



The Draft of Securities Exchanges and Depository Centers Regulations

A) 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 2/6/1424 H, the CMA Board issued its resolution to publish the draft of Securities Exchanges and Depository Centers Regulations (the "Draft Regulations"), for public consultation for a period of (60) calendar days ending on 11/8/1443H corresponding to 14/3/2022G.

B) Objectives of the Draft Amendments and its main elements:

The Draft Regulations aims to develop the regulatory framework for the authorisation and supervision of securities exchanges and depository centers for the efficient performance of their duties and obligations, and to further the stability and regulatory environment of the capital market, in addition to enhancing the confidence of capital market participants in support of its growth and prosperity, as well as the development of procedures that ensure effective supervision over securities exchanges and depository centers in line with international best practices and standards in this regard.

Following the approval of the Securities Central Counterparties Regulations, which regulate securities clearing activities in the Kingdom and set out the authorisation requirements for such activities, the Draft Regulations is a continuation of the CMA's efforts in developing the capital market's infrastructure in light of the amendments to the Capital Market Law that granted the CMA the authority to establish the regulatory authorisation requirements for securities exchanges, depository centers, and clearing centers, including the requirements for maintaining such authorisation as well as its relinquishment.

The main elements of the Draft Regulations are as follows:

- a) Regulating the authorisation requirements to carry out exchanges and depository centers activities in the Kingdom, as well as their capital requirements.
- b) Regulating the requirements for securities exchanges and depository centers in conducting their business and in their systems and controls, in addition to the requirements for their governance arrangements.

C) Receiving public views:

The CMA, with full gratitude, would receive the opinions and comments of relevant and interested persons, through any of the following:

- a) The Unified Electronic Platform for Consulting the Public and Government Entities (Public Consultation Platform), affiliated with the National Competitiveness Center, through the following link: (istitlaa.ncc.gov.sa).
- b) The prescribed form through the following email: (Laws.Regulations@cma.org.sa).

All comments will be taken into full consideration for the purpose of finalizing the Draft Regulations.

D) Proposed Provisions for the Securities Exchanges and Depository Centers Regulations:

PART 1

INTRODUCTORY PROVISIONS

Article 1: preliminary

The purpose of these Regulations is to regulate the exchanges and the depository centers Business and specify the procedures and conditions for obtaining an authorisation and its maintenance.

Article 2: Definitions

- a) Any reference to the “Law” in these Regulations shall mean the Capital Market Law issued by the Royal Decree No. M/30 dated 02/06/1424 H.
- b) Expressions and terms in these Regulations have the meaning, which they bear in the Law and the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, unless the context indicates otherwise.

Article 3: Compliance with Regulations and Rules

- a) The Exchange and Depository Center must comply with the Law, these regulations and the other relevant regulations and rules. The exchange and Depository Center must provide to the Authority without delay any information, records or documents that the Authority may require for the purpose of implementing the Law and its implementing regulations.
- b) The governing body and employees of the Exchange and the Depository Center must comply with any request issued by the Authority to appear to explain any matter or to assist in any enquiry relating to implementing the Law and its implementing regulations.

Article 4: Waivers

- a) The Authority may waive a provision of these Regulations in whole or in part as it applies to an applicant, an exchange or a depository center on an application from them or on its own initiative.
- b) The Authority will make an announcement of the waiver of any provision where it believes that:
 - 1) The waiver of the provisions may be of application to more than one exchange or depository center; and
 - 2) The publication of the waiver will not materially prejudice the exchanges or depository centers.

PART 2

PRINCIPLES FOR EXCHANGES AND DEPOSITORY CENTERS

Article 5: General Principles

The Exchanges and Depository Centers must comply with the following principles:

- 1) Conduct their business with integrity;
- 2) Conduct their business with due skill, care and diligence;
- 3) Protect investors and maintain their confidence by means of fairness, efficiency and transparency in everything related to its affairs;
- 4) Efficiency of management and control, by taking reasonable care to organise their affairs responsibly and effectively; and
- 5) Consider the interests of the direct and indirect participants in their organization, rules, decisions and general strategies.

PART 3

AUTHORISATION

Article 6: Requirements for Authorisation

- a) For the purpose of this Article, an applicant for authorisation means the person that is applying for authorisation to conduct the business of Exchange or Depository center in the Kingdom. An applicant becomes subject to these Regulations from the date of submission of its application.
- b) An applicant must demonstrate to the Authority that:
 - 1) It has objectives prioritizing the integrity and efficiency of its business and support market safety and investors protection;
 - 2) It is fit and proper and has adequate expertise and resources to carry out the business for which it seeks authorisation;
 - 3) It is suitable with the capital market structure, and would not entail negative impacts on the investors' confidence or on the stability of the authorised Exchanges, Depository Centers or CCPs;
 - 4) It has human resources, managerial expertise, financial systems, risk management policies and systems, technological resources, and operational procedures and systems that are sufficient to fulfil its business and regulatory obligations;
 - 5) The identities of its shareholders that have direct or indirect holdings of 5% or more of the capital, and their respective shareholdings, whether they are natural or legal persons;
- c) The paid-up capital of the applicant must not be less than the following:
 - a. The Principal Exchanges and Depository Centers: SR 50 million.
 - b. Alternative Trading Systems: Paid-up capital commensurate with the nature and scale of its business at the discretion of the Authority.
- d) An application for Authorisation must be accompanied by the information and documents required in the first item of Annex (1) of these Regulations.
- e) As a condition for Authorisation to conduct the Exchange or Depository Center business in the Kingdom, the applicant must be a joint-stock company.
- f) An applicant to conduct the business of Alternative Trading System in the Kingdom must submit a list of the types of securities proposed to carry out trading in them, and the classes of investors proposed to enable to trade in them. The Authority may, upon approval of the application, impose any conditions or restrictions as it deems appropriate to achieve market safety and investors protection.
- g) If the applicant has close links with another natural or legal person, the Authority must be satisfied with the integrity, regulatory status, business record and financial soundness of any such natural or

legal person, and that such close links will not impair the effective supervision of the applicant, or its operations and compliance with these Regulations.

- h) In addition to the authorisation requirements set out above, the Authority may stipulate additional authorisation requirements to be met by, or specific conditions or limitations to be applied to either all applicants for authorisation, or particular applicants or categories of applicants, as it considers appropriate.
- i) An application for authorisation may be submitted by the founders or controlling shareholders of an applicant if the applicant is not yet established. The founders or controlling shareholders become subject to the provisions that apply to an applicant from the date of submission of the application.
- j) An applicant for authorisation must notify the Authority immediately of any material changes to the information provided to the Authority for the purpose of application for authorisation.

