Market Story

Documentation of the
Saudi Capital Market History
1926-2020

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Capital Market Authority

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In the Name of God, the Most Merciful, the Most Gracious

The Custodian of the Two Holy Mosques

King Salman bin Abdulaziz Al-Saud

"Our country strives to strengthen its institutions to achieve the aspirations and hopes of its citizens at all levels. We are aware of the many challenges facing the Kingdom, but we are determined to overcome them and provide a decent life for our citizens."

His Royal Highness

Prince Mohammed bin Salman bin Abdulaziz Al-Saud

Crown Prince and Prime Minister

"The Kingdom of Saudi Arabia has one of the largest economies in the world. In less than four years, we have realised unprecedented achievements in modern Saudi history."

Foreword

It is said that those who do not learn from history are doomed to repeat it. Therefore, this publication has been put forth to draw lessons from the past and chart a course for a better future. Today's Saudi capital market has been through many phases of development, which have been documented in this volume to provide an accurate, historical account to interested readers.

This book offers a detailed overview of capital market development in Saudi Arabia over three key phases: 1) the foundation of Saudi joint-stock companies; 2) the regulation of the emerging capital market under a Ministerial Committee; and 3) the issuance of the Capital Market Law and establishment of a robust market system.

This publication saw the light of day after nearly two years of research, drawing on many historical documents and over 80 interviews with prominent figures. It is hoped that this book will serve as a reference and an interesting read for academics, professionals, and the public.

On behalf of the Capital Market Authority team, I would like to take this opportunity to express my profound gratitude to the Custodian of the Two Holy Mosques King Salman Bin Abdulaziz Al Saud, and His Royal Highness Prince Mohammed Bin Salman Bin Abdulaziz Al Saud, Crown Prince, Prime Minister, and Chairman of the Council for Economic and Development Affairs, for their generous support and for providing everything needed to enable the development and growth of the Saudi capital market.

I would also like express my gratitude to the contributors to this book: His Excellency Mr. Mohammad Ali Abalkhail, His Excellency Mr. Abdulaziz Zaid Al Quraishi, His Excellency Mr. Hamad Saud Al-Sayyari, His Excellency Dr. Ibrahim Abdul Aziz Al-Assaf, His Excellency Dr. Abdulrahman Abdulaziz Al-Tuwaijri, His Excellency Dr. Fahad Abdullah Al-Mubarak, His Excellency Mr. Muhammad Abdul Malik Abdullah Al-Ash Shaikh, and His Excellency Mr. Mohammed Abdullah Al-Jadaan. A special acknowledgement to officials, state agencies and entities, businessmen, and CMA employees for their invaluable contributions.

Additionally, I want to extend my deep appreciation to Dr. Abdulrahman Abdulmohsen Al-Khalaf, a former CMA board member, for leading the research team and valuable contributions and insights.

Moreover, I gratefully acknowledge the contributions of the Head of CMA's Documentation Steering Committee Mr. Youssef Hamad Al-Blihid, Vice Chairman of CMA, as well as those of fellow Committee Members Mr. Yazeed Saleh Aldemaigi, Mr. Nayef Abdulaziz Al-Dughaither, Dr. Bander Asaad Alsajjan, Mr. Ali Sulaiman Aldakheel, Mr. Abdullah Aqeel Al-Aqeel, and Mr. Helal Radi Al-Helal.

Finally, I want to express my sincere thanks to Argaam Investment Company for their research efforts.

Mohammed Abdullah Elkuwaiz

Chairman, Capital Market Authority

Introduction

Trade was the first sign of the development of the Arab civilization. At the heart of the centuries-old markets scattered across the Arabian Peninsula was Makkah, which has always been a major trading and cultural centre for Arab tribes. Originally, Makkah was a destination for trade with caravans coming from northern and southern Arabia to sell their goods in the seasonal markets of Okaz, Majanna, and Dhulmajaz where commerce—as well as poetry and literature—thrived.

The Arabs of the peninsula were known for their passion for trade. With the advent of Islam, Arabian markets flourished and continued to do so following the foundation of Saudi Arabia. A new era of modernisation and urban development coincided with the discovery of oil, a period during which Saudi Arabia strengthened its position in the region and saw the establishment of joint-stock companies that were the nucleus of a Saudi capital market.

The first Saudi joint-stock company was founded in the 1920s and led to the emergence of an early form of the stock market. Over the past century, the Saudi capital market gradually evolved into a leading market that is open to the world. This book is the first attempt to trace the historic origins of this journey and highlight major milestones, thus giving future generations an extraordinary account of significant events that have not been previously brought to light.

This work would not have been possible without the CMA team. Despite the lack of resources and sometimes differing narratives on certain historical events, each team member has generously dedicated their time and effort over the past two years to ensure accuracy and make this publication a reality.

Descriptive and historical methods have been used in writing this book. Archived documents, from newspapers to annual reports to Royal Decrees, have been retrieved. Several current and former capital market officials, as well as other experts and professionals, have been interviewed in authoring this publication. Additionally, financial terminology has been simplified for easier readability by laypersons.

This book documents the journey of the Saudi capital market according to three phases. The first phase begins with the establishment of the first Saudi joint-stock company in 1926. Dozens of companies soon followed suit, each contributing to the country's economic development. The first generation of shareholders preferred to maintain their shares to receive dividends as they saw themselves as owners of companies they invested in. However, this idea evolved with the next generation of investors who saw ample opportunities in stock trading, leading to increased privatisation and the public listing of state-owned businesses, which created the need for robust regulation.

The second phase began by the early 1980s and was characterised by the introduction of stock market regulations. During this period, stock trading was limited to commercial banks, which were supervised by a Ministerial Committee. Over the years, the market witnessed several developments that led to the beginning of the third phase: the issuance of the Capital Market Law of 2003 and establishment of the Capital Market Authority (CMA) in 2004.

This marked the beginning of a new era of developments and regulation establishing a robust capital market with the potential to be a global leader in line with Saudi Vision 2030.

To ensure that a broad audience benefits from this book, the CMA has produced a shorter illustrated version, containing the major historical developments of the Saudi capital market from 1926. The CMA expresses its sincere gratitude to all contributors to this book. A special note of appreciation is extended to our honourable contributors who provided their historical account of major events that shaped the Saudi capital market over its 100-year journey. We are also grateful to the early pioneers, the pivotal figures who played an active role in the growth of the capital market, and while some of them have passed away, their legacy endures.

Finally, the CMA dedicates this book to our esteemed readers in the hope that it will offer valuable insights into the history and journey of the Saudi capital market.

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Preamble

Capital markets are the building blocks of modern-day national and global economies. They play a vital role of investing capital into productive sectors of the economy, thus driving economic growth and achieving a more efficient utilisation of resources.

Markets have existed for as long as human existence on earth. Despite the diversity among peoples and nations, markets have always been an integral part of human behaviour. This is because they are essential for nurturing human existence on this planet, a responsibility which, according to Muslims, God has tasked us with since the creation of Adam.

First - Souq: The Arabic Term for 'Market'

In Arabic, the word "souq" is derived from the verb "sãqa," which means—among other interpretations—to bring, to carry, or to transport. The most widespread use of the verb and its derivatives can be traced back to the Arabic saying: "sãqa ilayhã al-mahr," which roughly translates into: "He drove the dowry to her" i.e. he paid the dowry. Historically, the Arabs paid dowries in cattle and the term became widely used for any marketplace where cattle and goods were exchanged and paid for.

As humanity evolved, markets grew more organised and specialised, and their names came to carry specific meanings. For instance, public markets that sold a variety of goods and merchandise were often named after the places where they were held. As for markets dedicated to specific goods or services, they often took the names of those goods or services, such as the Vegetable Market and the Camel Market. Additionally, public marketplaces were sometimes named after the days on which they were held, such as the Saturday Market or the Sunday Market.

Second - Markets in the Divinely Revealed Books

Ancient Arab cities had marketplaces where goods brought from the East and West were sold. The Torah made mention of those cities, such as Ur, Akkad, Palmyra, and the Kingdom of Sheba, and described aspects of their trade and commerce. According to the Torah, Palmyra merchants transported goods from Arab lands, Mesopotamia, and India to Egypt and southern Europe. The Queen of Sheba, as indicated in the Torah, gave King Solomon gold, spices, and precious stones from Yemen.

In the Qur'an, the word "souq" (i.e., market or marketplace) has been mentioned several times. For example, in Surah Al-Furqan, verse 7, God says: "And they say ¬mockingly¬, what kind of messenger is this who eats food and goes about in marketplaces ¬for a living¬? If only an angel had been sent down with him to be his co-warner." In this verse, the pagans objected that Prophet Muhammad (Peace be upon him) could not be the Messenger of God because he should not have to move about in marketplaces to buy or trade (similar to the Roman Caesars and Persian royalty of the era). However, God has indicated in Surah Al-Furqan that being in marketplaces is common to all mankind, including the messengers of God: "We never sent any messenger before you ¬O Prophet¬, who did not eat food and go about in marketplaces."

Elsewhere in the Qur'an, the first two verses of Surah Quraysh, "¬At least¬ for ¬the favour of¬ making Quraysh habitually secure in their trading caravan ¬to Yemen¬ in the winter and ¬Syria¬ in the summer" refer to two main markets in Syria and Yemen mediated by the third market of Makkah. Trade caravans used to set out from Makkah to Yemen in the winter, passing through several small marketplaces on the way. In the summer, they would set out from Makkah to Syria, doing just the same.

The biography of Prophet Muhammad (PBUH) states that he came to the city of Madinah and established a market to the West of the Prophet's Mosque. This market remained active until recent times. Upon its establishment, the Prophet (PBUH) said: "This is your market. It will always be your market and no duty will be levied on it." It later became a well-established market that prospered during the reign of Hisham ibn Abd al-Malik, the tenth Umayyad caliph. The market was given many names over the centuries. It was first known as Souq Al-Manakhah or Souq Al-Madinah, and was later given the names of Souq Al-Musalla, Souq Al-Bayh, Souq Al-Batha, and Souq Al-Zawra.

The Islamic tradition is abundant with guidelines on moral market practices or what is known today as market regulations and ethics. Prophet Muhammad (PBUH) once said: “Beware of the tumult of the market.” The Arabic term for ‘tumult’ is “hãshah,” which means being in a state of dispute, disorder, confusion, or clamour. There is another hadith on market etiquette in which the Prophet (PBUH) says: “Whoever enters our mosque or passes through our market with arrows with him, he should hold them by their heads lest it should injure any of the Muslims.” Another market etiquette in the Islamic faith is tolerance in transactions. The Prophet (PBUH) has reportedly said: “May God show mercy to a man who adopts a kind attitude when he sells, buys and demands for the repayment of loans.”

Disclosure and transparency have also been emphasised in market affairs. For transactions to be valid according to the Prophetic tradition, a seller must disclose the specifications of their merchandise and reveal its defects. The Prophet’s companion Abu Hurairah has said: “The Messenger of God happened to pass by a heap of corn. He thrust his hand in that (heap) and his fingers felt wetness. He said to the owner of that heap of corn, “What is this?” He replied: “O Messenger of Allah! These have been drenched by rainfall.” He remarked, “Why did you not place this (the drenched part of the heap) over the corn so that people might see it? He who deceives is not of us.”

Additionally, the Prophet (PBUH) forbade people from approaching caravans to trade with them before they reached the local market. The companion Ibn Umar reported: “We used to go ahead to meet the caravans and used to buy foodstuff from them. The Prophet (PBUH) forbade us to sell it till it was carried to the market.” This practice was forbidden because the transaction could entail deceiving caravan merchants as they are yet to be aware of market prices, which could also harm the local community.

Third – Arabia’s Historical Markets

Situated between the Persian and Roman empires, pre-Islamic Arabs took advantage of the peninsula’s strategic location to carry out commercial activities. Some Arab tribes were known for transporting goods from one empire to another. The Qur’an makes mention of two journeys: the winter and summer trade journeys, which Arab merchants would undertake every year. At the time, the Quraysh tribe acted as intermediaries between the two rival empires and their vassal regions (Egypt and the Levant were ruled by the Romans while Al-Hirah and Yemen were ruled by the Persians). As a result, the Arabs established seasonal markets on both sides as well as many smaller markets along their northern and southern trade routes. They also established several seasonal markets in the peninsula, which were places of festive events. Some of them even gained special importance since they were held during the Arab sacred months.

1- Okaz Market

Dating back to the year 501, Souq Okaz is located forty kilometres to the north of Tai’f city (Image 1), and was one of the most famous and sacred markets in pre-Islamic times. During the lunar month of Dhul Qi’dah, people would come carrying their goods from all across Arabia. Goods of all kinds were available at this market, including foodstuffs and swords from Yemen and the Levant. Okaz was more than just a marketplace for trading goods, it was also a festival where men from different tribes competed for glory and prestigious titles, such as the most generous, the bravest, or the most eloquent of the Arabs.

01 Souk Okaz location

As the means through which the Arabs chronicled their history, poetry came to acquire a superior status in Souq Okaz—to the point that people associated its name with the great poets of the time. Intertribal poetry competitions took place openly and poets were appraised by a group of prominent public figures. Later, those poems would be recited by people across Arabia.

Souq Okaz was governed by a set of rules similar to modern-day market ethics and values. For example, people used to abstain from purchasing goods from unknown sources and left them to become dead stock out of concern that they might be stolen, which is close to today's concept of anti-money laundering. Moreover, like the ownership certificates of today, Arab tribes used to brand their camels with identifying marks. In this regard, historical sources indicate that some thieves once tried to sell a camel in Souq Okaz after concealing its brand. However, the people refrained from buying the camel because they were unable to identify the tribe it belonged to.

2- Souk Al-Majnah

This market was established by a tribe named Kinana. It is located in Murr Dhahran valley–in the plains of Tihama, currently called Wadi Fatima–near Al-Asfal mountain in Makkah. The market used to be held during the last ten days of the lunar month of Dhul Qi'dah. Souq Majanna was another seasonal market that the Arabs visited after Souq Okaz was over. People held the same respect for this market as they did for Okaz and carried out the same activities there. The Quraysh and other tribes would visit Souq Majanna before heading to Makkah for pilgrimage, in a state of ritual preparation that prohibited them from committing sins or transgressing against others. Historians have ranked Souq Majanna third in terms of size and importance after Okaz and Dhul Majaz markets, but it is listed second in this section following a chronological order.

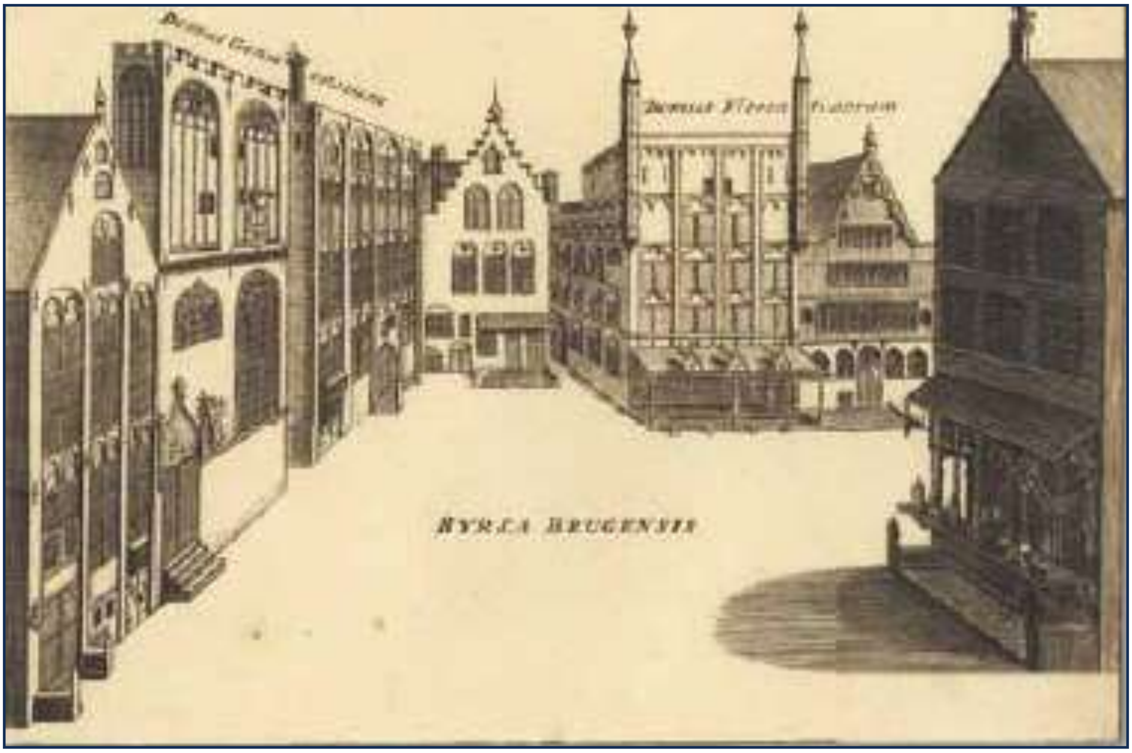
3- Souk Dhi Al-Majaz

After leaving Souq Majanna towards Makkah for pilgrimage season, pilgrims would reach Dhul Majaz market near Mina, a valley between Makkah and Mount Arafat. Just like Souq Okaz, this market was a place for buying and selling, vying for prestige, and freeing bondsmen. It was held on the first ten days of the holy month of Dhul-Hijjah, granting it a special status as it was the time marking the beginning of pilgrimage rituals.

Fourth - Capital Markets (Stock Exchanges)

The Arabic word “bãrãah” (i.e., stock exchange), similar to “bourse” in French, took on the name of the Belgian Van der Buerse family who were renowned for their banking activities in the fifteenth century. They ran the Ter Buerse Inn, where merchants from across Europe stayed. Over time, the Ter Buerse Inn became a place for trading commodities and securities (Image 2), and the name “bourse” came to refer to any organised securities market.

At that time, the Renaissance was spreading across Europe and the Industrial Revolution contributed to major organisational developments that led to the foundation of joint-stock companies. Being the foremost global power at the time, the British Empire led the way with several companies of this type. On 31st December 1600, the East India Company (EIC) was established to administer British colonies and overseas trade. The EIC grew alongside theBritish Empire itself and dominated global trade from the seventeenth century

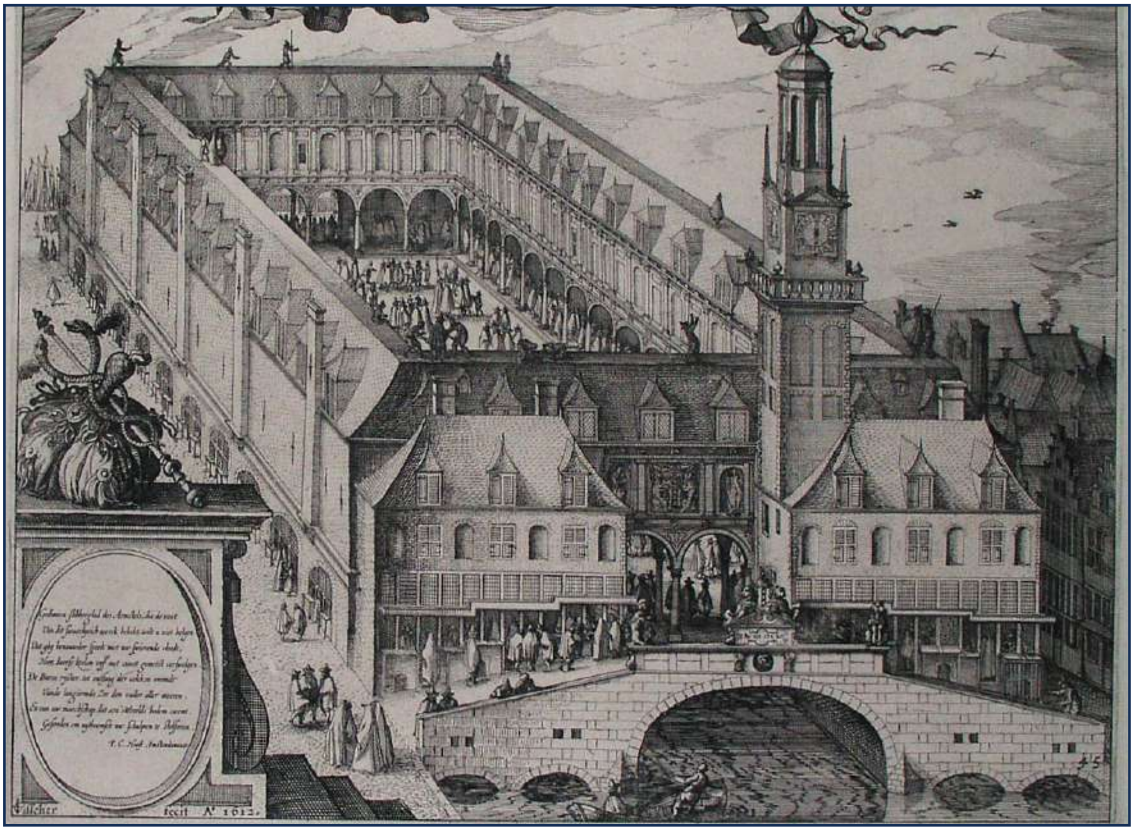


02 Brugge Bourse

century. The formation of the EIC was made possible by the efforts of a group of prominent merchants and with the blessing of Queen Elizabeth I. The Crown granted the EIC a charter that awarded it a 15-year monopoly on English trade in the East Indies. As a result, the EIC expanded in all countries across the East with influence reaching as far as the Arabian Gulf.

The world's earliest stock exchanges were established for commodity trading. The Amsterdam Stock Exchange, founded in 1602, is considered the oldest "modern" stock exchange in the world.

It was originally a commodity exchange run by the Dutch East India Company. Company officials then came up with the idea of issuing shares to freely finance trading activities. By 1611, the stock exchange building, the Beurs Van Hendrick de Keyser (Image 3), was constructed.



03 The building of Beurs Van Hendrick de Keyser

One of the other earliest stock exchanges was the Frankfurt Stock Exchange, which dates back to 1585 when merchants would meet at a square in front of Frankfurt's city hall to establish standard exchange rates for notes and coins. In 1666, the first exchange rules and regulations were enacted, which led to the establishment of an official stock exchange. Initially, only bills of exchange were in use. Promissory notes1[1] and government bonds were first traded at the end of the seventeenth and eighteenth centuries, respectively, while the first shares were traded in 1820.

As for the London Stock Exchange, it was originally simply a newspaper posting of the prices of stocks and commodities from 1698. It was not until 1801 that it became the official stock exchange of London, making it older than the Paris Bourse, which was founded in 1824 and inaugurated in Palais Brongniart in 1826. In the United States, the Philadelphia Stock Exchange was formed in 1790, followed by the New York Stock Exchange on Wall Street in 1821. A series of stock exchanges were founded worldwide during this period, leading to the establishment of the first stock exchange in Asia, the Bombay Stock Exchange, in 1875. Not long after, the Bovespa Stock Exchange was established in Brazil in 1890, followed by the Mexican Stock Exchange which began operating in 1895 and was officialised in 1933. Elsewhere, the Turkish Dersaadet Securities Exchange, the Egyptian Alexandria Stock Exchange and Cairo Stock Exchange, as well as the Indonesia Stock Exchange were founded in 1866, 1883, 1903, and 1912, respectively.

Fifth – Types of Capital Markets

Capital markets differ according to many factors. In terms of securities issued, there are two different categories of market: the primary market where companies list new issues for the first time, and the secondary market, which allows investors to purchase already-issued securities.

As for the maturities of traded securities, we have the money market, where short-term (under a year) securities are traded, and the capital market, where long-term (over one year) assets are bought, as well as the derivatives market in which securities whose value is dependent on or derived from an underlying asset are traded. Lastly, in terms of location, there are centralised and decentralised markets. The former exists at a physical location where trading takes place, while the latter is not tied to an actual place.

1 A promissory note is a debt instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on-demand or at a specified future date. A promissory note typically contains all terms pertaining to the indebtedness, such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

Sixth – The Role of the Capital Market

Economically, members of society are divided into two groups: entrepreneurs, who seek to establish businesses and launch various projects but often lack sufficient funds, and savers, who have funds but often lack the incentive, knowledge, or ability to invest these funds themselves. Capital markets perform the essential economic function of channelling funds between savers and entrepreneurs, hence leading to an increase in financial returns which in turn drives the productivity of national economies. Therefore, capital markets encourage savers to invest by providing them with investment opportunities, motivating them to rationalise consumption and make further investments to drive national economic performance.

Capital markets provide funding for various economic sectors. This occurs indirectly through the issuance of securities, such as stocks and bonds that are then sold to individual, corporate, and institutional investors. As a result, investors are able to participate in the growth of the economy and in turn grow their capital, thus raising the standard of living for all members of society on the one hand and directing financial resources towards profitable sectors of the economy on the other, thereby leading to greater economic prosperity. Capital markets contribute to funding development plans as governments may resort to borrowing to meet public expenditures and finance development projects. This occurs through the issuance of government securities, such as bonds or sukuk. The capital market provides flexible exit strategies, which in turn promotes investing and encourages the development of new projects.

The efficient trading of securities as a function of the capital market provides investors with ease of access and the ability to liquidate quickly. Efficient securities markets are the means through which optimal prices are set based on supply and demand.

Capital market authorities require issuers of securities to make all relevant information about a business—including financial statements and developments that may affect stock prices—available to the public in a timely manner. This in turn allows investors to make informed investment decisions. Lastly, capital markets protect investors by enacting and enforcing laws that regulate market activities with the aim of achieving fairness and preventing fraud and manipulation.

Seventh – Capital Market Securities

To finance their projects, companies raise capital by selling stocks to the public or by borrowing money from investors. When investors buy stocks, they become shareholders, which entitles them to a proportion of a corporation's assets and profits. Alternatively, companies resort to borrowing money by selling bonds or sukuk, which grant creditors varied or fixed payment rates until the security's maturity date, at which point the principal amount must be paid back in full to the debtholders. There are many types of traded securities, such as stocks, sukuk, government bonds, corporate bonds, and derivatives, among others. The following are the main types of securities:

1- Stocks

A stock is a proportionate ownership of equity in a corporation and entitles the owner to part of the corporation's assets and profits. There are two main types of stock: common and preferred. Common stock represents ownership in a corporation and entitles its holder to claim part of the company's profits and assets after bondholders and preferred shareholders are paid in full. Common stockholders are also entitled to elect the board of directors and have pre-emptive rights if, for example, new shares are issued.

Preferred stocks are issued with a fixed par value and pay dividends based on a percentage of that par. However, preferred stocks do not grant voting rights, unless a corporation fails to pay dividends for a certain period[1]. Additionally, preferred stockholders have a priority claim over common stocks from liquidation proceeds.

2- Bonds

A bond is a tradable security representing a medium- or long-term debt that is usually offered publicly or privately. There are different categories of bonds sold in the markets, such as government bonds and corporate bonds. A bondholder is an investor or the owner of government or corporate-issued securities. Bondholders are entitled to fixed annual or semi-annual payments. Upon maturity, the bond issuer pays the bondholder the nominal value of the bond. Bond investors usually include corporations, individuals, insurance companies, and pension funds.

1 In the Saudi capital market, the period is three consecutive years, in accordance with the regulatory controls and procedures issued in Companies Law for Listed Joint-Stock Companies.

Unlike stocks, which represent proportional ownership of a corporation's capital, a bond is a debt owed to the bondholder. Moreover, stock dividends vary according to a corporation's profitability, in which case stockholders earn a share of profits or bear the risk there may be no dividend when there are losses. However, bonds have fixed (or variable) interest rates and bondholders are not exposed to losses unless the issuer fails to make a payment which may lead to bankruptcy. Additionally, stockholders are entitled to vote during annual general meetings while bondholders are not. Lastly, bondholders are given priority over stockholders in the event a company is liquidated due to bankruptcy, which means stockholders only get their proceeds, if any, after all bonds and liabilities have been settled.

3- Sukuk

Sukuk are Islamic (Shariah-compliant) securities issued by governments, corporations, and financial institutions. sukuk represent undivided ownership in tangible assets, usufruct, or service of revenue-generating projects or investments. This financing instrument is divided into two categories: equity-based sukuk, such as musharaka, mudaraba, and wakalah, and debt-based sukuk, such as murabaha, salam, and istisnaa'. In contrast to bonds, a sukuk-holder has undivided ownership of the issuer's assets while a bond represents a debt owed by an issuer.

4- Derivatives

Derivatives are financial instruments that were originally created to allow investors to manage long-term risks (hedging) and evolved to be used for speculative investing. Derivative instruments are traded in official and unofficial markets. They are agreements between two parties that derive their value from the price of an underlying asset, such as commodities, currencies, indices, or stocks. Derivative products allow for the transfer of financial risks between the contracting parties.

5- Investment Funds

Investment funds pool the capital of a group of investors and manage it according to a specific strategy and investment goals, which are set by the fund's manager to realise investment benefits that are difficult to achieve by individual investors due to limited resources or financial knowledge. Accordingly, investment funds may own a portfolio of financial securities that are chosen based on specific criteria to meet the investment objectives of the fund, in addition to achieving the benefit of diversity for fund investors and thus decreasing the total investment risk level of the pooled investments.

Eighth – A Glance at the World's Major Stock Exchanges

The following is a brief overview of the world's largest and oldest stock exchanges.

1- London Stock Exchange

When the Dutch migrated to Britain, they brought great expertise to London as Amsterdam was the leading securities market in the world at the time. They first began trading bonds and bills of exchange, which were instruments of international finance. In its early days, the London Exchange lacked regulation and business was carried out unofficially. Although the Royal Exchange was founded in 1571, stockbrokers were not allowed to participate in the market until almost a century later.

In 1663, a major international stock exchange development occurred: Britain passed a law granting a concession to issue banknotes. This was followed by the formation of the Bank of England in 1664 as a joint-stock company with capital of 1.2 million pounds. The first banknotes issued by the Bank of England entitled their holders to an interest rate between 3%and 4.5%.

As Britain continued to explore and colonise new lands in pursuit of riches throughout the seventeenth century, trade and companies flourished alongside the empire. In the late seventeenth century, a British company recovered a shipwrecked Spanish vessel that had been transporting gold. The company's stock price shot up on the London Exchange, and intense speculations led to an unprecedented price hike.

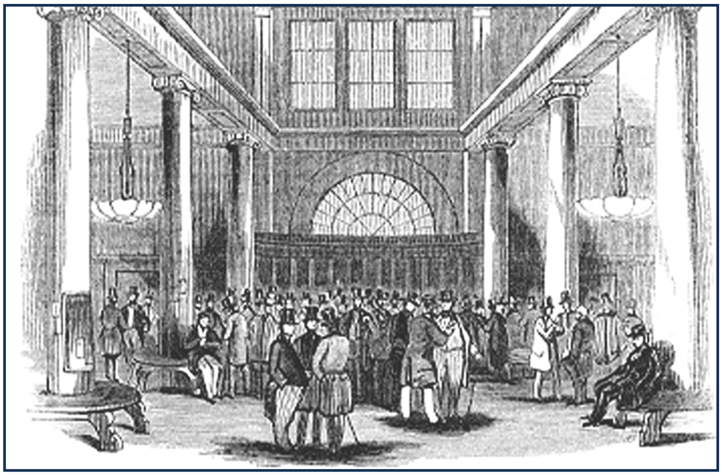
To address illegitimate speculations, a law was passed limiting the number of licensed stockbrokers to only one hundred. The law also introduced stricter conditions for issuing brokerage licences and tasked the Mayor of London and the Supreme Court with overseeing implementation.

Under the newly introduced law, twelve stockbrokers were given professional licences, and the Mayor of London granted each of them a silver broker's medal, which was to be returned to the Mayor of London if a stockbroker passed away without naming a successor. The stockbrokers first operated in the Royal Exchange, where all manner of commodities were traded. However, for ease of business, they decided to move to the neighbouring Jonathan's Coffee House.

By 1773, the brokers had rented a large space that came to be known for the first time as the Stock Exchange. They appointed a committee to organise work, settle disputes, and trade common securities. As for government bonds, these were traded in the lobby of the Bank of England while foreign debt securities were traded on the Royal Exchange.

In 1801, stockbrokers took a more serious step by forming a joint-stock company with capital of 20,000 pounds divided into 400 shares. They commissioned the construction of the Stock Exchange building (Image 4). In 1802, they signed a deed of settlement, which subsequently underwent multiple amendments, thus formalising the constitution of the Exchange. Accordingly, a set of rules and regulations were introduced, embodying two centuries worth of expertise in overseeing and governing securities on the London Exchange.

The Stock Exchange developed over the years into one of the largest stock exchanges in the world. By December 2020, the London Stock Exchange had 1,428 British and 566 international companies listed, making up a total of 1,994 traded companies from over seventy countries. Additionally, the market value of British and international stocks at the time amounted to GBP 2.2 trillion and GBP 1.5 trillion, respectively, for a total market value of about GBP 3.74 trillion. Today, the London Stock Exchange is the second largest stock exchange in Europe after Euronext and the seventh worldwide.



04 London Stock Exchange in 1802

The UK's main index for tracking the performance of listed companies is the Financial Times Stock Exchange (FTSE) 100, which is a share index of the largest one hundred companies (in terms of market capitalisation) listed on the London Stock Exchange. There is also the FTSE 250 which consists of the 250 largest companies listed. The latter comprises companies from all sectors and was launched in January 1984 with a base value of 1,000 points. By 31st December 2020, the FTSE 250 closed at 9,246 points.

2- New York Stock Exchange

Equipped with cutting-edge technology, global communication channels, and effective governance, the New York Stock Exchange (NYSE) has become the largest stock exchange in the world, followed by Nasdaq, Shanghai, Hong Kong, Euronext, London and Tokyo. The NYSE accounts for about 80 %of transactions in the US, followed by the Chicago Stock Exchange (CHX) and the Miami Stock Exchange (MS4X) in Florida. Unlike European markets, US-based stock exchanges have the advantage of operating in one market using a single language and currency.

The NYSE began as a local stock exchange for trading state debts in New York and a few other states. Due to price differences between stock exchanges, fraud and intense speculation took place. To address the matter, traders of commodities and securities congregated in today's NYSE building at 22 Wall Street in 1725 (Image 5).

05 New York Stock Exchange (NYSE)

Life in the US at the time attracted many European migrants who brought great expertise to America since they historically had a head start in stock exchanges. As a result, it was natural to draw upon the institutional workings of European markets when developing a US-based version. In 1817, organisers of the Philadelphia Stock Exchange (founded before the NYSE) examined European trading systems and formed the "Smith" Committee that introduced a rigorous trading system and set strict stock exchange membership conditions to eliminate fraud and speculation. After undergoing several developments over the years, the system was finally adopted in the NYSE.

Another major development in the history of the NYSE was the invention of the telegraph. This novel technology increased the economic significance of stock exchanges as stock brokers began to use it in 1842. The first telegraphic communication between the London and New York Stock Exchanges dates back to 1866; it led to accelerated market expansion and innovations in communications. In 1878, the telephone was used in the NYSE for the first time to announce stock prices.

By the end of 2020, the NYSE's market capitalisation had reached USD 25.5 trillion with over 2,300 traded companies. The major indices in the NYSE are the Dow Jones Industrial Average (DJIA), which comprises the 30 largest industrial US companies, and the Standard and Poor's 500 (S&P 500), a weighted index of 500 leading publicly traded American companies.

After this foray into the origins and development of major international capital markets, we shall now turn our focus to the Saudi capital market, and its history and development according to the following chronology:

- **Phase One: This part covers the emergence and development of the Saudi capital market from 1926 to 1984. This period witnessed the founding of the Kingdom of Saudi Arabia and several significant economic events, such as the increasing role of the private sector in state development, the creation of Saudi joint-stock companies, and the proliferation of unregulated stock trading.**

- **Phase Two: A review of major Saudi market developments from 1984 to 2003, which includes the regulation of stock trading, assigning the provision of stock trading services to commercial banks under a Royal Order in 1983, and the formation of a Ministerial Committee to regulate the market.**

- **Phase Three: This phase sheds light on market developments from 2003 to 2020, with a special focus on several major milestones, such as passing the Capital Market Law of 2003 and the formation of the Saudi Capital Market Authority (CMA) in 2004 to oversee and regulate the market.**

Phase One

e One

(1926-1984)

Phase One

Part 1: The Saudi Stock Market: Origins

Chapter 1: Allocation of Economic Resources

Chapter 2: Emergence of the Saudi Stock Market

Chapter 3: Stock Offering and Trading

Chapter 4: Winds of Change

Chapter 1: Allocation of Economic Resources

On 15th January 1902, the Arabian Peninsula witnessed a major historic event with the founding of the Third Saudi State by the late King Abdulaziz Al Saud, who announced sovereignty over the Emirate of Riyadh after reclaiming the city. By 1921, the state had expanded into the regions of Najd and Al-Ahsa, which became known as the Sultanate of Najd. In 1926, King Abdulaziz extended his rule to the Hejaz region and named the state the Kingdom of the Hejaz and Najd and its Dependencies. It was known as such until the various regions were unified and officially declared to be the Kingdom of Saudi Arabia in 1932. Since its early days, Saudi Arabia has worked hard to create inclusive economic and social development, primarily by facilitating the settlement of various tribes. However, those efforts lacked sufficient financial resources that the state hoped would be provided through the exploration and extraction of underground resources.

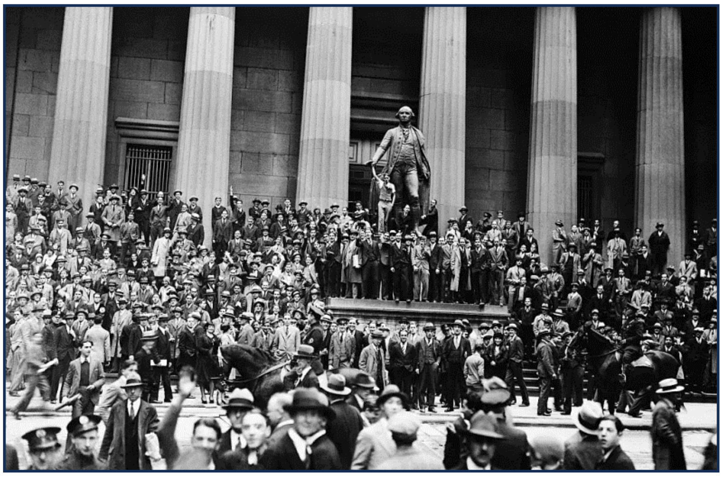
1.1 Oil Exploration

After founding the Sultanate of Najd in 1921, Saudi Arabia grew more interested in oil exploration, especially after the discovery of petroleum in commercial quantities in different parts of the world during the late nineteenth and early twentieth centuries. In 1923, King Abdulaziz granted the British Eastern and General Syndicate an oil concession, which was terminated in 1928 by the King himself after the company failed to fulfil its part of the agreement and ran into financial trouble. A year later, in 1929, the country suffered an economic downturn, as the Great Depression swept the globe.

The Wall Street Journal described the Great Depression as " a steep plunge from the peak to the bottom", when stockholders saw their wealth disappear into thin air. Recalling the crisis, American economist Robert Heilbroner said that people were left "watching stunned as fortunes melted like cotton candy".

After World War I, US markets experienced a boom that reached its apogee in August 1929. At the height of this prosperity, on 24th October 1929, the stock market crashed, triggering a wave of panic selling. 12.9 million shares were sold in a single day-three times the normal volume on Wall Street. Over the following four years, stock prices dropped by 23%, and the Dow Jones Industrial Average fell sharply by 74 points, or 20%, to close at 307. The fall lasted for the three years of the Great Depression in the US and spread worldwide (Image 6 shows a massive crowd of investors outside the New York Stock Exchange building in 1929).

The Great Depression affected countries like India, Indonesia, and Egypt. For this period, Muslim citizens of these countries were unable to perform pilgrimage; the number of pilgrims dropped to less than one-fifth the usual annual number of pilgrims. As a result, the Saudi state's resources diminished and were no longer sufficient to meet the government's needs.



06 NYSE Crisis in 1929

While the Great Depression had a severe impact on the Saudi state, it was nonetheless helpful in that it accentuated the importance of diversifying sources of income and continuing the search for oil and minerals. After the discovery of oil in commercial quantities in Bahrain's Jebel Al-Dukhan in 1932, hopes for oil opportunities in the newly-founded Kingdom of Saudi Arabia resurged, especially given the geological similarity between both regions.

Several companies submitted bids for an oil concession, and Standard Oil of California (Socal) was eventually selected. On 29th May 1933, a 60-year concession agreement between Socal and the Kingdom of Saudi Arabia, represented by His Excellency the late Minister of Finance Abdullah Sulaiman Al-Hamdan, was signed at Khuzam Palace in Jeddah. Royal Decree No. 1135 approving the concession agreement was issued in July 1933. Image 7 shows the agreement signing ceremony.

07 Saudi Arabia signs concession agreement with SOCAL in July 1933

1.2 Development of Oil Production

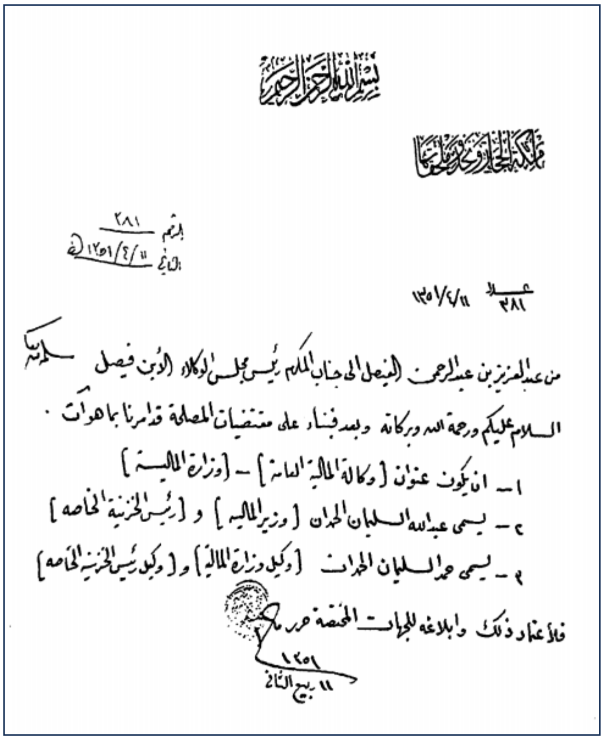
Saudi commercial oil production began in 1938 with about 1,400 barrels per day, marking the birth of a modern economy. In 1939, production capacity was at 108,000 barrels per day, followed by an annual increase that reached 500,000 barrels per day by 1945.

Moreover, the Kingdom was a pioneer in oil transportation methods through pipelines and tankers. In 1947, the Saudi government signed an agreement with the Trans-Arabian Pipeline Company, an American venture headquartered in Wilmington, Delaware, to construct the famous Trans-Arabian Pipeline (Tapline) from the Arabian Gulf to the port of Sidon in Lebanon. With a capacity of 500,000 barrels per day, the pipeline remained in operation until 1975. Image 8 shows the Tapline during an aerial survey in 1951.

08 Aided by an aerial survey, a work crew inspects the Tapline oil pipeline in 1951

1.3 Development of the Financial System

In 1929, a royal approval on the constitution of the General Directorate of Finance was issued. Although previous regulations were ministerial as per administrative standards, the designation of “ministry” was used in Royal Decree No. 381 (document 1), dated 14th August 1932, under which His Excellency Abdullah Sulaiman Al-Hamdan was appointed minister of finance. The Ministry of Finance was made responsible for regulating, managing, and securing state funds, making it the public authority for financial affairs in the Kingdom of Hejaz, Najd, and their Dependencies. At the time, the ministry was led by His Highness the President of the Council of Deputies.



بسم الله الرحمن الرحيم

مملكة الحجاز ونجد وملحقاتها

الرقم ٣٨١
التاريخ ١١/٤/١٣٥١ هـ

عدد ٣٨١ ١١/٤/١٣٥١

من عبد العزيز بن عبد الرحمن الفيصل الى جناب المكرم رئيس مجلس الوكلاء الابن فيصل سلمه الله

السلام عليكم ورحمة الله وبركاته وبعد فبناء على مقتضيات المصلحة قد أمرنا بما هو آت .

١ ـ ان يكون عنوان [وكالة المالية العامة] ـ [وزارة المالية]

٢ ـ يسمى عبدالله السليمان الحمدان [وزير المالية] و [رئيس الخزينة الخاصه]

٣ ـ يسمى حمد السليمان الحمدان [وكيل وزارة المالية] و [وكيل رئيس الخزينة الخاصه]

فالاعتماد ذلك وابلاغه للجهات المختصة حرر

١١ ربيع الثاني ١٣٥١

01 Royal Decree No. 381 on the establishment of the Ministry of Finance

1.4. Evolution of the Monetary System

Prior to the country's unification, several currencies were in circulation, such as gold, silver, and copper coins, used in Najd and Hejaz regions, among others. However, unification created the need for a national currency, which was to be introduced gradually to avoid creating a monetary vacuum and disrupting the economy. Before 1922, King Abdulaziz first ordered the issuance of coins marked with the word 'Najd' (the Sultanate of Najd was the Kingdom's name at the time). In 1925, the King ordained the minting of the new Half Qirsh and Quarter Qirsh coins (Image 9). In 1928, the first Saudi monetary law, named the Hejazi-Najdi Monetary Regulation (Document 2), was issued.

09 The first issued coins during King Abdulaziz reign - 1925

Royal Decree approving the Hejazi-Najdi Monetary Law.

1.5. Saudi Arabian Monetary Agency (SAMA)

As commercial activity increased due to the Kingdom's growing economy, foreign trade relations, and oil production, the need arose for banking establishments. As a result, several foreign bank branches were duly formed. As for the Saudi government's banking business, it was carried out by the newly established Kaki and Mahfouz Company. However, there was a crucial

العدد ١٦٠ | السنة الرابعة

أقوال مأثورة
قال علي بن موسى: القناعة تجمع الى صيانة النفس، وعز القدرة طرح مؤونة الاستكثار والتعبد لأهل الدنيا، ولا ملك طريق القناعة الا رجلان: اما متقلل يريد أجر الآخرة، او كريم يتنزه عن آثام الدنيا.

أم القرى
﴿ وكذلك أوحينا اليك قرآناً عربياً لتنذر أم القرى ومن حولها ﴾

وقال الراضي: القانع يعيش آمناً مطمئناً مستريحاً مريحاً، والشره لا يعيش الا تعباً نصباً في خوف وأذى.
وقال ابو ذؤيب الهذلي:
والنفس راغبة اذا رغبتها
واذا ترد الى قليل تقنع

يوم الجمعة ١٣ رجب سنة ١٣٤٦ | مكة المكرمة | الموافق ٦ كانون الثاني سنة ١٩٢٨

نظام
النقد الحجازي النجدي

صدور الأمر السامي بالموافقة على نظام النقد الحجازي النجدي التالي والعمل بموجبه:
بعد الاطلاع على تقرير اللجنة التي ألفت للبحث في وضع نظام للنقد الحجازي النجدي المسمى فيما يلي بالنقد العربي وبناء على ما عرضه علينا مدير المالية العامة قد أمرنا بما يأتي:
المادة الاولى - يسمى هذا النظام «بنظام النقد الحجازي النجدي» المعبر عنه فيما يلي «بالنقد العربي»
المادة الثانية - اعتباراً من غرة شهر شعبان سنة ١٣٤٦ سيبطل التعامل الرسمي بالريالات العثمانية واقسامها وتحل محلها الريالات العربية واقسامها.

02 A Royal Decree issued enacting The Hijazi- Najdi Monetary Regulation

need for an entity to regulate the banking sector and issue monetary currencies. Twenty years after the unification of the country, the Saudi Arabian Monetary Agency (SAMA), which serves as the Saudi central bank, was formed. The goal of SAMA is to regulate and promote Saudi currency both domestically and abroad, and monitor commercial banks and currency exchange.

On 26th November 2020, Royal Decree 36/M was issued, and the name of the Saudi Arabian Monetary Agency (SAMA) was amended to Saudi Central Bank. Since historical events in the present work are discussed in chronological order, wherever SAMA is mentioned, it automatically refers to the Saudi Central Bank.

SAMA was founded pursuant to two Royal Decrees issued on 19th April 1952. The first, Royal Decree 30/4/1/1046, ordained the establishment of SAMA's headquarters in Jeddah city (Image 10) with the option to open branches in the country as necessary. The second, Royal Decree 30/4/1/1047, approved SAMA's charter and put it into effect.

10 SAMA building in Jeddah - 1953

SAMA officially began operating on 4th October 1952 from its Jeddah-based headquarters. On 16th October 1952, a Royal Decree was issued on adopting the Saudi gold sovereign, the guinea, as the official currency of the Kingdom. On 22nd October 1952, SAMA issued the first Saudi gold coin, which was worth 40 riyals to the guinea, and put it in circulation. Silver coins were later withdrawn completely, and the government allowed SAMA to issue Pilgrim Receipts (Image 11), a ten-riyal denomination note that was widely used by both pilgrims and locals. SAMA's first year was crowned with success, and two affiliate branches were opened in Makkah and Madinah. Additionally, the agency continued its role as a regulator and requested KSA-based banks to register with it and required that money changers obtain licences.

On 14th June 1961, the first Saudi banknotes were issued in five denominations of riyals: 100, 50, 10, 5, and 1. Moreover, the Kingdom of Saudi Arabia was the 21st country to accept the requirements of currency convertibility as per Article VIII of the International Monetary Fund's Articles of Agreement.

11 Pilgrim receipts

In 1966, a Royal Decree was issued enacting the Banking Control Law. The Law prohibited unlicensed individuals from engaging in any form of banking activity, as well as banks from engaging in wholesale or retail trade. The law also prohibited banks from purchasing the shares of other banks without SAMA's approval. Lastly, each bank was required to send SAMA a monthly consolidated statement of financial position as well as an annual, audited balance sheet and a profit and loss statement at year-end.

1.6. The Private Sector as an Enabler of the National Economy

Increasing oil revenues and improved economic conditions paved the way for state projects that had not been possible before. Priority was given to infrastructure projects that were financed by the government's budget through the Ministry of Finance. These developments facilitated the growth of the private sector, which had sufficiently matured in order to undertake such projects through private companies and contractors, leading to the requirement for further investments from more diversified resources. Banks were also prohibited from owning more than 10 percent of any Saudi joint-stock company's share capital — a rule intended to ensure that banks did not own more than 20 percent of their paid-up capital and reserves.

Realising its importance to the national economy, especially after the country had laid solid legislative and institutional foundations, the government decided to involve the private sector in more projects and initiatives. As a result, this sector, and joint-stock companies in particular, played a pivotal role in Saudi Arabia's economic development.

Chapter 2: Emergence of the Saudi Stock Market

The Saudi government's desire to involve the private sector in developing the national economy emerged early during the formation of the Kingdom. Thus the concept of joint-stock companies appeared, forming the basis of the Saudi capital market since the early twentieth century.

2.1. The Origin of Joint-Stock Companies in Saudi Arabia

Joint-stock companies date back to the period prior to the founding of the Kingdom. Merchants from Hejaz, Najd, and Al-Ahsa regions were the first to establish them. Founded on 6th October 1916, the National Company for Serving Residents of the Sacred Land is considered one of Saudi Arabia's oldest joint-stock companies. The company was founded to import commodities for Makkah's residents and visitors. At the time, a local newspaper (Document 3) published an article highlighting the company's activities and announcing a subscription to its shares to encourage merchants to invest. Each share was worth 100 piasters or its equivalent in British pounds. The article also featured an invitation to potential subscribers to visit the company's headquarters and learn more about the opportunity.

العدد ١٤٠

السنة الثانية

القبلة

حوادث محلية

الشركة الوطنية

الخادمة لسكان بلد الله الحرام

جاءنا من مدير هذه الشركة الوطنية المبارك ما يأتي :

قد مضى على تأسيس شركتنا هذه اربعة وثلاثون يوماً . بذلت في خلالها قصارى الجهد لبيع بضائعها بالاثمان المتهاودة . وجلب الاشياء الجيدة . وقد احرزت بذلك (وله الحمد) الغاية الوحيدة التي أسست من اجلها . الا وهي خدمة الاهالي الكرام . وسكان هذا البلد الحرام . كما انها حازت رضاء الجمهور عنها واقباله عليها

وبناء على مضي هذه المدة وظهور النتيجة الحسنة فقد رأينا ان نوضح للعموم خلاصة عمل هذه الشركة وما حصلت عليه من الربح في هذه المدة القصيرة فاجملناه في هذا البيان

راس مال الشركة

(بارة قروش صاغ)

(٢٠ ٣٢١٤٠١١)

بارة	قروش	
	٦٢٥٤٠٢١	المباع من البضائع
٥	٣٧٠٤١٦٢	الموجود »
٥	٩٩٥٤١٨٣	
٤٠	٩٦٣٤٣٦٥	مشتروات بضائع ومصاريف
١	٣١٩١٨	الصافي وهو مقدار الربح

هذه هي معاملاتها من ابتداء ٨ ذي الحجة سنة ١٣٣٥ الى ٢ ربيع الاول سنة ١٣٣٦

ثم ان الشركة تعلن بعد توضيح هذا البيان لكافة الاهالي هذه الامور الآتية :

اولاً . انها مستعدة لاطلاع كل من يريد ان يطلع تفصيل هذه المعاملات على دفاترها واوراق حسابها وتوقيفه عليها

ثانياً . انها تقبل كل من يريد الاشتراك فيها بالمساهمة على ان يكون مقدار السهم الواحد مائة قرش صاغ والجنيه الانكليزي بسعره المتداول في المعاملات التجارية بالبلدة .

ثالثاً . انه سيبادر الى تأسيس هيئة ادارة لهذه الشركة . متى كبر رأس مالها وبلغت اسهمها مقداراً يستحق ذلك ويقتضيه . وستتولى هذه الهيئة مقاليد امور الشركة وتراقب كافة اعمالها وتصرفاتها وتقوم . بكل ما يلزم لتأمين حفظ حقوقها وضبط حسابها

رابعاً . انها تستقطع في كل ما تبيعه اثنين في العشرة من الاثمان التي تبيع بها غيرها .

خامساً : ان الشركة قد اتخذت لها الآن ستة فروع متفرقة في حارات العاصمة غير محلها المركزي وهذا لتسهيل المعاملة وتقريب طرق الاستفادة للجمهور .

سادساً . ان كل من يرغب الاشتراك في هذه الشركة بما شاء من الاسهم فعليه ان يراجع محلها المركزي الحالي . ليسجل اسمه ويعين مقدار ما يريده من الاسهم . وليقف على ما ينبغي ان يقف عليه من القواعد الاساسية والشروط الاولية .

هذا ما نبادر الآن باعلانه لاخواننا التجار الكرام عامة . وبالله الاعتماد . وعليه تسهيل الامور .

03 The National Company Announcing Subscription to its Shares.

Some historians have cited 1935 as the year the first Saudi joint-stock company was founded, basing the sequence of events on what took place after the

Commercial Law of 1931. However, other historical documents dating back prior to these dates indicate that the idea of a joint-stock company was being considered by the founder King Abdulaziz even before the Kingdom's unification. After the Eastern and General Syndicate obtained an oil concession in 1923, the King began setting the scene for a national joint-stock oil company. On 11th September 1923, King Abdulaziz sent a letter (Document 4) to Prince Abdulaziz Bin Musaed, Governor of Buraydah at the time, in which he encouraged the prince and the people of Buraydah to subscribe to this national company. The letter is as follows:

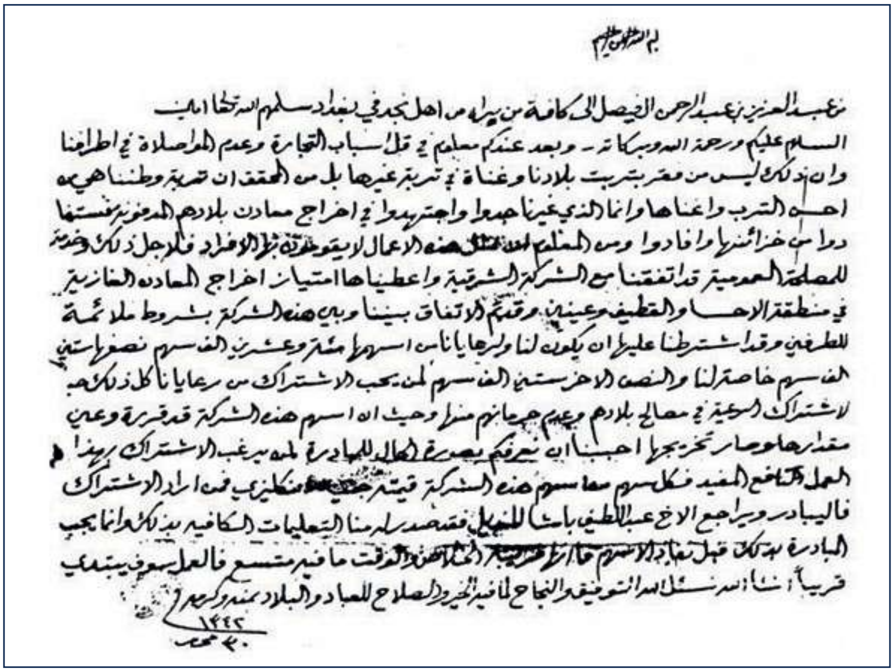
04 A Letter from King Abdulaziz to Prince Abdulaziz Bin Musaed Encouraging the People of Buraydah to Subscribe to Shares of the Saudi Oil Company in 1923.

It noted that buying those shares presented a unique opportunity as a 1 pound share might gain a value of 50 pounds or more in the future. The letter also explained the process of share allocation and subscription to interested citizens.

King Abdulaziz was also keen to ensure that Saudis living abroad could subscribe to the company. The following (Document 5) is a letter on the same matter addressed by the King to the people of Najd who resided in Baghdad at the time.

The letter in detail is shown in the next page:

Other similar events that have been documented corroborate the fact that joint-stock companies were



بسم الله الرحمن الرحيم

من عبد العزيز بن عبد الرحمن الفيصل الى كافة من يراه من اهل نجد في بغداد سلمهم الله تعالى امين
السلام عليكم ورحمة الله وبركاته – وبعد عندكم معلوم في قلة اسباب التجارة وعدم المواصلات في اطرافنا
وان ذلك ليس من فقر بتربة بلادنا وغناه في تربة غيرها بل من المحقق ان تربة وطننا هي من
احسن الترب واغناها وانما الذي غيرنا جدوا واجتهدوا في اخراج معادن بلادهم المدفونة فيستغنوا
[illegible] من خزائنها وافادوا ومن المعلوم ان مثل هذه الاعمال لا يقوم بها الافراد فلاجل ذلك وخدمة
للمصلحة العمومية قد اتفقنا مع الشركة الشرقية واعطيناها امتياز اخراج المعادن الغازية
في منطقة الاحساء والقطيف وعينين وقد تم الاتفاق بيننا وبين هذه الشركة بشروط ملائمة
للطرفين وقد اشترطنا عليها ان يكون لنا ولرعايانا اسهم مئة وعشرين الف سهم نصفها ستين
الف سهم خاصة لنا والنصف الاخر ستين الف سهم لمن يحب الاشتراك من رعايانا كل ذلك حب
لاشتراك الرعية في مصالح بلادهم وعدم حرمانهم منها وحيث ان اسهم هذه الشركة قد قررت وعين
مقدارها وصار تخريجها احببنا ان نعرفكم بصورة الحال للمبادرة لمن يرغب الاشتراك بهذا
العمل النافع المفيد فكل سهم من اسهم هذه الشركة قيمته جنيه انكليزي فمن اراد الاشتراك
فليبادر ويراجع الاخ عبد اللطيف باشا المنديل فقد صدر له منا التعليمات الكافية بذلك وانما يجب
المبادرة بذلك قبل نفاد الاسهم [illegible] الوقت ما فيه متسع فالعمل سوف يبتدئ
قريباً ان شاء الله نسأل الله التوفيق والنجاح لما فيه الخير والصلاح للعباد والبلاد بمنه وكرمه
١٣٤٢
٢٠ محرم

05 A Letter from King Abdulaziz in which he Encourages the People of Najd Residing in Baghdad to Subscribe to the Oil Company's Shares in 1923.

founded during the early days of the formation of the Kingdom.

In January 1926, King Abdulaziz claimed kingship over Hejaz and Najd. At a time when the country was yet to be unified and the annual Islamic ritual of pilgrimage was the main source of revenue for the emerging state, pilgrim vehicle transportation services between the cities of Jeddah and Makkah were introduced, and soon became a vital economic activity for the people of Hejaz.

In March of the same year, the Saudi National Motor Vehicle Joint-Stock Company was founded, making it the first joint-stock company in the era of the Kingdom of Hejaz and Najd and its Dependencies.

12 The Pilgrim Transportation Vehicle in 1926.

2.1.1. The Saudi National Vehicle Joint-Stock Company

On 11th March 1926, King Abdulaziz, as the King of Hejaz and Sultan of Najd and its Dependencies, granted a 20-year concession (Document 6) for founding a vehicle company in the Hejaz region to four prominent businessmen from the Hejaz region: Al-Fadl, Al-Dahlawi, Al-Ammari, and Al-Muslimi. The Royal charter set the company's capital at 30,000 pounds divided into 6,000 shares of 5 pounds each. It also stipulated that it would divide the total shares into two: half for concessionaires, and half for subscription by Saudi citizens within no more than six months of the charter's publication date. Each Saudi citizen was allowed to subscribe to a maximum of ten shares. Concessionaires were permitted upon the end of the six-

صحيفة ٢

أم القرى

امتياز تسيير السيارات

بين جدة ومكة والعمرة

06 The Concession to Operate Vehicles between Jeddah and Makkah and Al-Umrah.

month period to purchase any shares remaining from the citizens' quota. If concessionaires intended to sell them afterwards they were obliged to advertise them in a local newspaper for one month. Saudis were given priority to acquire those shares. If the shares were not fully acquired by citizens, they were to be sold to other Muslims interested in buying them, provided that they abide by the country's provisions that were set for the company. Document 6 shows the Royal agreement on the concession.

This marked the first step towards the notion of shareholding in Saudi Arabia's stock market history following the founding of the Kingdom of Hejaz and Najd and its Dependencies.

The concession document, even back then, contained contemporary concepts and applications, such as disclosure of information, public announcement, invitation to subscribe, and board member elections. It further stipulated the immediate operation of the company and the public announcement of its management system. The company also had to invite Saudis to subscribe to become shareholders. In addition, it provided detailed descriptions of the company's workflow, management, and jurisdictions, all of which was published in local newspapers.

Furthermore, the company's management was to be composed of government representatives, concessionaires, and Saudi and Muslim shareholders, who were to be elected and selected as per the company's bylaw. A year after the concession was made public, Um Al-Qura newspaper, the government's official gazette, published the company's Articles of Association (AoA) in four consecutive issues (from the 150th to the 153rd), starting from 27th October 1927. All in all, the company succeeded in raising capital of 50,000 British gold pounds, divided into 10,000 shares of 5 pounds each. Document 7 shows the first part of the Articles of Association (AoA), including the names of founding shareholders and the number of shares acquired by each shareholder.

أم القرى — صحيفة ٣

النظام الأساسي

للشركة المساهمة السعودية الوطنية

لسير السيارات بالمملكة الحجازية والنجدية .

عقد شركة ابتدائي فيما بين الموقعين المؤسسين للشركة وهم:

١ ـ سمو الامراء
٢ ـ الحاج زينل علي رضا
٣ ـ الشيخ عبد الرحمن باناجه
٤ ـ « ابراهيم بن عبد الله الفضل
٥ ـ « سليمان قابل
٦ ـ « عبد الله الحمد الفضل
٧ ـ « محمد حسين نصيف
٨ ـ الشيخ يوسف قطان
٩ ـ « علي العماري
١٠ ـ « احمد هزازي واولاده
١١ ـ « محمد صالح نصيف
١٢ ـ « محمد بن عبدالله باعشين
١٣ ـ « ابو بكر باغفار
١٤ ـ « احمد باعشن
١٥ ـ « محمد صالح ابو زناده
١٦ ـ « ابراهيم الصنيع
١٧ ـ « محمد صالح البسام

الجميع حجازيون ونجديون ومقيمون بجدة «الحجاز»

المادة الاولى ـ تكوين شركة ابتدائية من الموقعين على هذا بقصد ان يؤسسوا بتصريح ملكي وطبقاً للشروط الملحقة بهذا العقد الموقع عليها منهم والتي هي جزء متمم له شركة مساهمة وطنية تحت عنوان (الشركة المساهمة السعودية الوطنية)

المادة الثانية ـ الغرض من هذه الشركة هو ان تتعاطى العمل ابتداءاً في سير السيارات بالمملكة الحجازية والنجدية لحساب كل مساهم في الشركة المذكورة و لتقوم بما تستطيعه عند الاقتضاء من المشاريع الاقتصادية مثل تسهيل وسائط النقل والانارة وامثال ذلك من وسائل عمران البلاد بحسب ما تقرره الهيئة بعد الاستئذان من الحكومة والموافقة على ذلك .

المادة الثالثة ـ مركز ادارة الشركة و محلها الرسمي جدة و مدة هذه الشركة عشر سنوات تبتدئ من تاريخ صدور المرسوم الملكي بالترخيص لتأسيسها أن لم يطرأ عليها ما يوجب حلها قبل هذا الاجل اولم يتفق على مدها.

المادة الرابعة ـ قد حدد رأس مال هذه الشركة بمبلغ « ٥٠٠٠٠ » خمسين الف جنيه ذهب انكليزي مقسمة على « ١٠٠٠٠ » عشرة آلاف سهم لكل سهم منهم خمسة جنيهات انكليزي ويقر المساهمون أنه قد صار الاكتتاب مباشرة من قبل الموقعين وهم كما يأتي ادناه و بالنمرة الثالثة من هذا ، يقوم بالوكالة عن اعمال الشركة اربعة اعضاء بمكة واثنان بالمدينة وواحد في ينبع و واحد في الطائف وواحد في رابغ كل هؤلاء الاعضاء يصير تعيينهم بنظر مجلس الادارة والجمعية العمومية و تقرر مخصصاتهم بنظر مجلس الادارة وقد تعين مباشرة ضمنا لاعضاء مكة اثنان وهما الشيخ عباس قطان و الشيخ عبد الحميد غستاني و سيصير تعيين الباقين بنظر اعضاء الادارة .

	اسهم عدد	جنيه انكليزي
سمو الامراء	١٠٠٠	٥٠٠٠
الحاج زينل علي رضا	٢٠٠	١٠٠٠
الشيخ عبدالرحمن باناجه	٢٠٠	١٠٠٠
« ابراهيم الفضل	٢٠٠	١٠٠٠
« سليمان قابل	٢٠٠	١٠٠٠
« عبدالله الحمد الفضل	٢٠٠	١٠٠٠
« يوسف قطان	٢٠٠	١٠٠٠
« محمد باعشين	١٦٠	٨٠٠
« ابو بكر باغفار	١٦٠	٨٠٠
« محمد صالح نصيف	١٠٠	٥٠٠
« ابراهيم الصنيع	١٠٠	٥٠٠
« علي العماري	١٠٠	٥٠٠
« احمد هزازي واولاده	١٠٠	٥٠٠
« عبدالرحمن باجنيد	١٠٠	٥٠٠
« محمد صالح البسام	٧٠	٣٥٠
« احمد باعشن	٦٠	٣٠٠
« محمد صالح ابو زنادة	٦٠	٣٠٠

يقوم المكتتبون كل بقدر ما يخصه بدفع جنيهين انكليزي حالا تدفع الى الرئيس ويدفع المساهمون الباقي حسب حاجة الشركة في المواعيد التي يحددها مجلس الادارة بخطاب موقع عليه ويعطى الدفعة الاولى سنداً موقتاً و يبدل عند اتمام التأسيس وتقيد الدفعة الثانية على السند الموقت ولا يمكن لاحد المساهمين ان يطلب من الشركة اسهماً زيادة عما عنده حتى يسدد قيمة الاسهم التي لديه .

المادة الخامسة ـ الشركة لا تزيد اسهمها عن « ١٠٠٠٠ » عشرة آلاف سهم وقد يمكن للشركة تمديد بيع الاسهم الى ثلاثة اشهر من تاريخ صدور المرسوم الملكي بها تخابر شعبها واعلان كل من الجهات اللاتي بها الشعب بمراجعة الاعضاء المعينين من قبل الشركة في الشعب المذكورة بموجب مخابرات ترسل الى رئيس الشركة موقع عليها من طالب المساهمة .

المادة السادسة ـ تقبل الشركة دخول اي مسلم من الرعايا الاجنبية في المساهمة على شرط ان يكون خاضعاً لقوانين الحكومة المحلية وقوانين الشركة .

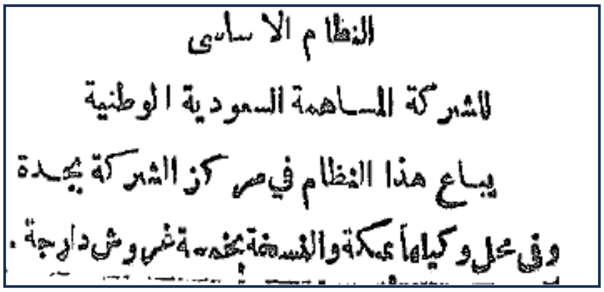
المادة السابعة ـ تكون جميع الاسهم اسمية ويكون جميع المساهمين مسلمين بدون تمييز في الجنسية كما جاء في المادة السادسة واذا طلب احد المساهمين من الجمعية العمومية تحويل اسمه باسماء عدة اشخاص ورأت الجمعية أن لا مانع من ذلك فلها الحق في اجابته على طلبه .

