



Study Material

For Capital Market Examination-I (CME-I)
of
General Securities Qualifications Certificate

PART I: Securities Regulations

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General Securities Qualification Examination Preparation Course

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A Learning Map which contains the full syllabus appears at the end of this workbook. Please note that the examination is based upon the syllabus.

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The educational material presented in this manual covers wide area of knowledge deemed necessary for those individuals holding positions relating to investment and capital market in Saudi Arabia. The material covers areas related to regulations governing the capital market and securities operations in Saudi Arabia. The regulations covered include capital market law, offers of securities regulations, market conduct regulations, listing rules, securities business regulations, authorized persons regulations, investment funds regulations, mergers and acquisition regulations, anti-money laundering and counter terrorist rules, and corporate governance regulations. However, the depth of required knowledge and comprehension is not the same for all topics covered in this manual. Thus, in order to more clearly define the topical knowledge required by a candidate, learning objectives have been specified for all major topics. The levels of coverage for the treatment of major topics of the contents specification outlines have been identified and defined. The cognitive skills that a successful candidate should possess and that should be tested on the examination can be defined as follows:

Knowledge: ability to remember previously learned material such as specific facts, criteria, techniques, principles, and procedures (instructions such as, identify, define, and list falls under this category).

Comprehension: ability to grasp the meaning of the learned material which can be demonstrated by (classifying, explaining, distinguishing) between things and materials.

Application: Ability to use previously learned material in new and concrete situations (i.e. demonstrate, predict, solve, modify, relate.. etc.).

Analysis: Ability to break down material into the component parts so that its organizational structure can be understood; ability to recognize casual relationships, discriminate between behaviors, and identify elements that are relevant to the validation of a judgment(i.e. differentiate, estimate, order).

The Examination is a multiple choice questions which usually come under different formats. The most prominent ones are outlined below:

i) Closed-Stem

The stem (the part that poses the question) is a complete sentence, and thus concludes with a question mark. The options (answer alternatives) may be complete or incomplete sentences.

Example Bonds can be described as which of the following?

- (A) Securities under the capital market law
- (B) Short term securities
- (C) Can be issued only by governments
- (D) Always trade between banks

ii) Open-Stem (Sentence Completion)

The stem is an incomplete statement, and the options represent conclusions to the sentence.

Example Dividends are distribution of earnings:

- (A) Which is a privilege to existing Shareholders of the company.
- (B) Which is a right to existing Shareholders of the company.
- (C) Which is a right to existing Shareholders of the company, but a privilege to management and board of directors of the company.
- (D) Which is a right to existing Shareholders of the company, management, and board of directors of the company.

iii) (Most/Least/Best)

This relative form of questions requires selecting a choice that is either better or worse than the others. The basis on which the evaluation is to be made is stated in the stem.

Example Which of the following BEST describes an aspect of common stock issued by a company?

- (A) An ownership claim issued to contributors of capital
- (B) An ownership claim issued to contributors of all funds to the company
- (C) Entitles its holder to regular amount of dividends at the end of each year.
- (D) Has priority claim over all other securities issued by a company.

iv) Except or Not

The "EXCEPT" case usually is used when the task is to select the response option that is an exception to the principle or rule stated in the stem.

Example Money ceases to be a client money for which an authorized person is responsible for under the following circumstances, except:

- (A) The money is paid to the client
- (B) The money is paid to a third party on the instructions of the authorized person.
- (C) The money is paid into a bank account in the name of the client
- (D) The money is paid to the authorized person itself, where it is lawfully due.

v) Complex Multiple-Choice ("Roman Numeral" Format)

This type of question is used when more than one of the option answers may be a correct response.

1 - Example The Authorized Persons Regulations state that authorized persons must not induce a client to engage in any transaction by:

- I) Offering gifts to the client.
 - II) Instructing someone else to offer gifts to the client.
 - III) Offering to participate in the client's losses and gains.
-
- (a) I only
 - (b) I and II only
 - (c) I and III only

(d) I, II and III.

Complex Multiple – Choice (“Arabic Numeral” Format)

Example (1) bonds qualify as securities under the capital market law (2) a cheque qualifies as a security under the capital market law:

- (A) (1) is correct (2) is incorrect
- (B) (1) is incorrect (2) is correct
- (C) Both (1) & (2) are correct
- (D) Both (1) & (2) are incorrect

LEARNING STRUCTURE:

Part 1: Regulations

- | | |
|---|---|
| 1 <i>Capital Market Law</i> | 6 <i>Authorized Persons Regulations</i> |
| 2 <i>Market Conduct Regulations</i> | 7 <i>Investment Funds Regulations and Real Estate Investment Funds Regulations</i> |
| 3 <i>Offer of Security Regulations</i> | 8 <i>Mergers & Acquisitions Regulations</i> |
| 4 <i>Listing Rules</i> | 9 <i>AML & Counter Terrorist Financing Rules</i> |
| 5 <i>Securities Business Regulations</i> | 10 <i>Corporate Governance Regulations</i> |

I. Capital Market Law

Introduction

1.1 Securities

1.1.1. Instruments that are 'securities'

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Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

This chapter deals with the law in relation to capital market transactions in Saudi Arabia. The legislative instrument that introduced the law is the ‘Capital Market Law’ and amongst other things it established the major participants in the Saudi Arabian regulatory regime – The Capital market Authority (CMA), The Securities Market (The Exchange), the Committee for the Resolution of Securities Disputes (The Committee), and the Securities Depository center(The Center) . The rules and regulations throughout this chapter apply to securities and the chapter begins with an outline of exactly what securities are, before considering the regulatory and other bodies involved in the issue and subsequent trading of securities

1.1 SECURITIES

1.1.1 INSTRUMENTS THAT ARE ‘SECURITIES’

Learning Objective 1.1.1 – *know* the types of instruments specifically covered by the CML and referred to as ‘securities’ therein (Chapter 1, Article 2)

According to the Saudi Arabian Capital Market Law (CML), all of the following are defined as securities:

- Negotiable shares of companies, including convertible shares.
- Bonds and other negotiable instruments of debt issued by companies, the government, public institutions or public organizations.
- Investment units issued by investment funds.
- Any instrument representing profit participation rights, and/or any rights in the distribution of assets.
- Any other rights or instruments which the Board of the capital market authority determines should be treated as securities, if the Board believes that this would further the safety of the Exchange or the protection of investors.

1.1.2 INSTRUMENTS THAT ARE NOT ‘SECURITIES’

Learning Objective 1.1.2 – *Know* the types of instruments specifically excluded from the definition of ‘securities’ and therefore not covered by the CML (Chapter 1, Article 3)

Certain instruments are excluded from the definition of securities:

- Commercial bills, such as cheques, bills of exchange, order notes, documentary credits and money transfers.
- Instruments exclusively traded amongst banks.
- Insurance policies.
- Any other rights or instruments which the Board of the Authority determines should not be treated as securities, if the Board believes that it is not necessary to treat them as securities in order to further the safety of the Exchange or the protection of investors.

1.2 THE CAPITAL MARKET AUTHORITY

1.2.1 THE OBJECTIVES OF THE AUHORITY

Learning Objective 1.2.1 – *Understand* the extent of the Authority responsibilities under the CML and the functions that it may employ to achieve those objectives (Chapter 2, Article 5)

The Saudi Capital Market Authority (the Authority) has been established under Capital Market Law. The Commission is the agency responsible for issuing rules, directives and other instructions, and implementing the provisions of these regulations

In order to achieve these objectives, the Authority has been given the following responsibilities:

- 1 - To regulate and develop the Exchange, seeking to develop and improve methods of systems and entities trading in securities, and develop the procedures that would reduce the risks related to securities transactions.
- 2 - To regulate the issuance of securities, and subsequently monitor those securities and their trading.
- 3 - To regulate and monitor the works and activities of the parties subject to the control and supervision of the Commission.
- 4 - To protect citizens and investors in securities from unfair and unsound practices involving fraud, deceit, cheating or manipulation.
- 5 - To seek to achieve fairness, efficiency and transparency in securities transactions.
- 6 - To regulate and monitor the full disclosure of information regarding securities and their issuers, the dealing of informed persons and major shareholders and investors, and define and make available information that the participants in the market should provide and disclose to shareholders and the public.
- 7 - To regulate proxy requests and purchase request, and public offers of shares

1.3 OTHER SAUDI ARABIAN ENTITIES

1.3.1 THE SAUDI ARABIAN SECURITIES EXCHANGE (THE EXCHANGE)

Learning Objective 1.3.1 – *Know* the objectives of the Exchange (Chapter 3, Article 20)

The market established in the Kingdom of Saudi Arabia for the trading of securities (the Saudi Securities Exchange, or just the Exchange) is the sole entity authorized to carry out trading in securities in the Kingdom. The objectives of the Exchange include the following:

- 1 - Ensuring fair, efficient and transparent listing requirements, trading rules, technical mechanisms and information relating to securities listed on the Exchange.
- 2 - Providing reliable and rapid settlement and clearance rules and procedures through its Securities Depository Center.
- 3 - Establishing and enforcing professional standards for brokers and their agents.
- 4 - Ensuring the financial strength and soundness of brokers through the periodic review of their compliance with capital adequacy requirements, and setting such arrangements to protect the funds and securities in the custody of brokerage companies.

1.3.2 THE COMMITTEE FOR THE RESOLUTION OF SECURITIES DISPUTES (THE COMMITTEE)

Learning Objective 1.3.2 – *Understand* the functionality of the Committee for the Resolution of Securities Disputes (Chapter 3, Article 25)

The Committee for the Resolution of Securities Disputes is established by the Authority. As its name suggests, its function is to investigate suits and complaints in relation to the disputes falling within the provisions of the capital market law and its implementing regulations, and the regulations of the Authority and the capital market and rules and guidance on public and private rights. The Committee has the power to issue subpoenas, issue orders, impose sanctions and issue orders to produce evidence and documents in order to settle suits and complaints.

The Committee's jurisdiction also includes claims against decisions and actions taken by the Authority or the Exchange. The Committee has the right to issue a decision awarding damages and/or requests to revert to the original status or another appropriate decision if felt appropriate, to guarantee the rights of the aggrieved.

The Committee consists of legal advisors specialized in securities and exchanges, and experts in commercial and financial affairs. The members of the Committee are appointed by the Board for a renewable, three-year term. In relation to each dispute brought before them, the members of the Committee must not have any direct or indirect financial or commercial interest with the parties to the dispute, nor a family relationship up to the fourth degree with either party.

The Committee is required to start considering each dispute brought to them within a period not exceeding 14 days from the date the dispute is filed with them. No complaint or statement of claim can be filed with the Committee without first being filed with the Authority, and unless 90 days had passed since filing, except when the committee notifies the claimant that filing is allowed before the stated period is over.

All forms of evidence are admissible to the Committee, including electronic or computer data, telephone recordings, fax messages and e-mail.

The final decision reached by the Committee is enforceable at the Authority's or Exchange's request through the government agency responsible for the enforcement of judicial judgments. If the decision requires compensation or damages to be paid to another party, such parties can enforce their claims in the same way as any other judicial judgment in civil proceedings.

The Committee's decisions can be appealed within 30 days of the notification of that decision. The appeal is made to an Appeal Panel. The Appeal Panel has three members representing the Ministry of Finance, the Ministry of Commerce and Industry and the Bureau of Experts at the Council of Ministers. The members are appointed by a Council of Minister's decision for three-year renewable terms. The outcome of the appeal process is final, with the Appeal Panel able to refuse to review the decisions of the Committee, affirm the decisions, review the decision based on the record made by the Committee and order such relief as it feels appropriate.

1.3.3 THE SECURITIES DEPOSITORY CENTER 'THE CENTER'

Learning Objective 1.3.3 – *Understand* the functionality of the Securities Deposit Center (Chapter 4, Articles 26 & 27)

Learning Objective 1.3.4 – *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 (Chapter 4, Article 27)

The Securities Depository Center (or the Center) is a department established by the board of the Capital market Authority. It is the sole authority in the Kingdom authorized to settle, clear and register ownership of securities traded on the Exchange.

As the sole authority registering the property rights of securities traded on the Exchange, the registered ownership recorded by the Center is conclusive evidence of ownership, together with the encumbrances and rights associated with those securities.

The Center will provide a certificate of registration if the investor requests it. The Center will also provide periodic reports to all owners of securities regarding the registered securities held within the Center.

Confidentiality of holdings at the Center is paramount, with employees of both the Center and the Exchange, their auditors, advisors and consultants only able to disclose information about owners of securities as set out in the operating rules of the Center.

The Center does facilitate requests to correct any errors in the registered information held. If a person believes that there is an error in the information entered into the register that needs to be corrected or otherwise amended; he/she should send written details to the Manager of the Center (or someone appointed by the Manager to receive such requests). Before altering the registered owner, the Center will give notice, and reasonable opportunity to comment, to the person(s) currently registered as owners.

1.4 BROKER REGULATION

1.4.1 REQUIREMENTS OF BROKERS

Learning Objective 1.4.1 – *Know* the requirements of a person wishing to undertake brokerage business (Chapter 5, Articles 31 & 32)

Acting as a broker is not open to anyone. Normally both the broker and the company for whom the broker acts must be licensed before undertaking brokerage business. Brokerage business is restricted to persons holding a valid license and acting as agent for a joint stock company that is licensed to perform brokerage activities, unless the person is exempted from the requirement

1.4.2 ACTIVITIES OF A BROKER

Learning Objective 1.4.2 – *Know* the activities that may be carried on by a Broker (Chapter 5, Article 32)

Brokers are defined in Article 32 of the Capital Market Law. Broadly, a broker includes any joint stock company commercially carrying out one or more of five activities:

- 1 - Acting as an intermediary in the trading of securities, including as custodian.
- 2 - Opening accounts for others to enable them to effect transactions in securities.
- 3 - Dealing in order to make a market in securities.
- 4 - Acquiring or placing securities for issuers, or their agents.
- 5 - Acting as an intermediary in a commercial capacity arranging currency or securities swaps.

1.4.3 THE EXCHANGE'S POWERS

Learning Objective 1.4.3 – *Understand* the Exchange's power to carry out investigations and inspections of licensed brokers or brokers' agents (Chapter 5, Article 35)

The Exchange has the power to carry out investigations and inspections in connection with any licensed broker or broker's agent, in order to verify whether he has violated, is violating or is about to violate the rules and instructions of the Exchange.

The Exchange is given the power to require the production of any person's testimony, papers, books, or other documents that the Exchange deems necessary or relevant to its inquiry. The Exchange may also require the attendance of witnesses, and is able to inspect records wherever the records are situated. The Exchange exercises its powers to carry out investigations and inspections by obtaining subpoenas and orders from the Committee for Resolution of Securities Disputes. The Committee is required to accept requests for subpoenas and orders unless the Committee establishes that the Exchange's request is arbitrary or involves the abuse of power.

1.5 INVESTMENT FUNDS AND COLLECTIVE INVESTMENT SCHEMES

Learning Objective 1.5 – *Know* the Authority's powers of regulation and control over Investment Funds and Collective Investment Schemes (Chapter 6, Article 39)

An investment fund is a collective investment scheme aimed at providing investors with an opportunity to participate collectively in the profits of the scheme. Such schemes are managed by portfolio managers for specified fees. The Capital market Authority regulates investment funds, controlling and supervising the portfolio managers and investment advisers. This is done by setting the rules, directives and instructions in relation to:

- 1 - The organizational structure.
- 2 - Accounting system and operational rules.
- 3 - Investment fund governance and decision making.
- 4 - Security custody procedures and efficient provision of services to customers.
- 5 - Service fees and commissions and management remuneration.
- 6 - Entering into transactions with related parties.
- 7 - Performance reports and the calculation of asset values, unit prices and advertisements.
- 8 - Conditions and requirements for the approval of establishing new funds.
- 9 - Financial and periodic reporting requirements of funds.
- 10 - Illiquidity requirements and risk limits.
- 11 - Professional qualifications, personal suitability, financial responsibility and licensing requirements.

1.6 DISCLOSURE

1.6.1 PROSPECTUS DISCLOSURES

Learning Objective 1.6.1 – *Know* what information and statements must be contained in a prospectus relating to the issue of securities (Chapter 7, Article 42)

Issuers of securities must provide a prospectus to the Authority for approval. The Authority requires the prospectus to contain the following information and statements:

- 1 - An adequate description of the issuer, its business activities, the individuals managing the business (members of the board of directors, executive officers and senior staff) and its major shareholders.
- 2 - An adequate description of the securities to be issued, their number, price and the related rights, privileges and preferences of the issuer's other securities (if any). The description will also detail how the issue proceeds will be spent, and the commissions levied by persons connected with the issue.
- 3 - A statement of the financial position of the issuer and any significant financial data including the audited balance sheet, profit and loss account and cash flow statement.
- 4 - Any other information required or authorized by the Authority which it believes necessary to assist investors and their advisers in making a decision about investing in the securities.

1.7 REGULATION OF RESTRICTED PURCHASES AND RESTRICTED OFFERS

Learning Objective 1.7.1 – *Understand* what is meant by a Restricted Purchase of Shares (Chapter 9, Articles 52 & 54)

Learning Objective 1.7.2 – *Understand* what is meant by a Restricted Offer for Shares (Chapter 9, Articles 52 & 54)

The Authority has the power to issue rules to regulate purchases, or offers to purchase, a substantial proportion of the voting shares of a company listed on the Exchange. These rules specify that where shares are purchased through restricted purchases or restricted offers, certain provisions may apply.

A restricted purchase is a purchase of shares that results in 10% or more of that class of shares being beneficially owned, or under the control of the purchaser (or other acting in cooperation with the purchaser).

A restricted offer for shares is making a public announcement offering to purchase voting shares if the amount sought would increase the ownership of the offering party to 10% or more of that class of shares. The restrictions also encompass shares held by others either controlled by the offering company, or acting in concert with the offering company.

Certain provisions apply where any person uses a restricted purchase or restricted offer to increase his ownership, such that 50% or more of that class of the voting shares listed on the Exchange are owned by him and/or any others acting in concert. In such circumstances, the Board of the Authority has the right, within 60 days, to require the person to offer to purchase all of the remaining shares of that class. The Board determines the terms and conditions of the offer, although it will not compel the prospective purchaser to offer more than the highest price he paid for the shares in the previous 12 months.

1.8 SANCTIONS AND PENALTIES FOR VIOLATIONS (GENERAL)

Learning Objective 1.8 – *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 or the regulations of the Exchange (Chapter 10, Article 59)

In addition to the sanctions and penalties in relation to manipulation and insider trading, the Authority has the rights to bring other legal actions to the Committee for the Resolution of Securities Disputes. If it appears to the Authority that a person has engaged in, or is about to engage in, acts or practices in violation of the law, regulations and rules issued by the Authority or Exchange regulations, it has the right to bring a legal action before the Committee to seek an appropriate sanction.

These sanctions include:

- 1 - Warning the person concerned.
- 2 - Obliging the person to cease or refrain from carrying out the act.
- 3 - Obliging the person to take the steps necessary to avert the violation, or correct the violation.
- 4 - Indemnifying those who have suffered as a result of the violation, or paying the gains realized to the Authority.
- 5 - Suspending the trading of the security.
- 6 - Barring the violating person from acting as a broker, portfolio manager or investment adviser for such period as is necessary for the safety of the Exchange and the protection of investors.
- 7 - Seizing property.
- 8 - Banning travel.
- 9 - Barring from working with companies whose securities are traded on the Exchange.

In addition, the Authority may also request that the Committee imposes a financial fine upon those who deliberately violated the provisions of this law, or regulations and rules issued by the Authority. As an alternative to all of the foregoing, the Board may simply impose a financial fine on any person responsible for violating the provisions of the law, its implementing regulations and rules and the exchange regulations. In both cases the financial fine (whether imposed by the Authority or the committee) cannot be less than SR 10,000 and not exceed SR100, 000 for each violation committed.

1 Review Questions: Capital Market Law

1. **According to the Saudi Arabian Capital Market Law (CML), all of the following are defined as securities except:**
 - I) Shares of companies.
 - II) Corporate and government bonds.
 - III) Investment units issued by investment funds.
 - IV) Commercial bills, such as cheques, bill of exchange, order notes, documentary credits and money transfers.
 - (a) I only.
 - (b) IV only.
 - (c) I, II and III only.
 - (d) II, III and IV.

2. **Which of the following is NOT one of the responsibilities of the Capital Market Authority (the Authority) as provided by the Capital Market Law?**
 - (a) To regulate and develop the Saudi Stock Exchange.
 - (b) To protect citizens and investors in securities from unfair and unsound practices.
 - (c) To seek to achieve fairness, efficiency and transparency in securities activities.
 - (d) To increase the investing public's awareness of the securities market.

3. **The Capital Market Law provides for the establishment of the 'Saudi Stock Exchange' as the sole entity authorized to carry out securities trading in the country. Which of the following are the specific objectives of the Exchange as provided by the Law?**
 - I) Ensuring fair, efficient and transparent listing requirements and trading rules.
 - II) Providing reliable and rapid settlement and clearance procedures.
 - III) Establishing and enforcing professional standards for brokers and their agents.
 - IV) Ensuring the financial strength and soundness of the individual investors.
 - (a) I, II and III only.
 - (b) I, II and IV only.
 - (c) II, III and IV only.
 - (d) I, II, III and IV.

- 4. The following are specific activities that are carried out by brokers, as defined in the Capital Market Law, except:**
- (a) Acting as a custodian for securities.
 - (b) Managing portfolios for clients.
 - (c) Opening of accounts for securities trading.
 - (d) Dealing in securities for own account for profits.
- 5. The Capital Market Law provides that an issuer of a security must provide a prospectus, approved by the Authority. Which of the following is NOT a required content of the prospectus?**
- (a) An adequate description of the securities to be issued, their number, price and the related rights and privileges.
 - (b) A statement of the financial position of the issuer and any significant financial data including the audited balance sheet, profit and loss account and cash flow statement.
 - (c) A statement containing projections of company's financial performance including expected returns to investors.
 - (d) An adequate description of the issuer, its business activities, senior management and its major shareholders.

2 Market Conduct Regulations

Introduction

2.1 Prohibition of market manipulation

2.1.1 Introduction

2.1.2 Market manipulation or deceptive acts and practices

2.2 Insider trading

2.2.1 Introduction

2.2.2 The 'insider'

2.2.3 Inside information

2.2.4 Disclosure of inside information and prohibition of insider trading

2.3 Untrue statements

2.3.1 Introduction

2.3.2 Untrue statements defined

2.3.3 Liability for untrue statements

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

The market conduct regulations have been produced by the board of the Capital Market Authority and expand on the rules laid down within Capital Market Law, Covered in Chapter 1 of this workbook. Because these regulations expand on the outline rules in the Capital Market Law, they are often referred to as implementing regulations for the Capital Market Law.