Article 7: Additional Requirements for Authorisation of Exchanges or Depository Centers Established out of the Kingdom

- a) For the purpose of this Article, an applicant for authorisation means a legal person incorporated as a joint-stock company out of the Kingdom that is applying for authorisation to conduct the Exchange or Depository Center business in the Kingdom. An applicant for authorisation becomes subject to these Regulations from the date of submission of its application.
- b) An applicant for authorisation as an exchange or a depository center established out of the Kingdom shall demonstrate to the Authority that:
 - 1) It is authorised or otherwise subject to regulatory oversight by a regulatory authority and incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it. For the purposes of this paragraph, the Authority may, at its absolute discretion, determine whether the regulatory and monitoring standards are equivalent to those of the Authority or acceptable to it;
 - 2) It has given notice to its foreign regulator of its intention to provide services of Exchange or Depository Center in the Kingdom.
 - 3) For the Depository Center, it complies with the Principles for Financial Market Infrastructures on an ongoing basis, including any related supplemental guidance issued from time to time by the Committee on Payment and Market Infrastructures and the International Organization of Securities Commissions.
 - 4) For the Exchange, it complies with the principles issued from the International Organization of Securities Commissions on an ongoing basis, including any related supplemental guidance issued from time to time.
 - 5) By providing the Exchange and Depository Center business in the Kingdom it will not violate any laws or regulations to which it is subject or any relevant requirements imposed by its foreign regulator.
 - 6) It provides protection against systemic risks, and fair and effective services in accordance with laws in the Kingdom.
 - 7) It complies with the principles of market safety and investors protection.

- 8) Its foreign regulator is either willing, or has already, put in place cooperation arrangements which provide for the exchange of information between the foreign regulator and the Authority regarding the applicant.
- c) Based on the application submitted in accordance with this Article and any additional documents required by the Authority, the Authority shall have the discretion whether to approve the application. The Authority may stipulate additional Authorisation requirements to be met by, or specific conditions or limitations to be applied to all applicants for Authorisation as an Exchange or Depository Center established out of the Kingdom or particular applicants or categories of applicants, as it consider appropriate.

Article 8: Procedures and Powers of the Authority in relation to Application for Authorisation

- a) In considering an application, 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;
 - 3) Require the applicant to provide such additional information as the Authority considers appropriate within (30) days as of the request; and
 - 4) Verify any information furnished by the applicant.
- b) The Authority may refuse to consider an application for Authorisation where an applicant has failed to provide information requested from it, or has failed to provide information requested from it within the time requested.
- c) 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) days of the date of notice:
 - 1) Approve the application in a whole or part;
 - 2) Approve the application subject to such conditions and limitations as it considers appropriate; or
 - 3) Refuse the application, giving reasons.
- d) The Authority may extend the period of assessment of an application for Authorisation referred to in paragraph (c) of this Article if the applicant for Authorisation intends to outsource any of its functions in accordance with Article (24) of these Regulations.
- e) If the Authority resolves to authorise the applicant, it will notify the applicant of this in writing and of any conditions and limitations that the Authority may consider appropriate. The Exchange and Depository Center must satisfy the requirements for commencement of business stipulated in the second item of Annex (1) of these Regulations before commencing its business.
- f) If the Authority resolves to refuse the application, it will notify the applicant in writing.

- g) An applicant must not conduct (or hold itself out as providing) business for which it seeks Authorisation in the Kingdom prior to receiving the Authority decision referred to in paragraph (e) of this Article.

Article 9: Variation or Amendment to Authorisation

- a) The Exchange or Depository Center must apply to the Authority for approval of any proposed variation or amendment to its authorisation.
- b) The Authority has all the powers set out in this Part to consider a proposed variation or amendment, and may also require some or all of the information or documents referred in this Part to be updated.
- c) The Authority will aim to process an application to vary or amend an authorisation within (30) days from receiving all information that it considers necessary.
- d) After considering an application to vary or amend an authorisation, the Authority may:
 - 1) Approve the application for variation or amendment in a whole or part;
 - 2) Approve the application subject to such conditions and limitations as it considers appropriate;
 - 3) Defer making a decision for such period as it may consider necessary to carry out further study or examination or to allow for the provision of additional information; or
 - 4) Refuse the application, giving reasons.
- e) If the Authority resolves to approve an application for an amendment in authorisation, it will inform the applicant of this in writing and provide it with the new authorisation, including any conditions and limitations that the authority may consider appropriate.
- f) The Exchange or Depository Center shall not conduct (or hold itself out as a providing) the amended services of Exchange or Depository Center before receiving the Authority's notification under paragraph (e) of this Article.
- g) If the Authority resolves to refuse the application for variation or amendment, it will notify the applicant in writing.

Article 10: Withdrawal from Business and Cancellation of Authorisation

- a) The Exchange or Depository Center that proposes temporarily cease to carry out its business in the Kingdom shall notify the Authority, in writing and in advance, of the date on which it intends to cease and the reasons for the decision:
 - 1) At least (45) days in advance of that date; or
 - 2) If such advanced notice is not possible because the cessation of business is caused by an external event of which was not aware, immediately on making a decision cease to carry out business.
- b) If the Exchange or Depository Center decides to cease providing certain business, it shall ensure that any such business that is outstanding is properly completed or is transferred to another appropriate service provider after obtaining the Authority's approval and that it provides reasonable notice to its members of the cessation of business.

- c) The Exchange or Depository Center may request the cancellation of its authorisation, and must in this case submit a written request to the Authority not less than (3) months prior to the proposed date of the cancellation.
- d) A request to cancel an Authorisation must include sufficient information concerning the circumstances of the cancellation to enable the Authority to determine whether to accept the cancellation, to postpone the date of the cancellation, or to require other measures that it considers necessary for the protection of their members.
- e) The Authority may refuse a request to cancel an Authorisation if it considers that the maintenance of the authorisation is necessary to investigate any matter affecting the Exchange or Depository Center, to protect the interest of its members, or to impose a prohibition or requirements on such Exchange or Depository Center under the Law or its implementing regulations.
- f) The Authority may suspend the authorisation of the Exchange or Depository Center on its own initiative if the Exchange or the Depository Center does not carry out any of its business in the Kingdom for the period of (12) months, or (6) months following the date on which the Exchange or the Depository Center has ceased to carry out business after notification to the Authority in accordance with paragraph (a) of this Article.
- g) The Exchange and Depository Center continue to be subject to the jurisdiction of the Authority in respect of any act or omission that occurred before the cancellation of its Authorisation and for (2) years thereafter. If at any time during this period the Authority commences any enforcement investigation or proceedings, the Exchange and Depository Center shall continue to be subject to the jurisdiction of the Authority until the end of the enforcement investigation or proceedings.

Article 11: Right of Appeal

An applicant for authorisation, Exchange or Depository Center may appeal to the Committee in respect of any decision or action that the Authority takes under these Regulations.

Article 12: fees

- a) The applicant for Authorisation shall pay such fees as may be prescribed by the Authority.
- b) The Exchange and Depository Center must pay all such fees as the Authority may prescribe for the maintenance of the authorisation.
- c) The Exchange and Depository Center shall obtain prior approval from the Authority for all fees for services provided by the Exchange and Depository Center.