المادة الثامنة ـ لا يكون التنازل عن الاسهم الاسمية الا بواسطة اقرار موقع عليه من المتنازل والمتنازل اليه ويقيد بدفتر الشركة ويصح ان تكون التوقيعات على اقرار تنازل عادي ولكن للشركة الحق في ان تطلب صحة الامضاءات او توقيع الفريقين . كل نقل للاسهم بمقابل كان او بغير مقابل او بسبب الوفاة يجعل للمساهمين حق الاولوية على سواهم في شرائها ويجب ان يكون بمركز الشركة لهذا الغرض دفتر يقرر فيه كل حامل اسهم جديدة اسمه ولقبه ومحل اقامته ويوقع على هذا الاقرار من المتنازل والمتنازل اليه . اما اذا كان النقل بسبب وفاة فعلى حامل السهم الجديد ان يبين السند المثبت لحقوقه وعليه ان يستحضر في ظرف اسبوع من اقراره الاوراق المثبتة لذلك هذا اذا كان حاضراً . اما اذا كان غائباً فتعطى له مدة مناسبة بنسبة المكان الذي هو فيه . ويرسل مجلس الادارة صورة من اقرار النقل لجميع المساهمين مخطراً اياهم بان لديهم خمسة عشر يوماً لاستعمال حق الاولوية فاذا مضت مدة الخمسة عشر يوماً ولم يستعمل احد المساهمين حق الاولوية يصبح النقل للحامل الجديد للسهم نهائياً ويؤشر بذلك في دفتر الشركة . اذا طلب جملة مساهمين بحق الاولوية فيخطر كل منهم بخطاب موقع عليه من مجلس الادارة بان حق الاولوية يثبت نهائياً لمن يقدم اكبر عطاء في ظرف ثمانية ايام ويجب ان يوقع اثنان من اعضاء الادارة على عملية النقل لصاحب الاولوية و يخطر الحامل الجديد للسهم بان الثمن مودع بخزينة الشركة وتطبق هذه القواعد في حالة ما اذا

يتبع

07 Articles of Association (AoA) of the Saudi National Vehicle Joint-Stock Company

to access the full version of the Articles of Association (AoA) at the company's headquarters in Jeddah or through its Makkah-based agent (Document 8).



النظام الاساسي

للشركة المساهمة السعودية الوطنية

يباع هذا النظام في مركز الشركة بجدة

وفي محل وكيلها بمكة والنسخة بخمسة قروش دارجة .

08 An Announcement on Selling Copies of the Articles of Association (AoA) of the National Company to Operate Vehicles.

The concession and related news attracted the attention of several venture capitalists who invested in the company. This exemplified the Saudi investors' response to the needs of their society. The local community rejoiced at the successful incorporation of the company and the event was celebrated in many local newspapers (Document 9 shows the names of final subscribers as published in Um Al-Qura newspaper).

أم القرى

مكة المكرمة

المشتركون

بأسهم الشركة السعودية

جاءتنا من ادارة الشركة المساهمة السعودية الوطنية قائمة بأسماء الذين اشتركوا بأسهمها علاوة على الذين اشتركوا بها ونشرت أسماؤهم في النظام وهم :

عدد الاسهم

١٠٠ السيد عمران حيوني مدينة

١٠٠ الشيخ عمر على برقري واخوانه مكة

١٠ بأسم عائلة الشيخ محمد طيب المرزوقي «

٥٠ الشيخ محمد نور جوخدار جدة

٥٠ « حسن سليم بن عبد الله اسماعيل مكة

٥٠ « عبد الله شيبي «

٥٠ « امين سميا وه «

٨٠ « احمد ارشد «

(دفع قيمة الاسهم تماما عن كل سهم خمسة جنيهات)

٢٠ السيد محمد ابن السيد عمر السقاف من اهالي

٢٠ « ابراهيم « « « « الحجاز مقيمين

٢٠ « احمد « « « « بسنغفورة

٢٠ الشيخ قاري عبد الغفور بن عين الدين مكة

١٠ « عبد الغفور عطار «

١٠ « اكرم خان بن ابراهيم «

٠٥ « واعظ الدين العطار «

٠٥ « منير الدين بن لال البنغالي مكة

٠٤ « عبد الغني بن مبارك رابغ

(دفع قيمة الاسهم تماما عن كل سهم خمسة جنيه)

٠٢ الشيخ حسن غسال مكة

٠٢ « محمد غسال «

٠٣ « محمد حسن عبد الغفور عطار «

٠٣ « محمد سليمان لبان «

٠٢ « محمد لبان «

٢٥ « ابراهيم خربوني مدينة

١٠ « عبد العزيز الحجام «

١٠ « عبد القادر عمر فضل «

٠٥ « عبد العزيز خضر «

٠٣ « ابو السعود حماد «

٠٢ السيد صالح سري «

٠١ الشيخ صالح بن قبلان «

٠١ « صالح بن محمد امام مكة

٢٠ « عثمان باعثمان جدة

٢٥ السيد هاشم سلطان «

٢٠٠ الشيخ اسماعيل امير بك رابغ

٢٠ « حسن قابل جدة

٢٠ « محمد علي قابل «

٢٠ « محمد عبد القادر قابل «

٢٥ « صالح بن عقيل «

٢٥ « حسين باذيب «

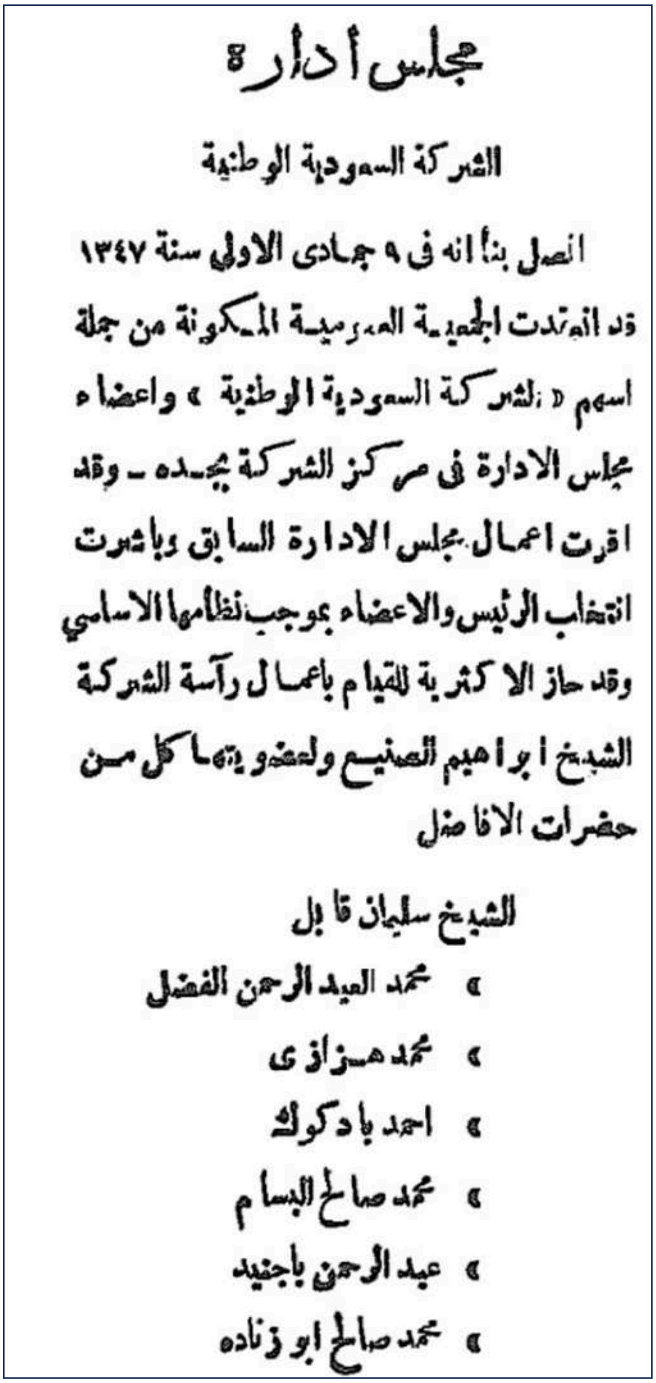
09 Names of shareholders of Saudi National Vehicle Join-Stock Company

Issue 201 of Um Al-Qura reported on the convening of the Saudi National Joint-

Stock Company's General Assembly—composed of shareholders and members of the board of directors – on 9 Jumada I 1347 AH (1928), and the election of Sheikh Ibrahim Al-Sanea as chairman. The following document contains the newspaper article (Document 10).

2.1.2. Commercial Law

Prior to the unification of the Kingdom, there was no law to govern commercial



مجلس أدارة

الشركة السعودية الوطنية

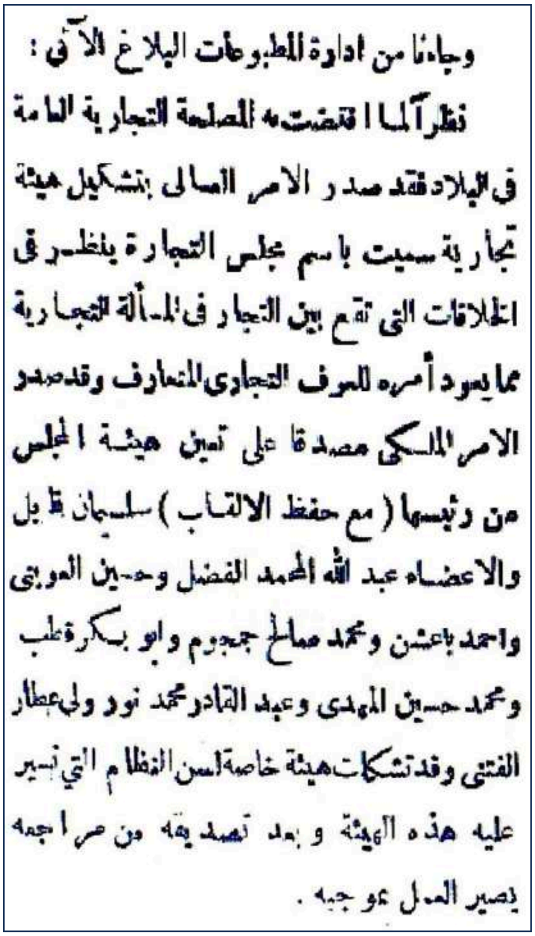
اتصل بنا انه في ٩ جمادى الاولى سنة ١٣٤٧
قد انعقدت الجمعية العمومية المكونة من جملة
اسهم « الشركة السعودية الوطنية » واعضاء
مجلس الادارة في مركز الشركة بجده ـ وقد
اقرت اعمال مجلس الادارة السابق وباشرت
انتخاب الرئيس والاعضاء بموجب نظامها الاساسي
وقد حاز الاكثرية للقيام باعمال رآسة الشركة
الشيخ ابراهيم الصنيع ولعضويتها كل من
حضرات الافاضل

الشيخ سليمان قابل
« محمد العبد الرحمن الفضل
« محمد هزازى
« احمد بادكوك
« محمد صالح البسام
« عبد الرحمن باجنيد
« محمد صالح ابو زناده

10 An Article on the Convening of the General Assembly of the Saudi National Joint-Stock Company in 1928

transactions. Disputes arising between merchants of the Arabian Peninsula were settled according to customary traditions. However, those traditions were formalised into rules when a commercial entity named the Trade Council was formed in 1926 to resolve merchants' disputes. Um Al-Qura newspaper published the news of a Royal Order (Document 11) appointing Mr. Sulaiman Qabel as Chairman of the Council.

Five years later, on 1st June 1931, the Commercial Law was published by Royal Decree No. 32. The Law had four thematic sections: land trade, maritime trade, commercial trials, and litigation fees to be paid before the Commercial Court.


وجاءنا من ادارة المطبوعات البلاغ الآتي :
نظراً لما اقتضته المصلحة التجارية العامة
في البلاد فقد صدر الامر العالي بتشكيل هيئة
تجارية سميت باسم مجلس التجارة ينظر في
الخلافات التي تقع بين التجار في المسألة التجارية
مما يسود أمره للعرف التجاري المتعارف وقد صدر
الامر الملكي مصدقا على تعين هيئة المجلس
من رئيسها (مع حفظ الالقاب) سليمان قابل
والاعضاء عبد الله الحمد الفضل وحسين العويني
واحمد باعشن ومحمد صالح جمجوم وابو بكر قطب
ومحمد حسين المهدي وعبد القادر محمد نور ولي عطار
الفتني وقد تشكلت هيئة خاصة لسن النظام التي تسير
عليه هذه الهيئة وبعد تصديقه من مراجعه
يصير العمل بموجبه .

11 Royal Order on Forming the Trade Council.

The Law defined a company as a contract between two or more parties and specified three types of companies: mufãwada (partnership by reciprocity), 'inãn (limited liability partnership), and mudãraba (profit sharing partnership). Article 14 of the Law explicitly mentioned joint-stock companies and listed them under 'inãn companies: a company of known capital that is divided into shares of equal value, without naming the shareholders, and is managed by selected representatives who can be appointed and dismissed.

Even though the Commercial Law addressed joint-stock companies in a general sense only, it nevertheless shows how early Saudi regulations addressed this concept.

Document 12 is an excerpt of Article 14 of the Commercial Law on joint-stock companies as published in Um Al-Qura newspaper.


أم القرى
النظام التجاري
الباب الاول
التجارة البرية
الفصل الثاني
في الشركات

12 Article 14 of the Commercial Law.

2.1.3. The Arab Vehicle Company

To ensure the proper transportation of pilgrims visiting the Holy city of Makkah, two Royal Decrees were issued on 15th May 1935 (four years after the Commercial Law was passed). These focused on merging vehicle companies under one parent company named the Arab Vehicle Company (AVC).

The first Royal Decree stipulated that AVC should have a dual structure. First, private vehicle companies were merged and run by a director under a general administration of six departments, with one manager assigned to each. Second, government vehicle companies were also merged and run by one director, but the general administration consisted of two departments only (Document 13). The directors of both administrations were responsible for valuing each shareholder's holdings. As for the second Royal Decree, it approved AVC's first elected board of directors as well as the appointment of subsidiary directors.


أم القرى
توحيد
شركات السيارات

13 Royal Decrees on Merging Vehicle Companies.

2.1.4. Increased Establishment of Joint-Stock Companies

As noted earlier, the Islamic rituals of pilgrimage were one of the Kingdom's main sources of revenues, which drove the state to facilitate and improve services offered to Muslim pilgrims. Soon after the discovery of oil, larger businesses began to be established, mostly in the form of general partnerships and limited liability companies. However, the increasing production of oil in commercial quantities led to further developments and infrastructure projects during the twentieth century, which also ushered in an acceleration in founding joint-stock companies.

On 23rd April 1937, the editorial of Um Al-Qura's 646th issue (Document 14) featured news about several successful national companies, some of which were well-known to the public. These included the Arab Company for Savings and Economy, the Printing and Publishing Company, and the Artesian Wells Company. These companies, among others, were founded to address market needs, but more importantly, many of them came about as a response to the Saudi government's development plans. Undoubtedly, the success of those emerging companies within a short period of time paved the way for an era of major economic accomplishments. These initiatives are a testament to the spirit of economic collaboration aimed at elevating the state's stature.

14 An Editorial of Um Al-Qura's 646th Issue Titled 'Our National Companies and Their Successes'.

As joint-stock companies grew in numbers, citizens participated by subscribing to shares. The Arab Savings and Economy Company's first business report (Document 15) was featured in Sawt Al-Hejaz newspaper in 1936. In the report, the management expressed their gratitude for people's interest in the company as 366 shares—one-fifth of the shares—were sold within five months. Moreover, the report stated that the company closed the subscription window to maintain balance in shareholders' profits.

At the same time, the government was encouraging citizens to buy company shares and contribute to state projects. According to an agreement signed between the Saudi government and the Saudi Arabian Mining Syndicate, the latter was granted a mining concession to extract minerals. As part of the agreement, 10% of the Syndicate's capital was to be offered to Saudis for subscription within a month of the announcement. Accordingly, the Saudi Arabian Mining Syndicate Company was founded with capital of 772,000 pounds. In May 1939, the Syndicate published an announcement in Sawt al-

التقرير الأول

لأعمال الشركة العربية للتوفير والاقتصاد

الشركة العربية للتوفير والاقتصاد وليدة شهور، وهي لاتزال في دور التكوين لم تكمل بعد، وهي وان كانت شركة تمثل المصلحة، الا انها لم تخلق كغيرها من الشركات تعتمد على رأس مال ثابت، بل وجدت وشكلت على حساب الأمل، وأخذت تعمل على حساب الأمل أيضاً. والأمل اذا عزز بالجهود والعمل أثمر.

اغراض الشركة

والاغراض الأساسية التي تكونت هذه الشركة لتحقيقها هي: السعي لتوفير النقد بطريقة لايحس بها المشترك فيتكون للمساهم رأس مال من حيث لايشعر، ثم السعي لتنمية هذه الدراهم بطرق التجارة المشروعة ومجلس الشركة سيعنى قبل كل شيء في تجارته بتشغيل الأيدي العاطلة من ابناء هذا الوطن، وبتقوية الصناعات الوطنية وتحسينها. وبالطبع فستعنى الشركة في بداءة عملها بأقرب المشاريع تناولا وسهولة، عملا بسنة التدرج في الأعمال.

أسهم الشركة

وطبقاً للطرق القانونية في الشركات فقد حددت الشركة اسهمها فجعلتها الفي سهم قابلة للزيادة بعد اجراء الطرق القانونية.

قيمة السهم الواحد

وجعلت قيمة السهم الواحد الفين ومائتي غرش دارج يدفع على اجزاء يومية متساوية وجعلت قيمة الجزء اليومي قرشاً واحداً، ولكل فرد الحق في ان يشترك بسهم واحد أو اكثر، وقد راعت في هذا الوضع فتح الطريق لاشتراك الطبقة الفقيرة ومساعدتها على تكوين رأس مال لها بدون جهد ولامشقة.

الاسهم التي تحصلت عليها الشركة

وبالرغم من الصعوبات الجمة التي نشأت في طريق الشركة فانها ثابرت مثابرة جدية فاجتازت تلك الصعاب وتمكنت في هذه المدة البسيطة من السير في طريقها بقدم ثابتة لتحقيق اغراضها؛ فبلغ مجموع أسهم الشركة من غرة جمادى الثانية حتى نهاية سلخ ذي القعدة ثلاثمائة وستة وستين سهماً؛ أي ان الشركة تمكنت في هذه المدة الوجيزة من الحصول على مايقرب من خمس الاسهم الأساسية؛

وطبقا للأصول التجارية في مثل هذه الشركات فقد قفلت الشركة باب الاشتراك في غرة ذي الحجة سنة ١٣٥٤ حتى أول محرم سنة ١٣٥٥ لحفظ توازن ارباح المساهمين

الاقبال على اسهم الشركة

ويسر الشركة ان تعلن اغتباطها على الاقبال العظيم الذي وجدته من الشعب فهي لا تزال تتلقى يومياً طلبات اشتراكات جديدة؛ وتؤمل الشركة ان اسهمها ستغطى قبل انتهاء مدة الاشتراك القانونية

وارد الشركة من الاسهم

اما مجموع قيمة الاجزاء اليومية للثلاثمائة والستة والستين السهم التي تحصلت عليها الشركة في مدة الستة الشهور فهي:

غرش دارج	
٧٦٨٦٠	مجموع قيمة ٣٦٦ سهما
٧٦٠٨٠	الوارد منها
٧٨٠	الباقي ديون طرف خمسة مساهمين

ارباح الشركة

وبالرغم من ان المدة الماضية للشركة تعتبر في العرف التجاري مدة تأسيسها وبالرغم من عدم وجود المال الكافي للشركة في اول العمل، فان الشركة اخذت تعمل بطرق التجارة المشروعة لتنمية ما تجمع لديها من قيمة اجزاء اسهم المشتركين اولا فاولا فوفقت بفضل الله تعالى ثم بجهود مجلس الادارة من الحصول على الربح الآتي:

غرش دارج	
٩٨٨٧	مجموع ارباح الشركة
٤٩٤ ١/٤	حسم ٥ ٪ برسم اعانة للاعمال الخيرية
٩٣٩٢ ٣/٤	الباقي
٩٨٨ ٣/٤	حسم ١٠ ٪ لمجلس الادارة لقاء اتعابه
٤٨٠٤	الباقي صافي الارباح

اي باعتبار ان حصة السهم الواحد من الارباح اثنان وعشرون غرشا دارجا وثمانية وثلاثون بارة ونصف. وقد قرر مجلس الادارة تقديم اعانة الاعمال الخيرية في هذا العام (لجمعية الاسعاف ودار العجزة والايتام بمكة) مناصفة.

15 The First Business Report of the Arab Savings and Economy Company.

Hejaz newspaper, declaring that it was offering 2,187 shares to citizens at a subscription rate of 30 pounds per share.

The attached document (Document 16) shows an invitation to subscribe to the shares of the Syndicate.

بيان

عن اسهم شركة التعدين

العربية السعودية

تعلن وزارة المالية لرعايا حضرة صاحب الجلالة ملك المملكة العربية السعودية المعظم بانه بناءاً على الاتفاق الموقع بين حكومة جلالته ونقابه التعدين العربية السعودية بتاريخ ١٧ رمضان ١٣٥٣ الموافق ٢٣-١٢-١٩٣٤) قررت النقابة المذكورة الان استغلال منجم مهد الذهب الذي احتفظت به في المنطقة التي منح لها الامتياز فيها بموجب تلك الاتفاقية وخصصت لاستغلاله سبعمائة واثنين وسبعين الف جنيه استرليني ، ولما كانت الاتفاقية تنص على وجوب عرض عشرة في المائة من أسهم الشركة المستثمرة على رعايا حكومة حضرة صاحب الجلالة الملك المعظم للاشتراك فيها في مدة شهر من تاريخ نشر الاعلان عنها فان الفين ومائة وسبعة وثمانين سهما من الاسهم التاسيسية لنقابة التعدين العربية السعودية معروضة لهم الآن أي لرعايا حكومة جلالته فقط للاشتراك فيها بواقع ثلاثين جنيها استرلينيا للسهم الواحد ويجب تقديم الطلبات من راغبي الاشتراك الى وزارة المالية ضمن مظروف مسجل ومعنون باسم وزير المالية ومصحوب بقيمة الاسهم التي يريد الاشتراك فيها ويعطى لكل طالب سندا من وزارة المالية بالمبلغ المقبوض منه وترسل له الوزارة بيانا مطبوعا ليملأه ويضع عليه شاهدا ثم يعيده الى الوزارة وعند تأليف الشركة المستثمرة تستبدل اسهم نقابة التعدين العربية السعودية باسهم من الشركة بنسبة ثمانين سهم شركة من ذات قيمة اسمية قدرها خمسة شلنات استرلينية لكل سهم من اسهم النقابة التأسيسية وتقدم الشركة شهادات تلك الاسهم الى اربابها من الرعايا العرب السعوديين بنفس الكيفية التي تعامل بها المساهمين الآخرين الذين يحملون أسهم النقابة ، ان مدة بقاء هذا العرض مفتوحا هي ثلاثون يوما من تاريخ نشر هذا الاعلان وبعد مضي الثلاثين يوما المذكور تقفل النقابة أبواب قبول تلك الطلبات وبذلك تنتهي الاكتتابات .

٩-٤-٣٥٨ ١-٨

16 An Invitation to Subscribe to the Shares of the Saudi Arabian Mining Syndicate.

share certificate for the Saudi Arabian Mining Syndicate issued in 1948.

17 A 1948 Share Certificate for the Saudi Arabian Mining Syndicate Limited.

2.1.5. Electricity Companies

The electricity sector also played an important role in developing the notion of shareholding as the state encouraged the private sector to form joint-stock electricity companies. In 1933, the Power Generation Industry Concession Law was issued, and local investors' response was positive. Two years later, in 1935, Muhammad Abdullah Reda and Ibrahim Shaker established the Jeddah Electricity Joint-Stock Company with capital of 15,000 pounds divided into 15,000 shares. In 1946, Ibrahim Juffali and his brothers founded the Taif Electricity Company, and in 1947 Sheikh Abdulaziz alKhuraiji founded the Saudi Electricity Generation Company in Madinah.

In Riyadh, the Saudi National Electricity and Economy Company was established in 1946 with a capital of SAR 5 million and shares were made available for subscription at SAR 100 each. The following document (Document 18) shows the announcement of the establishment of the company in Um Al-Qura's 1100th issue, dated 29th March 1946.


انى سنة ١٣٦٥ — الموفق ٢٩ مارس سنة ١٩٤٦)

الشركة الوطنية السعودية

للكهرباء والاقتصاد بالرياض

بحمد الله وحسن توفيقه ثم برعاية حكومة حضرة صاحب الجلالة الملك المعظم ومساعداتها القيمة قدعزمنا بحول الله وقوته على تأسيس شركة مساهمة كبرى تحت عنوان (الشركة الوطنية السعودية للكهرباء بالرياض) وقد صدر الامر العالى الكريم بالموافقة على ذلك وصار العقد فيما بيننا نحن المدرجة اسماؤهم ادناه على تأسيس هذه الشركة ان شاء الله والغرض منها ان تقوم بالعمل مبدئيا لجلب مكاين للنور والطحن اللازمين للبلاد لحساب كل مشترك وان تقوم بما تتطلبه البلاد من المشاريع الاقتصادية المفيدة للبلاد بعد الاستئذان من الحكومة وموافقتها على ذلك وقد رأينا وضع هذه التعليمات الآتية للتمشى عليها موقتا ريثما يوضع للشركة نظامها الخاص ويتم عرضه على الحكومة .

١ — ادارة الشركة ومركزها ومحلها الرسمى الرياض ومدة هذه الشركة مائة سنة ابتداء من غرة شهر ربيع الثانى سنة الف وثلاثمائة وخمسة وستين مالم يطرأ عليها ما يوجب حلها قبل هذا الاجل .

٢ — حدد قيمة السهم الواحد من اسهم الشركة بمائة ريال .

٣ — للمشترك ان يشترى من واحد الى مائة سهم ولا يجوز له مشترى اكثر من مائة سهم من اسهم الشركة .

٤ — يقوم بالوكالة لتلق رسائل المساهمين سعد بن عبد العزيز بن يحيان وأعضاء المجلس وهم عبد الله بن عبد العزيز بن حسن ، سعد التخيفى ، سليمان بن عبد العزيز ابن مقيرن ، حسن بن محمد بن حسينان ، راشد ابو نيان ، سعد بن يحيان ، حسن بن قباع محمد بن عبد العزيز النمر ، صالح بن يحيان ، محمد بن عبد القادر نيابة عن أخيه صالح محمد بن سيار ، سليمان بن غنيم ، ابراهيم الخيال وذلك ريثما يصدر النظام الخاص ويؤسس مجلس ادارى وجمعية عمومية .

٥ — نعلن ذلك للعموم وعلى كل من يرغب المساهمة فى هذه الشركة من رعايا المملكة العربية السعودية فعليه أن يبادر لمراجعة القائم باعمال الشركة أو واحد من الاعضاء أو أمين الصندوق علي بن عبد الله بن خميس لحجز مقدار الاسهم التى يرغب الاكتتاب بها على أن يكون باب الاكتتاب مفتوحا مالم تنفذ اسهم الشركة .

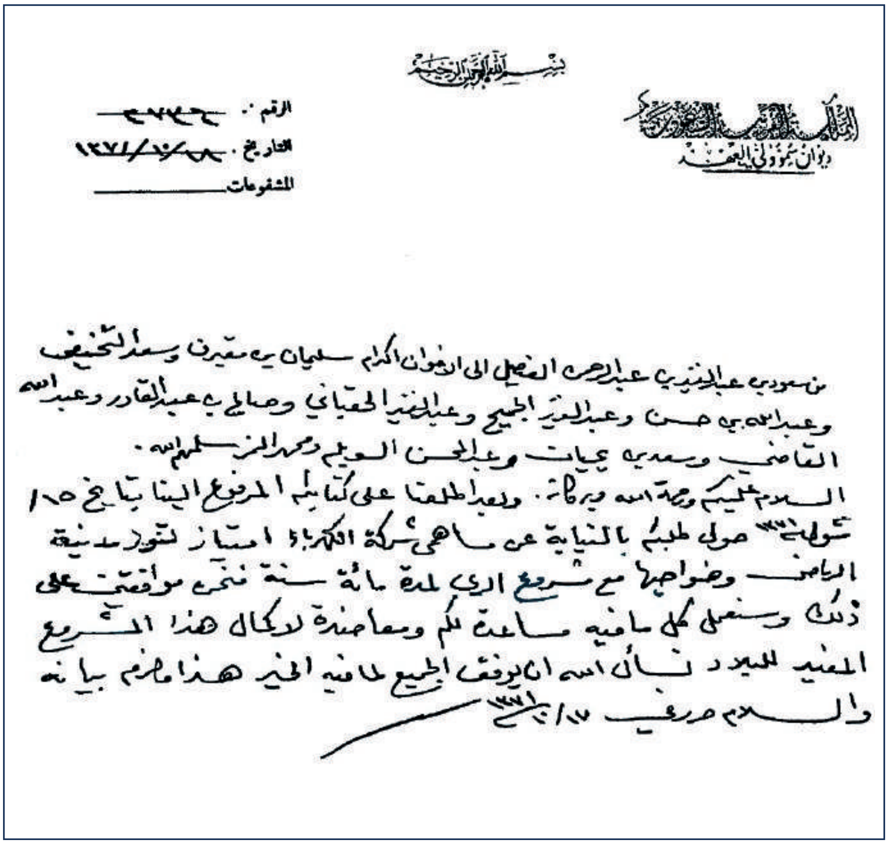
٦ — يتعهد كل مساهم أن يدفع خمس قيمة الاسهم لصندوق الشركة حالا والباقى يدفعه عند ما تطالبه الشركة بدون تأخير وعلى هذا صار الاعلان وبالله التوفيق .

رئيس الشركة

سعد بن عبد العزيز بن يحيان

18 The Establishment of the Saudi National Electricity Company in Riyadh in 1946.

In 1951, King Saud Bin Abdulaziz—then Crown Prince—granted the Saudi National Electricity and Economy Company a concession for lighting the city of Riyadh and surrounding suburbs. Document 19 shows the concession letter dated 10th July 1952.



بسم الله الرحمن الرحيم

المملكة العربية السعودية
ديوان سمو ولي العهد

الرقم: [illegible]
التاريخ: [illegible]/١٣٧١
المشفوعات: ______

من سعود بن عبدالعزيز عبدالرحمن الفيصل الى الاخوان الكرام سليمان بن مقيرن وسعد التخيفي وعبدالله بن حسن وعبدالعزيز الجميح وعبدالعزيز الحقباني وصالح بن عبدالقادر وعبدالله القاضي وسعد بن عياف وعبدالمحسن العوهلي ومحمد المزيني سلمهم الله.

السلام عليكم ورحمة الله وبركاته. وبعد اطلعنا على كتابكم المرفوع الينا بتاريخ ١٠/٥ شوال ١٣٧١ حول طلبكم بالنيابة عن مساهمي شركة الكهرباء امتياز لتنوير مدينة الرياض وضواحيها مع مشروع الري لمدة مائة سنة نخبركم موافقتنا على ذلك وسنعمل كل ما فيه مساعدة لكم ومساعدة لإكمال هذا المشروع المفيد للبلاد نسأل الله ان يوفق الجميع لما فيه الخير هذا ما لزم بيانه والسلام حرر في ١٧/١٠/١٣٧١

19 A Letter Granting a Concession for Lighting the City of Riyadh to the Saudi National Electricity and Economy Company.

On 8th August 1952, news of the granted concession (Document 20) was published in the 1424th issue of Um Al-Qura newspaper. Sheikh Fahd Kraidees was selected to serve as chairman of the board of directors. Moreover, the company's paid-up capital amounted to SAR 3.5 million following public subscription.

عناية سمو ولي العهد المعظم
بالشؤون الحيوية في البلاد
تشجيع سموه لمشروع انارة الرياض بالكهرباء

جاءنا من مراسلنا بالرياض ما يلي :
بالنظر لما تمتاز به مدينة الرياض من أهمية كبرى كعاصمة يقيم فيها عاهل البلاد المفدى وسمو ولي عهده المعظم ولما عرف عن سمو ولي العهد المحبوب من اهتمام بالغ بالمدينة العظيمة وحرصاً على النهوض بها في كافة مرافق الحياة كما يظهر لنا من المشاريع النافعة التي حققها ويحققها سموه دائماً بعاصمة آبائه وأجداده وبالنظر لكل ذلك تقدم نفر من أبناء الوطن المخلصين الى مقام سموه المعظم ملتمسين السماح لهم بانشاء كهرباء عمومية لانارة مدينة الرياض فما كان من سموه أطال الله حياته الا انه رحب بالفكرة وباركها وشكر للملتمسين مساعيهم النبيلة التي يهدفون من ورائها الى خدمة بلادهم وأظهر لهم سموه استعداده لتقديم كل ما تحتاجه الشركة من مساعدات سواء من جانب سموه شخصيــــــاً او من جانب الحكومة ومنحها امتياز تأسيس الشركة وأصدر أمره الكريم باعطاء الشركة المساحة الكافية لاقامة بنايات المحطة عليها واعفاء جميع ما تستورده الشركة من معدات لغرض نفسه من الرسوم وقد اجتمع المؤسسون على أثر ذلك حيث قرروا بعد ان شكروا لسمو ولي العهد المعظم ما حباهم من عطف وتشجيع شأن سموه في كل عمل يهدف لخير البلاد واصلاحها ـ قرروا أن يكون رأس مال الشركة خمسة ملايين من الريالات وأن يكون قيمة السهم مائة ريال كما قرروا اختيار الشيخ فهد بن كريديس رئيس مجلس الادارة وأما الاعضاء فسيتم اختيارهم فيما بعد وما ان علم الناس بتأسيس الشركة حتى بادروا باقبال كبير على شراء أسهمها وقد بلغ مجموع ما استلم أمين صندوق الشركة حتى كتابة هذه الرسالة ثلاثة ملايين ونصف من الريالات ولا يزال الاقبال على شراء الاسهم في ازدياد مستمر وتعمل الشركة في جد ونشاط وتشجيع من سمو ولي العهد المعظم على استكمال جميع الوسائل اللازمة التي تساعد على انجاز العمل وانارة المدينة في أقرب وقت ممكن وفق الله الرجال العاملين وحباهم ما هم أهله من كريم الجزاء وحفظ الله سيد البلاد الاول وسمو ولي عهده المحبوب ذخراً للبلاد حتى يبوآنها المكان اللائق بها بين أمم المعمورة .

20 An Article on Granting the Saudi National Electricity and Economy Company the Concession for Lighting the City of Riyadh.

These events led to the creation of more power companies that served the Kingdom's major cities, such as the National Electricity Company, and the electricity companies of Dammam, Jeddah, Makkah, and Madinah. Since these private joint-stock companies sought primarily to make profits, electricity tariffs were subject to supply and demand. As a result, the Ministry of Commerce's Electricity Department opted to encourage investment in the electricity sector and adopt the Council of Ministers' Resolution (issued on 14th January 1972) on reducing normal consumption tariffs in the Kingdom's major cities. Moreover, the Electricity Department approved the provision of subsidies to electricity companies operating in those cities, thus enabling them to distribute 7% of their capital as dividends. On 7th August 1974, Council of Ministers' Resolution 1020 (Document 21) standardised consumption tariffs in all cities across the country, which raised the guaranteed dividends backed by state subsidies to 15%.

These developments eventually led to mergers of small-sized electricity companies, particularly after the establishment of the Ministry of Industry and Electricity pursuant to Royal Decree A/236 on 13th October 1975. Mergers happened as follows:

- The Consolidated Saudi Electricity Company of the Eastern Province was founded in 1976 after merging 26 small-sized companies in the region. The company had capital of SAR 5 billion divided into 50 million shares with a total of 6,330 shareholders.

حكمة العدد

بسم الله الرحمن الرحيم

قال الله تعالى :

(يا ايها الذين آمنوا اتقوا الله وابتغوا اليه الوسيلة وجاهدوا في سبيله لعلكم تفلحون) .

صدق الله العظيم

أوقات الفريضة

السنة الثانية والخمسون ـ العدد ٢٥٣٧ الثمن قرش سعودي واحد « يوم الجمعة ٢٨ رجب ١٣٩٤ هـ ـ الموافق ١٦ أغسطس ١٩٧٤ م »

قرار من مجلس الوزراء بتخفيض التعرفة الكهربائية

قرر مجلس الوزراء بقراره رقم ١٠٢٠ وتاريخ ١٩ـ٢٠/٧/٩٤ هـ مايلي :

ان مجلس الوزراء تنفيذ للأهداف الرامية الى تحقيق كل ما من شأنه توفير الرخاء والازدهار وتقليل الصعاب التي تعترض سبيل الحياة المعيشية بسبب موجة الغلاء التي تعم جميع انحاء العالم ولما انعم الله به على هذه البلاد من خيرات يقرر ما يأتي :

١ ـ تخفيض تعرفة الاستهلاك العادي للكهرباء في جميع مدن وقرى المملكة الى سبع هللات لوحدة الطاقة وتخفيض تعرفة الاستهلاك الصناعي الى خمس هللات .

٢ ـ يعمل بهذا التخفيض ابتداء من غرة شهر شعبان ١٣٩٤ هـ .

٣ ـ يطبق بشأن الاعانة التي تقدمها الدولة لشركات الكهرباء ونسب الارباح التي تضمنتها لها قرارات مجلس الوزراء رقم ١٠٩٩ وتاريخ ٣٠ـ١١ـ٩٦ ؛ ورقم ٧٣٩ وتاريخ ١٩ـ٦ـ٩٣ ورقم ١١١٥ وتاريخ ٢١ـ٢٢/٩/٩٣ هـ المعدل بالقرار رقم ٨٣٣ وتاريخ ١٣/٦/٩٤ هـ ورقم ١٢٢٤ وتاريخ ١٢/١٠/٩٣ هـ ورقم ١١٦٣ وتاريخ ٩ـ١٠ـ٩٣ هـ وفي حالة ثبوت احتياج الشركات الى قروض طويلة او متوسطة المدى بالتوسع تتقدم الشركات بطلب القروض اللازمة من صندوق التنمية الصناعية .

اصدرت وزارة المالية والاقتصاد الوطني البيان التالي :

ان بما افاء الله به على وطننا العزيز من نعمه التي لا تحصى يستوجب منا جميعا اداء ما أوجبه الله علينا والتمسك بعقيدتنا السمحاء والدفاع عنها وابلاغها بكل الوسائل ، ورغبة من جلالة الملك المعظم في ايجاد مزيد من الرفاهية والخير للمواطنين فقد صدرت الموافقة السامية على قرار مجلس الوزراء رقم ١٠٢٠ وتاريخ ١٩ـ٢٠ ـ ٧ ـ ٩٤ الذي نص على مايلي :

أولا ـ الغاء ضريبة الطرق .

ثانيا ـ فيما عدا مايتعلق بحماية الصناعة الوطنية فقد الغيت بعض الرسوم الجمركية وخفض الباقي جميعه ووحد في فئة واحدة هي ٣٪ لكافة المستوردات كما الغيت العوائد الفرعية المقررة بنسبة ١٠٪ من الرسوم على جميع السلع المستوردة .

ثالثا ـ الغاء رسم الاستهلاك على بعض المنتجات البترولية وتخفيض أسعارها بحيث ادى ذلك الى تخفيض أسعار البنزين العادي بحوالي ٤٤٪ والبنزين الممتاز ٣٨٪ والكيروسين مالا يقل عن ١١٪ ووقود الطائرات ٦ر٤١٪ والديزل مالايقل عن ٥٠٪ وغاز البترول ٦ر١٠٪ وقد تم توحيد السعر لجميع المنتجات المذكورة في مناطق المملكة التي لايوجد بها محطات توزيع لتلك المنتجات المذكورة بغض النظر عن تكلفة انتقالها مما يحمل الخزينة عبئا اكبر وقد كلفت كل من وزارتي البترول والتجارة بتحديد سعر البيع بالتفرقة للمحطات كما كلفت وزارتا الداخلية والتجارة بمراقبة أسعار البيع للجمهور في المحطات بموجب هذا التحديد ونأمل بإذن الله ان يكون في ازالة عبء هذه الضرائب والرسوم انعكاسا مباشرا في الاسواق مما يخفف على المواطنين اعباء الحياة كما نأمل ان يكون في ازالة الرسوم المفروضة على المنتجات البترولية وتخفيض أسعارها وتوحيدها مايساعد المزارعين والعاملين في صناعة النقل على تحقيق تقدم كبير في هذين القطاعين .

رابعا ـ كلفت لجنة التموين بمجلس الوزراء باعانة الادوية ، والحليب ومشتقاته واللحوم المذبوحة والزيوت النباتية وزيوت الطعام الى قائمة المواد المعانة وتحديد أسعارها وقد اعتمدت المبالغ اللازمة لذلك .

خامسا ـ بالاضافة الى انشاء صندوق التنمية العقاري الذي قصد منه مساعدة المواطنين على بناء مساكن لهم بقروض طويلة الاجل فقد تقرر أن يستعيد الصندوق من هذه القروض ٥٠٪ فقط وتدفع الدولة ٢٠٪ منه زيادة في تيسير الحياة للمواطنين واعانة مباشرة منها في مجال التعمير .

ويتضح من استقراء هذه المجموعة من القرارات أن الحكومة قد استهدفت تيسير سبل العيش للمواطنين وذلك بتخفيض تكلفة المعيشة لهم اما بالغاء الضرائب والرسوم أو به مع المعونة المباشرة من الدولة لبعض المواد كالغذاء والدواء .

وهي واثقة من تعاون المواطنين في القطاعات الصناعية والتجارية في أن يسود التراحم ابناء هذا الوطن حتى تنعكس آثار هذه القرارات سريعة وفعالة بشكل يجعل زيادة الانتاج اثرا مباشرا لها وحتى يكون لمشروعات التنمية الكبرى التي هي تحت التنفيذ الآن او في طور الاعداد معنى يحق لهذا البلد أن يفخر به .

21 Council of Ministers' Resolution on Reducing Electricity Tariffs.

- The Consolidated Saudi Electricity Company of the Central Province was founded in 1979 after merging 36 small companies in the region. The company had capital of SAR 8 billion, with 80 million shares that were divided among the government (77%), the general public (20.5%), and corporations (2.5%).
- The Consolidated Saudi Electricity Company of the Southern Province was founded in 1979 after merging 21 small companies in the region. The company's capital was SAR 4 billion, with 40 million shares divided between the government (98.5%) and the general public (1.5%).
- The Consolidated Saudi Electricity Company of the Western Province in 1981 after merging 12 small companies in the region. The company had capital of SAR 8 billion and 80 million shares in total.
- These events took place alongside the Saudisation of banks in the Kingdom, a topic that will be discussed later in this chapter. As a consequence, citizens became increasingly interested in stock ownership, which eventually led to the emergence of brokerage activities.

2.1.6. Gypsum and Cement Companies

On 5th October 1956, Royal Decree 5/5/583 granted Al-Nasr Gypsum Industries Company a 50-year concession (Document 22) to mine gypsum in the Najd region at specific mining sites.

However, Al-Nasr Company later ceded the concession to the National Gypsum Company, a Saudi joint-stock company established on 30th April 1959, with a capital of SAR 12 million divided into 300,000 shares each valued at SAR 40 riyals, under a Royal Decree (Document 23) stipulating that half of its shares were to be offered for public subscription.

Additionally, cement companies also flourished during the same period due to urbanisation and major state development projects that were underway. In 1957, the Arab Cement Company was founded in Jeddah by virtue of Royal Decree No. 731 issued on 6th January 1955.

Moreover, the Saudi Cement Company was established in 1955, and was merged with the Saudi Bahraini Cement Company on 1st January 1992. Following the merger, the Saudi Cement Company became the largest national joint-stock company for cement production, with two factories in the Al-Ahsa governorate's towns of Al-Hofuf and Ain Dar.

Another joint-stock cement company was Al-Yamamah Cement Company, which was founded

منح شركة النصر لصناعات الجبس

امتياز استغلال الجبس بمنطقة نجد

مرسوم ملكي كريم

اذاعت المديرية العامة للاذاعة والصحافة والنشر المرسوم الملكي الكريم الآتي وهو برقم ٥/٥/٥٨٣ :

بعون الله تعالى

نحن سعود بن عبد العزيز

ملك المملكة العربية السعودية

بعد الاطلاع على الالتماس المقدم من شركة النصر لصناعات الجبس لمنحها امتياز استغلال الجبس بمنطقة نجد الخامات الموجودة بها لمدة خمسين عاما وعلى قرار مجلس الوزراء رقم ١٣٧ وتاريخ ٤/١١/٧٥ وبناء على ما عرضه علينا رئيس مجلس وزرائنا .

رسمنا بما هو آت :

المادة الاولى – تمنح شركة النصر لصناعات الجبس امتياز استغلال الجبس في منطقة نجد لمدة خمسين عاما على ان تحدد مواقع الاستغلال وان تعطى الشركة جميع التسهيلات التي تقررت لشركة الاسمنت في المنطقة الشرقية .

المادة الثانية – يؤذن لوزير المالية في التعاقد مع الشركة المذكورة على شروط هذا الامتياز

المادة الثالثة – على رئيس مجلس وزرائنا تنفيذ مرسومنا هذا ويعمل به من تاريخه

صدر عن قصر الحمراء بالرياض في غرة شهر ربيع الاول عام ١٣٧٦هـ .

التوقيع الملكي الكريم

سعود

22 The Concession Granted to Al-Nasr Gypsum Industries Company.

مرسوم ملكي كريم

بتأسيس شركة مساهمة عربية سعودية تسمى

(شركة الجبس الأهلية)

23 Royal Decree on Establishing the National Gypsum Company.

in 1956 with a capital of SAR 25 million. The founding partners of the enterprise owned 51% of shares while the other 49% were offered for public subscription. Image 13 shows the early stages of construction of the company's cement factory.

13 **An Image Taken in 1956 Documenting the Construction of Al-Yamamah Cement Company's Factory.**

2.1.7 Gas Companies

One of the earliest joint-stock gas companies in the Kingdom was the National Gas and Industrialisation Company, the story of which was told by the prominent businessman Fahd Al-Thunayan. According to Al-Thunayan, two joint-stock gas companies were founded in the cities of Riyadh and Dammam around the same time. The Riyadh-based company was an initiative by the late Prince Fahd Bin Faisal Al-Farhan, Mayor of Riyadh at the time, who successfully secured shareholder investments. The Dammam-based company, located in the Eastern Province, was founded by the late Suliman Saleh Al-Olayan (Image 14).

While the Dammam-based company enjoyed lower transportation costs given its proximity to production zones, such costs were considerable for the Riyadh-based company. As a result, consumers suffered from high prices in both regions and investors did not achieve their desired profits.

14 **Mr. Al-Olayan in front of a Gas Tanker. Taken in 1953.**

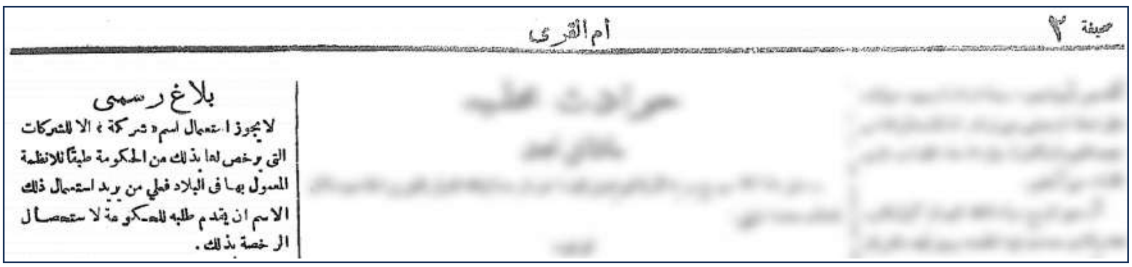
After consumers and investors expressed their frustration with rising prices and low investment returns, the matter was raised before the late King Saud with a suggestion to merge both companies to balance financial burdens and reduce costs to both consumers and investors.

Soon after, the King sent Prince Fahd Bin Faisal a letter addressed to the Governor of the Eastern Province at the time Prince Saud Bin Jalawi. The letter stated that a delegation of 52 shareholders from the Riyadh-based gas company was planning a visit to discuss the merger with Suliman Saleh Al-Olayan, chairman of the Eastern Province Gas Company. During the visit, the parties had a meeting where they reached an agreement on the terms of the merger, leading to the birth of the National Gas and Industrialisation Company in 1963.

2.2. Regulating Joint-Stock Companies

As companies in joint-stock form began to gain ground in the Kingdom, it became clear that there was yet to be a government entity dedicated to regulate these companies. However, since the government led most joint-stock initiatives at the time, the issue was tackled early on—even before relevant laws on licensing and trading were passed—by issuing a Royal Order pertaining to their establishment, as was the case with the Saudi National Motor Vehicle Joint-Stock Company. Moreover, the Royal Order referred to a business licence as a "concession", which had to be obtained before launching a joint-stock company.

On 16th September 1927, Um Al-Qura newspaper, in its 157th issue, published an official announcement (Document 24) stating the following: "The designation 'company' may only be used for companies licensed by the government, in accordance with the country's laws in force. Hence, whoever wishes to use this designation must file an application to the government to obtain the licence." The statement was issued as it was common at the time for everyone working in transporting passengers to refer to their work as a motor vehicle company. To avoid confusing the public, whoever owned an actual company was required to file for a licence to obtain the designation.


صحيفة ٣

أم القرى

بلاغ رسمى

لا يجوز استعمال اسم « شركة » الا للشركات التى يرخص لها بذلك من الحكومة طبقاً للانظمة المعمول بها فى البلاد فعلى من يريد استعمال ذلك الاسم ان يقدم طلبه للحكومة لاستحصال الرخصة بذلك .

24 A Government Statement Prohibiting the Use of the Term 'Company' without a Licence.

Despite the early adoption of joint-stock companies, their modern-day concepts did not crystallise until the mid-1960s, particularly after enacting the Companies Law under Royal Decree M/6, issued on 21st July 1965. This Law expounded on various company types. Moreover, most articles (from 48 to 188) were dedicated to joint-stock companies while others had shared provisions applicable to other types of companies (from 189 to 234). However, the Law did not address trading shares, which means that shares, just like other commodities traded in the 1960s, were governed by the general rules of Saudi law.

When first enacted, the Law defined a company as "a contract under which two or more persons undertake to participate in an enterprise for profit, by contributing a share in the form of money or work, with a view to dividing any profits (realised) or losses (incurred) as a result of such enterprise." Moreover, Part 5 of the Law stated that the capital of a joint-stock company was to be divided into tradable shares of equal value, and that members were responsible only to the extent of the value of their shares. Furthermore, the number of shareholders was set to be no less than five[1] (Document 25).


الرقم م/٦
التاريخ ١٣٨٥/٢/٢٢هـ

بعون الله تعالى

نحن فيصل بن عبد العزيز آل سعود

ملك المملكة العربية السعودية

بعد الاطلاع على قرار مجلس الوزراء رقم ١٨٥ وتاريخ ١٧/٢/١٣٨٥هـ .

وبعد الاطلاع على المادة (١٦) من نظام مجلس الوزراء الصادر بالمرسوم الملكي

رقم ٣٨ وتاريخ ٢٢ شوال عام ١٣٧٧هـ .

نرسم بما هو آت :-

اولاً — الموافقة على نظام الشركات بالصيغة المرافقة لهذا .

ثانياً — على نائب رئيس مجلس الوزراء ووزير التجارة والصناعة تنفيذ مرسومنا هذا ...

25 Royal Decree M/6 Ratifying the Companies Law of 1965.

1 The Companies Law of 1965 was repealed and replaced with the Companies Law of 2015 by virtue of Royal Decree M/3 on 10th November 2015.

2.3. Public Investment Fund (PIF)

By the early 1970s, the Saudi government had created projects that were commercial in nature as the state aimed at national economic development. The country's leadership realised that these projects could not be carried out by the private sector, mostly due to a lack of capital or expertise. Consequently, the state founded several public institutions to develop Saudi infrastructure. In order to finance state development projects and future projects, the government considered the establishment of a special fund.

His Excellency Mohammed Abalkhail, Minister of Finance at the time, recounts that Petromin Corporation reached out to the Ministry of Finance and submitted a proposal for building the East-West Crude Oil Pipeline. Given the importance and commercial nature of the project, which was greatly different from public ones, an idea to finance the undertaking through an independent investment account was put forward, leading eventually to the creation of the Public Investment Fund (PIF).

On 16th August 1971, Royal Decree M/24 (Document 26) ratified the PIF Law, announcing the PIF as an entity responsible for financing projects of strategic economic value for the county, which were limited to commercial projects as per the Law's second article. Additionally, the PIF Law stated that a board of directors was to be appointed and tasked with assessing the feasibility of potential projects submitted by government entities or public institutions.

الرقم – م/ ٢٤

التاريخ – ١٣٩١/٦/٢٥هـ

بعون الله تعالى

نحن فيصل بن عبدالعزيز آل سعود

ملك المملكة العربية السعودية

بعد الاطلاع على المادة (١٩) من نظام مجلس الوزراء، الصادر بالمرسوم الملكي رقم (٣٨) وتاريخ ١٣٧٧/١٠/٢٢هـ.

وبعد الاطلاع على قرار مجلس الوزراء رقم (٤٦٨) وتاريخ ٢٤/١٥ /٦/١٣٩١هـ.

رسمنا بما هو آت :-

اولا – الموافقة على نظام صندوق الاستثمارات العامة المرافق لهذا المرسوم.

ثانيا – على نائب رئيس مجلس الوزراء، ووزير المالية والاقتصاد الوطني تنفيذ مرسومنا هذا...

26 Royal Decree M/24 Ratifying the PIF Law.

The PIF was founded to drive the growth of joint-stock companies by facilitating investment projects with the potential of furthering economic development. Petromin's East-West Pipeline initiative crystallised the state's desire for investment-driven projects. Moreover, the PIF allowed state officials to support the private sector further through financing instead of subsidies. The PIF played a major role in financing some of the country's vital projects in various sectors, such as oil and mining, agricultural fertilisers, petrochemicals, electricity, and transportation.

2.4. Saudization of Foreign Bank Branches

Banks are an integral part of any national economy as they play a major role in providing funds for enterprises and individuals. As Saudi Arabia developed and oil became its primary source of revenue, the Saudi Arabian Monetary Agency (SAMA) strove to offer modern banking services by facilitating the establishment of commercial banks. In 1926, the Netherlands Trading Society, later known as Algemene Bank Nederland, was the first commercial bank to open its doors for business in Jeddah. Over the following few years, other foreign banks began operating across the Kingdom.

15 Algemene Bank Nederland Building, the First Bank Established in the Kingdom.

were foreign bank branches while the remaining two were Saudi. The first of these Saudi-based banks was the National Commercial Bank, which was founded in 1953, followed by Riyad Bank in 1957. There was also the National Bank that was founded in 1958, however, SAMA decided to liquidate the National Bank and merge it with Riyad Bank after both banks suffered a liquidity crisis in 1960.

With the aim of building a strong national banking sector, SAMA led an initiative in 1975 to Saudise foreign bank branches. The purpose was to strengthen oversight and control as well as to facilitate banking services across all parts of the Kingdom, not just major cities.

SAMA encouraged competition between operating banks to improve services and to increase citizens' ownership of banking institutions. As a result, and after an endorsement by the Council of Ministers, SAMA asked foreign bank branches to transition into national banks in which 60% of each bank was to be owned by Saudi citizens and institutions, with a maximum of 40% of capital owned by non-Saudi institutions. Consequently, foreign bank branches adhered to these percentages. Below is a timeline of the Saudisation of foreign bank branches:

- 21st June 1975: Pursuant to Royal Decree M/46, the National Bank of Pakistan's branch in Jeddah was Saudised and became a joint-stock company named Bank AlJazira with a capital of SAR 100 million (65% owned by Saudi shareholders vs. 35% owned by the National Bank of Pakistan). The bank began its operations on 9th October 1976.

- 20th December 1976: Pursuant to Royal Decree M/85, Algemene Bank Nederland became the Saudi Hollandi Bank, a Saudi joint-stock company with a capital of SAR 105 million (60% owned by Saudi shareholders vs. 40% owned by Algemene Bank Nederland).

- 4th June 1977: Pursuant to Royal Decree M/23, Indochina Bank, founded in 1947, became a Saudi joint-stock company named Banque Saudi Fransi with a capital of SAR 100 million (60% owned by Saudi shareholders vs. 40% owned by Indochina Bank).

- 21st January 1978: Pursuant to Royal Decree M/4, the British Bank of the Middle East, founded in Jeddah in 1950, became a Saudi joint-stock company named the Saudi British Bank with a capital of SAR 100 million (60% owned by Saudi shareholders vs. 40% owned by the British Bank of the Middle East).

- 20th January 1979: Pursuant to Royal Decree M/7, Bank of Cairo, founded in 1954, became a Saudi joint-stock company named the Saudi Cairo Bank with a capital of SAR 150 million (60% owned by Saudi shareholders vs. 40% owned by Bank of Cairo).

- 13th June 1979: Pursuant to Royal Decree M/38, Arab Bank Limited, founded in 1949, became a Saudi joint-stock company named the Arab National Bank with authorised capital of SAR 150 million (60% owned by Saudis vs. 40% owned by Arab Bank Limited).

- 12th February 1980: Pursuant to Royal Decree M/3, two branches of First National City Bank, founded in 1955, became a joint-stock company named the Saudi American Bank with a capital of SAR 300 million (60% owned by Saudi shareholders vs. 40% owned by the First National City Bank).

- 13th December 1982: Pursuant to Royal Decree M/23, branches of BLOM Bank (founded in 1955), Bank Melli Iran, and United Bank Limited (both founded in 1971), were merged and became a Saudi joint-stock company named the United Saudi Bank with a capital of SAR 250 million (70% owned by Saudi shareholders vs. 30% equally shared among the three foreign banks).

As seen above, Saudising foreign bank branches took place over the course of seven years. The process was meant to be gradual to give foreign bank branches enough time to arrange for the transition, offer their shares for public subscription, and ensure ownership was distributed fairly. As part of the initiative, SAMA authorised Saudised banks to increase their capital on several occasions and allowed them to open branches across the Kingdom. By 1983, there were 11 national banks in operation, including the Saudi Investment Banking Company, a private investment company founded on 3rd June 1979 by virtue of a Royal Decree. This bank later offered 36% of its capital for public subscription, while the remaining 64% was divided among Saudi and foreign founders who held 29% and 35% ownership, respectively. In due course, the Saudi Investment Banking Company became the Saudi Investment Bank. Thus, Saudi banks operated a total of 436 branches across the Kingdom with a 28.7% increase in capital and reserves, reaching SAR 8.51 billion in 1983.

By the time Saudisation was completed in 1983, the number of joint-stock companies traded on the market had grown, reaching a total of 50 Saudi companies: 10 banks, four electricity companies, eight cement and building materials companies, eight oil and gas companies, five manufacturing companies, five transportation companies, and 10 companies operating in other sectors. Ownership of these companies was a mix of individual investors, private-sector corporations, and the state and government-affiliated institutions, as well as foreign partners who had a maximum share of 40% in relation to local and Saudised banks.

In the same year, the companies' authorised and paid-up capital amounted to SAR 51 billion and SAR 35 billion, respectively, with a total of 331 million shares. Electricity, petrochemicals, and cement sectors accounted for more than 80% of paid-up capital. The electricity sector alone had a paid-up capital of SAR 18 billion (more than half the total). As for petrochemicals, nearly 90% of the sector's paid-up capital belonged to the giant Saudi Basic Industries Corporation (SABIC).

Chapter 3: Stock Offering and Trading

The Saudisation of foreign bank branches was the first step towards a regulated capital market and marked the beginning of stock trading, which later replaced the previously held sentiment of shareholders who saw retaining shares as a partnership investment. These developments later led to the creation of brokerage firms across the Kingdom. In these early days, brokerage was limited to individual unspecialised firms that promoted their services on the streets or in newspaper advertisements.

3.1. Offering Shares for Initial Public Offering

Prior to the Companies Law of 1965, joint-stock companies would offer their shares for subscription in local newspapers. Below (Document 27) is an invitation for public subscription made by Makkah Electricity Company in 1950. The announcement stated that the company was offering 60 thousand shares at SAR 100 each. A person was allowed to subscribe for a minimum of one share and a maximum of 100. Subscribers had to initially pay 10% of each share's value in exchange for order receipts that were to be delivered to the company's office in Taif or its agents in Makkah and Jeddah. Additionally, subscription requests were accepted in writing or by telegraph.

كهرباء مكة

دعوة للاكتتاب العام

لم تزل حكومة حضرة صاحب الجلالة مولانا الملك المعظم تبدى فى كل مناسبة رغبتها الأكيدة فيما يحقق لشعبها الرخاء والرفاهية فوجدت الشركة السعودية للكهرباء هذه الرغبة العالية خير حافز لها للتقدم الى الحكومة السنية بطلب امتياز كهرباء مكة المكرمة . وقد تفضل حضرة صاحب الجلالة مولانا الملك المعظم فصدر امره العالى رقم ١٥ / ١٢ / ٣٦٢٨ وتاريخ ١٠ / ٦ /١٣٦٩ ﻫ بالموافقة على منح الشركة السعودية للكهرباء امتياز كهرباء مكة المكرمة. وبناء على ذلك تعلن الشركة للعموم ما يأتى:—

١ — طرح ستين ألف سهم جديدة قيمة السهم الواحد مائة ريال سعودى تحتفظ الشركة السعودية بتغطية ٣٥ ٪ منها .

٢ — رغبة فى ان تعم المساهمة عموم طبقات الشعب فقد تقرر ان يكون الحد الادنى سهم والاعلى مائة سهم للشخص الواحد .

٣ — يدفع حين الاكتتاب ١٠ ٪ من قيمة كل سهم مقابل ايصالات الى مركز الشركة بالطائف أو مكتب ابراهيم عبد الله الجفالى واخوانه بمكة وجدة وتحدد الشركة استيفاء الباقى فيما بعد .

٤ — تقبل طلبات المساهمة كتابيا و برقيا ولا تتحمل الشركة اية مصاريف أو مسؤلية تنشأ عن التأخير فى الدفع .

نسأل الله ان يحقق للشعب ما يرجوه فى ظل حضرة صاحب الجلالة مولانا الملك المعظم والله المستعان .

مجلس الادارة

١ — ٢

27 An Invitation for Public Subscription by Makkah Electricity Company in 1950.

Document 28 is another example of an invitation for public subscription by Riyad Bank in 1957. The bank was founded with authorised capital of 50 thousand shares at SAR 1,000 each. The founders subscribed to 34 thousand shares (SAR 34 million) and the remaining 16 thousand (SAR 16 million) were offered for public subscription.


شركة مساهمة سعودية محدودة
بنك الرياض
راسمالها: ٥٠ مليون ريال عربي سعودي
دعوة
الى الاكتتاب في اسهم الشركة
مركز الشركة
أهداف الشركة
مدة الشركة ٥٠ سنة كاملة قابلة للتجديد
راس مال الشركة
المؤسسون
كيفية الاكتتاب
مكان الاكتتاب
الرياض
جدة
الخبر

28 An Example of an Invitation for Public Subscription by Bank of Riyadh in 1957.

The previous two newspaper invitations for public subscription included all information relevant to potential subscribers, but they were not in the form of a prospectus in its contemporary definition. However, things changed when the Companies Law of 1965 was enacted, for it detailed all public subscription procedures and introduced the prospectus as a requirement for the first time. Additionally, the Law stipulated that company founders had to offer shares for public subscription, if they did not subscribe to subscribe to the entire shares, provided that remaining shares were offered through banks selected by the Minister of Commerce and Industry within thirty days of announcing a company's licence to operate in the official gazette by virtue of a Royal Decree. Furthermore, the Law stipulated that a joint-stock company offering its shares for public subscription had to have a minimum capital of SAR 1 million with each share valued at no less than SAR 50.

Invitations for public subscription were to take place by means of a prospectus entailing relevant information, such as a company's profile, founders, paid-up capital, type, value, and number of shares available for public subscription. It should also detail the subscription period, place, and conditions, as well as how shares would be divided among subscribers if the number of subscribed shares exceeded the number of shares offered for subscription. A prospectus was to be published in daily newspapers and distributed at the company's headquarters at least five days before the beginning of the subscription period. Document 29 is an example of an invitation for public subscription made by the Saudi Public Transport Company in 1979.

بسم الله الرحمن الرحيم

الشركة السعودية للنقل الجماعي (تحت التأسيس)

إعلان إكتتاب عام
للمواطنين المتمتعين بالجنسية السعودية

انطلاقاً من النهضة العظيمة التي تجتازها بلادنا وبناء على توجيهات صاحب الجلالة الملك المعظم ومتابعة سمو ولي عهده المحبوب وما أبدته حكومة صاحب الجلالة من تشجيع فإنه يسر مجلس ادارة الشركة السعودية للنقل الجماعي - شركة مساهمة سعودية بأن يعلن عن صدور المرسوم الملكي رقم م/١١ بتاريخ ٧/٣/١٣٩٩هـ في شأن الموافقة على الترخيص بتأسيس الشركة السعودية للنقل الجماعي - شركة سعودية برأس مال قدره ١٫٠٠٠٫٠٠٠٫٠٠٠ ريال (الف مليون ريال سعودي) مقسم الى ١٠٫٠٠٠٫٠٠٠ سهم (عشرة مليون سهم) قيمة السهم الواحد ١٠٠ ريال (مائة ريال) وموزعة على النحو التالي :-

٣٫٥٠٠٫٠٠٠ سهماً (ثلاثة ملايين وخمسمائة الف سهم) لصندوق الاستثمارات العامة.
٢٫٥٠٠٫٠٠٠ سهماً (مليونان وخمسمائة الف سهم) للمؤسسين - سعودي الجنسية.
٤٫٠٠٠٫٠٠٠ سهماً (أربعة ملايين سهم) للإكتتاب لمساهمين سعودي الجنسية

وأغراض الشركة السعودية للنقل الجماعي وهي :-

نقل الركاب بالحافلات على شبكة الطرق العامة بالمملكة داخل المدن وفيما بينها وللشركة في سبيل ذلك ما يلي :

أ - شراء واستئجار الأراضي والمباني اللازمة لنشاط الشركة.
ب - اقامة المستودعات والورش والمخازن ومراكز الصيانة والمحطات والمواقف والاستراحات على الطرق الرئيسية بين المدن وكافة المباني اللازمة لاعمالها وإداراتها.
ج - تملك وشراء الحافلات والمعدات والآلات وكافة التجهيزات التي يحتاجها المرفق.
د - للشركة الحق في امتلاك كل ما تراه لازماً من الأموال المنقولة وغير المنقولة لتنفيذ أغراضها.
هـ - القيام بكافة الأغراض اللازمة أو المكملة للأغراض السابقة.
و - الاستعانة بالخبرات الضرورية الوطنية والأجنبية لممارسة أعمالها.
ز - يجوز للشركة أن يكون لها مصلحة أو تشترك بأي وجه من الوجوه في مؤسسات أو شركات أو هيئات تزاول أعمالاً شبيهة بأعمالها أو تعاونها في تحقيق غرضها أو تكون مكملة لها وأن تندمج فيها أو تشتريها أو تلحقها بها.

ويسعد مجلس إدارة الشركة دعوة جمهور المواطنين سعودي الجنسية فقط الى الإكتتاب في الأسهم المخصصة لهم وعددها أربعة ملايين سهم قيمة السهم الواحد ١٠٠ (مائة ريال) نفاذا لحكم المادة رقم ٧ من النظام الأساسي للشركة.

أولاً : أهم البيانات عن الشركة كما يلي :-

اسم الشركة : الشركة السعودية للنقل الجماعي.
عدد المؤسسين :- ٣٢ مؤسساً - أدرجت أسماؤهم في النشرة المودعة لدى البنوك
المركز الرئيسي : الرياض - المملكة العربية السعودية.

ثانياً : نوع الأسهم : عادية - نقدية - إسمية.

ثالثاً : تقديراً من الدولة لأهمية هذا المشروع ورغبة منها في تأدية الخدمات المرجوة منه على أفضل وجه فانها قررت مد يد المعونة اليه وذلك بما تضمنه قرار مجلس الوزراء رقم ٣٧٨ وتاريخ ١٨/٤/١٣٩٨هـ. الذي قضى بأن تقدم الدولة للشركة معونة سنوية بحيث تضمن للشركة تحقيق ربح قدره ١٥٪ في السنة ... ومن ذلك يتضح أن الشركة ستحقق (بضمان الدولة) ربحاً سنوياً لا يقل عن ١٥٪.

رابعاً : تاريخ بدء الاكتتاب : ٦/٤/١٣٩٩هـ. - نهاية الإكتتاب : ٥/٥/١٣٩٩هـ.
مكان الإكتتاب : البنك الأهلي التجاري وفروعه.
بنك الرياض وفروعه.

خامساً : شروط الاكتتاب :

أ - ٥٠٪ (خمسون بالمائة) من القيمة يتم إيداعها في بنك الرياض أو البنك الأهلي أو أحد فروعهما لحساب الشركة السعودية للنقل الجماعي - تحت التأسيس.
ب - وباقي القيمة يتم سدادها في المواعيد وبالطريقة التي يحددها مجلس الشركة بقرارات يصدرها في حينه. ويمكن للمكتتبين الحصول على :
١ - طلبات الإكتتاب.
٢ - نسخة من النظام الأساسي للشركة.
وذلك من البنوك المذكورة مقابل ٥ (خمسة) ريالات للنسخة الواحدة.

عن المؤسسين : رئيس مجلس الإدارة : الشيخ حسين المنصوري
نائب رئيس مجلس الإدارة : الأمير خالد بن عبدالله بن عبدالرحمن
عضو مجلس الإدارة المنتدب : صالح عبدالله كامل
أعضاء : الدكتور منصور التركي - يوسف الحمدان - الدكتور مدني عبدالقادر علاقي - عمران العمران - علي التميمي
والله الموفق...

