 Know the rules governing general assemblies of listed companies (Part 2, Chapter 2, Articles 10, 11, 12 and 13)

8.1 Shareholders' Rights Related to Shares

Shareholders of listed companies are the owners of the company and, as such, all rights related to shares shall be guaranteed to the shareholder, and particularly the following:

- to obtain his/her portion of the net profits which are to be distributed in cash or through the issuance of shares
- to obtain his/her share of the company's assets upon liquidation

- to attend the General or Special Shareholders' Assemblies, take part in their deliberations and vote on their decisions
- to dispose of their shares in accordance with the provisions of the Companies Law, the Capital Market Law and their Implementing Regulations
- to enquire and request viewing the books and documents of the company, including the data and information related to the activities of the company and its operational and investment strategy without prejudice to the interests of the company or breach of the Companies Law and the Capital Market Law and their Implementing Regulations
- to monitor the performance of the company and the activities of the board
- to hold board members accountable, to file liability lawsuits against them and appeal for nullification of the resolutions of the General and Special Shareholders' Assemblies in accordance with the conditions and restrictions provided in the Companies Law and the by-laws of the company
- pre-emptive rights to subscribe for new shares issued in exchange for cash unless otherwise specified in the company's by-laws or when the extraordinary general assembly (EGA) suspends the pre-emptive rights as per the Companies Law
- to record their name in the company's shareholders register
- to request to view a copy of the company's articles of association and by-laws (unless the company publishes them on the website), and
- to nominate and elect board members.

8.2 General Shareholders' Assembly

The General Shareholders' Assembly of a company represents all shareholders. There are two types of assembly: the ordinary general assembly (OGA), and the EGA.

The board will issue an invitation to all shareholders specifying the date, place and agenda of the assembly must be announced at least 21 days prior to the date of the meeting. The invitation shall be published on the website of the company and the Exchange, as well as in a daily newspaper distributed in the region where the head office is located. The invitation may be sent to shareholders by using methods of contemporary technologies. Invitations for ordinary assemblies shall be issued upon the request of the external auditor, the audit committee, or a number of shareholders who, in combination, hold at least 5% of the share capital. The external auditor may invite the assembly to convene if the board does not invite the assembly within 30 days from the date of the external auditor's request. The company might amend the general assembly agenda within the period between publishing the announcement and the date of convening the assembly, provided that the company shall announce in the same way the first announcement was published.

Shareholders will have the opportunity to participate and vote in the meeting. This can be in person, or by using any method of contemporary technology. The board will ensure they facilitate the participation of as many shareholders as possible by choosing an appropriate place and time for the meeting. Details of shareholders who want to attend in person at the company's head office will be recorded prior to the meeting.

8.2.1 Ordinary General Assembly (OGA)

The OGA meets at least once per year within the six months following the end of the company's financial year. The assembly shall convene in accordance with the situations and circumstances stated in the Companies Law and Its Implementing Regulations, and the company's by-laws.

Competencies of the OGA

Except for the competencies reserved to the EGA, the OGA shall have competencies in all affairs of the company and practically the following:

1. appointing and dismissing board members
2. giving permission to a board member to have (in)direct interest in the business and contracts with the company, in compliance with the provisions of the Companies Law and Its Implementing Regulations
3. monitoring the compliance of board members with the Companies Law and its Implementing Regulations, other relevant laws and the company's by-laws, inspecting any damage that may occur as a result of their violation of such provisions or their mismanagement of the affairs of the company; and determine any resulting liability
4. formation of the audit committee is pursuant to the provisions of the Companies Law and Its Implementing Regulations
5. approving financial statements and the report of the board
6. deciding on the proposal of the board for the method of distributing the net profits
7. appointment, reappointment, and replacement of external auditors, approving their reports, and specifying their remunerations
8. look into, and respond appropriately to:
 - a. violations and errors committed by the external auditors when performing their duties, and
 - b. any difficulties reported by the external auditors regarding their empowerment by the company's board or management to review the books records, and other documents, statements and clarifications required to perform their duties, and respond to that as it deems appropriate in this regard
9. resolve to withhold setting aside statutory reserves when they reach an amount equal to 30% of the company's paid-up share capital, and resolving to distribute any surplus to shareholders in financial years where the company does not generate net profits
10. approving proposals of the board regarding specifically agreed reserves to be used based upon the board's recommendation and in ways that benefit the company or the shareholders
11. formation of other, specifically agreed, reserves besides the statutory and general reserves, and the formation of, and disposal of, any other reserves
12. setting aside amounts from the company's net profits to set up social organisations for the benefit of the company's employees or to assist any such existing establishments in accordance with the Companies Law, and
13. approving the sale of more than 50% of the assets of the company whether in one or more transactions over a period of 12 months from the date of the first selling transaction. In case selling these assets includes what falls within the powers of the EGA, the approval of the said assembly is required.

8.2.2 Extraordinary General Assembly (EGA)

The EGA may issue any resolutions that fall within the powers of the OGA, provided that such resolutions are issued in accordance with the issuance requirements of OGA resolutions which require that the absolute majority of shares be represented at the meeting.

The EGA is required for any resolutions that are over and above the powers of the OGA except for amendments which are deemed null and void pursuant to the provisions of the Companies Law; in accordance with the situations provided by the Companies Law and Its Implementing Regulations; to decrease share capital if it exceeds the needs of the company or when the company incurs financial losses. In addition, an EGA is required in the following circumstances:

1. resolving to create or dispose of a specifically agreed reserve as provided in the company by-laws
2. resolving to maintain or liquidate the company before the end of the term specified in the by-laws
3. approving the company's shares buybacks
4. issuing preferred shares or approving their buying, or converting ordinary shares into preferred shares or converting preferred shares into ordinary shares as per the company's by-laws and the Regulatory Rules and Procedures issued pursuant to the Companies Law related to Listed Joint Stock Companies
5. issuing debt instruments or financing deeds convertible into shares and defining the maximum number of shares that may be issued against them
6. allocating shares that are issued upon the capital increase or part of them for the employees of the company, and its affiliates (or some of them), and
7. suspending pre-emptive rights of shareholders in subscribing for the capital increase in exchange for cash or giving priority to non-shareholders in cases as deemed in the interest of the company if so stated in the company's by-laws.

End of Chapter Questions

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

1. List the main obligations of a Capital Market Institution.
Answer reference: Section 1
2. What does a fund manager manage?
Answer reference: Section 2
3. What is the definition of an investment fund?
Answer reference: Section 2
4. List the rules and regulations related to the supervision and regulation of portfolio managers and investment advisors.
Answer reference: Section 2
5. List the content of the quarterly and annual reports.
Answer reference: Section 3.1.2
6. What is a Special Purpose Entity (SPE)?
Answer reference: Section 7
7. List five of the General Assembly's responsibilities.
Answer reference: Section 8.2.1



Chapter Five

Anti-Money Laundering and Counter-Terrorist Financing Rules

5

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This syllabus area will provide approximately 5 of the 50 examination questions





1. Anti-Money Laundering (AML) Law

Learning Objective

- 5.1.1 Know which acts are considered to be money laundering offences (Anti-Money Laundering Law and its Financing Law Article 2)

Within the AML Law the following acts are considered to be money laundering offences:

- converting or transferring funds that the persons know are proceeds of crime for the purpose of disguising or concealing the illegitimate origin of the funds
- acquiring, possessing, transporting, using, receiving or transferring funds that the person knows are the proceeds of crime, or from a criminal activity or an unlawful or illegitimate source
- concealing or disguising the true nature, source, movement, ownership, place or disposition of funds that the persons know are derived from a criminal activity or an unlawful or illegitimate source, and
- complicity by means of agreement, assistance, incitement, counsel, advise, facilitation, collusion or covering up any of the offences noted above.

The underlying criminal offence that generated the proceeds which are being laundered, is known as the 'predicate offence'. Under the AML Law, any act which could be punished under Shariah or statutory law is a relevant predicate offence for money laundering.

2. Preventative Measures

Learning Objective

- 5.2.1 Know the preventive measures that should be adopted in relation to (Anti-Money Laundering Law and its Financing Law): assessing money laundering risk (Article 5); anonymous, fictitious or numbered accounts (Article 6); due diligence (Article 7 & 11); prominent public functions (Article 8); correspondent relationships (Article 9)

The Anti-Money Laundering Law sets out a range of preventive measures which Capital Market Institutions must implement in order to reduce the risk of being utilised for the purposes of money laundering.

2.1 Risk Assessment

In line with international best practice, the AML Law, and its Implementing Regulations, require Capital Market Institutions to adopt a 'risk-based approach' which means that the firm's AML controls must be tailored to reflect the money-laundering risk to which they are exposed.

Therefore, a Capital Market Institution should devote more time, effort and resources to activities and customer relationships which pose a greater risk, and less to those with a lower risk profile.

The starting point for this approach is the risk assessment which Capital Market Institutions are required to carry out under the AML Law.

Capital Market Institutions must identify, assess and document their money laundering risks, taking into account a wide range of factors, including:

- their customers or risk factors relating to the beneficial owner or beneficiary
- the countries or geographic areas that the customer operates in, including the origination of destination of transactions
- the products and services that they offer
- the types of transactions undertaken by clients, and
- delivery channels used to reach out to customers/engage with customers.

The purpose of the risk assessment process is to ensure that Capital Market Institutions have a comprehensive understanding of the principal areas of money laundering risk to which it is exposed.

The level of risk faced by individual Capital Market Institutions varies from very low to very high. In addition, the risk a Capital Market Institution is exposed to may vary between the various factors listed above.

For example, Capital Market Institutions may primarily offer products and services which present a low money laundering risk, but some of their customers may have business operations in countries which are defined as having a high money laundering risk.

The risk assessment must be up to date, and new products, business practices and technology enhancements must be assessed for AML risk before they are introduced.

The risk assessment must be provided to the supervisory authorities when requested.

When carrying out its risk assessment, Capital Market Institutions must also take into account variables which may increase or decrease the money laundering risk, such as:

- the purpose of an account or relationship
- the size of deposits or transactions undertaken by a customer, and
- the frequency of transactions or duration of the relationship.

Opening and keeping anonymous accounts or accounts in obvious fictitious names or numbered accounts is prohibited.

Based on the outcome of the risk assessment, Capital Market Institutions must develop and implement internal policies, controls and procedures to mitigate the risk of money laundering that are appropriate to manage the risks identified.

These internal policies, controls and procedures must be monitored and updated to ensure that they remain appropriate and relevant.

2.2 Customer Due Diligence (CDD)

Having completed a risk assessment, Capital Market Institutions must put in place a series of measures designed to manage the risk of them being used for the purposes of money laundering. One of the most important controls is customer due diligence (CDD).

The CDD process is intended to ensure that Capital Market Institutions have sufficient knowledge of the client to have confidence that their products and services will not be utilised by the client for the purposes of money laundering, or other forms of financial crime. This process is also commonly known as and may be described as **know your customer (KYC)**.

It is vital that CDD policies and procedures reflect the results of the risk assessment completed. In particular, Capital Market Institutions with high levels of risk in relation to money laundering need to ensure that they implement extensive and robust CDD procedures to reflect the high level of risk exposure. They would also need to apply the countermeasures prescribed by the Anti-Money Laundering Permanent Committee on high-risk countries.

Capital Market Institutions are required to apply due diligence measures to their customers.

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

- before opening a new account or establishing a new relationship
- before carrying out a transaction for a customer with whom there is no 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 there is no established relationship
- whenever there is a suspicion of money laundering, regardless of the amount involved, or
- whenever there are doubts either about the veracity or adequacy of previously obtained customer information or identification data.

It is important to note that CDD activities are undertaken when onboarding a new client, after which they are regularly repeated during the relationship with the customers.

The Implementing Regulations require Capital Market Institutions to determine the extent of the CDD measures based on the risks relating to the specific business or customer relationship. In this regard, it is important to distinguish between the risk profile of the Capital Market Institution as a whole, and the risk relating to a specific customer relationship. As noted above, the implementation of CDD measures reflects the overall money laundering risk profile of the Capital Market Institution.

When determining the specific CDD measures which should be applied to a particular customer relationship, Capital Market Institutions need to also assess the level of risk posed by that client.

For example, if a Capital Market Institution with a low overall risk profile seeks to enter into a relationship with a higher risk client. It is important that the CDD measures which are applied reflect the higher risk profile of the specific customer, rather than relying on the more limited measures which might be appropriate in a lower risk context.

The CDD required will also vary depending on whether the customer is a Natural Person (ie, an individual) or a Legal Person (such as a company, trust or foundation).

2.2.1 CDD Measures

The Implementing Regulations to the AML Law specify the following CDD measures as a minimum that a Capital Market Institution must:

- a. 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 registered in the official documents • Residential or national 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, senior managers or trustees • Address of the registered office and, if different, the principal place of business • The powers that regulate and bind the Legal Person or legal arrangement

- b. Depending on the risk posed by a specific customer, the financial institution or designated non-financial business and profession shall determine whether any additional information must be collected and verified.
- c. 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.
- d. For Legal Persons, 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, identify and verify the person who holds the position of senior managing official.

For a customer who is a corporate or a legal partnership, a financial institution or designated non-financial business or profession shall identify and take reasonable measures to verify the identity of the endower, beholder, the beneficiaries or classes of beneficiaries, and any other Natural Person exercising ultimate effective control over the legal arrangement.

- e. Understand and obtain additional information on the purpose and intended nature of the business relationship.
- f. For Legal Persons or legal arrangement, the ownership and control structure of the customer should be understood.

2.2.2 Enhanced Due Diligence (EDD)

As described above, CDD measures that apply to customers must be tailored to the money laundering risk profile of that customer. In the case of low risk clients, simplified measures, for example requiring less detailed information from the client, can be applied.

However, in the case of higher risk clients, enhanced due diligence (EDD) measures are required to be undertaken on any transactions or business relationships involving countries that are identified as high risk.

2.3 Prominent Public Function

Capital Market Institutions must undertake EDD in relation to customers with prominent public functions, or with senior management positions in international organisations. This is on the basis that, whilst 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 intended to ensure that the Capital Market Institution has sufficient information about the customer, so as to be confident that the transactions associated with them are 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 Implementing 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.

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 or legal arrangement set up for the <i>de facto</i> benefit of a PEP.

Whilst PEPs are recognised as higher risk clients, Capital Market Institutions are not prohibited from doing business with them. However, the Implementing Regulations to the AML Law requires that where there is the intention to enter into a business relationship with a PEP from a foreign country to, Capital Market Institutions must:

- 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.

The same obligations apply in respect of a PEP from the Kingdom, if the PEP is assessed as presenting a higher risk of money laundering.