Article 13: Maintenance of Authorisation

- a) As a condition for the maintenance of authorisation, the Exchange and Depository Center Shall comply with authorisation and commencement of business requirements, and continue to be fit to and proper to carry out business for which it is authorised in the Kingdom.
- b) The skills, experiences, competence and integrity of the Exchange's, Depository Center's or applicant's board members, employees and officers are important factors for assessing if the Exchange, Depository Center or the applicant are capable and suitable. When assessing The skills,

competence and integrity of officers and employees, the following criteria shall be taken into account:

- 1) They shall possess adequate qualifications and experiences to carry out their responsibilities, including the appropriate technical knowledge and skills.
 - 2) They shall be honest, probity and soundness of judgement commensurate with their positions, including actions taken by them for resolving conflict of interests.
 - 3) They shall fulfil their responsibilities with diligence and protect the interests of investors in accordance with the Law and the implementing regulations.
 - 4) Whether they have committed an offence involving fraud or dishonesty.
 - 5) Whether they have contravened or broken any laws or regulations governing securities business or aimed at protecting investors.
 - 6) Whether a board member or senior executive has been insolvent.
- c) The Exchange and Depository Center shall obtain the Authority approval before alternation of their capital.
- d) The Exchange and Depository Center shall develop a code of conduct, which will define acceptable and unacceptable behaviors.
- e) The Depository Center shall comply with the Principles for Financial Market Infrastructures on an ongoing basis, including any related supplemental guidance issued from time to time by the Committee on Payment and Market Infrastructures and the International Organization of Securities Commissions.

Article 14: Ownership Structure and Close Links

- a) The Authority may refuse an application where it is not satisfied as to the suitability of the substantial shareholders of the applicant.
- b) The Exchange and Depository Center, established in the Kingdom, shall obtain prior approval from the Authority for any change that exceeds (5%) in its ownership structure.
- c) The Exchange and Depository Center, established in the Kingdom, shall notify the Authority, in such form as the authority may prescribe, that a person is intending to establish close links with any of them at least (30) days in advance of the proposed effective date, or if such advance notice is not possible, immediately on becoming aware of any changes in close links. The notice must include such information as the Authority requires to satisfy itself of the identity of the person purposes to establish close links with, its integrity, regulatory status, business records, and financial soundness.
- d) The Exchange and Depository Center, established in the Kingdom, shall not establish close links with another person unless the Authority has approved the close links in writing.
- e) Before approving any close links with the Exchange or Depository Center, established in the Kingdom, the Authority must be satisfied that such links will not impair the effective supervision of such Exchange or Depository Center or its operations and compliance with the Law and its implementing regulations.

- f) If the person intends to have close links with the Exchange or Depository Center, established in the Kingdom, by owning more than half of the capital of either of them or controlling the formation of the board of either of them, The Authority, when it decides to approve in accordance with Paragraph (d) of this Article, may impose such conditions and restrictions as it considers appropriate, including:
- 1) Submitting the names of the persons nominated for membership in that person's board to the Authority for approval on their nomination prior to their election by the shareholders' general assembly.
 - 2) Obtaining the Authority approval before appointing an executive manager for that person.
 - 3) Obtaining the Authority's prior approval for any change that exceeds (10%) in the ownership structure of that person.
 - 4) Obtaining the Authority's prior approval for any change in that person's ownership in the Exchange and Depository Center.
 - 5) Notify the Authority in writing immediately on the occurrence of:
 - a. Removing or submitting the resignation of the executive manager of that person.
 - b. Dismissal or submitting the resignation of a governing body member of that person.
 - c. Any matter which would be material to the Authority's supervision of the Exchange and Depository Center.
 - d. The conviction of that person or an affiliate Exchange or Depository Center for any offence under legislation relating to financial services, companies, insolvency, or for any offence involving fraud or any act involving a lack of integrity or dishonesty, or the imposition of any penalties for deliberate zakat or tax evasion.
- g) The person referred to in paragraph (f) of this Article shall undertake to ensure that no actions are taken that may affect the market safety and investors protection or managing business and operational risks of the Exchange and Depository Center.

Article 15: Notification Requirements and Powers of Authority

- a) The Exchange and Depository Center shall comply with the notification requirements set out in Annex (2).
- b) On receiving a notice under paragraph (a) of this Article, the Authority may:
 - 1) Require to provide any additional information that it considers necessary to properly assess the matter; and
 - 2) Impose any conditions, restrictions or additional requirements on the Exchange or Depository Center, including limitations on its permitted business profile that it reasonably considers necessary to address any event raised by any matter that it is notified of under this Article.

PART 4

GOVERNANCE

Article 16: General Provisions

- a) The Exchange and Depository center shall have documented governance arrangements which clearly and directly define the structure of their Board, how management operates, division of responsibilities and reporting lines. The Authority will consider such governance arrangements as part of the authorisation process. In addition, The Exchange and Depository Center shall disclose such arrangements to its Members and the public.
- b) The documented governance arrangements for the Exchange and Depository center shall include the arrangements required to achieve its corporate governance objectives, develop its own governance policies and procedures for overseeing those policies and systems, monitor their implementation and their effectiveness and amend them when needed.
- c) The policies and procedures for the Boards of the Exchange and Depository center shall include procedures to identify, resolve, and manage potential conflicts of interest for the Board members of the Exchange and depository center.
- d) The number of Independent Members in the Boards of the Exchange and Depository center shall not be less than two members or one-third of the Board members, whichever is greater.
- e) The Boards of the Exchange and depository center members should have a clear understanding of their roles in corporate governance, be able to devote sufficient time to their roles, ensure to continuously develop their skills, and have appropriate incentives to fulfil their roles.
- f) The Exchange and Depository Center shall submit the names of the persons nominated for membership in their boards to the Authority for approval on their nomination prior to their election by the shareholders' general assembly.
- g) The Exchange and Depository Center shall obtain the Authority's approval before appointing an executive manager.
- h) The Authority may delegate one representative (or more) as an observer to attend the board meeting of the Exchange or depository center to ensure implementation of the provisions of the Law.

Article 17: Division of Responsibilities

- a) Governance arrangements shall ensure sufficient independence for key functions, such as risk management and internal audit.
- b) The Exchange and Depository Center shall take appropriate measures to maintain a clear and appropriate division of the principal responsibilities among its governing body and senior executives so that:
 - 1) It is clear who is responsible for each function.

- 2) The business and affairs are adequately monitored and overseen by the governing body and senior executives.
 - 3) Avoiding illegal or unauthorised dealings, including restricting the handling of an entire transaction by one staff.
 - 4) Periodic Review of responsibilities and tasks to reduce the potential conflicts of interest.
- c) The Boards of the Exchange and Depository Center shall be responsible for arranging the division of responsibilities, under paragraph (b) of this Article, and overseeing the establishment and implementation of its systems and controls.

Article 18: Committees of the Board

- a) The Exchange and Depository Center shall establish an audit committee in accordance with the Law and the Companies Law and the implementing regulations. In addition, the Board of the Principal Exchange and the Depository Center shall establish the committees referred to in paragraph (b) of this Article at the minimum and any other committees as determined by the Authority, which shall be composed of suitable members that have the appropriate skills, experience, and knowledge of its activities. Such committees may include its Board members where needed.
- b) The Principal Exchange and Depository Center shall establish, as a minimum, the following committees:
 - 1) A nomination and remuneration committee; and
 - 2) A risk committee.

All such committees, and any other committees the Board considers appropriate, shall have clearly assigned responsibilities and procedures and shall document all decisions reached and any supporting rationale for such decisions.