2.1 PROHIBITION OF MARKET MANIPULATION

2.1.1 INTRODUCTION

Learning Objective 2.1.1 – *Understand* the regulations concerning the prohibition of Market Manipulation and deceptive acts or practices

- Reasonable ground to know
- False or misleading impression
- Artificial prices

(Part 2, Article 2)

Article 2 of the market conduct regulations prohibits any person from engaging in, or participating in any, manipulative or deceptive acts or practices in connection with an order, or transaction in a security. Such a prohibition only applies if the person knows, or has reasonable grounds to know, that the act is manipulative or deceptive.

Furthermore, the regulation prohibits any person from entering an order or executing a transaction in a security (either directly or indirectly) for the purpose of creating:

- A false or misleading impression of trading activity or interest in that security; or
- An artificial bid price, ask price or trade price for that security, or any related security.

2.1.2 MARKET MANIPULATION OR DECEPTIVE ACTS AND PRACTICES

Learning Objective 2.1.2 – *Understand* the nature of activities that may be considered to be Market Manipulation or deceptive acts or practices

- Fictitious trades
- No change in beneficial ownership
- Matching purchase and sale transactions
- Escalating / Diminishing price orders
- Orders to manipulate prices

(Part 2, Article 3)

Article 3 of the market conduct regulations outlines examples of the types of action that are considered as manipulative or deceptive acts or practices. These include:

- Making a fictitious trade;
- Effecting a trade in a security that does not involve a change in its beneficial ownership.

The Article also provides five examples of manipulative or deceptive acts or practices designed to create a false or misleading impression of trading activity or interest in a security, and for the purpose of creating artificial prices:

- 1 - Entering an order (or orders) to buy a security with prior knowledge that an order (or orders) of substantially the same size, time and price for the sale of that security has been, or will be, entered.
- 2 - Entering an order (or orders) to sell a security with prior knowledge that an order (or orders) of substantially the same size, time and price for the purchase of that security has been, or will be, entered.
- 3 - Purchasing, or making offers to purchase a security at successively higher prices, or in a pattern of successively higher prices.
- 4 - Selling, or making offers to sell, a security at successively lower prices, or in a pattern of successively lower prices.
- 5 - Entering an order (or orders) for the purchase or sale of a security with the intention of:
 - Establishing a predetermined sale price, ask price or bid price;
 - Effecting a high or low closing sale price, ask price or bid price;
 - Maintaining the sale price, ask price or bid price within a predetermined range;
 - Entering an order, or a series of orders that are not intended to be execute

2.2 INSIDER TRADING

2.2.1 INTRODUCTION

Learning Objective 2.2.1 – *Understand* the concept of trading in a Security as it is provided in the market conduct regulations.

- Trading Security
- Price affected by information
- Direct trading
- Indirect trading

(Part 3, Article 4a)

Article 4 of the market conduct regulations provides details on the offence of insider trading outlined in the Capital Market Law.

In order for the insider trading regulation to apply, the security must be a traded security and there must be inside information that would affect the price or value of that security, if the information were made available or disclosed to the general public.

It is then a violation for a person to trade, either directly or indirectly, in that security when in possession of the inside information.

Direct trading includes executing a trade for any account in which the person has an interest, and the person making a bid or offer for the security on the Exchange.

Indirect trading includes any one of three situations:

- 1 - The person executing the trade as agent for another.
- 2 - Arranging a trade to which a relative or person with whom he has a business or contractual relationship is party.
- 3 - Arranging for his agent, or any other person acting on his behalf or his direction, to trade in the relevant security.

2.2.2 THE 'INSIDER'

Learning Objective 2.2.2 – *Understand* what is meant by 'Insider' for the purposes of the Insider Trading Regulations (Part 3, Article 4b)

The market conduct regulations also provide clarification of who is considered to be an insider and what is considered to be inside information. An insider is any of the following:

- A director, senior executive or an employee of the issuer of the security;
- A person who obtains inside information through a family relationship;
- A person who obtains inside information through a business relationship, including from:
 - The issuer of the security;
 - Any person who has a business relationship with the person who obtains the information
 - Any person who is business associate of the person who obtains the information.

- a person who obtains inside information through a contractual relationship, including obtaining the information from:
 - the issuer of the security;
 - any person who has a contractual relationship with the person who obtains the information.

2.2.3 INSIDE INFORMATION

Learning Objective 2.2.3 – *Understand* what is meant by 'Insider Information' for the purpose of the Insider Trading Regulations (Part 3, Article 4c)

Inside information is information that meets the following criteria:

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

2.2.4 DISCLOSURE OF INSIDE INFORMATION AND PROHIBITION OF INSIDER TRADING

Learning Objective 2.2.4 – *Understand* the regulations covering the disclosure of Insider Information and the prohibition of Insider Trading (Part 3, Articles 5 & 6)

The market conduct regulations place restrictions on the disclosure of inside information. An insider is prohibited from disclosing any inside information to any other person when the insider knows, or should have known, that it is possible that the other person might trade in the security affected by the inside information.

Similarly, a person who is not an insider is prohibited from disclosing inside information obtained from an insider when he knows, or should have known, that it is possible that the person to whom disclosure is made might trade in the security affected by the inside information.

The Regulation restricts insiders with the benefit of price sensitive, inside information from trading in the affected securities. Furthermore, those obtaining inside information from others that know, or should have known, that it is inside information are not allowed to trade in the affected securities.

2.3 UNTRUE STATEMENTS

2.3.1 INTRODUOION

Learning Objective 2.3.1 – *Understand* the regulations concerning the prohibition of Untrue Statements (Part 4, Articles 7 & 8)

Articles 7 to 10 of the market conduct regulations relate to untrue statements. In broad terms, persons are prohibited from making untrue statements if the statement is made to influence the price of a security, or to induce another person to buy, sell, exercise or refrain from exercising the rights attached to a security. Such statements could be verbal or in writing. The prohibition also relates to failing to make a statement where required by the Capital Market Law, its implementing regulations or the rules of the Exchange or Depository Center.

This prohibition of untrue statements also extends to rumors. A person is prohibited from circulating an untrue statement of material fact or a statement of opinion for the purpose of influencing price or value of a security, or for any other manipulative purpose. Circulating such rumors is prohibited, whether it is circulated directly or indirectly, and regardless of whether the statement was made by the person circulating it.

2.3.2 UNTRUE STATEMENTS DEFINED

Learning Objective 2.3.2 – *Know* the circumstances in which a person may make an Untrue Statement (Part 4, Article 9)

Article 9 of the market conduct regulations defines untrue statements. The definition hinges upon the statement of a material fact - a material fact is any information relating to a security that, if the investor knew about it, would have materially affected the price or value at which the investor bought or sold the security. Untrue statements must be made in relation to material facts, and a person is making an untrue statement in any of the following circumstances:

- he makes, or procures another person to make, a statement that is false or inaccurate in a material respect;
- he makes, or procures another person to make, a statement that contains a misrepresentation of a material fact;
- he omits a material fact when making a statement

2.3.3 LIABILITY FOR UNTRUE STATEMENTS

Learning Objective 2.3.3 – *Understand* the circumstances under which a person may be liable for damages in respect of the making of an Untrue Statement (Part 4, Article 10)

There are two circumstances that may result in a person being liable for damages to a claimant for untrue statements.

The first is where a person made an untrue statement of material fact and the statement is made for profit (or commercial benefit) and in relation to the purchase or sale of a security. To be successful the claimant must establish that he was not aware that the statement was untrue, that he would have acted differently if he had been aware of the untruth and that the person who made the statement knew (or there was a substantial likelihood that he knew), that the statement was untrue in relation to a material fact.

The second is where a person fails to make a statement where required by the Capital market Law, the implementing regulations, or the rules of the exchange. As long as what had been omitted relates to a material fact, and the damages claim is in relation to a purchase or sale of a security, damages claim could be successful. The claimant must establish that he was not aware of the failure to make the statement, and that he would have purchased or sold the security in question (at all or at the same price) had he known that the statement was omitted.

2 Review Questions: Market Conduct Regulations

1. **A person is prohibited to enter a buy order with prior knowledge that a sell order has been (or will be) made at the same time with the same quantity and price because this _____.**
 - (a) Creates unnecessary interest, activities and liquidity in the stock.
 - (b) Gives an artificial impression that there are interest, activities and liquidity in the security.
 - (c) Gives an additional commission to the authorized person.
 - (d) Helps clients to buy or sell the stock at unfair prices.

2. **The following are examples of manipulative or deceptive acts or practices designed to create a false or misleading impression of trading activity or interest in a security:**
 - I) Entering an order (or orders) to buy a security with prior knowledge that an order (or orders) of substantially the same size, time and price for the sale of that security has been, or will be, entered.
 - II) Entering an order (or orders) to sell a security with prior knowledge that an order (or orders) of substantially the same size, time and price for the purchase of that security has been, or will be, entered.
 - III) Purchasing, or making offers to purchase a security at successively higher prices, or in a pattern of successively higher prices.
 - IV) Selling, or making offers to sell, a security at successively lower prices, or in a pattern of successively lower prices.
 - (a) I only
 - (b) I and II only
 - (c) II and IV only
 - (d) I, II, III and IV.

3. **A person is prohibited to make buy offers in a pattern of successively higher prices because this is _____.**
 - (a) Unfair to the seller.
 - (b) Unfair to the buyer.
 - (c) Artificially pushing up the price of the stock.
 - (d) Giving a false impression on the interest, activities and liquidity of the stock.

4. The following may be deemed as 'insider' as defined in the Market Conduct Regulations in relation to insider trading prohibition except?

- I) A close friend of the employee of the company.
 - II) A family member of the employee of the company.
 - III) An employee of the company.
- (a) I only.
(b) II only.
(c) I and II only.
(d) I, II and III.

5. A person is making an untrue statement in any of the following circumstances:

- I) He makes, or procures another person to make, a statement that is false or inaccurate in a material respect;
 - II) He makes, or procures another person to make, a statement that contains a misrepresentation of a material fact;
 - III) He omits a material fact when making a statement
- (a) I only.
(b) II only.
(c) I and II only.
(d) I, II and III.

3 Offer of Security Regulations

Introduction

7.9 The parties

7.9.1 The offeror and the offeree

7.10 Private placement

7.10.1 Conditions to be regarded as a private placement

7.10.2 Secondary market restrictions

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

Offers of securities can be classified into three types - public offers, private placements and exempt offers. Public offers must meet the requirements of the listing rules that will be covered in more detail in Chapter 4. Private placements requirements are laid down in the Offer of Securities Regulations and will be covered in this chapter.

3.1 THE PARTIES

3.1.1 THE OFFEROR AND THE OFFEREE

Learning Objective 3.1.1 – *Know* the definition of an 'Offeror' and an 'Offeree' in respect of Offers of Securities under the Offers of Securities Regulations (Part 2, Articles 4 & 5)

In any Offer of Securities there is an offeror - the issuer or seller of the securities, and an offeree - the person(s) to whom the Securities are offered.

The Offers of Securities Regulations defined the offeror to cover someone inviting a person to make an offer which, if accepted, would give rise to the issue or sale of securities by him. Furthermore, the definition also embraces the possibility of an issuer making arrangements to sell the securities through another person.

Similarly, the offer of securities regulations defined an offeree to covers:

- Any person to whom the offeror makes an offer;
- Any person to whose agent the offeror makes the offer, where the agent is acting in his agency capacity; or
- Any person who receives an offer from a distributor during the offer period - a distributor is a person to whom the offeror has made an offer of the securities, and the offeror is aware (or should be aware) that he will make the offer available to others.

3.2 PRIVATE PLACEMENTS

3.2.1 CONDITIONS TO BE REGARDED AS A PRIVATE PLACEMENT

Learning Objective 3.2.1 – *Know* the conditions that must be fulfilled if an Offer of Securities is to be regarded as a private placement (Part 5, Article 10)

There is a possibility that securities are issued privately.

The regulations specify that a private placement of securities takes place under any of the following categories:

- (a) The securities are issued by the government of the Kingdom; or a supranational authority recognized by the Authority;
- (b) The offer is restricted to sophisticated investors; or
- (c) The offer is a limited offer.

3.2.2 SECONDARY MARKET RESTRICTIONS

Learning Objective 3.2.2 – *Know* the restriction on Secondary Market activity in respect of Securities acquired pursuant to a private placement (Part 5, Article 18)

The regulations place restrictions on the resale of the securities that are acquired through a private placement. The regulations require one of three situations for the offer or sale to be valid:

- 1 - The price to be paid for the securities is equal to or exceeds Saudi Riyals one million.
- 2 - If the price of the securities has declined since the date of original purchase, the securities can only be offered or sold if the original purchase price was equal to or in excess of 1 million Saudi Riyals.
- 3 - If (1) or (2) cannot be fulfilled, the securities can only be resold if the transferor sells his entire holding.

These restrictions continue to apply to sellers and resellers of privately placed securities until the securities are approved to be listed on the Exchange.

3 Review Questions: Offers of Securities Regulations

1. **In the Offers of Securities Regulations, an ‘offeree’ refers to:**
 - I) Any person to whom the offeror makes an offer.
 - II) Any person to whose agent the offeror makes the offer, where the agent is acting in his agency capacity.
 - III) Any person who receives an offer from a distributor during the offer period - a distributor is a person to whom the offeror has made an offer of the securities, and the offeror is aware (or should be aware) that he will make the offer available to others.
 - (a) I only.
 - (b) II only.
 - (c) I and II only.
 - (d) I, II and III.

2. **The following are some possible forms of private placement , except:**
 - (a) Securities that are issued by the government of the Kingdom of Saudi Arabia.
 - (b) Securities that are issued by a supranational authority recognized by the Capital Market Authority.
 - (c) Securities offered to no more than 60 offerees in the Kingdom, where the minimum amount payable per offeree is not less than 5 million Saudi Riyals or equivalent amount
 - (d) The total value of securities offered by the issuer is more than 5 million Saudi Riyals or equivalent.

3. **Which of the following is Not a condition that enables a person who acquired securities through a private placement to sell the securities in the secondary market?**
 - (a) The amount of securities offered has a value of at least One million Saudi Riyals.
 - (b) The original purchase value of the securities offered is at least One million Saudi Riyals.
 - (c) The transfer is made to the original underwriter
 - (d) The entire holding is sold to only one transferee.

4 Listing Rules

Introduction

4.1 Issuer's representative and financial advisor

- 4.1.1 Issuer's representative
- 4.1.2 Issuer's financial advisor

4.2 Conditions for admission and listing

- 4.2.1 Applicants
- 4.2.2 Securities

4.3 Admission to the official list

- 4.3.1 Underwriting requirements
- 4.3.2 The prospectus
- 4.3.3 Cancelling or suspending listings

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

This chapter explains the detailed rules that apply to companies seeking to have their securities (shares and/or debt instruments) traded on the Main Market or the Parallel Market. Companies whose securities are admitted to the Exchange and described as being listed companies. The company needs to provide certain information to potential investors in the form of a prospectus. The rules- known as the 'Listing Rules' - detail the requirements. These rules are administered by the Capital Markets Authority. Note that in this chapter, any reference to securities will exclude units in investment funds and contractually-based securities.

LISTING RULES OF THE MAIN MARKET

4.1 ISSUER'S REPRESENTATIVE AND FINANCIAL AND LEGAL ADVISOR

4.1.1 ISSUER'S REPRESENTATIVES

Learning Objective 4.1.1 – *Know* the requirement for an issuer to appoint a representative to act on its behalf before the Authority (Part 1, Article 4)

Each issuer intending to admit its securities to be traded on the Exchange must appoint one of its board members and one of its executives to act as its representative. The issuer must provide contact details of its representative, including work telephone numbers, mobile phone numbers, fax and e-mail.

4.1.2 ISSUER'S FINANCIAL ADVISOR

Learning Objective 4.1.2 – *Know* the requirement to appoint a financial advisor, Its obligations and duty of care (Part 2, Articles 5, 6 ,7 & 10)

If the registration and admission to listing of shares to the Exchange requires the production of a prospectus, the issuer must also appoint an independent financial advisor. Moreover, the issuer must appoint a financial advisor in case of voluntary cancellation of listing or submission of a request to reduce the capital. In cases where there is no mandatory requirement to appoint a financial advisor, the Capital Markets Authority is entitled to require a financial advisor to be appointed to provide advisory services to the issuer regarding the application of the Listing Rules and the Capital Market Law and its implementing Regulation.

Broadly, the role of the financial advisor is to provide the issuer with advice on the application of the various rules and regulations within the Capital Market Law and its implementing regulations. There is an expectation that the financial advisor will provide advice and guidance with the appropriate duty of care.

Specifically, on an application of the issuer for securities to be listed in the market, the financial advisor must:

- 1 - Be the point of contact with the Authority regarding the application.
- 2 - Ensure that the issuer has satisfied all the conditions required for registration and admission of its securities to the market by conducting due diligence and making enquiry from the issuer and its advisors.
- 3 - Provide any information and clarification that may be required by the Capital Market Authority to verify whether the issuer has complied with Capital Market Law, the Listing Rules and the Offers of Securities Regulations. Such information must be provided in such form and within such time limit as the Authority requires.

4.1.3 ISSUER'S LEGAL ADVISOR

Learning Objective 4.1.3 – *Know* the requirement to appoint a legal advisor, Its obligations and duty of care (Part 2, Articles 5, 8,9 & 10)

If the registration and admission to listing of shares to the Exchange requires the production of a prospectus, the issuer must also appoint an independent legal advisor. Moreover, the issuer must appoint a legal advisor in case of voluntary cancellation of listing or submission of a request to reduce the capital. In cases where there is no mandatory requirement to appoint a legal advisor, the Capital Markets Authority is entitled to require a legal advisor to be appointed to provide advisory services to the issuer regarding the application of the Listing Rules and the Capital Market Law and its implementing Regulation.

The legal advisor shall be committed to whatever required by the profession when providing advice to the issuer in matters related to the registration and admission to listing of shares.

4.2 CONDITIONS FOR ADMISSION AND LISTING

4.2.1 CONDITIONS RELATED TO SECURITIES ISSUER

Learning Objective 4.2.1 – *Know* the requirements of an issuer of a securities (Part 3, Article 11)

The following requirement must be fulfilled upon submission of an application for registration and admission of listing to the market:

1. The issuer must be a Saudi joint stock company, except where the provisions of Article 14 of these Rules apply.
2. On an application for registration and admission to listing of securities, the issuer must have been carrying on, either by itself or through one or more of its subsidiaries, a main activity for at least three financial years under substantially the same management.

3. On an application for registration and admission to listing of securities, an issuer must have prepared its audited financial statements covering at least the previous three financial years, prepared in accordance with the accounting standards approved by SOCPA. The period covered by the most recent audited financial statements must have ended no more than six months prior to the date of approval of the prospectus. If the period covered by the most recent audited financial statements has ended more than six months prior to the expected date of approval of the prospectus. The Authority may require audited financial statements covering any period that it deems appropriate from the date of the end of the period covered by the latest audited financial statements until the expected date of approval of the prospectus.
4. On an application for registration and admission to listing of securities, where the issuer has undergone restructuring or has been subject to an alteration in capital using external financing (including through any shareholder current account), the issuer shall not be eligible to apply for registration and admission to listing until one financial year has elapsed since the date of completion of the restructuring/alteration in capital.
5. The senior executives of the issuer must have an appropriate expertise and experience for the management of the issuer's business.
6. An issuer must have, on its own or with its subsidiaries, a sufficient working capital for the 12 months immediately following the date of the publication of the prospectus.
7. The issuer must provide the Authority with reviewed interim financial statements if such statements were issued during the application period.
8. An application for registration and admission to listing may be accepted if it does not meet the requirements of this Article if the Authority is satisfied that such listing will be in the interest of investors and that the investors have received the necessary information to arrive at an informed judgment concerning the issuer and the securities that are the subject of the application.

4.2.2 SECURITIES LISTING CONDITIONS

Learning Objective 4.2.2 – *Know* the conditions relating to registration and admission to (Part 3, Article 12,13,15)

General Conditions Relating to Registration and Admission to Listing of Securities

To be registered and admitted to listing, the securities must conform with the statutory conditions in the Kingdom; and be duly authorised according to the requirements of the issuer's articles of association or other constitutional documents.

Moreover, The securities must be freely transferable and tradable. Any restriction on transferability must be approved by the Authority and all investors must be provided with appropriate information to enable dealings in such securities to take place on an open and fair basis.

In addition, the securities must be registered and settled centrally through the Depository Centre.

In regard to the registration and admission to the listing of shares, there must be a sufficiently liquid market for the shares that are the subject of the application for registration and admission to listing, as follows:

- 1) there must be at least 200 public shareholders; and
- 2) at least 30% of the class of shares that are the subject of the application are owned by the public.

The Authority may permit a lower percentage or a lower number of shareholders if it considers that it is appropriate in view of the number of shares under the same class and its distribution to the public. For this purpose, public means any person except the following:

1. The issuer's subsidiaries.
2. The issuer's substantial shareholders.
3. The issuer's board members or executives.
4. Board members or executives of the issuer's subsidiaries.
5. Board members or executives of the issuer's substantial shareholders.
6. Relatives of the persons mentioned in points no.1,2,3,4 and 5 hereinabove.
7. Any company governed by persons mentioned in points no. 1,2,3,4,5 and 6 hereinabove.
8. Persons work in agreement and hold jointly (5%) or more of the class of the shares to be listed.

Applications for listing must relate to the entire class of the shares of the issuer. Where none of a particular class of shares is listed, the application must relate to all shares of that class in issue and proposed to be issued. If the shares of that class are already listed, the application must relate to all further shares of that class that are proposed to be listed.

The expected aggregate market value of all securities to be listed must be at least:

- 1 - 100 million Saudi Riyals for shares, unless otherwise shares of the same class have been already listed.
- 2 - For debt instruments, 100 million Saudi riyals, if the issuer does not have any listed securities; and 50 million Saudi riyals in case the issuer has listed securities.

The Capital Market Authority may admit securities of a lower value if it is satisfied that there will be a sufficiently liquid market for the securities concerned.

4.3 ADMISSION TO THE OFFICIAL LIST

4.3.1 UNDERWRITING REQUIREMENTS

Learning Objective 4.3.1 – *Know* the requirement for the issue to be underwritten (Part 4, Article18)

The offer of securities must be fully underwritten by an underwriter authorised by the Authority and must comply with the prudential rules issued by the Authority.