2.4 Anonymous, Fictitious or Numbered Accounts

As described above, CDD is one of the most important measures required to be implemented in order to reduce the risk that Capital Market Institutions will be used for the purposes of financial crime, including money laundering.

The Implementing Regulations stipulate that if a Capital Market Institution is unable to meet the requirements relating to CDD they may not open an account, establish a business relationship or carry out a transaction for a client.

Furthermore, anonymous or numbered accounts and accounts in obviously fictitious names are prohibited.

2.5 Correspondent Relationships

Capital Market Institutions can enter into correspondent relationships with foreign banks. These are relationships where a bank provides services to another bank (the respondent bank) such as, for wire transfers or accepting deposits.

Correspondent relationships typically allow a bank in one country to facilitate cross-border transactions for its clients, by means of a relationship with a correspondent bank in another country. Such arrangements are common and a legitimate part of international banking transactions. However, correspondent relationships can also expose a bank to increased risks relating to money laundering, primarily when a bank carries out transactions on behalf of the clients of the respondent bank. The bank carrying out the transaction has no direct relationship with the underlying client, and so must have confidence that the respondent bank has undertaken sufficient due diligence to manage any money laundering risk associated with the client relationship.

Before entering into a cross-border correspondent relationship, Capital Market Institutions must carry out a range of measures to manage the money laundering risk associated with such a relationship. These measures include assessing the correspondent firm's AML controls and obtaining senior management approval. Risk-mitigating measures include:

- obtaining sufficient information about the respondent bank to fully understand the nature of their business
- determining the reputation of the respondent bank and the quality of their supervision

- determining if the respondent bank has been subject to any money laundering investigations or regulatory action
- assessing the respondent bank's AML controls
- clearly understanding each party's responsibilities regarding AML, and
- satisfactory assessment that the respondent bank does not allow the use of shell banks.

A shell bank is a bank that is legally registered in a particular country, but have no physical presence there. Such banks are associated with very high money laundering risks, and Capital Market Institutions are prohibited from entering into a correspondent relationship with a shell bank, or with a respondent bank that permits the use of shell banks.

3. Detecting Money Laundering

Learning Objective

- 5.3.1 Know how to fulfil ongoing monitoring requirements (Anti-Money Laundering Law Articles 13 & 14)
- 5.3.2 Know what to do if suspicious activity is detected (Anti-Money Laundering Law Articles 15 & 16)

As set out earlier in this chapter, before entering into a new customer relationship, Capital Market Institutions must carry out a series of measures to manage the money laundering risk associated with the potential customer. This process begins with an assessment of the risk associated with the particular customer, which then allows them to determine the appropriate level of due diligence measures – simplified, standard or enhanced.

Capital Market Institutions must then complete the relevant due diligence and, in the case of higher risk clients, may be required to seek senior management approval.

Due diligence must be undertaken at the start of a relationship with a customer as well as on an ongoing basis. Specific requirements in relation to ongoing monitoring of client activity are that a Capital Market Institution must:

- monitor and scrutinise transactions, documents and data on an ongoing basis to ensure that they are consistent with the reporting entity's knowledge of the customer, the customer's commercial activities and risk profile, and where necessary the customer's source of funds
- review complex and unusually large transactions, and any unusual pattern of transactions that have no clear economic or legal objective
- where the risks of money laundering are higher, the financial institution (FI) or designated non-financial business and profession (DNFBP) shall perform EDD, and
- keep records for ten years and make them available to competent authorities on request.

In order to meet these requirements, Capital Market Institutions must implement a range of measures depending on the nature of the customer relationship and the transactions being carried out. For example, for high volume, but low-risk value transactions, the monitoring may primarily be carried out by automated systems which are designed to 'flag' any suspicious or unusual transactions, or patterns of transactions. Larger or more complex transactions, on the other hand, may need to be reviewed by specialist staff with particular knowledge of money laundering methodologies and risks.

The requirement for ongoing monitoring of client activity reinforces the need for appropriate due diligence measures to be applied at the outset of the relationship. In particular, it is vital that Capital Market Institutions have a full understanding of the purpose and intended nature of the business relationship. In the absence of proper understanding of the types of transaction that a client is expected to carry out, it will be very difficult 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.

3.1 Suspicious Activity Reporting

Capital Market Institutions have a crucial role in the fight against money laundering, not only in relation to the preventative measures that they apply, but also in their response to identification, prevention and reporting of suspicious activity to the authorities.

It is rare for a Capital Market 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 to identify funds as the proceeds of crime. However, there may be various circumstances in which they suspect that a transaction or client account may be being used to facilitate money laundering. Capital Market Institutions are required to report any activity which gives rise to suspicion of money laundering, even where the firm has no specific proof of criminal activity.

Any suspect, or situation where there are reasonable grounds to suspect that funds are the proceeds of crime or are related to money laundering, must be reported to the General Directorate of Financial Intelligence. The report should include all information relating to the transaction and relevant parties, and the Capital Market Institution must respond promptly and fully to any requests for further information.

4. Failure to Comply

Learning Objective

- 5.4.1 Know the sanctions for violating or failing to comply with any provision of the Anti-Money Laundering Law, its Implementing Regulation and relevant decisions or circulars (Anti-Money Laundering Law and its Financing Law Articles 25, 26, 27, 28, 29, 30, 31, 32)

The Kingdom's Law allows for a wide range of penalties to be applied to any Legal or Natural Person that commits a money laundering offence. A fine of up to SAR 5 million per violation of the provisions of the AML Law by a Capital Market Institution can be imposed as well as other measures, including:

- issue a written warning
- issue an order to comply with a specific action
- issue an order to report on measures to address the violation
- monetary fine of up to SAR 5 million
- restrict powers of directors, board members, executive of supervisory management members and controlling owners, including appointing one or more temporary controllers
- banning individuals from employment within the relevant industry sector
- dismissing or replacing directors and/or senior managers
- suspending or restricting a Capital Market Institution's business activities, or
- suspending, restricting or revoking a Capital Market Institution's licence.

In relation to criminal offences, the following penalties apply to individuals:

Committing a money laundering offence	• Imprisonment of up to ten years and no less than two years, and/or • A fine not exceeding SAR 5 million Or both • A Saudi national who has served a term of imprisonment for money laundering will be barred from travelling outside the Kingdom for a period of time equal to the term of imprisonment. • A non-Saudi national will be deported from the Kingdom after serving a term of imprisonment, with no possibility of return to the Kingdom.
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Committing a money laundering offence, with aggravating circumstances (such as involvement in an organised crime syndicate, use of violence or weapons, abuse of power of public office, human trafficking, exploitation of persons or minors, committing crime through a correctional, charitable, or educational institution or in a social service facility, or has a prior conviction in the Kingdom or abroad)	• imprisonment of up to 15 years and no less than three years, and/or • a fine not exceeding SAR 7 million
Committing a money laundering offence with mitigating circumstances (such as providing information to the authorities about the offenders prior to the Authority having knowledge to assist in the investigation)	• imprisonment of up to seven years and no less than one year, and/or • a fine not exceeding SAR 3 million
Money laundering offence committed by a legal entity (for example, a company)	• A fine of no more than SAR 50 million, and no less than double the full value of the funds that were involved in the offence. • The Legal Person may also be prohibited temporarily or permanently from engaging in their business activities.

In each case, the verdict may include publication of a summary of the verdict and related circumstances.

5. Combating Terrorism Crimes and its Financing Law

Learning Objective

- 5.5.1 Know the preventative measures that must be in place in relation to Combating Terrorism Crimes and its Financing Law: assessing risk (Article 63) and due diligence (Articles 64 & 66)

The Combating Terrorism Crimes and its Financing Law (the CFT law) imposes specific obligations on Capital Market Institutions in relation to the identification and prevention of terrorist financing. It requires Capital Market Institutions to implement a range of preventative measures to help mitigate the risk of the Capital Market Institution being used for such purposes.

5.1 Assessing Risk

Similar to AML, the starting point for a Capital Market Institution firm is to ensure it has a comprehensive understanding of the CFT risks to which it is exposed. A Capital Market Institution needs to be able to identify, assess, understand and document the financing of terrorism risks, taking into account a wide range of risk factors.

The particular factors listed are the same as for the AML risk assessment, namely:

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

5.2 Due Diligence

In addition to the requirement for risk assessment, Capital Market Institutions are obliged to apply due diligence measures tailored to the risk profile of customers and business relationships. This includes applying EDD measures in situations where the CFT risks are high, and specifically requires the application of EDD in relation to business relationships and transactions with persons from high risk countries.

6. Record-Keeping Requirements

Learning Objective

- 5.6.1 Know the record-keeping requirements in relation to: Anti-Money Laundering Law (Article 12); Combating Terrorism Crimes and its Financing Law (Article 65)

In addition to meeting all of the requirements set out in the AML and CFT Laws firms must ensure they maintain all required records relating to their AML and CFT controls. These records not only provide evidence that they are meeting its various legal and regulatory obligations, but may also provide crucial information in the context of an investigation into a particular customer relationship or transaction.

Capital Market Institutions need to keep all records and documents relating to both domestic and international clients for a period of ten years from the date of concluding the transaction or closure of the account. Due diligence documentation must be maintained for at least ten years after the end of the business relationship. In specific cases, the authorities are empowered to require records to be maintained for as long as required for the purpose of criminal investigation or prosecution.

Records must be stored in such a manner that will allow the reconstruction of transactions and can be readily made available to the authorities when requested.

Record-keeping requirements are similar for domestic and foreign financial transactions.



7. Penalties for Non-Compliance

Learning Objective

- 5.7.1 Know the sanctions for violating or failing to comply with any provision of the Combating Terrorism Crimes and its Financing Law its Implementing Regulations and/or relevant decisions or circulars (Combating Terrorism Crimes and its Financing Law Article 83)
-

Capital Market Institutions who breach any of the provisions of the CFT Law or its Implementing Regulations, may be subject to a fine of up to SAR 5 million per violation imposed by the Authority, and may also apply other measures, including:

- Banning individuals from employment within the relevant industry sector.
- Dismissing directors and/or senior managers.
- Suspending or restricting business activities.
- Suspending, restricting or revoking the licence to trade.

End of Chapter Questions

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

1. Which money laundering offences are defined by the Anti-Money Laundering Law 2017?
Answer Reference: Section 1
2. What type of information would a firm typically expect to collect as part of the customer due diligence (CDD) process for a new client?
Answer Reference: Section 2.2
3. How do the Implementing Regulations define politically exposed persons (PEPs)?
Answer Reference: Section 2.3
4. What does the AML Law require of firms in relation to ongoing monitoring of client activity?
Answer Reference: Section 3
5. To which body should a Capital Market Institution report a transaction which they suspect is being used for the purposes of money laundering?
Answer Reference: Section 3.1
6. What are the penalties for committing money laundering?
Answer Reference: Section 4
7. For how long must a Capital Market Institution keep records of the due diligence measures it undertook when opening an account?
Answer Reference: Section 6
8. What penalties can be imposed on a Capital Market Institution that fails to meet any of the obligations set out in the Countering the Financing of Terrorism (CFT) Law?
Answer Reference: Section 7



Chapter Six

Prohibitions

1. Untrue Statements	57
2. Manipulation and Insider Trading	58
3. General Sanctions and Penalties for Violations	59

This syllabus area will provide approximately 7 of the 50 examination questions





To ensure the efficient, honest, and transparent working of the market, there are a number of prohibitions in place. The prohibitions concern untrue statements, manipulation and insider trading, and proxy solicitations and conducting securities business activities without a licence. Each of these have penalties associated with them to deter market participants from committing any of the violations. Each of these prohibitions and how they impact honest and transparent working of the market is outlined in the remainder of this section.

1. Untrue Statements

Learning Objective

- 6.1.1 Understand the regulations concerning the prohibition of untrue statements (Market Conduct Regulations Part 4, Article 7)
- 6.1.2 Know the regulations governing rumours (Market Conduct Regulations Part 4, Article 8)
- 6.1.3 Understand the circumstances under which a person may be liable for damages in respect of making an untrue statement (Market Conduct Regulations Part 4, Article 10)

Untrue statements cover both an untruth about a material fact, and omitting to share information in order to influence the price or value of a security, or to entice someone else to trade in the security. In other words, it is false or inaccurate, a misrepresentation or an omission made by the person themselves or by someone else on their behalf.

A person should not make any untrue statements, either verbal or in writing, with the purpose to influence the price or value of a security, or to attempt someone else to trade in the security.

In this context, a material fact is any information relating to a security which would have had an impact on the price they would have been willing to buy or sell the security at if they would have known the truth.

Anyone making an untrue statement can be held liable for damages if the claimant can prove that they were not aware that the statement was untrue and that they would not have bought or sold the security at the price they did, if they would have known there is a high possibility that the statement is not true about the core incident. In addition, it must be proven that the person who made the statement knew it was untrue. In any case the claim must be in relation to the purchase or sale of a security.

1.1 Rumours

The Oxford English Dictionary defines a rumour as an *'unverified story or report of uncertain or doubtful truth'*. In the current global, interconnected world rumours spread rapidly and it is often difficult, if not impossible, to identify the source. It is not easy to assess whether a rumour has an impact will have an effect on a financial market and how large the effect is likely to be. Investors may or may not decide to act on a rumour, resulting in market movements which have no basis in fact.

Not every person who passes on a rumour does this deliberately. In some cases, a person is not aware of the information is false when they pass it to someone else. Others start or pass rumours knowing the information is false. They do this deliberately with the intention of affecting the market.

Example

An unprincipled investor holding shares in a particular company could deliberately spread a rumour that the company is going to be purchased at a premium price by a larger competitor. They do this in the hope that other investors will believe it and decide to purchase shares in anticipation of a rise in value. If enough investors do so, it may result in a sharp price rise, at which point the originator of the rumour would sell their shares at a profit.

1.2 Responsibility for Making Statements

Anyone omitting a material fact can be held liable for damages if the claim is related to the purchase or sale of a security or securities. The claimant will have to prove that:

- they were not aware the statement was untrue, and
- they would not have purchased or sold the security, or securities, if they were aware of the untrue statement, or they would have done so at a different price.

2. Manipulation and Insider Trading

Learning Objective

- 6.2.1 Know activities and practices that are considered to be manipulative (Capital Market Law Chapter 8, Article 49)
 - 6.2.2 Know what types of person are regarded as insiders (Capital Market Law Chapter 8, Article 50)
 - 6.2.3 Know when information should be regarded as inside information (Capital Market Law Chapter 8, Article 50)
 - 6.2.4 Be able to analyse examples to identify instances of insider trading (Capital Market Law Chapter 8)
-

Market manipulation relates to intentional acts with the purpose to create a false or misleading impression of the market, prices, or value of any security. Market manipulation and inducing others to do so are prohibited under the Law.