29 An Invitation for Public Subscription by the Saudi Public Transport Company in 1979.

The Companies Law had set corporate management provisions and discussed issues related to boards of directors, general assemblies, and shareholders' equity. It also expounded the types of securities that joint-stock companies issued in the form of shares, founders' stocks, and bonds. Extraordinary general assemblies were permitted to increase or decrease a company's capital and dissolution-related provisions stated that companies that had lost three-quarters of their capital had to call for an Extraordinary General Assembly (EGA) to consider the company's dissolution before the term specified in its Articles of Association (AoA).

3.2. Secondary Market Stock Trading

During this nascent period there were no rules to govern market listings or secondary market trading. Stock trading was only allowed upon the approval of a company's memorandum of association. As per the Companies Law of 1965, founder shares in joint-stock companies were allowed to be traded only after a company had published its budget and profit and loss statements for two consecutive years. As for banks, founder shares were not allowed to be traded for five years following a bank's formation.

3.2.1. Stock Ownership

In its early days, stock ownership—as in the case of electricity and cement companies—was mostly limited to well-established merchants. Over time, more stocks were being sold in the market, making room for small investors to participate. These stockholders saw themselves more as partners in the company and were therefore more inclined to hold onto their shares rather than consider trading them, which was still not common. Interestingly, it was often only upon the death of the stockholder that stock ownership would be transferred through the process of inheritance. Stock ownership was provided by companies in the form of certificates bearing their holders' names as well as the number of shares owned. Document 30 is an example of a stock certificate and numbered dividend coupons issued in 1971.

(Dividend Coupons Attached to the Stock Certificate)

30 A Stock Certificate issued in 1971 by the Saudi Cement Company.

Stock ownership and transfer were governed by the general provisions of Saudi laws. Ownership of shares were transferred to an heir or a buyer by recording the transactions in a company shareholders' register, which the company's memorandum of association stipulated that the board should keep. Company boards of directors were subject to disclosure and transparency bylaws and general rules that governed other corporate activities, such as financing, debts, loans, mergers, dividends, and reducing or increasing the capital of the company. These general rules and provisions governed issues that were not stipulated in a company's licence or memorandum of association.

Businessman Khalid Al-Jawhar recounts the story of how he and his brother first got into stock trading. According to Al-Jawhar, his father owned shares after having invested in many joint-stock companies that flourished during the 1960s and 1970s. Following his father's death, inherited assets were transferred to and divided among Al-Jawhar and his siblings, who later wanted to sell their inherited shares. To this end, they contacted several shareholders who in turn introduced them to market makers, i.e. individuals who quoted two-sided markets in a particular security to profit from the bid-ask spread. Eventually, Al-Jawhar and his siblings decided to sell some shares to the market makers, making profits along the way, which later led them to pursue stock trading as a profession. They did this by obtaining a licence (Document 31) from the Ministry of Commerce and Industry in 1979 to offer diversified commercial services, including brokerage and own-account stock trading.


المملكة العربية السعودية
وزارة التجارة والصناعة
شهادة تسجيل شركة
الرقم: ١٠١٠٠٥٧٩٤٥
التاريخ: ١٤٠٥/٠٥/٢١
الاسم التجاري للشركة: شركة جمال وخالد الجوهر للتجارة والتنمية
نوعها: ذات مسئولية محدودة
جنسيتها: سعودية
مدة الشركة: ٢٥ سنة تبدأ من: ١٤٠٥/٠٥/٢١ وتنتهي في: ١٤٣٠/٠٥/٢٠
مركزها الرئيسي: الرياض / العليا شارع العليا العام جوار صحاري تاور
ص.ب: ٤١١٣٩ الرمز البريدي: ١١٥٢١ هاتف: ٤٦٣٢٥٩٩ تلكس: فاكس: ٤٠٣٤٥٥
النشاط: خدمات تجارية وتشغيل (المتعهدات التجارية والسمسرة غير الصرافة والعقار) ومكاتب لوزن الكيل وبيع وشراء الأسهم لحسابها وشراء الأراضي لإقامة مباني واستثمار هذه المباني بالبيع والإيجار لصالح الشركة وذلك بعد الحصول على التراخيص اللازمة من الجهات المختصة
رأس المال: ١٠٠٠٠٠٠ ريال سعودي
المديرون: ١- جمال جوهر السعود ٢- خالد جوهر محمد الجوهر
سلطات المدير / المديرون: حسب ما نص عليه عقد الشركة
يشهد مكتب السجل التجاري بمدينة الرياض بأنه تم تسجيل الشركة آنفة الذكر بسجل مدينة الرياض
وتنتهي صلاحية الشهادة في ١٤٣٨/٠٥/٣٠ بموجب الإيصال رقم ٠٠٢٨٩٠٥٦ وتاريخ ١٤٣٣/١٢/٠١
مدير السجل التجاري، الاسم: وليد عبدالله الرويشد
التوقيع:
الختم

31 The Registration Certificate of Al-Jawhar Trading and Development Company.

3.2.2. Trading: Where and How

Until 1983, stock trading occurred through an unofficial market of 32 stock brokerage firms in the Kingdom's major cities, namely Riyadh, Jeddah, Dammam, and Al-Khobar. These firms operated as private enterprises, not as specialised brokers, and offered differing prices, which forced buyers and sellers to look for the best deal before deciding to buy or sell.

By the late 1970s and early 1980s, many individuals were turning to stock trading as a profession. Stock brokers announced the buying and selling of shares in newspapers, and were recognised by the iconic signs that read "We buy and sell shares" (Image 16). Stock prices varied greatly depending on whether a firm was trading on its own account or as a broker. To obtain lists of shareholders, the firms relied on their personal relationships with companies. Market information was difficult to access and market makers determined pricing.

16 An Examples of Stock Trading Advertisements Published in Local Newspapers in 1981.

Some firms played a major role in attracting key shareholders based on trust, thus planting the seeds of the secondary market—which still had a long way to go. A former stock trader recounts that when the National Agricultural Development Co. (NADEC) was listed as the first agricultural company in the Saudi stock market in 1981, he approached the National Commercial Bank to subscribe to the company's shares. However, to his surprise, he could not find basic information about the subscription or the delivery date of the allocation certificate.

Six months after subscribing, the trader eventually received his stock certificate. Two years later, the trader wanted to sell his shares but did not know where or to whom he should sell. After a visit to NADEC, the company referred him to a brokerage firm, which informed him that to sell his shares he had to return to the company first to collect his dividend and then come back to sell his shares at the prevailing market price. This account, among other events, demonstrates how trading was not prevalent among small traders, and also reflects how stock subscription, allocation, trading, and pricing was in need of a clear vision and proper organisation.

3.2.3. Scarcity of Market Information for Investors

Financial information about joint-stock companies is key to helping investors make informed stock investment decisions. Until 1983, such information was scarce. One major reason was the delay in publishing corporate financial statements. The Companies Law of 1965 stipulated that boards of directors were responsible for preparing financial statements by the end of each fiscal year, a copy of which was to be deposited at the Commercial Registry Office and the General Department of Companies within thirty days of the General Assembly's approval.

However, some of those reports lacked transparency and were ambiguous because of their inconsistent use of accounting terminology. Additionally, there were no competent, specialised financial institutions, and the local financial press lacked in-depth coverage during that period. Thus information was mainly available to large shareholders who had direct access to it.

3.2.4. Small Market Size

By 1975, there were only fourteen joint-stock companies in operation. From 1976 to 1980, this number slowly increased to reach thirty-three. Three years later, in 1983, there were fifty companies and thirty brokerage firms in total. This gradual increase in joint-stock companies and brokerage firms, followed by the Souk Al-Manakh stock market crisis in Kuwait, led the Saudi government to take determined steps towards regulating stock trading, as will be discussed in the following chapter.

Chapter 4: Winds of Change

The discovery of oil in the Kingdom ushered in a period of major change: joint-stock companies grew in number, government-led mergers of electricity companies took place, foreign bank branches were Saudised and their shares were offered for public subscription, and citizens became more aware of the importance of saving and investing. These factors collectively increased the volume of shares available for trading, which created a need for regulation to govern stock trading.

The government's policy of privatisation of state companies encouraged citizens to participate in the economic development of the Kingdom. Public demand was strong, as evidenced by the SABIC floatation in 1983. With a desire to protect the public and to avoid a national crisis such as that experienced by Kuwait as a result of Souk Al Manakh, the Saudi government embarked on a series of measures to develop the stock market. The Ministerial and Standing Supervisory Committees were formed to oversee the market. Trading of shares and brokerage services were limited to local banks. These and other measures, coupled with the introduction of technological developments, laid the foundation of the Saudi capital market.

4.1. Expansion of Offered Shares

Share ownership dates back to 1926 with the formation of the Saudi National Motor Vehicle Joint-Stock Company and subsequent emergence of a handful of joint-stock companies in the 1930s. The establishment of companies in joint-stock form took place during different periods, each of which reflected the country's economic development. Pivotal change occurred from 1975 when the government significantly increased its spending on development projects.

The merging of electricity companies, followed by the founding of the Ministry of Industry and Electricity—which standardised electricity tariffs across the Kingdom—created great demand for the shares of these companies. The Saudisation of foreign bank branches further increased demand, shaping the beginnings of the Kingdom's stock market. By the end of the 1970s, there were more than 40 joint-stock companies operating in key sectors, such as finance and industry, construction materials and cement, transport, hospitality, services, and food.

With the dawn of the 1980s and near completion of Saudisation in the banking sector, other private-sector companies were formed. They made their shares available for public subscription by following the offering procedures of banks and publishing their prospectus in at least two local newspapers as per the Companies Law.

In oversubscribed issues, shares were allocated to each subscriber, irrespective of the number of shares subscribed to. A subscriber for 10 shares was treated no differently than one who had subscribed for 1,000 shares. As a result, some people came up with a scheme to subscribe under different names so that each name would be eligible for the number of shares allocated to one person. In doing so, some traders collected Saudi identity cards to acquire the largest number of shares at the time of allocation.

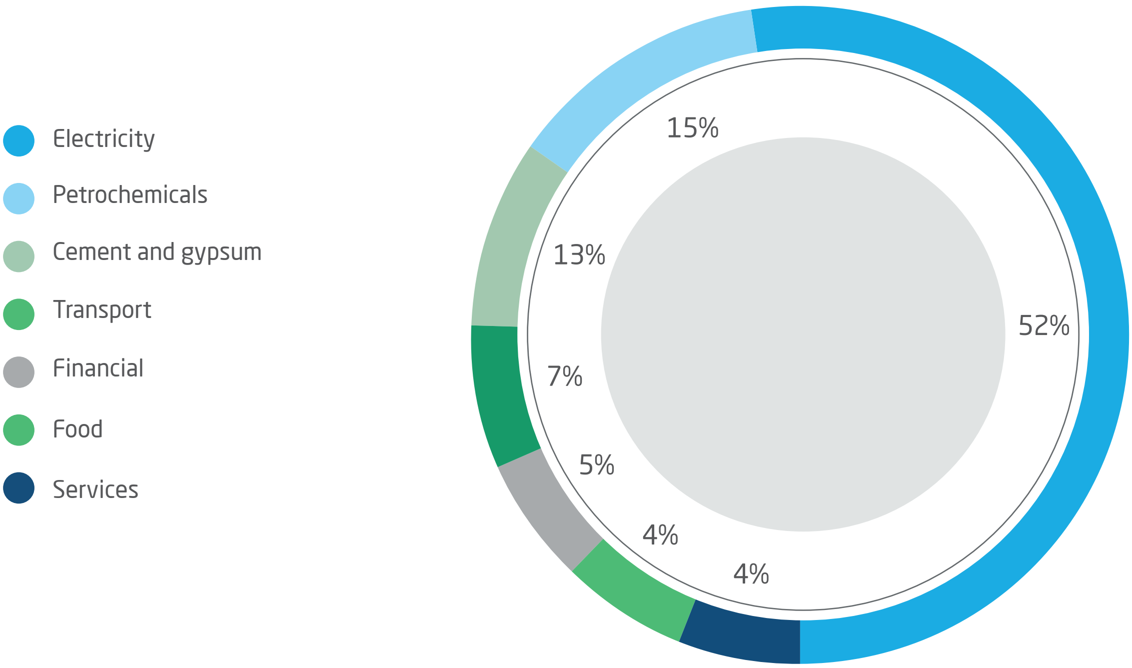
A businessman recounts that the Kuwaiti comedy play of Bani Samit, which was broadcast on Saudi TV in the 1980s, addressed these events. In the play, a scene depicted the collection of identity cards from citizens to acquire the largest number of shares possible during public subscriptions and to sell them afterwards for profit. The play actually inspired some individuals and firm owners to profit from such schemes. Despite the deception involved, and being contrary to legislation aimed at expanding the ownership base among citizens, the collecting of Saudi identity cards for subscription and its portrayal in the media raised public awareness of investing.

Share ownership grew in popularity and the buy-and-hold strategy gradually gave way to the idea of profiting from stock trading, especially given their considerable increase in prices during the early 1980s. Founders and investors who anticipated the growth of the companies they held continued to buy and hold. Some of these early shareholders have seen their investments become worth more than gold.

In the early 1980s, the National Industrialization Company issued six million shares, 25% of which was retained by founders and 75% (SAR 4.5 million) offered for public subscription. Other companies that offered shares during this period were: Saudi Pharmaceutical Industries Company, Saudi Livestock Transport and

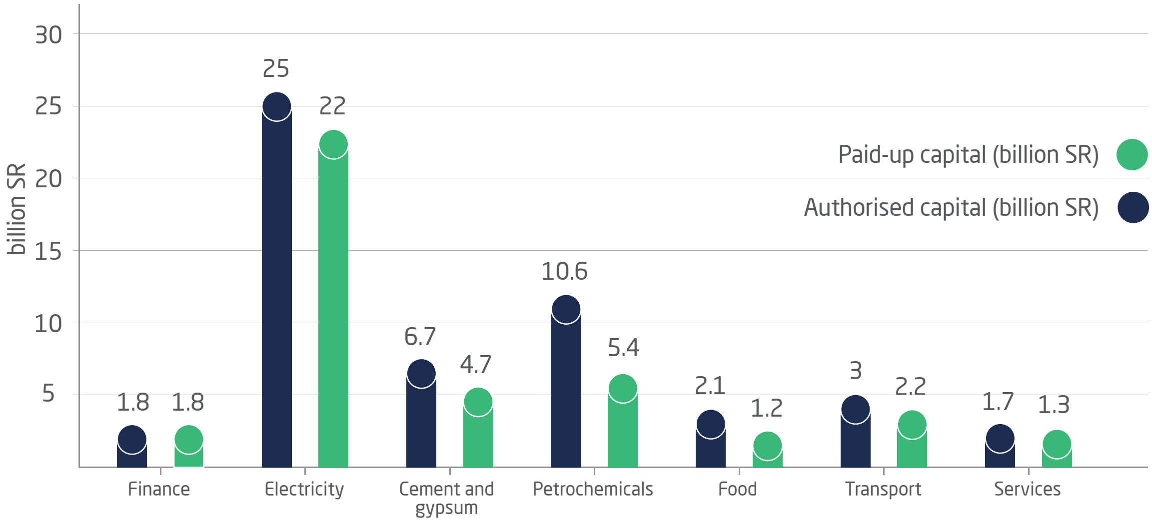
Trading Company, Tabuk Agricultural Development Company, Al-Qassim Agricultural Development Company, and the Saudi Chemical Company.

Between 1975 and 1983, over thirty companies with capital exceeding SAR 30 billion were offered for public subscription. By 1984, the market had witnessed a surge in stock numbers and prices, leading to a total of 50 traded companies operating across several sectors. The electricity sector dominated the market representing 52% of market capitalisation, followed by petrochemicals (15%), cement and gypsum (13%), transport (7%), finance, i.e. banks (5%), and lastly services and food (4% each). Figure 1 shows the sector-based market share of joint-stock companies in 1984.

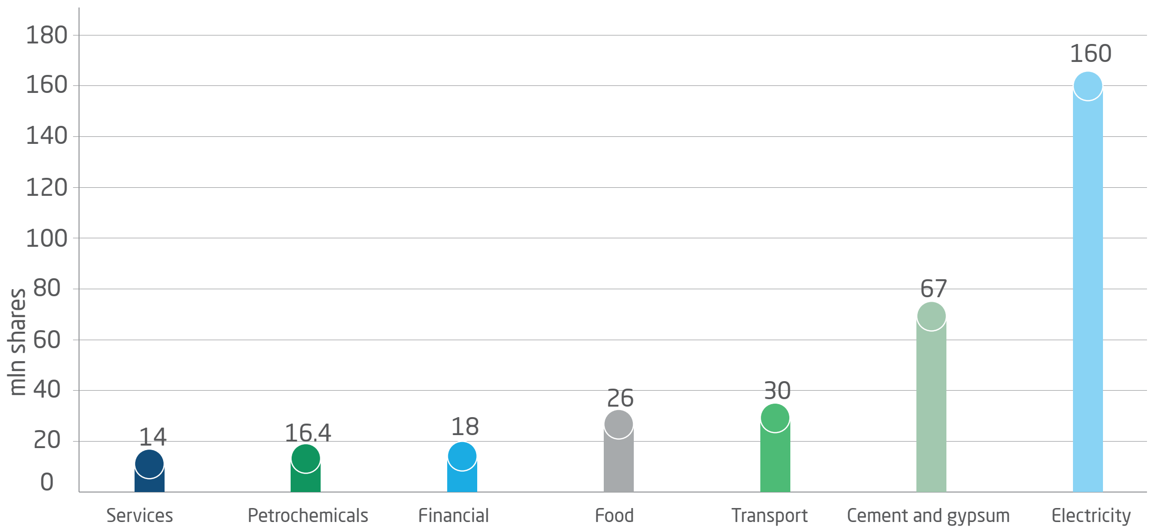


01 The Sector-based Market Share of Joint-stock Companies in 1984.

In terms of capital, the electricity sector was at the top of the list with authorised and paid-up capital of SAR 25 billion and SAR 22 billion respectively, followed by petrochemicals with SAR 10.6 billion and SAR 5.4 billion. As for the number of shares, the electricity sector led with 160 million shares, followed by the cement and gypsum sector with 67 million shares. Figures 2 and 3 show the sectoral capital structure and issued shares of joint-stock companies.



02 The Sector-based Capital Structure of Joint-stock Companies in 1984.



03 The Issued Shares (in Millions) by Sector in 1984.

4.2. Towards Privatisation

The increase in share offerings by companies across various sectors was not the only factor leading to new developments within the Saudi capital market. Demand from citizens to acquire shares resulted in oversubscriptions for shares offered. The Saudi Livestock Transport and Trading Company, Tabuk Agricultural Development Company, and Al-Qassim Agricultural Development Company were oversubscribed by a factor of 3, 2.2, and 4.4 times, respectively. A year later, SABIC witnessed an overwhelming oversubscription of 2.5 times the shares offered, despite having an offering much greater in value compared to other previous offerings. This oversubscription reflected the public's demand for Saudi shares; hence it is relevant to examine SABIC's success in greater detail.

4.3. SABIC: From Formation to Privatisation

In his book, "A Life in Administration", His Excellency the late Dr. Ghazi Al-Gosaibi spoke highly of His Excellency Mohammed Abalkhail, former Minister of Finance, when recounting the story of the Saudi Basic Industries Corporation (SABIC):

"One may ask: what about the major industrial projects to be launched in Jubail and Yanbu as per the second five-year plan? Well, I first thought of founding a public institution for carrying out those projects. However, my dear friend Abalkhail, who joined the cabinet as the Minister of Finance and National Economy at the time, suggested the alternative of forming a joint-stock company operating according to purely commercial principles, with the potential of offering its shares to the public in the future.

Abalkhail was older than me and had much more expertise. Before and after becoming a minister, he helped me in all sorts of ways. I could go on and on about what an incredible help he has been, but knowing him, I fear that such praise and appreciation would only embarrass him. Although all his insights have benefited me greatly over the years, his idea of forming a joint-stock company remains at the top of the list. Many have forgotten who came up with the idea amidst the developments that followed, but I would like to state on record that all credit goes to Abalkhail. His suggestion resonated with me, and the more I reflected upon it, the more I believed in it. I eventually presented the idea to the late King Fahd, then Crown Prince, who showed great interest and gave me the green light to proceed, especially after knowing of my promise to later cede the company's shares to the Saudi people."

As for the company's name, SABIC, Al-Gosaibi says: "It was suggested to name the new company SABICO, an acronym for the Saudi Basic Industries Corporation, but that sounded strange to my ears, so I insisted on changing it to SABIC because in Arabic, it has a root in the word 'sabak' which means forming or manufacturing something, and I believe this name works much better." Al-Gosaibi praised Abalkhail for being the man behind the idea of forming SABIC, and also gave credit to the Undersecretary of the Ministry of Commerce and Industry at the time, Eng. Youssef Al-Hammad, by saying: "People spoke then, and still speak today, of the minister who accomplished the impossible, but the truth of the matter is that the person to whom this achievement should be attributed is Youssef Al-Hammad, the man behind the scenes."

4.3.1. Founding SABIC

Saudi Basic Industries Corporation (SABIC) was founded by virtue of Royal Decree M/66 (Document 32) on 6th September 1976 to operate and market locally produced hydrocarbon and mineral products for basic and supporting industries. SABIC was meant to achieve several economic objectives for Saudi Arabia, such as utilising natural gas production in producing value-added chemicals and polymers to meet local market needs and to export surplus, as well as maintaining a greener environment by reducing pollution resulting from gas flaring in oil production.

His Excellency Al-Gosaibi, as Minister of Industry and Electricity at that time, selected His Excellency Eng. Abdulaziz Al-Zamil as SABIC's first CEO. The board of directors was formed from leading Saudi academics and several undersecretaries of the ministries of Finance and Planning. SABIC's Articles of Association (AoA) stipulated that the government was to offer 75% of company shares for public subscription while maintaining ownership of the remaining 25%. The Saudi government allocated SAR 2.7 billion in capital to establish the company and borrowed the rest from the Public Investment Fund (PIF) and local banks.


الجريدة الرسمية للمملكة العربية السعودية - تصدر بمكة المكرمة

مرسوم ملكي كريم

الرقم م/٦٦ التاريخ ١٣/٩/٩٦
بعون الله تعالى ..
نحن خالد بن عبد العزيز آل سعود
ملك المملكة العربية السعودية

بعد الاطلاع على المادتين ١٩ ، ٢٠ من نظام مجلس الوزراء الصادر بالمرسوم الملكي رقم ٣٨ وتاريخ ٢٢/١٠/١٣٧٧ هـ وعلى المادتين ٥١ ، ٥٢ من نظام الشركات الصادر بالمرسوم الملكي رقم م/٦ وتاريخ ٢٢/٣/١٣٨٥ هـ

وبعد الاطلاع على قرار مجلس الوزراء رقم ١٤٥٧ وتاريخ ٦/٩/١٣٩٦ هـ رسمنا بما هو آت :

أولاً : تنشأ بموجب أحكام هذا المرسوم شركة مساهمة تسمى الشركة السعودية للصناعات الأساسية وفقاً لنظامها الأساسي المرفق .

ثانياً : تتمتع الشركة المذكورة والشركات التي تؤسسها أو تشترك فيها بجميع الاعفاءات والمزايا المقررة للصناعات الوطنية بموجب الانظمة .

ثالثاً : يجوز استثناء الشركات التي تؤسسها هذه الشركة أو التي تشترك فيها من بعض أحكام نظام الشركات وذلك بقرار من وزير الصناعة والكهرباء ووزير التجارة .

رابعاً : على نائب رئيس مجلس الوزراء ووزير الصناعة والكهرباء ووزير المالية والاقتصاد الوطني ووزير التجارة تنفيذ مرسومنا هذا

32 Royal Decree on Founding SABIC.

4.3.2. Privatising SABIC

As mentioned earlier, the idea of SABIC was conceived by Al-Gosaibi, developed by Abalkhail, endorsed by the late King Fahd Bin Abdulaziz, and implemented by Undersecretary of the Ministry of Industry Eng. Youssef Al-Hammad. In his book, "A Life in Administration", Al-Gosaibi tells the story of how the privatisation of SABIC reflected the determination of the Saudi Arabian government and its devotion to its people: "As I signed SABIC's last major industrial contract, I felt I was about to serve my purpose in the industrial sector. It all came true when SABIC exported its first batch of petrochemical products. I was even more satisfied the day I fulfilled the pledge I had made before the Crown Prince [referring to the late King Fahd]: that the government would cede a part of its shares to citizens. Indeed, SABIC offered 30% of its shares to Saudi and GCC citizens. The shares were rapidly bought, but my intention at the time was to suggest that SABIC would continue to offer shares until the government only had 25% ownership."

The Saudi leadership's pursuit of privatisation crystallised in the second half of the 20th century when King Fahd, then Crown Prince, fully adopted the idea. As a result, the Saudi Arabian Fertilizer Company (SAFCO) and several electricity and other companies were privatised, with the greatest achievement at the time being the privatisation of the global petrochemical giant SABIC.

SABIC's Articles of Association (AoA) reference Cabinet Resolution No. 298 of 12th September 1983 (Document 33) on approving the allocation of 10% of the company's offering (SAR 2 billion of share capital) to GCC citizens.

The initial offering consisted of two million shares with a nominal value of SAR 1,000 per share and a share premium of SAR 180. The offered shares had a total nominal value of SAR 2 billion, representing 20% of the company's share capital. 1.8 million shares were allocated for subscription to Saudi citizens while 200,000 shares were allocated to GCC citizens. The prospectus stipulated that a subscriber had to pay half of a share's


المملكة العربية السعودية
الامانة العامة لمجلس الوزراء

بسم الله الرحمن الرحيم

الرقم
التاريخ
المشفوعات

قرار رقم ٢٩٨ وتاريخ ١٤٠٣/١٢/٥هـ

ان مجلس الوزراء،

بعد الاطلاع على خطاب معالي وزير الصناعة والكهرباء رقم ١١٤٦/و/ص وتاريخ ١٤٠٣/١٢/٥هـ المتضمن الاشارة الى توجيهات المقام السامي حول تخصيص نسبة من اسهم الشركة السعودية للصناعات الاساسية للاشقاء في دول الخليج وذلك تمشيا لاواصر الاخاء وتدعيما للصلة الوثيقة القائمة بين اهل المنطقة وتجسيدا للتعاون الصناعي الخليجي .

وبناء على ذلك فقد نصت المادة (١٢) من نظام الشركة السعودية للصناعات الاساسية على مايلي :-

(تكون جميع اسهم الشركة اسمية ولا يجوز لغير السعوديين الاكتتاب بها او تملكها الا بقرار من مجلس الوزراء يحدد النسبة التي يجوز لغير السعوديين تملكها على الا تزيد عن ٢٠٪ من مجموع الاسهم) .

ولما كانت الشركة السعودية للصناعات الاساسية بصدد طرح الفي مليون ريال من رأسمالها لاكتتاب المواطنين فان معاليه يرجو موافقة مجلس الوزراء على ان يخصص نسبة ١٠٪ من هذه الدفعة لمواطني مجلس التعاون لدول الخليج .

يقرر

الموافقة على تخصيص نسبة ١٠٪ من الدفعة المذكورة اعلاه لمواطني مجلس التعاون لدول الخليج .

رئيس مجلس الوزراء

33 The Allocation of 10% of SABIC's Share Offering to Gulf Cooperation Council (GCC) Countries.

nominal value (SAR 500) as well as the share premium, with the remaining value to be settled at a later date. To expand the ownership base, the prospectus stipulated that each person may only subscribe to 1,000 shares. Additionally, several accounts were opened at Saudi and GCC banks to facilitate subscription requests for citizens (Document 34 below is an image of SABIC's invitation to subscribe).

Around 370,000 Saudi small shareholders and more than 3,400 GCC citizens subscribed to SABIC's shares. In total, 373,303 subscribers paid more than SAR 3.7 billion—an oversubscription of 2.5 times.

In gratitude for the offering's success and to achieve social and economic objectives highlighted earlier by Al-Gosaibi, SABIC's board of directors increased the company's share offering to three million shares, constituting 30% of share capital instead of the previous 20%. The board also allocated 141,255 additional shares to GCC subscribers. As such, the ultimate objective of publicly offering one-third of SABIC's shares was achieved.


سابك
دعوة للاكتتاب العام
في جزء من رأس مال الشركة السعودية للصناعات الأساسية

34 SABIC's Invitation to Subscription.

The following Document 35 shows the result of SABIC's share allocation.

الشركة السعودية للصناعات الأساسية
شركة مُساهمة سعودية
سابك

إعلان نتيجة التخصيص

يسر إدارة الشركة السعودية للصناعات الأساسية (سابك) أن تقدم شكرها لجمهور المكتتبين الكرام على ثقتهم التي أولوها للشركة حيث بلغ عدد المكتتبين السعوديين ٣٦٩٨٨٥ مكتتباً اكتتبوا بما مجموعه ٥٣٠١١١٠ أسهم. كما بلغ مجموع المكتتبين من دول مجلس التعاون ٣٤١٨ مكتتباً اكتتبوا بما مجموعه ١٤١٢٥٥ سهماً، وتجدر الملاحظة أنه من مجموع المكتتبين تم إستبعاد ٦٩١ مكتتباً اكتتبوا بما مجموعه ٩٤٤٠ سهماً وذلك نظراً لمخالفتهم قواعد الإكتتاب واكتتابهم بأكثر من مرة واحدة.

ويسر إدارة الشركة أن تعلن أنها تمكنت بحمد الله وفي وقت قياسي من تقديم تسع معادلات تخصيص رفعها المركز الإستشاري للإستثمار والتمويل، حيث تم إعتماد واحدة منها كانت مراعية الأولوية لصغار المساهمين، وبتدرج التخصيص وتناسقه بين فئات المكتتبين. وتمت موافقة وزارة التجارة عليها بتاريخ ١٤٠٤/٦/٣٠هـ والتي تعتمد التوزيع التالي بالنسبة للمكتتبين السعوديين. أما المكتتبون الخليجيون فقد تم التخصيص لهم كاملاً.

فئات الأسهم المكتتب بها	عدد الأسهم المخصصة لكل فئة	فئات الأسهم المكتتب بها	عدد الأسهم المخصصة لكل فئة	فئات الأسهم المكتتب بها	عدد الأسهم المخصصة لكل فئة
٥	٥	١٠٥ - ١١٥	٣٢	٤٦٥	٦١
١٠	٧	١٢٠ - ١٤٠	٣٣	٤٩٠	٦٢
١٥	١٠	١٤٥	٣٥	٥٠٠ - ٥٥٥	٧٥
٢٠ - ٢٥	١٢	١٥٠ - ١٩٠	٢٨	٦٠٠ - ٦٣٠	٩٠
٣٠	١٤	٢٠٠ - ٢٤٥	٤٠	٦٥٠	٩٥
٣٥ - ٤٥	١٥	٢٥٠ - ٢٦٠	٤١	٦٧٥	١٠٠
٥٠	١٨	٢٧٠ - ٢٧٥	٤٢	٧٠٠	١٠٩
٥٥ - ٦٠	٢٠	٢٨٥ - ٢٩٠	٤٣	٧٠٥	١١٠
٦٥ - ٧٠	٢٢	٣٠٠ - ٣٣٠	٤٥	٧٣٥	١٢٠
٧٥ - ٨٥	٢٥	٣٥٠ - ٣٨٠	٥٠	٧٥٠	١٢٦
٩٠ - ٩٥	٢٧	٤٠٠ - ٤٤٠	٥٦	٨٠٠	١٣٩
١٠٠	٣١	٤٥٠	٦٠	٩٠٠	١٤٠
				١٠٠٠	١٧٥

هذا وسيقوم المركز الإستشاري للإستثمار والتمويل بتسليم شهادات التخصيص لكل مكتتب وشيك بالمبلغ المتبقي له بواسطة فرع البنك الذي تم الإكتتاب عن طريقه أو كامل المبلغ بالنسبة للذين استبعد إكتتابهم لعدم مطابقتهم للشروط ..
وسيتم الإعلان عن بدء تسليم الشهادات في وقت لاحق إن شاء الله .
والله الموفق

نائب رئيس مجلس الإدارة والعضو المنتدب
ابراهيم عبدالله بن سلمه

الشركات التابعة لـ سابك
ابن سينا - صدف - الرازي - حديد - سماد - غاز - بتروكيميا - صلب - ينبت - شرق - كيميا - سافكو

35 Results of SABIC's Share Allocation.

The following Document 36 is a sample of SABIC's share certificate.

36 A Sample of SABIC's Share Certificate.

4.4. Lessons from Kuwait's Souk Al-Manakh Stock Market Crisis

Economic crises not only affect financial institutions, but all areas of an economy. The rapid escalation of market prices as a result of speculation—often driven by rumours and the expectation of further price increases—is referred to in the capital market as a "bubble". Excessive speculative investing in shares or assets takes place, leading to unsustainable price increases which eventually cause the bubble to burst.

The history of economic bubbles dates to the South Sea Bubble of 1711, which has been regarded as the world's first financial crash. Isaac Newton himself succumbed to this crisis. At the time, the share price of the British South Sea Company increased dramatically from 100 pounds to an all-time high of 1,000 pounds. When it became clear that the price increases were not justified by the company's profits, the market panicked, shares plummeted, and many investors declared bankruptcy.

Over the years, the world's economies have experienced several stock market bubbles, and the Saudi market was not immune from such disruptions. However, it was Kuwait's Souk Al-Manakh stock market crisis of 1982 that had a direct impact on the development of the Saudi market.

The first Kuwaiti joint-stock company was founded in 1952. Although the establishment of joint-stock companies paved the way for stock trading, the shareholders in Kuwaiti markets were more drawn to the idea of partnership and therefore preferred to hold onto the stocks they bought. The same view prevailed among Saudis for quite some time after the emergence of the stock market. As a result, trading in shares was minimal and most of it was limited to transfers by inheritance. The situation remained unchanged until the 1970s.

During the 1970s, Kuwait's stock market began to develop, and showed great promise. However, a financial crisis hit the market in 1977, causing investors to stop trading. The volume of trading dropped by more than 50%, which led the Kuwaiti government to intervene by temporarily suspending the establishment of joint-stock companies and prohibiting existing ones from increasing capital. The Kuwait Foreign Investment Company (a Kuwaiti sovereign wealth fund) took action by purchasing shares on behalf of the government from December 1977 until April 1978 with a value of nearly KD 150 million. In addition, the trading of the shares of GCC companies was suspended until 1979. However, the most important decision taken to address Kuwait's financial market crisis in 1977 was the regulation of forward sales. This decision stipulated that the payment term must not exceed 12 months and obliged buyers to pay part of the transaction value immediately. Also, contracts were to be recorded at the Ministry of Commerce upon their conclusion and stocks had to remain owned and possessed by the seller until the deferred value was settled.

The introduction of these regulations in Kuwait's official market discouraged speculators and drove them to trade in the unofficial Souk Al-Manakh market (Image 17). Historically, Souk Al-Manakh was a resting place for camels transporting the goods of merchants to and from Najd, the Levant, Iraq, Al-Ahsa, and other regions. Kuwait was, until recently, a centre for traders and travellers given its advantageous location at the tip of the Arabian Gulf, bordering Iraq to the north, the Levant to the West, and Al-Ahsa, Bahrain, and Najd to the South.

As society and means of transportation evolved, Souk Al-Manakh also evolved into more than a camel market. During the 1960s and 1970s, it became a market in Kuwait City where real estate brokers established their businesses and it also developed into an unofficial market for the trading of shares in unlisted companies. Within a few years, Souk Al-Manakh grew considerably as a result of the trading of shares in Gulf companies. When legislators in Kuwait temporarily suspended the trading of shares in GCC companies in the official market, speculators turned to Souk Al-Manakh to buy and sell the stocks of these companies and other closed Kuwaiti companies.

17 Souk Al-Manakh in Kuwait.

The regulations introduced by the Kuwaiti government to address the financial crisis of 1977 were only limited to the country's official market. Consequently, speculators took advantage of the situation and moved to the unofficial Souk Al-Manakh market where they carried out various fraudulent activities. Not only did they trade the stocks of Kuwaiti and other GCC companies that were in fact closed, but they also established many shell companies and traded their stocks at an unprecedented pace. Speculators' excessive trading was driven by the high liquidity of Kuwaiti and GCC economies resulting from oil price increases at the time.

Under these conditions, Souk Al-Manakh became a lucrative market for scammers who resorted to all kinds of schemes to trick Kuwaiti and GCC citizens into speculating on stocks that were being traded. In 1982, an outstanding 3.5 billion shares were traded in the unofficial market compared to the 837 million shares of the official market.

During the two years preceding the crisis (1981 and 1982), people engaged in forward sales. In 1980, the difference between spot and forward prices in certain transactions reached 70%. Prices continued to rise dramatically in Souk Al-Manakh, reaching 400% by 1982. This made stock trading purely speculative. Trading was purely speculative, rather than based on economic or market fundamentals.

Under these critical circumstances, especially after trading reached unprecedented levels, fear started to spread. Speculators rushed to secure liquidity to pay their dues from post-dated cheques, which were not subject to the terms of forward sales. They excessively bought overvalued shares and sold them for cash at low prices to pay off their debts. This led to an increase in the number of speculators and a sharp upsurge in prices. Some speculators were unable to pay their debts, and the crisis erupted in the summer of 1982.

Looking back at the reasons that led to the Souk Al-Manakh market crisis, economists identified several major factors:

- The formation of closed companies and the illegitimate trading of their stocks by violating the Kuwaiti law which stipulated that a closed company's shares could only be traded three years after its establishment. In fact, most stocks traded in Souk Al-Manakh market were those of shell companies with no actual activity.

- The establishment of over 40 GCC shell companies in Bahrain and the UAE and the trading of their shares in Souk Al-Manakh market immediately after their formation, which was a violation of Kuwaiti law.

- Unlike the Kuwaiti stock market crisis of 1977, the Kuwaiti authorities failed to regulate the unofficial market of Souk Al-Manakh. Measures to monitor and prevent fraud were lacking.

- Local banks were quick to provide credit facilities, overdrafts, unsecured loans, and secured personal loans. Additionally, post-dated cheques were not linked to actual accounts, and investors used these cheques to pay for trading operations, which created a problem in the cheque clearing and settlement processes. The Central Bank of Kuwait did not intervene and failed to exercise its authority in addressing such violations.

- Failure to oblige companies, as a minimum disclosure requirement, to publish their financial statements periodically in accordance with official accounting standards.

The Kuwaiti government tried to absorb the crisis and save the economy by adopting several measures. On 31st December 1982, Kuwait's Ministry of Commerce and Industry requested companies to submit their annual financial statements and value their traded shares at cost or at market value, whichever was lower. As for untraded shares, they were to be valued at cost only. In August 1983, an Emiri Decree was issued on restructuring the Kuwait Stock Exchange (KSE) to form an independent financial institution headed by the Kuwaiti Minister of Commerce.

The restructured KSE was tasked with regulating trading activities and registering brokers, as well as developing and supervising the market. Additionally, the Kuwaiti government issued Law 100 of 1983 which stipulated the settlement of all debts based on spot prices on the day of contracting, in addition to a maximum rate of 25% annually. This law reduced the debts of post-dated cheques and mitigated against insolvency and bankruptcy. The Law was followed by the issuance of legislation that managed to control the crisis and restore order to the market. Nevertheless, the losses were staggering on all levels.

The Souk Al-Manakh market crisis had a minor effect on the Saudi economy. Its impact was limited to Saudis who invested in that market. However, this crisis served as a lesson to Saudi Arabia. To avoid a similar situation, the Saudi government responded quickly to institute measures to regulate stock trading in the Saudi market.

4.5. Prevalent Trading Practices

The early days of joint-stock companies and stock tradinãwhich preceded the Saudisation of banksãlasted until 1984. During this period, stock trading firms were growing in number, many of which were originally real estate and public service firms. When these firms began trading stocks, either through proprietary trading or as brokers, the process of transferring share ownership took several months to complete. Moreover, many citizens faced difficulties in trading stocks in the absence of fair pricing mechanisms, which resulted in large price discrepancies.

Under these conditions, some stock trading firms engaged in illegal activities, such as setting unfair and unrealistic stock prices. The market lacked regulations and fraudulent trading was prevalent. Additionally, investors struggled to access accurate information amid speculation and rumours that influenced stock prices. Each stock trading firm operated independently, leading to price discrimination across the country.

These factors triggered a new dynamic that led to the introduction of regulatory measures and laid the foundation for a new phase in the development of the Saudi stock market-a topic that will be discussed in the following pages. Figure 4 highlights key developments in the Saudi stock market between 1916 and 1983.

- **1916** – Founding the National Company for Serving Residents of the Sacred Land
- **1923** – Granting an oil concession to the Eastern and General Syndicate and inviting citizens to subscribe to its shares
- **1926** – Founding the Saudi National Vehicle Joint-Stock Company
- **1931** – Commercial Law of 1931
- **1935** – Founding the Arab Vehicle Company
- **1939** – Founding the Saudi Arabian Mining Syndicate and inviting citizens to subscribe to its shares
- **1946** – Saudi National Electricity Company's IPO
- **1956** –
  - Arab Cement Company's IPO.
  - Al-Yamamah Cement Company's IPO.
- **1957** – Riyad Bank's IPO
- **1959** – National Gypsum Company's IPO
- **1965** – Companies Law of 1965
- **1975** – Saudisation of foreign bank branches
- **1976** – Mergers of electricity companies and the offering of their shares for IPO
- **1982** – Souk Al-Manakh Market Crisis
- **1983** – SABIC's IPO

04 Key Milestones of the Saudi Stock Market (1916-1983).

Phase Two

e Two

(1984- 2003)

Phase Two

Part 2: Towards New Stock Market Regulations

Chapter 5: Regulating Stock Trading
Chapter 6: Technological Development in the Stock Market
Chapter 7: Key Stock Market Milestones
Chapter 8: Stock Market Regulations: A Critical Overview

Chapter 5: Regulating Stock Trading

Electricity and cement companies were the backbone of the early Saudi stock market until the mid-1970s. When shares of Saudi banks were offered in the stock market, the public were encouraged to invest. But unlike old investors, who were passive in their approach, new investors subscribed to shares to make quick profits by selling shares shortly after purchasing them. As a result, the number of bank shareholders in 1986 decreased compared to 1981, i.e., five years after the completion of the Saudisation initiative. For example, shareholders of the Saudi American Bank decreased by more than one-half, from 102,595 in 1981 to 45,000 in 1986. The case was similar for other banks over the same period: shareholders of the Saudi British Bank, the Saudi Cairo Bank, and the Arab National Bank dropped from 8,000 to 5,000, from 6,000 to 4,000, and from 29,000 to 9,000, respectively. Nonetheless, this was a new market phase during which many segments of society were learning about investing through subscription and trading.

5.1. Primary Market Development

During the second and third state development plans (1975-1985), shareholders became more engaged in the Saudi stock market, leading to greater public participation. The government sought to stimulate the market by providing further support and becoming involved in forming joint-stock companies. Government institutions, such as the General Organization for Social Insurance (GOSI) and the Public Pension Agency (PPA), played a key role in this regard.

SABIC's subscription came after the Saudisation of banks. And having made profits from subscribing to banks shares, electricity, and cement companies, people were more aware of this type of investment. Daily trading volumes increased, and brokerage firms became more involved. These developments gave rise to an unofficial market with the potential to create a crisis similar to that of Souk Al-Manakh in Kuwait. The Saudi government deemed it necessary to regulate the unofficial market by enacting and enforcing much-needed laws and regulations.

5.2. Regulatory Development of the Stock Market

In cooperation with SAMA and the Ministry of Commerce, the Ministry of Finance considered the best ways possible to establish a robust capital market. In pursuit of this goal, His Excellency Mr. Mohammed Abalkhail, then-Minister of Finance, sent a memorandum to King Fahd Bin Abdulaziz. He highlighted the importance of market regulations to protect the rights of investors in light of the growth of joint-stock companies and unofficial market activities. Abalkhail also referred to speculations that were taking place in Souk Al-Manakh market in Kuwait and cautioned against a similar outcome. The memorandum included a proposal to limit brokerage activities to banks as well as to form a special committee to achieve intended objectives. Having read the memorandum, King Fahd gave his approval and commanded quick action.

Shortly thereafter, a committee composed of Their Excellencies Abalkhail, Minister of Commerce Dr. Sulaiman Abdel-Aziz Alsleim, and SAMA's Governor Mr. Hamad Saud Al-Sayyari, was formed to address the matter. In 1983, the Committee submitted a report which recommended limiting stock trading to Saudi banks and forming a committee by the Ministry of Finance, the Ministry of Commerce, and SAMA to introduce and supervise the enforcement of relevant regulations.

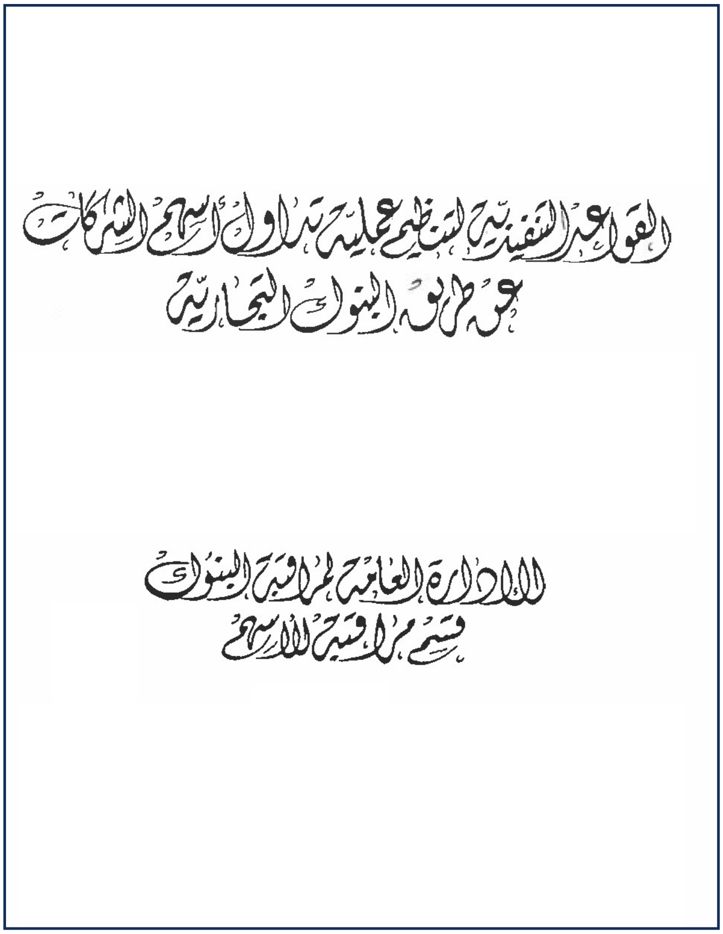
On 24th April 1983, Royal Decree 1230/8 (Document 37) regulated stock trading through Saudi banks starting from 23rd November 1984, thus paving the way for a new phase of stock trading regulation. Afterwards, SAMA issued executive rules to regulate trading through commercial banks.

The first stock trading regulation aimed to end brokerage firms' unofficial practices by limiting trading to commercial banks, which were obligated to have central and secondary trading units at their headquarters and branches across the country. Banks were also prevented from proprietary trading and were only allowed to trade on behalf of their clients. Additionally, banks were responsible for the registration and re-registration of shares. The Standing Supervisory Committee set brokerage commission and fees for registering share certificates charged by banks at no more than 1% of the shares' market value.

The new regulation led to the formation of a trilateral Ministerial Committee composed of the Minister of Finance and National Economy, the Minister of Commerce, and SAMA's Governor. Consequently, a trilateral executive committee composed of ministerial undersecretaries was created to supervise stock trading practices. The new regulation entrusted SAMA's Stock Control Department with the responsibility of following up on daily activities. Figure 4 illustrates the organisational structure of the Saudi stock market between 1984 and 2003.

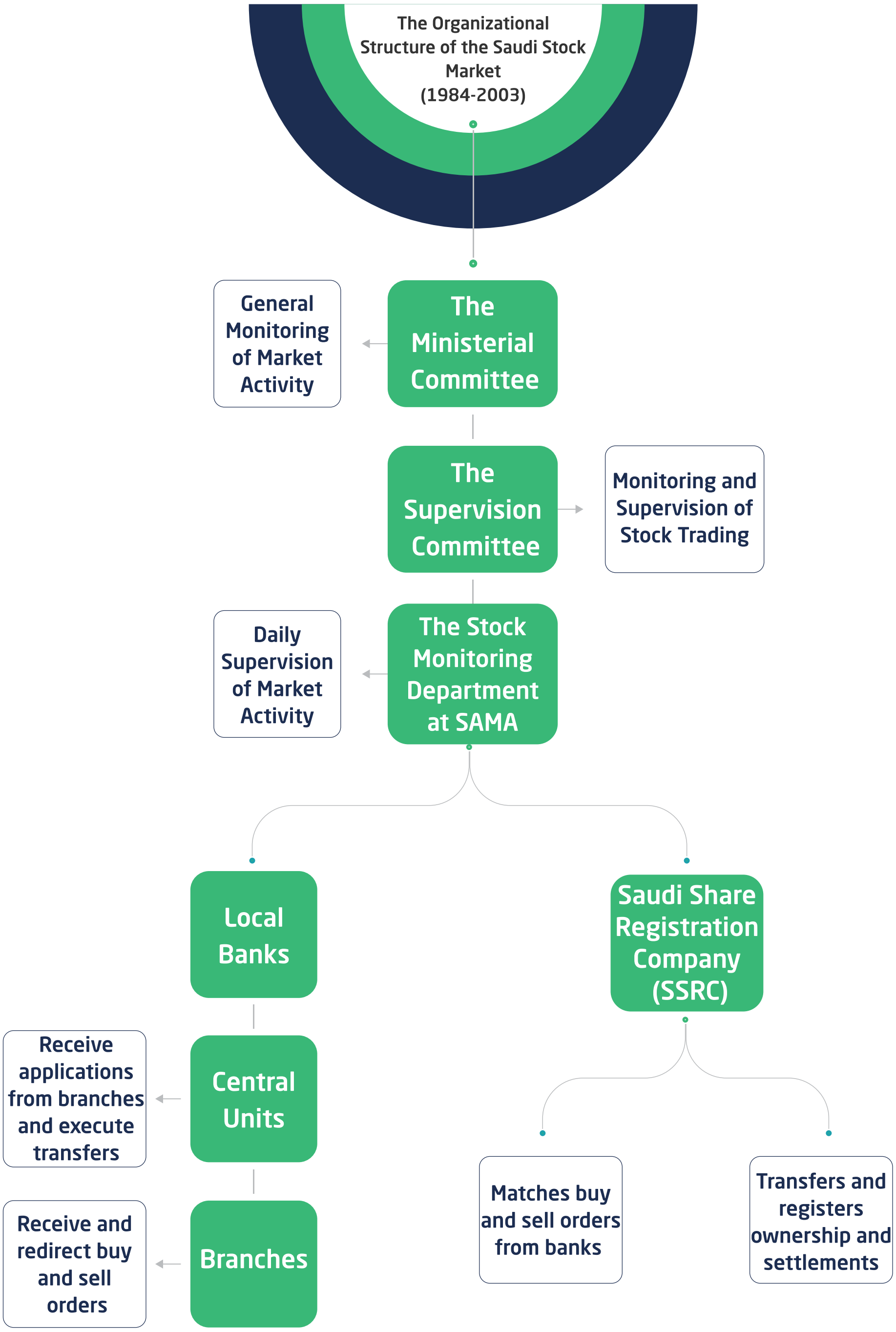
5.2.1. Ministerial Committee

Formed in 1984, the Ministerial Committee was tasked with overall market supervision and regulation by introducing relevant laws, controls, and policies. It also had the authority to decide on requests made by the Standing Supervisory Committee regarding stock trading suspensions exceeding one week, as well as other related matters. Members of the Ministerial Committee included Their Excellencies Mohammed Abalkhail, Minister of Finance and National Economy; Dr. Sulaiman Alsleim, Minister of Commerce; and Hamad Al-Siyari, Governor of SAMA.


القواعد التنفيذية لتنظيم عملية تداول أسهم الشركات
عن طريق البنوك التجارية

الإدارة العامة لمراقبة البنوك
قسم مراقبة الأسهم

37 Royal Decree Regulating Stock Trading through Operating Saudi Banks.



05 Organisational structure of the Saudi Stock Market (1984-2003)

5.2.2. Standing Supervisory Committee (SSC)

The Ministerial Committee established the Standing Supervisory Committee (SSC), which was composed of three ministerial representatives: His Excellency Jammaz Al-Suhaimi, Director-General of Banking Control at SAMA and later Deputy Governor of SAMA, Chairman of SSC, and first Chairman of the Capital Market Authority (CMA); Mr. Suliman Al-Mandeel from the Ministry of Finance and National Economy, who was later succeeded by Mr. Mansour Al-Maiman; and Mr. Munir Nawar Al-Otaibi from the Ministry of Commerce. SSC was entrusted with enforcing the Ministerial Committee's resolutions and proposing ways to improve market efficiency. Quarterly reports were submitted to the Ministerial Committee and SSC meetings were convened at SAMA's headquarters with decisions constituting a two-thirds majority vote.

SSC was entitled to obtain relevant information from banks and companies, suspend trading for no more than a week based on public interest, and suspend trading in the market pursuant to the Ministerial Committee's approval. Instructions issued at the time included banning forward contracts and prohibiting the use of post-dated cheques, promissory notes, or trade bills as payments for purchased shares (lessons learned from the Souk Al-Manakh market crisis). As for banks, they were responsible for preventing any violation of these instructions. The enforcement of decisions happened gradually as supervisory entities drew on the experiences of developed countries and ensured investors' needs were met without disrupting the market.

The earliest market regulations date back to 1985. However, supervision was not up to par, especially of brokerage firms, who were still trading shares in a disorganised manner. Additionally, these firms were the only way through which investors were able to access market information related to supply and demand and daily prices. At the same time, selling one's shares was a daunting task as shareholders usually had to find buyers themselves. There were also delays in maintaining and updating company records, which forced investors to wait for over 15 days to have their transactions settled.

Other challenges were also at hand. Dividend distribution was problematic, primarily because of a lack of accurate, updated information, which resulted in stock registration and ownership issues. Additionally, dividends were received when an invitation was made to visit banks or upon submitting dividend coupons attached to share certificates (Document 30 is an example of dividend coupons).

SSC soon realised the need for swift action and the importance of establishing an independent entity to be competent with the affairs of trading and traders and to be the core of the legislative and regulatory market entity. The above is fruited in the establishment of SAMA's Stock Control Department. The Department played an executive role by implementing regulations and supervising market operations directly. It also had a role in proposing regulations and instructions for daily market activities.

5.2.3. SAMA

Under the new regulatory structure, trading was limited to Saudi banks under SAMA's supervision. SAMA worked to prevent brokerage firms from engaging in stock trading from 1985. The Ministerial Committee realised that banks were better able to carry out this task because they were directly supervised and monitored by the state through SAMA. Banks provided a regulated and reliable service to clients, and the banking network of 400 bank branches throughout Saudi Arabia meant that citizens had access to stock trading services.

5.2.4 Stock Control Department

The Stock Control Department was established by SSC to supervise day-to-day market activities, specify trading hours for bank central units, and analyse daily trading operations. The department also identified and published daily opening and closing prices, supervised the training of bank staff, and received stock transfer reports from traded companies. The Stock Control Department notified banks and companies of instructions issued by the Ministerial Committee or SSC, received complaints, and published informative materials to raise public awareness concerning stock trading.

5.2.5. Central Trading Units in Banks

Following the Royal Order limiting brokerage services to banks, banks moved quickly to assume this new role. This period laid the cornerstone for market regulation. Each operating bank was obligated to dedicate a central trading unit at its headquarters or at its Riyadh-based branch. Central trading units received trading requests from branches and carried out trading operations with other banks.

Competent Saudi personnel were trained and appointed for trading operations. Candidates to be employed in central trading units had to be endorsed by SAMA's Stock Control Department. As employees, traders were subject to the internal controls of the banks. Banks acting as brokers ensured that trading activities were compliant with relevant laws and regulations. Bank-employed traders were prohibited from trading for their personal benefit or on behalf of a first-degree relative.

There were a total of twelve central trading units operated by Saudi banks. The units processed branch orders and sent remittances. As for bank branches, they managed stock trading by receiving purchase orders and advance payments, transferring funds within two days of sale, and transferring new stock certificates to buyers within two weeks of purchase.

To facilitate trading and process same-day orders banks used telephones and fax machines to communicate between branches and central trading units. Banks were also required to send stock ownership certificates along with market orders, thus allowing central trading unit brokers to match them with those received from other central and secondary units.

5.2.6. Trading Mechanisms

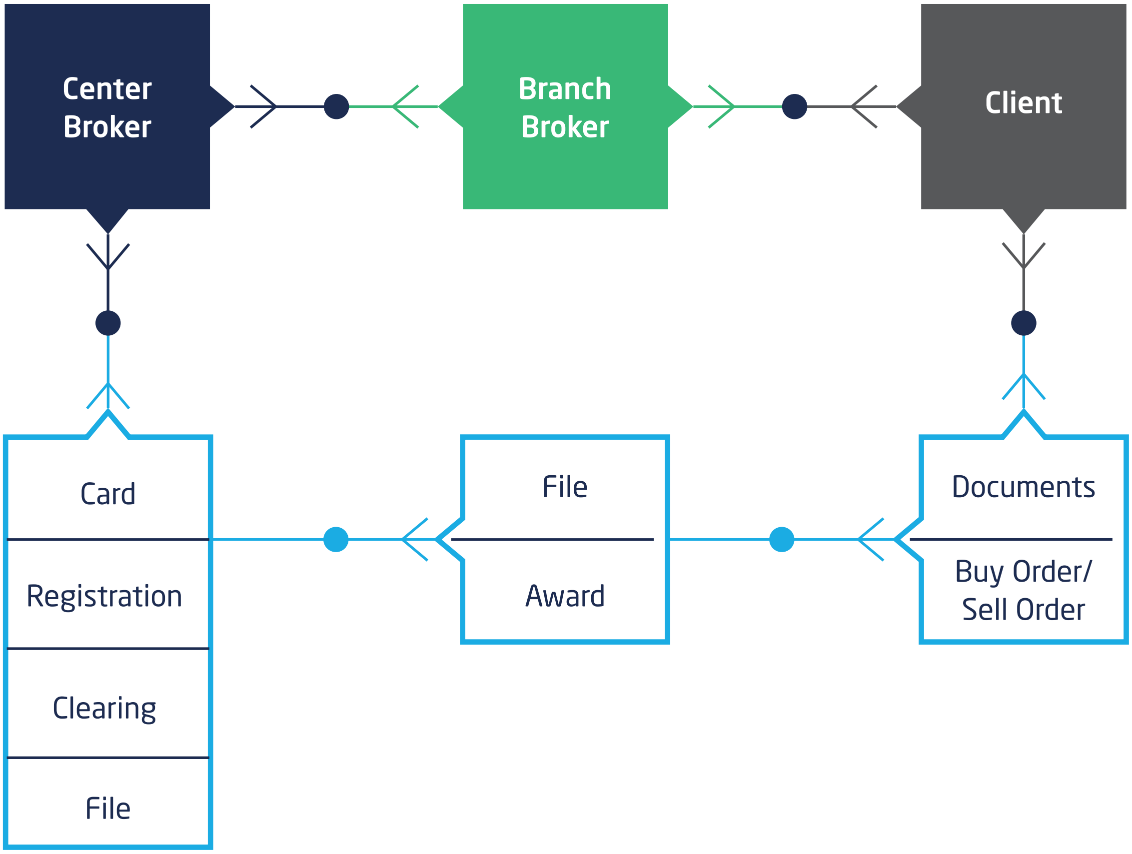
Regulatory rules for stock trading via Saudi banks set out the basic lines to the sequence of procedures of brokerage in stock trading. First, a client or their legal agent would submit an order form (consisting of an original and a copy) containing all relevant data, such as personal information, number of stocks to be bought or sold, ask and bid prices, as well as an authorisation allowing the bank to process the order.

A branch broker would receive an order, validate it, and fax a copy to the bank's central trading unit on the same day. After that, central trading unit brokers would match orders with those received from branches or from other central units of other banks in the clearing house. Once matching was complete, central trading unit brokers would draft trade forms and branches would later send share certificates to buyers after transferring ownership on their behalf.

Regulations also determined the conditions for pricing and supply and demand. Clients were allowed to set their own prices and were able to delegate the bank to trade according to the best available price. Moreover, central trading units were banned from trading any shares for prices other than those determined by clients.

Central trading units were initially not allowed to buy or sell more than 10,000 shares of a company for a single client at once and on the same day. However, this limitation was lifted on 8th October 1985 pursuant to a decision made by SSC and circulated by SAMA.

The following Figure 6 illustrates the trading process that took place through Saudi banks.



06 The Operational flow of the trading process

5.2.7. Saudi Shares Registration Company

Market regulators were faced with challenges relating to ownership transfers and a lack of records. Joint-stock companies issued documents in the form of ownership certificates, which were bought by shareholders via brokerage firms. There were various types of certificates, and some of them were bearer, i.e., based on possession, which meant anyone holding them had a claim to them. Numbered coupons (see Document 30) were also prevalent as companies announced dividends for specific coupons; these were disposed of as soon as their holders had collected their payments, hence risking the rights of coupon holders if certificates were sold before distributing dividends. What made matters worse was the lack of records, which caused ownership transfer problems as shares were simply sold through brokerage firms who failed to keep records of the transaction. There were even cases where companies were unaware that ownership of some of their shares had been transferred.

Ownership and partnership were prevalent concepts among founders of joint-stock companies. General assemblies were limited to founders with minimal regulatory oversight. The manual processing of orders and the requirement to be physically present at the respective company were also problematic and time-consuming. Regulators under the new regulatory framework faced a number of challenges in this regard.

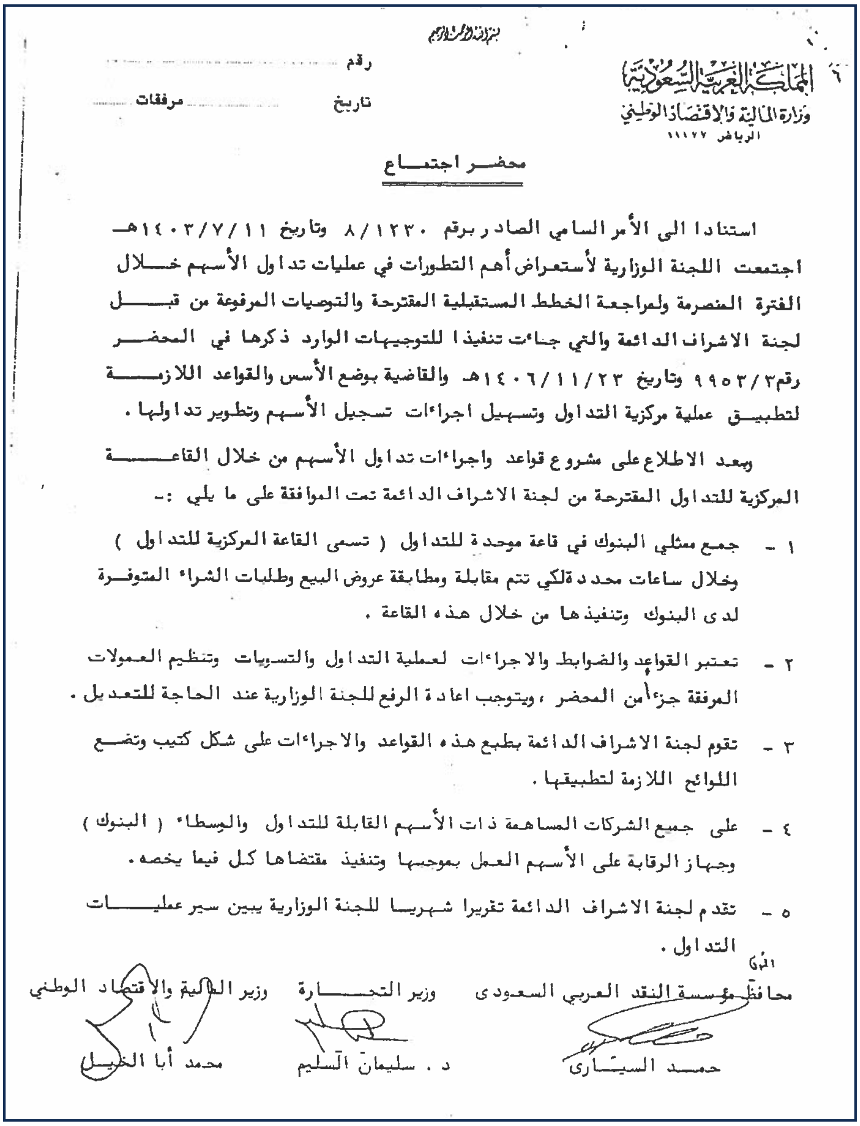
All these factors created a strong impetus for the creation of the Saudi Shares Registration Company (SSRC), which was responsible for ownership transfers, recordkeeping, and settlement. SSRC was founded in 1984 as a joint effort by all Saudi banksãwith the exception of Alrajhi bank. Each bank contributed SAR 1 million, leading to total company capital of SAR 11 million. The company's statute stipulated its direct affiliation with SAMA and highlighted its main responsibilities, such as managing corporate records, distributing dividends on behalf of joint-stock companies, matching and balancing orders received from banks, settling transactions, and bookkeeping. However, dealing with SSRC was optional for joint-stock companies.

SSRC's board of directors were comprised of representatives of the founding banks. Despite lacking a directive from the government requiring companies to transfer their records to SSRC, SSRC management team attracted corporations by offering effective, low-cost services. However, this approach proved inadequate as SSRC's capital started diminishing after failing to generate sufficient revenues from its services. To address the situation, SAMA acquired SSRC to invest in it. SSRC operated until 2007 when its functions were transferred to the capital market, following its inception in the Second Phase.

The new regulatory framework and operational improvements breathed new life into the capital market. The Ministry of Commerce supervised the primary market, including subscriptions, while SAMA oversaw secondary-market trading. Moreover, SSRC facilitated and centralised registration for joint-stock companies and handled settlements and clearing. The operating banks established large branch units similar to the central units based in Riyadh. As a result, traders were attracted to the banks as a better trading experience was provided.

5.3. Central Trading Hall

The newly formed Ministerial and Standing Supervisory Committees considered adopting the traditional stock exchange model of a central trading hall as the ideal solution for many trading issues, such as price discovery. This problem, among others, led to subdued liquidity in the market. To achieve centralisation, the Central Trading Hall (CTH) was established. CTH was the first attempt to create a regulated market where bank representatives would gather during certain hours to match orders and process transactions according to specific rules and procedures. On Monday, 11th May 1987, CTH commenced operations, and the Ministerial Committee issued a circular instructing banks and corporations to limit all stock trading operations to CTH. The hall was located on the ground floor of the Industrial Development Fund building on King Abdulaziz Street in Riyadh. SAMA's Stock Control Department managed CTH and implemented the Standing Supervisory Committee's instructions. Document 38 is the Ministerial Committee's minutes of the meeting on CTH.



بسم الله الرحمن الرحيم

المملكة العربية السعودية
وزارة المالية والاقتصاد الوطني
الرياض ١١١٧٧

رقم ....
تاريخ .... مرفقات ....

محضـــر اجتمـــاع

استنادا الى الأمر السامي الصادر برقم ٨/١٢٣٠ وتاريخ ١٤٠٣/٧/١١هـ اجتمعت اللجنة الوزارية لأستعراض أهم التطورات في عمليات تداول الأسهم خلال الفترة المنصرمة ولمراجعة الخطط المستقبلية المقترحة والتوصيات المرفوعة من قبل لجنة الاشراف الدائمة والتي جاءت تنفيذا للتوجيهات الوارد ذكرها في المحضر رقم٣/٩٩٥٣ وتاريخ ١٤٠٦/١١/٢٣هـ والقاضية بوضع الأسس والقواعد اللازمة لتطبيق عملية مركزية التداول وتسهيل اجراءات تسجيل الأسهم وتطوير تداولها .

وبعد الاطلاع على مشروع قواعد واجراءات تداول الأسهم من خلال القاعة المركزية للتداول المقترحة من لجنة الاشراف الدائمة تمت الموافقة على ما يلي :-

١ - جمع ممثلي البنوك في قاعة موحدة للتداول (تسمى القاعة المركزية للتداول) وخلال ساعات محددة لكي تتم مقابلة ومطابقة عروض البيع وطلبات الشراء المتوفرة لدى البنوك وتنفيذها من خلال هذه القاعة .

٢ - تعتبر القواعد والضوابط والاجراءات لعملية التداول والتسويات وتنظيم العمولات المرفقة جزءا من المحضر ، ويتوجب اعادة الرفع للجنة الوزارية عند الحاجة للتعديل .

٣ - تقوم لجنة الاشراف الدائمة بطبع هذه القواعد والاجراءات على شكل كتيب وتضع اللوائح اللازمة لتطبيقها .

٤ - على جميع الشركات المساهمة ذات الأسهم القابلة للتداول والوسطاء (البنوك) وجهاز الرقابة على الأسهم العمل بموجبها وتنفيذ مقتضاها كل فيما يخصه .

٥ - تقدم لجنة الاشراف الدائمة تقريرا شهريا للجنة الوزارية يبين سير عمليات التداول .

وزير المالية والاقتصاد الوطني	وزير التجارة	المكلف محافظ مؤسسة النقد العربي السعودي
محمد أبا الخيل	د . سليمان السليم	حمد السياري

38 Ministerial Committee's Minutes of the Meeting on CTH.

Document 39 is a letter from the Director-General of Banking Control to a Saudi bank on commencing work at CTH.