- c) The Authority may impose any conditions or restrictions on the membership of the committees emanating from the Boards of the Exchange and Depository center, including requiring the authority's prior approval for the composition of its members.

Article 19: surveillance of Trading

- a) The Exchange shall have an independent trading surveillance function with defined responsibilities and powers, adequate resources, and access to the trading systems for maintaining the safety and competence of the market and investors protection.
- b) The authority has the power to access the trading systems and surveil the trading, for implementing the Law and its Implementing Regulations.

Article 20: Systems and Controls

- a) The Exchange and Depository Center shall establish and maintain systems and controls that are appropriate to its business, and be sufficient to enable them to comply with the Law and its implementing Regulations.

- b) The Boards of the Exchange and Depository Center are primarily responsible for compliance with the Law and its implementing regulations, and all the other legal requirements.
- c) The systems and controls, referred to in paragraph (a), must include:
 - 1) Policies and systems to resolve the conflicts of interest, including effectively identifying potential conflicts of interest and resolving them.
 - 2) Comprehensive Policies and systems for information and physical security that address potential vulnerabilities and threats.

Article 21: Compliance Function

The compliance function of the Exchange and Depository Center should have defined responsibilities and powers, adequate resources, competent staff and independence of the senior management and the other departments.

Article 22: Risk Department

The risk departments of the Exchange and Depository Center should have defined responsibilities and powers, adequate resources, competent staff, independence and direct access to the Board.

Article 23: Link with the Exchange, Depository Center and CCP

- a) The Exchange or Depository Center may link to an Exchange, a depository center, a securities central counterparty (CCP) or any other entity inside or outside the Kingdom, provided that preventive arrangements shall be made, including the clear documentation of the linkage scope and limits, along with identifying and managing the risks that may be posed from such linkage. In addition, such arrangements shall be on a clear legal basis that supports linkage and provides protection to all relevant Exchanges, depository centers, and CCPs.
- b) On linking with another depository center or settlement system, the Depository Center shall measure, monitor and manage liquidity and credit risks for both parties. Furthermore, the Depository Center shall ensure that any credit extension between the parties is covered with low-market-and-credit-risk guarantees based on an internal assessment substantively conducted by the Depository Center. Also, such guarantees shall be transferrable without any regulatory or legal restrictions or claims by third parties that may impact liquidating them. In addition, the guarantees shall have reliable pricing data published on a periodic basis.

Article 24: Outsourcing

- a) The Exchange and Depository Center may delegate specific functions to an external party, and when each of them when delegating material functions to an external party, commit to the following:
 - 1) Putting appropriate safeguards in place, including:
 - a. The roles and responsibilities of the boards' members and senior executives of the Exchange and Depository Center;
 - b. An assessment of whether the delegate is suitable to carry out the delegated function or task, taking into account the degree of responsibility involved;

- c. Clear documentation of the extent and limits of any delegation, the parties' obligations and responsibilities, and the information confidentiality standards;
 - d. Suitable arrangements to supervise the delegation and to monitor the discharge of the delegate's functions or tasks and ensure its continuity. Furthermore, such party shall fulfil business continuity requirements, similar to the requirements imposed on the Exchange and the Depository Center;
 - e. Criteria to be established for assessing the risks from an outsource and measures for reducing such risks ensuring that the third outsource shall not preclude the Authority from the effective oversee on the Exchange and the Depository Center, or Exchange's and the Depository Center's business, transactions or compliance to the Law and its implementing regulations; and
 - f. Appropriate remedial action if any concern arises about the performance of the delegate's functions or tasks.
- 2) The boards of the Exchange or Depository Center shall ensure that outsourced functions meet the same requirements they would need to meet if they were provided internally by the Exchange or Depository Center. The Exchange or the Depository Center shall have robust arrangements for the selection, close monitoring of the performance and substitution of such external parties and shall provide all information necessary to enable the Authority to assess the compliance of the performance of any outsourced functions with these Regulations.
- b) The outsourcing of any function by the Exchange or Depository Center will not derogate from their regulatory obligations.

Article 25: Audit

The Authority may direct the Exchange or Depository Center to appoint a third party to conduct an audit.

PART 5

RULES AND PROCEDURES

Article 26: Rules and procedures

- a) The Exchange or Depository Center -each within its own purview- before commencing its business shall have rules, procedures and contracts that are clear, understandable, and consistent with the provisions of the Law and its implementing regulations.
- b) When preparing a proposal for draft rules or procedures or amendments thereof, The Exchange or Depository Center -each within its own purview- shall comply with the annex (3) of these regulations.
- c) The Exchange and Depository Center have the power to set the technical procedures required for implementing the provisions of the rules referred to in paragraph (a) of this Article, in accordance with the provisions of this Law and its implementing regulations. The Exchange and the Depository Center should notify the Authority of the procedures to be established or amended (30) calendar days, at least, prior to the date on which it is intended to be published.
- d) The Exchange and Depository Center shall ensure the application of the rules and procedures - referred to in this Article- is satisfied on an ongoing basis, including monitoring their members' compliance with those rules and procedures.

Article 27: Membership Requirements

The Exchange and Depository Center -each within its own purview- shall specify the conditions and requirements for the membership in each of them, considering the following:

- 1) Maintain the integrity and efficiency of their business in proportion to the risks associated with them.
- 2) Fair and easy access to the services provided by each of them, taking into account risk considerations.
- 3) Ensuring that the members have the legal, financial and operational requirements for fulfilling their obligations towards each of them and other members. Such requirements shall include:
 - a. The member obtaining authorisation required for conducting its business.
 - b. If a member is incorporated outside the Kingdom, the laws or regulations applicable to such member shall not impede his compliance with the membership requirements.
 - c. The ability and readiness of the member to use the relevant systems and services, including the technical abilities.
- 4) The effect of accepting a member on the integrity and efficiency of Exchange's and the Depository Center's business.
- 5) Ensuring member compliance with membership requirements on an ongoing basis.

Article 28: Training

The Exchange and Depository Center shall provide the training required to facilitate the members' understanding of their rules, procedures and risks associated with membership.

Article 29: Listing and Trading of Securities Conditions

- a) The Exchange shall have rules regarding conditions for listing and trading of Securities; the immediate and regular publication of the information related to executed transactions of the Securities traded on the Exchange; the obligations of Issuers, shareholders and members to disclose to the Exchange the information that the Exchange believes to be necessary, and the appropriate controls and procedures that allow capital market institutions, other than the members of the Exchange, to execute their transactions on the Exchange.
- b) The Exchange shall ensure fairness, efficiency and transparency of the listing requirements, the trading rules and its technical methods, and the information of the Securities listed on the Exchange. In addition to maintaining the safety of the Exchange and the protection of investors.

Article 30: Dispute Settlement Rules

The Exchange and the Depository Center -each within its own purview- shall have rules for settling disputes among members of the Exchange and Depository Center, and disputes between those members and their clients.