Debt instruments and convertible debt instruments will be regarded as fully underwritten if the settlement risk in relation to the issue of the instruments is underwritten by an underwriter authorised by the Authority.

The underwriting requirements shall not apply to capitalisation issues

4.3.2 THE PROSPECTUS

Learning Objective 4.3.2 – *Know* the basic contents of the prospectus (Part 4, article12)

The prospectus must be in Arabic and contain all information which is necessary to enable an investor to make an assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer and of its profits and losses and must include information in relation to the number and price of the securities and any obligations, rights, powers and privileges attaching to them.

The minimum information that needs to be included in the prospectus is prescribed in Annexes to the Listing Rules.

4.3.3 CANCELLING OR SUSPENDING LISTINGS

Learning Objective 4.3.3 – *Know* the circumstances under which the Authority may cancel or suspend a listing (Part7, article 35)

The Authority may at any time suspend or cancel the listing as it deems fit, in any of the following circumstances:

- 1) the Authority considers it necessary for the protection of investors or the maintenance of an orderly market;
- 2) the issuer fails, in a manner which the Authority considers material, to comply with the Capital Market Law and its Implementing Regulations including a failure to pay on time any fees or fines due to the Authority;
- 3) the liquidity requirements set out in paragraph 4.2.2 of this section Rules are no longer met;
- 4) the Authority considers that the issuer does not have a sufficient level of operations or sufficient assets to warrant the continued trading of its securities on the Exchange;
- 5) the Authority considers that the issuer or its business is no longer suitable to warrant the

continued listing of its securities on the Exchange; or
6) in the case of crossly-listed securities, the listing of the foreign issuer's securities has been suspended or cancelled elsewhere.

PARALLEL MARKET LISTING RULES

Definition of Qualified Investor

Learning Objective: *know* the definition of the qualified investor (Article 3)

The Qualified Investor means any of the following persons:

- 1) Authorised Persons act for their own account.
- 2) Clients of a person authorised by the Authority to conduct managing activities provided that this Authorised Person has been appointed as an investment manager on terms which enable it to make decisions concerning the acceptance of an offer and investment in the Parallel Market on the client's behalf without obtaining prior approval from the client.
- 3) The Government of the Kingdom, any government body, any supranational authority recognised by the Authority or the Exchange, and any other stock exchange recognised by the Authority or the Securities Depository Center.
- 4) Government-owned companies either directly or through a portfolio managed by a person authorised to carry out managing activities.
- 5) Companies and funds established in a member state of the Cooperation Council for the Arab States of the Gulf.
- 6) Investment Funds.
- 7) Qualified Foreign Investors.
- 8) Any other legal persons allowed to open an investment account in the Kingdom and an account at the Depository Center.
- 9) Natural persons allowed to open an investment account in the Kingdom and an account at the Depository Center, and fulfil any of the following criteria:
 - a. has conducted transactions in security markets of not less than 40 million Saudi riyals in total, and not less than ten transactions in each quarter during the last twelve months.
 - b. the average size of his securities portfolio shall exceed 10 million Saudi riyals during the last twelve months.
 - c. holds the General Securities Qualification Certificate which is recognised by the Authority.
- 10) Any other persons prescribed by the Authority.

Eligible classes to participate in the Parallel Market

Learning Objective: *know* the eligible classes to participate in the parallel market (Article 4)

- a) The offer, as per these Rules, is confined to the categories of Qualified Investors. The issuer's financial advisor is responsible for ensuring the compliance with this paragraph.
- b) Trading shares listed in the Parallel Market is confined to Qualified Investors. The authorised person, through which shares are traded in the Parallel Market and the rights issue of these shares, is responsible for ensuring the compliance with this paragraph.
- c) In all cases, authorised persons shall ensure, prior to the Qualified Investors participation in the Parallel Market, that their clients of qualified investors are aware of risks involved in investing in the Parallel Market, and obtain a written confirmation from them stating that they are informed of these risks.

As an exception from paragraph (b) of this Article , shareholders of the issuer, other than Qualified Investors, who owned their shares prior to listing them in the Parallel Market, may trade in these shares and rights issue issued by that issuer. The authorised person, through which shares are traded in the Parallel Market and the rights issue of these shares, is responsible for ensuring the compliance with this paragraph.

Appointment of representatives of the issuer

Learning Objective: *know* the roles and responsibilities related to the representative of the issuer (Article 5)

The issuers responsibilities related to the representative are as follows:

- a) The issuer must appoint two representatives, one of whom must be a director and the other must be a senior executive, to act as its representatives before the Authority for all purposes relating to the Capital Market Law and these Rules.
- b) The issuer must provide details in writing of how its representatives may be contacted including office, mobile and fax telephone numbers, and electronic mail address.

Appointment of Advisors

Learning Objective: *know* the roles and responsibilities related to the advisors of the issuer (Article 7)

The issuers responsibilities related to the advisors are as follows:

- a) Where an issuer makes an application for registration and admission to listing of its shares in the Parallel Market that requires the production of a Prospectus or Shareholders' Circular (Where applicable), the issuer must appoint a financial advisor.
- b) Where an issuer whose shares are listed in the Parallel Market undertakes a voluntary cancellation of listing, the issuer must appoint a financial advisor.
- c) Where an issuer whose shares are listed in the Parallel Market submits an application to reduce its capital, the issuer must appoint a financial advisor.
- d) The Authority may, at all times, require the issuer to appoint a financial advisor, a legal advisor, or any other advisor to advise the issuer on the application of the provisions of these Rules, the Capital Market Law or its Implementing Regulations.

Requirements and obligations of the financial advisor

Learning Objective: *know* the requirements and obligations of the financial advisor (Article 8)

The financial advisor should meet the following requirements:

- a) The financial advisor must be authorised by the Authority.
- b) On an application of an issuer for registration and admission to listing of shares in the Parallel Market, the financial advisor must:
 - 1) be the main point of contact for the Authority in relation to the application.

- 2) satisfy itself, having conducted due diligence and made enquiry from the issuer and its advisors, that the issuer has satisfied all conditions required for the registration and admission to listing of the shares and has satisfied all other relevant requirements;
- 3) provide the Authority with any information or clarifications in such form and within such time limit as the Authority may require for the purpose of verifying whether the financial advisor and the issuer have complied with the Capital Market Law and its Implementing Regulations.
- 4) provide the Authority with a letter in the form set out in Annex 3 to these Rules.

If matters which should be taken into account by the Authority come to the attention of the financial advisor during the period between the submission of the letter described in subparagraph (4) of paragraph (b) of this Article and listing of the issuer's shares, the financial advisor must notify the Authority thereof without delay.

Conditions relating to Issuers

Learning Objective: *know* the Conditions relating to Issuers (Article 9)

The issuer should meet the following requirements:

- a) The issuer must be a Saudi joint stock company or a joint stock company which the majority of its capital is owned by citizens of a member state of the Cooperation Council for the Arab States of the Gulf and enjoys a nationality of one of them.
- b) When applying for registration and admission to listing in the Parallel Market, the issuer must have been carrying on, either by itself or through one or more of its subsidiaries, a main activity for at least one financial years.
- c) When applying for registration and admission to listing in the Parallel Market, the issuer must have prepared its audited financial statements covering at least the preceding financial year which were prepared in accordance with the accounting standards approved by SOCPA.

- d) An application for registration and admission to listing in the Parallel Market may be accepted if it does not meet the requirements of this Article if the Authority is satisfied that such listing will be in the interest of investors, and the issuer has provided the investors with the necessary information to arrive at an informed judgment concerning the issuer and the shares that are the subject of the application.

General conditions relating to registration and admission to listing of the Issuer's Shares in the Parallel Market

Learning Objective: *know* the General conditions relating to registration and admission to listing of the Issuer's Shares in the Parallel Market (Article 10)

- a) For the registration and admission to listing in the Parallel Market, shares must:
- 1) conform with the statutory conditions in the Kingdom; and
 - 2) be duly authorised according to the requirements of the issuer's articles of association or other constitutional documents.
- b) The issuer's board approval on offering its shares must be obtained prior to applying for registration and admission to listing of shares in the Parallel Market.
- c) The Shares must be freely transferable and tradable. Any restriction on transferability must be approved by the Authority, and all investors must be provided with appropriate information to enable dealings in such shares to take place on an open and fair basis.
- d) The Shares must be registered and settled centrally through the Securities Depository Centre.

The issuer whose shares are listed in the Parallel Market shall only issue and offer new shares in pursuance to these Rules.

Article 11: Conditions relating to the registration and admission to listing of shares in the Parallel Market

Learning Objective: *know* the conditions relating to the registration and admission to listing of shares in the Parallel Market (Article 11)

- a) There must be a sufficiently liquid market for the shares at the time of listing in the Parallel Market as follows:
- 1) there are at least 50 public shareholders in case the expected aggregate market value for all shares to be listed exceeds 40 million Saudi riyals, or 35 shareholders in case the expected aggregate market value for all shares to be listed is less than 40 million Saudi riyals; and
 - 2) at least 20% of the class of shares that are the subject of the application are owned by the public.

The Authority may permit a lower percentage or a lower number of shareholders if it considers that it is appropriate in view of the number of shares under the same class and its distribution to the Qualified Investors.

- b) The requirements set forth in paragraph (a) shall constitute a continuous obligation on the issuer. If the issuer at any time, following having its shares admitted to listing in the Parallel Market, becomes aware that these requirements are no longer met, the issuer must take the necessary remedial action to ensure that the relevant requirements are met.
- c) Where none of the shares of a particular class are already listed in the Parallel Market, the application for the registration and admission to listing in the Parallel Market must relate to all shares of that class issued or proposed to be issued. If the shares of that class are already listed in the Parallel Market, the application must include all further shares of that class which are proposed to be issued.
- d) Except where shares of the same class are already listed in the Parallel Market, the expected aggregate market value, at the date of listing, of all shares to be listed must be at least SR 10 million in all cases. The Authority may admit shares of a lower aggregate market value if it is satisfied that there will be a sufficient liquid market for the shares concerned.

Application for registration and admission to listing in the Parallel Market, and supporting documents

Learning Objective: *know* the application for registration and admission to listing in the Parallel Market, and supporting documents (Article 12)

An issuer seeking registration and admission to listing of its shares in the Parallel Market must submit an application to the Authority for approval which contains the information required under these Rules, and pay any fees set by the Authority.

The Prospectus or Shareholders' Circular

Learning Objective: *know* the Prospectus or Shareholders' Circular (Article 14)

- a) The Shareholders' Circular must contain the information set forth in Annex 5 of these Rules, in case of capital increase through issuing new shares for debt conversion, or the information set forth in Annex 6 of these Rules if the capital increase is for acquisition of a company or purchasing an asset. The circular may include additional information, provided that such information must be within the requirements set forth in article (32) or Annex 4 of the Listing Rules (as applicable).
- b) The draft Prospectus or the Shareholders' Circular (as applicable) provided to the Authority shall be in Arabic.
- c) The draft Prospectus or the Shareholders' Circular (as applicable) provided to the Authority must be annotated to indicate where the information required by the applicable paragraphs of these Rules has been included and any changes from any previous drafts must be clearly marked. Each draft Prospectus must indicate the draft number and the submission date on its cover page.

Approving the Prospectus or Shareholders' Circular

Learning Objective: *know* the requirements of the Prospectus or shareholders' circular (Article 15)

- a) The Prospectus or Shareholders' Circular (as applicable) must not be published and made available to the public without the Authority's approval; the issuer, after obtaining a written approval from the Authority, may make the final draft of the Prospectus or Shareholders' Circular available to those specified by the Authority.
- b) As an exception from paragraph (a) of this article, the issuer's financial advisor, before obtaining the Authority's approval on the Prospectus or Shareholders' Circular (as applicable), may present information on the issuer and its financial statements to a group of Qualified Investors without mentioning the issuer's name, to know to what extent investors wish to participate in the subscription for the issuer's shares once offered.
- c) The Authority approves the Prospectus or Shareholders' Circular (as applicable) if it is satisfied that the information contained in them meet the minimum requirements of the Capital Market Law and these Rules.
- d) The Authority will review the Prospectus or Shareholders' Circular (as applicable) within (30) days of receiving all information and documentation required.
- e) If, having reviewed the Prospectus or Shareholders' Circular (as applicable), the Authority considers that the proposed offer of shares may result in a breach of the Capital Market Law or its Implementing Regulations then it may take any of the following actions:
 - 1) carry out any enquiries which it considers appropriate;
 - 2) require the issuer or its representative to appear before the Authority to answer questions and explain any matters that the Authority considers relevant to the application;
 - 3) require the applicant or third party to provide additional information or to confirm, in such manner as the Authority may specify, that the information provided is accurate; or
 - 4) defer making a decision for such period as may be reasonably necessary to carry out further study or examination.

- f) If, having taken action pursuant to paragraph (e) of this Article, the Authority determines that the offer based on the Prospectus or the capital increase based on the Shareholders' Circular may result in a breach of the Capital Market Law or its Implementing Regulations, the Authority shall issue a "notification" to the issuer stating that the Prospectus or Shareholders' Circulars (as applicable) has not been approved, or publish a "notice" prohibiting the offer, capital increase, sale or transfer of title of the shares to which the Prospectus or Shareholders' Circulars relates.

Conditions of transition to the Main Market

Learning Objective: *know* the conditions of transition to the Main Market (Article 27)

An issuer whose shares are listed on the Parallel Market may only make an application for listing on the Main Market after two calendar years from the day on which its shares were listed on the Parallel Market.

4 Review Questions: Listing Rules

1. **If the issue of securities to be admitted to the official list requires the production of a prospectus, the issuer must also appoint a _____**
 - (a) Financial advisor
 - (b) Legal advisor
 - (c) Business advisor
 - (d) Answers (a) and (b).

2. **When arranging for an application of the issuer for securities to be admitted to the official list, the financial advisor must:**
 - I) Ensure that the issuer has satisfied all the conditions required for admission of its securities to the official list by conducting due diligence and making enquiry about the issuer and its advisors.
 - II) Provide any information and clarification that may be required by the Capital Market Authority to verify whether the issuer has complied with the Capital Market Law, the Listing Rules and the Offers of Securities Regulations.
 - III) Provide such information in the required form and within such time limit as prescribed by the Capital Market Authority.
 - (a) I only.
 - (b) I and II only.
 - (c) II and III only.
 - (d) I, II and III.

3. **To be admitted to the official list, the applicant must be a Saudi joint stock company and normally the company must have been carrying on an independent business, with substantially the same management for a minimum period of _____ .**
 - (a) Two years.
 - (b) Three years.
 - (c) Four years.
 - (d) Five years.

4. **Each issuer intending to admit its securities to be traded on the local Exchange must appoint To act as its representative to the CMA concerning the listing**
 - a. One of its directors or delegated officer.
 - b. Its underwriter.
 - c. Its financial advisor.
 - d. The company external auditor.

5. One of the conditions for listing is that at least 30% of the shares must be owned by the public. In this relation, “public” means any persons who Except:

- a. The issuer’s subsidiaries.
- b. The issuer’s substantial shareholders.
- c. The issuer’s board members or executives.
- d. All the above

6. Trading shares in the Parallel Market is confined to:

- a. All investors.
- b. Qualified investors.
- c. Foreign investors.
- d. None of the above.

7. Registration and admission to listing of shares in the Parallel Market is subject, among others, to:

- a. at least 30% of the class of shares that are the subject of the application are owned by the public.
- b. at least 40% of the class of shares that are the subject of the application are owned by the public.
- c. at least 20% of the class of shares that are the subject of the application are owned by the public.
- d. at least 15% of the class of shares that are the subject of the application are owned by the public.

5 Securities Business Regulations

Introduction

5.1 Carrying on securities business

- 5.1.1 Securities business
- 5.1.2 Securities business in the kingdom
- 5.1.3 Persons who may carry on securities business in the kingdom

5.2 Exclusions from authorization

- 5.2.1 Exclusions

5.3 Securities advertisements

- 5.3.1 Securities advertisements defined
- 5.3.2 The authorized person's role
- 5.3.3 Exemptions from the need for issue or approval
- 5.3.4 Territorial scope of securities advertisements

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

The Securities Business Regulations have been produced by the Board of the Capital Market Authority.

5.1 CARRYING ON SECURITIES BUSINESS

5.1.1 SECURITIES BUSINESS

Learning Objective 5.1.1 – *Understand* the five Securities activities that constitute Securities Business (Part 2, Articles 2 & 3)

Securities business is defined as any of the following activities being performed for business purposes:

- Dealing: this could be as principal or agent and includes selling, buying or underwriting securities;
- Arranging: this includes persons introducing parties in relation to securities business, advising on corporate finance business or otherwise acting to bring about deals in securities;
- Managing: this is persons managing the securities that belong to others, but only in circumstances involving the exercise of discretion;
- Advising: persons advising others on the merits of particular securities, or on whether to exercise any right or deal conferred by the securities;
- Custody: this is safeguarding the assets of others that include securities and providing the necessary administration.

5.1.2 SECURITIES BUSINESS IN THE KINGDOM

Learning Objective 5.1.2 – *Understand* the criteria present if a person is to be regarded as carrying on Securities Business in the Kingdom of Saudi Arabia (Part 2, Article 4)

A person is regarded as carrying on securities business in the Kingdom of Saudi Arabia if he engages in securities activities from a permanent place of business in the Kingdom. This is presumed in the following two situations:

- 1 - the person engages in the relevant activity, or securities business generally, in the Kingdom;
or
- 2 - the person engages in the relevant activity with, or for, a person in the Kingdom

5.1.3 PERSONS WHO MAY CARRY ON SECURITIES BUSINESS IN THE KINGDOM

Learning Objective 5.1.3 – *Understand* the categories of persons who may carry on Securities Business in the Kingdom of Saudi Arabia (Part 2, Article 5 annex 1)

The only persons permitted to carry on securities business in the Kingdom are those that are either authorized by the Authority (commonly referred to as authorized persons) or exempt persons.

An exempt person is one of the following:

- 1 - The Government of the Kingdom.
- 2 - The Saudi Arabian Monetary Authority (SAMA).
- 3 - The Saudi Arabian Stock Exchange and any other Exchange approved by the Authority.
- 4 - The Depository Center.
- 5 - Any supranational agency recognized by the Capital Markets Authority.

Additionally, an insolvency practitioner is exempt in relation to activities undertaken as an insolvency practitioner, an insurance company is exempt in relation to insurance activities regulated by SAMA, and the Capital Market Authority has the ability to exempt others.

5.2 EXCLUSIONS FROM AUTHORIZATION

5.2.1 EXCLUSIONS

Learning Objective 5.2.1 – *Know* the Securities activities that do not require authorization by the Authority (Part 2, Articles 7 to 10)

Because of the wide-ranging definition of securities activities, the Securities Business Regulations detail certain instances where persons are able to undertake activities without requiring authorization or exemption. The following are examples that are excluded from the need for authorization:

- Intra group dealings. Deals executed as principal are excluded if they are undertaken by members of the same group of companies, or participants in a joint enterprise (where the transactions are for the purpose of the joint enterprise). Similarly, if arranging, managing, advising or custody services are provided by one member of a group for other members of the group, or participants in a joint enterprise, they are excluded.
- In the course of non-securities business. Securities activities are excluded if they are incidental services. They must be carried on in the course of professions or businesses that do not otherwise consist of carrying on securities business, must reasonably be regarded as a necessary part of other services provided in the course of that profession or business, and must not be remunerated separately from the other services. The activities of law firms and accountancy firms registered in the Kingdom is presumed to fall within this exclusion, as long as the activities are provided in the ordinary course of business of the firm, and the firm does not hold itself out as carrying on securities business.
- Sale of goods and supply of services. A securities activity between a supplier and a customer is excluded if it is carried on for the purposes of, and is reasonably necessary for or ancillary to, the sale or supply of goods and services. The supplier must be a person whose main business is to sell goods or supply services and not carry on securities business. The customer must be a person that is not an individual, to whom the supplier sells the goods or supplies the services.
- There are further exclusions for securities activities carried out by executors, in the course of

business as executors and not separately remunerated, and for activities in connection with the sale of 50% or more of a non-listed company's voting shares.

- Particular securities activities are excluded in certain circumstances. For example, there are exclusions for dealing as principal in non-contractually based securities, arranging by a person of the issuance of its own shares and advice in a newspaper where the principal purpose is neither to advise nor to induce persons to deal.

5.3 SECURITIES ADVERTISEMENTS

5.3.1 SECURITIES ADVERTISEMENTS DEFINED

Learning Objective 5.3.1 – *Understand* the criteria that must be present for a communication to be regarded as a Securities Advertisement (Part 3, Article 16)

A securities advertisement is any form of verbal, electronic, broadcast or written communication made in the course of business for the purpose of inviting or inducing a person to engage in securities activity. Making or communicating a securities advertisement includes causing a securities advertisement to be made or communicated, except when acting as a mere conduit for information with no editorial control over its content.

5.3.2 THE AUTHORIZED PERSON'S ROLE

Learning Objective 5.3.2 – *Know* the Authorized Person's role in the making or communicating of Securities Advertisements (Part 3, Article 17)

Securities advertisements must not be made or communicated to any person in the Kingdom unless the person making the advertisement is an authorized person, or an authorized person has approved the contents of the advertisement.

5.3.3 EXEMPTIONS

Learning Objective 5.3.3 – *Know* the exemptions from the Regulation of Securities Advertisements (Part 3, Article 20)

Securities advertisements are excluded from the requirement to be issued or approved by an authorized person in the following circumstances:

The advertisement:

- Relates to excluded securities business;
- Is made to an authorized person, or exempt person, by a person seeking to obtain information about, or to receive, securities business services;
- Is made by an exempt person, relating to that person's exempt activities;
- Is directed only at authorized persons, exempt persons or institutions;
- Is made by a member of a group to another member of the same group;
- Is made by a participant in a joint enterprise to another participant for a purpose relating to the joint enterprise;

- Is made by a journalist acting in that capacity;
- Is made by a person acting in the course of a business that involves placing or distributing marketing materials or communications;
- Is required to be made under the law of the Kingdom, including the implementing regulations;
- Is directed at persons who own, or are entitled to obtain, securities issued by the person making the advertisement, or creditors of that person.

5.3.4 TERRITORIAL SCOPE OF SECURITIES ADVERTISEMENTS

Learning Objective 5.3.4 – *Know* the territorial scope of a Securities Advertisement (Part 3, Article 19)

Securities advertisements are made or communicated to a person in the Kingdom, if it is available to persons in the Kingdom, including advertisements made via the internet.