The following are types of manipulation:

1. Any act or practice with the intention to create a false or misleading impression of the price and number of transactions executed in the security.

2. To affect the price of one or more securities traded on the Exchange by executing a series of sale or purchase transactions creating actual or apparent active trading or causing an increase or decrease in the prices of such securities.
3. To undertake any series of transactions with the purpose of pegging or stabilising of the price of a security through any series of transactions.

An insider is a person who obtains inside information through family, or business or contractual relationships. Insiders may not directly or indirectly trade in the security to which the inside information is related, or to disclose the inside information to another person with the expectation that the other person will trade in the security.

Insider information is information obtained by an insider, which is not available to the general public and has not yet been disclosed. Also, any normal person would realise that knowledge of the nature and content of this information, its release and availability would have a material impact on the price or value of the security. The insider knows that such information is not generally available and that, if it were available, it would have a material effect on the price or value of that security.

3. General Sanctions and Penalties for Violations

Learning Objective

- 6.3.1 Know the sanctions that can be issued by the Committee for the Resolution of Securities Disputes for violation of any provisions of the law, regulations, and rules issued by the Authority (Capital Market Law Chapter 10, Article 59 and Article 62)
- 6.3.2 Know the penalties and reasonable defences relating to misstating or omitting material facts (Capital Market Law Part 5, Chapter 10, Article 56)
- 6.3.3 Know the penalties for undertaking, or purporting to undertake, brokerage activities without a licence (Capital Market Law Part 5, Chapter 10, Article 60)

3.1 Sanctions for Violations of the Law

In case the Authority believes a person is violating, has violated, or is about to, violate any of the laws and regulations, they can bring legal action before the Committee to issue appropriate sanction, and these possible sanctions include:

1. a warning
2. forcing the person to stop the act subject to the legal action
3. forcing the person to take the necessary steps to be taken to avert the violation, or take necessary corrective steps
4. forcing the person to pay damages resulting from a violation, or pay a penalty of to up to three times any realised gains or avoided losses as a result of the violation
5. suspending the trading in the security
6. barring the violating person from acting as a broker, portfolio manager or investment adviser for such period of time as is necessary for the safety of the market and the protection of investors

7. seizing and executing property
8. a travel ban, or
9. barring from working with entities subject to the Authority's supervision.

In addition, the Authority may impose a fine of not more than SAR 25 million per violation.

Instead of bringing legal action as outlined above, the Authority may warn the person concerned, force the person to take the necessary corrective steps, and/or impose a penalty of a maximum of SAR 5 million per violation.

The Authority is responsible for regulating the compensation procedures. They may establish compensation funds funded by the illegal gains collected in the Authority's accounts. The distribution of compensation will be approved by a decision of the Committee.

In addition to the person committing the violation, the Authority may also issue a reprimand to any other person granted authorisation involved in the violation. This reprimand may be accompanied by:

- restrictions on their licensed activities
- restriction on their functions or operations
- suspension of their activities for a maximum of 12 months, or
- revocation of their licence.

Before restricting or revoking their licence, the Authority has to give sufficient notice and give them the opportunity to a hearing where it will be assessed if they have deliberately given any materially false or misleading statement, or have deliberately broken any laws or court judgements either in the Kingdom or abroad. If the Authority finds it necessary for the safety of the makers and for investor protection, they may suspend the brokerage licence pending the final result of the hearing.

In urgent cases, the licence may be suspended for a period of maximum 60 days without a hearing or notice.

3.2 Misstating or Omitting Material Facts

A material statement or omission is any statement or omission that would have affected the purchase price if the investor would have been aware of the truth.

The damages that can be awarded is the difference between the price paid or received (with a maximum of the price at which they were offered to the public), and the price on the Exchange prior to the claim was made. If the defendant can prove that any part of the decline in value is not related to the omission or the incorrect statement the damages will be reduced accordingly.

3.3 Undertaking Brokerage Without a Licence

Undertaking brokerage activities without a licence is a violation of the law.

Any agreement or contract of securities undertaken by an unlicensed broker shall be void. The violating broker cannot raise a complaint against the other party in the transaction, and the other party has the right to cancel the contract and either get their money or their securities back.



End of Chapter Questions

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

1. What is a material fact?
Answer reference: Section 1
2. What are untrue statements defined under the Market Conduct Regulations?
Answer Reference: Section 1
3. In what circumstances, might an investor be able to claim damages from a Capital Market Institution which has omitted to make a required statement?
Answer Reference: Section 1.2
4. What is an insider?
Answer reference: Section 2
5. What is inside information?
Answer reference: Section 2
6. List the types of manipulation.
Answer reference: Section 2
7. List the sanctions.
Answer reference: Section 3.1
8. What can accompany a reprimand to a broker or broker's agent if a violation has been made?
Answer reference: Section 3.1
9. How can a defendant reduce the damages in relation to misstating or omitting material facts?
Answer reference: Section 3.2
10. What are the consequences of undertaking brokerage without a licence?
Answer reference: Section 3.3

Chapter Seven

Capital Market Institutions' Regulations

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4. Suitability	71

This syllabus area will provide approximately 6 of the 50 examination questions





1. Registrable Functions

Learning Objective

- 7.1.1 Know the registrable functions (Capital Market Institutions Part 4, Chapter 1, Article 19)
- 7.1.2 Know requirements for the performance of registrable functions (Capital Market Institutions Part 4, Chapter 1, Article 20)

A **registrable function** is a function within a financial institution that must be performed by a registered person. These are typically functions with higher importance for the stability of the financial system, and to maintain trust in the system. They are specifically defined as follows:

1. Chief executive officer (CEO) or managing member of the board of directors
2. Chief finance officer (CFO)
3. Member of the board of directors or partner
4. Senior executives directly related to securities business
5. Compliance officer
6. Money laundering reporting officer (MLRO)
7. Employees providing clients with securities business activities such as sales representatives, investment advisors, portfolio managers, fund managers, **corporate finance professionals** and brokerage professionals as defined by the Authority.

In the event a Capital Market Institution temporarily has a gap in the performance of registrable functions, the Authority will not take any action against them as long as the Capital Market Institution actively seeks an appropriate substitute and to notify the Authority which registered person will temporarily take responsibility for the registrable function.

A Capital Market Institution must, at all times, have at least a CEO or managing director, a finance manager, a compliance officer, and an MLRO.

Although a person may generally perform more than one registrable function, there are limitations to ensure there are no conflicts of interest. Unless otherwise approved by the Authority, the CEO, finance manager and compliance officer must, at all times, be separate people. In addition, the compliance officer may not also perform a client function.

A Capital Market Institution whose activity is limited to managing investments, arranging and advising, are partly exempt from these requirements, may delegate the function of CFO, compliance officer or MLRO to an external party, provided the third party meets the appropriate requirements. In this context, the external party fulfilling the function of finance officer must be a certified accounting firm licensed by the Saudi Organization for Certified Public Accountants (SOCPA), and the external party responsible for the function of compliance officer or the MLRO must be a Capital Market Institution, a certified accounting firm, or a law firm authorised to appoint one of their staff as compliance officer responsible for reporting money laundering and terrorism financing to the Capital Market Institution.

2. Accepting Clients

Learning Objective

- 7.2.1 Know the requirements regarding client classification (Capital Market Institutions Part 5, Chapter 3, Article 36)
- 7.2.2 Be able to apply client acceptance obligations in accordance with the Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law (Part 5, Chapter 3, Article 37)
- 7.2.3 Know the terms of business requirements (Capital Market Institutions Part 5, Chapter 3, Article 38, Annex 5.2)
- 7.2.4 Know the minimum information required to satisfy know your customer rules (Capital Market Institutions Part 5, Chapter 3, Article 39, Annex 5.3)
- 7.2.5 Understand the circumstances in which information obtained from clients may be disclosed more widely (Capital Market Institutions Part 5, Chapter 1, Article 29)

2.1 Client Classification

Before entering into any transaction with or for any client, a Capital Market Institution must classify the client as one of the following:

1. retail client
2. qualified client, or
3. institutional client.

The classifications are mutually exclusive which means the customer can only fall into one category. The classification must be noted on the customer's record.

2.2 Client Acceptance

Before undertaking any securities business with a client, the Capital Market Institution must make sure they apply with all the rules and regulations of the **Anti-Money Laundering Law and Its Implementing Regulations**, and Combating Terrorism Crimes and its Financing Law and its Implementing Regulations..

2.2.1 Cross-Border Relationships

Appropriate risk-mitigating measures must be applied before a Capital Market Institution enters into a cross-border correspondent relationship. The institution has to satisfy themselves that the correspondent bank does not permit their account to be used by a shell bank. A Capital Market Institution will not enter into, or continue with, a correspondent relationship with a shell bank or an institution that permits its accounts to be used by shell banks.

2.2.2 Wire Transfers

For each wire transfer, a Capital Market Institution has to obtain information on the originator and the beneficiary, and ensure this information is kept with the transfer or the related message. If it is not possible to obtain the required information, the wire transfer should not be executed. All records, documents, data and files will need to be kept for a period of at least ten years after the transaction is concluded or the account is closed.

2.3 Due Diligence

Capital Market Institutions are required to undertake due diligence in the following circumstances:

- before opening a new account or establishing a new relationship
- before carrying out a transaction for a customer with whom there is no 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 there is no established relationship
- whenever there is a suspicion of money laundering, regardless of the amount involved, or
- whenever there are doubts either about the veracity or adequacy of previously obtained customer information or identification data.

2.3.1 CDD Measures

The Implementing Regulations to the AML Law specify the following CDD measures as a minimum that a Capital Market Institution must:

- a. Identify the customer and verify the customer's identity using reliable, independent source documents, data or information:

Information relating to individuals would include:	• Full legal name • Residential or national 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, senior managers or trustees • Address of the registered office and, if different, the principal place of business • The powers that regulate and bind the Legal Person or legal arrangement

- b. Depending on the risk posed by a specific customer, the financial institution (FI) or designated non-financial business and profession (DNFBP) shall determine whether any additional information must be collected and verified.
- c. 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.
- d. For Legal Persons, 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
- if there is doubt over the identity the beneficial owners, as a last resort, identify and verify the person who holds the position of senior managing official.

For a customer that is a legal arrangement, an FI or DNFBP shall identify and take reasonable measures to verify the identity of the endower, beholder, the beneficiaries or classes of beneficiaries, and any other natural person exercising ultimate effective control over the legal arrangement.

- Understand and obtain additional information on the purpose and intended nature of the business relationship.
- For the Legal Persons or legal arrangement, the ownership and control structure of the customer should be understood.

In addition to the above, the below due diligence measures are required for beneficiaries of a saving and protection insurance or other investment-related insurance policies, as soon as the beneficiary is identified or designated:

- **if the beneficiary is identified by name** – take the name of that person, or
- **if the beneficiary is designated by class or other characteristics, or any other means such as deeds** – obtain sufficient information concerning the beneficiary to ensure that the FI will be able to identify the beneficiary prior to payout.

In any case, the identity of the beneficiary must be verified before a payout under the insurance policy is made, or prior to exercising any rights related to the policy.

When assessing whether EDD is required in related to a specific policy, the FI shall take into consideration risk factors related to the beneficiary. If the beneficiary is considered to be higher risk, the FI shall identify and verify the identity of the beneficial owner of the beneficiary at the time of payout.

For the purpose of Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law, FIs and DNFBPs shall keep all records and documents related to domestic or international financial transactions as well as commercial and monetary transactions for at least ten years from the date of concluding the transaction or closure of account.

In addition, all records obtained through due diligence measures, account files and business correspondences and copies of personal identification documents, including the results of any analysis undertaken shall also be kept for at least ten years from the date the business relationship has ended or a transaction was carried out for a customer who is not in an established business relationship.

2.4 Term of Business

Before undertaking any business with a customer, the Capital Market Institution must provide the client with their **terms of business** which set out the way in which they engage with the client. The client needs to sign the terms of business, and a copy needs to be retained by the Capital Market Institution. If there are any changes to the terms of business, the new terms of business must be sent to all customers.

The terms of business must include the details of the Capital Market Institution, the investment objectives of the retail customers and any restrictions, the services that will be provided under the agreement, any fees for the services, and cancellation rights. In addition, the agreement needs to specify risk warnings, termination methods, and complaints procedures as well as any right of the Capital Market Institution to realise the customer's assets in case of default and details regarding custody, commissions, pooling of assets, if the institution intends to do so, and client money.

2.5 Know Your Customer (KYC)

In addition to the personal information required for due diligence, a Capital Market Institution also needs to obtain information about the customer's financial situation, investment experience and investment objectives before entering into any transaction. This information must be updated at least every three years and when there is any change or at least once every three years. If the customer refuses to provide the relevant information, the Capital Market Institution must refuse to transact with the customer. All information needs to be recorded.

2.6 Confidentiality

In general, all customer information needs to be kept confidential, but there are some circumstances under which this is not the case. These exceptions are:

1. its disclosure is based on the Authority's or the Committees for Resolution of Securities Disputes' request under the Capital Market Law, its Implementing Regulations or the related laws, or based on the General Administration of Financial Investigations' request in accordance with the provisions of Anti-Money Laundering Law and Combating-Terrorism Crimes and its Financing Law and their Implementing Regulations
2. the client has consented to its disclosure
3. its disclosure is reasonably necessary to perform a particular service for the client, or
4. the information is no longer confidential.

3. Inducements

Learning Objective

- 7.3.1 Know the regulation regarding inducements and the circumstances under which special commission arrangements are acceptable (Capital Market Institutions Part 5, Chapter 1, Articles 27 & 28)

3.1 Inducements and Special Commission Arrangements

An inducement is something that persuades a person to do something. For example, providing excessive gifts such as all-expenses paid trips, or expensive jewellery in return for another person to do business with you.

Capital Market Institutions may not induce a client to engage in any transaction by offering or giving gifts or inducements; or accepting gifts or inducements if doing so would conflict to a material extent with any duty which it owes to a client.

Offering to make good some or all of the losses made by a customer is also an inducement.

Special commission arrangements are arrangements where a Capital Market Institution receives trade execution services as well as other goods or services in return for a share of the commission paid on transactions directed through the intermediary. These arrangements are permitted as long as:

1. the transaction execution is the best execution
2. the goods or services are justifiably for the benefit of the Capital Market Institution's clients
3. the special commissions are disclosed in the terms of business, and
4. the amount of any fees or commission paid is reasonable.