Article 31: Default Rules and Procedures

- a) The Principal Exchange and Depository Center shall have rules and procedures for default, which ensure the continuity in fulfilling their obligations and enhancing their resources in case of one of their members' default and disclose the key aspects of it, at a minimum, to the public.
- b) The Principal Exchange and the Depository Center shall be sufficiently prepared for implementing the default rules and procedures, referred to in paragraph (a) of this Article, including the discretionary procedures stipulated in such rules and procedures.
- c) The Depository Center's default rules and procedures shall ensure the containing of losses and reducing liquidity risks. In addition, such rules and procedures shall include a mechanism for periodic tests with the concerned parties for ensuring the effectiveness of such procedures.

Article 32: Direct Access to Exchange Systems

- a) The Exchange may give direct access to Exchange systems after obtaining the Authority's approval.
- b) If the Exchange plans to allow direct access to the Exchange systems, it shall have the effective arrangements for the direct access to the Exchange's systems and the management of the risks arising from such access for maintaining fair trading and orderly technical mechanisms.

Article 33: Market Making

- a) The Exchange may allow market making, and the Principal Exchange must obtain the Authority's approval before allowing such activity.

- b) If the Principal Exchange plans to allow market making, it shall have the effective rules, procedures and systems required for the Market making activity and the management of the risks arising from it, and ensure that the market maker fulfils, on an ongoing basis, the systems, procedures and rules for market making.

Article 34: The Rules of the Depository Center

- a) The Depository Center shall have sound and effective rules and procedures that ensure the efficiency of the processes of registration of Securities traded on the Exchange, and they are settled in accordance with related regulatory procedures.
- b) The Depository Center's rules and procedures shall include, At the minimum:
 - 1) Appropriate rules and procedures for protecting securities deposited with the Depository Center to safeguard the rights of securities issuers and holders, including robust accounting practices that ensure the protection of securities issuers and holders from any errors in the registration process.
 - 2) Conducting at least daily reconciliation of securities issues it maintains.
 - 3) Procedures to manage the default of its participants and disclose it, to ensure the Depository Center can contain losses and reduce liquidity risks and continue to meet its obligations.
 - 4) Procedures of securities registration and pledges or other claims related to them, along with opening Depository Center accounts, depositing securities in such accounts, and settling the transactions in such securities.

Article 35: Membership Suspension and Cancellation

- a) The Exchange and the Depository Center -each within its own purview- shall have procedures for cancellation or suspension of membership.
- b) Prior to revocation or suspension of membership, as per paragraph (a) of this Article, the Exchange and Depository Center -each within its own purview- shall notify the concerned member and give it the opportunity for the reply and documenting that in writing.
- c) The decision on revocation or suspension membership, as per paragraph (a) of this Article, shall give clear reasons for such decision.
- d) The Exchange and the Depository Center shall notify the Authority once membership is suspended or cancelled.
- e) The Authority may instruct the Exchange or Depository Center to suspend or cancel membership.

Article 36: Disclosure of Rules, Procedures and Charges

The Exchange and the Depository Center -each within its own purview- shall disclose free of charge the following information in Arabic and English to the public on its website or any other means the Authority specify:

- 1) The rules of the Exchange and the Depository Center -each within its own purview-.

- 2) Its fees are at the level of individual services it offers, provided that it includes a brief description of every service, as well as its policies on any available discounts.

Article 37: Trading Disruption

The Exchange shall establish controls for mitigating the risks of executing orders at abnormal prices or within a wide pricing range, and a mechanism for identifying, addressing and cancelling such orders.

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PART 6

OPERATIONS OF THE EXCHANGE

Article 38: Security Offering and Listing of Holding Company

The Principal Exchange may not list securities issued by itself, its holding company or subsidiary, unless the Exchange place arrangements, to:

- 1) Fairly resolve conflicts of interests arising from such listing.
- 2) Ensuring the integrity of trading such securities and the derivatives and based on it.

Article 39: Issuer's Continuous Obligations

- a) The Principal Exchange must put in place appropriate systems and arrangements to enable the issuers of securities traded on the exchange from fulfilling their ongoing disclosure obligations.
- b) The Principal Exchange must monitor the issuers, of securities traded on the exchange, fulfilment of their continuing obligations.

Article 40: Pricing and Disclosure

- a) The Exchange shall ensure that securities prices reflect the actual market situation based on procedures and instructions prescribed by and under the Exchange's supervision. In addition, the Exchange shall disclose such prices as per the standards determined by the Exchange, including the price fluctuations.
- b) The Principal Exchange shall ensure that the formation of securities prices is based on demand and supply. In addition, the principal Exchange shall show the participants the consequences of the trading orders, including the price and volume of the order, and whether such order may be executed in the Exchange, along with all the information affecting the price.
- c) The Exchange shall give a priority to the transparent orders over the dark orders at the same price within the same exchange. In addition, Information on completed transactions shall be provided on an equitable basis to all members, including the transactions executed as a result of dark orders.

Article 41: Timestamp

- a) The Exchange shall ensure to synchronize the time and date in all its systems with each other, including stamping the receipt, creation and transmission of data items and for audit trails.
- b) The Exchange shall timestamp all pre-trade transactions, including the orders entered along with amending and cancelling such orders once receiving the information from the trading, reporting or compliance monitoring systems.
- c) The Exchange shall timestamp all post-trade transactions at the point of matching in the trading system or once the information is received from the reporting systems.
- d) The Exchange shall provide its members with the pre-trade and post-trade information immediately to enable the members to implement appropriate monitoring and risk management controls.

- e) The Exchange shall provide the public with the trading data, free of charge within (15) minutes, at the maximum, from the time of trading, to ensure market transparency for non-subscribers in exchange data services.
- f) The Exchange shall standardize the data formula, used for securities, and the reference data.
- g) The Exchange shall provide the public access to the following:
 - 1) Order book details.
 - 2) The Historic trade data, which shall at least include the securities trading data.

Article 42: Price Change Units

The Principal Exchange shall determine tick sizes of securities as per the mechanism.

Article 43: Algorithmic Trading

The Principal Exchange that enables algorithmic trading shall have the arrangements to mitigate its risks to exchange safety.

Article 44: Market Surveillance

- a) The Exchange shall set mechanisms for observing the market, including disorderly trading conditions and contravening conducts, in addition to how to handle them.
- b) The Exchange shall provide the Authority with the market control mechanisms, referred to in paragraph (a) of this Article, including trading suspension in accordance with the law and its implementing regulations and the Exchange Rules, price fluctuation mechanism, and the support provided to the Authority in case of the potential market disruption.

Article 45: Trading Suspension

The Authority, in accordance with the Law, may instruct the Exchange to suspend, reduce, extend or alter the time of a trading session and suspend trading in one or more individual securities.

PART 7

OPERATIONS OF THE DEPOSITORY CENTER

Article 46: Securities Accounts

The Depository Center shall ensure the efficiency of the processes for the registration and settlement of Securities, including the following:

- 1) Take appropriate reconciliation measures to verify transactions and ensure a risk assessment framework is in place to protect assets against custody risk.
- 2) Ensure the depository and settlement systems it operates offer adequate protection to members, including defining time stamps.
- 3) Develop systems and keep records and accounts that shall enable it, at any time and without delay, to segregate the accounts of each of its members in the Depository Center, and between them and accounts belonging to the Depository Center.
- 4) Keep records and accounts that enable the member of Depository Center to distinguish between its securities and its clients' securities.
- 5) Prohibit overdrafts and debit balances in securities accounts.
- 6) Enable an investor to access and obtain statements of his Depository Center account and securities owned by him.
- 7) Enable an issuer to receive copies of the ownership record of the securities issued thereby.