Securities advertisements are not made or communicated to a person in the Kingdom if they are directed only at persons outside the Kingdom and are, therefore, not subject to the Saudi regulations

5 Review Questions: Securities Business Regulations

1. **The Securities Business Regulations define five specific activities as securities business. These activities are (1) dealing in securities as principal and agents, (2) managing securities, (3) providing custodian services in securities, (4) advising clients on securities including shareholders rights and (5) _____.**
 - (a) Settlement in securities transaction.
 - (b) Arranging corporate finance deals.
 - (c) Lending of securities.
 - (d) Providing loans for margin transactions.

2. **Which of the following is an ‘exempt person’ as prescribed by the Securities Business Regulations?**
 - I) The government of the Kingdom of Saudi Arabia.
 - II) The Saudi Arabian Monetary Agency.
 - III) The Saudi Stock Exchange and any other Exchange approved by the Capital Market Authority.
 - IV) The Depository Center.
 - (a) I only.
 - (b) I, II and IV only.
 - (c) II and IV only.
 - (d) I, I, III and IV.

3. **A securities advertisement is any form of verbal, electronic, broadcast or written communication made in the course of business for the purpose of _____.**
 - (a) Inviting a person to use the services of the Authority.
 - (b) Inviting a person to engage in securities activities.
 - (c) Promoting the services of the Exchange.
 - (d) Inviting a person to use the services of the authorized person.

4. **Non – exempt persons who want to carry on securities business in the kingdom must be authorized by the Capital Market Authority, except when it falls in the exclusion list. Which of the following is Not in the exclusion list?**
 - a. Intra group securities dealings
 - b. Securities activities that are incidental to the underwriting services
 - c. Securities activities that are incidental to non – securities businesses
 - d. Securities activities between a supplier and a customer that are necessary to the sale or supply of goods and services

6 Authorized Persons Regulations

6.1 The principles

6.1.1 The eleven principles

6.2 Authorization

6.2.1 Requirements for authorization

6.2.2 Fit and proper criteria

6.2.3 Record keeping requirements

6.3 Registered persons

6.3.1 Registrable functions

6.4 Conduct of business

6.4.1 Gifts and inducements

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6.4.4 Chinese walls

6.5 Accepting clients

6.5.1 Client classification

- 6.5.2 Anti – money laundering law
- 6.5.3 Terms of business
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6.6 Client relations

- 6.6.1 Fiduciary duties
- 6.6.2 Conflicts of interests
- 6.6.3 Dealings that involve risk
- 6.6.4 Suitability
- 6.6.5 Lending money to customers
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6.7 Reporting to clients

- 6.7.1 Contract notes
- 6.7.2 Periodic valuations
- 6.7.3 Transaction record keeping requirements
- 6.7.4 Employees’ personal dealings
- 6.7.5 Telephone communications

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

6.1 THE PRINCIPLES

6.1.1 THE ELEVEN PRINCIPLES

Learning Objective 6.1.1 – *Know* the Principles that provide a general statement of the fundamental obligations of Authorized Persons

The Authorized Persons Regulations issued by the Capital Market Authority outline principles that provide a general statement of the fundamental obligations of authorized persons. The eleven principles are intended to form a universal statement of the standards of conduct expected of authorized persons. The principles are as follows:

- 1 - Integrity. Authorized persons are expected to conduct their business with integrity.
- 2 - Skill, care and diligence. Authorized persons are expected to conduct their business with due skill, care and diligence.
- 3 - Efficiency of management and control. Authorized persons are expected to take reasonable care to organize their affairs responsibly and effectively, with adequate risk management policies and systems.
- 4 - Financial prudence. Authorized persons must maintain adequate financial resources in accordance with the rules issued by the Capital Market Authority.
- 5 - Proper market conduct. Authorized persons should observe proper standards of market conduct.
- 6 - Protection of clients' assets. Authorized persons must arrange for adequate protection of its clients' assets when it is responsible for them.
- 7 - Co-operation with regulators. This includes the disclosure of any material event or change in the authorized person's business operations or organization to the Capital Markets Authority.
- 8 - Communication with clients. Authorized persons must pay due regard to the information needs of the clients, and communicate information to them in a way that is clear, fair and not misleading.
- 9 - Paying proper regard to customers' interests. This expects the customers to be treated fairly; paying due regard to their interests.
- 10 - No conflicts of interest. Authorized persons should manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
- 11 - Customers' suitability. Authorized persons should take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer to whom it provides those services.

6.2 AUTHORIZATION

6.2.1 REQUIREMENTS FOR AUTHORIZATION

Learning Objective 6.2.1 – *Know* the requirements that an applicant must fulfill when applying for an authorization to conduct investment business

An applicant for authorization is the person that is applying for authorization to carry on securities business.

An application for authorization may be submitted by the founders or controlling shareholders of an applicant if the applicant is not yet established.

Each application for authorization must be made on the application form prescribed by the Authority and be accompanied by certain required information and documents.

Each applicant must demonstrate to the Authority that:

- 1 - it is fit and proper to carry on securities business of the kind and scale for which it seeks authorization in accordance with the rules prescribed by the Authority;
- 2 - it has adequate resources for the kind of securities business that it proposes to carry on in accordance with the rules prescribed by the Authority;
- 3 - it has managerial expertise, financial systems, risk management policies and systems, technological resources and operational procedures and systems that are sufficient to fulfill its business and regulatory obligations and to conduct the kind of securities business that it proposes to carry on; and
- 4 - its directors, officers, employees and agents who will be involved in the applicant's securities business have the necessary qualifications, skills, experience and integrity to carry on the kind of securities business that it proposes to carry on.

In order to engage in dealing, custody and managing business, an applicant must be established in the Kingdom and must be one of the following:

- a subsidiary of a local bank;
- a joint stock company;
- a subsidiary of a Saudi joint stock company that is engaged in financial services business;
- a subsidiary of a foreign financial institution that is licensed under the Banking Control Law.

The applicant must also have its management and head office in the Kingdom. The paid up capital of the applicant must not be less than the following:

- 1 - dealing and custody :SR 50 million;
- 2 - managing: SR 20 million for managing investment fund and client portfolios; and SR 5 million for managing private non-real-estate investment funds and sophisticated investor portfolios;
- 3 - arranging :SR 2 million; and
- 4 - advising: SR 400,000

If the applicant has close links with another person, the Authority must be satisfied with the integrity, regulatory status, business record and financial soundness of any such person, and that such close links will not impair the effective supervision of the applicant, or its operations and compliance with these Regulations.

Finally, the applicant for authorization must pay such fees as may be prescribed by the Authority.

6.2.2 FIT AND PROPER CRITERIA

Learning Objective 6.2.2 – *Know* the criteria against which an Authorized Person's employees, officers and agents will be assessed in determining whether the Authorized Person is “Fit and Proper” to carry out the Securities Business for which it is authorized (Part 3, Article 9)

After gaining authorization from the Authority, authorized persons must continue to be fit and proper to carry out the securities business for which they are authorized. This is required for the firms to maintain their authorization.

The skills, experience, competence and integrity of an authorized person's employees, officers and agents are an important factor in assessing whether the firm is fit and proper. Such skills, experience, competence and integrity are assessed against the following criteria:

- 1 - Possession of adequate qualifications and professional experience to carry out their responsibilities, including appropriate technical knowledge and skills.
- 2 - Having the probity and soundness of judgment commensurate with their positions.
- 3 - Fulfilling their responsibilities with diligence and to protect customers' interests in accordance with the Authority's implementing regulations.
- 4 - Not having committed an offence involving fraud or dishonesty.
- 5 - Not having contravened or broken any laws or regulations governing securities business or aimed at protecting investors.

6.2.3 RECORD KEEPING REQUIREMENTS

Learning Objective 6.2.3 – *Know* the record keeping requirements applicable to an Authorized Person (Part 3, Article 16)

An authorized person must record and retain sufficient information about its securities business to demonstrate compliance with the Authorized Persons Regulations, and the records must be retained for a period of ten years, unless the Authority specifies a different period

The records may be kept in any form, but they must be capable of reproduction in hard printed form. The Capital Market Authority may inspect the records directly, or through a person appointed for that purpose.

When a client (or former client) requests records kept during the regulatory record-keeping period, the authorized person must make the following available within a reasonable period:

- 1 - Any written material or records that relate to that client and which the authorized person has sent, or is required to send, to that client under the Authorized Persons Regulations.
- 2 - Copies of any correspondence received from, or sent to, that client relating to securities business.

6.3 REGISTERED PERSONS

6.3.1 REGISTRABLE FUNCTIONS

Learning Objective 6.3.1 – *Know* the Registerable Functions that shall be performed by Registered Persons (Part 4 Article 19)

The Authority has prescribed certain key positions in authorized firms that need to be filled by registered persons. As a result these positions are known as register able functions. The following functions are register able:

- CEO or :Managing Director
- Finance Manager.
- Directors or partners.
- Senior Officers or Managers.
- Compliance Officer
- Money Laundering Reporting Officer
- Client Functions, including sales representatives, investment advisors, portfolio managers and corporate finance professionals.

This does not apply to authorized person whose licensed business activity is limited to managing non-real estate investment funds or managing the portfolios of sophisticated investors, arranging or advising, as such an AP may outsource the function of CFO, compliance and AMLRO.

6.4 CONDUCT OF BUSINESS

6.4.1 GIFTS AND INDUCEMENTS

Learning Objective 6.4.1 – *Understand* the limitations on the giving and receipt of gifts or inducements (Part 5, Article 27)

The authorized persons must not induce a client to engage in any transaction by offering or giving gifts or inducements. Similarly, authorized persons must not accept gifts or inducements if doing so would conflict to a material extent with any duty that it owes to a client.

The regulations regard gifts or inducements given or received by an affiliate of an authorized person, or by a third party at the direction of an authorized person, as being given or received by the authorized person itself for the purpose of this regulation.

Due to the conflicts it would potentially create, the regulations also prevent an authorized person from participating (or offering to participate) in any losses made by a client.

6.4.2 SPECIAL COMMISSION ARRANGEMENTS

Learning Objective 6.4.2 – *Understand* the circumstances in which an Authorized Person may enter into a special commission arrangement (Part 5, Article 28)

A special commission arrangement is an arrangement where an authorized person receives goods or services in addition to trade execution services from an intermediary in return for the commission paid on transactions executed through that intermediary.

Such special commission arrangements can only be entered into by an authorized person if the following conditions are met:

- 1 - The intermediary provides best execution for the authorized person.
- 2 - The goods or services received by the authorized person would reasonably be regarded as being for the benefit of the authorized person's clients.
- 3 - The authorized person has disclosed in its terms of business with its clients that it may receive special commission.
- 4 - The amount of any fees or commission paid to the provider of the goods or services is reasonable in the circumstances.

6.4.3 CONFIDENTIALITY DUTY

Learning Objective 6.4.3 – *Understand* the exceptions to the Authorized Person's duty of confidentiality in respect of client information (Part 5, Article 29)

Normally an authorized person is required to keep information obtained from clients confidential. However, there are four circumstances where disclosure can be made:

- 1 - where the client has consented to its disclosure;
- 2 - where the disclosure is required by the Capital Market Law, its implementing regulations or the applicable laws of the Kingdom;
- 3 - where disclosure is reasonably necessary to perform a particular service for the client;
- 4 - where the information is no longer confidential.

6.4.4 CHINESE WALLS

Learning Objective 6.4.4 – *Understand* the characteristics and uses of Chinese Wall Arrangements (Part 5, Article 30)

Inevitably, certain departments that may exist within an authorized firm, such as corporate finance, will obtain confidential or inside information in the course of their business. Chinese wall arrangements are written policies and procedures that are designed to ensure that such information is known only to employees authorized to receive it and not to other parts of the firm, such as the dealers and investment advisors

The Authorized Persons Regulations require firms that provide corporate finance services, and also provide other services such as dealing, advising or managing securities, to have Chinese wall arrangements.

Furthermore the Authorized Persons Regulations state that an authorized person is not violating the market conduct regulations if it deals or advises in a security whilst another department is in possession of inside information, as long as the following conditions are met:

- 1 - The authorized person has established Chinese wall arrangements, appropriate to the nature and size of its securities business.
- 2 - The authorized person has effectively implemented and maintained its Chinese wall arrangements.
- 3 - None of the individuals involved in the dealing or advising activity has knowledge of the inside information or has received advice on the dealing or advising activity from an individual who has knowledge of the inside information.

6.5 ACCEPTING CLIENTS

6.5.1 CLIENT CLASSIFICATION

Learning Objective 6.5.1 – *Understand* the three different types of client

Before conducting securities business with or for any client, an authorized person must classify the client as one of the following:

- a customer;
- an execution only customer; or
- a counterparty.

An execution only customer is where the firm is restricted to dealing as agent, in accordance with the instructions received from the customer, and the firm provides no advice. The authorized person must not classify a client in more than one of the three categories and must record the classification, including sufficient information, to support that classification.

6.5.2 ANTI – MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING LAW

Learning Objective 6.5.2 – *Know* that an Authorized Person must comply with all obligations under the Anti-Money Laundering Law and associated rules and regulations (Part 5, Article 37)

Before conducting securities business with or for any client, an authorized person must ensure that it complies with all obligations under the Anti-Money Laundering Law and the rules and regulations on anti-money laundering and terrorism financing as in force in the Kingdom.

6.5.3 TERMS OF BUSINESS

Learning Objective 6.5.3 – *Know* the requirement that an Authorized Person must provide a client with its terms of business; the basic purpose of so doing and its record keeping requirements (Part 5, Article 38)

Before an authorized person conducts any securities business with or for a client, the firm must provide the client with terms of business. The terms of business set out, in adequate detail, the basis on which securities business is to be conducted with or for the client.

The terms of business take effect once the client has returned a properly executed copy of the terms of business. The required contents of the terms of business are laid down in an annex to the Authorized Persons Regulations. The authorized person is required to retain a record of the terms of business it provides to the client, and any subsequent amendments.

6.5.4 KNOW YOUR CUSTOMER REQUIREMENTS

Learning Objective 6.5.4 – *Know* the requirement to Know Your Customer and basic details of the information that should be retained (Part 5, Article 39)

Before an authorized person deals, advises or manages for a customer, it must obtain information from the customer. This information will cover the customer's financial situation, investment experience and investment objectives relevant to the services to be provided. Certain minimum information, laid down in an appendix to the regulations, must be obtained as a precondition to providing services to the customer. If the customer refuses to provide the information, the authorized person may not deal, advice or manage for that customer.

Because the customer's circumstances can change, the authorized person must request an update of such information from the customer at least once every three years. The authorized person must also retain a record of all the information obtained from the customer under the know your customer regulations

6.6 CLIENT RELATIONS

6.6.1 FIDUCIARY DUTIES

Learning Objective 6.6.1 – *Know* basic details of the fiduciary duties that an Authorized Person owes to its customers (Part 5, Article 40 & Annex 5.4)

An authorized person owes the following statutory fiduciary duties to its customers:

- **Loyalty.** An authorized person must act in all cases in good faith and in the interests of the customer.
- **Conflict of interest.** An authorized person must follow principle 10 managing conflicts of interest fairly both between itself and its customers and between a customer and another client
- **No secret profits.** An authorized person must not use the customer's property, information or opportunities for its own or anyone else's benefit unless the authorized person makes full disclosure of such usage to the customer, and obtains his consent
- **Care, skill and diligence.** An authorized person owes the customer a duty to exercise the care, skill and diligence that would be exercised in the same circumstances by another firm having the level of skill and experience reasonably expected.

6.6.2 CONFLICTS OF INTERESTS

Learning Objective 6.6.2 – *Understand* an Authorized Person's responsibilities regarding any conflict of interest between itself and its customers (Part 5, Article 41)

In addition to the statutory fiduciary duties outlined above, the Authorized Persons Regulations provide further detail on conflicts of interest.

An authorized person must ensure that it safeguards the interests of its customers at all times, and that no conflict of interest between the firm and the customer affects the transactions or services that the authorized firm carries out for its customer.

Where an authorized person has an actual or potential conflict of interest in relation to a customer transaction, it shall disclose the conflict to the customer in writing.

An authorized person is not required to disclose a conflict of interest if this information would constitute the provision of inside information. In such instances, the authorized person shall take reasonable steps to ensure fair treatment for the customer.

If there was a conflict of interest between an authorized person and the customer in any transaction, the authorized person must pay to the customer the value of any loss incurred by the customer as a result of the conflict, unless:

- 1 - the authorized person has disclosed the conflict of interest to the customer; and
- 2 - the customer has agreed in writing that the authorized person can proceed notwithstanding the conflict.

6.6.3 UNDERSTANDING RISK

Learning Objective 6.6.3 – *Understand* the restrictions placed on an Authorized Person's dealings with its customers when undertaking activities that involve risk (Part 5, Article 42)

An authorized person must not deal, advise or manage for a customer, or take collateral for its own account from a customer, unless it has taken reasonable steps to enable the customer to understand the nature of the risks involved in the type of transaction to be undertaken.

Furthermore, when dealing, advising or managing for a customer there are particular requirements regarding risk disclosures for two groups of securities:

- 1 - for derivatives, contingent liability securities or non-retail investment funds the customer must be informed of the nature and extent of the risks involved in such securities; and
- 2 - for illiquid or speculative securities, the customer must be informed of the nature and extent of the risks involved in such securities, including any difficulties in determining their value.

6.6.4 SUITABILITY

Learning Objective 6.6.4 – *Understand* the Regulations regarding the Suitability of advice or a transaction for a customer (Part 5, Article 43)

An authorized person must not deal, advise or manage for a customer or take collateral for its own account from a customer, unless the advice or transaction is suitable for that customer. The suitability should have regard to the facts disclosed by that customer and other relevant facts about the customer of which the authorized person is aware, or reasonably should be aware.

In assessing suitability, the authorized person should have regard to:

- 1 - The customer's knowledge and understanding of the relevant securities and markets, and the risks involved
- 2 - The customer's financial standing, including an assessment of his net worth or the value of his portfolio based on the information disclosed by that customer.
- 3 - The length of time that the customer has been active in the relevant markets, the frequency of business and the extent to which he relies on the advice of the authorized person.
- 4 - The size and nature of transactions that have been undertaken for the customer in the relevant markets.
- 5 - The customer's investment objectives

6.6.5 LENDING MONEY TO CUSTOMERS

Learning Objective 6.6.5 – *Understand* the circumstances under which an Authorized Person may lend money or extend credit to a customer (Part 5, Article 44)

An authorized person is not permitted to lend money or extend credit to a customer in relation to securities business, nor should an authorized person arrange for any other person to lend money, except under the following instances, where an authorized person has:

- made and recorded an assessment of the customer's financial standing, based on information provided by the customer;
- satisfied itself that the amount and arrangements for the loan or credit are suitable for the customer;
- the customer has given his prior written consent to the lending or credit facility, specifying the maximum amount of the loan or credit together with details of any charges to be levied.

The restrictions on lending do not apply where an authorized person settles a transaction in the event of a default or late payment by the customer, or the firm pays an amount to cover a margin call for a customer for a period no longer than five days.

6.6.6 MARGIN

Learning Objective 6.6.6 – *Understand* the circumstances and conditions under which an Authorized Person may effect a margined transaction or the granting of a loan or credit to cover margin payments (Part 5, Article 45)

Authorized persons are not permitted to effect a margined transaction with or for a client unless the client has entered into terms of business specifying the following:

- 1 - the circumstances under which the client may be required to provide margin;
- 2 - particulars of the form in which the margin may be provided;
- 3 - particulars of the steps that the authorized person can take if the client fails to provide the required margin, including the communication methods by which the margin call will be made on the client;
- 4 - that failure by the client to meet a margin call may lead to the authorized person closing out the client's position, after the time limit specified by the authorized person. The authorized person is entitled to close out the position in any event after a period of five days from such a failure;
- 5 - any circumstances, other than failure to provide margin, which may lead to the client's position being closed without prior reference to him.

Loans or credit can only be extended to clients for margin purposes if a credit assessment has been performed (by someone independent of the trading or marketing functions) and the client has given prior written consent

Furthermore, the authorized person must require a minimum of 25% of the value of the transaction prior to effecting that transaction, take reasonable steps to satisfy itself that the client is aware of the risks of margined transactions and monitor the margin daily, ensuring it is maintained at a minimum level of 25% of the current value of the position.

The Authority reserves the right to prescribe a higher rate of margin in any security or group of securities. Such higher rates must be required from the clients by the authorized persons. Similarly, the Capital Market Authority is able to prohibit margined transactions in relation to any security or group of securities as it sees fit.

Margin payable by the client regarding margined transactions on a regulated exchange must be at least the amount or value of the margin requirements of that exchange, market or clearing house. Margin must be in the form of cash, fully-paid securities positions or other acceptable collateral.

The authorized person whose licensed business activity is limited to the management of private non-real estate funds or the management of sophisticated investors' portfolios may not effect margined transaction with a client, lending money or provide credit facilities to a clients in respect to securities business.

6.7 REPORTING TO CLIENTS

6.7.1 CONTRACT NOTES

Learning Objective 6.7.1 – *Know* the requirement that an Authorized Person must send a contract note when it has effected a sale or purchase of a Security for a customer (Part 5, Article 47)

Authorized persons effecting a sale or purchase of a security with or for a client must send that client a contract note forthwith. The contract note has to include certain information detailed in an annex to the Authorized Persons Regulations.

A contract note is not required to be sent where the authorized person is acting as manager, and the client has confirmed in writing that he will not require such contract notes to be provided in writing.

6.7.2 PERIODIC VALUATIONS

Learning Objective 6.7.2 – *Know* the requirement that an Authorized Person who acts as manager for a client must send periodic valuations to that client (Part 5, Article 48)

Authorized persons acting as manager for a client must send a valuation report at least every three months in respect of securities or securities-related cash balances contained in the client's account. Valuation reports must provide certain minimum information detailed in an annex to the Authorized Persons Regulations.

This does not apply to the authorized persons whose licensed activity is limited to the management of private non-real estate funds ,management of sophisticated investors' portfolios,

arranging or advising.

6.7.3 TRANSACTION RECORD KEEPING REQUIREMENTS

Learning Objective 6.7.3 – *Understand* the record keeping requirements in respect of transactions effected by an Authorized Person for its clients and its clients' accounts (Part 5, Article 49)

An authorized person 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 the Authorized Persons Regulations.