مؤسسة النقد العربي السعودي
المركز الرئيسي، الرياض

إدارة العامة لمراقبة البنوك
رقم: م/م/٣١٢
في: ٩ شوال ١٤٠٧

عاجل

سعادة / المحترم

بعد التحيه :-

اشارة لخطابنا رقم (/م/أ/) وتاريخ (١٤٠٧/٨/٣هـ) الموافق ١٩٨٧/٤/١م ، وفي ضوء الاجراءات التنظيميه الجديده لعمليات تداول الاسهم من خلال القاعه المركزيه للتداول ، والتي سوف تتم بواسطة ممثلي البنوك

فأننا نود احاطتكم بانه تقرر بدء تنفيذ عمليات تداول الاسهم عن طريق القاعه المركزيه للتداول اعتبارا من يوم الاثنين ١٤٠٧/٩/١٣هـ الموافق ١٩٨٧/٥/١١م .

لذا نأمل تعميد الوحده المركزيه بالبنك بذلك ،

مع خالص تحياتي ...

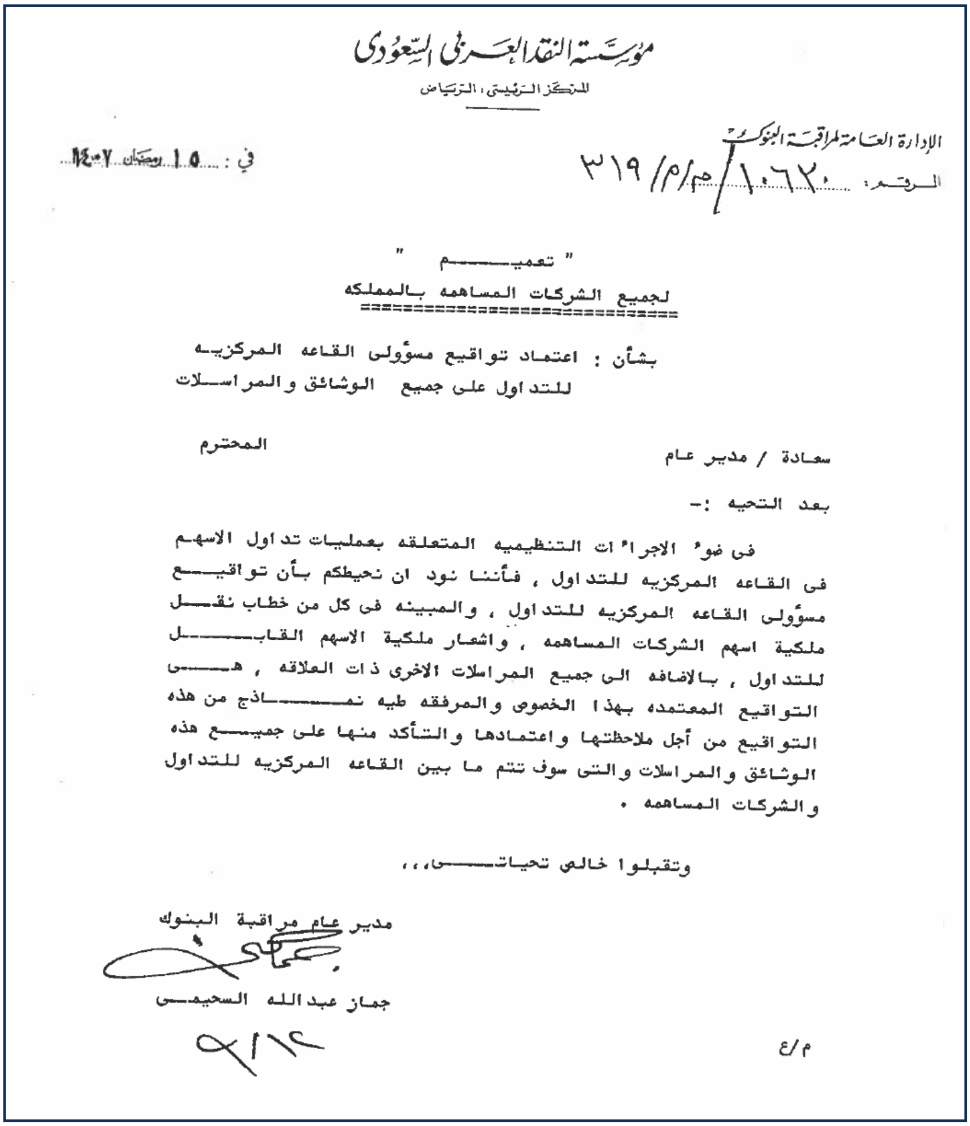
مدير عام مراقبة البنوك
جماز عبد الله السحيمي
٩/١٢

م/ع

العنوان البريدي : الرياض ١١١٦٩ المملكة العربية السعودية ، برقياً مركزي ، تلكس مركزي ٢٠٤٤٠٠ تلفون ٤٦٢٢٠٠٠

39 A Letter from the Director-General of Banking Control on Commencing Work at CTH.

Document 40 shows the circular sent by the Director-General of Banking Control to all joint-stock companies on adopting the signatures of CTH officials. Instructions stipulated that bank brokers must gather daily at CTH during certain hours to process orders through open call auction. There were four main sets of CTH regulatory instructions dedicated to joint-stock companies, brokers, management, and post-trade processing. These will be further discussed in the following pages.



مؤسسة النقد العربي السعودي
المركز الرئيسي : الرياض

الإدارة العامة لمراقبة البنوك
الرقم : ١٠٦٢٠/م/م/٣١٩

في : ١٥ رمضان ١٤٠٧

" تعميـــم "
لجميع الشركات المساهمه بالمملكه

بشأن : اعتماد تواقيع مسؤولي القاعه المركزيه للتداول على جميع الوثائق والمراسلات

سعادة / مدير عام المحترم

بعد التحيه :-

في ضوء الاجراءات التنظيميه المتعلقه بعمليات تداول الاسهم في القاعه المركزيه للتداول ، فأننا نود ان نحيطكم بأن تواقيع مسؤولي القاعه المركزيه للتداول ، والمبينه في كل من خطاب نقل ملكية اسهم الشركات المساهمه ، واشعار ملكية الاسهم القابل للتداول ، بالاضافه الى جميع المراسلات الاخرى ذات العلاقه ، هي التواقيع المعتمده بهذا الخصوص والمرفقه طيه نماذج من هذه التواقيع من أجل ملاحظتها واعتمادها والتأكد منها على جميع هذه الوثائق والمراسلات والتي سوف تتم ما بين القاعه المركزيه للتداول والشركات المساهمه .

وتقبلوا خالص تحياتي ،،

مدير عام مراقبة البنوك

جماز عبد الله السحيمي

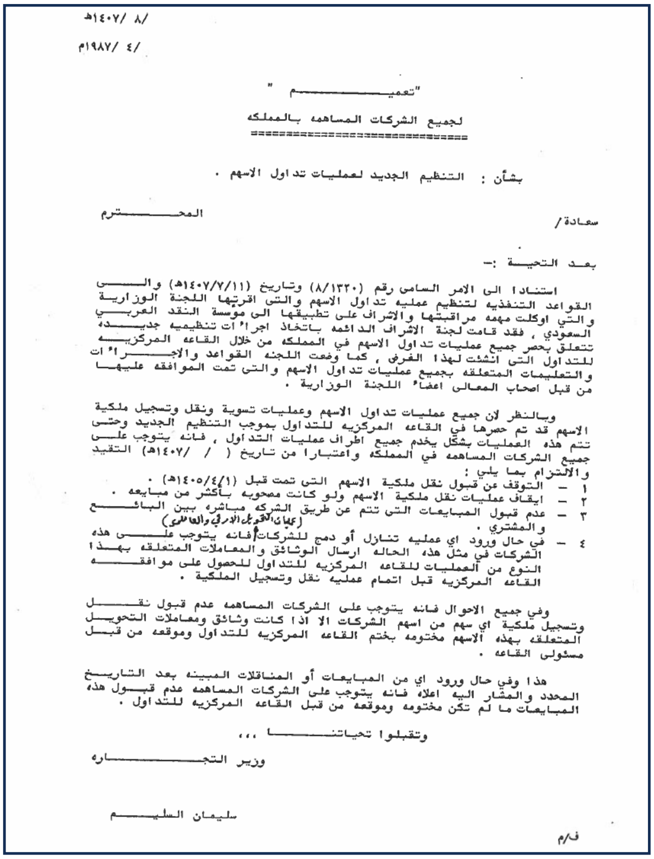
م/ع

40 The Circular of the Director-General of Banking Control on Adopting the Signatures of CTH Officials.

5.3.1. Joint-stock Companies

The first set of instructions is about joint-stock companies. Trading activities at CTH were limited to Saudi-owned joint-stock companies and foreign capital companies, provided that the latter's stock ownership was not transferred to foreigners. The instructions also obliged joint-stock companies to cease stock ownership transfer and registration, thus limiting these activities to CTH. The only exceptions were the transfer of ownership as inheritance or between spouses.

Additionally, companies were instructed to reject all documents that were not stamped by CTH and to give CTH access to shareholder records. For stock ownership and transfer contracts and documents requests, companies had to finalise such transactions within a week. To comply with this instruction and facilitate ownership transfers, joint-stock companies resorted to opening representative offices in Riyadh, appointing agents, or delegating SSRC to act on their behalf. Document 41 is the Ministry of Commerce's circular to joint-stock companies regarding CTH.



/ ٨/ ١٤٠٧هـ
/ ٤/ ١٩٨٧م

"تعميـــــــــــــــــم"

لجميع الشركات المساهمه بالمملكه

بشأن : التنظيم الجديد لعمليات تداول الاسهم .

سعادة / المحـــــــــترم

بعـد التحيـــة :-

استنادا الى الامر السامى رقم (٨/١٣٢٠) وتاريخ (١٤٠٧/٧/١١هـ) والـــى القواعد التنفذيه لتنظيم عمليه تداول الاسهم والتى اقرتها اللجنة الوزارية والتي اوكلت مهمه مراقبتها والاشراف على تطبيقها الى موسسة النقد العربـــي السعودي ، فقد قامت لجنة الاشراف الدائمه باتخاذ اجراءات تنظيميه جديـــده تتعلق بحصر جميع عمليات تداول الاسهم في المملكه من خلال القاعه المركزيـــه للتداول التى انشئت لهذا الغرض ، كما وضعت اللجنه القواعد والاجـــراءات والتعليمات المتعلقه بجميع عمليات تداول الاسهم والتى تمت الموافقه عليهـــا من قبل اصحاب المعالى اعضاء اللجنة الوزارية .

وبالنظر لان جميع عمليات تداول الاسهم وعمليات تسوية ونقل وتسجيل ملكية الاسهم قد تم حصرها في القاعه المركزيه للتداول بموجب التنظيم الجديد وحتـى تتم هذه العمليات بشكل يخدم جميع اطراف عمليات التداول ، فانه يتوجب علـى جميع الشركات المساهمه في المملكه واعتبارا من تاريخ (/ /١٤٠٧هـ) التقيد والالتزام بما يلي :

١ – التوقف عن قبول نقل ملكية الاسهم التى تمت قبل (١٤٠٥/٤/١هـ) .
٢ – ايقاف عمليات نقل ملكية الاسهم ولو كانت مصحوبه بأكثر من مبايعه .
٣ – عدم قبول المبايعات التى تتم عن طريق الشركه مباشره بين البائـــع والمشتري . (عدا بنك التوفيق الأردني والعالمي)
٤ – في حال ورود اي عمليه تنازل أو دمج للشركات فانه يتوجب علـــى هذه الشركات في مثل هذه الحاله ارسال الوثائق والمعاملات المتعلقه بهـذا النوع من العمليات للقاعه المركزيه للتداول للحصول على موافقـــه القاعه المركزيه قبل اتمام عمليه نقل وتسجيل الملكية .

وفي جميع الاحوال فانه يتوجب على الشركات المساهمه عدم قبول نقـــل وتسجيل ملكية اي سهم من اسهم الشركات الا اذا كانت وثائق ومعاملات التحويـــل المتعلقه بهذه الاسهم مختومه بختم القاعه المركزيه للتداول وموقعه من قبـــل مسئولى القاعه .

هذا وفي حال ورود اي من المبايعات أو المناقلات المبينه بعد التاريـــخ المحدد والمشار اليه اعلاه فانه يتوجب على الشركات المساهمه عدم قبـــول هذه المبايعات ما لم تكن مختومه وموقعه من قبل القاعه المركزيه للتداول .

وتقبلوا تحياتنـــــــــا ،،،

وزير التجـــــــــــــاره

سليمان السليـــــم

ف/م

41 A Circular of the Ministry of Commerce to Joint-stock Companies regarding CTH-related Instructions.

5.3.2. Brokers (Banks)

Bank brokers were the second market element addressed by SAMA's instructions. As discussed earlier, banks were obligated to dedicate central trading units at their headquarters or at their Riyadh-based offices to receive branch requests. Moreover, a bank's central trading unit had to have two competent brokers—authorised and licensed by SAMA—to perform stock trading transactions at CTH. Central trading unit personnel were subject to each bank's administration, which was accountable for the brokers' actions. Brokers had to be Saudi citizens, and one of them had to be at least 25 years old. Both of them had to be high school graduates or obtain an equivalent qualification. Central trading units maintained their records as per the Stock Control Department's accounting standards, which were to be observed along with other regulations issued by supervisory entities. Additionally, all transactions were to be carried out at CTH and within official trading hours. Traded shares had to be free of statutory restrictions and violations and central trading units were banned completely from accepting bills of exchange, post-dated cheques, or promissory notes as payments for shares.

Trades executed at CTH were subject to commissions of no more than 1% of the shares' market value and no less than SAR 10, as per SSC. After founding CTH, commissions were paid by both buyers and sellers instead of the former only.

At first, banks were hesitant to adopt these new measures, and continued to trade as they had done previously, leading to very low trading volumes at CTH. For example, during

تقرير من : لجنة القاعه .
الى : اعضاء لجنة الاشراف الدائمه

منذ افتتاح القاعه المركزيه للتداول يوم الاثنين الموافق ١٤٠٧/٩/١٣هـ حتى يوم الاثنين (١٤٠٧/٩/٢٠هـ) ، تم عقد (٥٧) صفقه وتبلغ كمية الاسهم (٢٩٥ر١٠) سهم بقيمه اجماليه قدرها (١٩٧ر١٢٩ر١) ريال . وفيما يلى نرفق لكم جدول يوضح حركة التداول خلال الاسبوع المنصرم لافتتاح القاعه :-

اليوم	عدد الصفقات	كمية الاسهم	قيمة الاسهم	الشركات المتداوله
الاثنين ١٤٠٧/٩/١٣هـ	٣	٥٥	١٢٠ر٧	٣
الثلاثاء ١٤٠٧/٩/١٤هـ	٥	٢١٨	٨٦٠ر٩٠	٢
الاربعاء ١٤٠٧/٩/١٥هـ	٥	٣٠٠	٣٣٠ر٣٦	٤
السبت ١٤٠٧/٩/١٨هـ	٧	١٩٩ر٧	٨١٨ر٦٦٦	٥
الاحد ١٤٠٧/٩/١٩هـ	١٩	٨٤٣	٣٣٤ر١٢٥	١٤
الاثنين ١٤٠٧/٩/٢٠هـ	١٨	٧٨٠ر١	٧٣٥ر٢٠٢	١١
المجموع	٥٧	٢٩٥ر١٠	١٩٧ر١٢٩ر١	٣٩

ونلاحظ من هذا البيان ان حركة التداول على الاسهم ضعيفه مقارنة بالاسابيع السابقه لافتتاح القاعه ونعتقد انها تعود لعدد من الاسباب منها :-

(١) التأخير فى تبليغ البنوك بتاريخ بدء عملية التداول من خلال القاعه ولذلك استمرت الوحدات المركزيه على النظام القديم للتداول حتى تاريخ الافتتاح ، مما ترتب على ذلك ان تقوم البنوك بتصفية العمليات القديمه التى التزمت بتنفيذها للعملاء (بنك القاهره سلم القاعه (٣٠٠) عمليه يوم الثلاثاء اليوم الثانى للتداول) .

(٢) كان تداول اصحاب المكاتب السابقه يشكل (٤٠٪) من حجم التداول اليومى تقريبا ونلاحظ فى فتره الاسبوع الاول للتداول عن طريق القاعه احجامهم عن التداول ويتبن ذلك من خلال الصفقات التى عقدت فى هذا الاسبوع .

(٣) اتسمت الفتره السابقه من افتتاح القاعه بالحذر من الوسطاء وذلك للمسؤوليات الجديده التى القيت على عاتقهم نتيجة للنظام الجديد .

ملاحظات عامه :-

نعتقد انه لابد من اتخاذ قرار من قبل لجنتكم الموقره حول العمليات الكبيره والمتوسطه وطريقة تنفيذها داخل قاعة التداول .

لجنة القاعه

42 A Report on Trading Volumes at CTH One Week after Inception.

CTH's first day in operation, which was on 11th May 1987, only three transactions worth SAR 7,120 were made for 55 shares of three listed companies. The following day, only five transactions worth SAR 90,860 were made for 218 shares of two listed companies. These figures did not reflect the actual size of the Saudi market, nor did they correspond to trading volumes processed by banks before CTH's inception. To address the situation, SSC obliged banks to settle their transactions at CTH as a requirement for completing trading procedures.

However, one week later, on 18th May 1987, trading at CTH remained low, as only 57 transactions with a value of SAR 1,129,197 were executed, representing 10,295 shares of 39 listed companies. This made SSC address banks once again by directing them to adhere to instructions and asking them to re-settle all trading transactions that took place outside of CTH. Document 42 is a report on trading volumes in CTH one week after its inception.

5.3.3. The Management

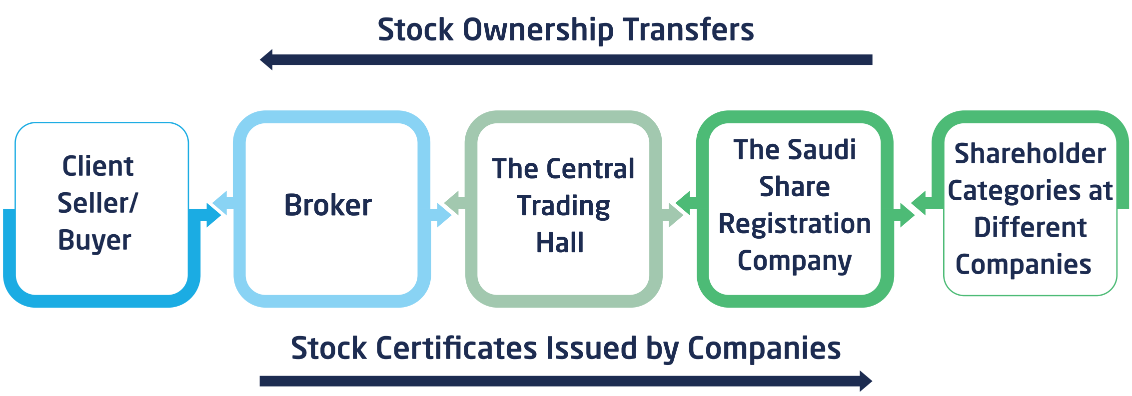
The third set of CTH instructions was directed at the Stock Control Department, which was in charge of trading, clearing, and settlement procedures. SSC determined the rules for operation of CTH and assigned SAMA's Stock Control Department to oversee daily transactions at the hall and form a committee of five members: a CTH officer and an assistant (both affiliated with SAMA), a representative of the Ministry of Finance, a representative of the Ministry of Commerce, and a representative of bank brokers to be elected periodically. CTH operations were set to begin every day at 10 a.m., except for Thursdays and Fridays, after all bank representatives had arrived and recorded their attendance.

The CTH officer would first call out company names by sector in alphabetical order while a registrar recorded companies' closing prices on a board. After that, bank representatives would submit their orders, which the registrar recorded by highlighting the bank broker's name, quantity, and bid price. Priority was given to the highest bid and lowest ask. Once orders matched, The CTH officer would declare the transaction complete by ringing a bell. The process would then be repeated for remaining companies. After the transaction was made, two brokers (representing the buyer and seller) would sign a CTH contract outlining the number of shares and their price. The CTH contract was the main document used to determine prices and complete clearing and settlement procedures. At the end of the trading session, CTH would issue a daily bulletin summarising trading transactions and prices, which was published in newspapers and broadcast on radio and television.

5.3.4. Post-Trade

The last set of CTH-related instructions were meant to address post-trade procedures: clearing, settlement, and share ownership registration. According to CTH rules, these procedures were supposed to be settled within two business days of signing The CTH contract. A seller's broker was obligated to submit share certificates or notices and other relevant documents to CTH's Settlement Division, while a buyer's broker was obligated to sign a statement of the amount to be paid on settlement day. After signing all CTH contract documents, a committee member would timestamp the contract and record its contents on a computer so that banks would receive a full report of the brokers' transactions. After this, the Settlement Division would endorse the transaction by signing the brokers' SAMA-issued account statements. On the third or fourth day of the transaction, an employee would issue tradable ownership receipts in the client's name. Lastly, the Saudi Shares Registration Company would complete stock ownership transfers and send copies of the transfer and registration documents to joint-stock companies' shareholder divisions. The issuance of ownership receipts in the name of new buyers happened for the first time at CTH, and those receipts were prohibited from being traded outside the hall.

The process of share ownership transfers at CTH is highlighted in Figure 7.



07 The Process of Share Ownership Transfers at CTH.

CTH was short-lived as the hall was operated for one week only, and the system of central trading units was restored. Those who witnessed the days of CTH attributed its discontinuation to several factors, namely: lack of trading competence and high transaction costs, especially given the country's large territory and dispersed population centres; the international trend toward adopting automated trading systems; compatibility of banking payments systems and those used for the settlement of stock trading; and the ambiguity surrounding the compliance of some financial transactions with Islamic principles.

5.4. Development of Settlement and Clearing

Front office refers to interactions with the market and trading activities. The back office refers to post-trade, clearing, and settlement. Within the Saudi market, post-trade procedures for clearing and settlement usually took between one to three weeks to complete, imposing great difficulties on investors. The Ministerial Committee had to find solutions to accelerate this system. To further develop critical market operations and maintain stability, the Committee conducted in-depth studies to identify obstacles related to the post-trade processes.

The Ministerial Committee and SSC decided to develop back-office procedures with the aim of avoiding any potential conflicts with brokerage firms. Representatives of brokerage firms delivered off-market trades to the back offices of banks, and these were submitted to central trading units to be stamped and forwarded to SAMA to transfer and document the change in ownership, before sending orders back to the central trading units. This process was free of charge and took two to three days to complete. Eventually, brokerage firms would receive the new share certificates or notices and give these to investors.

The formation of SSRC and its continuous efforts to sign agreements with joint-stock companies to manage shareholder registers continued. This led to SAMA's Stock Control and Banking Technology departments seeking to define technical requirements required for the development of an automated system to perform accounting, clearing, and settlement operations.

SAMA contracted a company in 1987 to develop a system, which was meant to settle transactions and maintain, manage, and update corporate and individual records.

In the same year, on 19th October 1987, the Black Monday crisis took international capital markets by surprise. The crisis hit the Hong Kong Stock Exchange first and quickly spread to European stock exchanges, leading to disastrous outcomes on Wall Street as the Dow Jones Industrial Average fell 508 points (a 23% drop in market value) in a single day. Inevitably, the crisis had a far-reaching effect on other US economic sectors.

Despite having limited impact on Saudi investments in the US, the Black Monday crisis had a positive effect on the Saudi market, pushing Saudi investors to repatriate their investments. Consequently, trading volumes in the Saudi capital market grew remarkably in the two years to follow; from 10,833 transactions representing five million shares with a market value of SAR 831 million in 1986 to a total of 23,267 transactions representing 12 million shares valued at SAR 1.68 billion in 1987. In 1988, the total number of transactions further increased to 42,000 for 15 million shares with a value of SAR 2.03 billion.

Authorities remained focused on developing an automated back-office system. Automated clearing and settlement became the first system of its type to be implemented in the history of the Saudi capital market. This advanced process helped to standardise back-office procedures. SSRC was assigned the responsibility of managing the system's two critical functions: 1) clearing and settlement, which handled aspects of maintaining records, recording transactions, and reflecting cash settlements and balances on banks' statements; and 2) corporate recordkeeping, which facilitated the acceleration of transactional procedures and record updates.

When the system was first introduced, some companies were hesitant to share or transfer their shareholder registers to SSRC, which was initially only managing a small number of company shareholder registers. However, investors quickly realised the time-saving aspect of the system as they were able to settle and clear their orders more efficiently through SSRC. Therefore, since it took much longer to process transactions and transfers through joint-stock companies, shareholders pushed for companies to transfer their share registers to SSRC. As a result, many companies signed agreements with SSRC. Documents 43 to 45 are examples of stock certificates of joint-stock companies between 1998 and 2000.

بسم الله الرحمن الرحيم

رقم الشهادة

عدد الأسهم ٣٣

بنك الرياض

شركة مساهمة سعودية - المركز الرئيسي: الرياض

سجل تجاري : ١٠١٠٠٠١٠٥٤

مرخص بها بمقتضى الأمر الملكي الكريم بموجب كتاب معالي وزير المالية والإقتصاد الوطني رقم ٢/١٢٦٩ بتاريخ ١٣٧٦/٦/١٥هـ. رأس المال المدفوع ٤,٠٠٠,٠٠٠,٠٠٠ ريال سعودي (أربعة آلاف مليون ريال) مقسماً إلى ٨٠,٠٠٠,٠٠٠ سهم (ثمانين مليون سهم) عادي ونقدي.
قيمة السهم الإسمية ٥٠ ريالاً سعودياً (خمسون ريالاً سعودياً).
مدة الشركة: تسعة وتسعون عاماً من تاريخ تسجيل الشركة تسجيلاً نظامياً.
أغراض الشركة: مزاولة جميع الأعمال المصرفية والإستثمارية داخل المملكة وخارجها.

نشهد بأن

رقم الهوية
سجل تجاري

تاريخها وعنوانه مصدرها

يملك **اثنان وثلاثون **

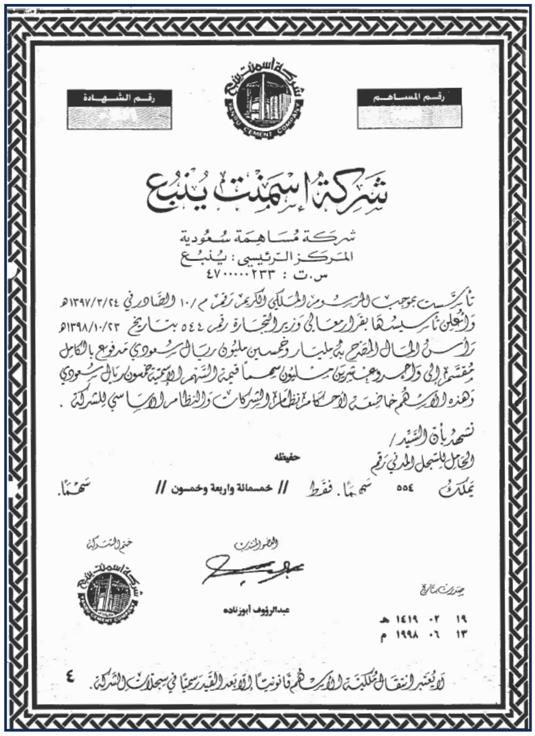
صدرت بمدينة الرياض بتاريخ ١٧ ١٢ ١٤١٨ الموافق ١٤ ٠٤ ١٩٩٨

نائب رئيس مجلس الإدارة الختم رئيس مجلس الإدارة

بنك الرياض مجلس الإدارة الرياض BOARD OF DIRECTORS RIYADH RIYAD BANK

رقم المساهم رقم المستقبل

43 A Stock Certificate Issued in 1998.



رقم المساهم رقم الشهادة

شركة اسمنت ينبع YANBU CEMENT COMPANY

شركة إسمنت ينبع

شركة مساهمة سعودية
المركز الرئيسي : ينبع
س.ت : ٤٧٠٠٠٠٠٢٣٣

تأسست بموجب المرسوم الملكي الكريم رقم م/١٠ الصادر في ١٣٩٧/٣/٢٤هـ وأعلن تأسيسها بقرار معالي وزير التجارة رقم ٥٤٤ بتاريخ ١٣٩٨/١٠/٢٣هـ رأس المال المصرح به مليار وخمسين مليون ريال سعودي مدفوع بالكامل مقسم إلى واحد وعشرين مليون سهماً قيمة السهم الإسمية خمسون ريال سعودي وهذه الأسهم خاضعة لأحكام نظام الشركات والنظام الأساسي للشركة.

نشهد بأن السيد/
الحامل للسجل المدني رقم حفيظه
يملك ٥٥٤ سهماً. فقط // خمسمائة واربعة وخمسون // سهماً.

ختم الشركة العضو المنتدب صدرت بتاريخ

عبدالرؤوف أبوزناده

١٩ ٠٢ ١٤١٩ هـ
١٣ ٠٦ ١٩٩٨ م

لا يعتبر انتقال ملكية الأسهم قانونياً إلا بعد القيد رسمياً في سجلات الشركة. ٤

44 A Stock Certificate Issued in 1998.

عدد الأسهم قيمتها ١٣٠

بسم الله الرحمن الرحيم

ELECTRICITY OF WESTERN REGION

المملكة العربية السعودية

الشركة السعودية الموحدة للكهرباء في المنطقة الغربية

شركة مساهمة سعودية

المركز الرئيسي : جدة - سجل تجاري ٣٢٣٩٥
تأسست بموجب المرسوم الملكي رقم م / ٦ المؤرخ ١٤٠١/٠٣/٢٦هـ
مدة امتياز الشركة ثلاثون سنة هجرية
رأس مالها ٨٠٠٠ مليون ريال سعودي مقسم إلى ١٦٠ مليون سهم
قيمة السهم الواحد ٥٠ ريالاً سعودياً

تشهد الشركة السعودية الموحدة للكهرباء في المنطقة الغربية

بأن المساهم
رقم بطاقة الأحوال تاريخها مصدرها
يمتلك بها ... وعشرون سهماً لا غير
قيمتها ... ومائتان ريال لا غير
مدفوعة بالكامل.

وقد أثبتت ملكية الأسهم بسجل المساهمين و هي خاضعة لأحكام النظام الأساسي للشركة ونظام الشركات ، ولايعتد بنقل ملكيتها للغير إلا بعد القيد في سجل المساهمين لدى الشركة

رئيس مجلس الإدارة
العضو المنتدب

جدة في
الموافق ٢٠٠٠/ /م

01372

رقم الشهادة رقم المساهم

45 A Stock Certificate Issued in 2000.

5.5. Ownership Notice

The first steps towards dematerialisation, i.e., substituting certificates by book-entries with the issuance of "ownership receipts", took place in 1987. This proved to be a successful endeavour as it facilitated trading and ownership transfers within a short time period. Ownership receipts were tradable, representing ownership, and were issued by SSRC on behalf of joint-stock companies. These documents were printed at banks for investors. An ownership receipt had the same features of equity, such as voting rights in general assemblies, dividend rights, and distribution-in-kind, and could, if the owner preferred, be converted to a certificate.

To increase the use of ownership receipts, SAMA differentiated settlements between notices and certificates by introducing a T+1 settlement date for notices and a T+2 date for certificates (the "T" stands for transaction date and the numbers indicate how many days after the transaction the settlement occurs).

The distinction between the two forms of ownership was necessary. Certificates were submitted to SSRC to be converted into computerised notices to enable their holders to trade. The clearing and settlement system continued to process certificates and notices until SAMA ceased dealing in the former in 1996 and obliged investors to convert them into notices before trading. At the same time, SSRC continued to perform executive transfer and certificate issuance operations. Another reason for converting certificates into notices is that the adoption of both at the time resulted in short-selling practices, as some people sold certificates without owning them. For these reasons, ownership receipts were adopted as the sole basis for trading.

Document 46 is a letter from the Director-General of the Stock Control Department to a joint-stock company on adopting ownership notice instructions.

مؤسسة النقد العربي السعودي
المركز الرئيسي: الرياض

الإدارة العامة لمراقبة البنوك
الرقم: م/٤/٢٢١
المرفقات: كتيب

في: ١٢/ ١/ ١٤١١هـ
١٢/ ٨/ ١٩٩٠م

سعادة/ مدير ادارة الاسهم المحترم
الشركه السعوديه لخدمات السيارات

بعد التحيـة: -

نود الاحاطة بأنه قد تم البدء في التطبيق التدريجي لنظام الاشعارات والذى سبق شرحه لكم من قبل مندوبي المؤسسة، وحيث انه لازال هناك عمليات منفذة يتم تسويتها دون استخدام نظام الاشعارات .. عليه فانه سوف يتم ارسال هذه العمليات اليكم حسب الطريقة المتبعة حاليا.

نأمل قبول تحويل العمليات المنفذة والمرسلة عن طريق الشركة السعودية لتسجيل الاسهم حسب ما هو موضح في كتيب التعليمات المرفق.

شاكرين لكم حسن تعاونكم.

وتقبلوا تحياتي ،،،

مدير ادارة الرقابه على الاسهم
عن سلمان محمد الدوغي
فيصل بن فهد بن تركي السديرى

م/ع

العنوان البريدي: الرياض ١١١٦٩ المملكة العربية السعودية، برقياً مركزي، تلكس مركزي ٢٠٤٤٠٠ تلفون ٤٦٣٣٠٠٠

46 A Letter from the Director-General of the Stock Control Department on Adopting Ownership Notice Instructions.

Documents 47 and 48 are ownership receipts issued by the Saudi American Bank (1991) and Bank Al-Jazira (1992).

البنك السعودي الأمريكي
Saudi American Bank
التاريخ:
الموافق:
وحدة التداول المركزية
فرع:
إيصال تأكيد الأمر
العميل:
العنوان:

وضع الأمر	نوع الأسهم	رقم الأمر بالفرع

رقم الأمر بالنظام	انتهاء الأمر	تاريخ الأمر	حد السعر	كمية الأسهم	اسم السهم

متوسط السعر	القيمة	الكمية	
			اجمالي الأسهم المنفذة مسبقاً
			اجمالي الأسهم المنفذة اليوم
			اجمالي الأسهم المنفذة لهذا الأمر حتى تاريخه
			اجمالي العمولة المستحقة عن الأمر
			اجمالي المبلغ المستحق

عن وحدة التداول المركزية:
التوقيع:

47 An Ownership Notice Issued by the Saudi American Bank in 1991.

بنك الجزيرة
Bank Al-Jazira
التاريخ:
الموافق:
وحدة التداول المركزية
فرع:
إيصال تأكيد الأمر
العميل:
العنوان:

وضع الأمر	نوع الأسهم	رقم الأمر بالفرع

رقم الأمر بالنظام	انتهاء الأمر	تاريخ الأمر	حد السعر	كمية الأسهم	اسم السهم

متوسط السعر	القيمة	الكمية	
			اجمالي الأسهم المنفذة مسبقاً
			اجمالي الأسهم المنفذة اليوم
			اجمالي الأسهم المنفذة لهذا الأمر حتى تاريخه
			اجمالي العمولة المستحقة عن الأمر
			اجمالي المبلغ المستحق

عن وحدة التداول المركزية:
التوقيع:

48 An Ownership Notice Issued by Bank Al-Jazira in 1992.

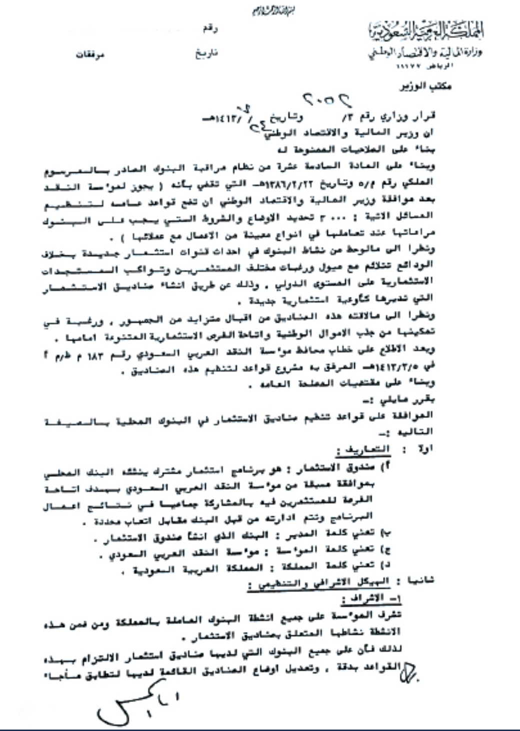
The introduction of ownership receipts was transformative for the Saudi capital market. With the development of the electronic trading system, the use of ownership receipts allowed paperless, instantaneous settlement and clearing of transactions. The settlement and clearing system operated in isolation from the trading system until 1994, when SAMA implemented a closely coupled process, providing for additional services and accelerating clearing and settlement operations.

5.6. Investment Funds

Investment funds managed by Saudi banks offered an alternative investment channel to investors, including those with limited resources and those who preferred to have their investments managed by a professional fund manager. The Saudi funds industry underwent major developments between the 1990s and early 2000s following an increase in private-sector savings as well as increasing public awareness of the benefits of funds. The Saudi National Bank's US Trade Fund, a US dollar short-term fund founded in 1979, was the first of its type in the Kingdom of Saudi Arabia.

Individual investment dominated the early days of the stock market, and continued during the period of regulation under the Ministerial and Standing Supervisory Committees up until the early 1990s. As with other markets, the Saudi market was greatly influenced—negatively and positively—by economic and political events. These influences were exaggerated by the dominance of individual investors. Steps were taken to promote institutional investing which would accommodate the increased savings and appetite for investment resulting from initial public offerings.

Starting in 1992, and in light of international economic developments, banks began addressing the need of investors for new investment channels by creating local stock funds. Given the public's increasing demand for these funds, and to attract local capital and offer various investment opportunities, His Excellency the Minister of Finance and National Economy issued, on 17th January 1993, Resolution No. 2052 (Document 49) approving rules regulating investment funds of local banks.



بسم الله الرحمن الرحيم

المملكة العربية السعودية
وزارة المالية والاقتصاد الوطني
الرياض ١١١٧٧
مكتب الوزير

رقم
تاريخ
مرفقات

٢٠٥٢

قرار وزاري رقم ٣/ وتاريخ ٢٤/ ٧/ ١٤١٣هـ
ان وزير المالية والاقتصاد الوطني
بناء على الصلاحيات الممنوحة له
وبناء على المادة السادسة عشرة من نظام مراقبة البنوك الصادر بالمرسوم الملكي رقم م/٥ وتاريخ ١٣٨٦/٢/٢٢هـ التي تقضي بأنه (يجوز لمؤسسة النقد بعد موافقة وزير المالية والاقتصاد الوطني ان تضع قواعد عامة لتنظيم المسائل الآتية : ... ٣ تحديد الأوضاع والشروط التي يجب على البنوك مراعاتها عند تعاملها في انواع معينة من الأعمال مع عملائها) .
ونظرا الى ما لوحظ من نشاط البنوك في احداث قنوات استثمار جديدة بخلاف الودائع تتلائم مع ميول ورغبات مختلف المستثمرين وتواكب المستجدات الاستثمارية على المستوى الدولي . وذلك عن طريق انشاء صناديق الاستثمار التي تديرها كأوعية استثمارية جديدة .
ونظرا الى مالاقته هذه الصناديق من اقبال متزايد من الجمهور ، ورغبة في تمكينها من جذب الأموال الوطنية واتاحة الفرص الاستثمارية المتنوعة امامها .
وبعد الاطلاع على خطاب محافظ مؤسسة النقد العربي السعودي رقم ١٨٣ م ط م أ في ١٤١٣/٢/٥هـ المرفق به مشروع قواعد لتنظيم هذه الصناديق .
وبناء على مقتضيات المصلحة العامة .
يقرر مايلي :-
الموافقة على قواعد تنظيم صناديق الاستثمار في البنوك المحلية بالصيغة التاليه :-
اولا : التعاريف :
أ) صندوق الاستثمار : هو برنامج استثمار مشترك ينشئه البنك المحلي بموافقة مسبقة من مؤسسة النقد العربي السعودي بهدف اتاحة الفرصة للمستثمرين فيه بالمشاركة جماعيا في نتائج اعمال البرنامج وتتم ادارته من قبل البنك مقابل اتعاب محددة .
ب) تعني كلمة المدير : البنك الذي انشأ صندوق الاستثمار .
ج) تعني كلمة المؤسسة : مؤسسة النقد العربي السعودي .
د) تعني كلمة المملكة : المملكة العربية السعودية .
ثانيا : الهيكل الاشرافي والتنظيمي :
١- الاشراف :
تشرف المؤسسة على جميع انشطة البنوك العاملة بالمملكة ومن ضمن هذه الانشطة نشاطها المتعلق بصناديق الاستثمار .
لذلك فأن على جميع البنوك التي لديها صناديق استثمار الالتزام بهذه القواعد بدقة ، وتعديل اوضاع الصناديق القائمة لديها لتطابق معها .

49 The Approval of Rules Regulating the Investment Funds of Local Banks.

Regulatory rules for investment funds were introduced to protect investors, ensure that banks were qualified and had sufficient capital levels to manage those funds, and to further develop supervision standards. The rules defined an investment fund as "a joint investment scheme initiated and managed by a local bank in exchange for a specified fee pursuant to the prior approval of the Saudi Arabian Monetary Agency with an aim to allow investors to participate in and benefit from the scheme collectively." Moreover, the rules outlined the banks' fund management responsibilities, including custody, marketing, and governance. Banks were also allowed to delegate the custody of local and foreign fund assets to certain financial institutions. As for SAMA, its role was to supervise investment fund activities. Furthermore, pre-existing funds were allowed to continue their operations and all banks were obliged to adhere to the newly introduced rules within a month of their issuance. Banks that wished to create new funds had to obtain the approval of SAMA. Saudis and non-Saudis, whether natural or legal persons, were allowed to subscribe to banks' investment funds, except for those dedicated to Saudi citizens only.

Funds were also allowed to invest no more than 10% of their net asset value in another fund, so long as the investment did not exceed 15% of the target fund's net asset value. A fund was not entitled to own or invest in more than 1% of a listed joint-stock company's capital. Additionally, investment risks associated with related parties had to be less than 15% of a fund's net asset value, and fund investments in an individual issued share or bond had to be less than 10% of net asset value.

There are two types of investment funds: open-end and closed-end funds. Open-end funds have variable assets under management. Investors may subscribe (buy units from the fund manager) and redeem (sell units to the fund manager) periodically. The value of the fund increases or decreases in relation to the underlying assets the fund has invested in. Closed-end funds have a relatively fixed number of units after an initial offering. The rules allowed the creation of new types of investment funds based on SAMA's approval, and funds were permitted to have ownership of traded company shares. Document 50 is an ownership notice proving a fund's stake in Tabuk Agricultural Development Company, issued by SSRC in 1992.

الشركة السعودية لتسجيل الأسهم
إشعار ملكية الأسهم القابل للتداول

سعودي
الوشعار صالح
لأمر البيع رقم

رقم الاشعار ٩٢-٠٠٣١١٤٩

تاريخ التنفيذ: ١٤١٢/١١/١٥ هـ الموافق: ١٩٩٢/٠٥/١٧ م

اسم السهم: شركة تبوك للتنمية الزراعية

اسم مالك الإشعار: صندوق المساهم

رقم الهوية: ٠٩/٣٤

نوع الهوية: صندوق استثمار

عدد الأسهم: ٩٥ خمسة وتسعون

١سهم /سهم

مسؤول قسم إصدار إشعارات الملكية

مدير الشركة السعودية لتسجيل الأسهم

يخضع هذا الإشعار للقواعد والإجراءات الصادرة بهذا الخصوص وفقاً للضوابط والتعليمات التالية :

١ ـ الشركة السعودية لتسجيل الأسهم هي المخولة حصراً حق إصدار هذا الإشعار ونقل ملكيته، وإلغائه، بحيث يعد باطلاً أي إصدار أو إجراء يتم من قبل غيرها أو دون علمها

٢ ـ يعد هذا الإشعار وثيقة ملكية للأسهم المدونة في باطنه لغرض تداول هذه الأسهم فقط، عن طريق وحدات التداول المركزية.

٣ ـ يجوز إستبدال هذا الإشعار بشهادة ملكية الأسهم بطلب ذلك من الشركة السعودية لتسجيل الأسهم عن طريق وحدات التداول المركزية.

٤ ـ يتوجب في حال فقدان هذا الإشعار إعلام الشركة السعودية لتسجيل الأسهم فوراً.

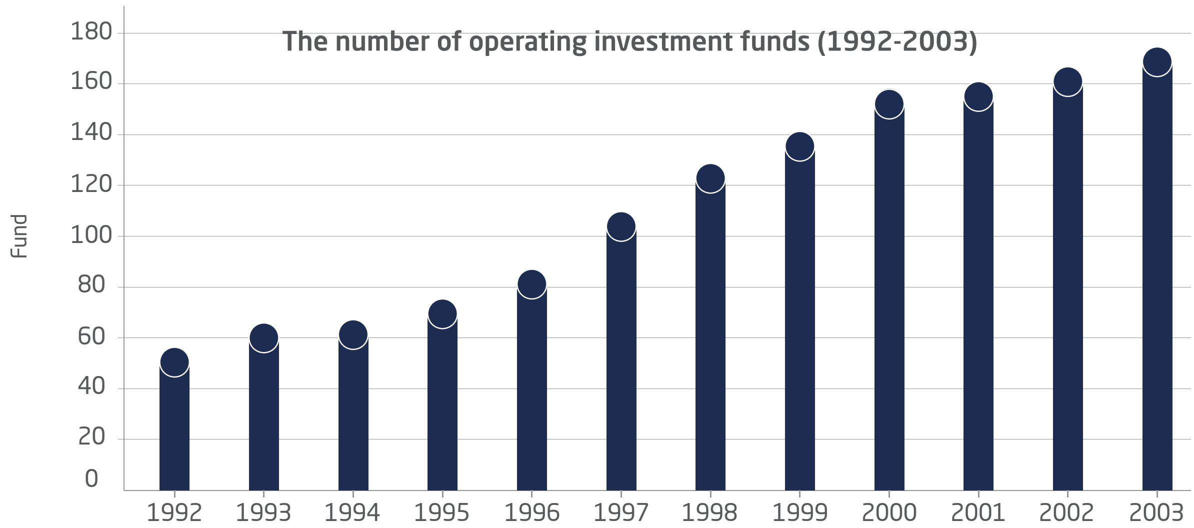
٥ ـ يخضع هذا الإشعار لكافة القوانين والأنظمة السعودية السارية وتعديلاتها.

٠٤٧٨٠٠

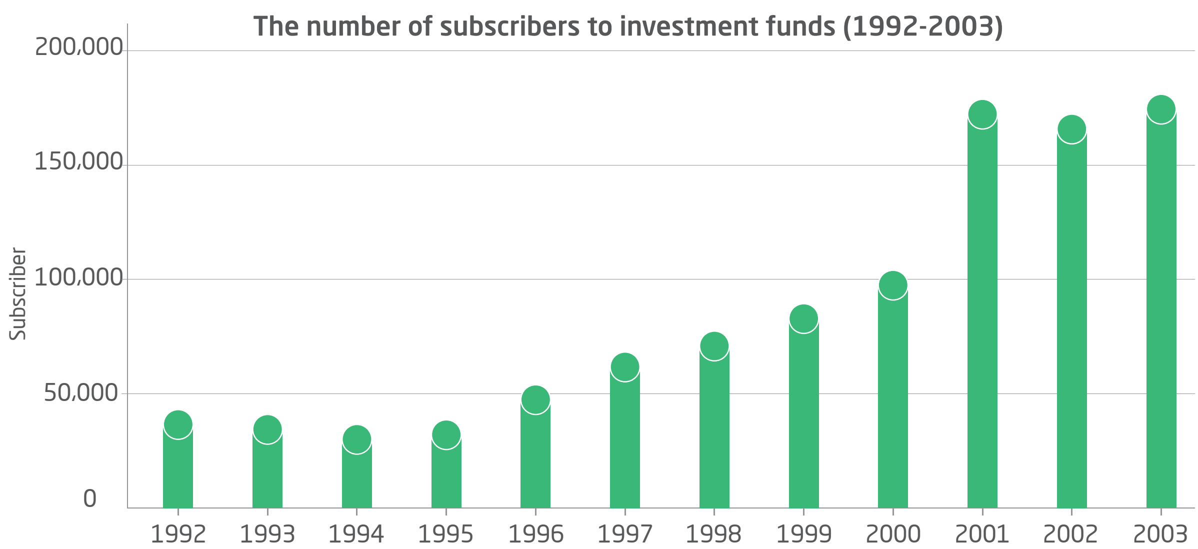
١٩٩٢٠٥١٨

50 A Fund's Ownership Notice Proving Stake in Tabuk Agricultural Development Company.

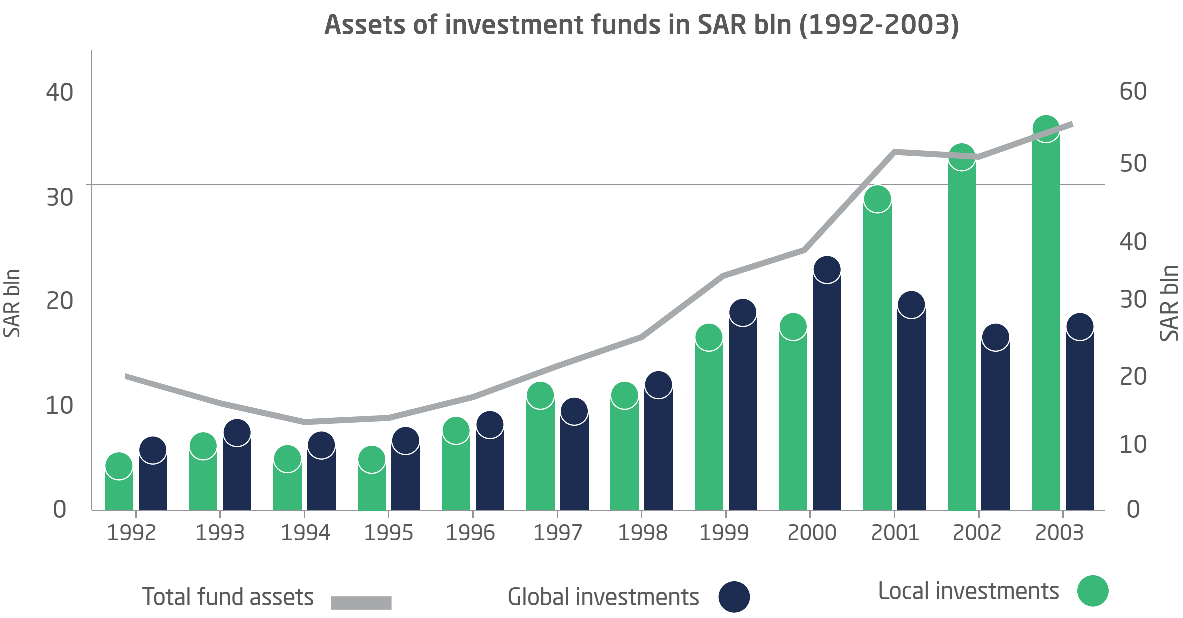
1992 to 2003 was a period of steady growth in investment funds provided by Saudi banks. In 1992, there were 52 funds with 33,162 subscribers and a total net asset value of SAR 12.4 billion. By the end of 2003, there were 170 investment funds with 172,197 subscribers and a total net asset value of SAR 53.87 billion (as shown in Figures 8, 9 and 10 below).



08 Number of Investment Funds (1992-2003).



09 Number of Subscribers to Investment Funds (1992-2003).



10 Assets of Investment Funds (in SAR Billion) between 1992-2003.

The gradual opening up of the Saudi stock market to foreign investment occurred through SAMA-approved investment funds that were offered and managed by Saudi banks. In August 1997, the Saudi Investment Fund (SIF) was the first Saudi closed-end fund to be listed on the London Stock Exchange. SIF enabled non-Saudis to obtain exposure to the Saudi stock market. The fund raised USD 250 million, which at the time was the largest closed-end single country fund ever launched. In 1999, foreign residents and non-residents were allowed to invest in all local equity funds managed by Saudi banks.

Chapter 6: Technological Development in the Stock Market

The many stock offerings that took place in the second half of the 1980s created the need for electronic systems to provide efficient trading, clearing, settlement, and recordkeeping. This shift to electronic systems mirrored what was happening in international markets as they adopted and developed technologies from the mid-20th century. The markets of Paris, Tokyo, and Toronto had a head start on adopting trading systems, which were later embraced worldwide. This created fierce market competition as the world became more globalised, thanks to breakthroughs in technology and telecommunications.

6.1. The Electronic Securities Information System (ESIS) of 1990

With the development of front- and back-office processes between mid-1986 and early 1987, SAMA began implementing an electronic trading system which was linked to banks' central trading units. This step was followed by linking other bank branches to the trading units. Bank branches were eventually connected to the system directly to speed up processing and address prevalent issues at the time. For example, Riyadh-based investors were viewed as being given priority in trading compared to those living elsewhere. Banks were encouraged to select branches across the country for managing brokerage activities, linking these directly to SAMA and their central trading units in Riyadh.

Front-office developments continued over two stages. In the first phase, SAMA processed data and market trades manually and sent them to SSRC. Subsequent developments led to the second stage of automation in which trades were automatically received, forwarded to SSRC, and a bulletin on trading prices was generated and faxed to local newspapers.

During the 1980s, and before trading through central trading units took place, stock market officials considered developing a system that linked all brokers to a single network, as was the case with the NASDAQ.

However, the Saudi market at the time was not large enough to warrant the creation of such a system.

By the late 1980s and early 1990s, domestic and global economic conditions indicated a new era for the Saudi market with increased raising of capital and trading volumes. The Saudi market was the largest in the region and expectations were that it would deepen and grow.

Towards the end of the 1980s, the Saudi economy began to flourish, reaching an average GDP growth rate of 3.2% between 1988 and 1989. Oil prices also increased by 20% compared to the low figures of previous years. Additionally, joint-stock companies made good profits over the same period. Consequently, a boom in the Saudi stock market was anticipated, especially following a period of oversubscriptions and increased market activity during the first half of 1990.

Initially, the decision to automate processes was left to banks. Some introduced semi-automatic systems whereby a bank trader would take investor orders manually and enter them into a computer system. This practice continued for some time. However, many investors found this method to be inconvenient and resorted to brokerage firms who offered trading advice and processed transactions through banks. Under such disorganised circumstances, supervisory authorities eventually had to step in.

After CTH ceased its operation in 1987, officials began to think of ways to leverage existing systems. Mr. Abdul Rahman Al-Rashed, SAMA's Director-General of Stock Control Department at the time, recounts that SAMA provided tremendous support to the development of an automated system and that even though CTH did not last long, the objective was still the same. "Instead of bringing brokers together in a single place, we decided to bring them together through a single screen," he said. Indeed, the Ministerial Committee soon convened and made the decision to automate trading. With the support of His Excellency Jammaz Al-Suhaimi, the late Deputy Governor of SAMA, the Banking Technology Department dedicated a team of Saudi experts to automate stock trading in collaboration with a local IT company. The system was built in-house after drawing on insights from experts who had previously worked on developing the London Stock Exchange system. On 31st July 1990, the Electronic Securities Information System (ESIS) went into operation, making the Saudi stock market the first fully automated market in the region.

Despite limiting stock trading to Saudi banks, some unlicensed brokerage firms continued to operate unofficially until the early 1990s. To tackle this issue, the Stock Control Department launched an inspection campaign of these unlicensed brokerage firms, which were ultimately excluded from market operations following the introduction of ESIS. However, owners of these brokerage firms refused the new status quo and pushed for licensing of non-bank brokers; some continued to advertise their services in local newspapers (Image 18) but regulatory authorities considered excluding unlicensed brokerage firms. This decision paved the way for a transparent and efficient stock market where everyone had free access to stock prices, which was an attractive prospect for investors.

18 An Example of an Advertisement Published in the Local Newspaper "Okaz" for Buying and Selling Stocks in 1984).

Two days following the promising implementation of ESIS, the political scene changed after Iraq's sudden invasion of Kuwait, which in turn disrupted international markets and had a direct impact on the Saudi stock market. However, the Saudi banking system proved to be resilient following the invasion. The timely increase of oil production restored price stability and depositors—along with investors—regained their confidence in the banking system after SAMA provided sufficient liquidity to banks to address the increasing demand for local and foreign currencies. Consequently, withdrawals amounted to SAR 16.6 billion in August 1990 and SAR 1.4 billion in September of the same year. Following SAMA's measures, confidence was restored to the market, deposits increased by SAR 9.5 billion (7.1%) during the last quarter of 1990. On a similar note, state revenues and spending increased considerably following the rise in fuel prices and defence-related expenditures.

Despite the invasion, stability was restored to the Saudi stock market before the end of the year. In December 1990, the general index fell by about 10% compared to January of the same year, a year-on-year decrease from 1,087 points to 980 points. As for the remaining indicators, they remained unaffected by the invasion. Traded stocks increased from 15 million shares with a total value of SAR 3.4 billion in 1989 to 17 million shares valued at SAR 4.4 billion in 1990. Overall, market conditions went back to normal towards the end of 1990, despite the continued invasion. The general direction of future events seemed clear—whether Iraq responded to widespread calls for withdrawal or not, it became apparent that it was just a matter of time.

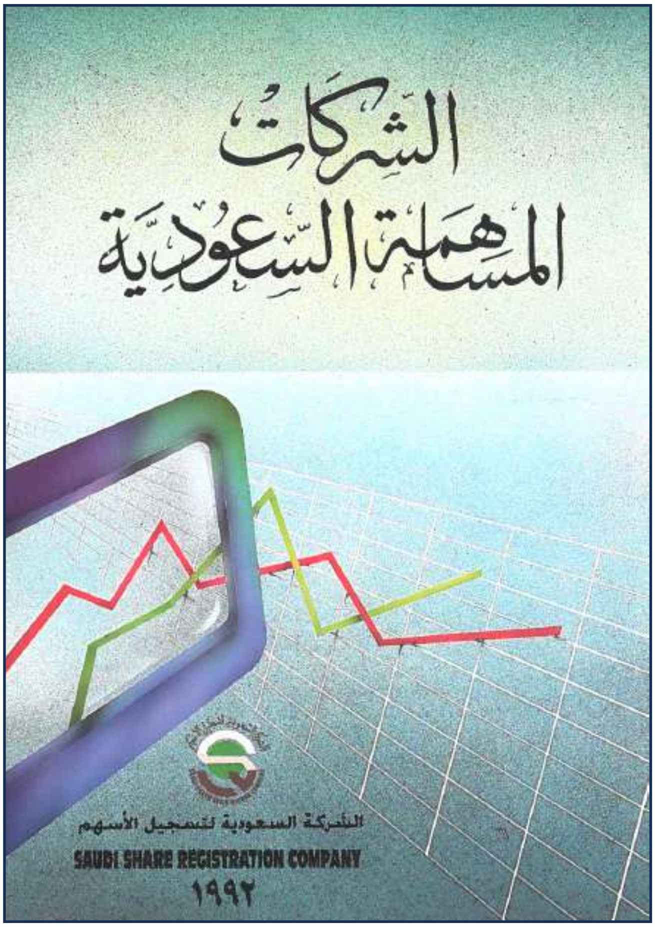
A few days into February 1991, Kuwait reclaimed its independence, and stability was restored to the region. For the Saudi capital market, numbers increased rapidly compared to the previous year. Traded stocks almost doubled—from 17 million shares in 1990 to 31 million in 1991. Over the same period, the value of traded stocks increased from SAR 4.4 billion to SAR 8.5 billion with a corresponding increase in market capitalisation from SAR 97 billion to 181 billion. Moreover, the general index rose from 980 points to 1,765 points.

6.1.1. ESIS Developments

ESIS was successful in meeting the needs of investors, banks, corporations, and other participants. The system underwent several developments between 1990 and 2001. In pursuit of improved efficiency and to keep abreast of market changes, ESISLine was introduced in 1991. This new system was used to share stock prices and corporate financial statements with banks across the country. The system also had detailed information about joint-stock companies, such as contact information, board members, financial statements, and corporate announcements. The information was sent by companies to SAMA's Stock Control Department and then recorded in the ESISLine system to be displayed on-screen at bank branches.

However, since company information was only accessible during the system's operating hours, SSRC issued its annual Saudi Joint-Stock Companies publication (Image 19) in which a four-year record of companies' performances was provided to help shareholders and the public make informed investment decisions. This book continued to be published until 2003 when information became publicly available online, as will be discussed in the following pages.

Banks across the country were linked to central trading units through the ESIS network. Several improvements were made to the clearing, settlement, and ownership notice starting in 1992. As a result, the settlement of ownership receipts became faster than the settlement of certificates, which still required approval and removal from company registers. To further improve the reliability of ownership receipts, 'stored ownership receipts' were issued, whereby ownership receipts could be printed, if required, on-demand. Due to the benefits provided, including the protection they afforded investors, only ownership receipts were traded via ESIS. Such was the demand, it became possible to convert certificates to ownership receipts through SSRC.



19 The Cover of the "Saudi Share Registration Company" Publication in 1992.

At the end of 1992, ESIS was further upgraded by adding several features, the most important of which was allowing branches and central trading units to submit market orders. This step further accelerated the ordering process despite having to confirm orders by contacting central trading units by telephone.

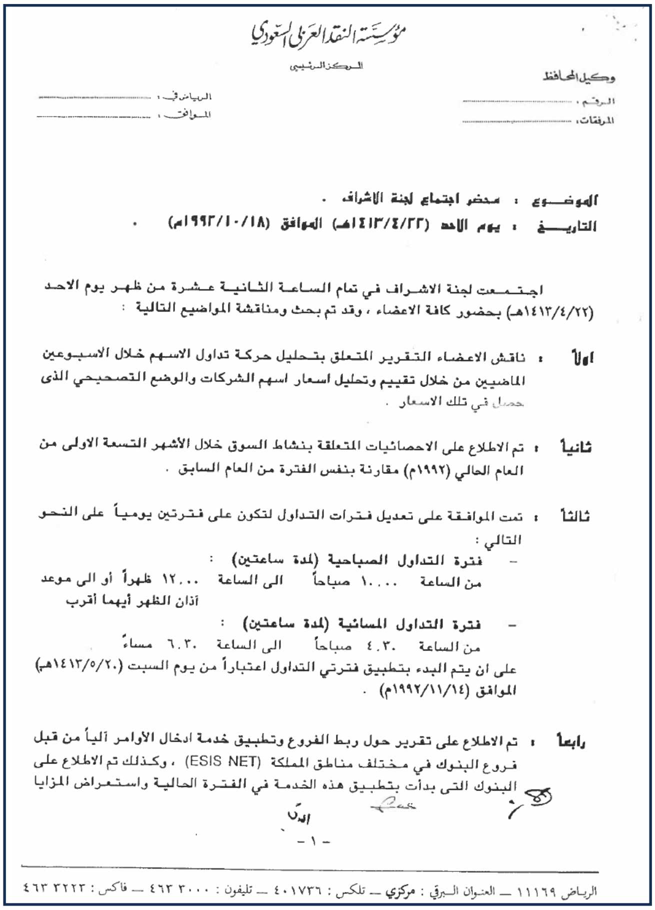
Bank branches also gained the ability to print confirmation and archived ownership receipts for clients at the end of trading sessions. However, ownership receipts could only be sold through banks issuing the ownership receipts.

Following the introduction of ESIS in 1990, there was only a single trading session per day, held in the afternoon. But after linking bank branches to trading screens, there was a need for additional time to facilitate communication between banks and investors. Therefore, in October 1992, a second two-hour trading session was announced to take place starting 14th November 1992. The morning session was held from 10 a.m. until 12 p.m. and the afternoon one from 4:30 p.m. to 6:30 p.m. Consequently, bulletins were issued twice a day while the market index was calculated weekly.

Document 51 shows SSC's minutes of a meeting on trading sessions. On 20th March 1994, the settlement period of ownership receipts became T+0, thus enabling sellers to receive the value of their sold shares within 24 hours of the transaction. As for buyers, they were able to obtain their ownership receipts the following morning if the seller was a notice holder. As of 28th May 1994, Thursdays were added to trading days with one trading session from 10 a.m. until 12 p.m.

As discussed previously, banks' central trading units processed client trades prior to the implementation of ESIS. At the time, banks would deliver stock certificates to buyers after completing the ownership transfer process within two weeks of the market trade. In later stages, central trading units would have their 'ownership endorsement stamps' on stock certificates.

Overall, the settlement processes



مؤسسة النقد العربي السعودي

المركز الرئيسي

وكيل المحافظ

الرقم : ....

المرفقات : ....

الرياض في : ....

الموافق : ....

الموضـــوع : محضر اجتماع لجنة الاشراف .

التاريـــخ : يوم الاحد (١٤١٣/٤/٢٢هـ) الموافق (١٩٩٢/١٠/١٨م) .

اجتـمـعت لجنة الاشـراف في تمام الساعة الثانيـة عشرة من ظهر يوم الاحد (١٤١٣/٤/٢٢هـ) بحضور كافة الاعضاء ، وقد تم بحث ومناقشة المواضيع التالية :

اولاً : ناقش الاعضاء التقرير المتعلق بتحليل حركة تداول الاسهم خلال الاسبوعين الماضيين من خلال تقييم وتحليل اسعار اسهم الشركات والوضع التصحيحي الذى حصل في تلك الاسعار .

ثانياً : تم الاطلاع على الاحصائيات المتعلقة بنشاط السوق خلال الأشهر التسعة الاولى من العام الحالي (١٩٩٢م) مقارنة بنفس الفترة من العام السابق .

ثالثاً : تمت الموافقة على تعديل فترات التداول لتكون على فترتين يومياً على النحو التالي :

- فترة التداول الصباحية (لمدة ساعتين) :
من الساعة ١٠.٠٠ صباحاً الى الساعة ١٢.٠٠ ظهراً أو الى موعد أذان الظهر أيهما أقرب

- فترة التداول المسائية (لمدة ساعتين) :
من الساعة ٤.٣٠ صباحاً الى الساعة ٦.٣٠ مساءً

على ان يتم البدء بتطبيق فترتي التداول اعتباراً من يوم السبت (١٤١٣/٥/٢٠هـ) الموافق (١٩٩٢/١١/١٤م) .

رابعاً : تم الاطلاع على تقرير حول ربط الفروع وتطبيق خدمة ادخال الأوامر آلياً من قبل فروع البنوك في مختلف مناطق المملكة (ESIS NET) ، وكذلك تم الاطلاع على البنوك التى بدأت بتطبيق هذه الخدمة في الفترة الحالية واستعراض المزايا

- ١ -

الرياض ١١١٦٩ ـــ العنوان البرقي : مركزي ـــ تلكس : ٤٠١٧٣٦ ـــ تليفون : ٤٦٣٣٠٠٠ ـــ فاكس : ٤٦٣٢٢٢٣

51 SSC's Minutes of Meeting on Trading Sessions.

underwent several major stages after the introduction of ESIS. First, there was the dual documentation of ownership through certificates and ownership receipts, followed by the introduction of share trading accounts whereby investors had to open 'member accounts' at local banks or 'market accounts' at SSRC's Securities Depository Centre. Additionally, traders were later able to open accounts at more than one bank.

These developments accelerated settlement and stock trading. Ownership was transferred automatically from one account to another after the matching of orders. Moreover, a settlement report of all completed transactions would be issued by the end of each trading day. Based on this report, a clearing report of interbank transactions would be sent to all banks. The following day, banks would sign the clearing report and send two copies of it to SAMA for processing their debit and credit transactions, as each bank had a clearing account at the agency.

In June 1998, SAMA approved incorporating listing requirements into ESIS to ensure more transparency in the market. In 1999, Saudi banks became able to give their local and international clients access to market prices. During the same year, SAMA limited local share trading to ownership receipts and required investors to convert their certificates to receipts before trading through ESIS. These measures allowed for safe, same-day settlements and facilitated further supervision and control. Moreover, displaying stock prices of any joint-stock company on the trading screens had to be approved by SAMA and the Ministry of Commerce.

The implementation of ESIS in 1990 brought about significant positive changes as it standardised procedures in what was previously a fragmented market. The system also enabled everyone to execute market orders within a fair, transparent environment and improved settlement and post-trade operations.

Another merit of ESIS is that it helped mitigate manipulation in the market, in the form of placing misleading buy or sell orders to influence investor expectations. To address this issue, orders were accepted only if they were made by the traders themselves. If a central trading unit was placing an order on behalf of a client, processing the transaction would be delayed for verification. Lastly, ESIS helped reduce sharp price fluctuations by establishing upper and lower limits of no more than 10% to maintain market stability.

6.1.2. SARIE System

In pursuit of further developments in banking and the capital market, SAMA launched the Saudi Arabian Riyal Interbank Express (SARIE) system in May 1997, providing the mechanism for all Saudi banks to make and settle payments in Saudi riyals (SAR). The SARIE system improved the efficiency of stock market settlement, offering central bank-guaranteed settlement of interbank positions overnight. This improved settlement system further encouraged the adoption of ownership receipts.

6.2. Tadawul Electronic System (TES) of 2001

Despite ESIS's upgrades and decade-long increases in functionality, the system became outdated towards the end of the 1990s and had to be replaced by another to meet the Saudi market's future needs.