Article 47: Asset of the Depository Center

- a) The Depository Center shall establish rules and procedures to ensure that assets are held with authorised, supervised and regulated legal persons, that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.
- b) The Depository Center shall hold those assets in a manner that assures prompt access to such assets.
- c) The Depository Center shall evaluate exposures to banks, taking into account the full scope of its relationships with each.
- d) The Depository Center may only hold assets with:
 - 1) Depository Center for assets held in the Kingdom, and central securities depositories and securities settlement systems for assets held out of the Kingdom that the Depository Center considers offering equivalent protections and safeguards as the Depositories Centers in the Kingdom.
 - 2) Central banks, banks or operators of payment systems where such assets are cash, either in the Kingdom and falling within the remit of SAMA or out of the Kingdom and in respect of which the Depository Center considers equivalent protections and safeguards are maintained, without prejudice to SAMA's authority in supervising and regulating payment systems in the Kingdom.

- e) The Depository Center shall develop an investment strategy if such assets are intended to be invested, provided that:
- 1) It shall be consistent with its overall risk management strategy.
 - 2) Invest only in cash or highly liquid financial instruments with the minimal market and credit risk. Those investments shall be capable of being liquidated rapidly with the minimal adverse price effect.

Article 48: Records of the Depository Center

The Depository Center shall submit a report on pledges or other claims related to deposited Securities to the Authority and the relevant market within the (21) days following the end of the quarter of the Depository Center's financial year, such report shall include the following:

- 1) Any deficiency in the records of Depository Center.
- 2) Any error in the information entered into records of Depository Center.

PART 8

RISKS

Article 49: Risk Management

- a) The Exchange and Depository Center shall establish policies, systems and procedures to identify and mitigate risks; this shall be reviewed on an ongoing basis. Furthermore, the Exchange and the Depository Center shall identify the risks arising from the links to third parties and develop suitable tools for mitigating such risks.
- b) The Exchange and Depository Center, which conducts business outside the Kingdom, shall identify and mitigate potential risks in case of any conflict between the Laws applicable thereto.

Article 50: Identifying and Managing Operational Risks

The Exchange and the Depository Center shall identify, monitor and manage the various sources of operational risks, and establish clear policies and procedures to address them. As a part of this process, it should:

- 1) Identify all potential single points of failure in its operations, which shall include internal processes (including, without limitation, deficiencies in its information systems, inadequate screening of its personnel and inadequate control of systems and processes) and external events (including, without limitation, the failure of critical service providers and the occurrence of natural disasters);
- 2) Assess the evolving nature of the operational risk it faces on an ongoing basis; and
- 3) Analyse its potential vulnerabilities and implement appropriate defence mechanisms.

Article 51: Business Continuity Plan

- a) The business continuity plan is a key component of the Exchange and Depository Center's risk management framework. All aspects of the business continuity plan should be clearly and fully documented.
- b) The business continuity plan of the Exchange shall include:
 - 1) Identify and address events that pose a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption;
 - 2) Include clearly stated objectives, which deal with both measures that prevent disruptions of critical operations and policies and procedures to mitigate the effect of such disruption events by allowing for the rapid recovery and timely resumption of the operations of the Exchange following a disruption. In this regard, the Exchange should be able to resume operations following disruption events without delay; and
 - 3) Back up business and compliance critical data that flows through their electronic trading systems.
- c) The business continuity plan- referred to in paragraph (a) above - shall include the setting up a secondary off-site, with sufficient resources, capabilities, and functionalities and appropriate

staffing arrangements that would not be affected by a wide-scale disruption and would allow the secondary off-site to take over operations if required. The secondary off-site should provide the level of critical services necessary to perform the functions consistent with the recovery time objective identified by the Exchange or Depository Center, which at a minimum shall require that the information technology systems can resume operations within two hours following disruptive basis, and complete the settlement operations -even in the extreme cases- before the end of business interruption day. In addition, the Exchange and Depository Center shall test such procedures on a periodic basis.

Article 52: General Business Risk Management arrangements

- a) The Exchange and the Depository Center shall have arrangements to manage and monitor general business risk. such arrangements shall include the following:
 - 1) Identifying the sources of the general business risk and their potential impact on their operations and services, taking into account past losses and the financial projections, where possible; and
 - 2) Considering a combination of tools, such as risk management and internal control assessments, scenario analysis, and sensitivity analysis to manage general business risk.
- b) The Exchange and the Depository Center shall notify the Authority immediately of any material changes to their general business risk.

Article 53: General Business Risk Management

- a) As a part of their general business risk management, the Exchange and Depository Center shall hold Liquid Net Assets so that enable it to continue operations as a going concern if it incurs general business losses.
- b) When determining the amount of Liquid Net Assets to be held by the Exchange and Depository Center, they shall consider the time span required to achieve a recovery of their critical operations and services.
- c) If at any time the amount of Liquid Net Assets held is lower than the amount required pursuant to paragraph (B) of this Article, the Boards of the Exchange and Depository Center shall establish a plan to increase the amount of Liquid Net Assets held by them to the required amount and update that plan regularly.
- d) The assets maintained by the Exchange and Depository Center to cover the general business risks shall be of high quality and sufficiently liquid. When calculating Liquid Net Assets available to cover General Business Risk, no assets maintained for covering member-related risks and losses shall be calculated.

PART 9

OTHER EXCHANGE AND THE DEPOSITORY CENTER OBLIGATIONS

Article 54: Confidentiality of Information

The Exchange and Depository Center shall keep the information obtained when carrying out their business, and may not disclose such information except where:

- 1) its disclosure is based on the Authority's or the Committees for Resolution of Securities Disputes' request under the Law, its Implementing Regulations or the related laws, or based on the General Administration of Financial Investigations' request in accordance with the provisions of Anti-Money Laundering Law and Combating-Terrorism Crimes and its Financing Law and their Implementing Regulations;
- 2) The investor has explicitly consented to its disclosure.
- 3) Its disclosure is reasonably necessary to perform a particular service for the client.
- 4) The information is no longer confidential.
- 5) Any other cases determined by the rules of the Exchange and Depository Center.

Article 55: Record-keeping

- a) The Exchange and Depository Center -each within its own purview- shall retain all the records related to the business, the services and the activities provided thereby.
- b) The Exchange shall record and maintain the information of pre-and-post trade.
- c) The Depository Center shall record and maintain the information of securities after the cancellation of their deposition.
- d) The Depository Center shall record and maintain the information of deposited Securities for the period of their depository, otherwise the Exchange and Depository Center shall keep the records referred to in this Article for (10) years unless otherwise determined by the Authority.
- e) Without prejudice to paragraph (d) of this article, if records are relevant to a dispute with a client or a regulatory enquiry, the record must be retained until the dispute is fully resolved or the enquiry completed.
- f) The Exchange's and the Depository Center's records may be retained in any form, but must be capable of reproduction in hard printed form.
- g) All records or information required to be kept by the Exchange and Depository Center under these Regulations shall be provided to the Authority upon its request. The Authority may inspect the records directly or through a person it appoints for that purpose.
- h) When a member of the Exchange or Depository Center requests any records kept during the regulatory record-keeping period, the Exchange and Depository Center shall make available, within a reasonable period, any of the following:
 - 1) any written material or records which relate to that Member; and

- 2) Copies of any correspondence received from or sent to that Member relating to Exchange or the Depository Center services.
- i) The Authority may instruct the Exchange and Depository Center to hand over the records to a third party in case of cancelling or suspending the authorisation.