For their client accounts, such records are required to:

- 1 - accurately record the assets and the liabilities of each client at all times, and the assets and liabilities of all clients collectively;
- 2 - contain such information as is necessary to enable the authorized person to prepare a statement of each client's assets and liabilities, and details of transactions effected for the client;
- 3 - identify all client money and client assets that the authorized person, or its custodian, are responsible for.

The records of the authorized person must contain the following:

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 authorized person for a client, or by the authorized person for its own account;
3. records 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. records of the cash and securities held in each client account;
6. records of client money and client assets.

6.7.4 EMPLOYEES' PERSONAL DEALINGS

Learning Objective 6.7.4 – *Understand* the Employees' Personal Dealings as they affect the employee and the Authorized Person (Part 5, Article 50)

The Authorized Persons Regulations place restrictions on employees of an authorized person dealing for their own account. Such employees must not knowingly:

- 1 - be a party to any transaction in a security where a client of the authorized person is a party;
- 2 - establish a trading account at another authorized person, except where the employee's authorized person does not offer the same service.

Additionally, an employee of an authorized person must disclose to the compliance officer all transactions entered into via another authorized person.

The compliance officer must establish procedures to monitor employees' personal dealings in securities, to ensure compliance with the Capital Market Law and the implementing regulations.

The procedures are required to be consistent with certain provisions laid down in an annex to the Authorized Persons Regulations (annex 5-7 Personal Account Dealing).

6.7.5 TELEPHONE COMMUNICATIONS

Learning Objective 6.7.5 – *Know* an Authorized Person's obligations if it wishes to make or accept telephone communications to or from its clients in relation to Securities Business (Part 5, Article 51)

If an authorized person wishes to accept telephone instructions from clients in relation to securities business, it must record the telephone communications. It must also disclose to its clients and prospective clients that telephone communications will be recorded.

The recordings of a telephone communication must be retained for a period of three years from the date of the communication. If the telephone communication relates to a dispute with a client, or a regulatory enquiry, the recording must be retained until the dispute is fully resolved or the enquiry is complete.

This does not apply to the authorized persons whose licensed activity is restricted the management of private non-real estate funds ,management of sophisticated investors' portfolios, arranging or advising.

6 Review Questions: Authorized Persons Regulations

1 - The following are some of the principles outlined by the Authorized Persons Regulations except:

- (a) Conducting business activities with integrity.
- (b) Compliance with clients' requirements.
- (c) Conducting business with skill, care and diligence.
- (d) Observing proper market conduct.

2 - One of the requirements imposed by the authorized persons regulations for an authorized person to maintain authorization to carry on securities business is that it has to fulfill the 'fit and proper' criteria that include the following:

- I) Possession of adequate qualifications and professional experience.
 - II) Fulfilling responsibilities with diligence to protect customers' interests.
 - III) Not having committed an offence involving fraud or dishonesty.
 - IV) Having the probity and soundness of judgment.
- (a) I, II and III only
 - (b) I, II and IV only
 - (c) I, III and IV only
 - (d) I, II, III and IV.

3 - The following functions are registrable , EXCEPT:

- (a) CFO
- (b) AMLRO
- (c) HR Specialist.
- (d) CEO

7 Investment Funds and Real Estate

Investment Funds Regulations

Introduction

7.1 Offer of investment funds units

7.1.1 Private placement requirements

7.1.2 Public offer requirements

7.2 Procedures and powers of the authority in relation to an application (mutual funds)

7.3 Reporting to unit holders

7.4 Pricing, valuation and redemption

7.5 Independence of the Custodian

7.6 Deferring Redemptions

7.7 Authorization requirements of real estate investment funds

7.8 Procedures and powers of the authority in relation to an application (real estate investment funds)

7.9 Valuation of real estate funds' assets

7.10 Presenting reports to unit holders

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

This chapter covers the Investment Funds Regulations and Real Estate Investment Funds Regulations that aim at regulating:

- a) The establishment, offering and management of investment funds and associated activities in the Kingdom.
- b) The establishment, offering, and management of real-estate investment Funds, protection of unit holders rights and the application of disclosure and transparency rules.

7.1 OFFER OF INVESTMENT FUND UNITS

Units in investment funds may be offered via a public offer or a private placement. An offering of units in an investment fund is a public offer if it does not fulfill the conditions of a private placement specified below.

7.1.1 PRIVATE PLACEMENT REQUIREMENTS

Learning Objective 7.1.1 – Understand the process of issuing units of investments funds by way of private placement

- 1- Private funds (Part 5, Articles 73, 74 & 75-a)
- 2- Foreign funds (Part 6, Articles 93, 94 & 95-a)

PRIVATE FUNDS

The following rules apply to all investments units issued by way of private placement:

Article 73: Submitting a Notice to the Authority For the Establishment of a Private Fund, and Offering of Units in a Private Fund

- a. A notification to the Authority to establish, and offer units in, a private fund must be submitted by an authorised person that is authorised to carry out the activity of managing. Any such notice must be in the form specified in Annex (7) of these Regulations. Requirements of a private placement referred to in paragraph (a) of Article (75) of these Regulations must be met.
- b. Units in a private fund may only be offered in the Kingdom by way of private placement in accordance with Article (74) of these Regulations.

Article 74: Private Placement of a Private Fund and Eligibility of Investors

- a. An offer of units in a private fund is a private placement where the offerees are sophisticated investors or the minimum amount payable per offeree is not less than Saudi Riyals one million or an equivalent amount.
- b. for the purpose of this Article, sophisticated investors shall mean any of the followings:
 - 1) Authorised persons acting for their own account;
 - 2) Clients of a person authorised by the Authority to conduct managing activities provided that:
 - a. The offer is made through authorised person and all relevant communications are made through the authorised person; and
 - b. The authorised person has been appointed as an investment manager on terms which enable it to make decisions concerning the acceptance of the private offers of securities on the client's behalf without reference to the client;
 - 3) The government of the Kingdom, any supranational authority recognised by the Authority, the Exchange and any other stock exchange recognised by the Authority or the Depository Center;
 - 4) Institutions acting for their own account;
 - 5) Professional investors;
 - 6) Registered persons with an authorised person if the offer is made through the respective authorised person itself; or
 - 7) Any other persons prescribed by the Authority.
- c. The Authority may, in circumstances other than those described in paragraph (a) of this Article and upon application of an authorised person seeking to make an offer of units in a private fund, determine that such an offer shall be treated as a private placement subject to compliance with such limitation as the Authority may impose.
- d. If the units are offered in a private real estate fund, the fund must be a close-ended investment fund

Article 75: Private Placement Requirements

- a. An authorised person may not offer units in a private fund unless such an authorised person:
 - 1) notifies the Authority in writing in accordance with the format set out in Annex 7 of these Regulations at least (15) days prior to the proposed date of an offer;
 - 2) submits to the Authority a declaration in accordance with the terms set out in Annex 8 of these Regulations;
 - 3) submits to the Authority copies of the fund's terms and conditions and any offering documents to be used in advertising the offer;
 - 4) provide details of the organizational structure of the Fund Manager, including a description of the investment decision-making process of fund manager or sub-fund manager, and the name and function of any registered person in that decision-making process to the Authority;
 - 5) provide a compliance monitoring program for the relevant investment fund;
 - 6) pays such registration fees as the Authority may prescribe;
 - 7) any other information that the Authority requires; and
 - 8) provide a copy of the key information in Arabic, in accordance with the requirements of annex (3) of these Regulations.

PART 6: FOREIGN FUNDS

The following rules apply to foreign investments units:

Article 93: Offer of Units in a Foreign Fund in the Kingdom

- a. Units in a foreign fund may not be offered in the Kingdom except in accordance with this Part.
- b. No person may offer units in a foreign fund in the Kingdom unless the offer is being made through a distributor and the offering of units shall be a private placement in accordance with the requirements set out in Article (95) of these Regulations.
- c. The distributor referred to in paragraph (a) of this Article, must be an authorised

Person authorised to conduct dealing as agent activities.

- d. A foreign offered fund manager must be authorised in a jurisdiction that employs regulatory standards and requirements at least equivalent to those of the Authority. The Authority shall have the discretion to assess whether the jurisdiction has regulatory standards and requirements at least equivalent to those of the Authority

Article 94: Private Placement of a Foreign Fund and Investors Eligibility

- a. An offer of units in a foreign fund is a private placement where the offerees are sophisticated investors, as specified in paragraph (b) of Article (74) of these Regulations, or the minimum amount payable per offeree is not less than Saudi Riyals one million or an equivalent amount.
- b. The Authority may, in circumstances other than those described in paragraph (a) of this Article and upon a request from a distributor seeking to make an offer of units in a foreign fund, determine that such an offer shall be treated as a private placement subject to compliance with such limitation as the Authority may impose.

Article 95: Private Placement Requirements of foreign funds

- a. No units may be offered in a foreign fund unless the distributor meets the following:
 - 1) notifies the Authority in writing in accordance with the format set out in Annex 7 of these Regulations at least (15) days prior to the proposed date of the offer;
 - 2) submits to the Authority a declaration in accordance with the terms set out in Annex 9 of these Regulations;
 - 3) submits to the Authority copies of any offering documents to be used in advertising the offer;
 - 4) submits to the Authority copies of key information in Arabic in accordance requirement of Annex (3) of these Regulations;
 - 5) conduct a detailed comprehensive review of the foreign fund and its manager before the distribution of that fund's units, and provide the Authority with it upon its request within (5) days from the date of request;
 - 6) pays such registration fees as the Authority may prescribe; and
 - 7) any another information that the Authority requires

7.1.2 PUBLIC OFFER REQUIREMENTS

Learning Objective 7.1.2– Understand the public offer of units of investments funds (Part 4, Article 30, Annex4)

Article 30: Application to the Authority for the Establishment of, and Offering of Units in, a Public Fund

- a. Any person seeking to establish, and offer units in, a public fund must submit an application to the Authority which contains the information specified in Annex 4 of these Regulations. The Applicant must be an authorised person that is authorised to carry out the activity of managing.
- b. The applicant must notify the Authority immediately of any change in the documentation and information provided to the Authority.
- c. The applicant must pay the fees set by the Authority.

CONTENTS OF APPLICATION (ANNEX 4)

This Annex highlights the documents that are required to be included in an application file for submission to the Capital Market Authority.

The application file must include the following:

- a. Form (1) of this annex after it is being filed.
- b. Submission Checklist of the provided documents.
- c. Draft of the fund's Terms and Conditions (with the fund's terms and conditions Checklist).
- d. Draft Information Memorandum (with the Disclosure Checklist).
- e. Draft Key fact sheet.
- f. Funds board member photo ID
- g. Subscription and Redemption Forms.

- h. A detailed investment decision-making process, highlighting the names of any registered persons involved
- i. A detailed description of risk management policies and procedures for the relevant fund.
- j. A declaration by fund manager that all administrative systems to be adopted in relation to operational aspects of investment funds are available, including compliance monitoring program of the relevant investment fund.
- k. A declaration by the fund manager that all candidates of the fund's board meet the qualification and requirements contained in these Regulation, and that the definition of independent fund director in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority applies on that fund's independent directors.
- l. Any other supporting documents.
- m. Fees.
- n. Electronic copies of all documents required under the above paragraphs.

Application form is available for public at the official Capital Market Authority website:
www.cma.org.sa

7.2 PROCEDURES AND POWERS OF THE AUTHORITY IN RELATION TO MUTUAL FUNDS APPLICATION

Learning Outcome 7.2 – Understand the steps and procedures the Capital Market is empowered to take in considering an application to offer units in an investment fund

- Private funds (Part 5, Article 75-b,c,d,e &f)
- Foreign funds (Part 6, Article 95-b,c,d,e &f)
- public funds (Part 4, Article 31)

PROCEDURES AND POWERS OF THE AUTHORITY IN

RELATION TO PRIVATE FUNDS APPLICATION (Article 75-b,c,d,e &f):

Article 75: Private Placement Requirements

In considering an application to offer units in an investment fund, the Capital Market Authority may:

- b. If having received a private placement notification and the relevant information and documents provided under paragraph (a) of Article 75 the Authority considers that the proposed offer of units may not be commensurate with the fund managers ability or may result in a breach of the Capital Market Law or its Implementing Regulations then it may take the following actions:
 - 1) carry out any enquiries which it considered appropriate including requiring the concerned person or its representative to appear before the Authority to answer the questions of the Authority and to explain any matters that the Authority considers relevant to the private placement offering; or
 - 2) require the concerned person or others to provide additional information or to confirm, in such manner as the Authority may specify, that the information provided is accurate.
- c. Where the Authority determines that the private placement may not be commensurate with the fund managers ability or may result in a breach of the Capital Market Law or its Implementing Regulations, the Authority may issue a “notification” to the authorised person stating that the private offer is not to be made or publish a “notice” prohibiting the offer.
- d. Where the Authority has not taken any actions stated in paragraph (c) of this

Article, the Authority shall, on the request of the authorised person, issue a notice stating it has no objection to the establishment and offering of units in the private fund and enter the name of the private fund in the register of funds.

- e. The authorised person must provide the Authority within (10) days of the end of the initial offer period of the private fund with the results of the offer.
- f. Where the offer is not completed by the proposed offer end date (if any) specified in the private placement notification provided to the Authority in accordance with sub-paragraph (1) of paragraph (a) of this Article and terms and conditions of the fund, the authorised person must provide the Authority within (10) days with a notification in writing signed by the authorised person confirming that the offer has failed to complete. The authorised person must return to the unitholders their full subscriptions monies together with any returns generated from investing the subscriptions monies without any deduction.

PROCEDURES AND POWERS OF THE AUTHORITY IN

RELATION TO FOREIGN FUNDS APPLICATION (Article 95-b,c,d,e &f):

Article 95: Private Placement Requirements of foreign funds

- b. If having received a private placement notification and the information and documents provided under paragraph (a) of this Article and the Authority considers that the proposed offer of units may not be commensurate with the distributor's ability or may result in a breach of the Capital Market Law or its Implementing Regulations then it may take any of following actions:
 - 1) carry out any enquiries which it considered appropriate including requiring the concerned person or others to appear before the Authority to answer the questions of the Authority and to explain any matters that the Authority considers relevant to the private placement offering; or
 - 2) require the concerned person or others to provide additional information or to confirm that the information provided is accurate, in such manner as the Authority may specify.
- c. Where the Authority determines that the private placement may not be commensurate with the distributor's ability or may result in a breach of the Capital Market Law or its Implementing Regulations, the Authority may issue a “notification” to the authorised person stating that the private offer is not to be made or publish a “notice” prohibiting the offer.

- d. Where the Authority has not taken any actions stated in paragraph (c) of this Article, the Authority shall, on the request of the distributor, issue a notice stating it has no objection to the offering of units in the foreign fund and enter the name of the foreign fund in the register of funds.
- e. The distributor must provide the Authority within (10) days of the end of the initial offer period of the foreign fund with the results of the offer in such form as the Authority may prescribe, when applicable.
- f. Where the offer is not completed by the proposed offer end date (if any) specified in the private placement notification provided to the Authority in accordance with sub-paragraph (1) of paragraph (a) of this Article, terms and conditions of the fund, and relevant offering documents,, the distributor must provide the Authority within (10) days with a notification in writing signed by the distributor confirming that the offer has failed to complete, The distributor must return to the unitholders their full subscriptions monies together with any returns generated from investing the subscriptions monies without any deduction

Article 31: Procedures and Power of the Authority Toward the Application

- a. The Authority shall take any of the following within a period not exceeding (5) days from the day of receiving the application for approval to establish a public fund and to offer units in a public fund as per paragraph (a) of Article (30):
 - 1) it will notify the applicant in writing of a decision to approve the application;
 - 2) it will notify the applicant in writing of an uncompleted application and to provide such missing information and documents;
 - 3) if the Authority did not notify the applicant in accordance with sub-paragraph (1) or sub-paragraph (2) of this paragraph, it would be considered an implicit notice from the Authority to the applicant of the completion of the application, and the date of implicit notice is the expiration of the period specified in this paragraph.
- b. if the Authority notifies the applicant of an uncompleted application in accordance with sub-paragraph (2) of this paragraph, the applicant must provide such missing information and documentation within a period not exceeding (5) days from the day of the notice, in failing to comply a decision to refuse the application will be issued, and the Authority may issue a notice of such decision.
- c. Without prejudice to paragraph (d) of this article, if the application was completed in accordance with sub-paragraph (1) or sub-paragraph (3) of paragraph (a) of this article, or if the applicant provided any missing information and documents in accordance with paragraph (b) of this article, The Authority shall take any of the

following within a period not exceeding (30) days from the day of the completion of application:

- 1) a decision to approve the application, and the Authority will provide the applicant with a written notice;
- 2) a decision to approve the application subject to such conditions and limitations as it considers appropriate by the Authority, and the Authority will provide the applicant with a written notice; or
- 3) a decision to refuse the application, and the Authority will provide the applicant with a written notice with a statement of reasons.

If the Authority have not provided the applicant with a written notice of its decision within term referred to in accordance with sub-paragraph (1) or sub-paragraph (2) or sub-paragraph (3) of this paragraph, it would be deemed as a decision by the Authority of the refusal of the application, for applicants who their applications were refused request a statement of the reasons for refusal from the Authority, and the Authority shall provide the applicant with it within a period not exceeding (5) days from the day following the submission of such request.

- d. The Authority may, during the period referred to in paragraph (c) of this article, request providing any additional information it deems necessary, and such information needs to be submitted to the Authority within a period not exceeding (10) days from the date of the request, otherwise the submitted application for approval to establish a public fund and to offer units in a public fund will be refused and the Authority may provide the applicant with a written notice.
- e. If the applicant made available the additional information requested by the Authority in accordance with paragraph (d) of this Article within the period specified in that paragraph, the Authority may take any of the actions set forth in paragraph (c) of this Article, and within a period not exceeding 10 days of the receipt of the additional information.
- f. The Authority may refuse an application if the Authority believes that the offering of units in the public fund may not be commensurate with the fund managers ability or may result in a breach of the Capital Market Law or its Implementing Regulations.
- g. An applicant shall not offer or hold itself out as offering units in a public fund unless it has received the Authority's decision in a written notice referred to in sub-paragraph (1) or (2) of paragraph (c) of this Article.
- h. An applicant must commence the offer and issuance of units in a public fund within (12) months from the date of the Authority's decision referred to in sub-paragraph (1) or (2) of paragraph (c) of this Article. If the applicant did not commence the offer and issuance of units during such period, the Authority's approval shall be deemed to be cancelled.

7.3 REPORTING TO UNIT HOLDERS

Learning Objective 7.3 – Understand the reporting requirements by the fund manager to investment fund unit holders

- 1- public funds (Part 4, Article 71)
- 2- Private funds (Part 5, Article 89)
- 3- Foreign funds (Part 6, Article 99-1)

PUBLIC FUNDS

Article 71: Reporting to Unitholders

- a. The fund manager must prepare the annual reports that includes (audited financial statement) short-form annual reports and interim reports in accordance with the requirements of Annex 5 of these Regulations and must be provided by the fund manager to unitholders on request and without charge.
- b. Annual reports must be made available to the public no later than (70) days from the end of the period to which the report relates in such locations and by such means as specified in the terms and conditions and information memorandum as well as in the fund manager's website and on the exchange's website.
- c. The interim reports must be prepared and made available to the public within (35) days from the end of the period to which the report relates in such locations and by such means as specified in the terms and conditions, the information memorandum as well as in the fund manager website and on the exchange's website.
- d. A feeder fund or fund of funds must make its fund reports available within (21) days after the release of the fund reports of the fund(s) in which it invests.
- e. The fund manager shall make available for inspection by unitholders the current net asset value of the public funds to which it is fund manager free of charge, and all historical net asset value figures at the registered offices of the fund manager.
- f. The fund manager must provide each unitholder with details of the net asset value of the units owned by it and the record of transactions in fund units made by it within (15) days of each transaction in units of the public fund by the relevant

unitholder.

- g. The fund manager must send to the unitholder (including former unitholder during the year that statement was prepared) an annual statement summarising their transactions in units in the public fund during the course of a financial year within (30) days of the end of the financial year, this statement must include the outline of service fees, expenses, and charges discounted from the unitholder, and specified in the fund's terms and conditions and information memorandum, in addition to details of all the violations of investments limitations described in these Regulations, the terms and condition, or the information memorandum.
- h. The fund manager must, at the end of each quarter, disclose information about the public fund on its website and on the exchange's website or by any other means specified by the Authority. The information must include, at least, the followings at least:
 - 1) List of issuers which shares constitute the largest ten investments in the fund portfolio their percentages as it is in the first day of the quarter.
 - 2) The percentage of total fees and charges of the concerned quarter to the average of the net assets value of the fund.
 - 3) The amount and percentage of profits distributed in the quarter in question if any.
 - 4) The fund's manager investments amount and percentage to the net assets value as it is at the end of the concerned quarter.
 - 5) The amount and percentage of the concerned quarter's dealing expenses to the public fund's average net assets value.
 - 6) Standards and index to measures the risks.
 - 7) Fund's performance standards and index.
 - 8) Percentage of borrowings to the fund's net assets value at the end of the concerned quarter.

PRIVATE FUNDS

Article 89: Reporting to Unitholders

- a. Annual reports (including audited financial statements) and short form annual reports of the private fund must be prepared in accordance with the requirements set out Annex 5 of these Regulations and must be provided by the fund manager to unitholders on request and without charge. Annual reports should be made available to unitholders no later than (70) calendar days from the end of the period to which it relates by such means as specified in the fund's terms and conditions.
- b. Interim reports for a private real estate funds shall be prepared every (6) months in accordance with the requirements of Annex 5 of these Regulations, and make available to unit holders within (35) days from the end of the reporting period, in the places and the means specified in the terms and conditions of the fund, and the fund manager must provide Unitholders initial reports of the Fund upon request at no charge.

FOREIGN FUNDS

Article 99: Distributor's responsibilities

The distributor of units of a foreign fund must comply with the followings:

- 1) Sending all reports and documentation issued by the foreign fund manager to the unitholders in the Kingdom. and ensuring that all unitholders within the Kingdom in a foreign fund shall be directly entitled to the rights prescribed in the fund documentation.
- 2) Conveying all requests and letters of unitholders within the Kingdom to the foreign fund manager.
- 3) Notifying the unitholders within the kingdom of termination of relationship with the foreign open fund manager (90) days of such termination.

