



The Draft Amendments to the Capital Market Law

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1) Introduction

As part of the Capital Market Authority's ("CMA") strategic objectives to develop the capital market, and based on the Capital Market Law issued by Royal Decree No. (M/30) dated 02/06/1424 H, the CMA Board issued its resolution to publish the Draft Amendments to the Capital Market Law ("Draft Amendments") for public consultation for a period of (30) calendar days.

2) The Legal Basis for CMA to Propose the Draft Amendments

Proposing the Draft Amendments comes from the CMA being the authority legally responsible for applying the provisions of the Capital Market Law, and the competent authority for regulating and developing the capital market, regulating and monitoring the works and activities of parties subject to its control and supervision, granting the necessary licenses to be issued in accordance with the provisions of the Capital Market Law and its regulations, and determining the minimum capital required for brokerage companies and the financial guarantees required from such companies, based on the following:

1. Article 5 of the Capital Market Law which stipulates: **“a) The Authority shall be the agency responsible for issuing regulations, rules and instructions, and for applying the provisions of this Law. To achieve these objectives, the Authority shall: 1) Regulate and develop the Exchange, seek 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...3) Regulate and monitor the works and activities of parties subject to the control and supervision of the Authority.”**
2. Article 6 of the Capital Market Law which stipulates: **“a) The Authority shall have the power to carry out its functions under this Law as well as the regulations, rules and instructions issued pursuant thereto including, but not limited, the power to: ...18) Grant the necessary licenses to be issued in accordance with the provisions of this Law and its Implementing Regulations, including the licensing of rating companies and agencies and the conditions thereof. ... 22) Determine the minimum capital required for brokerage companies and the financial guarantees required from such companies, and ensure the strength and durability of their financial positions through the periodic review of their compliance with capital adequacy requirements, in addition to setting out the necessary arrangements to protect the funds and Securities in the custody of brokerage companies.”**



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3) Objectives of the Draft Amendments, Reasons for their Preparation, and their Main Elements:

a. Objectives of the Draft Amendments and Reasons for their Preparation

The objectives of the draft amendments and the reasons for their preparation are as follows:

1. Alignment with international best practices regarding the minimum capital requirements that brokerage companies must continually meet, as well as the legal structure requirements for brokerage companies. This will positively impact the "development of an advanced capital market", which is one of the key pillars of the Financial Sector Development Program.
2. Encouraging competition in carrying out dealing and custody business, which will positively affect the quality of services provided and reduce their costs for clients by increasing the attractiveness of obtaining licenses for carrying out dealing and custody business.
3. Encouraging the growth of the asset management industry by enhancing the development of services provided in dealing and custody business.
4. Granting the CMA the ability to respond quickly to any changes that may arise in the capital market, including the innovation of new financial products and services that require meeting specific capital requirements tailored to the characteristics of those products and services.

b. The Main Elements of the Draft Amendments

The main elements of the draft amendments are as follows:

1. Dispensing with specifying the legal structure that the brokerage companies must adopt at the law level, and referring this determination to the implementing regulations.
2. Dispensing with specifying the minimum capital requirements that brokerage companies must continually meet, which must not be less than (SR 50 million) as stated in Article 33 of the Capital Market Law, and referring the determination of these requirements to the implementing regulations.

c. The Targeted Group

1. Applicants for an authorisation to carry out dealing and custody business.
2. Capital market institutions authorised to carry out dealing and custody business.

4) Benchmark Jurisdictions

- The United Kingdom.
- The United States of America.
- Australia.
- The Republic of Singapore.
- Turkey.
- The United Arab Emirates.
- Malaysia.



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5) The Proposed Provisions:

#	Current Provisions	Provisions after Proposed Amendments	Clarification
1.	<p>Article 32 “a) Broker means a joint stock company that carries on brokerage activities and the broker agent who is working at the brokerage company and carries out all or part the following activities: ...”</p>	<p>Article 32 “a) Broker means a company that carries on brokerage activities and the broker agent who is working at the brokerage company and carries out all or part the following activities: ...”</p>	<p>Paragraph (a) of Article 32 of the Capital Market Law requires that the legal structure of the brokerage company be a joint-stock company. It is proposed to refer the determination of the legal structure to the implementing regulations, providing the necessary flexibility to determine the legal structures of the brokerage company, based on the nature of the business it will be authorised to carry out.</p>
2.	<p>Article 33 “b) The Implementing Regulations shall set forth the requirements and conditions that must be met by applicants for obtaining a brokerage license. The conditions for licensing or renewal of a license must include the following: 1) Criteria pertaining to an applicant’s competence to act as a broker or a broker’s agent; 2) Criteria for the integrity and suitability of persons to conduct brokerage activities; 3) Minimum capital requirements that brokerage companies must continually meet, which must not be less than (SR 50 million).”</p>	<p>Article 33 “b) The Implementing Regulations shall set forth the requirements and conditions that must be met by applicants for obtaining a brokerage license. The conditions for licensing or renewal of a license must include the following: 1) Criteria pertaining to an applicant’s competence to act as a broker or a broker’s agent; 2) Criteria for the integrity and suitability of persons to conduct brokerage activities; 3) Minimum capital requirements that brokerage companies must continually meet.”</p>	<p>Paragraph (b) of Article 33 of the Capital Market Law requires that the minimum capital requirements that the brokerage company must continually meet should not be less than SR 50 million. It is proposed to refer the determination of the minimum capital requirements to the CMA implementing regulations, providing the necessary flexibility to determine the capital requirements of the brokerage company, based on the nature of the business it will be authorised to carry out.</p>