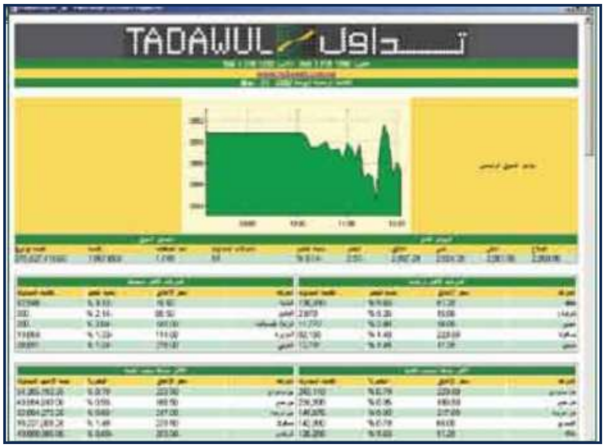
When the Saudi state formed a Ministerial Committee for privatisation in 1997, there was a need for better systems to further improve corporate listings and stock trading. As a result, the government took steps towards replacing the existing trading system with one that could accommodate the changes occurring in the country's growing capital market. SAMA consulted several international institutions, and His Excellency Director-General of Banking Control Jammaz Al-Suhaimi set the guiding principles for the new system: accessibility, efficiency, reliability, transparency, and low cost.

SAMA's Stock Control Department soon formed a team of consultants to examine the market structures of prominent and emerging stock exchanges. His Excellency Al-Suhaimi later presented a proposal for technologies needed to develop the new system.

After using ESIS for almost a decade, SAMA tendered a proposal to replace the trading, settlement, and clearing systems in mid-2000. Several international companies submitted competitive bids, and a Canadian company was selected to develop the new systems.

On 6th October 2001, SAMA launched the Tadawul Electronic System (TES) after a successful migration of data. Following the adoption of TES, banks invested more in developing their internal systems and processes, which drove competition and created new client services. These changes produced faster and more efficient systems in the banking sector, leading to the emergence of large integrated networks that settled transactions in real-time instead of T+1, which meant that investors were able to sell their shares instantly.

The transition to instant settlements took place after incorporating SSRC operations into TES. What helped facilitate this process was the adoption of electronic investment accounts and doing away with ownership documents. Eventually, securities were maintained in investor portfolios through which people could perform several asset operations, such as buying, selling, transfers, distributions, and stock mergers and pledges.



20 Tadawul Electronic System Screen.

The transformation was not limited to replacing previous clearing, settlement, registration, and trading systems, but included linking bank branches across the Kingdom to TES through what was known as the Financial Information Exchange (FIX) protocol/ This enabled banks to process account entries and execute orders in a single transaction. As a result, banks seized these new developments to improve their services, including margin trading.

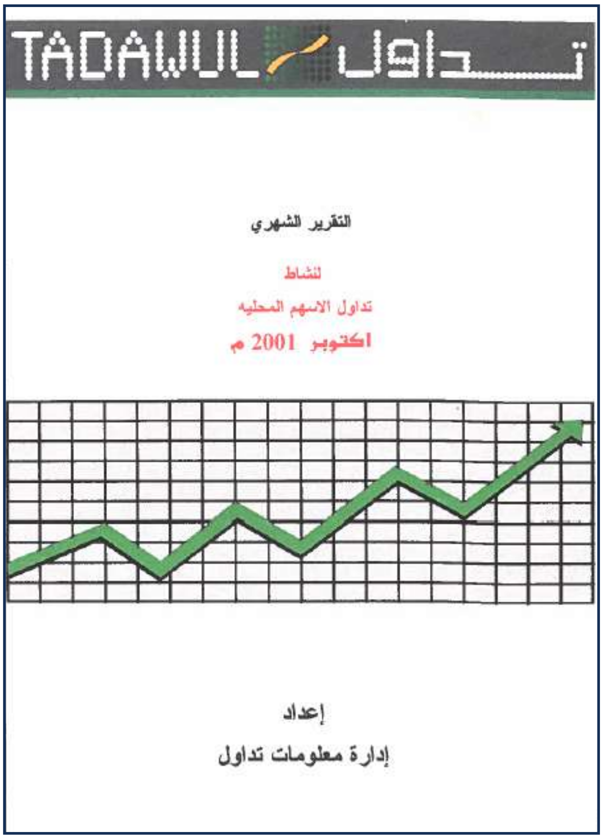
To achieve increased transparency in the market, SAMA implemented the Saudi Arabian Company Profiler (SACP) system that provided disclosures and information to corporations and investors via TES.

Following SAMA's efforts in implementing TES (Image 21), the Tadawul Department was dedicated to improving investor services along with the Depository Centre and departments of Information and Registration. The Depository Centre settled banks' TES transactions, performed daily interbank clearing, monitored investment account balances for market investors, matched closing balances with investor account transactions, and published relevant reports for investors and joint-stock companies.

As for the Registration Department, it was in charge of maintaining the records of stock certificate holders and distributing dividends on behalf of some companies. Lastly, the Information Department monitored daily trading activities and issued daily, monthly, quarterly, and yearly market reports dating back to 1985. The reports were made public in Arabic and English on the Tadawul website, which also featured capital market news, a database of traded companies, press releases, summary reports, and periodic market information with charts of the general index to enable investors to monitor stock trading activities. Image 22 is a cover of a report on stock trading activity during October 2001.

The Tadawul website was launched in 2002, and Tadawul became a registered trademark of the Saudi stock market. At first, investors disliked the idea of using the website for publishing market prices as they were used to accessing information through bank screens that operated via the previous ESIS. However, people soon came to accept the new system, and within three years Tadawul was the most visited website in Saudi Arabia.

21 TES



22 The Cover of Tadawul Monthly Report on Stock Trading Activity - October 2001.

Shifting to the new system did not come without challenges. The first two years that followed the launch of Tadawul website, technical problems caused the system to crash, given the slow internet connection at the time. As Tadawul was a public website, any problems that occurred would soon appear on the news. However, these issues were gradually resolved and plans to deal with them were developed.

Overall, TES paved the way for efficient and fair operations in the Saudi stock market. It also enabled investors to execute multiple orders in a single day, which increased market liquidity and portfolio diversification. Additionally, the system had features like those used in international markets. With a sound trading system in place, Tadawul began preparing to offer new joint-stock companies in the local market, especially as the offering of the Saudi Telecom Company (STC) grew near, with expectations of high demand for subscription. Therefore, by the second quarter of 2002, Tadawul increased the network capacity of TES from 20 to 60 thousand daily transactions and guided banks on how to address STC's much-anticipated offering, which was a key milestone in the development of the Saudi capital market.

6.3. STC Initial Public Offering

The telecommunications revolution of the late 1990s spawned great growth in the amount of information and data available to the world, eliminating the borders of geography and ushering in an age of globalisation. Within a matter of years, the technology and telecommunications sectors had become a dominating presence in international capital markets.

The Saudi Ministry of Telegraph, Post, and Telephone was formed by Royal Decree A/236 on 13th October 1975. The ministry was responsible for post, telegraph, and telephone services. At the time, there were 130 thousand telephone lines that were generating revenues of around SAR 250 million.

On 21st April 1998, Royal Decree M/35 (Document 52) separated post, telegraph, and telephone facilities from the ministry and decreed the establishment of the Saudi Telecom Company (STC) in joint-stock form. The decree marked the transition into privatisation in this vital sector, which was dramatically changing the way people lived in the late 1990s.

الرقم - م/٣٥
التاريخ - ١٤١٨/١٢/٢٤هـ

بعون الله تعالى

نحن فهد بن عبدالعزيز آل سعود

ملك المملكة العربية السعودية

بناء على المادة (١٩) من نظام مجلس الوزراء الصادر بالأمر الملكي رقم أ/١٣ وتاريخ ١٤١٤/٣/٣هـ.

وبناء على المادة الثانية والخمسين المعدلة من نظام الشركات الصادر بالمرسوم الملكي رقم (م/٦) وتاريخ ١٣٨٥/٣/٢٢هـ.

وبعد الاطلاع على نظام مرفق الهاتف الصادر بالمرسوم الملكي رقم م/١٦ وتاريخ ١٣٩٨/٣/١٦هـ.

وبعد الاطلاع على قرار مجلس الوزراء رقم (٢١٣) وتاريخ ١٤١٨/١١/٢٣هـ.

رسمنا بما هو آت :

أولا . الموافقة على تأسيس شركة مساهمة سعودية باسم " شركة الاتصالات السعودية " وفقا لنظامها الأساسي المرفق وطبقا لما ورد في قرار مجلس الوزراء رقم (٢١٣) وتاريخ ٢٣ / ١١ /١٤١٨هـ.

ثانيا . على سمو نائب رئيس مجلس الوزراء والوزراء كل فيما يخصه تنفيذ مرسومنا هذا،،،،

فهد بن عبدالعزيز

52 Royal Decree on Founding the Saudi Telecom Company (STC).

On 20th April 1998, Council of Ministers' Resolution No. 213 approved STC's memorandum of association and declared it a joint-stock company fully owned by the government of the Kingdom of Saudi Arabia. STC's commercial register was issued on 29th June 1998.

On 9th September 2002, the Council of Ministers convened an Extraordinary General Assembly (EGA) and approved increasing STC's capital from SAR 12 billion to SAR 15 billion by retaining some of the company's earnings and increasing authorised shares to 300 million. Moreover, it decided to offer 90 million shares (30%) for local public subscription at SAR 170 per share with a minimum of 10 subscribed shares per person.

Furthermore, two-thirds of the shares (60 million) offered for public subscription were allocated to Saudi citizens while the remaining one-third (30 million shares) was distributed equally among the Public Pension Agency and the General Organization for Social Insurance. On 6th January 2003, STC shares were officially offered to the public.

To achieve transparency during the subscription, the prospectus, for the first time in the history of the Saudi capital market, was prepared according to international standards and distributed to all local banks. It was also made accessible through the STC website. Written by several consulting entities, the prospectus detailed all information relevant to investors in a clear, transparent manner.

Ten banks supported STC's subscription and provided loan facilities for individuals wishing to subscribe. Total subscriptions for STC shares exceeded SAR 36 billion (USD 9.6 billion), an oversubscription of more than three times. The great demand for STC shares proved that the government's expectations in relation to privatisation were accurate. The state had already prepared for this by setting a fair share price and adopting transparent policies that were followed throughout the offering.

Additionally, Saudi banks participated in facilitating the subscription process by processing subscription forms for citizens and paying the value of subscribed shares through cash payments, loans, debits, or cheques. As a result of oversubscription, 10 shares were allocated to each subscriber and each of their family members while the rest were distributed between subscribers, each according to their subscription percentage. Banks also announced subscription results and dates for returning the subscription surplus. Preparations for trading

STC shares were made in record time as banks notified investors of their subscription and the registration of their subscribed shares in shareholders' investment accounts through TES.

STC shares began to be traded on Saturday, 25th January 2003. By the end of that day, STC stock price rose by 39% from SAR 170 (USD 45.3) to SAR 237 (USD 63.2) per share, with highest and lowest prices at SAR 249 and SAR 222.5 respectively.

In general, the Saudi capital market achieved record numbers on the first day of trading STC shares. The total value of traded shares reached SAR 1.86 billion (USD 500 million). The value of traded STC shares amounted to SAR 1.52 billion (USD 410 million), constituting 81% of the total trading value with 6.5 million shares traded (about 10.6% of the 60 million shares sold to individual subscribers).

Moreover, the general index rose by 5.59%, closing at 2,761 points following the rise in STC share price. This was also accompanied by an increase in blue chip equity, which varied the day before with increased stock prices for 14 companies only, and a decline for 39.

Chapter7: Key Stock Market Milestones

Technological developments in the Saudi stock market enabled investors to access detailed information about listed companies and stock prices, which were made available in newspapers and later published on the internet.

7.1. Stock Market Information

Starting in the mid-1980s, local newspapers had been the main source of information on equities along with joint-stock companies that shared their stock prices with shareholders directly. At the time, companies were mainly abiding by the Companies Law of 1965 which came to regulate the market by requiring corporations to publish relevant information—such as audited annual financial reports, income statements, balance sheets, and methods of net income distribution—in at least one local newspaper. Moreover, companies were required to submit their annual financial statements to SAMA's Stock Control Department and the Ministry of Commerce. The Ministerial Committee also obliged companies to report their quarterly financial statements to the Stock Control Department, and failure to comply resulted in stock trading suspensions.

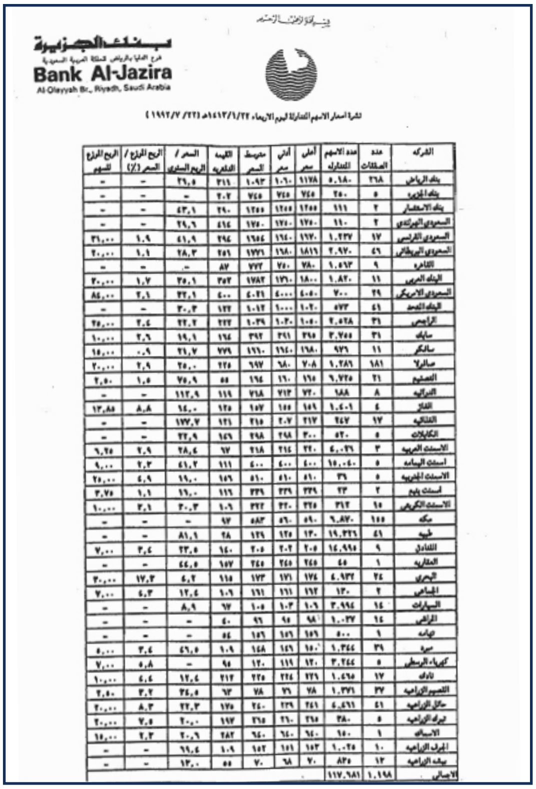
After launching The Electronic Saudi Information System (ESIS) in 1990, stock market performance became easily accessible during trading hours. Furthermore, banks issued daily market bulletins on traded shares (documents 53 and 54).

Starting in 1985, the Stock Control Department received traded stock prices from banks' central trading units on a daily basis. Information received was published in a bulletin containing all transactions executed the previous day, including price indicators, book values, and dividend per share. Bulletins were then faxed to banks and local newspapers to ensure transparency.

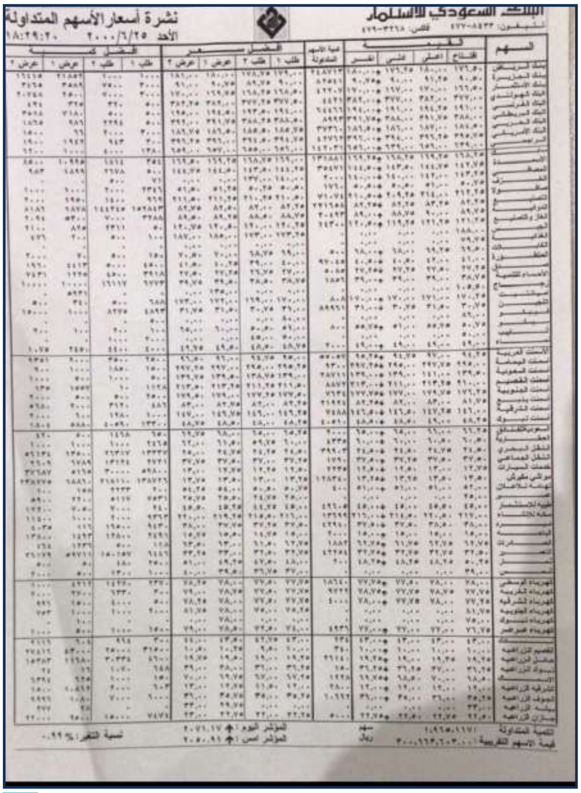
During the same period, banks sought to attract investors by publishing reports, financial statements, and other relevant information pertaining to traded companies. As a result, banks helped provide additional sources of information to Saudi investors, especially since some commercial banks published monthly reports and financial analyses of stock market activities. The Chamber of Commerce and Industry also played a role by providing stock market information through structured and financial corporate data along with analysis by stock market experts.

7.2. General Stock Price Index

The National Centre for Finance and Economic Information, an entity affiliated with the Ministry of Finance and National Economy, issued its first weekly local stock index on 28th February 1985, the same day SAMA began publishing its weekly bulletin on local stock prices. The index became known as NCFEI (an acronym


بنك الجزيرة
Bank Al-Jazira
Al Olayyah Br., Riyadh, Saudi Arabia

53 A Bulletin on Traded Stock Prices Published by Bank Al-Jazira in 1992.


البنك السعودي للاستثمار
نشرة أسعار الأسهم المتداولة

54 A Bulletin on Traded Stock Prices Published by the Saudi Investment Bank in 2000.

formed from the initial letters of the Centre's name). NCFEI tracked the performance of shares traded through companies or banks based on data provided by SAMA. The basis for calculating the index was the total market value of listed companies, which were divided into four sectors: banking, industry (including cement companies), services and facilities (including electricity companies), and agriculture. NCFEI's base date was 27th February 1985 at a base value of 100 points. However, the base value was changed to 1,000 points using an index multiplier of 10x on 23th January 1999 following a recommendation made by SAMA, which had been publishing NCFEI data in its annual report since 1991.

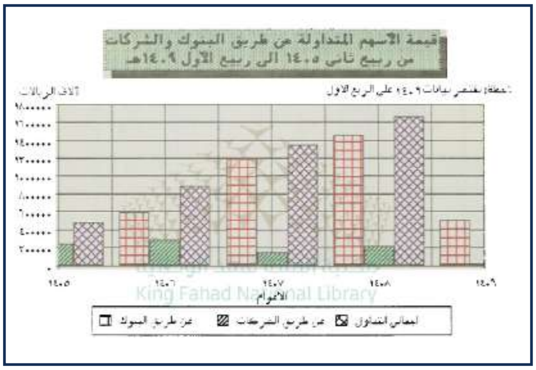
NCFEI was a capitalisation-weighted stock market index whereby the market capitalisation of each company in the index is calculated by multiplying its outstanding shares by the current price per share, which means that market capitalisation reflects the total market value of a company's outstanding shares. Therefore, NCFEI was not related to earnings, transactions, or trading volumes as it was only influenced by each company's price per share and number of shares outstanding. Companies with a higher market capitalisation had a higher weighting in the index.

NCFEI = (total market value of current shares outstanding ÷ total market value of past shares outstanding) x past index value, whereas total market value of shares outstanding = market value of company A shares outstanding + market value of company B shares outstanding, etc. Moreover, market value of a company's shares outstanding = closing price x number of shares outstanding.

NCFEI remained in use until the launch of the Tadawul Electronic System (TES) in 2001, which became the system used for calculating the market index. As of 6th October 2001, the general stock market index became known as TASI instead of NCFEI, and index data was published through TES and the Tadawul website.

Documents 55 and 56 are examples of local stock trading reports issued by the National Centre for Finance and Economic Information in 1989.

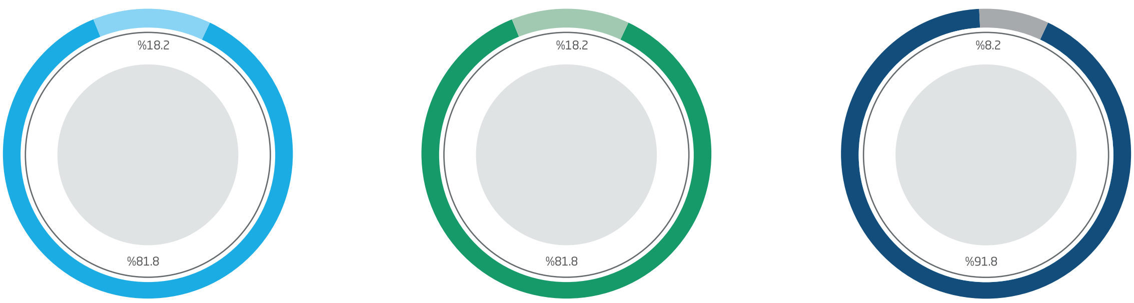
55 NCFEI Index Tracker.



56 A Sample Reporting of NCFEI Index Performance.

The documents show stock market performance in terms of number and value of stocks and trading transactions executed through banks or corporations. From 1985 until 1989, about 33.5 million shares were traded (81.8% through Saudi banks and 18.2% through joint-stock companies). Over the same period, the value of traded shares was SAR 4.9 million (81.2% through banks and 18.8% through companies), representing 76 thousand transactions executed through banks (91.8%) and companies (8.2%), as shown in Figure 11 below:

Traded volume (1985 - 1989) | **Traded value (1985 - 1989)** | **Number of executed transactions (1985 - 1989)**



Via banks
Via companies

Via banks
Via companies

Via banks
Via companies

11 Number and Value of Shares Traded and Corresponding Transactions (1985-1989).

Document 57 shows an NCFEI comparison between trading through banks and companies in terms of share numbers, values, and transactions.

جدول مقارن لأحجام التداول عن طريق البنوك والشركات
من ربيع ثاني ١٤٠٥ وحتى ربيع الأول ١٤٠٩هـ

نوع التداول	السنوات	١٤٠٥	٪	١٤٠٦	٪	١٤٠٧	٪	١٤٠٨	٪	١٤٠٩	٪	الأجمالي	٪
التداول عن طريق البنوك	عدد الأسهم	١٠٦٢	٤٦,٧	٢٥٩٠	٦٥,٨	٨٨٣٥	٨٨,٩	١٠٦٧٨	٨٦	٣٢٧٠	٩٢,٦	٢٧٤٢٥	٨١,٨
	قيمة الأسهم	٢٤٨٥٤٥	٥٠,٤	٥٩٤٤٤٧	٦٦,٨	١٢٠٢٨٥٤	٨٨,٨	١٤٥٦٥٨١	٨٧	٥١٢٥٢٤	٩٦,٥	٤٠١٤٩٥١	٨١,٢
	عدد الصفقات	٤١٠٠	٧٦,٩	٧٧٠٢	٧٩,٥	١٣٨١٦	٨٦,٤	٣٢٣٠٤	٩٨	١١٨٧٦	٩٨,٨	٦٩٧٩٩	٩١,٨
التداول عن طريق الشركات	عدد الأسهم	١٢١٢	٥٣,٢	١٨٦٦	٣٤,٢	١١٠٤	١١,١	١٦٨٤	١٤	٢٢٤	٦,٤١	٦٠٩٠	١٨,٢
	قيمة الأسهم	٢٤٤٧٨٠	٤٩,٦	٢٩٥٥٧٧	٣٣,٢	١٥١٦٨٢	١١,٢	٢١٦٧٩٢	١٣	١٨٦٨٣	٣,٥٢	٩٢٧٥١٥	١٨,٨
	عدد الصفقات	١٢٣٣	٢٣,١	١٩٨٣	٢٠,٥	٢١٧٢	١٣,٦	٦٩٥	٢,١	١٤٥	١,٢١	٦٢٢٨	٨,١٩
اجمالي التداول	عدد الأسهم	٢٢٧٤	١٠٠	٥٤٥٦	١٠٠	٩٩٣٩	١٠٠	١٢٣٦٢	١٠٠	٣٤٩٤	١٠٠	٣٣٥٢٥	١٠٠
	قيمة الأسهم	٤٩٣٣٢٥	١٠٠	٨٩٠٠٢٤	١٠٠	١٣٥٤٥٣٦	١٠٠	١٦٧٣٣٧٤	١٠٠	٥٣١٢٠٧	١٠٠	٤٩٤٢٤٦٦	١٠٠
	عدد الصفقات	٥٣٣٣	١٠٠	٩٦٨٦	١٠٠	١٥٩٨٨	١٠٠	٣٢٩٩٩	١٠٠	١٢٠٢١	١٠٠	٧٦٠٢٧	١٠٠

عدد الأسهم بالآلاف وقيمتها بآلاف الريالات

57 A Report Issued by NCFEI.

7.3. Regulatory Developments

Between 1984 and 2003, the Saudi stock market witnessed many regulatory developments, most notably the Council of Ministers' Resolution in 1997 on implementing—as of January 1998—the resolution of the Supreme Council of the Gulf Cooperation Council, which was issued during its 15th session, allowing GCC citizens to own shares in joint-stock companies of member states.

In January 1998, the nominal value of shares was adjusted for most joint-stock companies from SAR 100 to SAR 50, and by 20th April in the same year, the Saudi stock market index was added to the emerging markets index of the International Finance Corporation (IFC), a member of the World Bank Group.

In January 1999, the base value of the Saudi stock market index was changed for the base year from 100 to 1,000 points. During the same period, 25, 50, and 75 halala denominations were added to stock trading transactions and the requirements for transforming businesses into joint-stock form were amended. In 2000, joint-stock companies were allowed to distribute dividends to shareholders on a quarterly and semi-annual basis, having been required since 1993 to submit periodic financial reports no more than three weeks after the end of every quarter.

It is interesting to note that banks had already dedicated halls for international stock trading since the 1990s to profit from high commissions, which were three or four times the value of their local counterparts. However, things changed in the early 2000s as banks made trading halls available for local market investors.

7.4. Electronic Trading

The electronic trading story dates back to the late 1990s when many Saudi traders began investing in US stocks by telephone or through systems like Schwab, E-trade, and Emery Trade. Soon enough, those traders accumulated expertise in e-trading. During that time, a lecture on e-trading at SAMA's Banking Institute was presented by a Saudi official. At the end of the lecture, a TV reporter asked the official whether Saudis were actually serious about e-trading. The official answered in the affirmative and stressed that there would be great demand for this service once it became available. As banks began offering e-trading in 2002, demand for the service skyrocketed, just as anticipated. Abdullah Al-Suwailemi, Director of Tadawul at the time, recounts a visit to a relative in the countryside. Much to his surprise, he saw a farmer approaching them with a laptop, which he was using to track the performance of his shares.

In 2003 alone, e-trading exceeded expectations with a 384% increase from 1,348 online traders in January to 6,527 traders by year-end.

Given this outstanding performance, editors of Tadawul Magazine conduct a survey. The magazine publishes it in 2003 to examine e-trading in the Saudi stock market. Results showed that the age group from 20 to 29 represented 53.5% of traders while traders aged 30-39 represented 26.5%. Lastly, people aged 40 or above represented less than 20% of traders. In terms of sectors, university students came at the top of the list at 31.6%, followed by government employees and stock investors at 26.31%, and private-sector employees at 15.78%. Moreover, 49% of people surveyed had family relatives engaged in stock trading while 51% did not have any.

As for comparisons within the same age groups in relation to the early adoption of e-trading, those above the age of 40 interestingly had the largest share of in-group adopters. 73% reported they adopted e-trading when it was first introduced while 27% said they waited a year. As for the age group from 30 to 39, early adopters constituted 60%. Surprisingly, only 14% of youth aged 20 to 29 adopted e-trading early on.

The survey also examined investors' sources of information. 35.72% of respondents said they relied on information published at trading halls or announced by senior investors, followed by 34.28% who relied on market studies and financial analyses made by stock market experts. Lastly, 30% of traders relied on information published by listed companies.

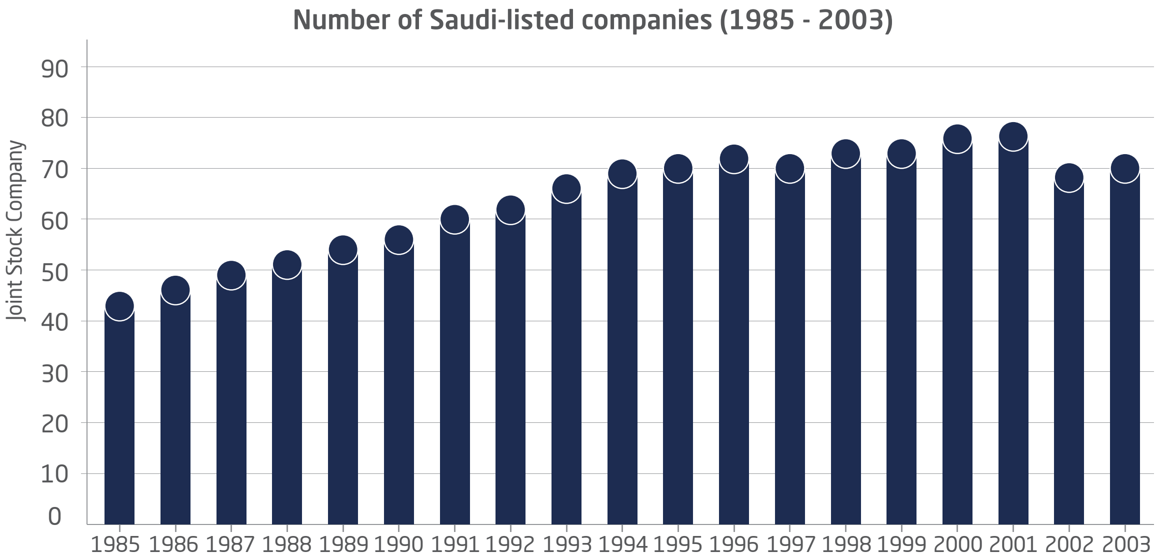
Chapter 8: Stock Market Regulations: A Critical Overview

Limiting stock trading to commercial banks was a major regulatory decision in the history of the Saudi capital market. Before the regulation, unlicensed trading and brokerage practices prevailed in an unofficial market that lacked relevant laws and supervision. In the early 1980s, state authorities decided that it was too early to form an independent entity to regulate the capital market as it was still small and not yet mature. Instead, SAMA was tasked with supervising trading in the market, given the agency's extensive expertise. But as the market approached a new phase of development, previous regulations were reconsidered.

8.1. Stock Market Developments (1984-2003)

Regulations introduced between 1984 and 2003 brought many positive outcomes to the Saudi stock market. Supervision improved, the role of unlicensed brokers became limited, and the market witnessed an impressive increase in trading volume. Between the issuance of SAMA's first trading bulletin in 1985 all the way to 2003, stock trading rose from nearly 4 million to more than 5.5 billion shares. Similarly, the value of shares traded increased from SAR 760 million to SAR 596.5 billion and the market value of shares grew from SAR 67 billion to SAR 590 billion. Over the same period, the number of transactions increased from 7,842 thousand to more than 3.8 million, coinciding with a rise in the general stock market index from 690 to 4,438 points.

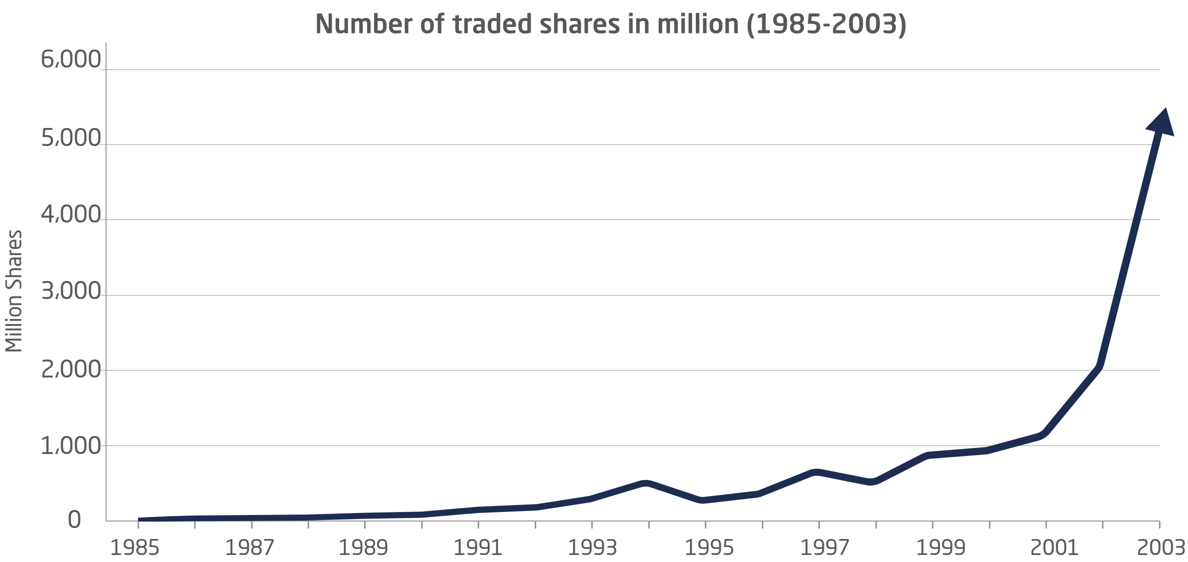
By the end of 2003, there were 70 joint-stock companies traded in the Saudi market with an average market value of SAR 8.250 billion (USD 2.2 billion) for each company (Figure 12), compared to 44 companies only in 1985.



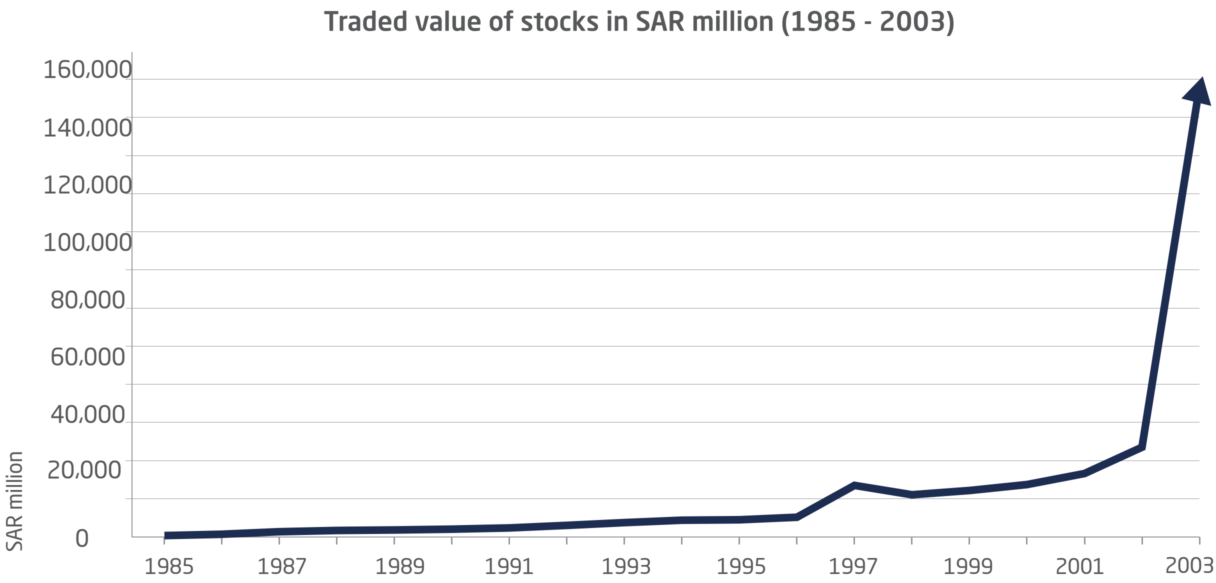
12 Number of Listed Joint-Stock Companies (1985-2003).

Between 1984 and 2003, the general stock price index fluctuated according to local, regional, and international affairs. The Black Monday crisis of 1987 had positive outcomes at a local level as investors decided to move their capital to the Saudi market, which was further sustained by rising oil prices. However, the index fell sharply after the Iraqi invasion of Kuwait in 1990. The following year, more repatriated capital was injected into the economy and the index rose again through 1992. However, following the Gulf War, oil prices fell, causing a slump that lasted until 1994. In 1995, the economy entered into a recovery period as oil prices rose once again. In 1998, stock trading activities slowed, leading to a decline in the general price index due to low oil prices and the financial crises in Asia and Russia that year. In 1999, there was again an upturn in the economy following an increase in oil prices and the injection of foreign capital through investment funds.

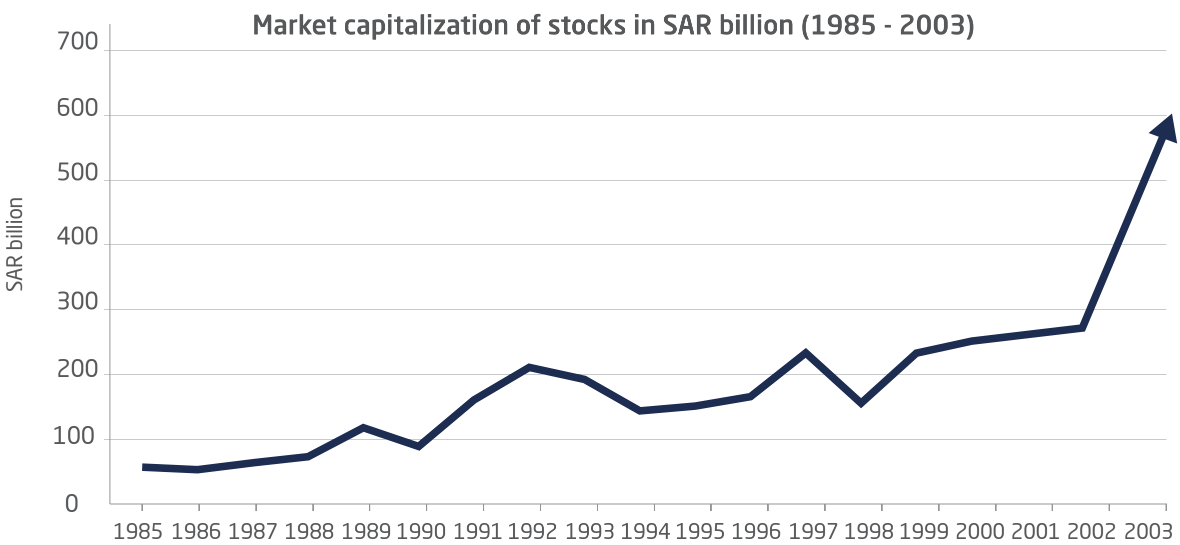
As the Kingdom pursued economic reforms, such as lowering tariffs and improving the performance of the banking and cement sectors, the country's economy continued to flourish. Moreover, market liquidity improved following 9/11 as Saudi capital returned to the local economy. STC's offering in 2003 also boosted the stock market, leading to the highest increase in the general index since 1985. Figures 13-17 show main stock market statistics from 1985 to 2003.



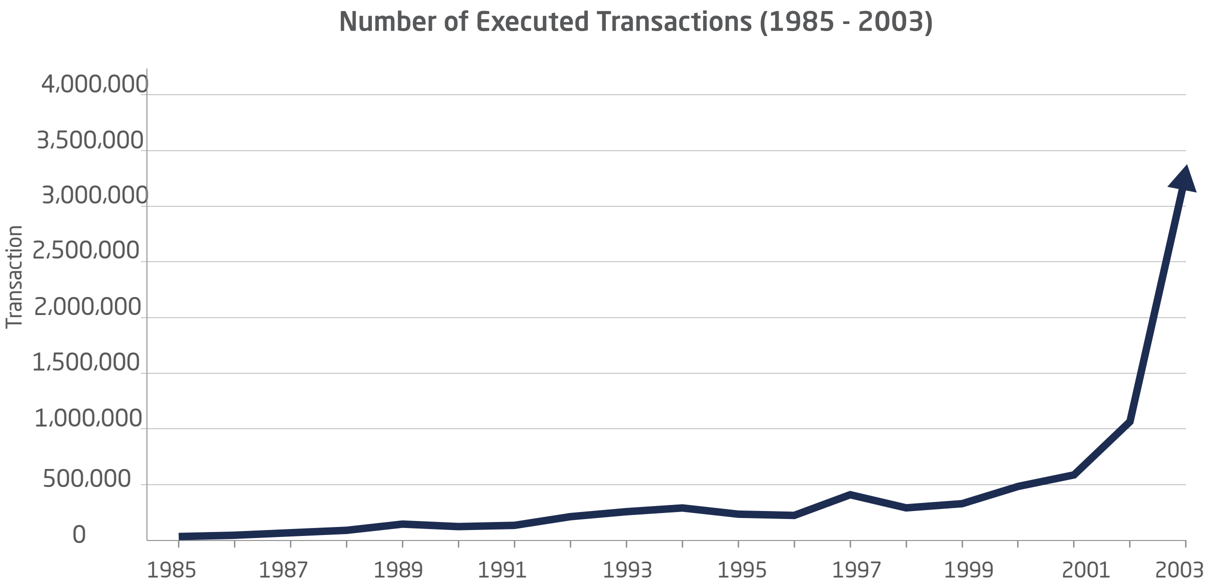
13 Number of Shares Traded in SAR Millions (1985 -2003).



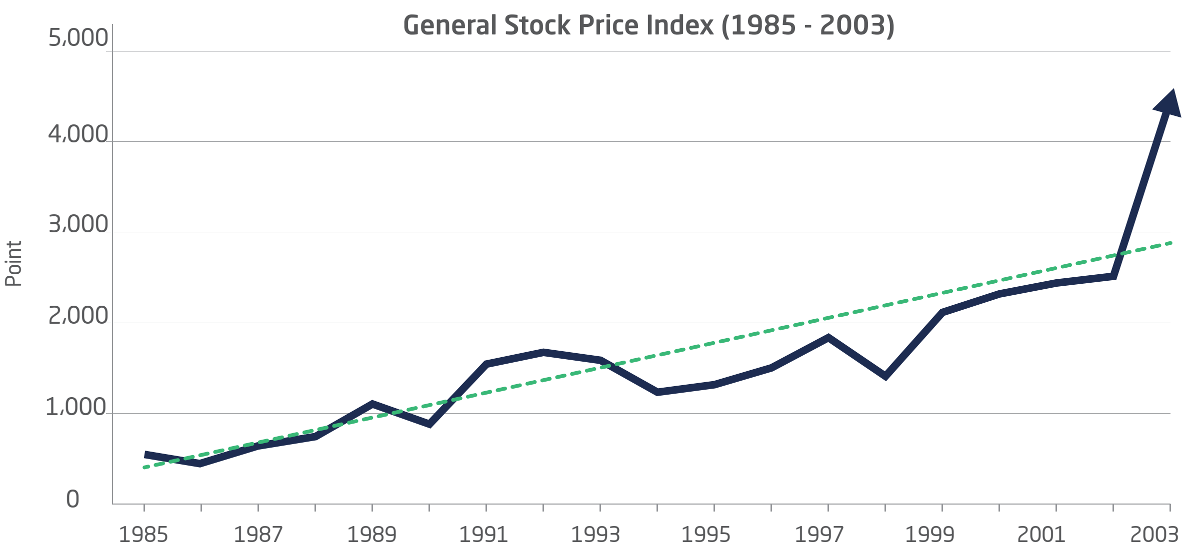
14 Value of Shares Traded in SAR Millions (1985 -2003).



15 Market Value of Shares in SAR Billions (1985 -2003).



16 Number of Transactions (1985 -2003).



17 General Stock Price Index (1985 -2003).

In comparison to international markets from early 1999 to the end of 2003, TASI increased 214%. Similarly, the Kuwaiti market rose 208%. However, the Arab Monetary Fund Index, which measures the performance of Arab capital markets combined, only grew 34%. Moreover, the IFC index for emerging markets had a 55% increase. On the other hand, MSCI USA Index and NASDAQ fell 10% and 9%, respectively. As for the Dow Jones Industrial Average, it rose no more than 14%. Other international market indices experienced a downturn over the same period, such as France's CAC 40, Germany's DAX, UK's FTSE 100, and Japan's Nikkei 225.

8.2. A Reflection

For two decades, regulatory committees strove to improve market conditions and technology. However, the journey was far from ideal. One of the issues faced over this period was the presence of multiple authorities in charge of market supervision and regulation. This was an uncommon practice in international capital markets, which had independent entities with legislative and executive powers. Saudi banks played a major role in trading activity, and thus the supervision by SAMA appeared appropriate. This approach had to be reconsidered in line with conventional practice, thus paving the way for licensed brokerage firms.

Even though stock trading was limited to banks, brokerage firms continued to operate indirectly by providing investment management and consulting services.

Despite its overall positive performance during that period, the stock market lacked sophisticated technology and effective legislation. For example, there were no laws for litigation or market violations, which led to conflicts, rumours, and misinformation.

It was clear that the time had come for government entities to examine the situation and reconsider their legislative framework. As a result, the capital market was restructured, and the scene was set for plans that would provide ample opportunities for market players. In September 1995, the Custodian of the Two Holy Mosques King Fahd Bin Abdulaziz Al Saud issued directives on launching an initiative to update and regulate the capital market. Consequently, the Ministry of Finance and National Economy requested the World Bank provide recommendations on developing the Saudi capital market.

8.3. World Bank Recommendations

In November 1996, the World Bank submitted a report to the Saudi government. The report's executive summary provided an overview of Saudi Arabia's initiatives during the 20th century, including the formation of the Ministerial and Standing Supervisory Committees and their role in laying a solid foundation for a developed stock market.

The report commended the efforts made by the Kingdom during the mid-1980s, such as facilitating regulated brokerage services through Saudi banks and ensuring a sound environment for trading and initial offerings.

After consideration of the market's components between the mid-1980s and mid-1990s, such as introducing highly reliable trading systems, the World Bank proposed recommendations on further developing the Saudi market's operations and regulations.

One of the major shortcomings over that period was that the Saudi stock market did not contribute effectively to achieving two objectives of the country's Sixth Development Plan: providing more long-term investment opportunities for the private sector and increasing citizens' participation in economic growth.

Additionally, the report highlighted several barriers that prevented the Saudi market from moving forward, most notably the ambiguity of market legislation, and the role of regulation being performed by two entities (SAMA and the Ministry of Commerce). Moreover, it was mentioned that shares offered for public subscription since the formation of the Ministerial Committee were small-scale compared to market size and substantial personal savings. To address these issues, the World Bank suggested licensing brokerage firms to operate and promote competition. Furthermore, the following recommendations were given on introducing a comprehensive legislative and regulatory framework for the capital market:

- Introducing a capital market law to address existing gaps and introducing binding, standardised market legislation with an emphasis on disclosure and transparency requirements.

- Forming a new independent entity for market supervision.

- Introducing a governance structure for operating and supervising the trading system with limited government involvement.

Figure 18 highlights key developments in the Saudi stock market between 1983 and 2002.

18 Key Saudi stock market developments (1983-2002)

Following the issuance of the report, SAMA and the Ministry of Finance formed a task group in 1999 to implement the World Bank's recommendations, to prepare a draft of the Capital Market Law, and undertake studies to form an independent capital market authority. These were the key measures that ushered in the establishment of a modern, internationally competitive Saudi capital market.

Phase Three

Three

(2003- 2020)

Phase Three

Part 3: Founding the Capital Market System

Chapter 9: Capital Market Law: A Paradigm Shift

Chapter 10: Establishment of the Capital Market Authority

Chapter 11: Laying the Foundations of Litigation and Oversight

Chapter 12: Regulating the Capital Market and its Institutions

Chapter 13: The Stock Market Bubble of 2006

Chapter 9: Capital Market Law: A Paradigm Shift

Over the course of two decades, SAMA and the Ministerial and Standing Supervisory Committees made great efforts to supervise and develop the Saudi stock market. This spanned the period from 23rd December 1984, when stock trading was limited to local banks, until the early 2000s. As previously discussed in Part 2 of this publication, the World Bank had submitted a report to the Saudi government in which it commended those efforts and provided recommendations for accommodating capital market developments by introducing a comprehensive regulatory framework to support the country's economy.

Based on the World Bank report, the Ministerial Committee tasked SAMA to undertake a study on stock market development in 1998. On 3rd January 1998, the findings were submitted to His Excellency Minister of Finance and National Economy. The study recommended replacing the term "stock market" with the more inclusive "capital market" to cover investment funds and other securities. Moreover, the study provided an overview of the World Bank's report and highlighted developments in other markets in terms of organisation and supervision. A market development programme based on World Bank recommendations was also offered. Document 58 is the letter sent by His Excellency Governor of SAMA to His Excellency Minister of Finance on the Saudi stock market development programme.

Regulatory authorities were focused on adopting the regulatory standards of the International Organization of Securities Commissions (IOSCO)


مؤسسة النقد العربي السعودي
المركز الرئيسي
إدارة الرقابة على الأسهم

الرقم : ٢٦٦٦٢ - م ظ/ م/١
المرفقات : دراسة تطوير سوق الأسهم
التاريخ : ١٤١٨/٩/٥ هـ
الموافق : ١٩٩٨/١/٢ م

معالي وزير المالية والإقتصاد الوطني الموقر

بعد التحية

مرفق لمعاليكم الدراسة المتعلقة بتنفيذ البرنامج التطويري « لسوق الأسهم السعودية » والتي أعدت استناداً لدراسة البنك الدولي ، وقد تم تعديل الدراسة بحيث روعي فيها ملاحظات معاليكم ، وكذلك تضمينها مواضيع جديدة بناء على طلب معاليكم تمثلت في إضافة بعض التعريفات الهامة ذات العلاقة بالسوق ، وعرض عن الوضع الحالي للسوق، وكذلك التطرق إلى التنظيم الإشرافي والمؤسسي والتنظيمي المتبع في بعض الدول العربية والأجنبية ، كما تم صياغة الدراسة على شكل مقترحات وتوصيات ، وتدعيمها ببعض الملاحق التوضيحية .

وقد يلاحظ معاليكم ابتداءً من ص ١٩ من الدراسة عند الحديث عن الشركة التي ستقوم بالإدارة اليومية لسوق الأسهم استخدام مصطلح « سوق المال السعودية » بدلاً من « سوق الأسهم السعودية » وذلك نظراً لأن مصطلح « سوق المال » اكثر شمولية حيث يغطي السندات وصناديق الإستثمار وبعض أدوات التمويل الأخرى والتي من الممكن أن يشملها السوق مستقبلاً ، ونأمل أن تكون الدراسة بشكلها الحالي بعد التعديل قد أصبحت مناسبة بحيث يمكن اعتبارها أساساً جيداً وبرنامجاً عملياً لتطوير سوق المال بالمملكة .

وتقبلوا معاليكم تحياتي وتقديري.

المحافظ
حمد سعود السياري

58 A Letter on the Saudi Stock Market Development Programme (1998).

which introduced securities regulation principles based on three objectives: protecting investors; ensuring that markets are fair, efficient, and transparent; and reducing systemic risk.

IOSCO provided 38 principles in 10 categories related to different regulatory aspects. For example, principles relating to the regulator included the following: setting clear and objectively stated responsibilities; being operationally independent and accountable in the exercise of functions and powers; having adequate powers, proper resources, and the capacity to perform functions and exercise powers; adopting clear and consistent regulatory processes; having a staff that observes the highest professional standards, including appropriate standards of confidentiality; having or contributing to a process to identify, monitor, mitigate, and manage systemic risk; and having or contributing to a process to review the perimeter of regulation regularly. Additionally, IOSCO provided principles for the regulator's role in enforcing securities regulation, such as having comprehensive enforcement, inspection, investigation, and surveillance powers.

Moreover, IOSCO provided principles relating to the following: issuers; auditors, credit rating agencies, and other information providers; collective investment schemes, market intermediaries; secondary and other markets; and clearing and settlement.

Founded in 1983, the International Organization of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector. IOSCO develops, implements, and promotes adherence to internationally recognised standards for securities regulation.

9.1. Capital Market Law: Draft Bill

Regulatory authorities in the Kingdom made sure to adhere to IOSCO standards and benefit from the experiences of other countries to develop a regulatory framework and IT infrastructure for the Saudi capital market.

Since legislation should precede an organisation, a legal group of experts from SAMA, the Ministry of Finance and National Economy, and other capital market entities was formed to draft a bill for the Capital Market Law. Moreover, capital market laws of developed nations, such as the United States, the Netherlands, and

Denmark, were examined for relevance. However, since many of these laws were not adaptable to the Saudi market, the legal group resorted to examining the laws of similar emerging markets that adopted World Bank and IOSCO recommendations.

Furthermore, SAMA and the Ministry of Finance formed a review team headed by His Excellency Minister of Finance Dr. Ibrahim Abdul Aziz Al-Assaf. The team consisted of Their Excellencies Governor of SAMA Mr. Hamad Saud Al-Sayyari, Vice Governor of SAMA Dr. Muhammad Sulaiman Al-Jasser, Deputy Governor of SAMA Mr. Jammaz Abdullah Al-Suhaimi, as well as a distinguished group of prominent figures from relevant state agencies, such as Their Excellencies Chairman of the Supreme Economic Council Dr. Abdulrahman Abdulaziz Al-Tuwaijri, Deputy Minister of Finance Dr. Hamad Sulaiman Al-Bazai, and Dr. Fahad Abdullah Al-Mubarak.

Drafting the Capital Market Law was an ambitious commitment that took several years to complete. Enacting laws took a long time in the Kingdom as there were several authorities involved in the process.

The team and legal groups relied on their extensive expertise to come up with a draft bill that takes all market-related issues into account and at the same time leaves room for future regulations. On 29th December 2002, the Shura Council approved the draft bill, which was then approved by the Council of Ministers on 16th June 2003. Finally, on 31st July 2003, a Royal Decree approved the promulgation of the Capital Market Law.

After the Law was passed, the Saudi market grew steadily, boosted by the STC public subscription, which marked a new era in the history of the country's capital market. A comparison of figures from 2001 to the promulgation of Capital Market Law in 2003 shows remarkable improvements.

From 2001 to 2003, the general stock market index rose from 2,403 to 4,438 points. Additionally, the number of shares traded increased from 691 million to 5.6 billion with a corresponding increase in transactions from 605 thousand to 3.8 million. Lastly, the market value grew from SAR 84 billion to 597 billion.

9.2. Promulgation of Capital Market Law


الرقم: م/٣٠
التاريخ: ١٤٢٤/٦/٢هـ

بعون الله تعالى

نحن فهد بن عبدالعزيز آل سعود

ملك المملكة العربية السعودية

بناءً على المادة (السبعين) من النظام الأساسي للحكم الصادر بالأمر الملكي رقم (أ/٩٠) وتاريخ ١٤١٢/٨/٢٧هـ.

وبناءً على المادة (العشرين) من نظام مجلس الوزراء الصادر بالأمر الملكي رقم (أ/١٣) وتاريخ ١٤١٤/٣/٣هـ.

وبناءً على المادتين (السابعة عشرة) و (الثامنة عشرة) من نظام مجلس الشورى الصادر بالأمر الملكي رقم (أ/٩١) وتاريخ ١٤١٢/٨/٢٧هـ.

وبعد الاطلاع على قرار مجلس الشورى رقم (٤٧/٤٤) وتاريخ ١٤٢٣/١٠/٢٥هـ.

وبعد الاطلاع على قرار مجلس الوزراء رقم (٩١) وتاريخ ١٤٢٤/٤/١٦هـ.

رسمنا بما هو آت:

أولاً: الموافقة على نظام السوق المالية بالصيغة المرافقة.

ثانياً: استثناءً من حكم المادة (السابعة والستين) من نظام السوق المالية - الخاصة بتحديد تاريخ العمل بالنظام - يعين مجلس هيئة السوق المالية خلال الأشهر الثلاثة التالية لتاريخ نشر النظام في الجريدة الرسمية، ويباشر فور تعيينه صلاحياته - المنصوص عليها في النظام المشار إليه - لوضع الترتيبات اللازمة للعمل بالنظام عند نفاذه.

ثالثاً: يمارس مجلس هيئة السوق المالية جميع صلاحيات مجلس إدارة السوق المالية إلى حين تشكيل مجلس إدارة السوق.

رابعاً: على سمو نائب رئيس مجلس الوزراء والوزراء - كل فيما يخصه - تنفيذ مرسومنا هذا.

59 Royal Decree M/30 on Approving Capital Market Law.

Following positive sentiment surrounding STC's public subscription, Royal Decree M/30 of 31st July 2003 was issued (Document 59). The decree—signed by the late King Fahd Bin Abdulaziz Al Saud—approved the Capital Market Law, which aimed to create a fair, modern, and regulated capital market that would help achieve the country's ambitions. Moreover, the decree included directives on appointing the Capital Market Authority's board, which was to assume its powers immediately to make relevant arrangements before the Law's enforcement.

In this context, the decree gave CMA Board the responsibilities of Tadawul's board of directors until its formation.

The previously issued Council of Ministers' Resolution No. 91 of 16th June 2003 (Document 91) stipulated transferring all affiliates, rights, and obligations of the Tadawul Electronic System (TES) and the Saudi Shares Registration Company, including records and movables and immovables, to the Capital Market Authority (CMA) and the Saudi Stock Exchange in collaboration with SAMA. Moreover, employees of SAMA's Stock Control Department were to be transferred to the CMA.

Since the CMA was yet to be founded, the ministerial resolution took into consideration the particulars of the transition, so it allowed the continuation of stock listing and trading practices until they became subject to the Capital Market Law upon its promulgation. Moreover, all directives, rules, and regulations of the Ministerial and Standing Supervisory Committees were to remain in effect until they were cancelled, amended, or replaced by the CMA after its formation.

These decisions ensured market stability by allowing the continuation of existing legislation and practices until the formation of the CMA and promulgation of the Capital Market Law. Therefore, banks continued to act as brokers and the TES remained in operation until the CMA assumed its new responsibilities. Document 60 is the Council of Ministers' Resolution on approving the Capital Market Law.

بسم الله الرحمن الرحيم

المملكة العربية السعودية
مجلس الوزراء
الأمانة العامة

قرار رقم: (٩١)
وتاريخ: ١٦/ ٤/ ١٤٢٤هـ

إن مجلس الوزراء

بعد الاطلاع على المعاملة الواردة من ديوان رئاسة مجلس الوزراء برقم ١٨٠٠١ وتاريخ ١٤٢٤/٤/١٥هـ، المشتملة على خطاب معالي وزير المالية رقم ١٥٢٣٢/١ وتاريخ ١٤٢١/١٢/٢٥هـ المرافق له مشروع نظام السوق المالية.

وبعد الاطلاع على مشروع نظام السوق المالية المشار إليه.

وبعد النظر في قرار مجلس الشورى رقم (٤٧/٤٤) وتاريخ ١٤٢٣/١٠/٢٥هـ.

وبعد الاطلاع على قرار المجلس الاقتصادي الأعلى رقم (٢٤/٢) وتاريخ ١٤٢٤/٤/١٥هـ.

يقرر مايلي:

أولاً : الموافقة على مشروع نظام السوق المالية بالصيغة المرافقة.

ثانياً : استثناءً من حكم المادة (السابعة والستين) من نظام السوق المالية – الخاصة بتحديد تاريخ العمل بالنظام – يُعين مجلس هيئة السوق المالية خلال الأشهر الثلاثة التالية لتاريخ نشر النظام في الجريدة الرسمية، ويباشر فور تعيينه صلاحياته – المنصوص عليها في النظام المشار إليه – لوضع الترتيبات اللازمة للعمل بالنظام عند نفاذه.

ثالثاً : يمارس مجلس هيئة السوق المالية جميع صلاحيات مجلس إدارة السوق المالية إلى حين تشكيل مجلس إدارة السوق.

وقد أعد مشروع مرسوم ملكي بذلك صيغته مرافقة لهذا.

بسم الله الرحمن الرحيم

المملكة العربية السعودية
مجلس الوزراء
الأمانة العامة

(٢)

رابعاً : تحول جميع الحقوق والالتزامات والموجودات والسجلات والأموال المنقولة وغير المنقولة الخاصة بالنظام الآلي لتداول الأسهم السعودية والشركة السعودية لتسجيل الأسهم – إلى هيئة السوق المالية والسوق المالية بالتنسيق بين مؤسسة النقد العربي السعودي والهيئة، وينقل إلى السوق منسوبو هاتين الجهتين. كما ينقل إلى الهيئة موظفو إدارة الرقابة على الأسهم بمؤسسة النقد العربي السعودي.

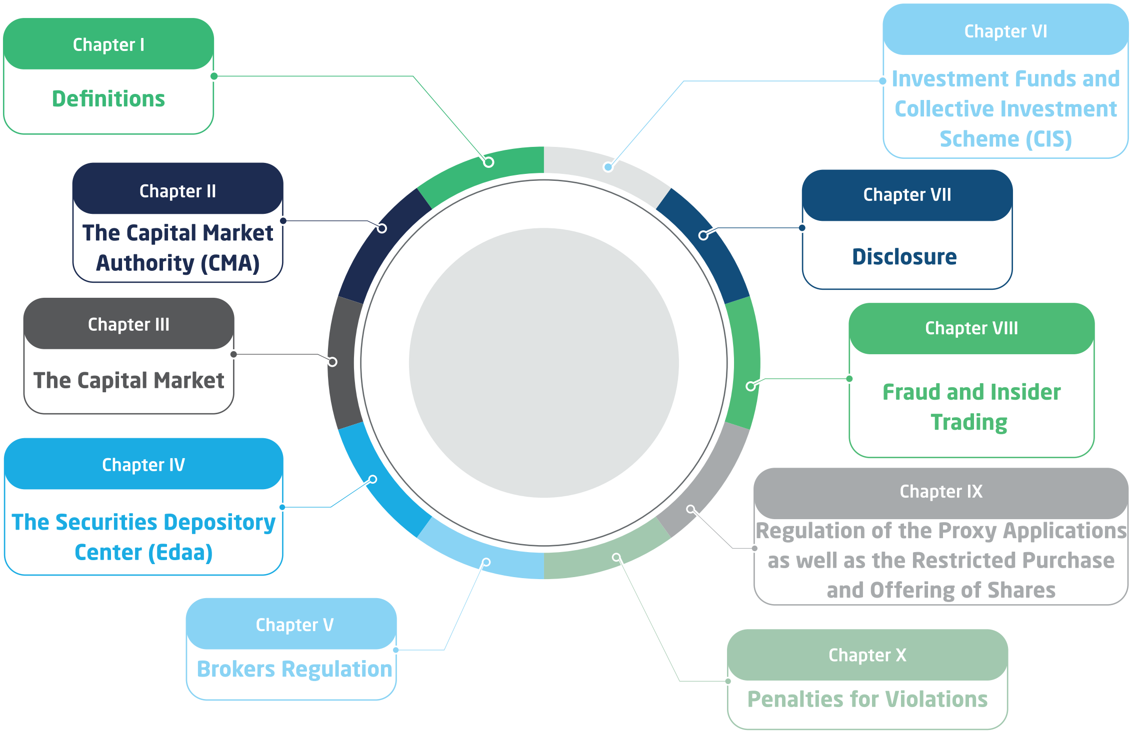
خامساً : تعتبر الأوراق المالية المدرجة والمتداولة في النظام الآلي لتداول الأسهم السعودية مدرجة ومتداولة حكماً لدى السوق عند بداية العمل بها بموجب هذا النظام. كما تخضع لشروط ومتطلبات الإدراج التي تصدر بموجب هذا النظام.

سادساً : تبقى جميع القواعد والإجراءات والتعليمات والقرارات الصادرة عن اللجنة الوزارية ولجنة الإشراف المشرفين على تداول الأسهم – سارية المفعول إلى حين إلغائها أو تعديلها أو استبدال غيرها بها من هيئة السوق المالية أو بمقتضى أحكام نظام السوق المالية.

رئيس مجلس الوزراء

60 Council of Ministers' Resolution No. 91 on Approving the Capital Market Law.

The Capital Market Law of 2003[1] consisted of 10 chapters (Figure 19) and 67 articles that addressed regulating securities issuance and trading, monitoring the activities of CMA-licensed entities, and protecting citizens and investors from unfair or illegal practices.



19 Chapters of the Capital Market Law of 2003.

1 Capital Market Law chapters have changed following amendments introduced in 2019 (to be discussed later).

9.3. Towards a Better Capital Market Future

The Capital Market Law of 2003 supported the Kingdom's development by providing a solid regulatory framework that aimed at restructuring the country's capital market and ensuring transparency under the CMA, which was to assume the roles of the Ministerial and Standing Supervisory Committees, and the Stock Control Department.

For the first time, the Law served as the main reference for the country's capital market by stipulating principles and foundations that govern market participants and operations. Moreover, the Law provided clear instructions on disclosure and transparency and introduced sanctions and penalties for violations to promote fairness and trust.

Furthermore, control and supervision were separated from executive and operational functions. The former was a mandate of the CMA and the latter were the responsibilities of the Exchange, which was to be formed as a joint-stock company and an entity authorised to operate the Saudi securities market.

The Capital Market Law also stipulated the formation of the Committee for the Resolution of Securities Disputes (CRSD) as well as the Appeal Committee for the Resolution of Securities Disputes (ACRSD), with the latter to be formed following a resolution by the Council of Ministers. The Committees had jurisdiction over disputes, lawsuits, and violations, in public and private actions, falling within the provisions of the Capital Market Law, its Implementing Regulations, and the regulations, rules and instructions of the CMA and the Exchange. Additionally, the Law contained provisions on forming the Securities Depository Centre as the only entity responsible for the deposit, transfer, settlement, and clearing of market securities.

As the provision of brokerage services was being transferred from banks to licensed institutions, the Capital Market Law provided provisions for regulating brokers. Furthermore, the CMA had the power to introduce relevant conditions and requirements that brokers had to adhere to prior to obtaining a licence.

In addition, a whole chapter in the Capital Market Law was dedicated to investment funds and collective investment schemes, which were to be supervised by the CMA rather than SAMA. However, existing rules for the regulation of investment funds were to remain in force until the CMA Board assumed its mandate officially.

On a similar note, the Capital Market Law enabled investors to pursue investment in securities, thus diversifying investment opportunities within a growing capital market governed by comprehensive regulations. Furthermore, the law encouraged large companies, especially family-owned corporations, to transition into joint-stock companies as it was expected that the market would attract savings following measures that ensure fairness and independence.

9.4. Capital Market Law: Rules and Foundations

There are two models adopted by capital market regulatory systems depending on their underlying philosophy or logical basis: disclosure-based regulation (DBR) and merit-based regulation (MBR). The former is adopted by many countries around the world, such as the United States, Malaysia, Hong Kong, Singapore, and India, while the latter is adopted to a certain extent by countries such as China and the Philippines.

In MBR, a capital market regulator identifies investment risks before approving the issuance of securities or investment products. MBR assumes that market regulators are better informed than investors and can better decide the merits of transactions on their behalf. Therefore, MBR poses restrictions on investors' autonomy.

In contrast, DBR does not intervene in market mechanisms or make judgments about securities or investment opportunities. Instead, DBR's sole purpose is to ensure that investors are provided with sufficient, accurate, and timely disclosure of all relevant information regarding a company's business and securities to allow them to make informed investment decisions. In other words, DBR does not make investment decisions on behalf of investors, as regulators are only meant to ensure the accuracy of disclosures.

The Capital Market Law adopted the DBR model of disclosing key information to investors and market participants. The CMA was made responsible for achieving fairness, efficiency, and transparency in securities transactions. Moreover, the Law stipulated that the CMA is supposed to regulate and monitor the full disclosure of information regarding securities and their issuers and the dealings of informed persons and major shareholders and investors, as well as define and make available information which the participants in the market should provide and disclose to shareholders and the public. This means that the CMA does not intervene in market mechanisms or in determining or changing the fair value of stocks. Additionally, and according to the Capital Market Law, the CMA is not involved in stock price changes, nor does it have the right to take part in determining subscription or trading prices. However, the CMA was given the right to bring legal action before the Committee for the Resolution of Securities Disputes against any person who violated any provisions of the Capital Market Law, the regulations or rules issued by the CMA, or the regulations of the Exchange.

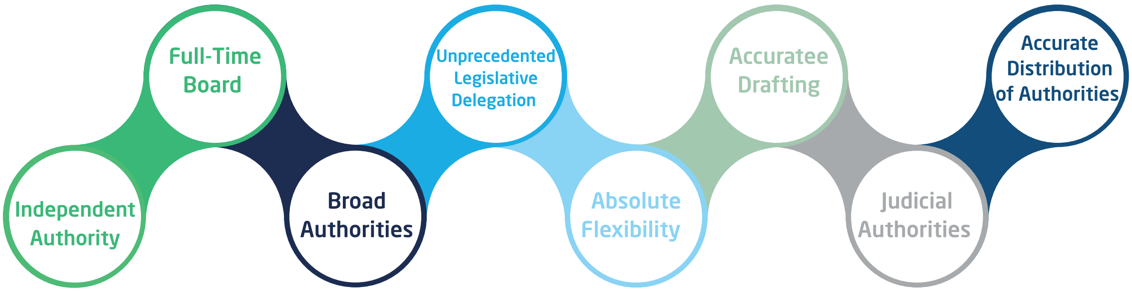
On the other hand, the CMA had absolute authority to determine the information to be disclosed. Moreover, if a prospectus contained incorrect information pertaining to core matters or omitted key information, the CMA had the right to take legal action against those responsible for any damages that may arise from those violations. The CMA also had the right to monitor and take legal action against issuers of financial reports who violated disclosure and transparency requirements.

The Capital Market Law provided instructions that made companies adopt strict internal controls to ensure that both corporate and public interests were protected.

Apart from provisions that aimed to protect the market and investors from illegitimate practices, the Capital Market Law also introduced provisions of regulation. Overall, the CMA was tasked with regulating, monitoring, and supervising the capital market without intervening in market operations or mechanisms.

9.5. Capital Market Law: Features

Unlike other laws of the Kingdom, the Capital Market Law had the following distinguishing features:



20 Key Features of the Capital Market Law of 2003.

9.5.1. An Independent Capital Market Authority

The Capital Market Law provided for the establishment of the CMA as an independent authority that directly reports to the President of the Council of Ministers, thus giving a legal personality[1] to ensure it fulfils its mandate as required.

Moreover, the Law stipulated the financial and administrative autonomy of the CMA. According to the Law, the CMA was to have a separate annual budget that would be submitted to the Minister of Finance. Moreover, the CMA was to have independent resources as ordained by the Law and any sums owed to the CMA by third parties were considered public funds. At the same time, the CMA was vested with all authorities necessary to perform its responsibilities and functions under the Law. It also had the exemptions and facilities enjoyed by public organisations and its personnel were subject to the Labour Law.

1 An independent entity with legal rights, privileges, responsibilities, and obligations to achieve a certain purpose.

9.5.2 A Dedicated Board

One of the features that distinguished the Capital Market Law from other Saudi laws was the stipulations that a CMA Board be formed pursuant to a Royal Order. The Board was to be composed of five professionally qualified members employed on a full-time basis. Moreover, their salaries and benefits were to be determined by Royal Order to ensure their independence and impartiality and eliminate any conflict of interest. Additionally, board members were prohibited from engaging in another profession or job, including assuming a position or a post in any company, in the government, or in public or private institutions, thus ensuring the highest level of independence and avoiding conflict of interests. Unlike most boards, where members represent and are influenced by sectors they are affiliated with, an independent dedicated board at the CMA meant higher levels of commitment and responsibility.