7.4 PRICING, VALUATION AND REDEMPTION

Learning Objective 7.4 – Understand the pricing, valuation and redemption of open – end investment funds

- 1- public funds (Part 4, Articles 60, 66, 67 & 68)
- 2- Private funds (Part 5, Article 84)

PUBLIC FUNDS

Article 60: Subscriptions and Redemptions

- a. Units in a public fund may only be subscribed for or redeemed on a dealing day. A public fund, which is not a closed-ended fund, shall have not less than two dealing days during each week. A public fund which is a closed-ended investment fund shall have such dealing days as the fund manager specifies in the fund's terms and conditions and in the information memorandum.
- b. The deadlines for submission of requests for subscriptions and redemptions for a public fund must be specified in the public fund's terms and conditions and information memorandum.
- c. The fund manager shall process requests for subscriptions or redemption at the price calculated at the valuation point following the request for subscription or redemption.
- d. A fund manager shall be obliged to meet subscription or redemption requests, subject to any provisions to the contrary in the public fund's terms and conditions or in these Regulations, or information memorandum.
- e. The fund manager shall pay the unitholder proceeds of redemption no later than the close of business on the fifth day at the latest of the following the valuation point at which the price for the redemption was determined.

Article 66: Valuation

- a. The fund manager shall be responsible for valuing the assets of the public fund. In so doing, the fund manager shall conduct a full and fair valuation.

- b. The assets of a public fund must be valued each dealing day at such time as specified in the terms and conditions and the information memorandum of such public fund, and for the duration not exceeding one day from the deadline for the request for subscription or redemption.
- c. The fund manager must, in the terms and conditions and the information memorandum, document the basis of the valuation of units and, where appropriate, any valuation methodology, and must ensure that the valuation methodology and procedures are applied in a fair and consistent manner.
- d. The fund manager must develop, maintain and state in the information memorandum and terms and conditions of the public fund a clear policy covering valuation, valuation points, pricing and dealing in units. The fund manager must adopt a consistent approach to the valuation of units for the purposes of meeting the subscription and redemption requests and transfer of units ownership.
- e. In case the net value of the fund's assets is less than (10) million Saudi Riyals, the fund manager must take the required corrective procedures specified in the fund's terms and conditions and information memorandum to ensure meeting such requirement.
- f. The fund manager must inform the Authority immediately in case of not meeting the requirement referred to in paragraph (e) of this Article.
- g. The fund manager must comply with the provisions of Annex 6 of these Regulations in relation to valuation of the public funds.

Article 67: Pricing of Units

- a. The fund manager shall be responsible for calculating the price of the units in a public fund for which it is the fund manager. The price of units for subscriptions and redemptions on any dealing day shall be calculated by reference to the net asset value per unit of the public fund at the valuation point on the relevant dealing day.
- b. Unit prices shall be expressed to at least four decimal places.
- c. The fund manager must publish the net asset value per unit on the business day following the dealings day on its website and on the exchange's website;

Article 68: Incorrect Valuation or Pricing

- a. The fund manager must record each instance where an asset of the public fund is valued incorrectly or the price of a unit is calculated incorrectly.

- b. The fund manager must compensate all harmed unitholders (including former unitholders) as soon as reasonably practicable for all valuation or pricing errors
- c. The fund manager shall immediately report to the Authority any valuation or pricing error of 0.5% or more of the price of a unit and disclose it immediately on its website and on the exchange website and in the public fund's reports prepared in accordance to articles (71) of these Regulations
- d. The fund manager, in its reports to the Authority pursuant to Article (72) of these Regulations, must provide a summary of all valuation and pricing errors.

PRIVATE FUNDS

Article 84: General Provisions

The fund manager must develop, maintain and disclose in the terms and conditions of the fund a clear policy covering valuation, pricing and dealing in units. The fund manager must also keep unitholders informed of any amendments to this policy immediately. The fund manager must adopt a consistent approach to the valuation of units for the purposes of the issue of units, the subscription or transfer of units and the redemption of units.

7.5 Independence of the Custodian

Learning Objective 7.5 – the Regulations stipulated the independence of the Custodian of public and private funds.

Custody

Article 22: Scope and application

This Part shall apply to public funds and private funds.

Article 23: Appointment of Custodian

- a. The fund manager must appoint one or more custodians in the Kingdom to take custody of the assets of the investment funds which the fund manager manages. The custodian must be appointed pursuant to a written contract.
- b. The custodian appointed pursuant to paragraph (a) of this Article must not be a fund manager or a fund sub-manager to the relevant fund, or an affiliate of the fund manager or to the fund sub-manager.
- c. The custodian appointed pursuant to paragraph (a) of this Article must be an authorised person to conduct custody activity.

Responsibilities of the Custodian:

Learning Objective – Reviewing the responsibilities of the Custodian and the importance of Segregation of Assets

Article 25: Segregation of Assets

- a. The custodian must, in relation to each investment fund to which it acts as custodian, open a separate account in a local bank under its name with the account designated as being for the benefit of the relevant investment fund.
- b. The custodian must segregate each investment fund's assets from its own assets and from the assets of its other clients, and must separately identify, by registration in the name of the custodian for the benefit of the relevant investment fund the securities and other assets of such investment fund. The custodian must register the real estate assets of the fund in the name of a subsidiary of the custodian. The custodian must maintain all necessary records to support the performance of its contractual responsibilities.
- c. The custodian must deposit all cash belonging to the investment fund into the relevant bank account referred to in paragraph (a) of this Article and must deduct from the relevant bank account payments for investments and expenses incurred in the management and operation of the investment fund in accordance with these Regulations, the relevant terms and conditions (and the information memorandum in respect to the public fund) that it received from the fund manager, and the contract by which the custodian was appointment by the fund manager.
- d. Real estate assets of a private real estate fund can be registered in the name of a subsidiary of a lender, that extended a loan to the fund, as guarantee for the debt.

Article 27: Responsibilities of the Custodian

- a. Notwithstanding the delegation by a custodian to one or more third parties under the provisions of these Regulations or the Authorised Persons Regulations, the custodian shall remain fully responsible for compliance with its responsibilities in accordance to the provisions of these Regulations. The custodian shall be held responsible to the fund manager and unitholders for any losses caused to the investment fund due to the custodian fraud, negligence, misconduct or willful default.

- b. 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.

7.6 Deferring Redemptions

Learning Objective 7.6 – Explaining the cases where fund manager may resort to suspending or deferring the participation or the redemption, and what are the resulting procedures thereof.

Article 61: Deferring Redemptions

- a. A fund manager may defer fulfilling a request for redemptions from a public fund until the next dealing day if the total of all unitholders' redemption requests to be fulfilled on any dealing day amounts to a total of 10% or more of the net asset value of the public fund.

Each fund manager must adopt fair and equitable procedures by which those redemption requests which are to be deferred are selected and disclose those procedures in the terms and conditions and the information memorandum.

Article 62 Suspension of Subscription and Redemption of Units

- a. The fund manager must suspend the subscription and redemption of units if the Authority orders any such suspension.
- b. The fund manager may not suspend the subscription and redemption of units , unless in the following circumstances:
 - 1) if the fund manager reasonably believes that any such suspension is in the best interests of the unitholders in the public fund; or
 - 2) if there has been a suspension of dealing on the principal market in which the securities or other assets held by the public fund are dealt, either in general or in relation to assets of the public fund which the fund manager reasonably believes to be material to the net asset value of the public fund.
- c. For any suspension imposed by the fund manager pursuant to paragraph (b) of this Article:
 - 1) the fund manager shall ensure that any suspension continues only for as long as it is necessary and justified having regard to the best interests of the unitholders;
 - 2) the fund manager shall review the suspension on a regular basis and shall consult with the fund board and the custodian on a regular basis regarding the suspension;

- 3) the fund manager shall inform both the Authority and the unitholders immediately of any suspension , and give the reasons for the suspension, and shall similarly inform both the Authority and the unitholders as soon as the suspension ends and disclose it on its website and on the exchange’s website;
- d. The Authority shall have the power to lift such suspension if the Authority believes that to do so is in the best interests of unitholders.

7.7 AUTHORIZATION REQUIREMENTS OF REAL ESTATE INVESTMENTS FUNDS

Learning Objective 7.5 – *Understand* the requirements that have to be met by the applicant seeking the Capital Market Authority Approval to offer units for a real estate investment fund (part 1, Article 3)

The applicant, seeking the Authority approval to offer units for a Real Estate Investment Fund should be authorized by the Authority to conduct managing business. Units of Real Estate Investment Fund shall not be offered by way of a public offer unless the Authority has first received and approved the information referred to in this article.

The application for offering units of Real Estate Investment Fund shall include the following information:

- 1 - Details regarding the Fund Manager's organizational structure, including a description of the investment decision making process of the fund manager, including the name and position of any registered persons involved in those decisions.
- 2 - The name of the Compliance Officer or names of members of the Compliance Committee.
- 3 - Providing a feasibility study for the Fund.
- 4 - Nominating a Developer to attain the Fund’s purposes.
- 5 - The following information :
 - The Fund’s Terms and Conditions signed by Fund Manager’s CEO and the Compliance Officer. This should be prepared according to Annex (1) of these regulations, and is considered a contract between the Fund Manager and the Unit holders.
 - Type and purpose of the Fund, and proposed launch date.
 - Subscription and Redemption forms.
 - Any contracts entered into by the Fund Manager for the benefit of the fund, including those made with affiliates or third parties in relation to the fund.

The applicant shall also provide any other requirement the Authority requests with accordance to the regulations. Also, the Fund’s Terms and Conditions may not be changed except after obtaining the Authority approval.

7.8 PROCEDURES AND POWERS OF THE AUTHORITY IN RELATION TO A REAL ESTATE INVESTMENT FUND APPLICATION

Learning Objective 7.6– *Understand* the steps and process followed by the Capital Market Authority in considering application to offer units in real estate investment funds (Part 1, Article 4)

In considering an application to offer units in a Real State Investment Fund, the Authority may:

- 1 - Carry out any enquiries that it considers appropriate;
- 2 - Require the applicant or its representative, to attend before the Authority to answer questions and explain any matter the Authority considers relevant to the application. An applicant becomes subject to these Regulations from the date of submission of an application;
- 3 - Require the applicant to submit such additional information as the Authority considers appropriate within 30 days of the request; and
- 4 - Verify any information furnished by the applicant.

The Authority may refuse to consider the application where an applicant has failed to provide the required information, or has failed to provide them within the period specified in article 4. The Authority reserves the right to refuse an application if it believes that the fund would not be in the best interests of investors.

The Authority shall, upon receipt of all information and documents required, notify the applicant in writing of the same, and shall take any of the following decisions within a maximum period of (30) day from the date of the notice:

1. Approve the application in whole or in part;
2. Approve the application subject to such conditions and limitations as it considers appropriate;
3. Refuse the application, giving reasons.

The Authority will inform the applicant in writing with the decision it took regarding the request. An applicant must not offer, market or advertise any units in the fund prior to receiving the Authority's approval decision.

7.9 VALUATION OF REAL ESTATE FUND ASSETS

Learning Objective 7.7 – *Understand* the requirement as to the valuation of real estate assets (Part 3, Article 21)

- (a) The authorized person shall, before purchasing or selling any of the Fund's assets, obtain an evaluation from two evaluators known for their experience, honesty and knowledge of real estate activity and area under investment.
- (b) They shall be independent from all Related Parties.
- (c) The evaluation report shall contain as a minimum the following:
 - 1 - The evaluation method, way and assumptions on which such evaluation is based.
 - 2 - An analysis of the variables related to the real estate market, such as the demand and supply and market trends.

- 3 - Details and descriptions of the real estate.
 - 4 - The risks related to the real estate subject to evaluation.
- (d) On purchasing or selling any of the fund's assets, the Fund Manager may not rely on any evaluation report prepared three months prior to purchasing or selling.

The regulation also hold the fund manager responsible for performing fair valuation to fund assets, at least once every six months based on an evaluation prepared by two evaluators. Then the net value of the unit shall be calculated by subtracting the Fund's total liabilities from its total assets, then dividing the result by the number of the fund's units, and this shall be considered as a benchmark price of the unit. However, the fund manager may postpone the valuation of the Fund's asset after obtaining the Authority approval.

7.10 PRESENTING REPORTS TO UNITHOLDERS

Learning Objective 7.8 – *Understand* the reporting requirement by the fund manager to funds' unit holders (Part 3, Article 23)

The Fund Manager issues a confirmation to the Unit holder on subscription to the Fund's units. The Fund Manager shall provide Unit holder with reports every six months as maximum once, which includes the following:

- 1 - Net asset value of the Fund.
- 2 - Number of units each holder owns and their net value.
- 3 - Any profit paid after the last report provided to the Unit holders.

7 Review Questions: Investment Funds and Real Estate Investment Funds Regulations

- 1 - **The interim reports must be prepared and made available to the public within days from the end of the period of the report.**
- (a) 40
 - (b) 35
 - (c) 10
 - (d) 5.
- 2 - **As When offering private fund units, the sophisticated investors mean:**
- (a) Authorised persons acting for their own account.
 - (b) Professional Investors.
 - (c) Institutions acting for their own account
 - (d) All the above.
- 3 - **The offering of a foreign fund units by means of private placement if:**
- (a) the minimum amount payable per offeree is not less than Saudi Riyals one million or an equivalent amount.
 - (b) the minimum amount payable per offeree is not less than Saudi Riyals 5 million or an equivalent amount
 - (c) the minimum amount payable per offeree is not less than Saudi Riyals 10 million or an equivalent amount
 - (d) the minimum amount payable per offeree is not less than Saudi Riyals 15 million or an equivalent amount

- 4 - An application to the Authority for approval to offer units in a new investment fund may only be made by a person authorized by the Authority to conduct Activities.**
- (a) Advising.
 - (b) Custody.
 - (c) Dealing.
 - (d) Managing.
- 5 - The Real Estate Investment Fund manager shall provide unit holders with reports every at the minimum which should contain the number of units held their net asset value and profits distribution**
- (a) Month
 - (b) Three months
 - (c) Six months
 - (d) Year

8 MERGERS AND ACQUISITIONS REGULATIONS

LEARNING OBJECTIVES

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text.

INTRODUCTION

8.1 GENERAL PRINCIPLES

8.2 RULES OF OFFERS

8.3 ANNOUNCEMENT AND TAKEOVER TIMETABLE

8.4 RESPONSIBILITIES OF THE OFFEROR AND THE OFFEREE COMPANY

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

The Provisions of the Regulations apply to the following:

- 1) Any purchase or sale of shares with voting rights of listed companies, resulting in an ownership or control of a person, individually or collectively by acting in concert, over ten percent (10%) or more of the relevant Offeree Company; or
- 2) Any Offer to purchase shares with voting rights of listed companies, if the percentage of shares sought to be acquired by the Offeror would increase its ownership, individually or collectively by acting in concert, or the shares under their Control, to ten percent (10%) or more of the shares of the relevant Offeree Company, and of that same shares class.

The parties to whom the Regulations apply include:

- 1) Any person who deals in the Exchange, including (without limitation) issuers, shareholders, authorized persons, and any person involved directly in participating or giving an advice on any transaction regulated by these Regulations;
- 2) Directors of companies which are subject to these Regulations; and
- 3) Any person who seek the Acquisition of, or increase its shares in, any company subject to this regulation.

8.1 GENERAL PROVISIONS

Learning Objective 8.1 – *Understand* the general principles underlying mergers and acquisition activity in the Saudi Market. (Part 1, art.3)

The following general principles apply to mergers and acquisitions:

- a) Except in private transactions, an Offeror or Offeree Company must appoint their Independent Financial Advisor who shall be approved by the Authority, and an Independent Legal Advisor, who shall be authorized to practice law in Saudi Arabia. The Independent Financial Advisor of the Offeror or Offeree Company shall be the point of contact to coordinate with the Authority on behalf of the party each of them represents, in respect of the potential Acquisition or the potential Merger.
- b) Parties involved in Acquisitions or Mergers must take care that information made available for the purpose of the Acquisition or Merger are not made in a way that may mislead shareholders or the Exchange.
- c) In the case of an Offer, all shareholders of the same class of an Offeree Company must be treated equally by an Offeror.
- d) Any document or announcement related to an Offer or potential Offer, addressed by the Offeror, the board of the Offeree Company or their respective advisors, to shareholders, must be true, fair and not misleading.
- e) An Offeror should only announce an Offer after the most careful consideration in accordance with the provisions of these Regulations, and if it firmly believes that it can

- and will continue to be able to implement the Offer; responsibility for advising the Offeror and ensuring all reasonably steps are taken in this respect rests on the financial advisor of the Offeror.
- f) In case of an Offer, the Offeror and the board of directors of the Offeree Company must give sufficient information and advice to the shareholders of the Offeree Company to enable them to reach a properly informed decision to accept or reject the offer, and must have sufficient time to do so. No relevant information should be withheld from them.
 - g) All persons who have access to confidential information, especially information that are price sensitive, regarding the acquisition or any similar transaction, shall deal with such information in confidential manner, and it shall not be provided to any person unless it's necessary to do so, provided that such person is aware of the importance of confidentiality. Moreover, such persons shall act in manner that eliminates the chances of a leak of the information that are price sensitive.
 - h) Where there are Related Parties to an Acquisition to which these Regulations apply, there must be full disclosure of the Related Party's interest in the transaction to the affected shareholders prior to completion of that transaction. Any such transaction must be on arm's length terms.
 - i) The board of an Offeree Company must always act in the best interests of its shareholders.
 - j) A shareholder who owns shares with offeror (or Merging Company) and the offeree company (or the merged company) may not vote in shareholders general assembly on decisions related to offers subject to this regulation, except in one of these companies.
 - k) A director shall not vote at a meeting of board or of its committees or a general assembly meeting on any resolution concerning an offer subject to these Regulations or any other relevant matter where the director, any relative or representative of his/her has a conflict of interest. In this context such a conflict of interest would arise if:
 - 1) the director has, directly or indirectly, an interest related to the offer or the potential offer.
 - 2) the director is a shareholder in the Offeror and at the same time he/she is a director of the Offeree Company board, or vice versa.
 - 3) the director is a director of the Offeror board and at the same time he/she is a board member of, or a manager in the Offeree Company, or vice versa.
 - l) For the purposes of these Regulations, an interest of a person who is a relative or an affiliate of a director shall be treated as an interest of the director.

8.2 RULES OF OFFERS

Learning Objective 8.2 – *Understand* the rules that govern the initial steps of an offer (Part.2, art. 16)

The Rules aim at directing and controlling offers from their early steps in order to make sure that the process is fair to shareholders and to make sure that the offer is made with full intention of honoring it. The rules specify that:

- a) An Offer must be put forward to the board of the Offeree Company or to its Independent Financial Advisor on or before it is made to the shareholders of the offeree company.

- b) Any Offer, or an approach with a view to an Offer being made, must make clear the identity of the substantial shareholders of the Offeror or potential Offeror or any persons Acting in Concert with the Offeror or potential Offeror.
- c) If the Offer, or an approach with regard to a possible Offer, is not made by the Offeror or potential Offeror, the identity of that Offeror or potential Offeror must be disclosed to the board of the Offeree Company at the outset of the Offer or the approach with regard to a possible Offer.

8.3 ANNOUNCEMENTS AND TAKEOVER TIMETABLE

Learning Objective 8.3 – *Understand* the public announcements relating to an takeover (Part.2, art.17-a)

The regulations require that all persons privy to confidential information, and particularly price sensitive information, concerning an offer or contemplated offer must treat that information as secret and may only pass it to another person if it is necessary to do so and if that person is made aware of the need for secrecy. All such persons must conduct themselves so as to minimize the chances of a leak of information.

However, a public announcement is required to be promptly made in the following circumstances:

- 1) When firm intention to make an Offer (the making of which is not, or has ceased to be, subject to any pre-condition, other than the General Authority for Competition's approval in accordance with Article 5 of these Regulations) is notified to the board of the Offeree Company in accordance with paragraph (e) of this Article, irrespective of the attitude of the board of directors of the Offeree Company to the Offer;
- 2) upon an Acquisition of shares by a person which gives rise to an obligation to make an Offer under paragraph (a) of Article 23 of these Regulations. The announcement shall not be delayed even if all relevant information was not obtained, as additional information can be the subject of a later supplementary announcement;
- 3) when a person, individually or acting in concert with the others, owns 40% of the shares carrying voting rights in the offeree company as per Article 24 of this regulation;
- 4) When, before a bid approach has been made, the Offeree Company is the subject of rumors and speculations or where there is an untoward price movement of 10% or more within a single day and there are reasonable grounds for concluding that it is the potential Offeror's actions which have led to the situation;
- 5) When, following a bid approach, an Offeree Company is the subject of Offer-related rumors and speculations, or where there is an untoward price movement in the Offeree Company shares of 20% or more of the lowest share price since the time of the approach or a price movement of 10% or more in a single day;

- 6) When negotiations or discussions regarding an Acquisition relating to shares listed on the Exchange carrying 30% or more of the voting rights of a company, or when the board of a listed company is seeking one or more potential Offerors, to include more than a very restricted number of people (outside those who need to know in the companies concerned and their immediate advisors).

8.4 RESPONSIBILITIES OF OFFEROR AND THE OFFEREE COMPANY

Learning Objective 8.4 – *Understand* the responsibilities under the mergers and acquisition regulations of the offeror and offeree companies (Part 2, Article 17-b).

The regulation delineated the following requirements as responsibilities of the offeror, the offeree or both:

- 1) Before the board of the Offeree Company is approached, the responsibility for making the announcement required under paragraph (a) of this Article lies only with the Offeror. The Offeror should, therefore, keep a close watch on the Offeree Company's share price for any signs of untoward movements in the Offeree Company's share price or where the Offeree Company is the subject to Offer-related rumors or speculations. The Offeror is also responsible for making an announcement once an obligation is incurred as per Article 23 of Merger and Acquisition Regulations.
- 2) Following an approach to the board of the Offeree Company which may or may not lead to an Offer, the primary responsibility for making the announcement required under paragraph (a) of this Article will rest with the board of the Offeree Company which must, therefore, keep a close watch on its share price for any untoward movement or if it is the subject of Offer-related rumors or speculations.
- 3) Where there is a recommendation from the Offeree Company's board of directors to accept the Offer and to submit an application to the Authority to grant a temporary suspension of trading, and the Authority has granted such suspension, the Offeree Company may instead of announcing, obtain the temporary suspension and make the announcement afterwards.
- 4) A potential Offeror must not attempt to prevent the board of an Offeree Company from making an announcement or requesting the Authority to grant a temporary suspension of trading.

8 Review Questions: Mergers and Acquisitions Regulations

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

2. **A public announcement is required to be promptly made When, following a bid approach, or where there is an untoward price movement in the Offeree Company shares of or more of the lowest share price since the time of the approach or a price movement of or more in a single day:**
 - a. 10%,10%.
 - b. 10%,20%
 - c. 20%,10%.
 - d. 20%,20%.