4. Suitability

Learning Objective

- 7.4.1 Know the factors a Capital Market Institution must consider in order to meet suitability requirements (Capital Market Institutions Regulations Part 5, Chapter 4, Article 43)
- 7.4.2 Know the requirements regarding (Capital Market Institutions Regulations): client borrowing (Part 5, Chapter 4, Article 44); margin (Part 5, Chapter 4, Article 45)

4.1 Suitability

A Capital Market Institution must always make sure that the transaction they execute or advice they give is suitable for the customer. When assessing suitability, they need to consider all information available including the customer's knowledge, financial standing, length of time they have been operating in the relevant markets, size and nature of the transaction, and the customer's investment objective.

If the customer still wants to enter into the transaction, despite it being unsuitable for them as per the suitability report, a Capital Market Institution may execute the transaction after obtaining an acknowledgment from the client provided that the suitability report records this and the acknowledgment of the client is retained.

4.2 Customer Borrowing

A Capital Market Institution shall not lend money or extend credit to a customer to enter into a securities transaction unless it is specifically agreed with the customer and the customer has specifically given consent in writing and the Capital Market Institution has made and recorded an assessment of financial standing based on information disclosed by the client and is satisfied the amount and arrangements are suitable for the customer.

4.3 Margin Requirements

Margin transactions may only be undertaken for a customer if this is specifically agreed in the terms of business with the client. The terms of business need to specifically state when the client may be required to provide margin, the form in which it can be provided, and any recourse for the Capital Market Institution if the customer does not pay. The Capital Market Institution is entitled to close out the position in any event after a period of five days from such failure.

Secured or unsecured loans or credit may be given to a client for a period of more than five days for the purpose of covering margins payments provided the appropriate credit assessments are completed and the customer's approval obtained. In relation to effecting a margin transaction on shares of companies listed on the exchange, monitoring the margin provided by the client daily, and ensuring that the margin is not less than 25% of the current value of each applicable security position.

The margin must be in the form of cash, fully-paid security positions or other acceptable collateral.



End of Chapter Questions

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

1. List the registrable functions.
Answer reference: Section 1
2. What does a Capital Market Institution need to do when they have a temporary gap in the performance of a registrable function?
Answer reference: Section 1
3. List the client classifications.
Answer reference: Section 2.1
4. When does client information not need to be kept confidential?
Answer reference: Section 2.6
5. What is a special commission arrangement?
Answer reference: Section 3.1
6. What does the Capital Market Institution need to do when a customer wants to enter into a transaction the institution has assessed as unsuitable for the client?
Answer reference: Section 4.1
7. What can a Capital Market Institution do if a customer fails to pay the margin requirement within five days after it is due?
Answer reference: Section 4.3
8. What is the minimum margin requirement?
Answer reference: Section 4.3

Chapter Eight

Systems and Controls

1. Managing Conflicts of Interest	75
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3. Client Records	77
4. Management Arrangements	78

This syllabus area will provide approximately 4 of the 50 examination questions





1. Managing Conflicts of Interest

Learning Objective

- 8.1.1 Know the requirements for managing conflicts of interest (Capital Market Institutions Regulations Part 5, Chapter 4, Article 41)
- 8.1.2 Know how an effective Chinese wall should operate (Capital Market Institutions Regulations Part 5, Chapter 1, Article 30)
- 8.1.3 Know the requirements governing employees' personal dealings (Capital Market Institutions Regulations Part 5, Chapter 6, Article 50)

1.1 Conflicts of Interest

It is the responsibility of a Capital Market Institution to take all necessary steps to avoid conflicts of interest between their own interest and the interests of their clients. Any actual or potential conflicts of interest need to be disclosed to the customer in writing, except when this is considered to be inside information.

When a conflict of interest cannot be disclosed because it relates to inside information, the Capital Market Institution must make sure they take reasonable steps to ensure fair treatment for the customer.

If the Capital Market Institution has disclosed the conflict of interest and the customer has decided they want to continue with the transaction, they must let the Capital Market Institution know in writing. In this case, the Capital Market Institution will not be responsible for compensation of any losses to the customer resulting from the conflict of interest.

Best execution rules continue to apply.

1.2 Chinese Walls Arrangements

A Chinese wall arrangement is a written arrangement intended to make sure that confidential or inside information obtained by the Capital Market Institution in the course of their business is only known by those employees who need to have access to it for their work. Chinese walls must be in place in firms that provide corporate finance services as well as other types of dealing, advising or managing services.

As long as effective Chinese wall arrangements are in place, the Capital Market Institution and their staff will not be in violation of insider trading when they transact in a security for which they have no access to the inside information held by another part of the firm. However, the Capital Market Institution will need to be able to prove that they have established appropriate Chinese wall arrangements for the size and nature of their business and that the arrangements are implemented and maintained. In addition, it must be proven that none of the individuals involved in the dealing or advising activity, or received advice regarding the dealing transactions or take advice from an insider.

1.3 Employees' Personal Dealings

An **employee** of a Capital Market Institution must not be a party to any transaction in a security where a client of the Capital Market Institution is a party. In addition, when opening an investment account at another Capital Market Institution, they must obtain prior consent from the Capital Market Institution they work for.

Employees must disclose all transactions in securities transacted using an account with another Capital Market Institution to the compliance officer. The compliance officer must establish procedures to monitor employees' personal dealings in securities to ensure they are compliant with the Law.

2. Reporting to Clients

Learning Objective

- 8.2.1 Know reporting requirements relating to (Capital Market Institutions' Regulations): contract notes (Part 5, Chapter 5, Article 47, Annex 5.5); valuations (Part 5, Chapter 5, Article 48, Annex 5.6)

2.1 Contract Notes

Unless the Capital Market Institution acts as a manager for the client and the client has confirmed he does not need to be sent contract notes, the Capital Market Institution needs to send a written contract note to the client following each purchase or sale of securities.

Contract notes need to specify the name and contact details of the Capital Market Institution, the name and contact details of the client, trade date and time, an identification of the securities, and other transaction details such as the price, settlement date, commission and other fees and taxes, currency (if applicable), exchange rates, and open derivatives positions (if any).

2.2 Valuations

If the Capital Market Institution acts as a manager for the client, they must send a valuation report at least every quarter. The valuation report needs to contain a description of the securities held in the portfolio, cash balances (if any), total value on the date the report is sent, the basis for valuation, currency exchange rates (if any), as well as an overview of the transaction that have taken place during the period, fees, commissions, and taxes, any securities pledged, and open derivative positions (if any).

3. Client Records

Learning Objective

- 8.3.1 Know record-keeping requirements for client accounts (Capital Market Institutions' Regulations Part 5, Chapter 6, Article 49) (Anti-Money Laundering Law Article 12) (Combating Terrorism Crimes and its Financing Law Article 65)
- 8.3.2 Know the requirements for the provision and retention of recorded telephone calls (Capital Market Institutions' Regulations Part 5, Chapter 6, Article 51)

3.1 Client Records

An Capital Market Institution must keep and maintain proper records of each transaction it effects. Such records must be current at all times and be sufficient to demonstrate compliance with these Regulations. In addition, the Capital Market Institution must keep and maintain proper records of **client accounts**. Client records must, at all times, accurately record the assets and liabilities of each client and of all clients collectively. In addition, client records must contain all information necessary to enable the preparation of a statement of each client's assets and liabilities, and details of transactions effected for the client; and identify all client money and client assets that the Capital Market Institution, or its **custodian**, are responsible for.

The records of the Capital Market Institution must contain:

1. details of all orders in a security entered by a client
2. details of all purchases and sales of a security made by the Capital Market Institution for a client, or by the Capital Market Institution for its own account
3. a record of all income and expenses for each client, explaining their nature
4. details of all receipts and payments of client money and client assets
5. a record of the cash and securities held in each client account, and
6. a record of client money and client assets.

For the purpose of Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law, financial institutions (FIs) and designated non-financial business and professions (DNFBPs) shall keep all records and documents related to domestic or international financial transactions as well as commercial and monetary transactions for at least ten years from the date of concluding the transaction or closure of account.

For the AML purposes, FIs and DNFBPs shall also keep all records obtained through due diligence measures, account files and business correspondences and copies of personal identification documents, including the results of any analysis undertaken for at least ten years from the date the business relationship has ended or a transaction was carried out for a customer who is not in an established business relationship.

In specific cases, the Public Prosecution may oblige the firm to extend the record-keeping period for as long as required for the purpose of a criminal investigation or prosecution. Records need to be sufficient to permit reconstruction of transactions and shall be maintained in a manner so that they can be readily made available to competent authorities upon request.

3.2 Recording Telephone Calls

All telephone communications from clients or potential clients relating to securities business must be recorded, and the Capital Market Institution must disclose this to the client.

All records of telephone conversations related to securities business must be retained for a period of ten years from the date the call was concluded. In the event of a dispute or regulatory enquiry, the recordings will need to be retained until the dispute is fully resolved or the enquiry completed.

4. Management Arrangements

Learning Objective

- 8.4.1 Know the management arrangements that should be in place in relation to (Capital Market Institutions' Regulations): the division of responsibilities (Part 6, Chapter 2, Article 53); systems and controls (Part 6, Chapter 2, Article 54); general provisions (Part 6, Chapter 3, Article 55); review by the governing body (Part 6, Chapter 3, Article 56); compliance (Part 6, Chapter 3, Article 57); the Compliance Committee (Part 6, Chapter 3, Article 58); outsourcing (Part 6, Chapter 3, Article 59); audit (Part 6, Chapter 3, Article 60, 61, 62); complaints (Part 6, Chapter 3, Article 63); employees (Part 6, Chapter 3, Article 65); business continuity (Part 6, Chapter 3, Article 66)

4.1 Division of Responsibilities

Segregation of duties or division of responsibilities refers to the concept of needing more than one person to complete a task. This is an internal control measure to prevent errors and frauds, but also to ensure it provides clarity about who is responsible for which areas and that the business is adequately monitored and overseen by senior managers, the board of directors and the governing bodies.

Capital Market Institutions need to maintain a clear and appropriate division of the principal responsibilities among its directors and senior management. The governing body is responsible for the division of responsibilities and oversight within the organisation.

4.2 Systems and Controls

A Capital Market Institution must establish and maintain systems and controls that are appropriate to its business. The systems and controls need to consider the nature, scale and complexity of the business, the diversity of operations, the volume and value of transactions and the level of risk associated with each of the areas in the organisation.

The governing body is ultimately responsible for compliance with all laws and regulations, and having appropriate systems and controls in place will assist with this.

4.2.1 Review by a Governing Body

The review is the responsibility of the governing body who needs to maintain a regular review to assign its responsibilities, systems and supervisory functions at the Capital Market Institution, the review has to be undertaken once every three years. The actions must be monitored until they are completed. The reports following a review must be maintained for ten years from the date on which the review was completed.

4.2.2 Compliance

A Capital Market Institution must appoint a senior officer as their compliance officer. It remains the ultimate responsibility of the governing body to ensure that the firm complies with all relevant laws and Regulations.

The compliance department must be appropriately resourced, and be able to freely access all the records of the firm. The compliance officer will compose the compliance manual containing appropriate policies and procedures, and implement it throughout the organisation. The compliance manual will be periodically reviewed and amended if required. The compliance department is further responsible for the establishment of, and ensuring compliance with, a code of conduct, the preparation of reports and notifications to be filed with the Authority, and the procedures to be followed for reporting any compliance matters to the governing body.

It is the right of the Authority to review the appropriateness of a Capital Market Institution's compliance arrangements at any time.

Depending on the nature, scale and complexity of its business, a Capital Market Institution may establish a **Compliance Committee** to monitor its securities business and its compliance programme. The members of a Compliance Committee should include, but are not limited to, the CEO, the compliance officer and the MLRO, and the minutes of the meetings must be kept. Compliance meeting minutes must be retained for ten years.

4.2.3 Outsourcing

Outsourcing refers to the hiring of a third party to provide services or job functions on behalf of the Capital Market Institution. Specific compliance or other functions may be outsourced provided the Capital Market Institution has assessed the third party is suitable to undertake the work. An outsourcing contract must clearly state the extent and limits of the outsourced function, and suitable arrangement must be in place for the Capital Market Institution to supervise the third party. In the event there are concerns about the third party's performance, appropriate remedial action must be taken.

When selecting a third party to outsource to, the Capital Market Institution must undertake sufficient due diligence. The authorised firm remains responsible for their regulatory obligations.

4.2.4 Audit

Depending on the nature, scale and complexity of its business, a Capital Market Institution may appoint an Audit Committee. The Audit Committee must meet at least twice a year, and their meetings must be minuted. Audit Committee meeting minutes must be retained for ten years. Part of the task of monitoring the appropriateness and effectiveness of the systems and controls may be delegated to an internal audit function, provided this is in line with the scale, nature, and complexity of the business.

To ensure their independence, the internal audit function must have clear responsibilities and reporting lines to the Audit Committee or appropriate senior manager, be adequately resourced and staffed by competent individuals, be independent of the day-to-day activities of the Capital Market Institution and have appropriate access to a Capital Market Institution's records. Meetings of the internal audit function must be minuted and the minutes must be retained for a period of ten years.

It is the responsibility of a Capital Market Institution's internal auditors to review books, accounts and other records related to securities business at least once every three years. All accounts, records, terms of business and other agreements must be made available to the internal auditor.

4.2.5 Complaint Resolution

A Capital Market Institution must have written procedures in place to ensure client complaints are handled in a timely and proper manner. Complaints and any actions need to be clearly documented.

In the event a complaint arises from the actions of a third party employed or recommended by the Capital Market Institution, they will need to intervene on behalf of their client to resolve the issue.

All employees must be aware of the complaint's procedures.

4.2.6 Employees

To ensure the workforce of a Capital Market Institution consists of employees who are appropriately qualified for their jobs and are honest, adequate procedures for the recruitment, training, supervision and discipline of employees must be in place. Ongoing training must be made available to all employees.

Any disciplinary action must be documented, including the name of the employee, the conduct that gave rise to the action, as well as steps taken to discipline the employee.

Employees must be trained at least annually on any updates to the Capital Market Law and the related rules and regulations that are relevant to the business of the Capital Market Institution.

Appropriate records including recruitment procedure, experience, and qualifications must be retained for a period of ten years from the date on which the Capital Market Institution recruited the employee.

4.2.7 Business Continuity

A Capital Market Institution should have in place appropriate arrangements to ensure they can continue to operate in the event of an unforeseen interruption of activities. These arrangements need to be commensurate to the nature, scale and complexity of their business.

All business continuity arrangements must be documented, regularly tested, and updated if required. Documentation must be retained for a period of ten years after they are amended or no longer relevant.



End of Chapter Questions

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

1. Describe what a Chinese wall arrangement is.
Answer reference: Section 1.2
2. List the required content of the contract note.
Answer reference: Section 2.1
3. For how long do records of telephone communications need to be retained?
Answer reference: Section 3.2
4. List the responsibilities of the governing body in relation to compliance.
Answer reference: Section 5.2.2
5. For what time period must the Audit Committee minutes be retained?
Answer reference: Section 5.2.4

Glossary





Advising

Advising a person in relation to a security, including advising on the merits of dealing in it, exercising any right to deal as conferred by it or financial planning and wealth management.