Article 56: Products and Services

- a) The Exchange and Depository Center shall obtain the Authority's approval prior to launching a new product or service or modifying any of them.
- b) The Exchange and shall obtain the prior Authority's approval for the markets it establishes or operates.

Article 57: Communication Procedures and Standards

- a) The Exchange and Depository Center shall use internationally accepted communication procedures to facilitate effective communication between its information systems, and those of its Members, their Clients, and others that connect to it such as service providers.
- b) The Exchange and Depository Center shall use internationally accepted communication standards, such as standardised messaging formats and reference data standards.

Article 58: Auditor's Report

- a) The Exchange and Depository Center -each within its own purview- shall send to the Authority its quarterly interim financial statements within a period not exceeding (30) days after the end of the financial period included in such financial statements, and the audited annual financial statements within (3) months as of the end of the financial period included in such financial statements.
- b) The Depository Center shall send an audited report, on the accounts of the securities deposited therein, to the Authority within (3) months as of the end of Depository Center's financial year.
- c) The Exchange and Depository Center –each within its own purview– when appointing its auditor shall ensure that the auditor is registered with the Authority in accordance with the Rules for Registering Auditors of Entities Subject to the Authority's Supervision.

Article 59: Annual Report

The Exchange and the Depository Center shall submit an annual report to the Authority within (3) months as of the end of their financial year, for ensuring their compliance with all the provisions of the Law and its implementing regulations.

Part 10

Publishing and Entry into Force

Article 60: Publishing and Entry into Force

These Regulations shall become effective upon their publication.

ANNEX (1)

INFORMATION AND DOCUMENTS REQUIRED FOR AUTHORISATION AND COMMENCEMENT OF BUSINESS

First: Information and Documents Required for Authorisation:

- a) **Business Plan** – An applicant must submit a business plan, setting out a detailed description of the purposes and objectives of obtaining the authorisation, it must be specific, measurable and achievable.
- b) **Governance Arrangements** - An applicant must submit a governance arrangement, which includes the organizational chart.
- c) **Main Services Delivery Policies and Procedures** - An applicant must submit policies and procedures to ensure the effective delivery of main services, including its planning, construction, operation, monitoring and maintenance.
- d) **Risk Reduction Plan** - The applicant must submit a clear, documented risk-management framework that includes risk-tolerance policy, assigns responsibilities and accountability for risk related decisions, and addresses decision-making mechanism in crises and emergencies.
- e) **Governing Body Resolution** – An applicant must submit a copy of the resolution of its governing body in the form prescribed by the Authority approving the application and its contents, and certifying the accuracy and completeness of the accompanying information and documents.
- f) **Incorporation Documents** – An applicant must submit a copy of its articles of association or its by-laws.

Second: Information and Documents Required for the Commencement of Business

- a) **Business Continuity** - The Exchange and Depository Center must submit a business continuity plan, setting out the following:
 - 1) Identify and address events that pose a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption;
 - 2) Appropriate plans for operations recovery or orderly wind-down based on the results of that assessment;
 - 3) Clearly stated objectives, which deal with both measures that prevent disruptions of critical operations and policies and procedures to mitigate the effect of such disruption events by allowing for the rapid recovery and timely resumption of the operations following a disruption.
- b) **Information Technology Governance Arrangements.**
- c) **Senior Executives Succession Plan.**
- d) **Disciplinary Proceedings** - The Exchange and Depository Center must submit disciplinary proceedings for the violation of a member of the Exchange or Depository Center of the regulations and rules regulating its business.
- e) **Compliance Plan** - The Exchange and Depository Center must submit a compliance plan, including inspection and audit procedures on its members to ensure their compliance with the rules and regulations pertaining to it.

- f) **Operational Systems** - The Exchange and Depository Center must submit a detailed description of its operations, including the following:
- 1) The means of access to the electronic system and its supporting system.
 - 2) Proposed fees.
 - 3) Hours of operation of the system, and the date on which applicant intends to commence operation of the System.
 - 4) The users' manual.
 - 5) For the Exchange, procedures governing entry and display of quotations and orders in the system and procedures governing the execution of transactions.
 - 6) For the Depository Center, procedures governing the settlement of transactions in connection with the system.
- g) **Drafts of its regulations, rules and instructions necessary for its operations.**
- h) **Contracts** – The Exchange and the Depository Center must submit the agreements, arrangements and understandings with third parties to provide any material services or operations.
- i) **Final Incorporation Documents** – The Exchange and the Depository must submit copies of the final incorporation documents, including its articles of association and by-laws, the commercial registry, and the authorisation issued by the Ministry of Investment (where applicable).
- j) **Website** – The Exchange and the Depository must provide the data of the website through which it discloses any information determined by the Authority.

ANNEX (2)

NOTIFICATION REQUIREMENTS

- a) The Exchange and the Depository Center must notify the authority in writing immediately on the occurrence of:
- 1) Any operational accident caused by operational risks.
 - 2) Any failure or delay in any of their procedures, including those resulting from a system malfunction.
 - 3) Any material changes to the information provided by either of them to the Authority for the purposes of the authorisation application.
 - 4) To carry out any business other than those for which they are authorised.
 - 5) The formation, acquisition, disposal or dissolution of a subsidiary specifying the subsidiary's name and its principal business.
 - 6) Any event that leads to a material change in the soundness of its financial position, including any assets pledged, or a lawsuit to which either of them is a party, or any punishment, penalty, precautionary procedure or preventive measure imposed on either of them by the Authority or any other supervisory, regulatory or judiciary authority.
 - 7) Any event that may affect the timely fulfilment by a member, of either of them, its financial obligations.
 - 8) Dismissal of a member of the administrative body of either of them, or submit his resignation.
 - 9) Removing the executive manager of either of them, or submitting his resignation.
 - 10) Any violation committed by an employee, of either of them, against the laws, implementing regulations, or its Bylaws.
 - 11) The outsourcing of any material function.
- b) The Depository Center must notify the Authority in writing within twenty-one days from the date of discovering any error in the information entered in the records of the depository center, with a statement of the reasons for that.
- c) The Exchange and the Depository Center must notify the Authority annually in writing of any change or update in the succession plan of senior executives of any of them.