9 Anti – Money Laundering and Counter Terrorist Financing Rules

- 9.1 Objective of the anti – money laundering (AML) and counter terrorist financing (CTF) rules
- 9.2 Definitions
- 9.3 General application of AML/CTF requirements
- 9.4 Application of policies and procedures to overseas branches and subsidiaries
- 9.5 Customer due diligence
 - 9.5.1 Client evaluation
 - 9.5.2 Client identification
 - 9.5.3 Customer risk based due diligence approach
 - 9.5.4 High risk clients
 - 9.5.5 When authorized person must perform CDD
- 9.6 Case when verification are not needed

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

9.1 OBJECTIVES OF THE ANTI- MONEY LAUNDERING (AML) AND COUNTER TERRORIST FINANCING (CTF) RULES

Learning Objective 9.1 – *Understand* the objectives of Anti- Money Laundering (AML) and Counter Terrorist Financing (CTF) Rules (Part 1, Article 1)

The objectives of the AML and CTF rules are to make sure that all Authorized Persons (APs) comply fully with the controls and procedures issued by the Capital market Authority (CMA) to ensure :

- a - Full application of the Anti-Money Laundering Law and its implementing regulations and all the relevant international recommendations and resolutions issued by the United Nations and other international bodies.
- b - The maintenance of the credibility and integrity of the capital market, and
- c - Authorized persons and their clients are protected from illegal transactions involving money laundering, terrorist financing or other criminal activity.

9.2 DEFINITIONS

Learning objective 9.2 – *Know* the definitions of Money Laundering and Terrorist Financing (part1, Article 2)

Under the Anti-money laundering (AML) and Counter-Terrorist financing (CTF) rules money laundering has been defined to mean:

“Committing or attempting to commit any act for the purpose of concealing or disguising the true origin of funds acquired by means contrary to Sharia’s or law, thus making the funds appear as if they had come from a legitimate source”.

Thus, anti- money laundering rules are designed to act as deterrence of activities such as those defined to constitute acts of money laundering. On the other hand terrorist financing is taken to mean the financing of terrorist acts, terrorists and terrorist organizations. Any of these three types of financing activities is targeted by CMA rules.

1. Authorised Person must, in establishing policies and procedures to prevent money laundering and terrorist financing, consider carefully the specific nature of its business, organisational structure, type of client and transaction, and shall ensure that the measures taken by it are adequate and appropriate to meet the requirements and general objectives set out in these Rules.

2. Saudi Arabia has ratified and implemented the United Nations Convention on Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna 1988), the United Nations Convention on

Organized Crime (Palermo 2000) and the International Convention for Suppression and Financing of Terrorism (New York 1999). These Conventions require to establish systems, controls and procedures aimed at preventing money laundering and terrorist financing, including procedures for reporting suspected money laundering or terrorist financing transactions. The board of directors and the general manager or the owner or the delegate of Authorised Person is responsible for establishing appropriate and effective policies and procedures for the prevention of money laundering and terrorist financing and to ensuring compliance with those policies and with all relevant legal and regulatory requirements. To ensure this, senior management must appoint a director or senior manager with direct responsibility for over-sighting compliance with the AML/CFT policies and procedures and relevant legal and regulatory requirements. This does not apply to authorized person whose licensed business activity is limited to managing non-real estate investment funds or managing the portfolios of sophisticated investors, arranging or advising when outsourcing the function of the AML / CFT, on condition that the authorized person shall instruct all its employees to refer promptly any complex, huge or suspicious transaction or process that raises suspicions and or suspected transaction relating to money laundering, terrorist financing or the financing of terrorists or terrorist organizations to the AMLRO of the outsourcee. Such an AMLRO may consider reporting such an accident to the Financial Investigation Unit. Such an outsourcee shall be responsible for ensuring compliance with the requirements set out in the AML/CTF rules and its Implementing Regulations and shall inform the administrative body of the authorized person of matters relating to money laundering and the financing of terrorism

9.3 GENERAL APPLICATION OF (AML / CFT) REQUIREMENTS

Learning Objective 9.3 – *Understand* the general requirements of AML/CFT rules (Part1, Article 3)

The rules specified four general requirements that APs must ensure that they are at work in order to prevent money laundering and terrorist financing. These are:

- (a) issue an effective statement of policies and procedures aimed at preventing money laundering and terrorist financing, and ensuring compliance with current legal and regulatory requirements including the maintenance of records; and co-operation with the FIU and relevant law enforcement authorities in accordance with the relevant regulations and rules, including the timely disclosure of information;
- (b) ensure that the content of these Rules is understood by all officers and employees, and that they are aware of the requirements and vigilant in guarding against money laundering and terrorist financing;
- (c) regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. For example, reviews performed by the internal audit or compliance officer to ensure compliance with policies, procedures and controls relating to prevention of money laundering and terrorist financing (areas of review shall include: (i) an

assessment of the system for detecting suspected money laundering and terrorist financing transactions; (ii) evaluation and checking of the adequacy of reports generated on large and / or irregular transactions; (iii) review of the quality of reporting of suspicious transactions; and (iv) an assessment of the level of awareness of front line staff regarding their responsibilities); and

- (d) adopt client acceptance policies and procedures, and undertake required Customer Due Diligence (“CDD”) measures, as set out in Part (3), including taking into account the risk of money laundering and terrorist financing depending on the type of client, business relationship or transaction.

9.4 APPLICATION OF POLICIES AND PROCEDURES TO OVERSEA BRANCHES AND SUBSIDIARIES

Learning Objective 9.4 – *Understand* the AML/CTF requirements with respect to overseas branches and subsidiaries (Part1, Article 4)

Article 4 of the AML/CTF rules requires that all Authorized people with overseas branches and majority owned subsidiaries must:

- 1 - Ensure that its overseas branches and majority-owned subsidiaries (“subsidiaries”) comply with the laws and regulations of Saudi Arabia concerning money laundering and terrorist financing, and the Financial Action Task Force on money laundering and terrorist financing (FATF) recommendations , to the extent that the laws and regulations applicable in the host country permit.
- 2 - Pay particular attention to the application of paragraph (1) of this article in its branches and subsidiaries which are located in countries that do not or insufficiently implement the FATF’s Recommendations including jurisdictions designated as such by the FATF.
- 3 - Where the minimum AML/CFT requirements of Saudi Arabia and host countries differ, branches and subsidiaries in host countries shall apply the higher standard, to the extent that host country laws and regulations permit. Where the law of the host country conflicts with Saudi Arabian law or regulations such that the overseas branch or subsidiary is unable to fully observe the higher standard, the Authorized Person’s head office shall report this to the Authority and comply with such further directions as may be given by it.
- 4 - Where an overseas branch or subsidiary is unable to observe group standards because this is prohibited by host country laws, regulations or other measures, the Authorized Person shall inform the Authority immediately.

9.5 CUSTOMER DUE DILIGENCE

9.5.1 CLIENT EVALUATION

Learning Objective 9.5.1 – *Understand* the requirements of developing client acceptance policies and procedures by Aps (Part3, Article 7)

Before accepting any client, the authorized person must prepare a “Know Your Customer” form containing the information required by the Authorized Persons regulations and the other information required by these rules.

Furthermore, Authorized Persons must develop client acceptance policies and procedures that aim to identify the types of clients that are likely to pose a higher risk of money laundering and terrorist financing. Factors to consider include, as examples:

- (a) The background or profile of the client;
- (b) The nature of the client’s business, and the degree of money laundering or terrorist financing risk;
- (c) The place of establishment of the client’s business and location of the counterparties with which the client does business, such as countries designated by the FATF or those known to the Authorized Person to lack proper standards in the prevention of money laundering or terrorist financing;
- (d) Unduly complex structure of ownership for no good reason;
- (e) Means of payment as well as type of payment (third party cheque the drawer of which has no apparent connection with the prospective client may be a cause for increased scrutiny);
- (f) Any other information that may suggest that the client is of higher risk (e.g. knowledge that the client has been refused a business relationship by another financial institution). Additionally, Authorized Person must reconsider the risk categorization of a client if, following acceptance of the client, the pattern of account activity of the client does not fit in with the Authorized Person’s knowledge of the client. Authorized Person must also consider making a Suspicious Transaction Report (STR). Moreover, Authorized Person must not accept any client or open an account for a client without meeting the client directly face-to-face, except where article (14) of these Rules applies.

9.5.2 CLIENT IDENTIFICATION

Learning Objective 9.5.2 – *Understand* the requirements that clients be identified and verified by Authorized Persons (Part 3, Article 8)

The rules require that Authorized Persons must take all steps necessary to be able to establish the true and full identity of each client, and of each client’s financial situation and investment objectives. Authorized Person must not open anonymous accounts, accounts using false or fictitious names, or accounts for prohibited persons notified by the Authority.

The customer due diligence process generally involves the following steps:

- (a) Identify the client and verify their identity using the original documents prescribed in the AML Law and its implementing Regulation and paragraph (4) of this article. This also applies to all persons with signatory authority over the account;
- (b) Identify and verify beneficial ownership and control using the original documents prescribed in the AML Law and its implementing Regulation and paragraph (4) of this article.
- (c) Obtain information on the purpose and intended nature of the business relationship – depending on the type of client, business relationship or transaction, Authorized Person must obtain sufficient information such that ongoing due diligence on the client can be appropriately conducted; and
- (d) Ensure applying ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the Authorized Person’s knowledge of the client, the client’s profile, taking into account, where necessary, the client’s source of funds.

9.5.3 CUSTOMER RISK BASED DUE DILIGENCE APPROACH

Learning Objective 9.5.3 – *Understand* the factors that lead to reduced or enhanced customer due diligence requirements by the Authorized Persons (Part3, Article 9)

Authorized Persons are allowed to perform reduced customer due diligence (CDD) measures on a client, if that client is:

- (a) A company listed on the stock exchange of a country sufficiently implement the FATF’s Recommendations
- (b) A subsidiary of such a listed company. In such a case, only the requirements of article 8(2)(a),(c) and (d) need be carried out. However, where such a listed company is closely held i.e. subject to the beneficial ownership/control of an individual or a small group of individuals, an Authorized Person shall carefully review the AML/CFT risks and consider whether it is necessary to verify the identity of such individual(s).

On the other hand, Authorized Person must adopt an enhanced CDD process for higher risk type of clients, business relationships or transactions. Authorized Person must exercise its own judgment and adopt a flexible approach when applying the specific enhanced CDD measures to clients of particular high risk types.

To account for client level of risk, Authorized Person must establish clearly in its client acceptance policies the risk factors for determining what types of clients and activities are to be considered as high risk. While recognizing that no policy can be exhaustive in setting out all risk factors that must be considered in every possible situation, such risk factors must include client risk, country, geographic risk and product/service risk.

9.5.4. HIGH RISK CLIENTS

Learning Objective 9.5.4 – *Know* the clients which are considered high risk under the rules (Part3, Article 9-11)

The rules considered the following types of clients as high risk:

- (a) Politically exposed persons (PEP): Politically Exposed Person (PEP): is any individual who occupies, has recently occupied, is actively seeking or is being considered for, a senior civil position in a government of a country, state or municipality or any department including the military, any agency, government-owned company. The definition of PEP includes members of immediate family and close associates, collectively known as Related Individuals. Immediate family is typically defined as any known individual who is a member of the PEP's immediate family (i.e. spouse, parent, sibling or child).
- (b) Close associate is defined as any individual who is a senior advisor closely associated with or an agent of the PEP.
- (c) Non-profit Organizations & Entities, which refers to a legal person who is an entity or an organization that primarily engages in raising/collecting donations and/or disbursing funds for nonprofit purposes.

9.5.5 WHEN AUTHORIZED PERSON MUST PERFORM CDD

Learning Objective 9.5.5 – *Know* the situations where Authorized Persons must carry out Customer Due Diligence (Part3, Article 12):

An Authorized Person must carry out CDD measures when it:

- (a) opens an account or establishes a business relationship;
- (b) Suspects money laundering or terrorist financing; or
- (c) Doubts the veracity of documents, data or information previously obtained for the purpose of identification or verification.

In general, an Authorized Person must verify the identity of the client or potential client and beneficial owner before or during the course of establishing the business relationship. When the Authorized Person is unable to perform the CDD process satisfactorily at the account opening stage, it must terminate the business relationship and not perform any transaction, and must consider whether a Suspicious Transaction Report (STR) must be made.

9.6 CASES WHEN VERIFICATION ARE NOT NEEDED

Learning Objective 9.6 – *Know* the cases where identification and verification are not required by the Authorized Persons (Part 3, Articles 13-14)

The following situations represent cases where Client identification and verification is not required to be carried out by the Authorized Persons:

- 1 - Where Authorized Person acts for a client who is investing in an investment fund or a real estate investment fund, Authorized Person must carry out CDD on the client and shall comply with the other requirements of these Rules, except that where the client is a counterparty, the Authorized Person need not identify and verify the identity of the beneficial owners that are investing through the counterparty, provided that the following requirements are met:
 - (a) The counterparty is regulated, and licensed by the relevant government authority;
 - (b) The counterparty is based in a jurisdiction that adequately applies the FATF Recommendations;
 - (c) The counterparty is applying, as a minimum, requirements for AML/CFT (including measures for CDD and identification of beneficial owners) that are consistent with the requirements of these Rules and of the FATF Recommendations and
 - (d) The counterparty has entered into an agreement with the Authorized Person agreeing, that upon the request of the Authorized Person or the Authority, the counterparty will provide any information requested regarding the beneficial owners.

- 2 - If the client is introduced to an Authorized Person by a third party that performs the client identification and verification. A third party must either be a commercial bank or financial institution that engages in securities activities. However, the ultimate responsibility of client identification and verification always remains with the Authorized Person and not with the third party. Authorized Person can only rely on third parties to perform the CDD if:
 - (a) The client is located in a country other than Saudi Arabia.
 - (b) The third party is regulated and supervised by a competent authority,
 - (c) H measures in place to comply with CDD and record keeping requirements in line with these rules and the FATF recommendations.

Additionally, Authorized persons must conduct periodic reviews to ensure that a third party upon which it relies, continues to conform to the criteria set out above. This may involve review of the relevant policies and procedures and sample checks of the due diligence conducted. Authorized persons must not rely on third parties based in country considered as high risk, such as countries that have no or inadequate AML/CFT systems.

9 Review Questions: Anti – Money Laundering and Counter Terrorist Financing Rules

1 - Which of the following is NOT related to money-laundering?

- (a) The money is generated from illegal or non-halal sources.
- (b) Transactions are conducted to move the money in different ways and directions in an effort to lose track the origins of the money.
- (c) The “cleaned” money that appears to come from legitimate sources is used in legal economic activities.
- (d) The money is used to finance terrorist activities.

2 - Which of the following is NOT a relevant factor in determining whether a particular client or type of client is of a higher risk, for the purpose of conducting an enhanced customer due diligence:

- (a) The nature of the client’s business, and the possibility of being associated with money laundering activities.
- (b) Knowledge that the client has not been refused a business relationship by a financial institution.
- (c) The place of establishment of the client’s business and location of the counterparties, such as countries designated by the FATF.
- (d) Unduly complex structure of ownership of the client’s business.

3 - Which of the following is NOT a politically exposed person (PEP) as defined under AML/CTF Rules?

- I) A senior officer in the government and his/her relatives or friends.
 - II) A senior officer in a government-owned company and his/her relatives or friends.
 - III) A senior officer in a listed company and his/her relatives or friends.
- (a) I only.
 - (b) II only.
 - (c) I and II only.
 - (d) I, II and III.

4 - The AML/CTF Rules require an enhanced due diligence by authorized persons to clients who are classified as non-profit organizations (NPO) for the following reason:

- (a) They might be used as vehicles for terrorist financing.
- (b) They raise money from donations for charitable purposes.
- (c) They are usually related to money-laundering activities.
- (d) All the above.

10 Corporate Governance Regulations

Introduction

10.1 Rights of shareholders

- 1C Rights related to shares.
- 1C shareholders Assembly
- 1C Management of the Shareholders' Assembly
- 1C Distribution of Dividends

10.2 Disclosure and transparency

Review Questions

Learning objectives

The syllabus for this examination is broken down into a series of learning objectives and is included in the Syllabus Learning Map at the back of this workbook. Each time a learning objective is covered, it appears in a text box preceding the text

INTRODUCTION

The corporate governance Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.

This chapter summarizes some of the main features of the regulations that are seen as appropriate for the CMA general securities examination. Interested candidates can always consult the regulation for more details.

10.1 RIGHTS RELATED TO SHARES

10.1.1 RIGHTS RELATED TO SHARES

Learning Objective 10.1.1 – *Understand* the rights of shareholders of listed companies in the Saudi Market (Part 2, chapter 1, Article 5)

The shareholder of a joint stock listed company in Saudi market is entitled to all rights attached to a share of common stock. In particular the shareholder is entitled to:

- (a) obtain his/her portion of the net profits which are to be distributed in cash or through the issuance of shares;
- (b) obtain his/her share of the Company's assets upon liquidation;
- (c) attend the General or Special Shareholders Assemblies, take part in their deliberations and vote on their decisions;
- (d) dispose of his/her shares in accordance with the provisions of the Companies Law, The Capital Market Law and their implementing regulations ;
- (e) 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;
- (f) monitor the performance of the Company and the activities of the Board;
- (g) 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 bylaws of the Company;
- (h) preemptive rights to subscribe for new shares issued in exchange for cash unless otherwise specified in the Company's bylaws or when the Extraordinary General Assembly suspends the pre-emptive rights are per Article (140) of the Company's Law.
- (i) record his/her name in the Company's shareholders register;
- (j) request to view a copy of the Company's articles of association and bylaws unless the Company publishes them on its website; and
- (k) nominate and elect the Board members.

10.1.2 SHAREHOLDERS ASSEMBLY

Learning Objective 10.1.2 – *Understand* the rights of shareholders and the rules governing general assemblies of listed companies in the Saudi Market (Part 2, Chapter 2, Article 5)

General Shareholders Assemblies of the Company are competent in all of its affairs. A duly-constituted General Assembly represents all shareholders in exercising their powers in respect of the Company. The General Assembly shall exercise its role in accordance with the provisions of the Companies Law and Its Implementing Regulations and the Company's bylaws. The following should be taken into consideration upon calling or the convention of a general assembly:

- (a) The Ordinary General assembly shall convene in accordance with the situations and circumstances stated in the Companies Law and Its Implementing Regulations and the Company's bylaws.
- (b) The Ordinary General Assembly shall convene at least once per year within the six months following the end of the Company's financial year.
- (c) The General and Special Shareholders' Assemblies shall convene upon an invitation from the Board in accordance with the situations stated in the Companies Law and Its Implementing Regulations and the Company's bylaws. The Board shall invite the Ordinary General Assembly to convene upon the request of the external auditor, the audit committee or a number of shareholders holding shares equal to at least (5%) of the share capital of the Company. The external auditor may invite the assembly to convene if the Board does not invite the assembly within thirty days from the date of the external auditor's request.
- (d) The date, place and agenda of the General Assembly shall be announced at least ten days prior to the date thereof; the invitation shall be published on the website of the Exchange, the Company's website and in a daily newspaper distributed in the province where the Company's head office is located. The Company may invite the General and Special Shareholders' Assemblies to convene using methods of contemporary technologies.
- (e) The Company may amend the agenda of the General Assembly within a period between publishing the announcement referred to in paragraph (d) of this Article and the date of convening the General Assembly meeting, provided that the Company shall announce this as prescribed in paragraph (d) of this Article.
- (f) Shareholders shall be granted the opportunity to effectively participate and vote in the General Assembly meetings. The meetings of the General Assemblies of shareholders may be convened and shareholders may participate in their deliberations and vote on their resolutions using methods of contemporary technologies pursuant to the Regulatory Rules and Procedures issued pursuant to the Companies Law related to Listed Joint Stock Companies.
- (g) The Board shall work on facilitating the participation of the largest number of shareholders in the meetings of the General Assembly, including choosing the appropriate place and time of such meeting.
- (h) The Company shall ensure recording the details of the shareholders who desire to attend at the Company's head office prior to the specified time for convening the assembly, unless the Company's bylaw state other means.

10.1.3 MANAGEMENT OF THE SHAREHOLDERS' ASSEMBLY

Learning Objective 10.1.3 – *Understand* management of the shareholders' assembly of joint stock listed companies in Saudi Arabia (Part 2, Chapter 2, Article 13)

The regulation has delineated the management of the shareholders' assembly :

- a) The Shareholders' General Assembly meetings shall be chaired by the chairman, his deputy (if the chairman is absent) or whom is delegated by the Board of directors of its members (when the chairman and his deputy are absent).
- b) The chairman of the Shareholders' Assembly shall commit to grant the shareholders the opportunity to effectively participate and vote in the meetings of the General Assembly, and avoid any procedure that may preventing their attendance to the assemblies or the exercise of the voting right. Shareholders shall be informed of the rules governing such meetings and the voting procedures.
- c) Shareholders are entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the Board members and to the external auditor. The Board or the external auditor shall answer the questions raised by shareholders to the extent that does not jeopardise the Company's interest.
- d) Shareholders shall be granted access to the minutes of the General Assembly meeting; and the Company shall provide the Authority with a copy of such minutes within (10) days of the date of any such meeting.
- e) A Company shall announce to the public and inform the Authority and the Exchange, as per the rules prescribed by the Authority, of the results of a General Assembly meeting immediately following its conclusion.

10.1.4 DISTRIBUTION OF DIVIDENDS

Learning Objective 10.1.4 – *Understand* the rights of shareholders of joint stock listed companies in Saudi Arabia related to the distribution of dividends (Part 2, Chapter 1, Article 9)

The general rights of shareholders related to the distribution of dividends are as follows:

- a) The Company's bylaws shall prescribe the percentage of the net profits to be distributed to the shareholders after setting aside the statutory reserve and the other reserves.
- b) The Board shall establish a clear policy for the distribution of dividends to achieve the interests of the shareholders and the Company as per the Company's bylaw.
- c) The shareholder is entitled to receive his/her share of dividends as per the decision of the General Assembly in respect of the distribution of dividends to shareholders or the Board resolution on distributing interim dividends. The resolution shall specify the record date and the distribution date provided that the resolution shall be executed as per the

Regulatory Rules and Procedures issued pursuant to the Companies Law related to Listed Joint Stock Companies.