Anti-Money Laundering Law

The Anti-Money Laundering Law issued by Royal Decree No. M/20 dated 5/2/1439 H.

Application for Registration and Offer

The registration of securities with the Authority, or where the context permits, the application to the Authority for registration and offer of securities.

Arranging

Introducing parties in relation to the offering of securities, the arrangement of their underwriting, or advising on corporate finance business.

Authority

The Capital Market Authority.

Buys/Buying

Includes buying a security or commodity for consideration.

Capital Market Institution

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

Capital Market Law

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

Chief Executive Officer (CEO)

An individual who heads the operations of any person and includes the managing director, the chief executive, the president of the company or equivalent.

Certificates

Certificates or other instruments which confer contractual or property rights:

1. in respect of any shares, debt instruments, warrants, being a security held by a person (other than the person on whom the rights are conferred by the certificate or instrument), and
2. the transfer of which may be effected without the consent of that person,

but excluding any certificates or instruments which confer contractual or ownership rights of the type of the options, futures or the contracts for differences, and excluding any certificate or instrument which confers rights in respect of two or more securities issued by different persons.

Client Account

Account at a local bank in the name of a Capital Market Institution and fulfils the conditions required by the Client Money Rules.

Client Assets

Assets treated as client assets as specified in Part 7 of the Capital Market Institutions Regulations.

Client Money

Money treated as client money as specified in Part 7 of the Capital Market Institutions Regulations.

Client

Person for whom a Capital Market Institution executes securities transactions.

Close Links

The relationship between a person (who is an applicant for authorisation, a Capital Market Institution, an authorised credit rating agency or a central counterparty (CCP)) and any of the following persons:

- controller of that person
- company controlled by that person
- company controlled by a controller of that person, or
- company controlled by any combination of the persons described above.

Collateral

For the purposes of the Client Money Rules and Client Asset Rules, means money or an asset which has been paid for in full by a client and which is held by a Capital Market Institution or under its charge, either for its own account or under the terms of a deposit, pledge or other pledge arrangement.

Compliance Committee

The committee that is set up by a Capital Market Institution to monitor the securities business that it undertakes.

Control

The ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate (a) holding 30% or more of the voting rights in a company, or (b) having the right to appoint 30% or more of the members of the governing body; the 'controller' shall be construed accordingly.

Corporate Action

Any actions taken by an issuer which lead to increasing or decreasing the number of its securities or changing its nominal value including, for example, increasing or decreasing its capital.

Corporate Finance Business

Securities business carried on by a Capital Market Institution connection with:

1. the offer, issue, underwriting, repurchase, exchange or redemption of, or the variation of the terms of, those securities, or any related matter
2. the manner and terms on which, or the persons by whom, any business activity is to be financed, structured, managed, controlled, regulated or reported upon
3. an actual or proposed takeover or related operations, or
4. a merger, de-merger or reorganisation.

Custodian

A person who is authorised under the Capital Market Institutions Regulations to conduct the securities activity of custody.

Custody

Safeguarding assets belonging to another person which include securities, or arranging for another person to do so, and custody includes taking the necessary administrative measures.

Day

A business day in the Kingdom in accordance with the official working days of the Authority.

Deal

To buy, sell, subscribe for or underwrite a security.

Dealing

To deal in a security, whether as principal or agent, including the sale, purchase, and managing the subscription for underwriting securities.

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, and
- a contract of insurance.

Derivative

A contract for differences, a future or an option.

Director

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

Employee

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

Exempt Person

Any of the persons specified in Annex 1 to the Securities Business Regulations.

Financial Resources

In relation to a Capital Market Institution are the sum of the following:

1. shares other than cumulative preferences shares
2. any sums standing to the credit of a share premium account
3. audited reserves, and
4. revaluation reserves

less:

1. intangible assets
2. current year losses
3. holdings of shares in other Capital Market Institutions, banks or non-Saudi financial service firms unless held for trading purposes only, and
4. illiquid assets.

Governing Body

The body of individuals which makes a person's strategic decisions, and the board of directors of a joint-stock company, or the board of managers of a limited liability company is considered its governing body.

In Writing

Or other similar term, wherever it appears, in relation to a communication, notice, approval, agreement or other document, means in legible form and capable of being reproduced on paper, irrespective of the medium used.

Inside Information

Has the meaning specified at Article 4(c) of the Market Conduct Regulations.

Insider

Has the meaning specified in Article 4(b) of the Market Conduct Regulations.

Insolvency

Actual insolvency, or the commencement of any proceedings in respect of insolvency, liquidation or a voluntary arrangement under the Bankruptcy Regulations, or the commencement of any equivalent procedures in or outside the Kingdom.

Institutional Client

- a. the Government of the Kingdom or any supranational authority recognised by the Authority.
- b. companies fully owned by the government or any government entity, either directly or through a portfolio managed by a Capital Market Institution authorised to carry on managing business.
- c. any legal person acting for its own account and be any of the following:
 1. a company which owns, or is a member of a group which owns, net assets of more than SAR 50 million
 2. an unincorporated body, partnership company or other organisation which has net assets of more than SAR 50 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 paragraph (c/1) or (c/2)
- d. a company fully owned by a legal person who meets the criteria of paragraph (b) or (c)
- e. an investment fund, or
- f. a counterparty.

Instruction

Any instruction, election, acceptance or other message sent or received by way of the Tadawul Trading System or the Tadawul Depository System.

Insurance Company

An insurance company which is regulated by SAMA.

Intermediate Broker

A person through whom a Capital Market Institution undertakes a margined transaction for a client.

Investment Advisor

An employee of a Capital Market Institution who performs the activity of advising on behalf of a Capital Market Institution with, or for, a client.

Investment Fund

A collective investment scheme aimed at providing investors with an opportunity to participate in the profits of the scheme which is managed by a fund manager for specified fees.

Issuer

A person issuing or intending to issue securities.

Joint Enterprise

Arrangement between two or more persons for commercial purposes related to a business which they carry on or are to carry on jointly.

Kingdom

The Kingdom of Saudi Arabia.

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.

Local Bank

An institution that has received a licence to engage in banking business in accordance with the Laws of the Kingdom.

Managing

Managing securities belonging to another person in circumstances involving the exercise of discretion, or operating investment funds.

Margin Transaction

A transaction where a Capital Market Institution makes a loan to a client of a portion of the cost of the transaction.

Market Maker

Means in the Investment Funds Regulations, a Capital Market Institution that is authorised to carry out dealing business where it enters continuous orders, during the trading hours, of buying and selling for the purpose of providing liquidity to the traded units of the exchange-traded fund (ETF).

Money Laundering Reporting Officer (MLRO)

The Money Laundering and Terrorism Financing Reporting Officer of the Capital Market Institution, appointed in accordance with Article 64 of the Capital Market Institutions Regulations, or the Money Laundering and Terrorism Financing Reporting Officer of the external party delegated by the Capital Market Institution to function as a Money Laundering and Terrorism Financing Reporting Officer, appointed in accordance with paragraph (e) of Article (20) of the Capital Market Institutions Regulations.

Offer

As defined in the Merger & Acquisition Regulations, a general tender offer, other than the offers provided by the offeree company itself, that is subject to the Merger & Acquisition Regulations, made to all holders of the shares carrying voting rights in the offeree company for any of the following purposes:

1. purchase shares carrying Voting Rights in the offeree company, or
2. to effect a merger of the offeree company.

Any reference in the Merger & Acquisition Regulations to the term 'offer' or 'potential offer' shall be construed as the following:

1. a merger or potential merger
2. an offer or partial offer for takeover, or a potential offer or partial offer for takeover, or
3. partial offer or potential partial offer, not intended for takeover.

Offeror

As defined in the Rules on the Offer of Securities and Continuing Obligations, as a person who makes an offer or invites a person to make an offer which, if accepted, would give rise to the issue or sale of securities by them or another person who has made arrangements for the issue or sale of the securities. As defined in the Merger and Acquisition Regulations, as a person who makes, or intends to make, a takeover offer that is subject to the Merger and Acquisition Regulations.

Order

In relation to an order from a client:

1. an order to a Capital Market Institution from a client to execute a transaction as agent, or
2. any other order to a Capital Market Institution from a client to execute a transaction in circumstances giving rise to similar duties as those arising from an order to execute a transaction as agent.

'Order' shall include any decision by a Capital Market Institution to execute a transaction in exercise of discretion for a client, an investment fund that it manages, or for the purpose of aggregating orders for its clients in accordance with the Market Conduct Regulations. The definition of order shall not include any requests for purchasing a new securities issue.

Overseas Custodian

Custody services provided by any of the following:

- a bank that provides custody services and that is licensed as a commercial bank in a jurisdiction recognised by the Authority
- a securities depository licensed as such by an authority outside the Kingdom recognised by the Authority, or
- an investment firm that is licensed to provide custody services and that is a member of a securities or futures exchange recognised by the Authority.

Person

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

Pledge

Any form of a security interest recognised under the Law of the Kingdom capable of taking effect in relation to a security.

Portfolio Manager

An employee of a Capital Market Institution who performs the activity of managing on behalf of a Capital Market Institution with, or for, a client.

Prospectus

The document required to offer securities in the Main Market or in the Parallel Market in accordance with the Capital Market Law and the Rules on the Offer of Securities and Continuing Obligations.

Public

As defined in the Rules on the Offer of Securities and Continuing Obligations, the Instructions on the Price Stabilisation Mechanism in Initial Public Offerings and the Instructions on Issuing Depositary Receipts Out of the Kingdom, as persons other than the following:

1. affiliates of the issuer
2. substantial shareholders of the issuer
3. directors and senior executives of the issuer
4. directors and senior executives of affiliates of the issuer
5. directors and senior executives of substantial shareholders of the issuer
6. any relative of persons described at (1), (2), (3), (4) or (5) above
7. any company controlled by any persons described at (1), (2), (3), (4), (5) or (6) above, or
8. persons acting in concert, with a collective shareholding of (5%) or more of the class of shares to be listed.

Qualified Client

Defined as any of the following:

- A. a natural person who meets at least one of the following criteria:
 1. has carried out at least ten transactions per quarter over the last 12 months of a minimum total amount of SAR 40 million on securities markets
 2. their net assets are not less than SAR 5 million
 3. works or has worked for at least three years in the financial sector in a professional position related to investment in securities
 4. holds a professional certificate in securities business and accredited by an internationally recognised entity
 5. holds the General Securities Qualification Certificate that is recognised by the Authority, and has an annual income that is not less than SAR 600,000 in the last two years
 6. being a client of a Capital Market Institution authorised by the Authority to conduct managing activities, provided that the following is fulfilled:
 - a. the offer shall be made to the Capital Market Institution, and that all related communications be made by it
 - b. the Capital Market Institution has been appointed on terms which enable it to make investment decisions on the client's behalf without obtaining prior approval from the client.
 7. registered persons of a Capital Market Institution if the offer is carried out by the Capital Market Institution itself.
- B. a legal person, which meets at least one of the following criteria:
 1. any legal person acting for its own account and be any of the following:
 - a. a company which owns, or which is a member of a group which owns, net assets of not less than SAR 10 million and not more than SAR 50 million

- b. any unincorporated body, partnership company or other organisation which has net assets of not less than SAR 10 million and not more than SAR 50 million
 - c. 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 paragraph (1/a) or (1/b).
2. clients of a Capital Market Institution authorised by the Authority to conduct managing activities, provided that the following is fulfilled:
- a. the offer shall be made to the Capital Market Institution, and that all related communications be made by it, and
 - b. the Capital Market Institution has been appointed on terms which enable it to make investment decisions on the client's behalf without obtaining prior approval from the client.
- c. a company fully owned by a natural person who meets one of the criteria mentioned in paragraph (a) or a legal person who meets one of the criteria mentioned in paragraph (b).

Reconciliation

The identification and explanation of individual items of difference between two sets of records, but does not include the processing of necessary adjustments.

Registered Person

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

Registrable Functions

Any of the functions that the Authority specifies must be performed by a person registered with the Authority.

Regulatory Authority

The Authority, SAMA or any other authority in the Kingdom or overseas which regulates or supervises the conduct of securities, banking, financial, insurance or investment business including any self-regulating organisation.

Retail Client

Any client who is not a qualified client or an institutional client.

Securities Activity

A security activity shall mean any of the following activities:

1. dealing
2. arranging
3. managing
4. advising, or
5. custody.

Securities Business

Securities business is defined as being engaged in any of the securities activities.

Securities

Defined as 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, or
10. any right to, or interest in, anything which is specified by any of the paragraphs (1) through (9) above.

Sells or Selling

In relation to a security, includes selling the security for consideration, surrendering, assigning or converting rights under a security or assuming a corresponding liability.

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 to:

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

Settlement Agent

A person with, or through whom, a capital market institution effects settlement of a transaction.

Share

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

Special Purposes Entity (SPE)

Entity established and licensed under the Rules for Special Purposes Entities.

Sponsor

The person responsible for sponsoring a special purposes entity in accordance with the provisions of the Rules for Special Purposes Entities.

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.

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.

Voting Rights

All the voting rights attributable to the shares of a company which are exercisable at a general meeting.