The formation of a dedicated board was necessary to ensure the independence of the Saudi capital market, especially since the authorities of the board were significantly different from those of other ministries or financial authorities. Furthermore, this step aligned with conventional practice in international capital markets. It was also meant to avoid any conflicts of interest or jurisdiction, as mentioned in the World Bank report on how the Saudi capital market operated for two decades under a trilateral Ministerial Committee consisting of the Governor of SAMA, Minister of Finance, and Minister of Commerce, and under the direct authority of the Supervisory Committee that was comprised of ministerial undersecretaries.

9.5.3 Far-Reaching Powers

Enactment of the Capital Market Law brought about a new era for the Saudi capital market. Even though the CMA was going to be entrusted with tasks similar to those of SAMA, legislators nevertheless ensured that the CMA would have a dedicated board with legislative powers, which was uncommon at the time, to regulate the capital market and oversee its development.

The Law granted the CMA Board the power to introduce internal regulations, set forth the manner in which personnel, advisors, auditors, and any other experts would be appointed as necessary, as well as specify how the CMA's functions, responsibilities, and operations would be organised among its divisions and departments. Moreover, the Law granted the Board specific powers and the right to delegate, by a published resolution, any of its functions, except for powers conferred by the Capital Market Law exclusively upon the Board. Furthermore, the CMA Board was named -as such to stress its independent legal form- as a legislative and regulatory entity as well as to distinguish it from boards of directors of other authorities and institutions.

9.5.4 Unprecedented Legislative Delegation

The Capital Market Law is explicit in terms of delegating legislative powers. In fact, the previous legislation in the Kingdom did not have such a level of delegation. According to the Capital Market Law, the CMA Board enjoyed considerable powers in introducing internal and implementing regulations as well as issuing rules and instructions. Unlike other ministries and authorities which are usually given powers to issue regulations in specific contexts, the special nature of the board's responsibilities justified the new delegation approach, especially as capital market legislation required numerous regulations to address a dynamic market, with a variety of participants.

Furthermore, powers were delegated to the CMA to introduce regulations and rules on various issues related to the capital market and securities, such as determining the type of information that must be disclosed by issuers and defining legal terminology.

The CMA was given the power to introduce regulations and define legal terminology to accommodate the changing nature of the capital market. The Capital Market Law does not delve into the details of regulations and procedures, otherwise it would have to be amended regularly, which in turn would hamper legal stability. Instead, the Capital Market Law set the legal framework and gave the CMA powers to identify regulatory requirements through rules and regulations, as is the case in several Western countries, such as Denmark, the Netherlands, the United Kingdom, and the United States.

9.5.5. Remarkable Resilience

Several reasons account for the regulatory resilience of the Capital Market Law. The first is the great efforts of the legal group that introduced the draft bill under the leadership of His Excellency late Jammaz Al-Suhaimi, Deputy Governor of SAMA, Chairman of the Supervisory Committee, and the first Chairman of the Board of CMA. Al-Suhaimi's team made visits to different countries and well-established markets to examine their market systems and adopted relevant regulations for the Saudi capital market. Consequently, the Capital Market Law was formulated in a way that gives the CMA the freedom to identify market-specific tasks and procedures, thus making the Law sufficiently resilient that it has not been amended for more than 15 years.

This resilience enabled the CMA to assume its role in developing the market and enforcing regulatory measures according to changing market conditions at regional and international levels.

9.5.6. Precise Legal Drafting

The legal language of the Capital Market Law was the result of efforts made by an elite group of experts in administration, finance, and law. The draft bill defined financial terminology in the first article, outlined what constituted securities in the second, and highlighted which instruments that may not be considered securities in the third, such as cheques and bills of exchange.

By doing so, the provisions of the Capital Market Law were decisive and precise, leaving no room for misinterpretation. Moreover, the CMA was given the authority to define and explain the terms and provisions of the Capital Market Law.

9.5.7. Judicial Powers

One of the Capital Market Law's distinguishing features was dedicating a judicial body named the Committee for the Resolution of Securities Disputes. The Law stipulated that the Committee should consist of legal consultants with expertise in capital market affairs, thus ensuring the resolution of securities disputes successfully through a dedicated judicial body.

Moreover, the Law granted the Committee all necessary powers to investigate and settle claims, including the power to issue subpoenas to witnesses, order the production of evidence and documents, issue decisions, and impose sanctions. Furthermore, the Law stipulated the establishment of the Appeal Committee for the Resolution of Securities Disputes (ACRSD), which had the jurisdiction of considering objections to the decisions of CRSD based on the information stipulated in the claim, with ACRSD's decisions being final.

Unlike the Ministerial Committee, the CMA was given the power to examine witness statements, inspect requested records, and impose sanctions on violators of the Capital Market Law's provisions and the CMA's regulations and rules.

9.5.8. Clear Separation of Powers

The Capital Market Law introduced a clear separation of powers. Legislative and regulatory authority were mandates of the CMA, while executive authority (which existed before the Capital Market Law) was given to the Exchange, which was to replace TES (including the rights and assets of SSRC).

The paradigm shift in the Saudi capital market was evident in the licensing of new institutions to engage in securities brokerage. This was a major change, given that the provision of brokerage services had previously been limited to banks.

The promulgation of the Capital Market Law was a major government contribution to the country's economic development, especially since it was passed at a time of accelerating domestic and international changes. The Law promoted confidence in the capital market by emphasising transparency and introducing a comprehensive legal framework to ensure fairness and sound practices.

Chapter 10: Establishment of the Capital Market Authority

As discussed in the previous chapter, the Capital Market Law stipulated the establishment of the CMA as an independent authority to regulate the capital market by ensuring fairness and equal investment opportunities.

10.1. From Capital Market Law to Capital Market Authority

The Capital Market Law required the transfer of the responsibilities that had been previously assumed by SAMA, the Ministerial and Standing Supervisory Committees, to the new authority with extensive powers for the regulation and development of the capital market. Moreover, the Law ensured that there would be no legal vacuum during the transition period and until the CMA was operational.

One of the leading figures who played an important role in managing the transitional period was His Excellency Jammaz Al-Suhaimi, Deputy Governor of SAMA and Chairman of the Supervisory Committee. Al-Suhaimi contributed greatly to the development of the banking sector and the regulation of the Saudi capital market. He also oversaw the drafting of the Capital Market Law.

To ensure a smooth transition, the Council of Ministers' Resolution on the Capital Market Law stipulated the transfer of SAMA's Stock Control Department personnel to the CMA, dividing them into two groups: one for managing TES until the establishment of an independent company to manage the Exchange, and another that would serve at the CMA following its establishment. Consequently, the two groups assumed their new responsibilities and moved to work at Tawuniya Towers in Riyadh under SAMA's supervision. At the same time, existing rules and procedures of the Ministerial and Standing Supervisory Committees remained in force during the transition to ensure the continuation of market operations until the first CMA board was formed.

During the transition period, SAMA launched a training programme for future CMA personnel who consisted of SSRC contract specialists and employees of the Stock Control Department. To this end, SAMA contracted the National Association of Securities Dealers (NASD[1]) to develop the team's capabilities and to ensure its members were qualified to work at the CMA, which was to become a legislative entity that supervises the capital market.

In preparation for the launch of the CMA, the Tadawul website for stock trading was being developed to incorporate the latest technologies. Furthermore, several family-owned companies started to consider transforming their businesses into joint-stock companies. These included Jarir, which became a joint-stock company in 2003 and was listed on the Saudi Stock Exchange with a capital of SAR 240 million. Moreover, the Saudi Industrial Investment Group was listed in February 2004 with a capital of SAR 1.2 billion. Other entities increased their capital during the period, such as the Saudi Investment Bank, the Arab National Bank, and the Saudi Hollandi Bank, as well as 10 other companies.

When asked about the transfer of powers during the transitional period of 2003, His Excellency former Minister of Finance Mohammad Abalkhail confirmed that the transition was a relatively smooth process, especially since SAMA had completed the difficult step of establishing the market, and the government and banks had invested heavily in developing advanced electronic systems and training Saudi youth to operate and manage market trading.

10.2. The First CMA Board

The Capital Market Law stipulated that the CMA should have a board known as the "CMA Board" comprised of five members working on a full-time basis, who were appointed by Royal Order. Moreover, the term of membership of the Board was five years, renewable once, and the Board had the authority to set forth the internal regulations of the CMA and exercise all authorities entrusted to the CMA in accordance with the provisions of the Capital Market Law.

On 2nd July 2004, Royal Order No. A/114 was issued on forming the Board of the Capital Market Authority, appointing the following members: His Excellency Jammaz Al-Suhaimi as Chairman, Mr. Ibrahim Mohammed

1 NASD was founded in 1939 in the aftermath of the 1929 Wall Street Crash and was given oversight and regulatory authority over securities trading in the US. Later in 2007, NASD merged with the regulation, enforcement, and arbitration arm of the New York Stock Exchange to form the Financial Industry Regulatory Authority (FINRA).

Al-Romaih as Vice Chairman, and Mr. Mohammed Meghnim Al-Shumrani, Dr. Abdulrahman Abdulmohsen Al-Khalaf, and Dr. Abdullah Hasan Al-Abdulgader (as members).

Board members were selected carefully based on their academic knowledge and practical expertise. Mr. Al-Suhaimi was a charismatic, visionary leader who was known for his outstanding abilities in selecting and empowering the best candidates. He held different positions at SAMA, the Ministry of Finance, and the Saudi Industrial Development Fund and made a lasting impact on the banking sector. He also led the transitional period between the issuance of the Capital Market Law and the formation of the Board of the Capital Market Authority. Al-Suhaimi became the first Chairman of the Board, building on many years of extensive experience, for he also served as Chairman of the Supervisory Committee. His influence helped establish strong relations with regulatory and capital market entities at local and international levels. Former Governor of SAMA His Excellency Hamad Saud Al Sayyari recounted that "His Excellency Al-Suhaimi was responsible for developing banking control and overseeing training and technological development in the banking sector, in addition to his responsibility for stock market and systems development. He was an active person with a broad vision. He was also successful in developing advanced stock market systems that were comparable to those of advanced countries." His Excellency Former Minister of Finance Dr. Ibrahim Abdul Aziz Al-Assaf also added that "There was consensus that the best candidate for the chairmanship of the Board was His Excellency Jammaz Al-Suhaimi. He was an energetic, visionary leader. He never hesitated to pursue development, especially in the field of technology. His expertise was much needed since he also supervised stock market activity during his work at SAMA."

Mr. Ibrahim Al-Romaih held the position of Assistant Secretary-General of the Public Investment Fund and was a board member in several reputable national institutions before being appointed as Vice Chairman of the Board. Other members of the Board were also known for their expertise and competence. Mr. Mohammed Al-Shumrani received his Master's degree in Economics from the University of Denver and held various positions at SAMA, the last of which was Director-General of the Investment Department. Dr. Abdulrahman Al-Khalaf was a professor of economics at King Saud University and an economic consultant at the Gulf Cooperation Council. Lastly, Dr. Abdullah Al-Abdulghader was a professor at King Fahd University of Petroleum and Minerals and the Vice Rector of the university, and was one of the pioneers in developing Saudi accounting standards. Figure 12 below shows the members of the first CMA Board.

21 Members of the first CMA Board in 2004.

Forming a highly competent board took some time as members had to be carefully selected given the challenging task ahead. This step was the beginning of a historic moment in the Saudi capital market. The Board holds various responsibilities, such as managing the CMA's internal affairs on the one hand and regulating the capital market on the other. Indeed, the Board lived up to expectations as it set out to introduce market rules and regulations according to the provisions of the Capital Market Law, which were followed by training programs for future CMA personnel and initiatives to raise public awareness of capital market investments.

Apart from implementing the Capital Market Law, the CMA had to overcome the challenge of developing a robust market that would achieve the economic aspirations of the Kingdom. Indeed, the CMA's first board later played a major role in supporting privatisation, improving market conditions, and developing a regionally competitive capital market.

10.3. The Pivotal Role of Human Resources

The Capital Market Law ensured the continuity of market operations and the smooth transfer of responsibilities to the CMA. Transferring the personnel of SSRC and the Stock Control Department was at first sufficient, but to meet aspirations set for the capital market, an increased number of competent human resources was required. Attracting and employing talent was not an easy task. Operating in a new market environment, the CMA sought to rely on highly competent Saudi nationals who had the educational background and technical skills to assume new roles.

The first challenge was the scarcity of financial and legal experts. The concept of a capital market was still relatively new in the Kingdom. However, as the CMA took serious steps towards nurturing local talent, people began to grow aware of the importance of this sector. Leveraging the expertise of SAMA's Institute of Banking, the CMA took the initiative to train 50 to 70 new staff members. The CMA targeted recent Saudi graduates with degrees in law, accounting, finance, and public administration. The graduates were trained in collaboration with experts from the Financial Industry Regulatory Authority (FINRA[1]). By the end of 2006, the CMA had successfully trained nearly 300 employees.

In order to match those offered by other market participants, the CMA's HR team adopted private-sector business practices, including prescribed salaries and business hours that would accommodate the dynamic nature of the capital market.

By the end of 2006, the CMA introduced a scholarship programme for studying abroad as part of its efforts to nurture local talent. The Training and Scholarship Committee was formed with Dr. Abdulrahman Abdulmohsen

1 FINRA issues certificates for securities professionals who pass several qualification exams, which are to be retaken every few years to keep pace with financial industry developments.

Al-Khalaf, a CMA Board member, as chairman. The first cohort of CMA employees travelled to the United States to receive their training, and among them was Mr. Youssef Hamad Al-Blihid, who later became Vice Chairman of CMA.

At the same time, the CMA enrolled Saudi youth in its fresh graduate upskilling programme. The graduates studied in London for a year and had on-the-job training at the London Stock Exchange. Another group of trainees was enrolled in a three-month training programme following an agreement between the CMA and Bursa Malaysia. The same year, a group of CMA employees studied capital market operations in the United States and received on-the-job training at NASD, the predecessor of FINRA.

10.4. Capital Market Regulations

Upon its establishment, the CMA faced a range of challenges ranging from internal capacity building to regulating the largest capital market in the Middle East. The introduction of implementing regulations within 120 days following the publication of the Capital Market Law was a major challenge, given there were limited market regulations in existence. A further challenge was balancing the legislative and regulatory roles of the CMA and avoiding any potential conflicts between the two. Therefore, the CMA needed to introduce regulations flexible enough to be further developed in the future.

The CMA worked on laying the foundation of the capital market's regulatory framework by issuing rules and regulations that promoted the highest standards of investor protection, accountability and transparency, and good corporate governance.

The CMA first formed an internal legal group that was entrusted with drafting the regulations based on priority. Eventually, four regulations were proposed to serve as the backbone of the Saudi capital market: Rules on the Offer of Securities, Listing Rules, Authorised Persons Regulations, and Market Conduct Regulation CMA Board discussed the order in which the regulations were to be issued. It was agreed to prioritise the regulations highlighted.

These regulations were carefully chosen according to a plan approved by the Board to meet market needs.

The priority at the time was given to companies that were dealing with the Ministry of Commerce on the one hand and with investors on the other. Therefore, Rules on the Offer of Securities and Listing Rules came first to regulate company offerings, followed by Authorised Persons Regulations which defined licensing requirements for brokerage firms and other market institutions that dealt with investors directly. Lastly, the Market Conduct Regulations were introduced to ensure all market players abided by the Capital Market Law and addressed potential violations.

The legal group also worked on developing the CMA's internal organisation by examining the regulatory organisational structures of other countries – such as the United States, the United Kingdom, and the developing markets of Malaysia and Singapore – and relying on feedback-driven development. These two approaches helped the CMA develop rules and implement regulations that were well-suited to the Saudi capital market.

Eventually, the CMA team developed a blueprint for an ideal operating model after examining the rules and regulations of other countries, which had different approaches to regulation. For example, the United Kingdom adopts general guiding principles while the United States relies on detailed rules and regulations. After assessing the merits of both, the CMA decided on the former's approach to reduce bureaucracy and avoid overregulation.

On 4th October 2004, three months after the formation of the Board, CMA officially adopted the Rules on the Offer of Securities, Listing Rules, Market Conduct Regulations, as well as the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority (Documents 61-64 published in the official Umm Al-Qura newspaper). The adoption of the Authorised Persons Regulations and Securities Business Regulations was postponed for further assessment.

The CMA Board discussed the order in which the regulations were to be issued. It was agreed to prioritise the regulations highlighted above. The issuance of the Authorised Persons and Market Conduct Regulations was postponed as banks were operating in accordance with the existing regulations issued during the previous phase. Therefore, there was no pressing need to issue them. In contrast, companies were anticipating the release of Rules on the Offer of Securities and Listing Rules, and therefore they were given precedence over the others.


قرار مجلس هيئة السوق المالية رقم ٢ـ١١ـ٢٠٠٤ وتاريخ ١٤٢٥/٨/٢٠هـ
لائحة طرح الأوراق المالية

61 The Approval of Rules on the Offer of Securities.


قرار مجلس هيئة السوق المالية رقم ٣ـ١١ـ٢٠٠٤ وتاريخ ١٤٢٥/٨/٢٠هـ
قواعد التسجيل والإدراج

62 The Approval of Listing Rules.


قرار مجلس هيئة السوق المالية رقم ١ـ١١ـ٢٠٠٤ وتاريخ ١٤٢٥/٨/٢٠هـ
لائحة سلوكيات السوق

63 The Approval of Market Conduct Regulations.


قرار مجلس هيئة السوق المالية رقم ٤ـ١١ـ٢٠٠٤ وتاريخ ١٤٢٥/٨/٢٠هـ
قائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها

64 The Approval of Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority.

Market Conduct Regulations were of vital importance to regulate trading and address illegitimate practices. Before approving the Capital Market Law[1], minutes of a meeting (Document 65) of the Supervisory Committee reveal that the Committee had reviewed a letter from the Director of the General Companies Department in the Ministry of Commerce's[2]. The letter included directives from His Excellency Minister of Commerce on the need to submit to the Ministerial Committee a list of sanctions and penalties for stock trading violations. However, since the Capital Market Law was soon to be issued with a chapter dedicated to sanctions and penalties that would be introduced, the Supervisory Committee decided to wait until the CMA assumed its new responsibilities.

1 Dated 22nd January 2003.

2 Dated 22nd December 2002.

The Council of Ministers' Resolution had already stipulated the continuation of the Ministerial Committee's decisions until the CMA Board replaced them with new regulations. Realizing the importance of the Market Conduct Regulations, the Board had given them priority to ensure sound market practice.

بسم الله الرحمن الرحيم

مؤسسة النقد العربي السعودي

إدارة الرقابة على الأسهم — المركز الرئيسي

الرقم : .... التاريخ : ....

المرفقات : .... الموافق : ....

محضر اجتماع لجنة الإشراف

ليوم (الأربعاء ١٤٢٣/١١/١٩هـ الموافق ٢٠٠٣/١/٢٢م)

اجتمعت لجنة الإشراف يوم الأربعاء ١٤٢٣/١١/١٩هـ الموافق ٢٠٠٣/١/٢٢م بحضور جميع الأعضاء وذلك لمناقشة المواضيع التالية :

أولاً : بناءً على قرار مجلس الوزراء رقم (١٧١) وتاريخ ١٤٢٣/٧/٢هـ بالموافقة على طرح (٩٠) مليون سهم من حصة الدولة في أسهم شركة الاتصالات السعودية للبيع عن طريق الاكتتاب العام وبسعر (١٧٠) ريالاً للسهم الواحد منها (٦٠) مليون سهم يتم طرحها للاكتتاب العام من قبل المواطنين السعوديين وما لا يزيد عن (٣٠) مليون سهم لكل من مصلحة معاشات التقاعد والمؤسسة العامة للتأمينات الاجتماعية ، حيث تبلغ قيمة هذه الأسهم المطروحة حوالي (١٥,٣) مليار ريال ، وحيث أن فترة الاكتتاب قد امتدت من ٢٠٠٢/١٢/١٧م وانتهت بتاريخ ٢٠٠٣/١/٦م وتمت تغطية الأسهم بحوالي (٣,٢٥) مرة ، وتم تخصيص الأسهم ورد فائض المبالغ المكتتب بها يوم الخميس ٢٠٠٣/١/١٦م .

كما تم بنجاح إضافة مساهمي شركة الإتصالات إلى نظام تداول وذلك خلال نفس اليوم الذي تم فيه استلام البيانات من البنك السعودي البريطاني مدير الإكتتاب ، وبذلك أصبحت البنوك قادرة على الإطلاع ومتابعة البيانات والكميات المخصصة لعملائهم عبر نظام " تداول " الذي أصبح جاهزاً تماما لبدء تداول أسهم شركة الاتصالات . واستناداً لما تقدم ونظراً لاستكمال كافة الإجراءات والتجهيزات اللازمة لبدء التداول بأسهم الشركة سواء من قبل نظام تداول أو البنوك والمواطنين فقد قررت اللجنة ما يلي :

١ - إدراج أسهم شركة الإتصالات السعودية في نظام تداول اعتباراً من يوم السبت ٢٠٠٣/١/٢٥م .

ص.ب : ٢٩٩٢ ، الرياض : ١١١٦٩ ، برقياً : مركزي ، تلكس : ٤٠٤٤٠٠ ، هاتف : ٤٦٣٣٠٠٠ ، فاكس : ٤٦٦٢١٤٥

65 SSC's Minutes of Meeting on Wednesday, 22nd January 2003.

بسم الله الرحمن الرحيم

مؤسسة النقد العربي السعودي

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٢ - إنشاء قطاع جديد في السوق يطلق عليه قطاع الإتصالات ليضاف إلى القطاعات الأخرى بحيث تدرج أسهم الشركة ضمن هذا القطاع وبأسم مختصر هو (الاتصالات) .

ثانياً : اطلعت اللجنة على :

أ - مضمون خطاب سعادة وكيل وزارة التجارة للتجارة الداخلية (المرفق) الذي يشير فيه إلى صدور قرار مجلس إدارة الهيئة السعودية للمحاسبين القانونيين بتاريخ ١٤٢٣/٢/٢٥هـ المتضمن " الموافقة على إحالة اقتراح لجنة معايير المحاسبة بشأن الإفصاح عن مالكين الأسهم الذين يملكون أو ينوون تملك نسبة (٥%) أو أكثر من أسهم الشركة على اللجنة الوزارية وتفويض معالي وزير التجارة رئيس مجلس الإدارة باتخاذ الترتيبات اللازمة لتنفيذ ذلك في الوقت الذي يرى معاليه ملائمته " . وطلب الوزارة إعادة دراسة الموضوع من قبل لجنة الإشراف وعرضة على اللجنة الوزارية .

ب - مضمون خطاب سعادة مدير عام الإدارة العامة للشركات (المرفق) المؤرخ في ١٤٢٣/١٠/١٨هـ والمتعلق بتوجيهات معالي وزير التجارة بضرورة المبادرة إلى اقتراح عقوبات وجزاءات مناسبة لمعالجة بعض المخالفات التي تتعلق بمعمليات تداول الأسهم وطلب معاليه رفع هذه الاقتراحات للجنة الوزارية .

وبعد مناقشة اللجنة لمضمون الخطابين المذكورين رأت أنه طالما أن " نظام السوق المالية" قد استكمل مجلس الشورى دراسته مؤخراً ورفعه للمقام السامي من أجل إصداره خلال الفترة القريبة القادمة، وأن هذا النظام قد عالج مثل هذه المواضيع حيث تم تخصيص فصلاً كاملاً لموضوع عروض الشراء والبيع ونسب التملك وكيفية الإفصاح عن هذه النسب وإعلانها ووضع ضوابط مناسبة لها . وكذلك أفرد فصلاً آخر يتعلق بالمخالفات التي تحدث في السوق وحدد صراحة الغرامات والجزاءات والعقوبات المناسبة حيالها .وأعطى النظام كذلك" لهيئة السوق المالية " صلاحيات واسعة لإصدار قواعد ولوائح وتعليمات تفصيلية لتنظيم هذه الجوانب .

ص.ب : ٢٩٩٢ ، الرياض : ١١١٦٩ ، برقياً : مركزي ، تلكس : ٤٠٤٤٠٠ ، هاتف : ٤٦٣٣٠٠٠ ، فاكس : ٤٦٦٢١٤٥

65 SSC's Minutes of Meeting on Wednesday, 22nd January 2003.

بسم الله الرحمن الرحيم

مؤسسة النقد العربي السعودي

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المرفقات : .... الموافق : ....

لذلك فان اللجنة ترى أنه من المناسب الإنتظار لحين صدور" نظام السوق المالية " واللوائح والقواعد والتعليمات المتعلقة به والذي يغني عن إصدارضوابط أو تعاميم جديدة حول هذه المواضيع.

وكيل محافظ مؤسسة النقد العربي السعودي	ممثل وزارة التجارة	أمين عام صندوق الاستثمارات العامة
جماز بن عبدالله السحيمي	منير بن نوار العتيبي	منصور بن صالح الميمان

خ - م - ٣٥٢

65 SSC's Minutes of Meeting on Wednesday, 22nd January 2003.

On 28th June 2005, the CMA approved the Authorised Persons and Securities Business Regulations (Documents 66-67) and updated the glossary of defined terms. The Securities Business Regulations outlined securities activities, which included dealings, arrangements, management, advice, and custody. Authorised Persons Regulations, they set the legal and procedural framework for obtaining a licence to carry out securities business, including licensing terms and a code of conduct.


صفحة رقم ١٦ — أم القرى — العدد ٤٠٥٥ في ٢٣ جمادى الآخرة ١٤٢٦هـ

قرار مجلس هيئة السوق المالية رقم ١-٨٣-٢٠٠٥ وتاريخ ٢١/٥/١٤٢٦هـ

إن مجلس هيئة السوق المالية

بعد الاطلاع على مشروع لائحة الأشخاص المرخص لهم.

وبناء على نظام السوق المالية الصادر بالمرسوم الملكي الكريم رقم م/٣٠ وتاريخ ٢/٦/١٤٢٤هـ.

يقرر مايلي:

(١) اعتماد لائحة الأشخاص المرخص لهم بالصيغة المرفقة.

(٢) تستمر البنوك المحلية في ممارسة أعمال الأوراق المالية لمدة لا تزيد على سنتين من تاريخ نفاذ لائحة الأشخاص المرخص لهم. على أن تستكمل خلالها انشاء شركات تابعة لممارسة أعمال الأوراق المالية وفقا للائحة الأشخاص المرخص لهم.

(٣) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

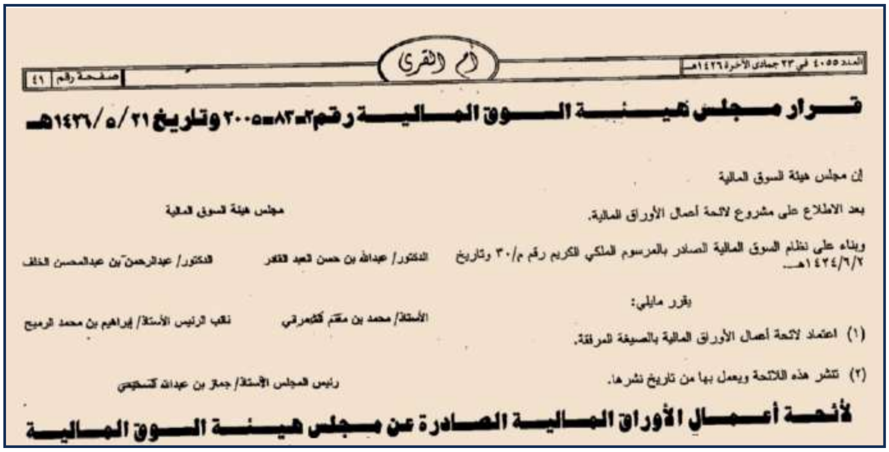
الدكتور/ عبدالله بن حسن العبد القادر — الدكتور/ عبدالرحمن بن عبدالمحسن الخلف

الأستاذ/ محمد بن مكتم الشيراني — نائب الرئيس الأستاذ/ إبراهيم بن محمد الرميح

رئيس المجلس الأستاذ/ جماز بن عبدالله السحيمي

لائحة الأشخاص المرخص لهم الصادرة عن مجلس هيئة السوق المالية

66 The Approval of the Authorised Persons Regulations in 2005.


العدد ٤٠٥٥ في ٢٣ جمادى الآخرة ١٤٢٦هـ — أم القرى — صفحة رقم ٤١

قرار مجلس هيئة السوق المالية رقم ٢-٨٣-٢٠٠٥ وتاريخ ٢١/٥/١٤٢٦هـ

إن مجلس هيئة السوق المالية

بعد الاطلاع على مشروع لائحة أعمال الأوراق المالية.

وبناء على نظام السوق المالية الصادر بالمرسوم الملكي الكريم رقم م/٣٠ وتاريخ ٢/٦/١٤٢٤هـ.

يقرر مايلي:

(١) اعتماد لائحة أعمال الأوراق المالية بالصيغة المرفقة.

(٢) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

الدكتور/ عبدالله بن حسن العبد القادر — الدكتور/ عبدالرحمن بن عبدالمحسن الخلف

الأستاذ/ محمد بن مكتم الشيراني — نائب الرئيس الأستاذ/ إبراهيم بن محمد الرميح

رئيس المجلس الأستاذ/ جماز بن عبدالله السحيمي

لائحة أعمال الأوراق المالية الصادرة عن مجلس هيئة السوق المالية

67 The Approval of the Securities Business Regulations in 2005.

During the fifteenth annual conference of the Saudi Economic Association, which was organised in November 2005 under the theme "The Saudi Capital Market: Reality and Aspirations," His Excellency the late Jammaz Al-Suhaimi affirmed that the CMA would introduce more implementing regulations according to the Capital Market Law. He also highlighted four upcoming regulations at the time: Investment Funds Regulations, Real Estate Investment Funds Regulations, Corporate Governance Regulations, and Merger and Acquisition Regulations. On 15th July 2006, the Real Estate Investment Funds Regulations were issued, followed by the Instructions for the Listed Companies Announcements on 12th August 2006. Three months later, on 12th November 2006, the Corporate Governance Regulations were issued, followed by the Investment Funds Regulations on 24th December 2006. After issuing primary regulations, the CMA's team continued working on introducing complementary regulations to establish a strong legislative and regulatory framework for the Saudi capital market.

The development of the CMA's implementing regulations based on the Capital Market Law occurred in two stages: examining the regulations of other countries to gain knowledge and information, followed by drafting the regulations in accordance with the Law. Former CMA board member Dr. Abdullah Hasan Al-Abdulgader recounts that the CMA team worked more than 16 hours per day to draft the regulations.

This rigorous process entailed consulting with other CMA departments to discuss the legality and practicality of each article in the regulations, especially when it came to derivatives and similar instruments that were to be approved by the CMA Board. Moreover, the team consulted with the private sector and other regulatory entities, such as SAMA and the Ministries of Finance and Commerce. Furthermore, the CMA was among the first entities to publish regulations in Arabic and English while ensuring they were clear and simple for the public.

According to the Capital Market Law, the CMA is allowed to publish draft regulations and rules before their issuance. The CMA chose this option to obtain feedback from experts, market participants, and the public by publishing draft regulations on its website, making it one of the first entities to use public consultation.

The Board was hesitant at first to use public consultation out of concern that other entities would oppose draft regulations if they were published, which could possibly hinder implementing the Capital Market Law. However, the consultations were eventually deemed useful to further develop the regulations.

Chapter 11: Laying the Foundations of Litigation and Oversight

The Capital Market Law gave the CMA investigation and inspection powers, including imposing sanctions on violators. The Law also dedicated a chapter to addressing market disputes by stipulating the formation of the Committee for the Resolution of Securities Disputes and the Appeal Committee for the Resolution of Securities Disputes (ACRSD). After its formation and implementation of main market regulations, the CMA sought to regulate market conduct and address investor complaints through the Committees for the Resolution of Securities Disputes.

11.1. Improving Market Behaviour

The CMA was founded at a time when many market participants and traders lacked a culture of proper conduct in the country's emerging capital market. To address any acts that could potentially threaten market stability, the CMA issued the Market Conduct Regulations to achieve fairness and transparency and to protect people from illegitimate securities transactions.

The Market Conduct Regulations criminalised many prevalent market practices that were thought to be legitimate at the time. For example, some people used to influence the opening price by placing orders before the Exchange opened for the day and then cancelling them to give the impression of increasing supply or demand. Those who used to do so considered this to be normal market practice.

Another example was making an agreement between two persons in which the first would buy shares from the other and sell them back several times to increase trading volume, thus giving the impression that those shares were in demand and to cause an increase in their price. Eventually, the two people would sell their shares for a much higher price.

At a time when manipulation methods varied, sanctions were at first limited to imposing fines and recovering illegitimate gains. The Capital Market Law of 2003 set a fine of SAR 100,000 for such violations. However, the fine was not enough to deter such manipulation as violators were making massive amounts of money[1].

At later stages, the CMA intensified its market oversight and conducted regulation efforts by introducing more sanctions, such as being prohibited from trading, as well as fines and other punishments. These sanctions returned confidence to the market and affirmed the CMA's dedication to implementing internationally recognised standards in terms of investor protection, transparency, and good corporate governance. The CMA's swift and effective measures to address violations supported the Saudi capital market and paved the way for a safe investment environment.

These efforts were made to make the market more regulated and controlled for investors who looked for a credible, reliable marketplace with the potential to attract capital from individuals and institutions.

However, the journey was not without challenges. The CMA had to ensure that everyone understood that capital market crimes of fraud and manipulation cannot be proven using the investigative methods of ordinary violations, and it did so by affirming that capital market violations are proven by means of circumstantial evidence. Despite having the right to access numerous sources of information to establish such evidence, such as phone records, fax communications, and computer data, evidence in securities cases is usually indirect and involves more than access to data to prove that a crime or violation has been committed.

For example, during an investigation of suspected securities manipulation, the CMA's market oversight team played recordings of phone calls made between brokers and traders. In one phone call, a person used a slang word to imply his intention to manipulate a share price and the other gave his consent. Consequently, this circumstantial evidence was used to prove that a violation was committed by both. Given the complexity of these violations, the CMA later developed investigative procedures, including interviewing methods. A manual of fines for violations was created by the CMA along with a guide on violations and the weighted calculations for fines.

Capital market crimes are mostly strict liability crimes, rather than tort. These are crimes that are considered

1 The CMA addressed this issue in its amendments of the Capital Market Law in 2019 by introducing a maximum fine of SAR 5 million.

to be committed even if no harm occurs. For example, if someone intentionally publishes misleading information about a security, his/her act is a crime even if no one else is affected.

Moreover, capital market crimes are difficult to be observed. Manipulators operate novel schemes that are often hard to detect.

In general, capital market crimes are classified into information- and conduct-related crimes. Information-related crimes consist of breaching confidentiality, starting rumours and declaring inaccurate information, disclosing insider information, and insider trading. In contrast, conduct-related crimes consist of operating as an unlicensed broker, obstructing the work of CMA auditors, and carrying out or failing to report money laundering and terrorist financing activities.

Figure 22 highlights the classification of capital market crimes.

22 The Classification of Capital Market Crimes.

11.2. Judicial Bodies of Securities Disputes

To ensure litigants' rights were protected, the Capital Market Law stipulated the formation of the Committee for the Resolution of Securities Disputes (CRSD) and the Appeal Committee for Resolution of Securities Disputes (ACRSD). CRSD was to be formed by the CMA as a court of first instance while ACRSD was to be formed as a court of appeal following a resolution by the Council of Ministers. Consequently, litigants had the right to appeal before ACRSD within thirty days of being notified of CRSD's decisions. Moreover, ACRSD decisions were deemed final.

Both Committees were independent in making decisions in line with laws and regulations. Consequently, CRSD and ACRSD became the judicial bodies concerned with trying criminal cases and settling disputes related to market participants.

11.2.1. CRSD

On 27th February 2005, the CMA Board issued a decision (Document 68) to form the first CRSD Committee with Dr. Mohammed Abdullah Al-Marzouki as chairman and Dr. Khaled Hassan Ba-Naser and Mr. Saud Abdulrahman Al-Shammari as members. CRSD had a three-year term.

The Committee consisted of members with extensive expertise in commercial, financial, and securities disputes. Furthermore, CRSD had jurisdiction over disputes, in public and private actions, falling within the provisions and implementing regulations of the Capital Market Law as well as the regulations and rules of the Exchange.

Additionally, CRSD had all necessary powers to investigate and settle claims, including the power to subpoena witnesses, issue decisions, impose sanctions, and order the production of evidence and documents.

After its formation, CRSD began settling disputes related to civil, administrative, and penal proceedings. However, CRSD received a relatively small number of disputes in its early days. This was because many were unaware of CRSD and its jurisdiction. Consequently, people kept bringing their claims before the Banking Committee, as they were used to the old system in which banks were the only entities authorised to provide brokerage services. To avoid conflict of jurisdiction, CRSD limited capital market disputes to the CMA and the Banking Committee was given jurisdiction over banking disputes only.

أم القرى

السنة ٨١ العدد : ٤٠٣٤

الجمعة ٢٣ محرم ١٤٢٦هـ

الموافق ٤ مارس ٢٠٠٥م

الثمن : ثلاثة ريالات سعودية

قرار مجلس هيئة السوق المالية رقم ١ - ٤٧ - ٢٠٠٥

وتاريخ ١٨/١/١٤٢٦هـ الموافق ٢٧/٢/٢٠٠٥م

إن مجلس هيئة السوق المالية

بناء على المادة الخامسة والعشرين من نظام السوق المالية الصادر بالمرسوم الملكي الكريم رقم م / ٣٠ وتاريخ ٢/٦/١٤٢٤هـ .

وبعد الاطلاع على قرار المجلس رقم ٢-٣١-٢٠٠٤ وتاريخ ٧/١١/١٤٢٥هـ القاضي بإنشاء لجنة الفصل في منازعات الأوراق المالية (اللجنة) وممارسة صلاحياتها واختصاصاتها طبقاً لما ورد في نظام السوق المالية، والمتضمن تعيين الأشخاص الآتية أسماؤهم أعضاء غير متفرغين في اللجنة:

- المستشار الدكتور / محمد بن عبد الله المرزوقي — رئيساً
- المستشار الدكتور / خالد بن حسن بانصر — عضواً
- المستشار الأستاذ / سعود بن عبد الرحمن الشمري — عضواً

يقرر مايلي:

(١) تكون مدة عضوية أعضاء اللجنة ثلاث سنوات اعتباراً من تاريخ هذا القرار .

(٢) ينشر هذا القرار ويعمل بموجبه .

مجلس هيئة السوق المالية

الدكتور / عبدالله بن حسن العبد القادر — الدكتور / عبدالرحمن بن عبدالمحسن الخلف

الأستاذ / محمد بن مطلق الشمرقي — نائب الرئيس الأستاذ / إبراهيم بن محمد الرميح

رئيس المجلس الأستاذ / جماز بن عبدالله السحيمي

68 The CMA Board's Decision on Forming CRSD.

Over time, CRSD noticed the impact of its decisions on the market. The development of technological systems by all market parties became a reflection of those decisions, especially since most claims that were brought before CRSD were related to margin trading, banking facilities, and technical issues. At the time, banks were providing facilities with shares as the collateral, which led to many problems. Moreover, some banks faced technical problems that forced them to update their systems and contract with professional security system providers, eventually leading to the end of their technical issues.

There were no well-established principles in place when CRSD first assumed its responsibilities. Disputes were resolved by referring to conventional practice. Gradually, CRSD developed its guiding principles from the decisions it was making to address trading-related disputes. For example, the Capital Market Law had provisions on compensations but did not specify how they were to be levied, except in certain circumstances. Moreover, given changing market conditions, and since investment-related compensations were based on supply and demand factors, CRSD prioritised developing clear compensation mechanisms.

Gradually, CRSD became the first body to introduce compensations for withheld funds, which were considered a form of indirect damage resulting from failure to release an investor’s funds from their portfolio. Moreover, CRSD had the liberty to consider all types of evidence in proving such cases.

11.2.2. ACRSD

According to the Capital Market Law, ACRSD was to be formed and consist of three members by a resolution of the Council of Ministers[1]. The members were to be representatives of the Ministry of Finance, the Ministry of Commerce and Industry, and the Council of Ministers’ Bureau of Experts for a three-year renewable term.

On 25th September 2005, the Council of Ministers’ Resolution No. 222 (Document 69) ordained the appointment of Mr. Ahmed Mohammed Al-Khowaiter, as a chairman and representative of the Ministry of Finance, Prince Abdulrahman Bin Mohammed Bin Ayaf Al-Miqren, as a member and representative of the Bureau of Experts, and Mr. Falag Ali Al-Mansour, as a member and representative of the Ministry of Commerce and Industry.


بسم الله الرحمن الرحيم

السنة ٨٢ العدد: ٤٠٦٤
الجمعة ٢٦ شعبان ١٤٢٦هـ
الموافق ٣٠ سبتمبر ٢٠٠٥م

الجريدة الرسمية للمملكة العربية السعودية. تصدر بمكة المكرمة

أخي القارئ: إن هذه الصحيفة تحتوي على آيات قرآنية وأحاديث نبوية لذلك تجب المحافظة عليها واحترامها.

خادم الحرمين الشريفين يرأس جلسة مجلس الوزراء . بقية

سادسا .. بعد الاطلاع على مارفعه معالي رئيس هيئة السوق المالية بشأن تشكيل لجنة استئناف تنظر في منازعات الأوراق المالية التي نصت عليها الفقرة / ز / من المادة الخامسة والعشرين من نظام السوق المالية الصادر بالمرسوم الملكي رقم م / ٣٠ وتاريخ ٢ / ٦ / ١٤٢٤هـ قرر مجلس الوزراء الموافقة على تشكيل اللجنة المشار إليها لمدة ثلاث سنوات اعتبارا من نفاذ هذا القرار وذلك على النحو التالي ..

١ / الأستاذ أحمد بن محمد الخويطر من وزارة المالية رئيسا

٢ / الأمير عبدالرحمن بن محمد بن عياف آل مقرن من هيئة الخبراء بمجلس الوزراء عضوا

٣ / الأستاذ فلاج بن علي المنصور من وزارة التجارة والصناعة عضوا

69 Council of Ministers’ Resolution on Forming ACRSD.

1 Following the amendment of the Capital Market Law in 2019, members of CRSD and ACRSD were thereinafter to be appointed by a Royal Order.

Mr. Ahmed Al-Khowaiter recounts that one of the major issues faced by ACRSD was the lack of pre-existing court rulings that could be referenced in disputes brought before the Committee. As a result, ACRSD had to spend a lot of time and effort examining major sources of Islamic jurisprudence to provide a solid legal framework.

Under the Capital Market Law, ACRSD had the right to approve or refuse CRSD decisions, or reconsider the claim altogether based on information in the claim's file. Decisions of ACRSD were final and not subject to being challenged.

ACRSD considered three types of lawsuits: penal, civil, and administrative. Penal lawsuits are brought against violators of the Capital Market Law and its Implementing Regulations. Civil lawsuits are complaints that arise between investors relating to the Capital Market Law and its implementing regulations as well as the CMA and the Exchange Market regulations, rules, and instructions in terms of public and private actions. Lastly, administrative lawsuits are complaints and grievances resulting from decisions and procedures issued by the CMA or the Exchange.

11.3. Processing Investor Complaints

During its first years, the CMA sought to provide investors with ways to file complaints according to clear procedures. Investors were able to file their complaints at CMA headquarters, via its website, and through fax or telephone. After receiving a complaint, the CMA would investigate the issue with the intent of resolving it.

The CMA's strategy for processing complaints was based on three pillars. The first was raising the awareness among plaintiffs themselves and educating them about the overall process, especially since some people did not know which entity to turn to. The second was attempting to resolve complaints in good faith before resorting to legal action. In this regard, the CMA acted as a mediator between plaintiffs and defendants to reach a fair settlement without taking the complaint to court. The third was accelerating procedures by providing investors with several channels for filing complaints.

The CMA issued notices and notifications if an amicable resolution was not possible. The CMA would notify a plaintiff of its right to file a lawsuit before CRSD ninety days after making a complaint and would later send a notification before the end of that period.

Chapter 12: Regulating the Capital Market and its Institutions

From day one, the CMA worked on developing market regulations. It started with regulating the listing and offering of joint-stock companies and encouraging family-owned companies to convert into joint-stock companies and list their shares. Concurrently, the CMA worked on establishing the principles of disclosure, governance, and transparency. Soon after, the CMA sought to diversify market securities, and later developed clearing and settlement systems.

12.1. Offerings and Listings of Joint-Stock Companies

The Capital Market Law gave the CMA the power and responsibility to approve and regulate the offering and listing of securities. Stock listings were first made the responsibility of the CMA until the formation of the Saudi Stock Exchange (Tadawul) as a joint-stock company. To fulfil these obligations, the CMA issued Rules on the Offer of Securities and Listing Rules in October 2004, three months after the formation of the Board.

Listing Rules included everything from requirements to offer securities to prospectus-related conditions. For example, a prospectus had to be submitted to the CMA by the issuer (i.e., company) for approval to ensure investors had access to accurate and reliable information.

Following the issuance of the CMA's Rules on the Offer of Securities and Listing Rules, Etihad Etisalat (Mobily) was the first company to make a primary market offering. On 16th October 2004, Mobily listed 20% of its common stock. The CMA then announced the listing and trading of Mobily's shares as of 20th December 2004. Document 70 is Etihad Etisalat's prospectus.

Image 23 shows investors subscribing to Etihad Etisalat's shares.

Formed as a joint-stock company, Mobily had capital of SAR 5 billion and 100 million shares with a nominal value of SAR 50 per share. The company was listed on the Tadawul All Share Index (TASI) in January 2005, witnessing an oversubscription of SAR 51 billion with a rate of more than five times. A total of 4.8 million Saudis participated in the subscription with four shares allocated to each.

The second listing was that of the Company for Cooperative Insurance (Tawuniya), the first Saudi insurance company to be offered in the Saudi capital market. Founded in 1986, Tawuniya was jointly owned by PIF (50%), the Public Pension Agency (25%), and the General Organization for Social Insurance (GOSI) (25%). The prospectus announced the offering of 70% of the company's shares, representing all PIF shares and 20% of capital owned by the Public Pension Agency and GOSI, with each retaining 15% of capital. The issue price was SAR 205 (a nominal value of SAR 50 + SAR 155 as a share premium). The subscription began on 21st December 2004 and ended on 3rd January 2005.

By the end of that period, the company recorded an outstanding oversubscription of 11.5 times. Investors paid a total nominal value of SAR 1.25 billion representing 125 million shares with a subscription value of


نشرة الإصدار

شركة اتحاد اتصالات

شركة مساهمة سعودية (تحت التأسيس) بموجب المرسوم الملكي رقم م/٤٠ الصادر بتاريخ ١٤٢٥/٧/٢هـ

الاكتتاب العام في ٢٠٠،٠٠٠،٠٠٠ سهم عادي

سعر الاكتتاب: ٥٠ ريالا سعوديا للسهم الواحد

مدير الاكتتاب

مجموعة سامبا المالية

samba سامبا

المستشار المالي للمصدر

بي أن بي باريبا

البنوك المستلمة

مجموعة سامبا المالية	بنك الرياض	شركة الراجحي المصرفية للاستثمار
البنك الأهلي التجاري	البنك العربي الوطني	البنك السعودي البريطاني
البنك السعودي الفرنسي	البنك السعودي الهولندي	بنك الجزيرة
البنك السعودي للاستثمار		

إشعار هيئة السوق المالية

٢٩ شعبان ١٤٢٥هـ

(الموافق ١٣ أكتوبر ٢٠٠٤م)

70 Etihad Etisalat's Prospectus (Issued in 2004).

23 Subscribers for Etihad Etisalat's shares in 2004.

SAR 16.5 billion and 800 thousand subscribers. Following the subscription, the CMA announced the listing and trading of Tawuniya shares as of Monday, 17th January 2005.

Bank Albilad was the third largest offering following the issuance of the CMA's offer and listing rules. His Excellency Hamad Saud Al-Sayyari, former Governor of SAMA, recounts how the bank was founded as a joint-stock company after the merger of several currency exchange offices[1] that were providing additional services such as receiving deposits. These offices expanded their operations and opened branches across the country. However, as the state began regulating the market, the owners had to choose between closing their businesses, or merging together as a bank. Eventually, the owners chose the second option and decided to allocate to each currency exchange office the shares that corresponded to their capital contribution. Following the merger, Bank Albilad was formed as a joint-stock company with a capital of SAR 3 billion, which was the average capital of existing banks at the time.

After the bank was founded in accordance with the Companies Law, the CMA announced the offering of 50% of the bank's shares for public subscription from Monday, 21st February 2005, to Wednesday, 9th March 2005. A total of 30 million shares were offered with a nominal value of SAR 50 per share, leading to a total subscription of SAR 7.7 billion by 8.8 million Saudi citizens. This marked a historic issue as close to half the population of Saudi Arabia (16.5 million) in 2004 subscribed to shares.

Image 24 shows a crowd gathered to subscribe to Bank Albilad's shares.

The CMA announced the listing and trading of Bank Albilad shares on Tadawul as of Saturday, 30th April 2005. It was decided to leave the daily fluctuation limit open for the first day of trading and calculate the share as part of market indices after its share price had stabilised. Bank Albilad's share was added to TASI index based on its closing price on Tuesday, 31st May 2005.

By the time the CMA was founded, corporate stock offering had changed. The previously existing direct listing method was abolished and a new approach to public offers in accordance with the CMA's regulations was adopted. Companies that applied for listing were obliged to appoint a CMA-authorised financial advisor

1 Currency exchange offices were owned by Mohammad & Abdullah AlSubaiei Exchange Co., AlRajhi Trading Est., Heirs of Abdulaziz Sulaiman AlMugairin, Ali Hazaa' and Partners for Trading and Exchange, AlRajhi Trading Exchange Est., Yousef Abdulwahab Numatallah Co., Mohammad Salih Sayrafi Est., and Abdulmohsen AlOmari Est.

24 A Crowd Gathered to Subscribe to Bank Albilad's Shares.

who would submit relevant information to be disclosed and determine the offer price. These changes were made to address some major issues, such as the overpricing that occurred during the days of the Ministerial Committee.

The CMA's regulations ensured that the threshold for investment was within the reach of citizens and that the number of receiving banks was adequate to allow all those who wanted to participate to do so. In pursuit of this aim, the CMA worked with subscription managers and receiving banks to facilitate subscriptions through multiple channels, such as the internet, ATMs, and telephone banking. These channels mitigated mistakes, accelerated the subscription process, and reduced reliance on printed subscription requests. By the end of 2006, the average subscription through bank branches fell from 100% in 2004 to nearly 29%. Soon after, the book-building method was adopted. Book-building is a process by which a company seeking to offer shares determines the price range the shares can be sold for after discussions with a bookrunner and submission of bids by institutional investors. After obtaining information on investor demand and determining the security's fair value, shares are allocated to the accepted bidders.

The book-building method was applied for the first time to the Saudia Dairy and Foodstuff Company (SADAFCO). Upon building a book based on input from institutional investors, 30% of the company's shares were offered for public subscription from 25th April 2005 to 4th May 2005, leading to a total of 1.95 million shares offered at a nominal value of SAR 50 per share and a share premium of SAR 210. The listing and trading of SADAFCO shares in Tadawul was announced as of the start of trading on Monday, 23rd May 2005.

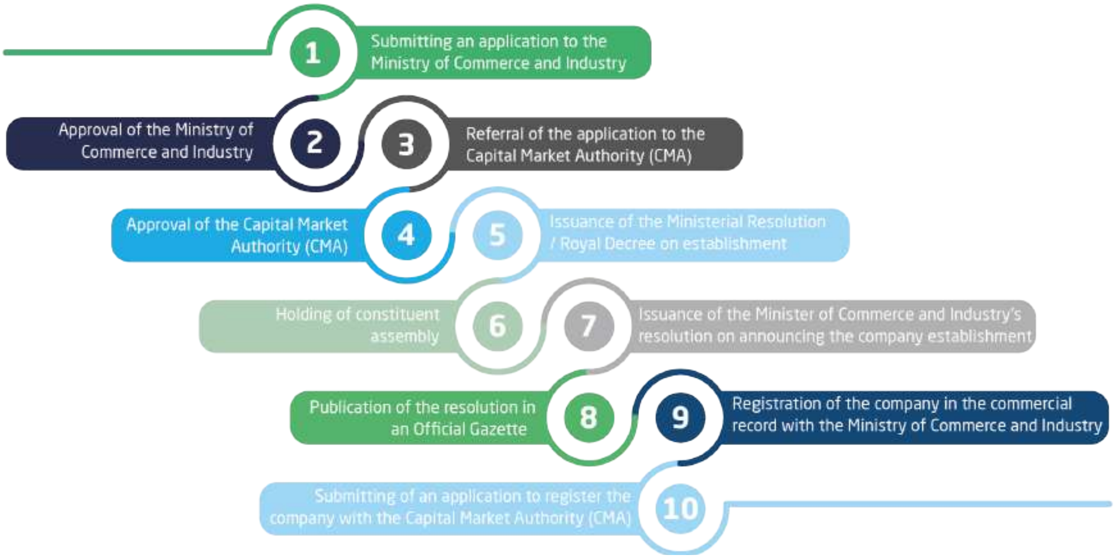
In the same year, the CMA approved the offering of 30% of Almarai shares, 35% of Yanbu National Petrochemical Company (Yansab) shares, and 30% of Aldrees Petroleum and Transport Services Company shares. In 2006, the underwriting process, which was a new concept in the market at the time, began to be applied. Underwriting is used when it is believed that an offer of securities may not be fully subscribed for.

Consequently, the CMA obliged issuers to appoint underwriters who would buy securities being offered if the securities were not bought by investors during the public offering period. In this regard, a brokerage firm with a capital of SAR 1 million—the minimum required to practise the arranging activity—offered to cover an amount of SAR 2 billion in 2006, which was rejected by the CMA.

12.2. Founding Joint-Stock Companies and Capitalisation Change

The Companies Law has remained in force since its issuance in 1965. The Law stipulated that founding a joint-stock company was not permitted unless a licence was issued by the Minister of Commerce, with the exception of companies that require a Royal Decree, such as chartered companies, companies manage a public facility, companies that receive state aid, companies in which the state or other public legal persons participate, or companies engaged in banking activities.

It was natural after the formation of the CMA to assign it a role in this context as it was responsible for regulating the increase of capital stock, the allocation of shares, and returning oversubscribed amounts in accordance with the Capital Market Law and its regulations. Therefore, on 7th July 2005, Their Excellencies Minister of Commerce and Industry and the Chairman of CMA issued the procedures for founding joint-stock companies and increasing their capital according to the Companies Law and the Capital Market Law. Founding and listing joint-stock companies consisted of 10 steps as shown in Figure 23 below.
About a month earlier, on 12th June 2005, the CMA announced that it had received capitalisation change requests from several companies, which were to be considered for approval based on legal requirements and listing criteria. In June 2005, the first approval was given to the Saudi Arabian Amiantit Company, which requested a capital increase from SAR 770 million to SAR 1.2 billion and a share increase from 15.4 million



23 Steps of Founding and Listing a Joint-Stock Company.

to 23.1 million shares. This was followed by capital change requests from other companies. In the same year, the CMA approved increases in the capital of the Fitaihi Holding Group, the Savola Group, the Saudi Cable Company, JAZADCO, and Anaam International Holding Group. Moreover, the CMA approved increasing the capital of Almarai through the issuance of bonus shares as well as decreasing the capital of Wafrah for Industry and Development Company.

12.3. From Family-Owned to Joint-Stock Companies

The formation of family-owned companies coincided with the rise of the Kingdom of Saudi Arabia, which brought stability and state institutions that enabled merchants to establish their own businesses. Most of these enterprises were either sole proprietorships or family-owned. Moreover, these companies were named after the families that owned them, and would gain recognition from the standing of the family, or vice versa. When the original founder passes away, ownership will be handed down from generation to generation. Family-owned companies played—and still play—a significant role in the Kingdom's economic development. For example, the Zamil Industrial Investment Company is one of the oldest family businesses in the region. Founded in 1920, the company became a joint-stock company in 1998. It was also the first family-owned company to be listed on the capital market in 2002. Another example is Jarir Company, which was founded in 1979 and listed in 2003. Following the issuance of the Capital Market Law and the formation of the CMA, family-owned companies were encouraged to become joint-stock companies and soon followed suit by listing some or all their shares for public subscription.

12.4. Corporate Governance

The concept of corporate governance gained ground following the Asian Financial Crisis of 1997, which led to scepticism of the regulatory role of legislation and government institutions. Despite being a new concept in the Saudi market, the CMA proposed issuing Corporate Governance Regulations in 2005. Three years earlier, the Capital Market Authority of the Sultanate of Oman had issued its Charter on the Organisation and Management of Public Joint Stock Companies. The Charter was binding, leading to implementation difficulties. When the CMA appointed a committee for developing governance regulations, it was first decided to make these regulations binding. However, after careful consideration of other market structures, the Committee saw it is better to include non-binding requirements, such as having a nomination and remuneration committee and an audit committee. This was done so as not to hinder the development of the market.

On 12th November 2006, the Corporate Governance Regulations were issued and included several guiding principles[1]. Moreover, compulsory aspects were to be introduced gradually as these were the first regulations to address the issue of corporate governance in the Kingdom. The CMA sought to strike a balance between international best practices and local market conditions. For example, the function of investor relations was prevalent in other countries' governance regulations. However, Saudi businesses were not yet ready to incorporate this function. Consequently, the CMA Board decided to introduce investor relations as a guiding principle to give companies ample time to prepare. Document 71 shows the CMA Board's decision approving the Corporate Governance Regulations.

Another reason for making the regulations optional was the desire to maintain market order and avoid unnecessary disruptions, especially for small-sized enterprises that had small capital and immature governance practices. At the same time, the CMA sought to raise awareness of the regulations by promoting them as enablers of business and corporate transformation.


صفحة رقم ١٢ | أم القرى | العدد ٤١٢٤ في ٣ ذوالقعدة ١٤٢٧هـ

قرار مجلس هيئة السوق المالية رقم ١-٢١٢-٢٠٠٦

وتاريخ ٢١ / ١٠ / ١٤٢٧هـ الموافق ١٢ / ١١ / ٢٠٠٦م

أن مجلس هيئة السوق المالية

وبعد الاطلاع على مشروع لائحة حوكمة الشركات.

وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ١٤٢٤/٦/٢هـ.

يقرر مايلي:

(١) اعتماد لائحة حوكمة الشركات بالصيغة المرفقة.

(٢) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

الدكتور / عبد الله بن حسن العبد القادر — الدكتور / عبد الرحمن بن عبد المحسن الخلف

الأستاذ / محمد بن مغلم الشمراني — نائب الرئيس الأستاذ / إبراهيم بن محمد الرميح

رئيس المجلس المكلف الدكتور / عبد الرحمن بن عبد العزيز التويجري

هيئة السوق المالية

لائحة حوكمة الشركات في المملكة العربية السعودية

الباب الأول: أحكام تمهيدية

٤. أن تكون له صلة قرابة من الدرجة الاولى مع أي من كبار التنفيذيين

71 The CMA Board Approval of Corporate Governance Regulations.

As the regulations began to be implemented, violations were minor and mostly related to a lack of awareness. For example, some chairmen used to hold press conferences to publicly state their companies' profits before they were officially announced. The CMA addressed this issue by contacting those officials and making them aware that their actions could harm investors and the interests of the company. In cases where violations were attributed to a lack of awareness, the CMA did not impose sanctions and resorted to notices and warnings.

Interestingly, Saudi companies at the time were only aware of two types of internal governance committees: the executive committee, which existed in most Saudi companies prior to 2005, and the audit committee,

1 In 2008, some articles were made obligatory. Moreover, following amendments made in 2017, the regulations adopted a more compulsory framework.

which the Ministry of Commerce tried to introduce by developing relevant regulations. However, compliance with these regulations was not at the desired levels.

When they were issued, the CMA's Corporate Governance Regulations did not mention the executive committee and only focused on the nomination and audit committees and their respective roles, in addition to how boards of directors were to be evaluated. However, some shareholders objected to the absence of an executive committee. Nevertheless, the CMA saw that the executive committee and its regulations had a changing nature and that boards of directors may misuse executive regulations by interfering in management affairs. Therefore, the sound governance of corporations had to be separated from the functions of boards of directors to avoid unnecessary risks.

The CMA was the first entity to stipulate forming nomination and remuneration committees, considering that boards of directors had a role to play in terms of assessing the performance of talented professionals—a practice that was not in place in the Kingdom before 2005. Consequently, the CMA worked on promoting the idea of audit and nomination committees, leading to their gradual adoption by corporations that no longer viewed governance as a burden.

Moreover, the Corporate Governance Regulations introduced, for the first time, the idea of cumulative voting for electing board members to promote more proportional representation and protect the right of minority shareholders to vote. This voting method was fiercely opposed by major shareholders at first. According to the previous Companies Law, each shareholder had the right to one vote. However, the Corporate Governance Regulations aimed to protect minority interests.

12.5. Disclosure and Transparency

Prior to the establishment of the CMA, the regulation of company disclosure was limited. Additionally, enforcement of the regulations that did exist was limited to obliging listed companies to publish their quarterly financial statements in local newspapers. However, with the issuance of the Capital Market Law, the CMA was granted powers to regulate and monitor the full disclosure of information by issuers of securities. The CMA was given authority to identify the type of information to be disclosed to the public by issuers. Furthermore, according to article 26 of the Listing Regulations, companies have to publish their financial statements within 40 days of the end of the fiscal year.

On 25th December 2004, the CMA announced for the first time the delay of some companies in disclosing their financial statements, which was considered a violation of the Capital Market Law. In the announcement, the CMA stated that it would take legal measures to ensure that disclosure and transparency were observed, and this served as a warning for other companies.

Additionally, the CMA Board issued a decision on 8th April 2005 to impose fines on companies that failed to disclose their financial statements on time. The names of violating companies, type of violation, and fines were later announced on the Tadawul website to affirm the CMA's firmness in ensuring disclosure and transparency. Moreover, despite extending the period of publishing financial statements in 2004, seven companies failed to comply, and were fined by the CMA in July 2005.

The CMA also announced the suspension of trading of the shares of companies that failed to publish their statements on time. In August 2006, the CMA Board issued compulsory instructions to traded joint-stock companies on material information to be disclosed in corporate announcements.

This period was characterised by the gradual introduction of institutional disclosure practices. After the Implementing Regulations of the Capital Market Law were issued, they were sent to all companies. Companies' boards of directors were also requested to review the regulations in order to understand their obligations. Some companies also had discussions with the CMA to ensure they adhered to the dates specified for publishing financial statements and disclosing material information as per regulatory requirements.

12.6. Auditing Joint-Stock Companies' Accounts

Starting in 1965, joint-stock companies hired auditors in compliance with the Companies Law. General assemblies were required to appoint one or more authorised auditors who would have access to a company's financial records and submit their reports to the annual Ordinary General Assembly (OGA).

Upon the issuance of the Capital Market Law of 2003, the CMA was given the right to establish the standards and conditions required of auditors who audited the books and records of the Exchange, brokerage companies, investment funds, and joint-stock companies listed on the Exchange. The CMA was also given the option to delegate this responsibility to the Saudi Organization for Certified Public Accountants (SOCPA) (known today as the Saudi Organization for Chartered and Professional Accountants). Additionally, the Law gave the CMA the right to determine the contents of annual and periodical financial statements.

Right after its inception, the CMA issued the Listing Rules in 2004 and obliged market institutions and listed companies to prepare their financial statements and have them audited by independent chartered accountants certified by SOCPA.

12.7. Regulating Brokerage Activities

From 1984 Saudi banks, under SAMA's supervision, were the sole entities authorised to carry out brokerage activities. During the early stages of development of the capital market, this was a pragmatic decision. The banks had large capital bases and were supervised by SAMA. Banks were hesitant to develop this activity as they were primarily focused on banking services and invested little in new innovative services for the capital market.

After the Capital Market Law was passed since the CMA was established, market observers anticipated the transfer of brokerage responsibilities from banks to entities authorised by the CMA. However, banks maintained their monopoly as no regulations were in place permitting the authorisation of non-bank brokers. The public offerings of banks and other companies resulted in an unprecedented demand by subscribers for brokerage services (Image 25). The growth in the market, including brokerage and asset management and the desire of the CMA to further deepen and develop the market led to the authorisation of non-bank financial intermediaries.

25 A Crowd of Subscribers Gathered outside a Local Bank.

On 28th June 2005, the CMA Board approved the Authorised Persons Regulations, which was a major step towards further developing the capital market.

The passing of the Securities Business Regulations on 28th June 2005 promoted the growth of the Kingdom's financial sector, increased healthy competition, improved investor services, and provided new employment opportunities for citizens. The Listing Rules and Business Regulations were the main pillars for regulating the securities business in the Kingdom. They also defined the five activities that fell under securities business: dealing, arranging, managing, advising, and custody. Institutions were prohibited from carrying out securities business unless authorised by the CMA. To facilitate the transition, the decision of the CMA Board to approve the Authorised Persons Regulations required banks to establish subsidiary companies for conducting securities business, and banks were permitted to continue their operations for no more than two years until the subsidiaries were established.

Prior to the introduction of the Authorised Persons Regulations, the CMA Board discussed two approaches. The first was to require entities that met the regulatory requirements for authorisation to offer shares to the public (a similar mechanism had been adopted for the authorisation of insurance companies), and the second was granting authorisation to companies that met the regulatory requirements, with no requirement to offer shares to the public. Concerns were raised regarding the first approach. Imposing public share offerings would limit the number of authorised companies. The CMA Board also considered that the success of the companies seeking authorisation was not guaranteed, so a public offering may not therefore be in the best interests of the public. The Board decided to adopt the second approach and grant authorisation to companies that satisfied the regulatory requirements. However, the CMA retained the right to oblige companies at any time to offer part of their shares for public subscription by virtue of the authorisation document.

In order to protect investors, the Authorised Persons Regulations required the protection and separation of clients assets and money from those of the authorised person. According to the Regulations, an authorised person had to notify the CMA of liquidation and the plan they intended to follow for the resolution of all claims related to client money and assets. Insolvent authorised persons were not permitted to dispose of or accept further client money or client assets. Authorised persons who wanted to cease carrying on securities business were obliged to notify the CMA in writing of the date on which they intended to cease carrying on securities business and the reasons for the decision at least 45 days in advance of that date. The CMA also had the right to refuse a request to cancel an authorisation if it considered that the maintenance of the authorisation was necessary to investigate any matter affecting the authorised person or to protect the interests of the authorised person’s clients. Lastly, authorised persons had to hold client money at a local bank.

In anticipation of the issuing of the Authorised Persons Regulations, several entrepreneurs approached the CMA expressing their interest in establishing companies to conduct authorised business. The desire to establish such firms was driven by increased primary and secondary market activities.

As soon as the Authorised Persons Regulations were issued, the CMA began issuing authorisations to several investment companies, thus allowing them to compete with banks, which previously had a monopoly over the brokerage business. The first authorisation was issued in October 2005 to the Malaz Financial Consultancy Firm, which was allowed to carry out arranging and advising activities as per the regulations. A total of eight authorisations were granted by the CMA in 2005, followed by another 40 the following year.

The authorisation of brokerage firms in addition to banks who previously were the sole providers of brokerage services was a major improvement in the Saudi capital market. The introduction of non-bank brokerage firms increased competition and new services were offered to issuers of securities and investors.

Banks wishing to continue to undertake securities business were obliged by the CMA to establish independent subsidiaries. As market rules and regulations changed, banks had to restructure their operations and train their personnel who had worked under the previous regulatory structure for nearly 20 years.

The new developments in regulations, trading methods, and settlement processes forced commercial banks to develop their systems and train their human resources to accommodate the new changes. The transition in the banking sector lasted nearly two years, and by the end of that period, banks had established independent brokerage companies with a board of directors, as required by the CMA.

The CMA supported newly authorised firms with support, integrating them into the capital market. Several regulatory changes were required to ensure that these firms could integrate with the CMA and Tadawul systems. Authorised firms had their own challenges relating to management and hiring talented professionals, but these challenges were eventually overcome as the new firms gained more experience. Subsidiaries of banks had a competitive advantage over other non-banking firms in terms of clearing and settlement. The new firms had to contract with banks to clear and settle transactions, which increased their costs. Therefore, support was offered to these firms to ensure a healthy and competitive environment.

A further challenge at the time was the significant demand for authorisations, out of fear that the CMA would put a cap on the number of authorisations it issued. On the contrary, the CMA issued authorisations and supported any firms that met the application and regulatory requirements. However, due to limitation concerns, some accounting and auditing companies obtained their authorisations without carrying out the regulatory requirements. This resulted in violations, mainly due to a lack of awareness, and the CMA was forced to withdraw authorisations from several companies to demonstrate that authorised persons had to abide by the regulations. Some of these companies filed lawsuits against the CMA for cancelling their authorisation, but they were later deemed to have violated market regulations.

Additionally, the CMA developed a set of tests to assess whether the personnel of financial institutions could carry out their responsibilities (for those in positions that needed to be registered). The tests covered technical and professional criteria that had to be met by registered persons or applicants. The CMA also performed inspections to ensure that authorised persons were abiding by the Capital Market Law and its Implementing Regulations.

12.8. From Shares to Diversified Financial Products

For many years, shares were the only security in the Saudi capital market, especially throughout its first two phases of historical development. However, the passing of the Capital Market Law ushered in an era of diversified financial products.

The CMA sought to promote an efficient and virile capital market, which would be pivotal in meeting the nation's economic and developmental aspirations. In order to deepen and broaden the market for enhanced socio-economic development, the CMA encouraged new investment and financing methods. The Capital Market Law gave the CMA the authority to approve market securities. Debt instruments, investment funds, and real estate investment funds were the first financial products to be regulated during this period of transition.