10.2 DISCLOSURE AND TRANSPARENCY

Learning Objective 10.2 – *Understand* the disclosure rights of shareholders of joint stock listed companies in Saudi Arabia (Part 9, Articles 89,90,91,92, and 93)

The regulation addresses a number of elements relating to disclosure and transparency. The first one relates to the policies and procedures of disclosure. The second element describes the particulars of disclosure in the board of directors' report. Moreover, the regulation address the audit committee report, disclosure of the members of the board, disclosure of the remuneration of the board's members and the executive management. These particulars are in addition to what is required in the listing rules regarding the content of the Board of Directors report. The Board of Directors report shall include the following:

- a) implemented and non-implemented provisions of these Regulations, and justifications therefor;
- b) names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager;
- c) composition of the Board and classification of its members, as follows: Executive Directors, Non-Executive Director, or Independent Director;
- d) a brief description of the competencies and duties of the committees, such as the audit committee, the nomination committee and the remuneration committee indicating their names, names of their chairmen, names of their members, the number of their respective meetings, dates of those meetings and the members' attendance details of each meeting;
- e) disclose the remuneration of the Board members and Executive Management as stated in Article (93) of these Regulations;
- f) any punishment, penalty, precautionary procedure or preventive measure imposed on the Company by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future;
- g) results of the annual review of the effectiveness of the internal control procedures of the Company and the opinion of the audit committee with respect to the adequacy of the Company's internal control system.

10 Review Questions: Corporate Governance Regulations

- 1 - **The following are the rights of the shareholders of a joint stock company listed in the Saudi market EXCEPT:**
 - (a) The right to a share of the distributable profits.
 - (b) The right to a share of the company's assets upon liquidation.
 - (c) The right to attend the General Assembly and participate in deliberations and vote on relevant decisions.
 - (d) The right to supervise the management activities, and file responsibility claims against the company's management.

- 2 - **The shareholders of listed companies must be informed of the date, place, and agenda of the company's General Assembly, at least prior to the date of the meeting.**
 - (a) 7 days.
 - (b) 10 days.
 - (c) 20 days.
 - (d) 30 days.

- 3 - **With respect to disclosure and transparency, the Regulations require that details disclosure of compensation and remuneration for each of the following, EXCEPT:**
 - (a) The chairman and each member of the Board of Directors.
 - (b) The top five executives who received the highest remuneration.
 - (c) The CEO, if he/she is not in the top five with the highest remuneration.
 - (d) The Compliance Officer, if he/she is not in the top five with the highest remuneration.

End of Chapter Review Questions: Key Answers

Chapter 1: Capital Market Law

- 1 - B
- 2 - D
- 3 - A
- 4 - B
- 5 - C

Chapter 2: Market Conduct Regulations

- 1 - B
- 2 - D
- 3 - C
- 4 - C
- 5 - D

Chapter 3: Offer of Security Regulations

- 1 - D
- 2 - D
- 3 - C

Chapter 4: Listing Rules

- 1 - D
- 2 - D
- 3 - B
- 4 - A
- 5 - D
- 6 - B
- 7 - C

Chapter 5: Securities Business Regulations

- 1 - B
- 2 - D
- 3 - B
- 4 - B

Chapter 6: Authorized Persons Regulations

- 1 - B
- 2 - D
- 3 - C

Chapter 7: Investment Funds and Real Estate Investment Funds Regulations

- 1 - B
- 2 - D
- 3 - A
- 4 - D
- 5 - C

Chapter 8: Mergers & Acquisitions Regulations

- 1 - D
- 2 - C

Chapter 9: AML & Counter Terrorist Financing Rules

- 1 - D
- 2 - B
- 3 - C
- 4 - A

Chapter 10: Corporate Governance Regulations

- 1 - D
- 2 - B
- 3 - D

SYLLABUS LEARNING MAP

PART 1 - Regulations

ELEMENT 1 CAPITAL MARKET LAW

Chapter/section

1.1 Securities

On completion, the candidate should :

1.1.1 Know the types of instruments specifically covered by the CML and referred to as 'securities' therein (Chapter 1, Article 2)

Ch1, Section 1.1.1

1.1.2 Know the types of instruments specifically excluded from the definition of 'securities' and therefore not covered by the CML (Chapter 1, Article 3)

Ch1, Section 1.1.2

1.2 The Capital Market Authority

On completion, the candidate should:

1.2.1 Understand the extent of the Authority's responsibilities under the CML and the functions that it may employ to achieve those objectives (Chapter 2, Article 5)

Ch1, Section 1.2.1

1.3 Other Saudi Arabian Entities

On completion, the candidate should :

1.3.1 Know the objective of the Exchange (Chapter 3, Article 20)

Ch1, Section 1.3.1

1.3.2 Understand the functionality of the Committee for the Resolution of Securities Disputes (Chapter 3, Article 25)

Ch1, Section 1.3.2

1.3.3 Understand the functionality of the Securities Depository Center (Chapter 4, Article 27 & 27)

Ch1, Section 1.3.3

1.3.4 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 (Chapter 4, Article 27)

Ch1, Section 1.3.3

1.4 Broker Regulation

On completion, the candidate should:

1.4.1 Know the requirements of a person wishing to undertake brokerage business (Chapter 5, Article 31 & 32)

Ch1, Section 1.4.1

1.4.2	Know the activities that may be carried on by a Broker (Chapter 5, Article 32)	Ch1, Section 1.4.2
1.4.3	Understand the Exchange's power to carry out investigations and inspections of licensed brokers or brokers' agents (Chapter 5, Article 35)	Ch1, Section 1.4.3
1.5 Investment Funds And Collective Investment Schemes		
On completion, the candidate should:		
1.5	Know the Authority's powers of regulation and control over Investment Funds and Collective Investment Schemes (Chapter 6, Article 39)	Ch1, Section 1.5
1.6 Disclosure		
On completion, the candidate should :		
1.6.1	Know what information and statements must be contained in prospectus relating to the issue of securities (Chapter 7, Article 42)	Ch1, Section 1.6.1
1.7 Regulation of Restricted Purchases And Restricted Offers		
On completion, the candidate should:		
1.7.1	Understand what is meant by a Restricted Purchase of Shares (Chapter 9, Article 52 & 54)	Ch1, Section 1.7.1
1.7.2	Understand what is meant by a Restricted Offer for Shares (Chapter 9, Article 52 & 54)	Ch1, Section 1.7.1
1.8 Sanctions And Penalties For Violations (General)		
On completion, the candidate should :		
1.8	Know the Sanctions that can be issued by the Committee for the resolution of securities disputes for violations of any provisions of the law, regulations, rules and regulations of the Exchange (Chapter 10, Article 59)	Ch1, Section 1.8
ELEMENT 2 MARKET CONDUCT REGULATIONS		Chapter/section
2.1 Prohibition of Market Manipulation		
On completion, the candidate should :		

2.1.1	Understand the regulation concerning the prohibition of Market Manipulation and deceptive act of practices	Ch2, Section 2.1.1
	<ul style="list-style-type: none"> • Reasonable ground to know 	
	<ul style="list-style-type: none"> • False or misleading impression 	
	<ul style="list-style-type: none"> • Artificial prices 	
	(Part 2, Article 2)	
2.1.2	Understand the nature of activities that may be considered to be Market Manipulation or deceptive act or practices	Ch2, Section 2.1
	<ul style="list-style-type: none"> • Fictitious trades 	
	<ul style="list-style-type: none"> • No change in beneficial ownership 	
	<ul style="list-style-type: none"> • Matching purchase and sale transactions 	
	<ul style="list-style-type: none"> • Escalating / Diminishing price orders 	
	<ul style="list-style-type: none"> • Orders to manipulate prices 	
	(Part 2, Article 3)	
	2.2 Insider Trading	
	On completion, the candidate should :	
2.2.1	Understand the concept of trading in a Security as it is stated in the market conduct regulations	Ch2, Section 2.2.1
	<ul style="list-style-type: none"> • Trading Security 	
	<ul style="list-style-type: none"> • Price affected by information 	
	<ul style="list-style-type: none"> • Direct Trading 	
	<ul style="list-style-type: none"> • Indirect Trading 	
	(Part 3, Article 4a)	
2.2.2	Understand what is meant by ‘Insider’ for the purposes of the insider ‘Trading Regulations (Part 3, Article 4b)	Ch2, Section 2.2.2
2.2.3	Understand what is meant by ‘Insider Information’ for the purpose of the insider Trading Regulations (Part 3, Article	Ch2, Section 2.2.3

4c)	
2.2.4 Understand the regulations covering the disclosure of Insider information and the prohibition of Insider Trading (Part 3, Article 5 & 6)	Ch2, Section 2.2.4
2.3 Untrue Statements	
On completion, the candidate should :	
2.3.1 Understand the regulations concerning the prohibition of Untrue statements (Part 4, Articles 7 & 8)	Ch2, Section 2.3.1
2.3.2 Know the circumstances in which a person may make an Untrue Statements (Part 4, Article 9)	Ch2, Section 2.3.2
2.3.3 Understand the circumstance under which a person may be liable for damages in respect of the making of an Untrue Statement (pat 4, Article 10)	Ch2, Section 2.3.3
ELEMENT 3 OFFER OF SECURITY REGULATIONS	Chapter/section
3.1 The Parties	
On completion, the candidate should :	
3.1.1 Know the definition of an ‘Offeror’ and an ‘Offeree’ in respect of Offers of Securities under the Offers of Securities Regulations (Part 2, Article 4 & 5)	Ch3, Section 3.1.1
3.2 Private Placements	
On completion, the candidate should:	
3.2.1 Know the conditions that must be fulfilled if an Offer of Securities is to be regarded as a private placement (Part 4, Article 9)	Ch3, Section 3.2.1
3.2.2 Know the restriction on Secondary Market activity in respect of Securities acquired pursuant to a private placement (Part 4, Article 15)	Ch3, Section 3.2.2
ELEMENT 4 LISTING RULES	Chapter/section
4.1 Issuer’s Representative And Financial Advisor	
On completion, the candidate should:	

4.1.1	Know the requirement for an issuer to appoint a representative to act on its behalf before the Authority (Part 1, Article 3)	Ch4, Section 4.1.1
4.1.2	Know the requirement to appoint a financial advisor, its obligations and duty of care (Part 1, Article 4, 6 & 7)	Ch4, Section 4.1.2
4.2 Conditions For Admission and Listing		
On completion, the candidate should :		
4.2.1	Know the conditions relating to applicant for admission and listing (Part 3, Article 8)	Ch4, Section 4.2.1
4.2.2	Know the conditions relating to securities to be admitted and listed (Part 3, Article 9)	Ch4, Section 4.2.2
4.3 Admission To The Official List		
On completion, the candidate should be:		
4.3.1	Know the requirement for the issue to be underwritten and the capital requirements of the underwriter (Part 4, Article 10)	Ch4, Section 4.3.1
4.3.2	Know the basic contents of the prospectus	Ch4, Section 4.3.2
4.4.3	Know the circumstances under which the Authority may cancel or suspend a listing	Ch4, Section 4.3.3

ELEMENT 5 SECURITY BUSINESS REGULATIONS		Chapter/section
5.1 Carrying On Securities Business		
On completion, the candidate should :		
5.1.1	Understand the five Securities activities that constitute Security Business (Part 2, Article 2 & 3)	Ch5, Section 5.1.1
5.1.2	Understand the criteria present if a person is to be regarded as carrying on Security Business in the Kingdom of Saudi Arabia (Part 2, Article 4)	Ch5, Section 5.1.2
5.1.3	Understand The categories of Persons who may carry on Securities Business in the Kingdom of Saudi Arabia (Part 2, Article 5 annex 1)	Ch5, Section 5.1.3

5.2 Exclusions From Authorization	
On completion, the candidate should:	
5.2.1 Know the Securities activities that do not require authorization by the Authority (Part 2, Article 7 to 10)	Ch5, Section 5.2.1
5.3 Securities Advertisements	
On completion, the candidate should :	
5.3.1 Understand the criteria that must be present for a communication to be regarded as a Securities Advertisement (Part 3, Article 16)	Ch5, Section 5.3.1
5.3.2 Know the Authorized Person's role in the making of communicating of Securities Advertisements (Part 3, Article 17)	Ch5, Section 5.3.2
5.3.3 Know the exemptions from the Regulation of Securities Advertising (Part 3, Article 20)	Ch5, Section 5.3.3
5.3.4 Know the Territorial scope of a Securities Advertisement (Part 3, Article 19)	Ch5, Section 5.3.4
ELEMENT 6 AUTHORIZED PERSONS REGULATIONS	Chapter/section
6.1 The Principles	
On completion, the candidate should:	
6.1.1 Know the Principles that provide a general statement of the fundamental obligations of Authorized Persons	Ch6, Section 6.1.1
6.2 Authorization	
On completion, the candidate should:	
6.2.1 Know the requirements that an applicant must fulfill when applying for an authorization to conduct investment business	Ch6, Section 6.2.1
6.2.2 Know the criteria against which an Authorized Person's employees, officers and agents will be assessed in determining whether the Authorized Person is Fit and Proper to carry out the Securities Business for Which it is authorized (Part 3, Article 9)	Ch6, Section 6.2.2
6.2.3 Know the record keeping requirements applicable to an	Ch6, Section 6.2.3

Authorized Person (Part 3, Article 16)		
6.3 Registered Persons		
On completion, the candidate should:		
6.3.1	Know the Registerable Functions that shall be performed by Registered Persons (Part 4 Article 19)	Ch6, Section 6.3.1
6.4 Conduct of Business		
On completion, the candidate should:		
6.4.1	Understand the limitations on the giving and receipt of gifts or inducements (Part 5, Article 27)	Ch6, Section 6.4.1
6.4.2	Understand the circumstances in which an Authorized Person may enter into a special commission arrangement (Part 5, Article 28)	Ch6, Section 6.4.2
6.4.3	Understand the exceptions to the Authorized Person's duty of confidentiality in respect of client information (Part 5, Article 29)	Ch6, Section 6.4.3
6.4.4	Understand the characteristics and uses of Chinese Wall Arrangements (Part 5, Article 30)	Ch6, Section 6.4.4
6.5 Accepting Clients		
On completion, the candidate should :		
6.5.1	Understand the three different types of client	Ch6, Section 6.5.1
6.5.2	Know that an Authorized Person must comply with all obligations under the Anti – Money Laundering Law and associated rules and regulations (Part 5, Article 37)	Ch6, Section 6.5.2
6.5.3	Know the requirement that an Authorized Person must provide a client with its terms of business; the basic purpose of so doing and its record keeping requirements (Part 5, Article 38)	Ch6, Section 6.5.3
6.5.4	Know the requirement to Know Your Customer and basic details of the information that should be retained (Part 5, Article 39)	Ch6, Section 6.5.4
6.6 Client Relations		

On completion, the candidate should:		
6.6.1	Know basic details of the fiduciary duties that an Authorized person owes to its customers (Part 5, Article 40 & Annex 5.4)	Ch6, Section 6.6.1
6.6.2	Understand an Authorized Person's responsibilities regarding any conflict of interest between itself and its customer (Part 5, Article 41)	Ch6, Section 6.6.2
6.6.3	Understand the restrictions placed on an Authorized Person's dealings with its customers when undertaking activities that involve risk,(Part 5, Article 42)	Ch6, Section 6.6.3
6.6.4	Understand the Regulations regarding the Suitability of advice or a transaction for a customer (Part 5, Article 43)	Ch6, Section 6.6.4
6.6.5	Understand the circumstances under which an Authorized Person may lend money or extend credit to a customer (Part 5, Article 44)	Ch6, Section 6.6.5
6.6.6	Understand the circumstances and conditions under which an Authorized Person may effect a margined transaction or the granting of a loan or credit to cover margin payments (Part 5, Article 45)	Ch6, Section 6.6.6

6.7 Reporting To Clients	
On completion, the candidate should:	
6.7.1 Know the requirement that an Authorized person must send a contract note when it has effected a sale or purchase of a Security for a customer (Part 5, Article 47)	Ch6, Section 6.7.1
6.7.2 Know the requirement that an Authorized Person who acts as manager for a client must send periodic valuations to that client (Part 5, Article 48)	Ch6, Section 6.7.2
6.7.3 Understand the record keeping requirement in respect of transactions effected by an Authorized Person for its clients and its clients' accounts (Part 5, Article 49)	Ch6, Section 6.7.3
6.7.4 Understand the regulations regarding Employees' Personal Dealings as they affect the employee and the Authorized person (Part 5, Article 50)	Ch6, Section 6.7.4
6.7.5 Know an Authorized Person's obligations if it wished to make or accept telephone communications to or from its client in relation to Securities Business (Part 5, Article 51)	Ch6, Section 6.7.5
ELEMENT 7 INVESTMENT FUND AND REAL ESTATE INVESTMENT FUNDS REGULATIONS	Chapter/section
7.1 Offer of Investment Fund Units	
On completion, the candidate should:	
7.1.1 Understand the process of issuing units of investments funds by way of private placement (Part 2, Article 4)	Ch7, Section 7.1.1
7.1.2 Understand the various requirement of public offer of units of investment funds (Part 2, Article 5)	Ch7, Section 7.1.2
7.2 Procedures And Powers of The Authority In Relation To An Application	
On completion, the candidate should:	
7.2 Understand the steps and procedures the Capital Market empowered to take in considering an application to offer units in an investment funds (Part 2, Article 6)	Ch7, Section 7.2
7.3 Procedures And Powers of The Authority In Relation To An	

Application		
On completion, the candidate should:		
7.3	Understand the reporting requirements by the fund manager to investment fund unit holders (Part 3, Article 12)	Ch7, Section 7.3
7.4 Pricing, Valuation And Redemption		
On completion, the candidate should:		
7.4	Understand the pricing, valuation and redemption of open – end investment (Part 9, Article 46)	Ch7, Section 7.4
7.5 Authorization Requirements of Real Estate Investment Funds		
On completion, the candidate should:		
7.5	Understand the requirements that have to be met by the applicant seeking the Capital Market Authority Approval to offer units for a real estate investment fund (Part 1, Article 3)	Ch7, Section 7.5

7.6 Procedures And Powers of The Authority In Relation To An Application		
On completion, the candidate should:		
7.6	Understand the steps and process followed by the Capital Market Authority in considering application to offer units in real estate investment funds (Part1, Article 4)	Ch7, Section 7.6
7.7 Valuation of Real Estate Fund Assets		
On completion, the candidate should:		
7.7	Understand the requirements as to the valuation of real estate assets (Part 3, Article 21)	Ch7, Section 7.7
7.8 Presenting Reports To Unit Holders		
On completion, the candidate should:		
7.8	Understand the reporting requirement by the fund manager to funds' unit holder (Part 3, Article 21)	Ch7, Section 7.8
ELEMENT 8 MERGERS AND ACQUISITIONS REGULATIONS		Chapter/section

8.1 General Principles	
On completion, the candidate should:	
8.1 Understand the general principles underlying mergers and acquisition in the Saudi Market (Part 1, Article 3)	Ch8, Section 8.1
8.2 Rules of Offers	
On completion, the candidate should:	
8.2 Understand the rules that govern the initial steps of an offer (Part2, Article 16)	Ch8, Section 8.2
8.3 Announcement And Takeover Timetable	
On completion, the candidate should:	
8.3 Understand the situations where a public announcement related to takeover is required (Part2, Article 17-a)	Ch8, Section 8.3
8.4 Responsibilities of Offeror And The Offeree Company	
On completion, the candidate should:	
8.4 Understand the responsibilities under the mergers and acquisitions regulations of the offeror and offeree Companies (Part2,Article 6-c)	Ch8, Section 8.4
ELEMENT 9 ANTI – MONEY LAUNDERING AND COUNTER TERRORIST FINANCING	Chapter/section
9.1 Objective of The Anti – Money Laundering (AML) And Counter Terrorist Financing (CTF) Rules	
On completion, the candidate should:	
9.1 Understand the objectives of Anti – Money Laundering (AML) and Counter Terrorism Financing (CTF) rules (Part 1, Article 1)	Ch9, Section 9.1
9.2 Definitions	
On completion, the candidate should:	
9.2 Know the definition of Money Laundering and Terrorism Financing (Part 1, Article 2)	Ch9, Section 9.2
9.3 General Application of (AML / CTF) Requirements	

On completion, the candidate should:	
9.3 Understand the general requirements of AML / CFT rules (Part 1, Article 3)	Ch9, Section 9.3
9.4 Application of Policies And Procedures To Overseas Branches And Subsidiaries	
On completion, the candidate should:	
9.4 Understand the AML / CTF requirements with respect to overseas branches and subsidiaries (Part 2, Article 4)	Ch9, Section 9.4
9.5 Customer Due Diligence	
On completion, the candidate should:	
9.5.1 Understand the requirements of developing client acceptance policies and procedures by Aps (Part 3, Article 7)	Ch9, Section 9.5.1
9.5.2 Understand the requirements that clients be identified and verified by Authorized Persons (Part 3, Article 8)	Ch9, Section 9.5.2
9.5.3 Understand the factors that lead to reduced or enhanced customer due diligence requirements by the Authorized Persons (Part 3, Article 9)	Ch9, Section 9.5.3
9.5.4 Know the clients which are considered high risk under the rules (Part 3, Article 10-11)	Ch9, Section 9.5.4
9.5.5 Know the situations where Authorized persons must carry out Customer Due Diligence (Part 3, Article 12)	Ch9, Section 9.5.4
9.6 Cases When Verification Are Not Needed	
On completion, the candidate should:	
9.6 Know the cases where identification and verification are not required by the Authorized Persons (Part 3, Articles 13-14)	Ch9, Section 9.6
ELEMENT 10 CORPORATE GOVERNANCE REGULATIONS	Chapter/section
10.1 Rights of Shareholders And The General Assembly	
On completion, the candidate should:	
10.1.1 Understand the rights of shareholders of listed companies in the Saudi Market (Part 2, chapter 1, Article 5)	Ch10, Section 10.1.1

10.1.2	Understand the rights of shareholders and the rules governing general assemblies of listed companies in the Saudi Market (Part 2, Chapter 2, Article 5)	Ch10,Section 10.1.2
10.1.3	Understand management of the shareholders' assembly of joint stock listed companies in Saudi Arabia (Part 2, Chapter 2, Article 13)	Ch10,Section 10.1.3
10.1.4	Understand the rights of shareholders of joint stock listed companies in Saudi Arabia related to the distribution of dividends (Part 2, Chapter 1, Article 9)	Ch10,Section 10.1.4
10.2 Disclosure And Transparency		
On completion, the candidate should:		
10.2	Understand the disclosure rights of shareholders of joint stock listed companies in Saudi Arabia (Part 9, Articles 89,90,91,92, and 93)	Ch10,Section 10.2