References

Chapter 4, Section 1

<https://cma.org.sa/en/AboutCMA/Pages/AboutCMA.aspx> accessed 16 October 2020

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. Which of the following is a security as defined by the Capital Market Law?
 - A. Insurance policy
 - B. Documentary credit
 - C. Tradeable debt instrument
 - D. Bank-traded instruments

2. The Authority has the power to suspend the Exchange's activities, without approval from the Minister of Finance, for a MAXIMUM period of:
 - A. one day
 - B. five days
 - C. one week
 - D. four weeks

3. Which of the following is NOT a sanction which may be imposed upon a person who has been found to be in violation of the regulations of the Exchange?
 - A. A warning
 - B. Seizure of property
 - C. Travel ban
 - D. Custodial sentence

4. Which of the following is an exception to the requirement to keep all client information confidential?
 - A. Disclosure is required by the Capital Market Law
 - B. The information has been requested by the family of the client
 - C. Disclosure is required by the tax authorities of the Kingdom
 - D. A journalist has requested information about clients of a Capital Market Institution

5. Upon bringing legal action, the Authority may impose a fine upon a person who has been found to have violated the laws and/or regulations of the Exchange. The maximum fine per violation is:
 - A. SAR 10 million
 - B. SAR 15 million
 - C. SAR 20 million
 - D. SAR 25 million

6. Which of the following persons is exempt from the requirements of authorisation?
- A. Securities Depository Center
 - B. The Exchange
 - C. Employees of the Government of the Kingdom
 - D. Capital Market Institutions
7. Which of the following constitutes market manipulation under the Capital Market Law?
- i. The pegging or stabilising of a security through any series of transactions
 - ii. Creating actual or apparent trading in a security in order to affect the price
 - iii. Undertaking transactions in securities which do not involve a true transfer of ownership
 - iv. Placing an order for the purchase of a security with prior knowledge that an order of similar size, timing and price has been or will be entered to sell that security
- A. All of the above
 - B. i, ii and iii
 - C. i, iii and iv
 - D. ii, iii and iv
8. A fund manager is required to act in the best interests of the:
- A. market
 - B. Kingdom
 - C. investors in the fund
 - D. directors of the fund
9. Following notification by the Committee for the Resolution of Securities Disputes of the results of a complaint, a complainant has how many days to lodge an appeal?
- A. 3
 - B. 14
 - C. 30
 - D. 90
10. Which of the following are members of the Authority and their employees empowered to carry out during an investigation into a breach of the Capital Market Law?
- A. Make arrests
 - B. Issue fines
 - C. Freeze assets
 - D. Subpoena witnesses

11. A person who sells, buys, manages subscriptions or underwrites securities is engaging in which securities activity?
 - A. Dealing
 - B. Managing
 - C. Transacting
 - D. Trading

12. In the case of Capital Market Institutions who have appointed an Audit Committee, for how long must the minutes of the Committee be retained?
 - A. Three years
 - B. Five years
 - C. Seven years
 - D. Ten years

13. A company that wants to undertake securities dealing can be incorporated as which of the following:
 - A. department of an accountancy firm
 - B. registered representative
 - C. any subsidiary of a foreign bank
 - D. joint stock company

14. When assessing whether an employee remains fit and proper, a Capital Market Institution needs to take into consideration the employee's:
 - A. age
 - B. family
 - C. integrity
 - D. wealth

15. Under which condition may a Capital Market Institution enter into a special commission arrangement?
 - A. The goods or services received by the Capital Market Institution may reasonably be regarded as being for the benefit of the Capital Market Institution's clients
 - B. The goods or services received by the Capital Market Institution may reasonably be regarded as being for the benefit of the Capital Market Institution's senior managers
 - C. The amount of any fees or commission paid to the provider of the goods or services are passed on to the Capital Market Institution's clients
 - D. The amount of any fees or commission paid to the provider of the goods or services are transacted at below the market rate



16. Who manages an investment fund?
 - A. A securities issuer
 - B. A fund manager
 - C. A brokerage agent
 - D. An intermediary

17. Which of the following is a responsibility of the Authority?
 - A. Protect investors from all investment risks
 - B. Protect investors from unfair practices
 - C. Supervise the investments of private citizens
 - D. Verify the ownership of securities

18. The formal document describing a security being offered to potential buyers is known as:
 - A. a statement of income
 - B. an investment offering
 - C. an annual report
 - D. a prospectus

19. An exempt offer of securities must have a MAXIMUM total value of:
 - A. SAR 5 million
 - B. SAR 10 million
 - C. SAR 15 million
 - D. SAR 20 million

20. A person may sue for damages where they can prove that they would not have purchased a security if they were aware of what key fact?
 - A. An impending announcement of poor results
 - B. That a statement provided to them was deliberately untrue
 - C. That the information was unpublished
 - D. That a takeover offer was pending

21. The registration of ownership of securities becomes effective when the security rights are:
 - A. recorded with the Securities Depository Center
 - B. registered with the Securities Depository Center
 - C. settled through the Securities Depository Center
 - D. verified by the Securities Depository Center

22. Insider information is information regarding a security obtained from:
- A. a newspaper report
 - B. an annual report
 - C. a press release
 - D. a senior manager
23. Which of the following is a potential consequence if the Committee believes a person is violating the laws and regulations?
- A. Written notice
 - B. Extradition
 - C. Travel ban
 - D. SAR 50 million fine
24. A person who transacts on behalf of a third party is known as:
- A. an agent
 - B. an offeror
 - C. principal
 - D. an offeree
25. A person who safeguards the assets of another person is engaging in which security activity?
- A. Advising
 - B. Custody
 - C. Dealing
 - D. Managing
26. Entering into a transaction is excluded from dealing regulation if the purpose of the transaction is to acquire or dispose of what MINIMUM percentage of the voting shares in a company whose shares are not listed on the Exchange?
- A. 15% or more
 - B. 25% or more
 - C. 50% or more
 - D. 60% or more
27. A securities advertisement is excluded from regulation when it is:
- A. directed only at customers of a Capital Market Institution
 - B. made by an exempt person relating to their activities
 - C. made by a Capital Market Institution to members of a joint enterprise
 - D. only made verbally



28. What is the minimum capital requirement for a company whose sole securities activity is managing investments and operating funds?
- A. SAR 400,000
 - B. SAR 2 million
 - C. SAR 20 million
 - D. SAR 50 million
29. A Capital Market Institution has been found to have committed three violations of the Kingdom's Combating Terrorism Crimes and its Financing Law. What is the maximum total fine that can be imposed for these violations?
- A. SAR 5 million
 - B. SAR 15 million
 - C. SAR 50 million
 - D. Unlimited
30. When a Capital Market Institution effects a margin transaction on behalf of a client, a minimum percentage of the value of the transaction is required from the client prior to effecting the transaction. What is the minimum percentage requirement?
- A. 10%
 - B. 15%
 - C. 20%
 - D. 25%
31. For how long must the record of a telephone communication be kept by a Capital Market Institution if it is not relevant to a dispute?
- A. One year
 - B. Three years
 - C. Seven years
 - D. Ten years
32. If a Capital Market Institution acts as manager for a client, how often must a valuation report be sent to a client?
- A. Weekly
 - B. Monthly
 - C. Quarterly
 - D. Annually

33. Which of the following is not a security?
 - A. Convertible and tradeable shares of companies
 - B. Units by investment funds
 - C. Money transfers
 - D. Instruments representing rights in the distribution of assets

34. Which of the following is a registrable function?
 - A. Administrator
 - B. Compliance officer
 - C. Company secretary
 - D. HR manager

35. A Capital Market Institution is permitted to advise a customer on illiquid securities only if it:
 - A. is authorised both to advise and manage funds
 - B. has at least SAR 50 million of paid-up capital
 - C. issues the customer with a risk matrix statement
 - D. enables the customer to understand the nature of risks involved

36. A Capital Market Institution has been found to have no liability for paying damages to a client to whom it made an untrue statement concerning certain securities. This is due to the fact that the client could not show that:
 - A. they were unaware the statement was untrue
 - B. the value of the trade exceeded SAR 1,000
 - C. they already owned the securities concerned
 - D. the Capital Market Institution was insider trading

37. A Capital Market Institution is completing a money laundering risk assessment. In addition to customers and products, which factor is the Capital Market Institution MOST likely to consider?
 - A. The ownership of a specific corporate client
 - B. The types of transactions, products and services that they provide and undertake
 - C. The Capital Market Institution's corporate governance structure
 - D. The PEP status of the Capital Market Institution's chief executive officer (CEO)

38. A Capital Market Institution has been asked to set up a numbered account by a new client. What is the status of such accounts under the Anti-Money Laundering Law?
- A. Prohibited
 - B. High risk
 - C. Sanctioned
 - D. Provisional
39. A Capital Market Institution has recently completed monitoring of client accounts for AML purposes. For how long must it keep the monitoring records?
- A. Two years
 - B. Five years
 - C. Ten years
 - D. Indefinitely
40. A Capital Market Institution has been found guilty of a money laundering offence in relation to a transaction worth SAR 15 million. What is the maximum fine that can be imposed?
- A. SAR 5 million
 - B. SAR 15 million
 - C. SAR 30 million
 - D. SAR 50 million
41. Which of the following actions should a Capital Market Institution undertake if they are suspicious of activity on a client investment account?
- A. Report suspicious activity to the Authority
 - B. Undertake an internal investigation, along with seeking advice from a legal firm
 - C. Report suspicious activity to the Saudi Central Bank
 - D. Report suspicious activity to the General Directorate of Financial Intelligence
42. What is the minimum paid-up capital for a Capital Market Institution when offering custody services?
- A. SAR 400,000
 - B. SAR 2 million
 - C. SAR 20 million
 - D. SAR 50 million

43. Which party acts as the main point of contact for the Authority regarding an application for the registration and offer of securities?
- A. The issuer
 - B. The financial advisor
 - C. The legal advisor
 - D. The underwriter
44. When, if ever, does a Special Purposes Entity (SPE) cease to exist?
- A. They do not expire
 - B. When the purpose ends
 - C. After six years
 - D. At a pre-agreed date
45. Which of the following is a type of debt instrument issued by an SPE?
- A. Inflation-linked debt instruments
 - B. Inflation-linked recourse instruments
 - C. Asset-linked recourse debt instrument
 - D. Exchange traded-linked asset instruments
46. Pre-emptive rights to subscribe for new shares in a listed company are normally guaranteed to the company's:
- A. board
 - b. shareholders
 - c. sponsor
 - d. underwriter
47. Which of the following parties has the power to invite shareholders to an ordinary general assembly (OGA)?
- A. The board only
 - B. The board and external auditors
 - C. The board, external auditors and underwriters only
 - D. The board, external auditors, underwriters and legal advisor only



48. If a contractor has obtained confidential information they would automatically be regarded as:
- A. an insider
 - B. an insider trader
 - C. a money launderer
 - D. an anti-money laundering risk
49. Which term is specifically used to describe a type of investment fund with changing capital?
- A. An open-ended investment fund
 - B. An exchange-traded fund
 - C. A public fund
 - D. A private fund
50. Capital Market Institutions who act as manager for a client must send client valuation reports at least every:
- A. month
 - B. quarter
 - C. six months
 - D. year

Answers to Multiple Choice Questions

1. C Chapter 1, Section 1

The Capital Market Law defines securities as one of the following:

- a. convertible and tradeable shares of companies
- b. tradeable debt instruments issued by companies, the government, public institutions or public organisations
- c. units by investment funds, and
- d. any instruments representing profit participation rights and/or any rights in the distribution of assets.

2. A Chapter 1, Section 2

It is also in the power of the Authority to suspend securities trading on the Exchange for up to one business day, but suspension of more than one day must be approved by the Ministry of Finance.

3. D Chapter 6, Section 3.1

In case the Authority believes a person is violating, has violated, or is about to violate any of the laws and regulations, they can bring legal action before the Committee to issue appropriate sanctions, and the possible sanctions include:

1. warning
2. force the person to stop the act subject to the legal action
3. force the person to take the necessary steps to be taken to avert the violation, or take necessary corrective steps
4. force the person to pay damages resulting from a violation, or pay a penalty equivalent to any realised gains as a result of the violation to the Authority
5. suspending the trading in the security
6. barring the violating person from acting as a broker, portfolio manager or investment adviser for such period of time as is necessary for the safety of the market and the protection of investors
7. seizing and executing property
8. travel ban, or
9. barring from working with entities subject to the Authority's supervision.

4. A Chapter 7, Section 2.6

In general, all customer information needs to be kept confidential, but there are some circumstances under which this is not the case. These exceptions are:

1. its disclosure is based on the Authority's or the Committees for Resolution of Securities Disputes' request under the Capital Market Law, its Implementing Regulations or the related laws, or based on the General Administration of Financial Investigation's request in accordance with the provisions of Anti-Money Laundering Law and Combating-Terrorism Crimes and its Financing Law and their Implementing Regulations
2. the client has consented to its disclosure
3. its disclosure is reasonably necessary to perform a particular service for the client, or
4. the information is no longer confidential.

5. D Chapter 6, Section 3.1

In case the Authority believes a person is violating, has violated, or is about to violate any of the laws and regulations, they can bring legal action before the committee to issue appropriate sanctions. In addition, the Authority may impose a fine of not more than SAR 25 million per violation.

6. A Chapter 2, Section 2.1

The following persons are exempt from authorisation in relation to securities business activities undertaken by them:

1. The Government of the Kingdom
2. Saudi Central Bank
3. the Exchange and any other stock exchange approved by the Authority
4. clearing house
5. Depository Center, and
6. any supranational authority recognised by the Authority.

7. A Chapter 6, Section 2

Market manipulation relates to intentional acts with the purpose to create a false or misleading impression of the market, prices, or value of any security. Market manipulation as well as inducing others to do this, is prohibited under the Law. The following are types of manipulation:

1. Any act or practice with the intention to create a false or misleading impression of the price and number of transactions executed in a security.
2. To affect the price of one or more securities traded on the Tadawul by executing a series of sale or purchase transactions creating actual or apparent active trading or causing an increase or decrease in the prices of such securities.
3. To undertake any series of transactions with the purpose of pegging or stabilising of the price of a security through any series of transactions.

8. C Chapter 4, Section 2

Fund managers must act in the best interest of the investors in the fund.

9. C Chapter 1, Section 3.1.3

Any party may appeal the Committee's decision before the Committee. Appeals need to be raised 30 days from the date the decision was notified.

10. D Chapter 1, Section 2

If the Authority has reason to believe anyone is breaching the Regulations, the Board may initiate an investigation and enforce the Capital Market Law. The members of the Authority and employees designated by the Board in this respect are empowered to:

- subpoena witnesses
- take evidence, and
- require the production of any books, papers, or other documents relevant to the subject of the investigation which the Authority requires.

The Authority can request related documentation regardless of who holds it. Any information they need to determine whether or not a provision of the Capital Market Law and Regulations is, or will be, breached can be requested and must be provided to the Authority promptly and without delay.

11. A Chapter 2, Section 1

A security activity shall mean any of the following activities:

1. **Dealing** – a person deals in a security as principal or as agent, and dealing includes selling, buying, managing the subscription or underwriting securities.
2. **Arranging** – a person introduces parties in relation to the offering of securities or arrangement of their underwriting, or advises on corporate finance.
3. **Managing** – a person manages a security belonging to another person in circumstances involving the exercise of discretion, or operates investment funds.
4. **Advising** – a person advises a person in relation to a security, which includes advising on the merits of that person dealing in it, exercising any right to deal as conferred by the security, or in financial planning or wealth management advice.
5. **Custody** – a person safeguards assets belonging to another person which include a security, or arranges for another person to do so, and custody includes taking the necessary administrative measures.

12. D Chapter 8, Section 4.2.4

Depending on the nature, scale and complexity of its business, a Capital Market Institution may appoint an Audit Committee. The Audit Committee must meet at least quarterly, and their meetings must be minuted. Audit Committee meeting minutes must be retained for ten years.