12.8.1. Debt Instruments

Debt instruments, consisting of sukuk and bonds[1], were regulated in accordance with the provisions of the Capital Market Law, which included provisions on tradable debt instruments issued by companies, the government, public institutions, or public organisations. Moreover, the rules of offering sukuk were included under the Rules on the Offer of Securities.

Sukuk were cautiously introduced to the capital market in 2006. In the same year, SABIC issued and offered sukuk with a value of SAR 3 billion.

12.8.2. Investment Funds

Investment funds were not new to the Saudi capital market. As previously discussed, local stock investment funds date back to 1992 when the Minister of Finance and National Economy approved their creation through commercial banks under SAMA's supervision. In 2003, Chapter Six of the Capital Market Law, entitled "Investment Funds and Collective Investment Schemes", defined an investment fund as "a collective investment scheme aimed at providing investors therein with an opportunity to participate collectively in the

1 Debt instruments are tradeable capital market securities used to raise capital. They are issued in the form of sukuk or bonds by companies, governments, and public institutions to cover their financing needs. Debt instruments can be short-term (repaid within one year) or long-term (over a year).

profits of the scheme which is managed by an investment manager for specified fees."

The CMA was given the authority to regulate the activities of investment funds managed by banks within two years of the enactment of the Capital Market Law. Furthermore, the Law outlined the CMA's authority and responsibilities in terms of regulating and supervising portfolio managers and investment advisers, which also included setting the regulations, rules, and instructions related to the organisational structure, accounting systems and operational rules, and investment fund governance and decision making.

At the time, SAMA supervised investment funds established by banks. Soon after, supervisory responsibility was handed over to the CMA, which faced two options: begin supervising the funds as part of banks' operations or separate the funds from banks' activities. Eventually, it was agreed that the CMA would issue authorisations and regulate market conduct and SAMA would monitor the banking activities of the investment funds. Both entities cooperated in carrying out supervisory control and inspections. The CMA took the initiative to form a committee of investment fund managers.

Having monitored the work of investment fund managers for some time, the CMA deemed it necessary to strengthen the governance of funds by defining disclosure requirements. Banks were required to separate securities business by forming independent subsidiaries, and at this time the CMA introduced the Investment Funds Regulations, on 24th December 2006. These regulations outlined all provisions related to authorising the establishment and offering of investment funds. Document 72 is the CMA Board's decision on approving the Investment Funds Regulations.

After issuing the regulations, the CMA requested banks to return the authorisation forms of existing funds within a specified period. Consequently, new funds were established in compliance with the regulations, while the prospectuses of pre-existing funds were updated.

Within a period of nine months, the CMA team had reviewed the documents of more than 200 funds.

Disclosure standards that had been historically adopted by banks needed improvement. Documentation was provided in paper form and the language used was difficult to understand. To improve disclosure and the clarity of information for investors, the CMA established guidelines for the quality and language of fund documentation. The CMA also worked with fund managers to encourage innovation and development in the industry, leading to improved standards of disclosure.


صفحة رقم ٤ — أم القرى — العدد ٤١٣١ في ٢٢ ذو الحجة ١٤٢٧هـ

قرار مجلس هيئة السوق المالية رقم ١-٢١٩-٢٠٠٦ وتاريخ ١٤٢٧/١٢/٣هـ الموافق ٢٠٠٦/١٢/٢٤م

إن مجلس هيئة السوق المالية

بعد الاطلاع على مشروع لائحة صناديق الاستثمار.

وبناء على نظام السوق المالية الصادر بالمرسوم الملكي رقم م/٣٠ وتاريخ ١٤٢٤/٦/٢هـ.

يقرر مايلي:

(١) اعتماد لائحة صناديق الاستثمار بالصيغة المرفقة.

(٢) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

الدكتور / عبد الله بن حسن العبد القادر — الدكتور / عبد الرحمن بن عبد المحسن الخلف

الأستاذ / محمد بن مغلم الشمراني — نائب الرئيس الأستاذ / إبراهيم بن محمد الرميح

رئيس المجلس المكلف الدكتور / عبد الرحمن بن عبد العزيز التويجري

لائحـــة صناديق الاستثمار

صادر عن مجلس هيئة السوق المالية بموجب القرار رقم ١-٢١٩-٢٠٠٦ وتاريخ ١٤٢٧/١٢/٣هـ الموافق ٢٠٠٦/١٢/٢٤م
بناء على نظام السوق المالية الصادر بالمرسوم الملكي رقم م/٣٠ وتاريخ ١٤٢٤/٦/٢هـ

72 The Decision of CMA Board on Approving Investment Funds Regulations in 2006.

The CMA took a strict approach towards fund managers who violated the regulations. Some of these managers had made accounting mistakes that led to a lower unit price when corrected. To fix these errors and protect investors, the CMA required the managers to pay an amount equal to the decrease in value. Additionally, fines were imposed on owners of non-compliant funds.

12.8.3. Real Estate Investment Funds

From the 1940s, investment in real estate projects played an influential part in the growth of the Kingdom's real estate market, particularly in the development of cities. Investment of this nature involved a group of people pooling their resources to buy land or property, with each person receiving a share. They would choose a trusted individual to handle the financial aspects and deal with government agencies. The goal was to make profits for the investors by buying and selling the land or property. Document 73 is an example of a real estate investment announcement from 1976.

At the time, real estate transactions were based on trust and reputation, and were a popular investment.

As time passed, real estate investment evolved to include residential or commercial complexes and such investments were sold to the public as shares. These shares represented ownership of a specific area of the property and were called "real estate shares" as shown in Document 74.


مؤسسة يسر العقارية

أن تعلن عن فتح باب المساهمة في المنطقة

شمال السليمانية

بسعر المتر الواحد ٥٠ ريال والسعي ٥٪

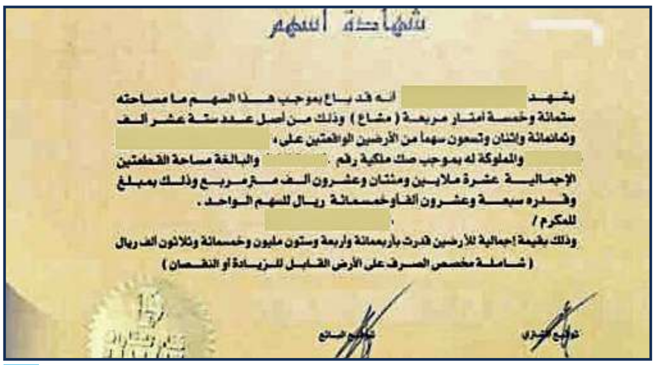
فعلى الراغبين في المساهمة مراجعة مقر المؤسسة :

العُليَّا : شارع الملك فيصل تليفون ٣٦٢٦٨

73 An Example of a Real Estate Investment Announcement in 1976.

This type of investment in real estate initially did not have rules or regulations to ensure their proper operation and the protection of the rights of shareholders. Some people in charge of these investments used the money for their own purposes or invested it in other projects, which put shareholder money at risk and led to the failure of many real estate investment projects. In response, the Ministry of Commerce and Industry stopped issuing authorisations for new real estate investments and issued a decision on 24th January 2004 setting rules for the operation of real estate investments and outlining the requirements for obtaining an authorisation. The rules stated that no new real estate investment could be offered or announced without the ministry's approval. However, the problems related to real estate investments persisted.

After its establishment, the CMA attempted to address the issues surrounding real estate investments in a way that would allow this activity to continue in an organised, modern way. This was especially important in 2005 when the stock market saw a resurgence. To achieve its objective,


شهادة أسهم

يشهد انه قد باع بموجب هذا السهم ما مساحته ستمائة وخمسة أمتار مربعة (مشاع) وذلك من أصل عدد ستة عشر ألف وثمانمائة واثنان وتسعون سهما من الأرضين الواقعتين على ، والمملوكة له بموجب صك ملكية رقم والبالغة مساحة القطعتين الإجمالية عشرة ملايين ومئتان وعشرون ألف متر مربع وذلك بمبلغ وقدره سبعة وعشرون ألفا وخمسمائة ريال للسهم الواحد .

للمكرم /

وذلك بقيمة إجمالية للأرضين قدرت بأربعمائة وأربعة وستون مليون وخمسمائة وثلاثون ألف ريال (شاملة مخصص الصرف على الأرض القابل للزيادة أو النقصان)

74 An Example of a Real Estate Share Certificate.

the CMA worked on introducing regulations for establishing real estate investment funds. The main issue at the time was related to real estate registration, including the registering of real estate in the name of a person.

The CMA team began developing the Real Estate Investment Funds Regulations. In preparing the regulations, the team drew upon global experiences to determine the activities of real estate funds and took into consideration the preferences of investors and the experiences of leading real estate companies in the Kingdom.

On 15th July 2006, the Real Estate Investment Funds Regulations were introduced. These were the first regulations of their kind in the Kingdom, and they established rules for the authorisation, issuance, and management of real estate investment funds, as well as requirements for disclosure and the protection of ownership rights. These regulations replaced those issued by the Ministry of Commerce and Industry in 2004 and effectively ended the practice of real estate investments, allowing them to be made only through investment funds. Document 75 is the CMA Board's decision on approving the Real Estate Investment Funds Regulations.

The CMA's new Real Estate Investment Funds Regulations addressed issues that arose with the old system of real estate investment, which often resulted in disputes between those who invested and those who managed the investment in real estate. The introduction of the new regulations marked a shift towards a more corrective market approach.

The implementation of the Real Estate Investment Funds Regulations encountered some challenges. Traditional real estate professionals, who were accustomed to decisions being made by property owners, struggled with the new regulations, which separated ownership from


عدد ٤١٠٦ في ٢٥ جمادى الآخرة ١٤٢٧هـ
أم القرى
صفحة رقم ٧

رار مجلس هيئة السوق المالية رقم (١-١٩٣-٢٠٠٦) وتاريخ ١٤٢٧/٦/١٩هـ الموافق ٢٠٠٦/٧/١٥م

أن مجلس هيئة السوق المالية

بعد الاطلاع على مشروع لائحة صناديق الاستثمار العقاري.

وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م / ٣٠) وتاريخ ١٤٢٤/٦/٢هـ.

يقرر مايلي:

(١) اعتماد لائحة صناديق الاستثمار العقاري بالصيغة المرفقة.

(٢) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

الدكتور / عبد الله بن حسن العبد القادر — الدكتور / عبد الرحمن بن عبد المحسن الخلف

الأستاذ / محمد بن مغنم الشمراني — نائب الرئيس الأستاذ / إبراهيم بن محمد الرميح

رئيس المجلس المكلف الدكتور / عبد الرحمن بن عبد العزيز التويجري

لائحة صناديق الاستثمار العقاري في المملكة العربية السعودية

الباب الأول: أحكام تمهيدية

الباب الثاني: الترخيص

75 A Decision Approving the Real Estate Investment Funds Regulations in 2006.

management and gave owners a seat on a fund's board of directors. The regulations also allowed for the transfer of ownership to a third party or investment company. In response to the new regulations, some real estate professionals formed private investment companies to manage real estate funds, while others turned to specialised real estate management companies.

12.9. Depository, Clearing and Settlement

At the time of the Ministerial Committee, the Saudi Shares Registration Company (SSRC) was responsible for managing the deposit of securities, and clearing and settlement. With the introduction of the Capital Market Law, these responsibilities were transferred to the Securities Depository Centre. The Capital Market Law explained in detail, in Articles 26-30, the process for establishing and operating the Securities Depository Centre and the rules for its operation. The board of directors of the Exchange was responsible for establishing the Securities Depository Centre as the only entity in the Kingdom authorised to handle the deposit, transfer, settlement, clearing, and registration of traded financial securities in the market.

In September 2005, the CMA Board, which had temporarily assumed the powers of the board of directors of the Exchange, contacted listed companies in the capital market and urged them to update their data and records and update the personal information of shareholders in preparation for transferring share registers to the Securities Depository Centre. The Centre became responsible for the custody and deposit of securities traded in the market and the registration of related ownership rights, as stated in the Capital Market Law.

12.10. The Financial District

During this formative period, the idea of establishing a financial district in Riyadh similar to London's Canary Wharf also emerged. It was proposed that the centre would include the headquarters of the CMA, the Saudi Stock Exchange (Tadawul), and financial companies. The idea was first proposed by His Excellency late Jammaz Al-Suhaimi during his tenure as Chairman of the Standing Supervisory Committee (SSC). After the establishment of the CMA in 2004, the idea was initially pursued with the joint efforts of His Excellency Minister of Finance and the Governor of the Public Pension Agency. In May 2006, the Custodian of the Two Holy Mosques King Abdullah Bin Abdulaziz Al Saud announced the establishment of a financial district on land belonging to the Public Pension Agency along King Fahd Road in Riyadh, covering an area of 1.6 million square metres. The district was planned as a cultural landmark in Riyadh, to bring together the financial institutions operating in the sector, as well as to rival similar global financial districts.

The CMA collaborated with various government agencies to start preparing for the new 'King Abdullah Financial District' project. It was agreed that the CMA would lead this major project, which would house the headquarters of the CMA and the Saudi Stock Exchange (Tadawul), as well as several other financial institutions including the Financial Academy (FA). It was planned that the district would also include service companies such as accounting and legal firms, consulting and financial firms, and banks, in addition to various amenities including conference and exhibition halls, hotels, residential neighbourhoods, recreational and sporting areas, and a good transportation system.

Image 26 shows the Custodian of the Two Holy Mosques King Salman Bin Abdulaziz Al Saud reviewing the architectural model of the King Abdullah Financial District when he was the Governor of Riyadh in 2006.

26 **The Custodian of the Two Holy Mosques King Salman Bin Abdulaziz Al Saud Reviewing the Architectural Model of the King Abdullah Financial District in 2006.**

Chapter 13: Stock Market Bubble of 2006

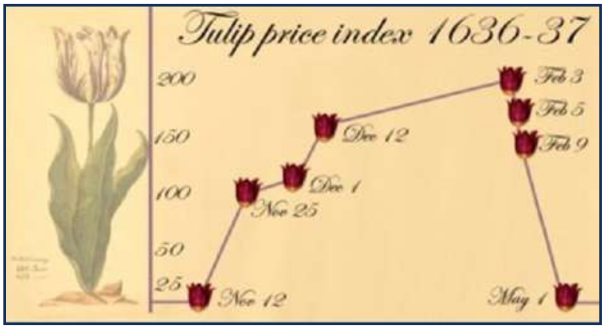
After the CMA was established by a Royal Decree in July 2004, it began preparing regulations for the capital market. Within a year, it had released five primary regulations as well as the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority. The CMA also worked on organising its internal structure and developing the required regulatory framework for the capital market. Prior to October 2005, banks acted as brokerage service providers under SAMA, while Tadawul was simply an electronic trading platform without a legal entity. By February 2006, the Saudi capital market faced a severe crisis, leading to a sharp drop of 1,000 points in the index and resulting in significant losses of about SAR 2 trillion.

13.1. Global Stock Market Bubbles

The Saudi stock market bubble of 2006 was just one in a series of financial bubbles that had occurred worldwide for centuries. A stock market bubble, also known as a financial bubble, occurs when market participants buy stocks at prices higher than their true value. This happens when the goal of buying the stock is to profit from its price increase rather than its ability to generate income. As a result, the price collapses when there is a strong sell-off and the bubble's effects can spread to other stocks as confidence is lost and panic sets in. Behavioural theories attribute the occurrence of stock market bubbles to a collective mode of thinking. As previously discussed, the emergence of financial bubbles is historically traced to speculations on the British South Sea Company's stocks in the early 18th century. The famous scientist Isaac Newton was affected by these events, he later expressed his inability to understand the human folly that caused the bubble.

Economic bubbles date back even earlier, to the 17th century, when tulip prices in the Netherlands soared to unrealistic levels due to intense and unethical speculation, leading to the phenomenon known as the "tulip mania". The craze led to people trading tulip contracts on the futures market, referred to as the "wind trade", and the price of a single tulip reached 10,000 guilders, a considerable sum at the time—sufficient to buy a luxurious mansion with a lake view in the capital city of Amsterdam. When people began selling the flowers, prices crashed, and panic spread, causing prices to plummet by about 99% (Image 27). Many Dutch people lost their money and became heavily indebted.

Bubbles are a phenomenon that is inherent in the capitalist system and occur even in the most advanced markets. Examples of these include the Wall Street Crash of 1929 and the Great Depression that followed it, the stock market crash of 1989, the Asian stock market crisis of 1987-1989, the Japanese asset price bubble in the late 1980s, the dot-com bubble in 2000, and the global financial crisis of 2008, also known as the housing bubble. Other examples include the previously discussed Kuwait's Souk Al-Manakh market crisis and the Black Monday crisis of 1987.



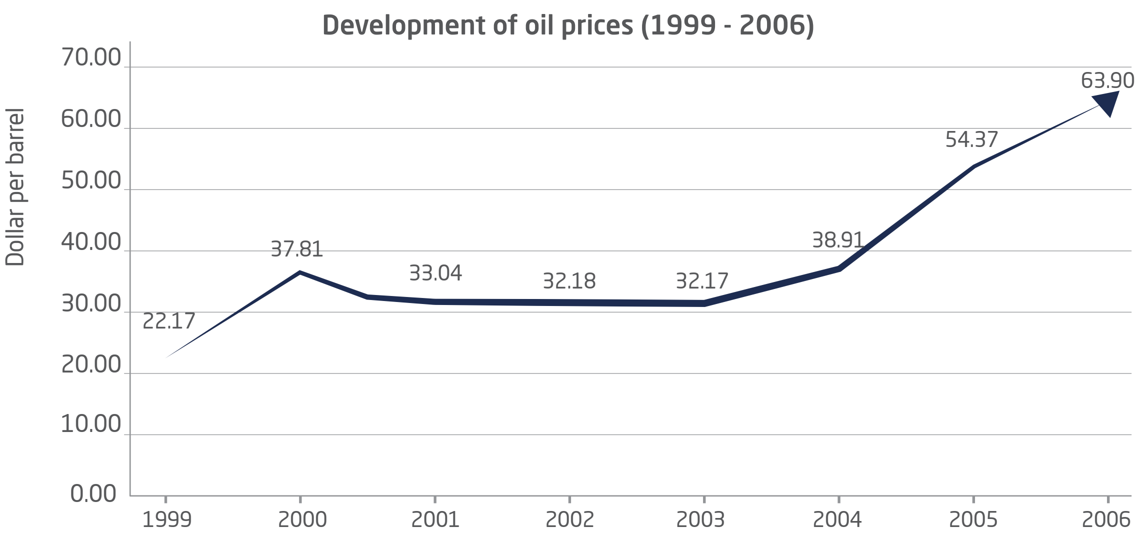
27 The Development of Tulip Prices.

13.2. Saudi Stock Market Bubble of 2006

In 2006, the Saudi Arabian stock market experienced one of its most severe crises, marked by unwarranted increases in all indices that led to excessive speculation in the market. This was followed by a significant decline in prices, causing a steep drop on 26th February 2006. To understand the events of the crisis, its causes and results, it is necessary to go back to the years leading up to enactment of the Capital Market Law and the CMA, which was formed in the midst of the crisis and found itself in a difficult position, unlike anything it had faced before.

13.2.1. Before the Turmoil

In 2001, following the events of 11th September and the return of national funds from abroad, Saudi Arabia saw a decrease in net outflows of foreign investment from USD 1.5 billion in 2000 to USD 45.6 million in 2001, while net inflows of foreign investment into the country rose from USD 1.8 billion in 2000 to USD 19.6 million in 2001. This was accompanied by a rise in prices due to increased global demand between 2000 and 2006, causing the price of crude oil to go from USD 22 per barrel in 1999 to USD 64 per barrel in 2006. As a result, oil revenues rose from SAR 214.4 billion in 2000 to SAR 504 billion in 2005, leading to a significant increase in overall revenues which doubled from SAR 258 billion in 2000 to SAR 564 billion by the end of 2005. The GDP surplus also increased from 3.2% in 2000 to 18.4% in 2005, and the GDP growth rate in 2005 was 5.6%. These developments allowed the government to pay off its debt to local banks, increase infrastructure spending, and invest in energy production projects. The government debt ratio decreased from 119% in 2000 to 40% in 2005. Figure 24 shows the development of oil prices between 1999-2000.



24 Oil Prices between 1999-2006.

During this period of prosperity between 2000 and 2005, the market value of all Gulf stock markets increased approximately tenfold, from around USD 177 billion to USD 1.135 trillion, with the value of traded stocks increasing 60 times, from USD 23 million to USD 1.373 billion. However, the majority of these increases were in Saudi Arabia, which accounted for approximately half of the market value and around 80% of the value traded in 2005. From 2001 to mid-2006, there were approximately 59 initial offerings of public subscriptions in Gulf markets, totalling around USD 15.5 billion. Of these, 11 were in Saudi Arabia, accounting for 18.6%. Saudi companies dominated the funds raised through these subscriptions, with a value of USD 7 billion, or 45% of the total.

13.2.2. The Liquidity Trap

There was a significant increase in the money supply in the Saudi stock market between 2000 and 2005, with Broad Money, or M3[1], rising from SAR 319 billion in 2000 to SAR 553.6 billion in 2005. Bank deposits also increased from SAR 268 billion in 2000 to SAR 490 billion in 2005. Bank assets increased from SAR 453 billion in 2000 to SAR 759 billion in 2005. Banks took advantage of the excess liquidity by increasing lending, with consumer loans and credit card debt reaching SAR 185 billion in 2005, an increase from SAR 26.8 billion in 2000. Many public and private sector employees took out loans from banks using their salaries as collateral. Banks also provided investment fund-secured loans to individuals, totalling approximately SAR 90 billion until February 2006. This prompted SAMA to issue new regulations governing consumer financing and related guarantee agreements at the end of 2005, which came into effect in 2006. These regulations included a cap on lending such that total monthly payments by the borrower should not exceed one-third of their net monthly salary, including credit card debt. For retired individuals, payments were limited to a maximum of 20% of their pension. Moreover, the maximum duration for any consumer financing was not supposed to exceed five years. Although these regulations were good, they came too late.

13.2.3. The Stock Market Boom

Since the early 2000s, there has been a surge in the popularity of the stock market among citizens; it had become their primary option for investing their savings, given the lack of other investment channels. Moreover, with the return of national funds from abroad, which were mostly invested in foreign stocks and bonds, it was natural for these funds to find their way to the local stock market. At the same time, establishing

1 Broad money, or M3, is the total of currency outside banks, demand deposits, time and savings deposits, and other quasi-money deposits.

investment projects was much more difficult and time-consuming, requiring 131 days and 18 procedures at a cost of 82% of the average individual income. As a result, the stock market came to offer a more attractive option due to its accessibility, speed of entry and exit, and potential for quick profits.

Since the Saudi riyal is pegged to the US dollar, the decline in interest rates on the dollar in the early 2000s also led to a decline in interest rates at Saudi banks. This left investors with little choice but to seek returns in the stock market. Additionally, the low interest rate encouraged people to borrow from banks and reinvest the borrowed money in stocks.

In the past, banks were officially in charge of stock trading and used their liquidity to make it easier for people to buy stocks. Some stock funds took advantage of the high liquidity that flowed in to make speculative investments. With the advent of online stock trading in 2002, anyone could trade stocks by simply using a computer and internet connection. This led to a significant increase in the number of online trading subscribers, reaching 245,500 by the end of 2005. Stock speculation on the internet became a common activity and an easy source of income for many people. Some even left their jobs and bought computers to trade stocks without a solid understanding of investment principles. Trading was only available twice a day except on Thursdays when it was once a day, with Friday being the only day off for trading.

The Saudi stock market became more popular around the same time that the government launched the Saudi Telecom Company (STC), initial public offering, leading to a stock market boom. This attracted individuals to the stock market and introduced them to a new type of investment. Subsequent offerings, such as Bank Albilad offering, which attracted about 8.8 million citizens, and the Yanbu National Petrochemical Company (Yansab) offering in 2005, which involved about 8.9 million subscribers, led to significant increases in stock prices. For example, the price of Sahara Petrochemicals Company stock rose by 200% after its listing in June 2004, and Etihad Etisalat's stock increased by 500% after its offering in December 2004.

These profits attracted even more people to the stock market, which at the time only had 68 listed companies with a total market value of about SAR 280 billion and a total trading value of only SAR 133 billion for the entire year.

13.2.4. Lack of Financial Literacy

According to recent studies, 95% of investors in the Saudi market only had three years of experience in trading and investing. This lack of investment literacy may have contributed to the high rates of speculation and risk-taking among investors at the time. Instead of following proper investment analysis techniques when making investment decisions, investors were mainly influenced by a desire to get rich quickly, particularly after they saw others having success in the stock market.

A study from 2005 found that 37% of losses suffered by traders in the Saudi stock market were due to a lack of experience and insufficient skills. Other contributing factors included the concentration of ownership and a lack of market makers (18.6%), market fluctuations (14%), lack of transparency (14%), lack of bank facilities (9.3%), and the ineffectiveness of the CMA in preventing the spread of rumours and leaks (7%). The survey also revealed that 25% of traders aimed for quick profits, 23% turned to stocks for easy conversion to cash, and 20% did so due to a lack of alternative investment channels. Additionally, 39% of traders relied on borrowing to invest in stocks, and 61% of these traders had investments of less than half a million riyals.

13.2.5. Whales' Trap

In the past, many people fell victim to "whales," big-time investors who hold large amounts of a particular stock for an extended period of time in order to manipulate its price. These "whales" spread rumours and encouraged others to buy stocks, then sold their own shares at a higher price, making significant profits at the expense of those they had tricked.

Some "whales" also used unauthorised offices with computers to open investment portfolios for unsuspecting individuals, using their passwords to secretly trade on their behalf. At the time, stock trading was a relatively new activity for citizens and various businesses, such as engineering firms and medical clinics, who became involved in stock trading. In some cases, one person could represent 70 or more individuals in their investment decisions.

Some of the incidents reported at the time involved several people in Riyadh who were defrauded when a group of con artists used their names to invest in Etihad Etisalat's shares without their knowledge. The con artists had obtained the victims' civil registration data under false pretences, and thus opened bank accounts in their names. The victims were not aware of the fraud until they went to a bank to subscribe for Etihad Etisalat, and were told that they had already subscribed. There were also other incidents of groups buying names for SAR 100 to 150 each in various villages.

13.2.6. Con Artists

At the time, the only way to learn about investment opportunities was through online forums, chat rooms, and some television programs, which featured a group of speculators, self-proclaimed as analysts, who misled people, selling them "get-rich-quick" dreams. Moreover, some speculators used online forums and websites to share their recommendations among users and hired writers working under pseudonyms or fictitious names to avoid any legal or judicial investigation. They presented fundamental and technical analyses of companies and provided advice to buy or sell in order to achieve quick financial gains by stimulating demand or supply on the stocks of those companies.

The reputation of one of these con artists spread in some forums where he wrote under a pseudonym and continued to manipulate stock prices until he revealed his identity and was caught and penalised by the CMA. However, it was difficult for the CMA to monitor all forums and chat rooms at the same time. There were multiple discussions within the CMA to regulate the online activities of these people or only allow analysis by those with certification, but the community and market were not yet prepared for this, given people's enthusiasm and the huge number of forums and quick interactions. In less than 10 minutes, one could find thousands of responses to one of the forum's contributions, which had thousands of members.

13.2.7. Fever of the Worthless

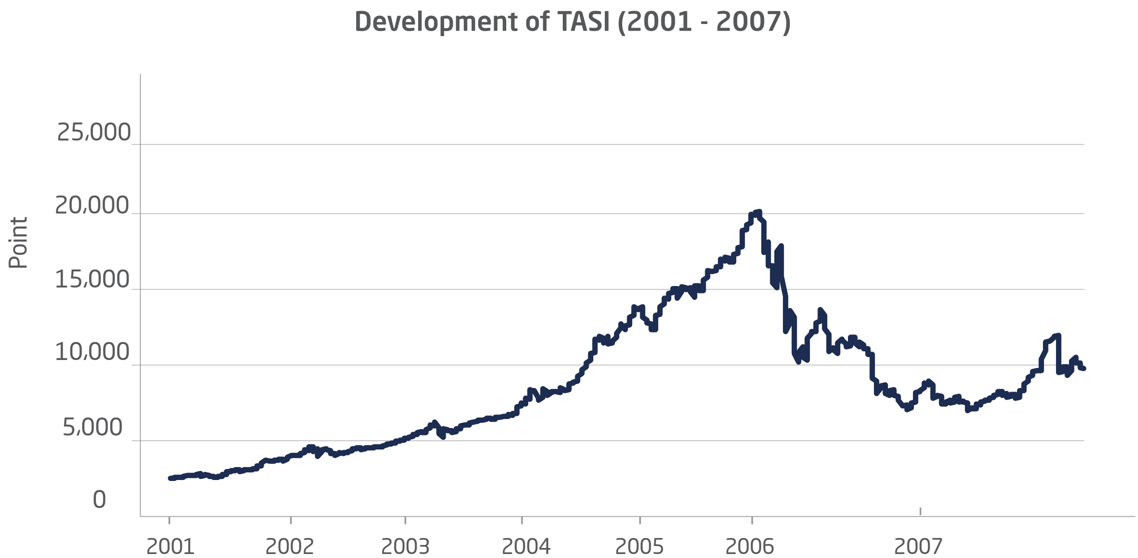
During this time, stocks known as "shares of the worthless" circulated among traders, referring to stocks of companies that had consecutive losses and did not represent the real value of their capital. These were companies that had no reserves and did not distribute annual dividends, but instead investors were deceived with artificial increases in their stock prices compared to the limited increase in the prices of profit-making companies' stocks. Speculators used these shares to plunder the money of citizens through stock price manipulation resulting from a limited number of free float shares. These included the stocks of new insurance companies, which were required to offer their stocks to the public based on the Cooperative Insurance Companies Control Law issued by Royal Decree M/32 in 2003, as well as other loss-making companies whose prices rose unjustifiably after being advertised on the internet. Some of these stocks reached SAR 7,000 per share, leading to the emergence of a number of stocks with inflated prices. These companies had limited free float, which further exacerbated the problem as the stock price could be easily manipulated. Moreover, many individuals were able to make significant profits due to the continuous increase in stock prices. Individuals were able to buy a stock for 10 riyals and sell it for twenty or thirty riyals within a month, resulting in artificial and unsustainable increases that were not based on productivity or profits.

Some experts and academics warned about buying stocks whose price did not accurately reflect their true value, but many traders had been blinded by the lure of quick wealth and did not pay attention to the risks involved in this type of investment. They were influenced by misleading voices on internet forums, using phrases such as “looking for some worthless stuff” and “what’s our worthless prize for today?”

Amusingly, investors and traders in forums began using nicknames for certain stocks that they traded based on whether the stock’s value was increasing or decreasing. These nicknames, which had humorous and nonsensical meanings, were only understood by those who followed these forums. Despite experiencing losses in May 2005, investors and traders continued to invest in these stocks and even encouraged others to do so by often saying that “every loss-making is a profit and every profit-making is a loss.”

13.2.8. On the Edge of Ruin

During this period, high liquidity resulting from successive public offerings led to a rapid increase in investment portfolios, speculation, and liquidity. The greed for quick profits drove many citizens to buy stocks; therefore, some hurried to sell their lands, and others sold off their gold possessions. Moreover, some borrowed money using the collateral of their house or salary, thereby depleting their savings. Consequently, speculation brought the market to the brink of madness and caused the stock price index to rise from 4,430 points in 2001 to 8,206 points in 2004, representing an increase of 84.9%, and then to 16,712 points in 2005, an increase of 103%. Figure 25 shows the development of the general stock market index during the period 2001-2007.

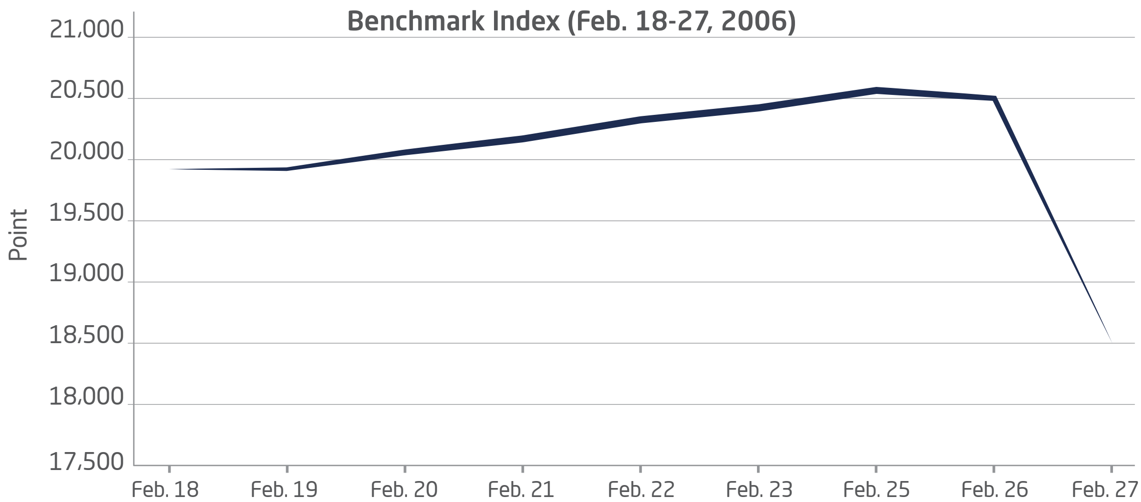


25 The Development of the General Stock Market Index during the Period 2001-2007.

During the same time period, the value of traded stocks increased from SAR 83.6 billion in 2001 to SAR 4.1 trillion in 2005. The market value of stocks rose from SAR 280 billion in 2001 to over SAR 3.1 trillion on 25th February 2006. The annual value of transactions increased from SAR 133.8 billion to approximately SAR 5.3 trillion. Figure 26 shows the value of traded stocks in the period from 2001 to 2007.

26 The Value of Traded Stocks during the Period 2001-2007.

In 2006, the stock market witnessed unprecedented levels of speculation, with the index reaching 18,820 points by the end of January. From the start of February, the index continued to rise until it peaked on 25th February at 20,634 points, the highest closing point in its history. However, on the following day, 26th February (later known as Bloody Monday), the market experienced a sudden crash with more than 60 companies experiencing significant declines and all companies closing at sharp decreases. Figure 27 shows the evolution of the stock price index during the period of 18th-27th February 2006.



27 The Stock Price Index, 18th-27th February 2006.

The sudden drop in the stock market caused people's money to disappear, as if it was swallowed.
The question lingered for years, "Where did the money go?". In one night, the index lost 980 points, a 4.7% drop, and the market lost SAR 47 billion in market value. Image 28 shows the decline of stock shares and the stock market index going into the red.

13.2.9. Warning Signs

During this time, all signs pointed to an impending disaster. The average daily trading value in the final weeks of the bubble reached around SAR 40 billion per day. The highest daily trading values were recorded on 13th, 14th, and 15th February, at SAR 44.1, 46.4, and 46.7 billion respectively. The daily number of trades ranged from half a million to one million, with a peak on 21st February reaching 1.9 million transactions. The general index rose 8.2% from the beginning of February until 25th February.

During this period, the CMA was in the process of taking over regulatory responsibility for the stock market. Since the formation of the CMA Board in July 2004, the market index rose from 4,413 points at the end of 2003 to 5,819 points. By October of the same year, the index had risen by 26% to 7,359 points. From the time the Board was formed until the end of 2004, the index rose 41%, surpassing 8,000 points.

13.2.10. The Eye of the Storm

Since the beginning of the unjustified rise in the shares of most companies, the CMA strove to act within the framework of the Capital Market Law, which did not allow it to interfere in market mechanisms or direct the forces of supply and demand for traded company prices. Instead, the CMA was restricted to two main roles; the first was setting transparency levels to ensure that all listed and other joint-stock companies disclosed their financial statements, quarterly and annually, as well as any core developments that could affect the price of securities, in addition to imposing penalties on companies that violated the requirements. The second role was overseeing the trading of securities for joint-stock companies to ensure that there were no violations of the CMA's regulations, either by traders or companies. The violations included reciprocal trading (manipulation) or placing orders that deluded traders into thinking that there were unannounced core developments that could influence the prices of traded securities.


28 The Decline of Stock Shares and the Stock Market Index Going into the Red.

In this context, the CMA tried to act within the powers granted to it by the Capital Market Law. On 25th December 2004, the

CMA imposed fines on four companies that did not comply with the required reporting of their financial statements. In the same month, the CMA Board issued a warning to seven companies that failed to publish their statements within the specified deadline and announced the start of the implementation of fines on these companies and the suspension of trading in their stocks. The Board also imposed fines on 44 members of the boards of directors and senior executives of 35 listed companies for violating the Listing Rules in June 2005.

During that time, a chairman of the board of directors of a listed company made a statement to Al Riyadh newspaper about the company's plans to approach competent authorities to increase its capital. He also explained that the company received offers to merge with other companies. This caught the attention of the CMA, which directed an inquiry into the company. The company denied the statement and published an announcement on Tadawul website stating that there was no discussion of increasing the company's capital, either within the board of directors or with any other party, and that there were no plans to merge with other companies at the time. However, due to the discrepancy between the statement and the announcement, and the fact that the price of the company's stock continued to rise significantly despite the company's announcement, the CMA decided to open an investigation into the matter and uncover any potential violations of the Capital Market Law or its Implementing Regulations.

Using its powers under the Capital Market Law, in March 2005, the CMA formed the Committee for the Resolution of Securities Disputes (CRSD). Through the Committee, the CMA strove to regulate and penalise manipulators and violators to protect investors' rights. The CMA suspended transactions in Saudi stock investment accounts for 30 days for some traders after receiving credible information that these accounts had been used to make a series of large, consecutive buy orders at increasing prices, make offsetting buy and sell orders between two portfolios, and make artificial buy and sell orders before or immediately after the market closed and then cancel them, all with the purpose of creating fake trades and misleading others about prices. The violators were referred to CRSD for engaging in fraudulent and manipulative activities. The statement of claim against the defendants detailed the imposition of sanctions on them, including imprisonment, fines, seizure of their assets equivalent to the amount of the fines due, and the prohibition of managing portfolios and working in companies whose shares are traded on the market.

Moreover, the CMA penalised an investor for his ownership of 5.22% of one company, which was announced at the end of August, and 5.4% of another company, which was announced in early October. The investor then told Al Riyadh newspaper that he bought the shares of both companies because he saw their future plans, which he described as good, potentially misleading other investors into buying the shares as well. In the following days, the investor sold a large percentage of the shares in both companies without announcing the sale, which violated the CMA's Listing Rules. As a result, the CMA immediately suspended all stock investment transactions in the investor's accounts until the investigation was completed. The CMA's Department of Follow-up and Enforcement also continued to investigate the matter and, upon completion, presented it to the CMA Board for consideration of fines or referral to CRSD. The decision also included the investigation of another investor for failing to announce a reduction in ownership of more than 5% in one company.

During the fifteenth annual conference of the Saudi Economic Association in November 2005, under the title "The Saudi Stock Exchange: Reality and Hope", His Excellency the late Jammaz Al-Suhaimi emphasised that the CMA was working to create an effective capital market that contributes to the development of the private sector's role in GDP and educates individual traders to protect them, as well as to protect the market from unjust or fraudulent practices. He also mentioned that the CMA Board had made several decisions related to imposing penalties on violators and bringing legal action before CRSD to impose appropriate sanctions, and that the CMA was determined to continue to pursue violators.

"Our market is large in terms of transactions and effective in integrating between trading, settlement, and custody. Consequently, this requires effective and immediate supervision of transactions, and careful follow-up on brokers and traders. Violations may occur from traders, informed individuals, authorised persons, or listed companies. These violations, if they occur, will be revealed and investigated. Moreover, to penalise violators and prevent further violations,

29 The late Jammaz Al-Suhaimi at the Annual Conference of the Saudi Economic Association in November 2005.

we will be strict and unwavering in implementing the Capital Market Law and its Implementing Regulations," Al-Suhaimi added.

In January 2006, CRSD issued three decisions against three traders for violating some provisions of the Capital Market Law and its Implementing Regulations. As a result, they were banned from working in listed companies or being members of their boards of directors for three years and were fined a total of SAR 170 million. In February 2006, the month of the crisis, the race between the CMA and market manipulators was at its peak. On 5th February, the CMA filed a lawsuit before CRSD against a citizen accused of providing financial advice without authorisation through local newspapers under the name of their office "the Gold Stock Exchange", as well as providing advice through SMS messages to investors participating with him in exchange for money. The CMA revealed that those messages encouraged buying and selling in the stock market. Therefore, the CMA issued a decision, which included a provisional seizure of the bank accounts of the office owner, and stressed that sanctions would be imposed.

On 14th February, the CMA announced that data had revealed increased, unusual trading activity among certain market traders. Their activity had an adverse impact on the stock prices of certain companies that had not provided sufficient information to justify their price levels. This posed a threat to market stability and was going to harm investors, particularly small ones. In response, the CMA Board issued a decision to investigate the matter to uncover any fraudulent or misleading transactions and take necessary action. As a result, the CMA decided to immediately suspend trading through the investment accounts of a specific trader who was found to have engaged in large-scale buying and selling with the intention of artificially influencing the prices of certain stocks.

On 22nd February, the CMA discovered that a trader had conducted large-scale buying and selling of a specific company's stock with the intention of manipulating the stock price, as well as peddling recommendations on internet forums to influence others. In response, the CMA decided to immediately suspend the trader's investment accounts and pursue an investigation to file a lawsuit against the trader before CRSD, while ensuring that the trader did not have direct or indirect access to the market. On 23rd February, the CMA Board issued a decision to suspend trading with the stock investment accounts of another trader who was found to have engaged in large-scale buying and selling of the stocks of several companies with the goal of creating a false impression about their prices.

The CMA also encountered malicious campaigns in newspapers and forums that spread rumours and disseminated false and misleading information about the CMA and the market. For example, one newspaper falsely claimed that the CMA had pardoned certain violators, which the CMA denied, while affirming its commitment to enforcing the law on all violators. The CMA also pledged to take legal action against those who spread or promote any false information about the capital market.

13.3. Confronting the Bubble

13.3.1. Breaking Through the Bottleneck

Since its creation, the CMA has worked to provide awareness and advice to investors. In 2005, it began partnering with media organisations, starting with a deal to air educational commercials during the Ramadan programme "Tash Ma Tash," which was well-received by viewers.

In the same year, the CMA launched an educational campaign targeting investors and traders in the capital market. The campaign included print and television advertisements, as well as informational brochures explaining basic stock market investment principles, which were distributed and made available electronically on the CMA and Tadawul websites. The advertisements emphasised the importance of experience and knowledge when investing in the stock market, warned against borrowing money to invest in stocks, and stressed the significance of portfolio diversification to minimise risk. The CMA also encouraged individuals to avoid rumours and rely on credible sources for information, and to track the performance of companies by examining their financial statements and relevant announcements.

Later in January 2006, the CMA amended two articles of the Listing Rules to impose greater transparency and disclosure on transactions made by major investors in companies and those with insider information (such as board members or senior executives). The next day, the CMA prohibited listed companies from trading in shares of other joint-stock companies unless their Articles of Association (AoA) allowed it. The purpose of this rule was to prevent further violations. Companies that were not permitted to trade in stocks, but had done so, were granted three months to unwind their positions.

13.3.2. On the Path to Correction

The CMA also attempted to curb market speculation by implementing measures to reduce the rapid increase in stock prices. One such measure was a decision issued on 23rd February to reduce the daily fluctuation rate of stock prices for all listed companies on the market from 10% to 5%. This decision was intended to minimise risks associated with securities transactions and was to take effect on Saturday, 25th February, the day on which the index reached its peak. However, the decision did not have enough time to take effect and the market crashed the following day and continued to drop.

On the following day (Bloody Monday), the index continued to decline to 18,740 points. Despite a rise on 28th February to 19,502 points, the index experienced sharp drops, leading to the largest correction in the market since its inception. In 2006, the index corrected its performance and fell from its highest level on 25th February to its lowest level of the year at 7,666 points on 3rd December, a decrease of 63%. By the end of 2006, the index closed at 7,859 points.

In response to the market situation, the Supreme Economic Council convened on 14th March 2006 under the chairmanship of the late King Abdullah Bin Abdulaziz Al Saud to discuss the sharp drop in the stock market after the recent rise. The Council issued a statement affirming the state's support of the interests of citizens and expressing confidence in the strength of the Saudi economy and its ability to grow and prosper, which would reflect various economic activities and provide a good future for investment.

Moreover, the Council expressed confidence in national companies. It also emphasised the importance of making investment decisions based on solid foundations, rather than following rumours or misinformation, and declared its ongoing support for the measures taken by the CMA to regulate the market and protect investors, especially small ones. The statement was reported in Um Al-Qura newspaper on 24th March 2006, in issue No. 4088.

The following day, His Excellency former Minister of Finance Dr. Ibrahim Abdul Aziz Al-Assaf held a meeting


بسم الله الرحمن الرحيم

أم القرى

الجريدة الرسمية للمملكة العربية السعودية تصدر بمكة المكرمة

مواقيت الصلاة بالتوقيت الزوالي والغروبي

السنة ٨٢ العدد : ٤٠٨٨

الجمعة ١٧ صفر ١٤٢٧هـ
الموافق ١٧ مارس ٢٠٠٦م

[تنويه]
أخي القارئ : إن هذه الصحيفة تحتوي على آيات قرآنية وأحاديث نبوية لذلك تجب المحافظة عليها واحترامها .

الثمن : ثلاثة ريالات سعودية

خادم الحرمين الشريفين يرأس جلسة المجلس الاقتصادي الأعلى التي تم تخصيصها لمناقشة ماتعرضت له سوق الأسهم

خادم الحرمين الشريفين يرأس جلسة المجلس الاقتصادي الأعلى ..بقية

76 News of the Supreme Economic Council Meeting to Discuss the Sharp Drop in the Stock Market.

with a group of representatives from the Saudi private sector to discuss the statement issued by the Supreme Economic Council. The Minister emphasised that the situation in the capital market did not reflect the positive and balanced national economic indicators, and that various sectors of the economy were experiencing clear growth that was reflected in the performance of private sector companies.

The Minister also stressed that the Council was examining factors affecting the development of the Saudi stock market, particularly in relation to allowing non-Saudis to directly invest in the market, as well as reducing the nominal value of shares, which would allow splitting the shares of all listed companies in the market into five shares. Lastly, following the directives of the Custodian of the Two Holy Mosques, the Minister was instructed to urgently examine the proposed plans and take the necessary measures to implement them.

In response to these directives, the CMA Board released a statement on 20th March regarding the decision to allow non-Saudis to invest directly in the Saudi stock market. The statement indicated that the implementation of this decision would begin on 25th March and that coordination was underway with banks and other relevant authorities to complete the necessary technical arrangements before that date. The CMA also released guidelines for non-Saudis wishing to open investment portfolios before the implementation of the decision. The goal was to support market stability, expand the base of traders, increase their stock ownership opportunities, diversify investment portfolios, and utilise the liquidity of non-Saudis within the Kingdom. It was also hoped to attract a group of non-Saudis with investment expertise in their home countries and global capital markets.

13.3.3. Splits and Fluctuations

The Custodian of the Two Holy Mosques issued directives to reduce the nominal value of shares, allowing for stock splits. On 21st March, Their Excellencies Minister of Commerce and Industry and the Chairman of the CMA agreed to adjust the nominal value of shares in all listed joint-stock companies to SAR 10. On 27th March, after reviewing a technical report by Tadawul, the CMA issued a decision outlining the steps for implementing the adjustment in stages based on the number of shareholders in companies. The shares were to be split over four stages during April 2006.

The decision had a psychological impact on traders in the market, as it increased the number of traders. Individuals were able to own more shares for the same amount of money, and there were more opportunities to buy a larger number of shares in initial offerings. This was especially appealing to people with small amounts of money to invest. For listed companies, the decision made it possible for people with limited capital to buy blue chip shares rather than just buying “cheap” shares of potentially unprofitable companies. This increased the number of shares available for trading and made the market more balanced in both good and bad economic times. This was due to the larger market size and the fact that ownership was spread out among many traders, which reduced the ability of any one person to influence the performance of certain shares.

On the same day, the CMA issued a decision returning the daily fluctuation to 10% for all listed company shares and allow transactions to be made in single riyals for buy and sell orders starting on 1st April 2006. This decision was made due to the decrease in risks following the correction in stock prices and was in line with the decision to split shares, which made fluctuation more reasonable. On 12th May 2006, the Custodian of the Two Holy Mosques King Abdullah Bin Abdulaziz Al Saud issued a Royal Decree relieving His Excellency Jammaz Al-Suhaimi of his duties as Chairman of CMA and appointing Dr. Abdulrahman Abdulaziz Al-Tuwaijri, Chairman of the Supreme Economic Council, as his successor. The newly appointed Chairman stated that the CMA would continue to work towards improving the market and that restoring confidence in the market was a top priority.

Having recognised the role that websites and online forums played in misleading investors and deepening the capital market crisis, the CMA used its authority to launch investigations into individuals who provided unauthorised financial advice and recommendations online. Some of those individuals also charged fees for their recommendations, which were spread through text messages without authorisation from the CMA. As a result, the CMA decided to block several websites and forums and advised investors to carefully verify the legitimacy of financial advisors. The blocking of those websites and forums was carried out by a committee consisting of several government agencies, including the CMA, which carefully examined the violations of websites and issued its decisions and recommendations to the Communications and Information Technology Commission for implementation.

SAMA played a significant role during this period. At the time, investment funds were besieged by redemption requests from investors, which forced them to sell their units in a collapsing market. To relieve pressure on the market and funds, SAMA invested in the funds so that redemption requests could be met without further impacting the markets. Table 1 lists the decisions and announcements that coincided with the Saudi stock market crisis in February 2006, along with the value of the index on the day each decision, procedure, or announcement was made, and the percentage change in the index value between each decision, procedure, or announcement. The percentage changes ranged from positive, indicating an increase in the index value, to negative, indicating a decrease in the index value.

Key decisions, procedures, and announcements coinciding with the Saudi stock market crisis of February 2006.

Date	The statement, decision, or advertisement and its source	Close	The stock index's percentage change between advertisements	The stock index's percentage change from the end of 2005
1st January 2006	The enforcement of regulations governing consumer financing agreements provided by banks and related collateral agreements issued by the CMA.	16, 973.31	-	1.6%
2nd January 2006	The CMA announces CRSD's decision to fine three violators of the Capital Market Law a total of SAR 169 million and to ban them from working in listed companies or holding board membership for a period of three years.	17,165.66	1.1%	2.7%
23rd January 2006	The CMA issues a decision prohibiting listed companies from trading in shares of other joint-stock companies unless their Articles of Association (AoA) allow it.	18,384.30	2.1%	10.0%
24th January 2006	The CMA issues a decision to amend Articles 25 and 30 of the Listing Rules.	18,587. 6	1.1%	11.2%
4th February 2006	The decision to modify price units in the market to single denominations.	19,191.35	3.2%	14.8%
14th February 2006	The CMA announces expediting procedures for investigation and inquiry into the activities of several traders.	19,698.61	2.6%	17.9%

Date	The statement, decision, or advertisement and its source	Close	The stock index's percentage change between advertisements	The stock index's percentage change from the end of 2005
21st February 2006	The CMA announces suspending the investment accounts of a trader.	20,061.69	1.8%	20%
23rd February 2006	The CMA announces a reduction of the daily fluctuation rate from 10% to 5%.	20,624.84	2.8%	23.4%
23rd February 2006	The CMA announces suspending the investment accounts of a trader.	20,624.84	2.8%	23.4%
26th February 2006	The beginning of the decline of the general stock market index.	19,654.68	(4.7 %)	17.6%
1st March 2006	The CMA denies rumours about having pardoned certain violators.	19,251.57	(%2.1)	15.2%
11th March 2006	An announcement about imposing fines on two companies for not disclosing their financial statements during the required period.	17,261.60	(10.3%)	3.3%
14th March 2006	The Supreme Economic Council issues a statement on the sharp drop experienced in the market after a strong rise.	14,900.04	(13.7%)	(10.8%)
15th March 2006	A statement on the Minister of Finance's meeting with private sector representatives.	15,606.38	4.7%	(6.6%)
20th March 2006	The CMA issues a statement on allowing non-Saudi residents to invest directly in the Saudi stock market.	16,836.87	7.9%	0.7%
21st March 2006	The CMA issues a statement on reducing the nominal value of shares to allow for stock splits.	16,383.12	(2.7%)	(2.0%)

Date	The statement, decision, or advertisement and its source	Close	The stock index's percentage change between advertisements	The stock index's percentage change from the end of 2005
23rd March 2006	Releasing investment portfolio opening guidelines for non-Saudi residents.	15,895.11	(3.0%)	(4.9%)
25th March 2006	Start of the period when non-Saudi residents are allowed to invest directly in the Saudi stock market.	15,268.46	(3.9%)	(8.6%)
27th March 2006	The CMA announces suspending the investment accounts of two traders.	15,547.79	1.8%	(7.0%)
9th April 2006	The CMA announces suspending the investment accounts of two traders.	17, 557.02	12.9%	5.1%
12th May 2006	Royal Decree relieving Mr. Jammaz Al-Suhaimi from his duties as Chairman of CMA and appointing Dr. Abdulrahman Abdulaziz Al-Tuwaijri, Chairman of the Supreme Economic Council, as his successor.	10,046.83	(42.8%)	(39.9%)

01 Key decisions, procedures, and announcements coinciding with the Saudi stock market crisis in February 2006.

13.3.4. Domino Effect

The Saudi market was not the only one that faced a crisis. The Gulf markets also experienced simultaneous downturns coinciding with the Saudi stock market bubble due to the rise in oil prices, known as the Domino Effect. This theory, which emerged in the 1950s, suggests that whatever happens in one country can lead to a series of events in other countries, similar to dominoes: if the first domino falls, it triggers a series of consecutive knock-on effects leading to the collapse of the remaining dominoes.

The markets of the Gulf region were also affected by the crisis. For example, in Kuwait, the stock market index saw consecutive jumps, raising it to 12,000 points in 2005, roughly three times the levels it had maintained in 2003. However, it closed in December 2006 at nearly 10,000 points, a loss of about 13% since the beginning of the year. Similarly, in Qatar, the market value of listed companies on the Doha Securities Market fell from QR 317 billion in 2005 to QR 230 billion, a decline of 26.8%. The downturn began in the Dubai Financial Market, which reached its lowest levels in two years, followed by the rest of the Gulf stock exchanges. The Saudi, UAE, Kuwaiti, and Qatari stock exchanges all lost between 25-50% of their value.

Moreover, the performance of Gulf capital markets had a significant influence on other Arab markets, such as Egypt and Jordan. This was clearly demonstrated when Gulf investors sold large portions of their stocks in these markets to offset losses in the Gulf markets. It is worth noting that a significant number of foreign investments in the Egyptian Exchange were from Saudi investors who pulled their money out of the Egyptian market due to the Saudi stock market crisis in an attempt to recoup their losses in the home market, which had negatively affected the Egyptian market.

13.3.5. Lessons Learnt

It is often said that "a bull market can make a fool of us all". This is especially true during times of crisis, when it becomes difficult to accurately predict what will happen next. The rising prices of stocks were attractive to investors, leading to more speculation and the temptation to pour savings into buying stocks at inflated prices. Many factors contributed to the creation of this bubble, including improved economic conditions, the return of national money from abroad, increased government spending due to oil revenues, and increased liquidity. There were also factors related to banks, such as the expansion in lending and facilities for buying stocks. Additionally, there were factors related to individuals at play, such as the increasing interest in the stock market despite their potential lack of financial literacy. The media also played a role in misleading investors.

Several internal factors also contributed to this situation. These included the short period of existence of the CMA and the lack of a complete legislative and regulatory framework for the market. The market's underlying structure was also not equipped to handle the increasing volume of transactions, and there was weak supervision of stocks in the market at the time. Additionally, the Committees for the Resolution of Securities Disputes were still new and lacked the necessary rules, principles, and legal procedures to effectively carry out their work, especially since the decisions of these Committees are often based on past events and experience.

The modernisation of the trading system and the rapid adoption of technology led to the emergence of fraudulent practices. The use of instant settlement, which was not common in other markets, was also a factor that contributed to the inability to control the bubble. However, the CMA was not interested in reversing course in order to avoid harming the market. Additionally, individual investment was dominant and there were few institutional investors. The companies listed on the market were also unable to accommodate the large amount of liquidity. At the same time, the government owned many shares that were not offered to the public. All these factors contributed to the market's erratic behaviour, but they also highlighted the need to learn from experience.

13.3.6. Changes to Trading Sessions

In 2006, the CMA decided to change the trading period in the market to a single session from 10:00 a.m. to 3:30 p.m. from Saturday to Wednesday each week, starting on 28th October 2006. This decision was made after the CMA conducted a comprehensive study of trading times and surveyed investor preferences. Previously, the market had traded in two separate morning and evening shifts since 1992. The CMA determined that this arrangement was not suitable and did not align with international markets, particularly in light of the stock market crisis caused by the abuse of the existence of two trading sessions and the subsequent increase in speculation.

The first phase of founding the new capital market system began in 2004 with the introduction of the Capital Market Law, the creation of the CMA, the establishment of Committees for the Resolution of Securities Disputes, the development of regulations and basic rules for the market, and the transfer of brokerage activities from banks to authorised persons, as well as the regulation of companies and diversification of financial products. During this initial phase, the capital market moved from being overseen by various agencies to being managed by a single authority operating under the Capital Market Law. This phase ended with the 2006 crisis. The following phase, characterised by increased market regulation and oversight, will be discussed in the next chapters.

Part 4:

Part 4: The Capital Market: From Crisis to Success (2007-2016)

Chapter 14: Regulating Capital Market Institutions (2007-2016)

Chapter 15: Market Deepening and Diversification (2007-2016)

Chapter 16: Towards Capital Market Development

Chapter 14: Regulating Capital Market Institutions (2007-2016)

The enactment of the Capital Market Law served as the cornerstone of a strong Saudi market, which was further supported by the establishment of the CMA and the formation of its first Board. The CMA team worked diligently to set up the necessary legal, regulatory, and administrative frameworks, including training personnel and finalising the organisational structure. The Board then proceeded to draft and issue fundamental regulations, thus completing the foundational legislative aspect of a comprehensive capital market system. Over time, the system has evolved to meet changing circumstances and the CMA has focused on developing a system for resolving disputes and preventing fraud and manipulation in the capital market.

Since 2007, the capital market has taken active steps to further regulate and oversee market activities. These have included activating supervision and developing a system for resolving securities disputes. At the same time, the CMA recognised that its responsibility for enforcing the provisions of the Capital Market Law required comprehensive changes to the capital market system. To this end, a Council of Ministers' Resolution granted the CMA Board all powers of the board of directors of the Exchange until the board was formed. Consequently, the CMA became responsible for implementing the provisions of the Capital Market Law which stipulated the creation of a joint-stock company to manage the Exchange and transferring executive tasks to it, as well as transforming the Securities Depository Centre into a joint-stock company. In addition, this period witnessed technological advancements and other developments in market sectors and indices, and was marked by the enhancement of prudential rules for authorised persons and the promotion of communication with market institutions.

14.1. Activating the Role of Supervision

During the stock market crisis, one of the major challenges faced was the significant increase in trading volume amid relatively low investment awareness compared to foreign markets. To address this issue, the CMA established a unit to monitor forums and social media for violations such as providing paid investment advice. As a deterrent, the CMA started announcing the violations but without mentioning the names of violators, as long as no final judgements against them were issued.

However, after final judgments of conviction were given, the CMA Board considered two options for handling the announcement of violators' names. The first option was not to disclose the names to avoid publicly shaming individuals after they had been punished. The second option was to disclose the names as a deterrent to others and to promote transparency. The Board ultimately decided to adopt the second approach, which also protected the rights of investors who may have been harmed and wished to seek compensation.

On 13th December 2006, the name of one of the violators in a financial market case was announced for the first time following a final verdict of conviction by the dispute resolution committees. The violator was required to pay a total of SAR 88.61 million to the CMA in profits earned through violations of capital market regulations. In addition, the violator was fined SAR 2.4 million. This offender was one of the speculators who committed several violations leading up to the 2006 stock market crash. In October 2005, he purchased an 8.7% stake in a company, which some took as a sign of high demand for the company's stock. However, just three days later, he sold the stock at an inflated price. In addition, the CMA discovered that the violator had manipulated stock prices through fake offers on his own and affiliated portfolios. His case was ongoing for over a year until a verdict was reached, and his name was not announced until after the verdict was approved by the Appeal Committee for Resolution of Securities Disputes (ACRSD).

The CMA continued to announce the names of individuals and companies that had violated regulations, along with the dates and types of violations, such as manipulating financial statements or issuing misleading statements and announcements. Investors were able to claim compensation if they traded based on the misleading information announced by the violators. During this period, the CMA began monitoring violations related to providing recommendations through mobile phones and online sites, indicating a comprehensive and serious pursuit of offenders across all media. At the time, the monitoring work was manual and would begin after the market closed, and often continued until 4:00 a.m., lasting for several days due to the volume of trades. Moreover, the system relied on the identity numbers of traders without names, and the team would extract the identity numbers and contact the Securities Depository Centre to identify the violators' names. The violations ranged from stock manipulation to influencing the closing price.

On 17th November 2007, the CMA began implementing the market surveillance product "SMART" after signing an agreement with Nasdaq in 2005.

The system was designed to monitor and analyse trading activity and was modified to align with the specific requirements of the Saudi capital market after testing began in mid-2006. SMART includes various core components that allow users to access and review trading data in different ways, facilitating the detection of potential manipulation of securities. These components include the 'Almas' application for alert management and analysis; the 'Spread' application', which is used for the visualisation of trade data in real time; the 'Replay' application, which provides a detailed step-by-step replay of trade data; and the 'Metrics' application, which is used for the presentation and analysis of market data.

For instance, if an individual placed an order to purchase a large number of shares and cancelled it at a specific time prior to the market opening, the system would issue an alert with the person's identification number. The surveillance team would then investigate the alert by reviewing the individual's previous orders from the past six months or the past year. This was done to determine if the behaviour was normal, a result of input error, or a deliberate pattern of behaviour involving the same or different stock. If it was suspected that the behaviour violated the Market Conduct Regulations, the team would further investigate the matter. These procedures became routine and investors' behaviour is now monitored directly through graphical representations that highlight abnormal activity.

As manipulation tactics evolved, the CMA developed its surveillance and control strategies in parallel. The CMA made sure to implement all latest versions of the software and reviewed the criteria for alerts that the system sends annually to identify any new market practices. The CMA also maintained communication with the system provider for maintenance and updates.

14.2. Developing the Dispute Resolution System

Although Committees for the Resolution of Securities Disputes were only a recent development, they nonetheless dealt with several issues during the 2006 crisis and made decisions regarding violators. However, the number of claims was high and the issues were constantly changing, so the Committees had to deal with multiple challenges. Chairmen of the Committees also had administrative duties in addition to their judicial duties, which was a significant burden. To alleviate the challenges facing the Committees and increase efficiency, the idea of creating a secretariat for the Committees was proposed by the Committee for the Resolution of Securities Disputes (CRSD) and approved by the CMA Board. Consequently, the General Secretariat of Committees for Resolution of Securities Disputes (GS-CRSD) was established on 12th May 2008, with the Secretary-General taking on administrative responsibilities to allow the Chairmen of the Committees to focus on their judicial duties.

The Secretariat's work evolved in conjunction with the efforts of the Committees, and the Secretariat recruited qualified individuals with expertise in legal, financial, and accounting fields to provide technical and financial opinions on lawsuits handled by committee members. The Secretariat also provided training to the Committees on their tasks, including examining technical reports submitted by parties to claims, providing technical and legal analyses of violations, and preparing accounting reports on penalties imposed on violators.

At the same time, the CMA began preparing regulations to organise the work of the dispute resolution committees, drawing on various laws, particularly US law, as well as European countries with advanced capital market laws such as the UK. Moreover, CRSD contributed to the development of rules governing its work, whether by reviewing, adding, or removing certain articles to make them consistent with the nature of CRSD's work.

On 23rd January 2011, the CMA Board issued a decision to adopt the Regulating Procedures for Resolution of Securities Disputes (Document 77) in order to regulate the procedures for pleading and litigating before the Committee for the Resolution of Securities Disputes (CRSD) and the Appeal Committee for Resolution of


قرارات
١١

قرار مجلس هيئة السوق المالية رقم (١-٤-٢٠١١)
وتاريخ ١٤٣٢/٢/١٩هـ الموافق ٢٠١١/١/٢٣م

إن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ١٤٢٤/٦/٢هـ
يقرر ما يلي:
أ) اعتماد لائحة إجراءات الفصل في منازعات الأوراق المالية بالصيغة المرفقة.
ب) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية
الأستاذ مازن بن عبدالرزاق الرميح — الدكتور عبدالرحمن بن محمد البراك
نائب الرئيس الأستاذ عبدالرحمن بن محمد الراشد — الأستاذ محمد بن معتم الشمراني
رئيس مجلس هيئة السوق المالية الرئيس التنفيذي
عبدالرحمن بن عبدالعزيز التويجري

لائحة إجراءات الفصل في منازعات الأوراق المالية
صادرة عن مجلس هيئة السوق المالية بموجب القرار (١-٤-٢٠١١) وتاريخ ١٤٣٢/٢/١٩هـ الموافق ٢٠١١/١/٢٣م
بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم م/٣٠ وتاريخ ١٤٢٤/٦/٢هـ

77 The Adoption of the Regulating Procedures for Resolution of Securities Disputes.

Securities Disputes (ACRSD), thus ensuring the rights of all market participants. The Regulating Procedures include parts on filing and registering suits, service of process, committee hearings, appearance and absence of parties, forms of evidence, seeking expertise, and decision issuance.

The CMA continued to conduct proceedings before CRSD until the issuance of Royal Decree No. 4690 on 9th December 2013, which transferred the jurisdiction of the investigation and prosecution of criminal offences to the Bureau of Investigation and Public Prosecution. On 31st December 2014, it was agreed that the Bureau would take over the investigation and public prosecution of violations of Articles 29, 39, and 50 of the Capital Market Law, while the CMA would continue to represent or defend itself before CRSD in cases related to violations of laws and regulations under its jurisdiction.

One of the most notable lawsuits that the CMA took decisive action on was the crisis of Etihad Etisalat (Mobily), which resulted from accounting errors that caused the company to incur net losses of over SAR 1 billion in Q4 2014.

The crisis began on 21st March 2014 after Etihad Atheeb Telecom (GO) entered into an agreement with Etihad Etisalat (Mobily) allowing it to use 50,000 ports, but later terminated the agreement due to the unavailability of the agreed-upon ports for operation. Mobily subsequently announced that the financial impact of the termination of the agreement was SAR 338.7 million and would be deducted from its Q2 2014 results. Within a month of terminating the agreement, Mobily reported continued growth in profits, excluding the impact of the termination. Mobily did not inform the CMA or the public about the termination of the agreement in a timely manner. Moreover, it made a misleading announcement in regard to the financial impact resulting from the termination of the agreement. As a result, the CMA imposed a penalty of SAR 200,000 on Mobily in September of the same year.

Mobily was unable to announce its Q3 financial statements, citing significant changes in its financial statements. As a result, the CMA suspended the trading of Mobily's shares on the Saudi Stock Exchange (Tadawul), starting from 2nd November 2014 until the company announced its preliminary financial statements for Q3. Previously, the company's board of directors had appointed a financial review committee to determine the responsibility for accounting errors that led to the modification of the company's previous financial results. The board also recommended that the company shall not distribute any cash dividends for Q3 2014.

One day after suspending trading in its shares, Mobily announced its financial results, which showed a decline in the company's profits for the first time after modifying its financial statements. In response, the CMA lifted the suspension, while confirming that it would take the necessary steps to verify the extent of the company's violations of the Capital Market Law and its Implementing Regulations. The Q4 results of 2014, when the company announced them, included a loss of approximately SAR 2.2 billion. However, the company did not disclose the details of this loss. As a result, the CMA suspended trading in Mobily's shares once again.

In 2015, the company's financial results continued to show consecutive losses. In the first quarter of the year, the losses reached SAR 99 million, and in March 2015, the CMA commissioned a specialised team to audit the company's financial statements as a prelude to completing the necessary legal procedures. The audit team made several observations, which the company took into consideration and subsequently worked on reflecting the accurate financial results on the consolidated annual financial statements for 2014 and the financial statements of Q1 2015

In addition to violations related to financial statements, the CMA suspected potential violations of Article 49 of the Capital Market Law by certain individuals at Mobily, which may have led to the dissemination of false or misleading information about the value of the company's shares.

In the meantime, the company's chairman stepped down due to health issues, but remained a member of the board of directors. Accordingly, the Governor of the General Organization for Social Insurance was appointed as the new chairman of the board for the remainder of the term. After the Public Prosecution Office completed the investigations, a penal lawsuit was filed against several individuals before CRSD on 12th October 2017 for adjudication.

On 2nd September 2020, GS-CRSD announced a final decision by ACRSD convicting the individuals of violating paragraph (a) of Article 49 of the Capital Market Law. The defendants were found guilty of committing actions that gave a false or misleading impression of the value of Mobily's shares. It was proved that those individuals presented false and misleading data in the company's financial statements for Q2, Q3, and Q4 2013 and Q1, Q2, and Q3 2014, which led to inflated revenues in those statements.