ANNEX (3)

REQUIREMENTS FOR PREPARATION OF RULES AND PROCEDURES

- a) Submit a comprehensive study of the proposal to the Authority after approval by the Board of the Exchange or Depository Center, provided that it includes an explanation of the proposal's objectives, the reasons for its preparation, the need for it, and its expected impact, taking into account the technical and legal aspects.
- b) Provide an explanatory memorandum on the proposal to the Authority after submitting the study - referred to in paragraph (a) above - that includes a statement of the legal basis for the proposal, its main elements, and the draft regulations with a clear explanation of its articles, and the implications of its application, in addition to the following:
 - 1) International legislation and experiences that benefited from when preparing it and the main legal provisions contained in those legislations.
 - 2) A schedule that includes a statement of the statutory provisions contained in the implementing regulations, Exchange Rules, Depository Center Rules, and CCP Rules that require to be repealed or amended, and the corresponding proposed provisions together with its rationale.
- c) Publishing the Draft Regulations for public consultation after obtaining the authority's no-objection.
- d) Submit the proposal to the Authority, after public consultation, to request the Board approval, which shall include the public's feedback received as well as the actions taken regarding them, in addition to the requirements stipulated in paragraph (b) above.
- e) Publishing a summary of the public feedback and the actions taken regarding them, after the board approval of the project and publishing of it.

E) Proposed amendments to the Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority in light of the proposed provisions of the Securities Exchanges and Depository Centers Regulations, compared with the current provisions:

Glossary of Defined Terms Used in The Regulations and Rules of the Capital Market Authority		
	Current Provisions	Provisions after Proposed Amendments
1.	-	<u>Direct Access to Exchange Systems</u> : In the Securities Exchanges and Depository Centers Regulations, it means a technical mechanism by which a person can enter orders directly into the Exchange systems -without handling or re-entering by another person - for the execution of transactions.
2.	Close Links : in the Capital Market Institutions Regulations, the Credit Rating Agencies Regulations and the Securities Central Counterparties Regulations, means the relationship between a person (who is an applicant for authorisation, a Capital Market Institution, an authorised credit rating agency or a CCP) and any of the following persons: 1) a controller of that person; 2) a company controlled by that person; 3) a company controlled by a controller of that person; or 4) a company controlled by any combination of the persons described in (1), (2) or (3) above.	Close Links : in the Capital Market Institutions Regulations, the Credit Rating Agencies Regulations and the Securities Central Counterparties Regulations, <u>and Securities Exchanges and Depository Centers Regulations</u> means the relationship between a person (who is an applicant for authorisation, a Capital Market Institution, an authorised credit rating agency or a CCP, <u>Exchange or Depository Center</u>) and any of the following persons: 1) a controller of that person; 2) a company controlled by that person; 3) a company controlled by a controller of that person; or 4) a company controlled by any combination of the persons described in (1), (2) or (3) above.
3.	Exchange : the Saudi Stock Exchange Company ("Tadawul") or the Saudi Stock Exchange including where the context permits any committee, sub-committee, employee, officer, affiliate or agent to whom any function of the Exchange may for the time being be delegated, and "on Exchange" means any activity taking place through or by the facilities provided by the Exchange.	Exchange : the Saudi Stock Exchange Company ("Tadawul") or the Saudi Stock Exchange <u>The Principal Exchange or Alternative Trading System</u> including where the context permits any committee, sub-committee, employee, officer, affiliate or agent to whom any function of the Exchange may for the time being be delegated, and "on Exchange" means any activity taking place through or by the facilities provided by the Exchange.
4.	Center or Depository Center : the Securities Depository Center to be established in accordance with Article 26 of the Capital Market Law. Pending the establishment of the Depository Center, any reference to the Depository Center shall be construed as a reference to the Tadawul Depository System at Tadawul.	The Center or The Depository Center : the Securities Depository Center to be established in accordance with Article 26 of the Capital Market Law. Pending the establishment of the Depository Center, any reference to the Depository Center shall be construed as a reference to the Tadawul Depository System at Tadawul. <u>A Depository Center authorized in carrying out operations of deposit, transfer, settlement, and registration of ownership of Securities, in accordance with the Law and the Securities Exchanges and Depository Centers Regulations.</u>
5.	Market Maker : means in the Investment Funds Regulations, a capital market institution	Market Maker : means in the Investment Funds Regulations, a capital market institution that is

	that is authorised to carry out dealing business where it enters continuous orders, during the trading hours, of buying and selling for the purpose of providing liquidity to the traded units of the exchange traded fund.	authorised to carry out dealing <u>activity business</u> where it enters continuous orders, during the trading hours , of buying and selling <u>securities</u> for the purpose of providing liquidity to <u>such securities</u> the traded units of the exchange traded fund in accordance with any regulations, rules or procedures that the Authority or Exchange issues.
6.	-	Independent Member: In the Securities Exchange and Depository Center Regulations, means A non-executive member of the Board of Directors who enjoys complete independence in its position and decisions, including any business, kinship, or any other relation that may lead to a conflict of interests regarding the Exchange or Depository Center, their management, or their members. In addition, none of such relations shall exist within the two years preceding its membership in the Board of Directors.
7.	-	Depository Center Rules: the regulations, rules, procedures and instructions proposed by the Board of Directors of Depository Center and approved by the Board of the Authority.
8.	-	Principles for Financial Market Infrastructures: the international standards for financial market infrastructures issued by the Committee on Payment and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).
9.	-	Principal Exchange: An exchange authorized to carry out trading in Securities in the Kingdom.
10.	-	Alternative trading system: An exchange authorized by the Authority to carry out trading in specific types of securities, for specific categories of investors.
11.	-	General Business Risk Management: the risks and potential losses arising from the exchange or depository center's operation as a business, but excluding risks and losses related to an exchange or depository center's Member default. General Business Risk includes any potential impairment of the exchange or depository center's financial position as a consequence of a decline in its revenues or an increase in its expenses.
12.	-	Liquid Net Assets: assets funded by equity (common stock, disclosed reserves or other retained earnings) which are not otherwise encumbered and freely available to cover General Business Risk.
13.	-	Technical Procedures: The mechanisms relevant to listing and trading securities to execute transactions including settlement, clearing, ownership registration, transfer and deposit of

		<p><u>securities including, but not limited to, the following:</u></p> <ol style="list-style-type: none"> <u>1. Exchange procedures emerging from the Exchange Rules to regulate securities trading, listing and post-trade procedures including the registration, depositing and settlement of securities;</u> <u>2. The procedures of listed securities classification and the standards of market sectors identification, and setting up the necessary amendments in accordance with the practices used in this area;</u> <u>3. The procedures of continuously amending reference price of the cross listed securities;</u> <u>4. The procedures of cancelling the transmitted orders resulting from a technical error in the trading system;</u> <u>5. The procedures of trading suspension of a specific security in emergency situations and lifting the trading suspension in accordance with the provisions of the Trading and Membership Rules;</u> <u>6. Providing and cancelling Market Maker status and specifying the maximum number of market makers on a specific security and apply requirements for all mechanisms relevant to market making;</u> <u>7. The procedures relevant to indices including implementing, amending and cancelling a new index and approving the calculation methodology of the relevant index and the standards of inclusion and exclusion of certain securities from the calculation of the index; and</u> <u>8. The procedures relevant to connection requirements to all the Exchange, Depository Centre and Clearing Centre systems for beneficiaries of its services, including information security requirements.</u>
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