13. D Chapter 3, Section 1.1

To undertake the arranging or advising activities, there are no restrictions to the legal form of incorporation. However, companies that wish to undertake securities dealing, custody, can only be incorporated as one of the following:

1. a subsidiary of a local bank
2. a joint stock company
3. a subsidiary of a Saudi joint stock company that is engaged in financial services business, or
4. a subsidiary of a foreign financial institution that is licensed under the Banking Control Law.

14. C Chapter 3, Section 2.1

The skills, experience, competence and integrity of employees, officers or agents is an important factor in assessing whether it is fit and proper. This includes adequate qualifications and professional experience, sound judgment, and diligence. In addition, they should not have committed fraud or any other dishonest offence or contravened any securities law.

15. A Chapter 7, Section 3.1

Special commission arrangements are arrangements where a Capital Market Institution receives trade execution services as well as other goods or services in return for a share of the commission paid on transactions directed through the intermediary. These arrangements are permitted as long as:

1. the transaction execution is the best execution
2. the goods or services are justifiably for the benefit of the Capital Market Institution's clients
3. the special commissions are disclosed in the terms of business, and
4. the amount of any fees or commission paid is reasonable.

16. B Chapter 4, Section 2

A fund manager is a person who is responsible for the following:

- management of the assets of an investment fund
- management of the business of the investment fund, and
- offering of units of the investment funds.

17. B Chapter 1, Section 2

As part of their role, the Authority has the overall responsibility for the development and regulation of the Exchange, the way in which the Exchange operates, and the entities trading securities on the Exchange. The main objectives are to achieve orderly trading, and efficient and fair markets.

There are a number of risks associated with securities trading including, but not restricted to failed trades, failed settlements, insider trading and market manipulation. In order to reduce those risks, the Authority has developed a number of procedures that apply to all market participants. In addition, the Authority is responsible for the following:

1. Regulate the issuance of securities. This includes the monitoring of securities at the time they are issued as well as ongoing monitoring as long as the securities are listed on the Exchange.
2. Regulation of market participants. All market participants in the capital markets of the Kingdom including brokers and the Exchange, are regulated, supervised, and monitored by the Authority.
3. Protection of investors against unfair, and high-risk practices by market participants as well as fraud and cheating in any way including, for example, insider trading and market manipulation.
4. Ensure the market in securities transactions is fair, efficient and transparent.
5. Requirements in relation to the information that must be disclosed to the public. The Authority has set standards for the disclosure of information related to:
 - securities
 - issuers of securities, and
 - dealings of major shareholders, majority investors and anyone who has, or may have, inside or sensitive information.
6. Regulations related to pledging of securities as collateral.

18. D Chapter 4, Section 3.1.1

A prospectus is a formal document describing the security that is being offered to potential buyers.

19. B Chapter 4, Section 4

An exempt offer of securities is an offer that is exempt from the Rules on the Offer of Securities and Continuing Obligations, and includes, for example, government-issued securities, offers of contractually-based securities, provided that the offer of unlisted contractually-based securities shall be limited to any of the following cases where:

- all offerees are investors under the categories of Institutional and Qualified Clients
- all offerees are employees of the issuer or of any of its affiliates, and
- the total value of issued securities is below SAR 10 million.

20. B Chapter 6, Section 1.2

Anyone omitting a material fact can be held liable for damages if the claim is related to the purchase or sale of a security or securities. The claimant will have to prove that:

- they were not aware the statement was untrue, and
- they would not have purchased or sold the security, or securities, if they were aware of the untrue statement, or they would have done so at a different price.

21. D Chapter 1, Section 4

The Depository Center is the only entity to register the ownership of securities traded in the exchange and their related rights. This record is conclusive evidence and proof of ownership. Ownership registration is effective once the Depository Center has verified the authenticity of the ownership documents.

22. D Chapter 6, Section 2

An insider is a person who obtains inside information through family, business, or contractual relationships. Insiders may not directly or indirectly trade in the security to which the inside information is related, or to disclose the inside information to another person with the expectation that the other person will trade in the security.

Insider information is information obtained by an insider, which is not available to the general public and has not yet been disclosed. Also, any normal person would realise that knowledge of the nature and content of this information, its release and availability would have a material impact on the price or value of the security, and the insider knows that such information is not generally available and that, if it were available, it would have a material effect on the price or value of said security.

23. C Chapter 6, Section 3.1

In case the Authority believes a person is violating, has violated, or is about to violate any of the laws and regulations, they can bring legal action before the committee to issue appropriate sanction, and the possible sanctions include:

1. warning
2. forcing the person to stop the act subject to the legal action
3. forcing the person to take the necessary steps to be taken to avert the violation, or take necessary corrective steps

4. forcing the person to pay damages resulting from a violation, or pay a penalty of up to three times any realised gains or avoided losses as a result of the violation
5. suspending the trading in the security
6. barring the violating person from acting as a broker, portfolio manager or investment adviser for such period of time as is necessary for the safety of the market and the protection of investors
7. seizing and executing property
8. travel ban, or
9. barring from working with entities subject to the Authority's supervision.

24. A Chapter 2, Section 1

If you are buying and selling on:

- your own account, you are acting as principal, or
- on behalf of another person, you are acting as agent.

25. B Chapter 2, Section 1

A security activity shall mean any of the following activities:

1. **Dealing** – a person deals in a security as principal or as agent, and dealing includes to **sell, buy**, manage the subscription or underwrite securities.
2. **Arranging** – a person introduces parties in relation to the offering of securities or arrangement of their underwriting, or advises on corporate finance business.
3. **Managing** – a person manages a security belonging to another person in circumstances involving the exercise of discretion, or operates investment funds.
4. **Advising** – a person advises another person in relation to a security, which includes advising on the merits of that person dealing in it, exercising any right to deal as conferred by that security or in financial planning or wealth management advice.
5. **Custody** – a person safeguards assets belonging to another person which include a security, or arranges for another person to do so, and custody includes taking the necessary administrative measures.

26. C Chapter 2, Section 2.3

Entering into a transaction is excluded from dealing if the purpose of the transaction is to acquire or dispose of 50% or more of the voting shares in a company whose shares are not listed on the Exchange.

27. B Chapter 2, Section 3

Any advertisement related to securities activity that is exempt from authorisation is not subject to the advertisement restrictions. For example, any advertisements aimed at exempt persons, or related to exempt activities or transactions. In addition, any journalistic piece, reports required to be made under the Law of the Kingdom and the Implementing Regulations, or are aimed at persons who own securities issued by the person making the advertisement, are also exempt.

28. C Chapter 3, Section 1.2

The paid-up capital of the applicant must be at least:

Activity	Minimum Paid-Up Capital
Dealing	SAR 50 million
Custody	SAR 50 million
Managing	- Managing investments and operating funds – SAR 20 million. - Managing investments – a capital that covers the expected expenses for a year.
Arranging and advising	Capital that covers the expenses for the year

29. B Chapter 5, Section 7

Capital Market Institutions who breach any of the provisions of the CFT Law or its Implementing Regulations, may be subject to a fine of up to SAR 5 million per violation imposed by the Authority, and may also apply other measures, including:

- Banning individuals from employment within the relevant industry sector.
- Dismissing **directors** and/or senior managers.
- Suspending or restricting business activities.
- Suspending, restricting or revoking the licence to trade.

30. D Chapter 7, Section 4.3

Margin transactions may only be undertaken for a customer if this is specifically agreed in the terms of business with the client. The terms of business need to specifically state when the client may be required to provide margin, the form in which it can be provided, and any recourse for the Capital Market Institution if the customer does not pay. The Capital Market Institution is entitled to close out the position in any event after a period of five days from such failure.

Secured or unsecured loans or credit may be given to a client for a period of more than five days for the purpose of covering margins payments provided the appropriate credit assessments are completed and the customer's approval obtained. In relation to effecting a margin transaction on shares of companies listed on the exchange, monitoring the margin provided by the client daily, and ensuring that the margin is not less than 25% of the current value of each applicable security position.

31. D Chapter 8, Section 3.2

All telephone communications from clients and potential clients relating to securities business must be recorded, and the Capital Market Institution must disclose this to the client. All records of telephone conversations related to securities business must be retained for a period of three years from the date the call was concluded. In the event of a dispute or regulatory enquiry, the recordings will need to be retained until the dispute is fully resolved or the enquiry completed.

32. C Chapter 8, Section 2.2

If the Capital Market Institution acts as a manager for the client, they must send a valuation report at least every quarter. The valuation report needs to contain a description of the securities held in the portfolio, cash balances (if any), total value on the date the report is sent, the basis for valuation, currency exchange rates (if any), as well as an overview of the transaction that have taken place during the period, fees, commissions, and taxes, any securities pledged, and open derivative positions (if any).

33. C Chapter 1, Section 1

The following instruments are not considered to be securities in the Capital Market Law:

- commercial cheques
- bills of exchange
- order notes
- documentary credits
- money transfers
- instruments exclusively traded among banks, and
- insurance policies.

34. B Chapter 7, Section 1

A registrable function is a function within a financial institution that must be performed by a registered person. These are typically functions with higher importance for the stability of the financial system, and to maintain trust in the system. They are specifically defined as follows:

- Chief executive officer (CEO) or managing director
- Finance manager
- Director or partner
- Senior officers or managers
- Compliance officer
- Money laundering reporting officer (MLRO)
- Client functions – sales representatives, investment advisors, portfolio managers and corporate finance professionals as defined by the Authority.

35. D Chapter 4, Section 1.2

Due to their position, Capital Market Institutions should always make sure the customer understands the nature and risk involved with any transaction, taking into consideration education and knowledge level, field of work, and experience of the client.

36. A Chapter 6, Section 1.

Option A is correct because the claimant was unable to demonstrate that the Capital Market Institution knew the information and statement were untrue and that they would have acted in the same manner regarding the buying/selling of the underlying security.

37. B Chapter 5, Section 2.1

Option B is correct, the risk assessment would take into account a number of factors, including customers, countries or geographic areas, products and services, transactions and delivery channels.

38. A Chapter 5, Section 2.4

Option A is correct, Capital Market Institutions are not permitted to set up numbered accounts. If they are unable to comply with their obligations in respect of the CDD requirements, then they are not permitted to open an account.

39. C Chapter 5, Section 3

Option C is correct, the AML Law requires Capital Market Institutions to retain a record of any transactions and monitoring undertaking for ten years.

40. D Chapter 5, Section 4

Option D is correct, where a Legal Person (Company) is found guilty of money laundering then the fine is no more than SAR 50 million.

41. D Chapter 5, Section 3.1

Option D is correct, firms must report suspicious activity to the General Directorate of Financial Intelligence.

42. D Chapter 3, Section 1.2

The paid up capital of the applicant must be at least:

Activity	Minimum Paid up Capital
Dealing	SAR 50 million
Custody	SAR 50 million
Managing investment funds and client portfolios	SAR 20 million
Managing private non-real estate investment funds and sophisticated investor portfolios	SAR 5 million
Arranging	SAR 2 million
Advising	SAR 400,000

43. B Chapter 4, Section 6.1

A financial advisor is the main point of contact for the Authority regarding an application for the registration and offer of securities, either by the issuer directly or an SPE.

44. B Chapter 4, Section 7

The Special Purposes Entity (SPE) is an entity established and licensed by the Authority under the Rules for Special Purposes Entities for debt instruments and investment units, and shall have legal personality and financial autonomy, and it shall cease to exist with the end of the purpose for which it was established for, in accordance with the Rules and Regulations issued by the Authority.

45. C Chapter 4, Section 7

Asset-linked recourse debt instruments means a debt instrument issued by an SPE under whose terms:

1. The entitlement of holders of the debt instrument to a return is defined by the ratio of the returns generated by the SPE's assets.
2. The sponsor is obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay all amounts due on the debt instrument.

46. B Chapter 4, Section 8.1

Shareholders of listed companies are the owner of the company and, as such, have a number of rights in relation to their share of ownership. In addition, shareholders have a guaranteed right to the following: pre-emptive rights to subscribe for new shares issued in exchange for cash unless otherwise specified in the company's by-laws or when the extraordinary general assembly (EGA) suspends the pre-emptive rights as per the Companies Law.

47. B Chapter 4, Section 8.2

If, after the request by the external auditor, the Board does not issue an invitation for an ordinary assembly within 30 days, the external auditor may issue the invitations themselves.

48. A Chapter 6, Section 2

An insider is a person who obtains inside information through family, business, or contractual relationships. Insiders may not directly or indirectly trade in the security to which the inside information is related.

49. A Chapter 4, Section 2

An open-ended investment fund is an investment fund with changing capital, the units of which would increase with the issuance of new units, and decrease with redemption by unitholders of some or all of their units. Unitholders are entitled to redeem the value of their units at their net asset value on dealing days set in the fund's terms and conditions.

50. B Chapter 8, Section 2.2

If the Capital Market Institution acts as a manager for the client, they must send a valuation report at least every quarter.

Syllabus Learning Map





Syllabus Unit/ Element		Chapter/ Section
Element 1	Introduction to the Capital Market Authority	Chapter 1
1.1	Securities On completion the candidate should:	
1.1.1	know the types of securities specifically covered by the Capital Market Law (Chapter 1, Article 2)	Section 1
1.1.2	know the types of securities not covered by the Capital Market Law (Capital Market Law Chapter 1, Article 3) - instruments excluded from the definition of securities - securities listed or traded outside of the Kingdom (Chapter 3, Article 26)	Section 1
1.2	The Capital Market Authority (the Authority) On completion the candidate should:	
1.2.1	know the extent of the Authority's responsibilities under the Capital Market Law and the methods that it may employ to achieve those objectives (Capital Market Law Chapter 2, Article 5)	Section 2
1.2.2	know the scope of the Authority's powers (Capital Market Law Chapter 2 Article 6)	Section 2
1.3	The Exchange On completion the candidate should:	
1.3.1	know the role and objective of the Exchange (Capital Market Law Chapter 3)	Section 3
1.3.2	know the governance structure of the Exchange (Capital Market Law Chapter 3)	Section 3
1.3.3	know the scope of the Exchange's powers (Capital Market Law Chapter 3, Article 23)	Section 3
1.3.4	know the functionality of the Committee for the Resolution of Securities Disputes (the Committee) (Capital Market Law Chapter 4, Article 30)	Section 3
1.4	The Securities Depository Center (the Center) On completion the candidate should:	
1.4.1	know the functionality of the Center (Capital Market Law Chapter 4, Article 27)	Section 4
1.4.2	know what action may be taken by the Center in the event of an error in, or any doubt over, the information held by the Center (Capital Market Law Chapter 4, Article 27)	Section 4
Element 2	Securities Business Regulations	Chapter 2
2.1	The Securities Business On completion, the candidate should:	
2.1.1	know the definition of dealing (Securities Business Regulations Chapter 1, Article 2)	Section 1

Syllabus Unit/ Element		Chapter/ Section
2.1.2	know the definition of dealing as an agent (Securities Business Regulations Definitions)	Section 1
2.1.3	know the definition of dealing as principal (Securities Business Regulations Definitions)	Section 1
2.1.4	know the definition of arranging (Securities Business Regulations Chapter 1, Article 2)	Section 1
2.1.5	know the definition of managing (Securities Business Regulations Chapter 1, Article 2)	Section 1
2.1.6	know the definition of advising (Securities Business Regulations Chapter 1, Article 2)	Section 1
2.1.7	know the definition of custody (Securities Business Regulations Chapter 1, Article 2)	Section 1
2.2	Exclusions from Authorisation On completion, the candidate should:	
2.2.1	understand the rules governing activities within groups and joint enterprises (Securities Business Regulations Chapter 1, Article 8)	Section 2
2.2.2	understand the circumstances when securities activities might be excluded from Authorisation (Securities Business Regulations): • exempt persons (Annex 1) • activities carried out in the course of non-securities business (Chapter 2, Article 9) • sale of goods and supply of services (Chapter 2, Article 10) • executors (Chapter 2, Article 11) • sale of a company (Chapter 2, Article 12)	Section 2
2.3	Securities Advertisements On completion, the candidate should:	
2.3.1	know the scope of regulation in relation to securities advertisements (Securities Business Regulations Chapter 3, Articles 16, 17, 18, 19, 20)	Section 3
Element 3	Authorisation	Chapter 3
3.1	Acquiring Authorisation On completion the candidate should:	
3.1.1	know the information required in relation to applications (Capital Market Institutions Regulations Part 3, Chapter 1, Article 6, Annex 3.1)	Section 1
3.1.2	know minimum capital requirements for (Capital Market Institutions Regulations Part 3, Chapter 1, Article 6): • advising • arranging • dealing • managing • custody	Section 1

Syllabus Unit/ Element		Chapter/ Section
3.2	Maintaining Authorisation On completion the candidate should:	
3.2.1	know how capital market institutions comply with the ongoing requirement to be fit and proper (Capital Market Institutions Regulations Part 3, Chapter 2, Article 9)	Section 2
Element 4	Regulated Activities	Chapter 4
4.1	Capital Market Institutions On completion, the candidate should:	
4.1.1	know the principles that provide a general statement of the fundamental obligations of Capital Market Institutions (Capital Market Institutions Regulations Part 2, Article 5)	Section 1
4.1.2	know the fiduciary duties that a Capital Market Institution owes to its customers (Capital Market Institutions Regulations Part 5, Article 40 & Annex 5.4)	Section 1
4.1.3	know the restrictions placed on a Capital Market Institution's dealings with its customers when undertaking activities that involve risk (Capital Market Institutions Regulations Part 5, Article 42)	Section 1
4.2	Investment Funds and Collective Investment Schemes On completion, the candidate should:	
4.2.1	know the definition of investment fund as described in the Glossary of defined terms used in the Regulations and Rules of the CMA	Section 2
4.2.2	know how investment funds are established pursuant to Investment Funds Regulations and Real Estate Investment Funds Regulations	Section 2
4.2.3	know the different types and classifications of investment funds	Section 2
4.2.4	know the main related parties to the investment fund and their duties pursuant to Investment Funds Regulations and Real Estate Investment Funds Regulations	Section 2
4.3	Prospectus Disclosures On completion, the candidate should:	
4.3.1	know what information and statements must be contained in a prospectus relating to the issue of securities (Capital Market Law Chapter 7, Article 42)	Section 3
4.3.2	know submission requirements for issuers (Capital Market Law): • offering securities to the public (Chapter 7, Article 45) • who currently have securities traded on the Exchange (Chapter 7, Article 45)	Section 3
4.4	Rules on the Offer of Securities and Continuing Obligations On completion, the candidate should:	
4.4.1	know the various ways securities may be offered in the main and secondary markets: • exempt offers (Articles 3 & 6) • private placement (Article 3) • public offer (Article 3) • Parallel Market offer (Article 3)	Section 4

Syllabus Unit/ Element		Chapter/ Section
4.5	Issuer Representatives On completion, the candidate should:	
4.5.1	know the requirement for an issuer to appoint representatives to act on its behalf before the Authority (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 1, Article 18)	Section 5
4.6	Advisors to the Issuer On completion, the candidate should:	
4.6.1	know the role of the financial advisor, its obligations and duty of care (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 2, Article 21)	Section 6
4.6.2	know the role of the legal advisor, its obligations and duty of care (Rules on the Offer of Securities and Continuing Obligations Part 4, Chapter 2, Article 22)	Section 6
4.7	The Rules for Special Purposes Entities On completion, the candidate should:	
4.7.1	know the definition of the Special Purposes Entity (SPE), the main purposes of establishing a special purposes entity, and types of debt instruments issued by special purposes entities	Section 7
4.8	Corporate Governance Regulations On completion, the candidate should:	
4.8.1	understand the rights of shareholders of companies listed on the Exchange (Part 2, Chapter 1, Article 5)	Section 8
4.8.2	know the rules governing general assemblies of listed companies (Part 2, Chapter 2, Articles 10, 11, 12 and 13)	Section 8

Element 5	Anti-Money Laundering and Counter-Terrorist Financing Rules	Chapter 5
5.1	Anti-Money Laundering Law On completion, the candidate should:	
5.1.1	Know which acts are considered to be money laundering offences (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law Article 2)	Section 1
5.2	Preventative Measures On completion, the candidate should:	
5.2.1	Know the preventive measures that should be adopted in relation to (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law): • assessing money laundering risk (Article 5) • anonymous, fictitious or numbered accounts (Article 6) • due diligence (Articles 7 & 11) • prominent public functions (Article 8) • correspondent relationships (Article 9)	Section 2

Syllabus Unit/ Element		Chapter/ Section
5.3	Detecting Money Laundering On completion, the candidate should:	
5.3.1	Know how to fulfil ongoing monitoring requirements (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law Article 13 & 14)	Section 3
5.3.2	Know what do if suspicious activity is detected (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law Articles 15 & 16)	Section 3
5.4	Failure to Comply On completion, the candidate should:	
5.4.1	Know the sanctions for violating or failing to comply with any provision of the Anti-Money Laundering Law, its Implementing Regulation and relevant decisions or circulars (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law Articles 25, 26, 27, 28, 29, 30, 31, 32)	Section 4
5.5	Combating Terrorism Crimes and its Financing Law On completion, the candidate should:	
5.5.1	Know the preventative measures that must be in place in relation to (Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law): • assessing risk (Article 63) • due diligence (Articles 64 & 66)	Section 5
5.6	Record-Keeping Requirements On completion, the candidate should:	
5.6.1	Know the record-keeping requirements in relation to: • Anti-Money Laundering Law (Article 12) • Combating Terrorism Crimes and its Financing Law (Article 65)	Section 6
5.7	Penalties for Non-Compliance On completion, the candidate should:	
5.7.1	Know the sanctions for violating or failing to comply with any provision of the Combating Terrorism Crimes and its Financing Law its Implementing Regulations and/or relevant decisions or circulars (Combating Terrorism Crimes and its Financing Law Article 83)	Section 7
Element 6	Prohibitions	Chapter 6
6.1	Untrue Statements On completion, the candidate should:	
6.1.1	understand the regulations concerning the prohibition of untrue statements (Market Conduct Regulations, Part 4, Article 7)	Section 1
6.1.2	know the regulations governing rumours (Market Conduct Regulations, Part 4, Article 8)	Section 1

Syllabus Unit/ Element		Chapter/ Section
6.1.3	understand the circumstances under which a person may be liable for damages in respect of making an untrue statement (Market Conduct Regulations, Part 4, Article 10)	Section 1
6.2	Manipulation and Insider Trading On completion, the candidate should:	
6.2.1	know activities and practices that are considered to be manipulative (Capital Market Law Chapter 8, Article 49)	Section 2
6.2.2	know what types of person are regarded as insiders (Capital Market Law Chapter 8, Article 50)	Section 2
6.2.3	know when information should be regarded as inside information (Capital Market Law Chapter 8, Article 50)	Section 2
6.2.4	be able to analyse examples to identify instances of insider trading (Capital Market Law Chapter 8)	Section 2
6.3	General Sanctions and Penalties for Violations On completion, the candidate should:	
6.3.1	know the sanctions that can be issued by the Committee for the Resolution of Securities Disputes for violation of any provisions of the law, regulations, and rules issued by the Authority (Capital Market Law Chapter 10, Article 59 and Article 62)	Section 3
6.3.2	know the penalties and reasonable defences relating to misstating or omitting material facts (Capital Market Law Part 5, Chapter 10, Article 56)	Section 3
6.3.3	know the penalties for undertaking, or purporting to undertake, brokerage activities without a licence (Capital Market Law Part 5, Chapter 10, Article 60)	Section 3

Element 7	Capital Market Institutions Regulations	Chapter 7
7.1	Registrable Functions On completion, the candidate should:	
7.1.1	know the registrable functions (Authorised Persons Regulations Part 4, Chapter 1, Article 19)	Section 1
7.1.2	know requirements for the performance of registrable functions (Authorised Persons Regulations Part 4, Chapter 1, Article 20)	Section 1
7.2	Accepting Clients On completion, the candidate should:	
7.2.1	know the requirements regarding client classification (Authorised Persons Regulations Part 5, Chapter 3, Article 36)	Section 2
7.2.2	be able to apply client acceptance obligations in accordance with the Anti-Money Laundering Law and Combating Terrorism Crimes and its Financing Law (Part 5, Chapter 3, Article 37)	Section 2
7.2.3	know the terms of business requirements (Authorised Persons Regulations Part 5, Chapter 3, Article 38, Annex 5.2)	Section 2

Syllabus Unit/ Element		Chapter/ Section
7.2.4	know the minimum information required to satisfy know your customer rules (Authorised Persons Regulations Part 5, Chapter 3, Article 39, Annex 5.3)	Section 2
7.2.5	understand the circumstances in which information obtained from clients may be disclosed more widely (Authorised Persons Regulations Part 5, Chapter 1, Article 29)	Section 2
7.3	Inducements On completion, the candidate should:	
7.3.1	know the regulation regarding inducements and the circumstances under which special commission arrangements are acceptable (Authorised Persons Regulations Part 5, Chapter 1, Articles 27, 28)	Section 3
7.4	Suitability On completion, the candidate should:	
7.4.1	know the factors a Capital Market Institution must consider in order to meet suitability requirements (Capital Market institutions Part 5, Chapter 4, Article 43)	Section 4
7.4.2	know the requirements regarding (Capital Market institutions): • client borrowing (Part 5, Chapter 4, Article 44) • margin (Part 5, Chapter 4, Article 45)	Section 4

Element 8	Systems and Controls	Chapter 8
8.1	Managing Conflicts of Interest On completion, the candidate should:	
8.1.1	know the requirements for managing conflicts of interest (Capital Market Institutions' Regulations Part 5, Chapter 4, Article 41)	Section 1
8.1.2	know how an effective Chinese wall should operate (Capital Market Institutions' Regulations Part 5, Chapter 1, Article 30)	Section 1
8.1.3	know the requirements governing employees' personal dealings (Capital Market Institutions' Regulations Part 5, Chapter 6, Article 50)	Section 1
8.2	Reporting to Clients On completion, the candidate should:	
8.2.1	know reporting requirements relating to (Capital Market Institutions' Regulations): • contract notes (Part 5, Chapter 5, Article 47, Annex 5.5) • valuations (Part 5, Chapter 5, Article 48, Annex 5.6)	Section 2
8.3	Client Records On completion, the candidate should:	
8.3.1	know record-keeping requirements for client accounts (Capital Market Institutions' Regulations Part 5, Chapter 6, Article 49) (Anti-Money Laundering Law Article 12) (Combating Terrorism Crimes and its Financing Law Article 65)	Section 3

Syllabus Unit/ Element		Chapter/ Section
8.3.2	know the requirements for the provision and retention of recorded telephone calls (Capital Market Institutions' Regulations Part 5, Chapter 6, Article 51)	Section 3
8.4	Management Arrangements On completion, the candidate should:	
8.4.1	know the management arrangements that should be in place in relation to (Capital Market Institutions' Regulations): - the division of responsibilities (Part 6, Chapter 2, Article 53) - systems and controls (Part 6, Chapter 2, Article 54) - general provisions (Part 6, Chapter 3, Article 55) - review by the governing body (Part 6, Chapter 3, Article 56) - compliance (Part 6, Chapter 3, Article 57) - the Compliance Committee (Part 6, Chapter 3, Article 58) - outsourcing (Part 6, Chapter 3, Article 59) - audit (Part 6, Chapter 3, Articles 60, 61, 62) - complaints (Part 6, Chapter 3, Article 63) - employees (Part 6, Chapter 3, Article 65) - business continuity (Part 6, Chapter 3, Article 66)	Section 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	Introduction to the Capital Market Authority	7
2	Securities Business Regulations	6
3	Authorisation	2
4	Regulatory Activities	13
5	Anti-Money Laundering and Counter-Terrorist Financing Rules	5
6	Prohibitions	7
7	Capital Market Institutions' Regulations	6
8	Systems and Controls	4
Total		50

Source References

The learning materials are derived from the Capital Market Law and implementing regulations of the Capital Market Authority which comprise the rules, instructions and procedures issued by CMA to implement the Capital Market Law Articles. The table below illustrates the source material referenced in the syllabus.

	Element	Source
1	Introduction to the Capital Market Authority	Capital Market Law
2	Securities Business Regulations	Securities Business Regulations
3	Authorisation	Capital Market institutions
4	Regulated Activities	
	• Sub-element 4.1	Capital Market Institutions' Regulations
	• Sub-element 4.2	Investment Funds Regulations and Real Estate Investment Funds Regulations
	• Sub-element 4.3	Capital Market Law
	• Sub-element 4.4–4.6	Rules on the Offer of Securities and Continuing Obligations
	• Sub-element 4.7	The Rules for Special Purposes Entities
	• Sub-element 4.8	Corporate Governance Regulations
5	Anti-Money Laundering Law and Counter-Terrorist Financing Rules	Anti-Money Laundering Law Combating Terrorism Crimes and its Financing Law
6	Prohibitions	
	• Sub-element 6.1	Market Conduct Regulations
	• Sub-elements 6.2 – 6.4	Capital Market Law
7	Capital Market Institutions Regulations	Capital Market institutions
	• Sub-elements 7.2.2	Anti-Money Laundering Law Combating Terrorism Crimes and its Financing Law
8	Systems and Controls	Capital Market institutions