14.3. The Saudi Stock Exchange: From an Electronic System to a Joint-Stock Company

The Capital Market Law stipulated the creation of the Saudi Stock Exchange as a joint-stock company to become the only entity authorised to carry out trading in securities in the Kingdom. In 2000, the Tadawul Electronic System (TES) was introduced, replacing the previously used Electronic Securities Information System (ESIS). Moreover, the TES predated the Capital Market Law and the CMA.
To separate the supervisory and oversight functions from the operational and technical aspects of securities business, and in line with the Capital Market Law, a committee was established comprising representatives from the CMA, SAMA, and the Ministry of Finance to establish a company called Tadawul. Work on the company's bylaws began in 2005, and on 19th March 2007, the Council of Ministers granted approval (Document 78) for the establishment of the Saudi Stock Exchange (Tadawul) as a joint-stock company with independent legal and financial liability for 99 years. This period can be extended by the decision of an Extraordinary General

العدد ٤١٤٤ في ٢٥ ربيع الأول ١٤٢٨هـ

أم القرى

صفحة رقم ١١

قرار مجلس الوزراء رقم (٧١) وتاريخ ١٤٢٨/٢/٢٩هـ

إن مجلس الوزراء

بعد الاطلاع على المعاملة الواردة من ديوان رئاسة مجلس الوزراء برقم ٤٣٧١/ب وتاريخ ١٤٢٨/١/٢٤هـ، المشتملة على خطاب معالي وزير التجارة والصناعة رقم ١٨٤/٢٢٢ وتاريخ ١٤٢٧/١٢/٢٧هـ، في شأن طلب الموافقة على الترخيص بتأسيس شركة السوق المالية – تداول – طبقاً لأحكام المادة (الثانية والخمسين) من نظام الشركات، واستثنائها من بعض أحكامه.

وبعد الاطلاع على نظام الشركات، الصادر بالمرسوم الملكي رقم (م/٦) وتاريخ ١٣٨٥/٣/٢٢هـ، وتعديلاته.

وبعد الاطلاع على نظام السوق المالية، الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ١٤٢٤/٦/٢هـ.

وبعد الاطلاع على النظام الأساس للشركة.

وبعد الاطلاع على المحضرين رقم (٤١٧) وتاريخ ١٤٢٧/١٠/٢٤هـ، ورقم (٥٦) وتاريخ ١٤٢٨/٢/١٣هـ، المعدين في هيئة الخبراء بمجلس الوزراء.

وبعد الاطلاع على توصية اللجنة العامة لمجلس الوزراء رقم (٨٢) وتاريخ ١٤٢٨/٢/٨هـ.

يقرر ما يلي:

١ – الموافقة على الترخيص بتأسيس شركة مساهمة سعودية باسم "شركة السوق المالية السعودية" (تداول) وفقاً لنظامها الأساس المرافق.

٢ – الموافقة على ما ورد في المواد (الخامسة، والسادسة، والسادسة عشرة، والثامنة والعشرين) من النظام الأساس للشركة.

وقد أعد مشروع مرسوم ملكي بذلك، صيغته مرافقة لهذا.

رئيس مجلس الوزراء

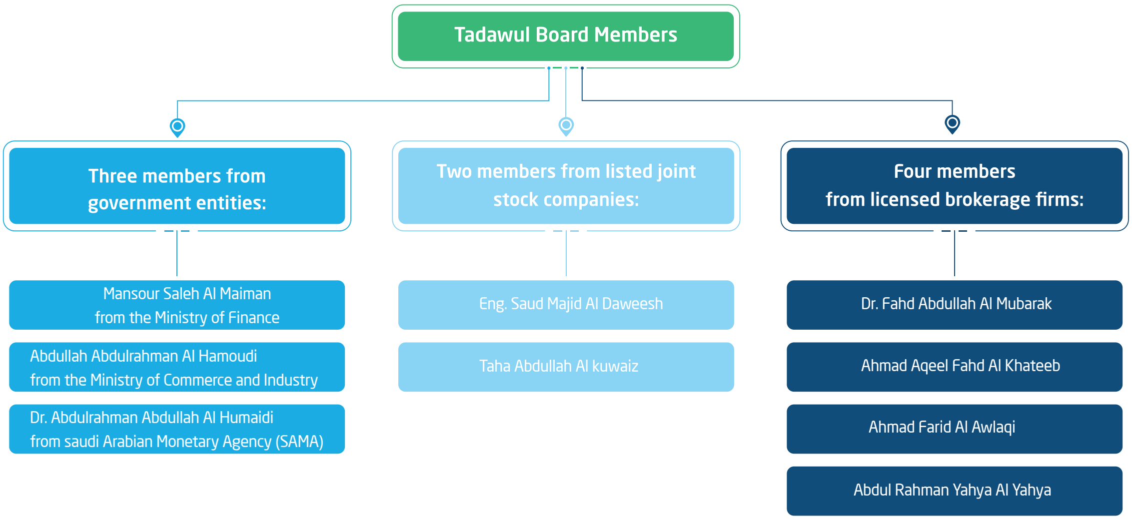
النظام الأساس لشركة السوق المالية السعودية (تداول)
(شركة مساهمة سعودية)

78 The Approval for the Establishment of the Saudi Stock Exchange (Tadawul).

Assembly (EGA) at least one year before its expiry. Following this, the assets and employees of the Saudi Shares Registration Company (SSRC) were transferred to Tadawul. Establishing Tadawul as a joint-stock company represented a significant and important step in the development of the capital market.

The bylaws set the company's capital at SAR 1.2 billion, divided into 120 million equal-value shares fully paid in cash by the Public Investment Fund. Moreover, the Extraordinary General Assembly (EGA) of the company was given the authority to decide on the date to offer a portion of the shares for public subscription. Additionally, the bylaws assigned the main responsibilities of the board of directors in accordance with the Capital Market Law, which include proposing regulations, instructions, standards of professional conduct, and disciplinary sanctions and procedures to ensure that authorised brokerage firms and market participants carry out their trading activities within a regulated environment.

According to the Capital Market Law, the board of directors of Tadawul is made up of nine members. These members are appointed by the Council of Ministers after being nominated by the Chairman of CMA. The members elect their own chairman and vice chairman. Moreover, the board of directors is composed of representatives from the Ministry of Finance, the Ministry of Commerce and Industry, and SAMA. Additionally, there are two representatives from publicly traded joint-stock companies and four representatives from authorised brokerage companies that are listed in the market. On 19th November 2007, the Council of Ministers approved the formation of the first board of directors for a term of three years[1].



28 Tadawul's First Board of Directors.

1 The Council of Ministers agreed, during its session held on Monday, 19th November 2007, to appoint nine members to the board of directors of the Saudi Stock Exchange (Tadawul) for a period of three years.

On 3rd December 2007, the board of directors of the Saudi Stock Exchange (Tadawul) held their first meeting and elected Dr. Fahad Abdullah Al-Mubarak as Chairman, Mr. Taha Alkuwaiz as Vice Chairman, and Mr. Abdullah Saleh Al-Suweilmy as CEO. The board of directors then began to carry out its duties, including approving the transfer of assets and personnel, as well as implementing developments to the organisational structure and income sources.

The Capital Market Law ensured a balanced representation on the company's board of directors by carefully selecting members who could effectively manage market performance and its developments. The board was composed of nine members from diverse backgrounds. The establishment of the Saudi Stock Exchange (Tadawul) was a significant milestone, not only in terms of timing but also in terms of its positive impact on the market and its participants. The decision to form the company was implemented in conjunction with various measures taken by the CMA to develop a comprehensive set of regulations for the Saudi capital market.

Furthermore, this decision clearly defined responsibilities and powers and divided them into legislative, regulatory, supervisory, and legal roles. Consequently, the CMA was responsible for legislative and supervisory functions, while the Saudi Stock Exchange (Tadawul) was assigned the executive and technical functions to manage the capital market through a diverse board of directors. Moreover, the decision outlined the role of the Saudi Stock Exchange in establishing and managing mechanisms for trading securities. This also included settlement and clearing activities, registering ownership, and other related matters. Additionally, Tadawul's main four objectives were: providing a fair and transparent listing process, setting professional standards for brokerage companies, providing sound and efficient procedures for securities clearing, and ensuring the strength and resilience of the financial positions of brokerage companies.

When it was first established, Tadawul faced some difficulties in terms of human and financial resources. To help address these challenges, the CMA took on some of Tadawul's roles and responsibilities, particularly in developing rules and policies related to listed companies. The CMA continued to carry out these responsibilities over time, but as Tadawul grew, the former Chairman of CMA, His Excellency Muhammad Abdul Malik Abdullah Al-Ash Shaikh, decided to take on the project of separating the functions and jurisdictions between the CMA and Tadawul. Therefore, the Supreme Joint Committee to Separate the Functions and Jurisdictions of

CMA and Tadawul was established in 2013. Mr. Abdul Rahman Muhammad Al-Rashed, Vice Chairman of CMA, was appointed as Chairman and the Committee's membership consisted of four individuals from the CMA and another four from Tadawul. The Committee was given the task of examining ways to separate functions and jurisdictions between the CMA and Tadawul, in accordance with the Capital Market Law and best international practices, and then submit its results and recommendations to the CMA.

14.4. SAXESS System

Early technological advancements were discussed in the second phase of the capital market's evolution. The Electronic Securities Information System (ESIS) was first implemented in 1990 and was the first generation of market systems. The second generation emerged with the introduction of the Tadawul Electronic System (TES) in 2001. As the CMA was established and the demand for daily trading operations increased, reaching 800,000 transactions, it became necessary to adopt the latest technologies to meet the evolving needs of the capital market.

As mentioned earlier, the TES was updated prior to the 2003 public offering of STC to handle the expected number of subscribers. However, the system encountered some challenges and obstacles, such as complaints from investors who subscribed but did not receive their shares because their names did not appear among the subscribers. These complaints were investigated by the Securities Depository Centre, which is responsible for maintaining records of share ownership. Upon investigation, it was discovered that some shares were mistakenly given to other people due to errors in the names or IDs provided on the paper-based subscription forms.

At that point in time, the information security company Elm had developed software to verify and match IDs with corresponding names. Tadawul took advantage of this service and entered STC's subscription data into the programme. Sure enough, many errors were discovered in the matching of names with IDs, and there were discrepancies with the information provided on the subscription forms.

This was a valuable learning experience for Tadawul, which decided to avoid similar problems with Mobily's public offering. However, due to time constraints, Tadawul had to implement a partial solution which involved loading the correct data onto the system, and reviewing the incorrect data with participating banks by comparing it with the paper-based subscription forms, which was a time-consuming process.

It was evident by then that it was time for old technological systems to be replaced with newer ones that could address these issues. Planning for this development project began as early as 2005. Before becoming a joint-stock company, Tadawul began working in collaboration with the CMA to facilitate communication with the Swedish company OMX. This joint effort resulted in a contract being signed with OMX in 2006 to design and implement new generation systems in stages.

The new systems brought new opportunities to accommodate the significant growth that the market has seen, both in terms of the number of listed companies (over 113) and the number of traders, trading volume, and number of daily trading transactions. They also provided solutions for a diverse range of investment tools and enabled the introduction of many CMA regulations. Additionally, the new systems were linked to brokerage companies, allowing them to enter and maintain all orders, as well as receive market information and daily news directly, which helped investors make well-informed decisions.

The newly developed system was named SAXESS, becoming the third generation of technological systems. The leading provider of the system remained OMX, but following its acquisition by Nasdaq, the company was named Nasdaq OMX, then simply Nasdaq.

When it was first established, and before the board of directors was formed in 2007, the Saudi Stock Exchange (Tadawul) had already finished all technical tests and experiments necessary to operate the new trading system. The results were promising, and the new system was operationalised as part of the Tadawul strategy which aimed at continuously updating and improving its technological systems to meet the increasing demands of the market.

Eventually, two years after beginning consultations with OMX, Tadawul successfully launched the new generation of SAXESS trading system on 20th October 2007. This was considered a relatively short period of time, as changes to market systems typically take longer given the complexity of the process, which involves multiple procedures, including designing primary requirements and ensuring system functionality, development, and testing. OMX, Tadawul's contracted provider, carried out thorough testing of the system to ensure that it functioned correctly and there were no glitches that could have negative impacts.

14.5. Developing Market Sectors and Indices

14.5.1. Developing Market Sectors

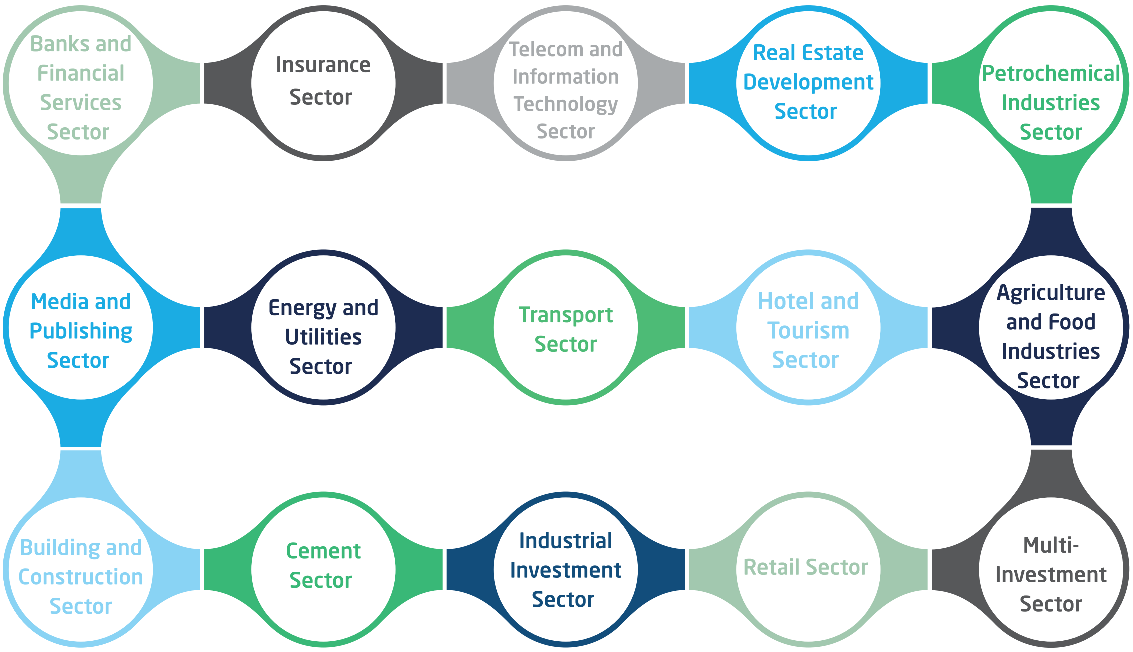
Following the successful implementation of the SAXESS trading system, attention in the capital market turned towards developing different sectors in light of the new system's advanced technological capabilities. The Saudi capital market sectors had remained unchanged for a long time since the formation of the Ministerial Committee and the Standing Supervisory Committee (SSC), despite an increase in the number and diversity of companies. During the years preceding the formation of the CMA, and in its early days, there were eight sectors in total: banking, industry, cement, services, electricity, communications, insurance, and agriculture.

As the number of listed companies and the diversity of their activities continued to increase, with expectations of future growth, there was a pressing need to reclassify market sectors based on the main activities of listed companies by examining their assets, income sources, and the extent to which they were involved in other sectors. Moreover, the pre-existing classification of market sectors and indices no longer met investor expectations.

Tadawul worked with the CMA to regulate and organise the capital market by creating a new classification for market sectors that gives a more transparent and clearer picture of the market performance. In 2006 and 2007, both entities studied and updated the new structure and its indices. Moreover, the CMA developed a plan to reclassify market sectors and improve their indices, which was presented to the public on 30th October 2007 to obtain feedback.

After considering feedback from the public, the CMA Board approved a new market sector classification and an index calculation methodology on 10th December 2007. Tadawul was assigned to implement the new classification. Since it was expected to maintain and review indices quarterly, Tadawul proposed implementing the new classification after the first quarter of 2008 to have enough time to collect, store, and recalculate the historical data of free float indices and make them available on its official website. Eventually, the new market sector classification and indices were implemented on 5th April 2008. Consequently, the number of sectors increased from eight to 15. Similarly, market indices increased from nine to 16 and were calculated based on free float shares only.

The CMA bases its classification of listed companies within any of the market sectors largely on the main activity of the company, along with several other factors. These factors include the utilisation of assets and the proportion of revenue generated by each activity compared to the company's total revenue. Figure 29 shows the division of sectors established in 2008.



29 The Market Sector Classification (2008).

14.5.2 Developing the Market Index

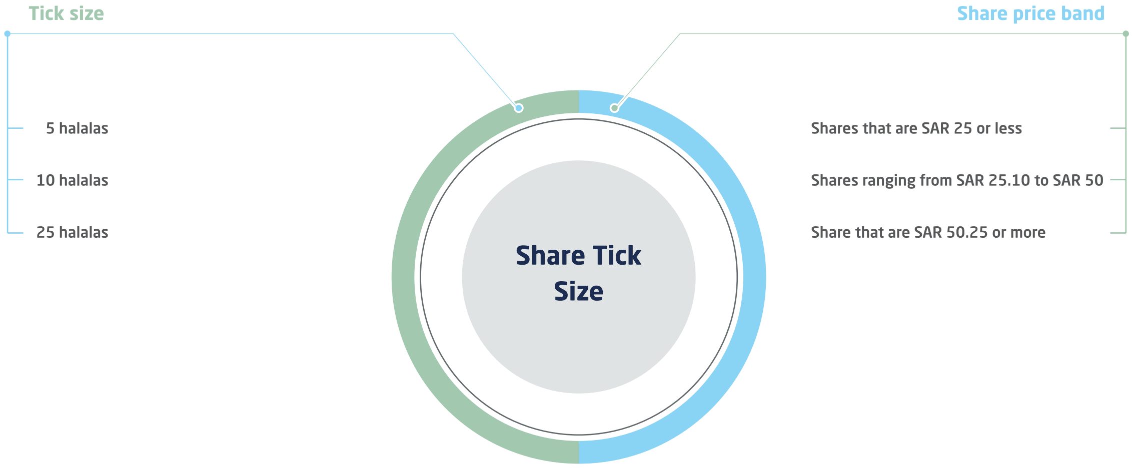
The CMA collaborated with Tadawul to update and improve the main market index (TASI) after successfully implementing the SAXESS trading system and adopting the new classification of market sectors. Previously, the calculation of the stock index was handled by the National Centre for Finance and Economic Information (NCFEI) of the Ministry of Finance, but in October 2001, the responsibility was transferred to the Tadawul Electronic System (TES), and the name of the index was changed from NCFEI to TASI. After its establishment, the Saudi Stock Exchange (Tadawul) became responsible for calculating the index, which was based on outstanding shares until 5th April 2008 when the new methodology was applied based on free float (available for trading) shares and announced on the Tadawul website.

The free float index calculation methodology includes securities available for trading on Tadawul. The following shares, considered to be non-free float, are excluded from all Tadawul indices calculations: 1) shares of a listed company in which a government entity has a 5% or more ownership; 2) restricted shares (shares that are not allowed to be traded during a period); 3) shares acquired through buy-back by a listed company; 4) shares owned by members of the board of directors; and 5) shares representing controlling ownership (30% or more).

Moreover, TASI is calculated by multiplying the index value of the previous day by the change in the free float market capitalisation of all index constituents as highlighted in the following formula:

Index = (Today's total free float market capitalisation / previous day total free float market capitalisation) x index value of the previous day.

In the same year, Tadawul implemented a new share tick size within three price bands (Figure 30) as of Saturday, 13th December 2008.



30 Tick Size.

On 16th August 2008, Tadawul published lists of major shareholders in listed companies on its website to enable investors to view the names of individuals and entities who hold at least a 5% stake in each company.

The decision to update the tick size was made to align with international capital market standards. The purpose was to maintain pace with the high trading volume and expanding number of listed companies, which would enhance the efficiency and quality of stock pricing and increase liquidity of traded shares without affecting the general or sectoral index values or the values of listed company shares.

The developments in the Saudi capital market during this period led to a great achievement on the international scene. On 6th October 2009, the General Assembly of the World Federation of Exchanges voted to approve the Saudi Stock Exchange (Tadawul) as a member after meeting the requirements for joining the organisation.

14.6. X-STREAM INET

The SAXESS trading system was used from 2007 onward. However, as the number of listed companies and trading volume increased, the system was unable to keep up with the heavier demand.

In late 2013, Tadawul addressed this issue by reaching an agreement with Nasdaq to update and upgrade its trading technology infrastructure, moving from the SAXESS system to the X-STREAM INET platform, which was to bring better features, as well as higher speed and capacity, to market operations. The agreement also included providing technical support for several years after implementation.

The collaboration between Tadawul and Nasdaq marked a new phase of development for the Saudi capital market, in line with Tadawul's strategic plan to enhance the market's technology infrastructure. By adopting the fastest trading engine in the world, Tadawul made a wise investment that would allow it to meet current and future demands.

At the time, Nasdaq's X-STREAM INET was a cutting-edge trading system known for its efficiency, speed, and accuracy in handling the trading of stocks, sukuk, bonds, and index funds. The system proved to be flexible and adaptive to market changes, allowing Tadawul to offer more advanced services and a wide range of assets to its clients through multiple platforms. Additionally, X-STREAM INET introduced increased capacity for processing orders at a higher rate.

Moreover, X-STREAM INET was equipped with an advanced infrastructure that could handle technical errors and issues. The system utilised the latest technologies to ensure the continuity and effectiveness of market operations. Furthermore, the system was being used in 58 markets to carry out operations of deposit, settlement, clearing, and registration of securities ownership.

On 10th September 2015, Tadawul announced the cancellation of any open orders (unfilled and working orders still in the market waiting to be executed) on the SAXESS system by the end of the session at 3:30 p.m. to prepare for the launch of the new X-STREAM INET trading system. After testing was completed, the new system was successfully connected to all market systems and market information service providers. The

X-STREAM INET was officially launched on 13th September 2015.

Placing and executing orders on X-STREAM INET was different from doing so on the previous SAXESS system. In the new system, the theoretical open price (TOP) was no longer announced. Instead, the best price was displayed on the market watch. However, the process of creating portfolios remained as it was in SAXESS, and no changes were made to market data except for the TOP during pre-trading sessions.

14.7. Online Trading

As previously mentioned, the advent of online trading predated the establishment of the CMA by a few years and continued to develop and expand thereafter. Banks competed to provide the service through smart device applications, while later on, some brokerage companies joined in the competition. Representatives of the CMA worked with authorised persons to allow investors to trade through digital channels such as the internet and mobile banking. The market enabled selling stocks through bank ATMs, particularly for allocated shares of initial public offerings. These steps enabled investors to keep track of their stocks and investment portfolios and execute trades from their mobile devices, tablets, or laptops.

Later on, the Saudi Stock Exchange (Tadawul) introduced the "My Watchlist" service, which allowed users to see the performance of selected companies listed on the Exchange, though it did not permit them to trade or view their investment portfolios.

30 A Trading Hall at a Bank Offering Electronic Trading Services in 2007.

In 2007, Tadawul launched the first release of a suite of services named "Tadawulaty." The new services enabled registered traders to consolidate diverse assets into one account statement, vote remotely, get notified about general assemblies, receive SMS messages about dividend distribution, and access ongoing evaluation of assets. Moreover, Tadawul made registration for these services available to everyone through authorised persons.

Tadawulaty is a suite of services offered by Tadawul in cooperation with its members. It contains a bundle of new financial services targeting investors and issuers. It aims to benefit the investment community within the Saudi capital market by providing value-added services to market participants. These services are intended to: 1) enable investors to exercise their voting rights, inquire about their dividend entitlements, and receive alerts and notifications on certain important events; 2) bridge the gap between listed companies and their shareholders, as well as enhance communication and information exchange amongst them; 3) provide a convenient and direct reporting mechanism through the Securities Depository Centre; and 4) offer an on-going process for validating and updating information maintained at Tadawul.

In 2011, Tadawul introduced a second set of “Tadawulaty” services, which enabled corporate mergers and acquisitions and offered other services such as publishing lists of uncollected dividends. Overall, the variety of services and trading channels helped to greatly improve and grow capital market investments.

14.8. The Securities Depository Centre (SDC)

In 2012, the responsibility for the management of the Securities Depository Centre (SDC) was transferred from the CMA to the Saudi Stock Exchange (Tadawul). The SDC continued to operate in accordance with the Capital Market Law. The Law gave the Board of Directors of Tadawul the power to issue necessary instructions for managing the SDC’s affairs after obtaining the approval of the CMA Board. On 29th April 2012, Tadawul issued the Securities Depository Centre Rules with the aim of regulating the SDC’s activities, including specifying the conditions and requirements for the SDC membership as well as the procedures for: 1) depositing securities 2) settling of transactions 3) registering of securities ownership restrictions, and (4) opening SDC accounts. Moreover, all persons dealing with the SDC were to be subject to the rules, including issuers, investors, and SDC members.

According to Chapter Four of the Capital Market Law, the Board of Directors of Tadawul was allowed to convert the SDC into a company following the CMA's approval. Eight years after the establishment of Tadawul, the CMA Board approved the founding of SDC as a joint-stock company in accordance with the Capital Market Law. As a result, the Securities Depository Centre Company was established on 10th October 2015, as a closed joint-stock company with a capital of SAR 400 million, divided into 40 million shares with a nominal value of SAR 10 per share.

The newly created Securities Depository Centre Company became responsible for issuing registration notices based on investor requests and allowed investors to digitise their physical share certificates by depositing their shares into their electronic portfolios.

14.9. Financial Prudence of Brokers

In 2005, the CMA began regulating and issuing authorisations for brokerage firms and authorised persons to carry out securities business. As a result, inspections of authorised persons became more robust. In 2008, the CMA and the Financial Industry Regulatory Authority (FINRA) collaborated to release the first inspection guide, which has since been updated to keep up with the evolving needs and regulations of the capital market.

To further institutionalise the work of authorised persons, the CMA developed a draft of Prudential Rules based on best practices and international standards, such as Basel 2 and 3[1]. The draft was published for public comments and feedback in April 2012. Furthermore, workshops were held to familiarise people with the draft rules. On 31st December 2012, the CMA Board approved the Prudential Rules, which established the capital requirements for authorised persons engaged in securities activities. The Prudential Rules went into effect in early 2013.

1 The Basel Accords are agreements developed by the Basel Committee on Banking Supervision (BCBS), which was established by central bank governors from the G10 countries in 1974. The purpose of the BCBS is to enhance the quality of banking supervision around the world. The Committee has issued guidance and standards for banking regulations, including international standards for capital adequacy in three iterations: Basel 1, 2, and 3.

14.10. Communicating with Market Institutions

During this period, communication with market institutions was a priority for the capital market. The CMA held numerous forums, meetings, and workshops with brokerage and listed companies with the aim of exchanging views and participating in shaping policies and strategies for market development. The ultimate purpose was to create an attractive investment environment that supports the national economy. At the same time, the CMA emphasised the importance of continuous communication with market institutions and the development of institutional work methods in the sector. To this end, the CMA formed joint committees to exchange experiences and discuss key issues and challenges facing the sector and to propose appropriate solutions, in addition to receiving proposals and initiatives related to the overall development of the capital market and relevant regulatory frameworks.

On 8th September 2013, the CMA approved a decision to establish and form the CMA Advisory Committee. The Committee included members from different backgrounds and expertise related to the capital market. The main purpose of the Advisory Committee was to strengthen communication between the CMA and market participants, and to provide recommendations to the CMA to enhance its role and work towards achieving its objectives in developing the market for the benefit of all market participants and investors. The CMA ensured that a diverse committee drawn from all aspects of society were represented, such as government, academia, listed companies, authorised persons, as well as investors and journalists.

The Advisory Committee's regulations specified that its members had a non-renewable two-year term. For its first term, the Committee was comprised of the following members: Sarah Al-Suhaimi, Dr. Sami Mohsen Baroum, Mr. Abdulsalam Abdul Rahman Al-Aqeel, Mr. Fahad Al-Saif, Lama Ghazzawi, His Excellency Mohammed Abdullah Al-Jadaan, and His Excellency Mohammed Abdullah Elkuwaiz.

Chapter 15: Market Deepening and Diversification (2007-2016)

During the period from 2007 to 2016, the Saudi capital market played a vital role in the country's economy, pumping the lifeblood of funding needed to develop different sectors. During this period, many initiatives were taken to develop the market, such as improving the efficiency of listing and offering procedures, developing merger and acquisition regulations, and enhancing disclosure systems. Additionally, the capital market witnessed an increase in the diversity of financial products, authorisation of credit rating agencies, and efforts to attract more foreign investments.

15.1. Joint-Stock Offerings and Listings

15.1.1. Companies' Public Offering of Shares

The book-building approach continued, and in 2007, around 40 investment institutions, such as investment funds, authorised persons, investment institutions, and semi-governmental institutions, participated in the book-building process for IPOs. The book-building process had been applied previously, but it wasn't until 18th August 2016 that the CMA Board issued the Instructions for Book-Building Process and Allocation Method in Initial Public Offerings, which went into effect on 1st January 2017. The purpose of this requirement was to enhance the share pricing mechanism and improve allocation standards. The instructions came to further regulate the existing book-building process.

The requirement allowed qualified foreign financial institutions to participate in book-building. According to the instructions, the book-building period must not exceed 14 calendar days, and the price range (the difference between the lowest price and the highest price) must not exceed 20% of the minimum price. Additionally, participating institutions are entitled to submit requests at prices outside the price range up to a maximum not exceeding 20% of the lowest price or the highest price. Lastly, participating institutions cannot submit a request with a value representing more than 5% of an issuer's outstanding shares.

On a similar note, family-owned companies were also encouraged to become listed on Tadawul. In September 2013, during a meeting of representatives of family-owned companies with CMA officials in Dammam, His Excellency Muhammad Abdul Malik Abdullah Al-Ash Shaikh, Chairman of CMA at the time, emphasised the importance of family-owned companies and the need for their continuity, stability, and expansion.

He also highlighted that the transition would require these companies to comply with regulations and guidelines related to the CMA and Tadawul, including governance and conflict of interest policies, as well as transparency and disclosure requirements. Furthermore, Al-Ash Shaikh pointed out that the transition to joint-stock companies would allow these companies to seek out financing at lower costs than when they were family-owned.

To further encourage the transition, Mr. Khalid Al-Rabiah, a member of the Board of Directors of Tadawul, highlighted during the meeting that while approximately 95% of companies registered in Saudi Arabia were family-owned, contributing around 50% of non-oil GDP and employing about 80% of the workforce, only 16 family businesses were listed on Tadawul out of 161 total companies as of 2013.

15.1.2. Regulating Mergers and Acquisitions

The Companies Law of 1965 allowed for a company, even while in the process of liquidation, to merge with another company. This was possible through the incorporation of one or more companies into an existing company or by merging two or more companies into a new company. The merger contract determines the conditions and the number of shares of the merged company that will be assigned to the capital of the merging company. Moreover, a merger is considered valid if a decision was made by all parties involved and was declared and implemented no less than 90 days after the declaration date, giving creditors of the merged company the opportunity to object to the merger. However, the law did not have specific and clear rules for the merger and acquisition of listed companies.

After its establishment, the CMA became the regulator of merger and acquisition operations of companies listed on Tadawul. This is in accordance with Chapter 9 of the Capital Market Law, which requires the approval of the CMA Board for merger and acquisition transactions related to listed companies. On 3rd October 2007, the CMA Board adopted the Merger and Acquisition Regulations, which became an important addition to the legislative and regulatory framework of the Saudi capital market (Document 79).


العدد ٤١٧٣ في ٢١ شوال ١٤٢٨هـ
أم القرى
صفحة رقم ١٥

قرار مجلس هيئة السوق المالية رقم ١-٥٠-٢٠٠٧
وتاريخ ١٤٢٨/٩/٢١هـ الموافق ٢٠٠٧/١٠/٣م

إن مجلس هيئة السوق المالية

بعد الاطلاع على مشروع لائحة الاندماج والاستحواذ.

وبناء على نظام السوق المالية الصادر بالمرسوم الملكي الكريم رقم م/٣٠ وتاريخ ١٤٢٤/٦/٢هـ.

يقرر مايلي:

(١) اعتماد لائحة الاندماج والاستحواذ بالصيغة المرفقة.

(٢) تنشر هذه اللائحة ويعمل بها من تاريخ نشرها.

مجلس هيئة السوق المالية

الدكتور / عبد الله بن حسن العبد القادر
الدكتور / عبد الرحمن بن عبد المحسن الخلف

الأستاذ / محمد بن مغلم الشمراني
نائب الرئيس الأستاذ / إبراهيم بن محمد الرميح

رئيس المجلس المكلف الدكتور / عبد الرحمن بن عبد العزيز التويجري

79 The CMA's Approval of Merger and Acquisition Regulations in 2007.

The regulations outlined the rules and procedures related to acquisition offers and announcements, including restrictions on dealings and disclosure requirements, the rules for mandatory and optional offers, the method of payment, compliance with Competitions Law, the contents and requirements of the offer document and the acquisition of related parties. Prior to the regulations, the CMA received and approved three merger and acquisition requests in 2006 and one in 2007. In 2009, the CMA approved a request for increasing the capital of Almarai company and its acquisition of 100% of the shares of Hail Agriculture Development Company through a stock swap ratio of 1:5 with an additional half a riyal for each share.

15.1.3. Promoting Disclosure and Transparency

During this period, the CMA ensured to monitor the accounts of listed companies and imposed fines on companies that failed to disclose their annual results within the specified deadline. As outlined in Article 26 of the Listing Rules, companies must provide the CMA with, and announce to their shareholders, their annual financial statements prepared and audited in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA), immediately after their approval and within a period not exceeding forty days from the end of the financial year covered by those statements.

On 22nd April 2012, the CMA announced that it would suspend trading of shares of listed companies that failed to disclose their financial statements within the required timeframe. On 19th May 2014, the CMA further announced that if a listed company's financial statement included a disclaimer of opinion or an adverse opinion from a certified public account, trading of the company's shares would be suspended until the situation was resolved.[1]

1 As of 1st April 2018, the responsibility for reviewing and approving company disclosures has been fully transferred from the CMA to the Saudi Stock Exchange (Tadawul). Tadawul is responsible for reviewing the disclosures after they are published and reporting any deficiencies to the CMA, as per the Listing Rules approved by the CMA Board on 27th December 2017 and amended on 30th September 2019.

15.1.4. Developing the Electronic Disclosure System (IFSAH)

From 2007 to 2016, the Saudi capital market witnessed technological developments that made the disclosure process easier and more efficient. In 2012, Tadawul started developing an electronic disclosure system named "IFSAH" using XBRL (extensible business reporting language). Listed companies were trained on how to use and benefit from the new system to increase transparency and efficiency in preparing, analysing, and publishing data. Additionally, educational and informative workshops were organised to help listed companies submit their financial statements before the system's implementation.

In 2013, Tadawul launched the pilot version of the disclosure system, allowing listed companies to prepare, present, and display announcements and financial statements in an interactive manner on Tadawul's website. The system is characterised by its flexibility and multiple usages through specified models and standard electronic tables that facilitate companies' disclosure and information dissemination. After the success of the trial and initial launch, Tadawul officially launched the disclosure system IFSAH on 8th June 2013.

In 2016, Tadawul upgraded the disclosure system and created a page for restriction periods and financial deadlines. Moreover, Tadawul announced a taxonomy upgrade in the system to comply with IFRS standards.

15.1.5. Companies Law of 2015

The rules for establishing and managing joint-stock companies and their public offerings were the same as those outlined in the Companies Law of 1965. Fifty years later, the Companies Law of 2015 was issued by Royal Decree M/3 on 10th November 2015 (Document 80). As a result, the Companies Law of 1965 was abrogated.

The new Companies Law assigned regulatory, supervisory, and oversight responsibilities for companies operating in the Kingdom to both the Ministry of Commerce and Industry (later the Ministry of Commerce) and the CMA. The Ministry of Commerce was made responsible for all companies except those listed on the Saudi Stock Exchange, which were under the CMA's control. Therefore, the CMA became responsible for issuing regulations, including those for mergers and acquisitions if one of the parties was a listed company on the Saudi Stock Exchange.

أم القرى UM AL-QURA قرارات وأنظمة 93 السنة

الجمعة ٢٢ صفر ١٤٣٧هـ ، ٤ ديسمبر ١٥ م
السنة ٩٣ ، العدد ٤٥٩٥

6

الموافقة على نظام الشركات بالصيغة المرافقة

مرسوم ملكي م /٣ وتاريخ ٢٨-١-١٤٣٧هـ

بعون الله تعالى

نحن سلمان بن عبدالعزيز آل سعود

ملك المملكة العربية السعودية

بناءً على المادة (السبعين) من النظام الأساسي للحكم ، الصادر بالأمر الملكي رقم (أ/٩٠) بتاريخ ٢٧-٨-١٤١٢هـ.

وبناءً على المادة (العشرين) من نظام مجلس الوزراء ، الصادر بالأمر الملكي رقم (أ/١٣) بتاريخ ٣-٣-١٤١٤هـ.

وبناءً على المادة (الثامنة عشرة) من نظام مجلس الشورى ، الصادر بالأمر الملكي رقم (أ/٩١) بتاريخ ٢٧-٨-١٤١٢هـ.

وبعد الاطلاع على قرار مجلس الشورى رقم (١٠-١٣) بتاريخ ١٥-٤-١٤٣٢هـ.

وبعد الاطلاع على قرار مجلس الوزراء رقم (٣٠) بتاريخ ٢٧-١-١٤٣٧هـ.

رسمنا بما هو آت:

أولاً: الموافقة على نظام الشركات ، بالصيغة المرافقة.

ثانياً: عدم خضوع الصناديق الاستثمارية والمنشآت ذات الأغراض الخاصة- المنظمة وفقاً لنظام السوق المالية، الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ ولوائحه - لأحكام نظام الشركات.

ثالثاً: على سمو نائب رئيس مجلس الوزراء والوزراء ورؤساء الأجهزة المعنية المستقلة - كل فيما يخصه - تنفيذ مرسومنا هذا.

سلمان بن عبدالعزيز آل سعود

80 Council of Ministers' Approval of the Companies Law in 2015.

Moreover, the new Companies Law exempted investment funds and special purpose entities organised under the Capital Market Law from being subject to its provisions. It also stipulated that the provisions would not interfere with the jurisdiction of the Committee for the Resolution of Securities Disputes (CRSD), and that disputes within their scope would be handled by the CMA, including proceedings and grievances arising from decisions and actions taken by the CMA in implementing the provisions.

Furthermore, the new Companies Law stipulated that "existing companies, when the law is effective, should amend their positions in accordance with its provisions in a period of time not exceeding one year starting from the effective date. The Ministry and the CMA Board, as an exception, shall determine in accordance with their competencies the provisions to which those companies shall be subject to during that period." Accordingly, coordination was made between the Ministry of Commerce and the CMA regarding the law's implementation. The coordination ended with signing of a memorandum of understanding between the two entities on implementing the Companies Law of 2015 on 25th February 2016, including provisions related to the regulation of dealing with the losses of listed companies. On 17th October 2016, the CMA Board issued a decision (Document 81) to approve the Regulatory Rules and Procedures Issued Pursuant to the Companies Law Relating to Listed Joint Stock Companies.

12 أم القرى | الجمعة ١٧ ربيع الأول ١٤٣٨هـ • ١٦ ديسمبر ٢٠١٦م | السنة ٩٤ • العدد ٤٦٤٩ | قرارات و أنظمة | UM AL-QURA | 94 السنة

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٨-١٢٧-٢٠١٦) وتاريخ ١٦-١-١٤٣٨هـ الموافق ١٧-١٠-٢٠١٦م

إن مجلس هيئة السوق المالية

وبناءً على نظام الشركات الصادر بالمرسوم الملكي رقم (م/٣) وتاريخ ٢٨-١-١٤٣٧هـ.

يقرر ما يلي:

(أ) اعتماد الضوابط والإجراءات التنظيمية الصادرة تنفيذاً لنظام الشركات والدليل الاسترشادي للضوابط والإجراءات التنظيمية الصادرة تنفيذاً لنظام الشركات وفق الصيغة المرافقة بعد معالجة الملاحظات التي أبداها المجلس عليها.

(ب) تفويض معالي رئيس مجلس الهيئة وسعادة عضو المجلس الأستاذ وائل بن محمد القحطاني بإجازة الصيغة النهائية للضوابط والإجراءات التنظيمية والدليل الاسترشادي قبل نشرها.

(ج) إعلان مضمون هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

(د) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

الدكتور عبدالرحمن بن محمد البراك — الدكتور طارق بن عبدالله النعيم

الأستاذ وائل بن محمد القحطاني — الأستاذ محمد بن عبدالله القويز

رئيس مجلس هيئة السوق المالية

محمد بن عبدالله الجدعان

الضوابط والإجراءات التنظيمية الصادرة تنفيذاً لنظام الشركات الخاصة بشركات المساهمة المدرجة

81 The Approval of the Regulatory Rules and Procedures Issued Pursuant to the Companies Law Relating to Listed Joint Stock Companies.

Previously, the CMA Board had approved the 'Procedures and Instructions Related to Listed Companies with Accumulated Losses amounting to 50% or More of their Share Capital', which were implemented on 1st July 2014. However, as the Companies Law of 2015 was issued, the CMA had to amend these procedures. Therefore, these companies were given a year to amend their positions in accordance with the new law. Moreover, on 31st October 2016, the CMA Board issued a decision to amend the name of the procedures to the 'Procedures and Instructions Related to Listed Companies with Accumulated Losses Amounting to 20% or More Share Capital', which came into force as of 22nd April 2017.

31 Classification of companies according to percentages of losses.

According to the new regulations, companies were required to announce any accumulated losses once they reached 20% or more of share capital. Symbols were displayed next to the names of listed companies on the Tadawul website to indicate the percentage of losses (Figure 31). Companies with accumulated losses were divided into three categories: first, companies with accumulated losses of 20% to 35% of share capital would be yellow-flagged; second, companies with accumulated losses of 35% to 50% of share capital would be orange-flagged; and third, companies with accumulated losses of more than 50% of share capital would be red-flagged.

15.2. Towards Diversified Financial Products

Sukuk and bonds were first issued in the early stages of the Saudi capital market. During the same period, real estate investment funds and related regulations were introduced, leading to more diversified financial products such as exchange traded funds (ETFs) and real estate investment traded funds (REITs).

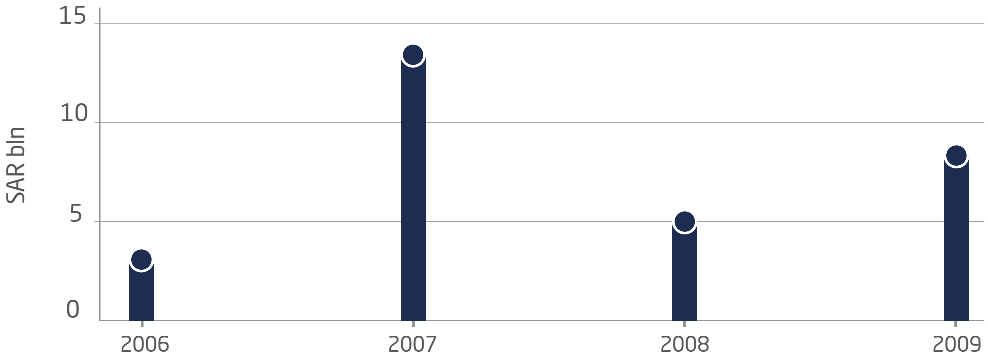
15.2.1. Amending Investment Funds Regulations

The Investment Funds Regulations remained in effect after they were issued in December 2006. After 10 years, the CMA saw the need to amend the regulations for more transparency and disclosure. The amended regulations were adopted in May 2016, which included several provisions to enhance transparency and protect the rights of individual fund investors. For example, the actions of fund managers in buying and selling were subject to the Market Conduct Regulations as any other trader in the market. Furthermore, the revised regulations classified the changes in the terms and conditions for public funds into three types: fundamental changes, significant changes, and notifiable changes.

15.2.2. Launching the Sukuk and Bonds Market

Sukuk and bonds were first offered in 2006 and continued to be offered thereafter. Figure 32 illustrates the growth of sukuk offering values between 2006 and 2009, with a total offering of SAR 28.7 billion. In 2007, offerings reached their highest value at SAR 13 billion. The next stage of development came after a study was conducted to consider creating an automated market for sukuk and bonds alongside the stock market. The CMA signed a contract with a specialised company to create a new sukuk and bonds market after developing a plan to avoid any obstacles, especially legislative snags, and further scale the market in the future.

Sukuk offering values (2006-2009) in SAR billion.



32 Sukuk Offering Values (2006-2009) in SAR Billion.

On

6th June 2009, the CMA Board approved the establishment of the new market for sukuk and bonds, which featured various automated services that could be provided by authorised persons. The services included listing sukuk and bonds, sending orders, executing transactions, settlement, publishing price data, and custody and registration.

The sukuk and bond market officially began operating on 13th June 2009. Following the launch, the Saudi Electricity Company issued sukuk for the second time in July 2009[1], with a value of SAR 7 billion. This brought the total size of sukuk issued to SAR 28 billion by the end of 2009. Authorised persons traded sukuk and bonds in the market through the same investment portfolios used for trading stocks. Trading took place from Saturday to Wednesday from 10:30 a.m. to 3:00 p.m. Orders for listed sukuk and bonds were accepted and executed during this period, and transactions were settled two business days after the execution date (T+2).

To increase transparency for market participants, Tadawul made available information about listed Sukuk and bonds and their prices via its website.

1 The Saudi Electricity Company made its first issuance of Sukuk for a value of SAR 5 billion in 2007.

In June 2011, Tadawul launched the Sukuk/Bonds Market Index, which included all listed sukuk and bonds in the market and was published on the Tadawul website. This price index did not include returns. Moreover, it had a base date of 11th June 2011, and a base value of 1,000 points. The quantity of sukuk and bonds was calculated based on their nominal value, not the number of units, and the price was calculated as a percentage of the nominal value.

As the new financing products of sukuk and bonds were being introduced in the Kingdom, the Capital Market Law was amended to include regulations for special purpose entities[1] involved in the issuance of these instruments. On 2nd July 2012, the late King Abdullah approved the addition of two sub-paragraphs to Article 5 of the Law[2]. Accordingly, the CMA became responsible for granting authorisations to special purpose entities as well as regulating and monitoring their operations and issuance of securities. This development set the stage for the CMA to authorise these entities in the next phase of the capital market development.

15.2.3. Exchange Traded Funds (ETFs)

Exchange traded funds (ETFs) first appeared in the late 1980s with the acceleration of financial innovation. They are investment funds that follow a specific index and consist of securities such as stocks and bonds that are traded on the capital market. ETFs have a lower cost of entry compared to open-end investment funds and can be traded at any time during trading sessions.

The first theoretical model for an ETF was proposed in 1960 by two students at the University of Chicago, namely Edward Renshaw and Paul Feldstein. The model did not initially gain traction but it inspired Wells Fargo Bank and National Bank of Chicago to create the first institutional stock index fund in 1973. John Bogle, the founder of Vanguard, created the first index fund for small investors in 1975, but it was met with criticism, with some describing it as “Bogle’s folly.” The first exchange traded funds (ETFs) were officially launched in Canada in 1993 by State Street Global Advisors in collaboration with the American Stock Exchange. These ETFs tracked the performance of the S&P 500 index. ETFs have grown rapidly in popularity since then, with the S&P 500 ETF remaining one of the most successful and heavily traded ETFs.
In 2008, the housing crisis in the United States led to significant losses for investors in real estate. As a result, officials recognised the benefits of investing in index funds as a cost-effective solution with a

1 Special purpose entities will be further described later.

2 Royal Decree M/52, Um Al-Qura newspaper, issue 4425 of 31st August 2012.

manageable level of risk. Warren Buffet, one of the most successful investors of all time, indicated that investing in ETFs can provide attractive returns with minimal effort. ETFs have gained popularity in recent years, with over 7,600 funds worldwide and assets valued at USD 7.7 trillion in 2020.

In Saudi Arabia, the stock market was not equipped for ETFs prior to the establishment of the CMA, but since then there has been increased interest in this type of investment. Nevertheless, there were no specific regulations for ETFs. Instead, they fell under the Investment Funds Regulations, which were first issued in 2006 and amended in 2016.

The regulations stated that investment in ETFs was only allowed in securities listed within a specific index and must be publicly available and represent a suitable and appropriate benchmark for the field they cover, with diverse and sufficient constituents. Moreover, the ETFs could only include securities that are traded in the market or any other capital market that meets similar standards and requirements. In the Saudi capital market, investment in exchange-traded funds is open to all classes, sectors, and nationalities of investors.

Locally, Falcom Financial Services was the first company to launch a passively managed ETF in Saudi Arabia, called "Falcom Saudi Equity ETF Fund", in March 2010. The ETF tracked the performance of the top 30 companies listed on Tadawul by market capitalisation. The ETF was based on the benchmark FALCOM F30 Index, which only included companies eligible for trading. Other ETFs were later launched, such as the Falcom Petrochemical ETF in July 2010 and the HSBC MSCI Tadawul 30 Saudi ETF in November 2011.

15.2.4. Real Estate Investment Traded Funds (REITs)

As previously mentioned, real estate investment funds gained ground in the Saudi capital market after replacing real estate contributions. Not long after, real estate investment traded funds (REITs) were introduced. REITs are companies that own and often manage income-generating properties such as residential units, warehouses, shopping centres, hotels, hospitals, and more. They provide a reliable source of income with stable returns and have become increasingly popular among investors looking to diversify their portfolios beyond stocks and bonds.

The creation of REITs can be traced back to the United States on 14th September 1960, when President

Dwight D. Eisenhower signed legislation introducing a new way to invest in income-generating real estate. REITs enabled individual investors to own shares in a diversified portfolio of real estate properties, similar to how they would own shares in other companies. The goal was to make it easier for investors to buy and trade a diverse range of real estate assets, combining the best features of real estate and stock-based investments. The first REIT, American Realty Trust, was founded by Thomas J. Barrack.

In 1999, S&P Dow Jones Indices and MSCI developed the Global Industry Classification Standard, which classified REITs as specialised assets. In 2001, the FTSE EPRA Nareit Global Real Estate Index Series was designed to represent the general trends in eligible real estate equities worldwide. It is a market capitalisation-weighted index with components screened on liquidity, size, and revenue.
In 2016, and after examining international markets and best practices, the CMA issued the Real Estate Investment Traded Funds Instructions. These instructions aimed to regulate the offering of REITs, which have the primary investment objective of investing in real estate developments that generate periodic income. According to the instructions, the minimum amount for a fund's establishment is SAR 500 million, with at least 75% of the fund's assets being invested in income-generating real estate developments. Additionally, the instructions mandate that at least 90% of the fund's net profits must be distributed to unitholders annually. The first REIT, named "Riyad REIT Fund" was launched by Riyad Capital, a subsidiary of Riyad Bank on 8th November 2016, becoming the first REIT to be listed on the Saudi Stock Exchange.


السنة 94 UM AL-QURA قـرارات و أنظـمـة

الجمعة ١٧ ربيع الأول ١٤٣٨هـ ، ١٦ ديسمبر ٢٠١٦م
السنة ٩٤ ، العدد ٤٦٤٩
أم القـرى 9

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٦-١٣٠-٢٠١٦) وتاريخ ٢٣-١-١٤٣٨هـ الموافق ٢٤-١٠-٢٠١٦م

إن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.
يقرر ما يلي:
(أ) اعتماد التعليمات الخاصة بصناديق الاستثمار العقارية المتداولة بعد معالجة ملاحظات المجلس الواردة عليها.
(ب) تفويض سعادة عضو المجلس الأستاذ وائل بن محمد القحطاني بإجازة الصيغة النهائية للتعليمات الخاصة بصناديق الاستثمار العقارية المتداولة، بعد معالجة ملاحظات المجلس المشار اليها في الفقرة (أ) من هذا القرار.
(ج) نشر التعليمات الخاصة بصناديق الاستثمار العقارية المتداولة على موقع الهيئة الإلكتروني.
(د) السماح للمستثمرين الأجانب غير المقيمين بتداول وحدات صناديق الاستثمار العقارية المتداولة في السوق المالية السعودية (تداول).
(هـ) الإعلان عن مضمون القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.
(و) تتولى وكالة الهيئة للشركات المدرجة والمنتجات الاستثمارية إبلاغ الأشخاص المرخص لهم بمضمون هذا القرار.
(ز) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ الفقرات (ج) و(د) و(هـ) من هذا القرار.

مجلس هيئة السوق المالية

الدكتور طارق بن عبدالله النعيم
نائب رئيس مجلس هيئة السوق المالية
الأستاذ محمد بن عبدالله القويز

الأستاذ وائل بن محمد القحطاني
رئيس مجلس هيئة السوق المالية
محمد بن عبدالله الجدعان

التعليمات الخاصة بصناديق الاستثمار العقارية المتداولة

82 The CMA Board Approves the Real Estate Investment Traded Funds Instructions.

15.2.5. Derivatives Trading

During this period, Tadawul established the Derivatives Exchange Trading and Membership rules and procedures, which are to be followed by members of the derivatives market and registered derivatives. These rules and procedures were adopted by the CMA Board in December 2016 to regulate this market, which was later launched on Tadawul.

15.3. Credit Rating Agencies

Even though the Capital Market Law granted the CMA the power to authorise credit rating agencies, this practice only began in the Kingdom in 2015. Generally, credit rating agencies assess the risk of debt issued by companies and governments. A high credit rating indicates that a government or company is financially stable and can repay its debt on time, which allows it to access loans with lower interest rates.

To explain the delay in adopting credit rating in the Saudi capital market, a brief historical review of this industry is needed. The credit rating industry emerged in the United States following a seven-year financial crisis that began in 1837. The crisis highlighted the need for credit rating agencies to evaluate the creditworthiness of merchants. The first commercial rating agency appeared in New York in 1841, created by Lewis Tappan. In the early 20th century, the expansion in building railway systems in the United States led to companies issuing bonds to finance the expansion. This required the establishment of specialised agencies to provide investors with financial information about the growing railway industry, and the demand for this information, especially independent analysis of bond creditworthiness, increased. John Moody was the first to issue creditworthiness indicators, by rating railway company bonds in the United States in 1909. Since then, credit rating activity has spread, and Moody's credit rating agency, founded by John Moody, began rating the sovereign debts of around 50 countries in 1929.

Poor's Publishing, Standard Statistics, and Fitch Publishing were established in 1916, 1922, and 1924 respectively. In 1941, Standard & Poor's agency was formed by the merger of Standard Statistics and Poor's Publishing. Since then, these agencies have dominated accounting for more than 90% of the credit rating market worldwide. In credit rating, various symbols are used to describe the creditworthiness of an issuer, typically ranging from AAA, the highest rating, to lower ratings such as AA, A, and BBB.

Credit rating agencies received significant criticism for their role in the 2007-2008 global financial crisis, particularly in the wake of the collapse of Lehman Brothers. They were accused of failing to predict the crisis and of assigning incorrect credit ratings to certain financial products and institutions, including Lehman Brothers. This led to investors buying high-risk real estate products, contributing to the development of a housing bubble that ultimately burst in the summer of 2007, causing widespread financial devastation. The collapse of Lehman Brothers, just two days after it received an AAA rating, “the highest level of creditworthiness”, prompted the US Securities and Exchange Commission (SEC) to conduct a comprehensive review of these false evaluations and to pass legislation to increase transparency and disclosure for credit rating agencies.

Moreover, many international organisations, such as the G20 and the European Parliament, have called for stricter regulations and increased transparency for these agencies. Organisations such as the Organization for Economic Co-operation and Development (OECD) and the Financial Stability Board (FSB) have also issued recommendations for improved disclosure in the work of credit rating agencies. As a result, these agencies have strengthened the criteria for credit rating. At the time, some of these agencies operating outside of Saudi Arabia would rate Saudi companies through offices in Dubai and London, without any oversight or adherence to Saudi standards.

Not long after, the CMA began drafting regulations for credit rating agencies, taking into account the recommendations of international organisations and focusing on the principles of transparency and disclosure. However, the requirements outlined in the draft regulations were difficult to meet, causing the agencies to hesitate to open offices in Saudi Arabia. The market size was still small and the requirements for opening offices were demanding, so it was better for them to continue operating abroad. This prompted the CMA to delay the release of the regulations for two years, and to continue to obtain feedback from agencies and review the requirements to make them more feasible.

On 10th November 2014, the CMA Board issued and adopted the Credit Rating Agencies Regulations, which stipulated that foreign credit rating agencies must establish a branch in the Kingdom, with a paid-up capital of at least SAR 2 million or three months' working capital (whichever is higher). The regulations were implemented in September 2015, in line with the CMA's Prudential Rules, which addressed the use of credit ratings to determine the risk weight of certain assets for the purpose of calculating minimum capital requirements for authorised persons.

In July 2015, the CMA granted three agencies, Standard & Poor's, Moody's, and Fitch Australia, authorisations to operate in the country.
However, as these foreign agencies monopolised the market, there was a desire to establish a local agency. In 2016, SIMAH became the country's first national credit rating agency.

15.4. Opening the Market to Foreign Investment

The journey of foreign investment in the Saudi capital market progressed in several stages. Starting in 1998, citizens of Gulf Cooperation Council (GCC) countries were allowed to own shares in companies, followed by allowing foreign investment in local stocks through investment funds in 1999. After its establishment, the CMA aimed to further open up the market to foreign investment in a phased approach. The CMA's vision was to ensure a successful and fruitful experience for foreign investors by completing the necessary regulatory framework. The CMA also conducted a study of international institutions on how to open the market to foreign investment in a phased manner, to avoid the negative impact of a sudden influx of "hot money" and to prevent speculative or adventurous investors from quickly withdrawing their money and damaging the market.

In March 2006, foreign residents were allowed to directly trade shares in the Saudi stock market, marking a step towards encouraging foreign investment and stimulating the national economy.

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الجمعة ١١ ربيع الأول ١٤٣٦هـ • ٢ يناير ٢٠١٥م
• السنة ٩٢ • العدد ٤٥٤٧ •
قـــــرارات وأنظمـــــة
UM AL-QURA
أم القـــرى

هيئة السوق المالية

قرار مجلس هيئة السوق المالية (٣-٥٨-٢٠١٤)
وتاريخ ١٧-١-١٤٣٦هـ الموافق ١٠-١١-٢٠١٤م

أن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية بالمرسوم الملكي الكريم رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.
يقرر ما يلي:
(أ) اعتماد لائحة وكالات التصنيف الائتماني بالصيغة المرافقة.
(ب) تنشر لائحة وكالات التصنيف الائتماني ويُعمل بها ابتداءً من تاريخ ١٧-١١-١٤٣٦هـ الموافق ١-٩-٢٠١٥م.
(ج) الموافقة على تعديل قائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها بالصيغة المرافقة.
(د) تنشر قائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها المعدلة ويُعمل بها من تاريخ نشرها.
(هـ) يعلن مضمون هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

مجلس هيئة السوق المالية

الدكتور عدنان بن عبدالفتاح صوفي
نائب الرئيس

الدكتور عبدالرحمن بن محمد البراك

الأستاذ عبدالرحمن بن محمد الراشد

رئيس مجلس هيئة السوق المالية
محمد بن عبدالملك آل الشيخ

لائحة وكالات التصنيف الائتماني

83 The CMA Board's Decision to Approve the Credit Rating Agencies Regulations.

15.4.1. GCC Investors

On 9th August 2006, the CMA Board issued a decision on regulating the trading of Tadawul-listed shares by GCC institutional investors, such as government investment institutions, authorised securities investment companies, pension funds, and investment funds. This was part of a broader initiative to increase integration between the capital markets of GCC member countries. Additionally, this was a step towards further opening up the market to foreign investment. On 9th December 2006, the Council of Ministers granted the CMA the power to make necessary arrangements that would allow GCC citizens to invest directly in companies listed on the Saudi Stock Exchange, in accordance with a previously issued resolution by the Supreme Council of the GCC (Document 84).

On 24th September 2007, the CMA Board announced that GCC citizens would be treated in the same manner as Saudi citizens in terms of owning and trading shares listed on the Saudi Stock Exchange. However, despite previous steps taken to open up the market to foreign and GCC investors, the attractiveness of the Saudi capital market as an investment destination was limited for these investors. As such, the next step was to open the market to non-resident foreign investors.


السنة ٨٤ العدد : ٤١٦٤
الجمعة ١٨ شعبان ١٤٢٨هـ
الموافق ٣١ أغسطس ٢٠٠٧م
الجريدة الرسمية للمملكة العربية السعودية.. تصدر بمكة المكرمة
أخي القارئ : إن هذه الصحيفة تحتوي على آيات قرآنية وأحاديث نبوية لذلك يجب المحافظة عليها واحترامها .
الثمن : ثلاثة ريالات سعودية

خادم الحرمين الشريفين يرأس جلسة مجلس الوزراء

مجلس الوزراء: يوافق على تأسيس شركة وطنية للشراء الموحد للأدوية والأجهزة والمستلزمات الطبية وتطبيق المساواة التامة بين مواطني دول مجلس التعاون الخليجي في مجال تملك الأسهم وتداولها السماح للخطوط السعودية بتحويل الوحدات الاستراتيجية المراد تخصيصها إلى شركات

وافق مجلس الوزراء على القرارات الاقتصادية الصادرة عن الدورة (السابعة والعشرين) للمجلس الأعلى لمجلس التعاون لدول الخليج العربية المنعقدة يومي ١٨ و ١٩ / ١١ / ١٤٢٧هـ الموافق ٩ و ١٠ / ١٢ / ٢٠٠٦م بمدينة الرياض وذلك على النحو التالي :

أولا . . إلغاء الفقرة (أ) من قرار مجلس الوزراء رقم (٤٩) وتاريخ ٢٥ / ٢ / ١٤٢٦هـ وتفويض هيئة السوق المالية باتخاذ ما يلزم لتنفيذ قرار المجلس الأعلى لمجلس التعاون لدول الخليج العربية في دورته (الثالثة والعشرين) الخاص بتطبيق المساواة التامة بين مواطني دول المجلس في مجال تملك الأسهم وتداولها .

84 The Council of Ministers' Resolution to approve Equal Opportunities for GCC Citizens in Investing in the Saudi Stock Exchange.

15.4.2. Swap Agreements

In 2008, a group of banks approached the CMA with the proposal of issuing securities that were linked to shares in the market but did not involve a change in ownership of the shares. This was based on the idea of transferring the economic benefits of Saudi shares to non-Saudi non-resident investors, who were not previously allowed to invest in the market. As a result, the CMA formed a team to develop instructions for stock swap agreements. On 20th August 2008, the CMA approved stock swaps for foreign non-resident individuals or financial institutions.

The instructions defined stock swap agreements as a type of financial derivative in which two parties agree to exchange cash flows based on a specified asset, such as stocks of a specific company, for a certain period of time. The cash flows may be based on the performance of stock, bonds, or other securities. These agreements allow foreign investors to gain the economic benefits of owning the stock of specific companies for a certain period of time, without actually owning the stock. In return, brokerage companies receive a financial compensation from the foreign investor, as per the terms of the stock swap agreement.

The adoption of stock swap agreements was positive. From the time the decision was made on 20th August 2008 to the end of 2015, there were a total of 43 such agreements. Allowing these agreements was a practical test of the practices of foreign investors in the Saudi market. As a result, foreign investors were able to get to know the Saudi capital market closely and their behaviour was understood in light of different local, regional, and global financial events, which also helped assess their impact on the market.

As many international institutions showed interest in investing in the Saudi capital market, the International Swaps and Derivatives Association (ISDA) swap agreements were concluded between operating branches in Riyadh and parent companies abroad. ISDA swap agreements are a type of derivative that comply with international standards and are recognised by ISDA. Moreover, these agreements have certain restrictions, such as a maximum investment limit of USD 300 million, thus there was a cap on the amount of money that could enter the Saudi capital market. Despite these limitations, the experience was positive in general.

15.4.3. Qualified Foreign Financial Institutions

Saudi Arabia's GDP growth rate was promising at 3.5% at the end of 2014, and as 2015 rolled in, the Saudi economy continued its positive trajectory.

The country also had a good credit rating according to international agencies. On 21st July 2014, the Council of Ministers authorised the CMA, at its own discretion, to allow foreign financial institutions to invest in listed securities (Document 85).


أم القرى
UM AL-QURA
www.uqn.gov.sa
THE OFFICIAL NEWSPAPER FOR THE GOVERNMENT OF KINGDOM OF SAUDI ARABIA - PUBLISHED IN MAKKAH

قرار رقم ٣٨٨ وتاريخ ١٤٣٥/٩/٢٤هـ

الموافقة على قيام هيئة السوق المالية وفقاً للتوقيت الملائم الذي تراه بفتح المجال للمؤسسات المالية الأجنبية لشراء وبيع الأسهم المدرجة في السوق المالية السعودية

85 The Council of Ministers' Resolution to Authorise the CMA to Allow Foreign Financial Institutions to Invest in Listed Securities.

In response to the Council of Ministers' Decision, the CMA Board approved opening the market to foreign financial institutions to buy and sell listed shares in the Saudi capital market on 4th May 2015. As a result, the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities were issued, allowing eligible foreign institutions to purchase listed shares directly starting from mid-June 2015 (Document 86), whereas previously they could only invest through "swap agreements".


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اعتماد ونشر القواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة

هيئة السوق المالية القواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأسهم المدرجة

86 The Approval of the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.

His Excellency Mohammed Abdullah Al-Jadaan, Chairman of CMA at the time, soon issued a statement that Saudi Arabia was the last of the major economies to allow foreign investors to have direct access to the capital market, and that with this decision, Saudi Arabia had become part of the global market.

As the move towards market liberalisation happened over several stages, the CMA Board passed a decision on 8th August 2016 to adopt the Updated Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, (Document 87), effective from 4th September 2016.

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قـرارات و أنظـمـة

الجمعة ٢٩ ذوالحجة ١٤٣٧هـ ، ٣٠ سبتمبر ٢٠١٦م
السنة ٩٤، العدد ٤٦٣٨

أم القـرى 7

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٣-١٠٤-٢٠١٦)
وتاريخ ٥-١١-١٤٣٧هـ الموافق ٨-٨-٢٠١٦م

إن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.
يقرر ما يلي:

(أ) اعتماد القواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأوراق المالية المدرجة المحدثة بالصيغة المرافقة.

(ب) تنشر القواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأوراق المالية المدرجة المحدثة المشار إليها في الفقرة (أ) من هذا القرار، ويعمل بها ابتداءً من تاريخ ٣-١٢-هـ الموافق ٤-٩-٢٠١٦م.

(ج) يستمر العمل بالقواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأسهم المدرجة الصادرة عن مجلس الهيئة بموجب قراره رقم (١-٤٢-٢٠١٥) وتاريخ ١٥-٧-١٤٣٦هـ الموافق ٤-٥-٢٠١٥م وذلك حتى تاريخ العمل بالقواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأوراق المالية المدرجة المحدثة المشار إليها في الفقرة (أ) من هذا القرار.

(د) يحق لعميل المستثمر الأجنبي المؤهل الموافق عليه التسجيل كمستثمر أجنبي مؤهل وذلك بتوقيعه على نموذج الإقرار بالصيغة المعتمدة من قبل الهيئة.

(هـ) يمنح عميل المستثمر الأجنبي المؤهل الموافق عليه مهلة حتى تاريخ ١-١١-٢٠١٦م، للتسجيل كمستثمر أجنبي مؤهل، ولا يخل ذلك بالتزامات ومسؤوليات المستثمر الأجنبي المؤهل المعني فيما يتعلق بذلك العميل خلال تلك المهلة.

(و) إعلان مضمون هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية(تداول) الإلكترونيين.

(ز) تتولى وكالة الهيئة للشركات المدرجة والمنتجات الاستثمارية إبلاغ الأشخاص المرخص لهم بمضمون هذا القرار.

(ح) تتولى وكالة الهيئة للشئون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

الدكتور نجم بن عبدالله الزيد — الأستاذ عبدالرحمن بن محمد الراشد

رئيس مجلس هيئة السوق المالية

محمد بن عبدالله الجدعان

القواعد المنظمة لاستثمار المؤسسات المالية الأجنبية المؤهلة في الأوراق المالية المدرجة

87 The Approval of the Updated Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.

The updated rules included a decrease in the minimum required value of assets managed, from SAR 18.75 billion to SAR 3.75 billion or more, and an expansion in the categories of qualified foreign financial institutions to include government funds, university endowments, and other entities approved by the CMA. Furthermore, each qualified financial institution was allowed to own a greater proportion of shares, provided that they did not exceed 10% or more of the shares of any issuer.

15.5. Investor Protection and Education

15.5.1. Investor Education

During the 2006 stock market crisis, many investors suffered losses and withdrew from the market, partly due to the lack of an effective mechanism for addressing complaints. In 2007, the CMA developed an automated system for tracking complaints and. in 2008, it released a booklet to educate investors on their rights and the proper process for filing complaints. The booklet, entitled “How to File a Complaint”, outlined steps and procedures as well as necessary conditions for completing complaint documents and the methods for submitting them. The booklet also included official complaint forms for investors to use as a reference.

As part of its initiative to protect investors, the CMA developed a call centre system, which was launched in 2012. The system was directly linked to the CMA's investor complaints department to ensure that inquiries and complaints from the public were received and that an excellent service was provided to them.

15.5.2. Educating Market Participants

The capital market encountered significant challenges due to a lack of investment knowledge and awareness. This was highlighted during the stock market crash. To address this issue, the CMA started working in 2006 to educate market participants by providing educational materials, such as brochures and publications. These materials covered topics such as the basics of investment, the role and objectives of the CMA, and strategies for protecting the rights of investors. The CMA made these materials available in both printed and electronic forms on their website and in trading halls throughout the Kingdom. These efforts by the CMA aimed to provide investors with the necessary knowledge to make informed and diligent investment decisions.

31 The Smart Investor Programme participates in the Global Money Week event.

32 Children hold an issue of The Smart Investor magazine which CMA published to enhance financial literacy among youngsters.

Since its establishment, the CMA has been launched various educational campaigns throughout the Kingdom to raise awareness among investors. These campaigns include workshops, and other forms of interactions. One of the educational programmes that the CMA launched is the community-based “Smart Investor” programme. The goal of this programme is to promote healthy financial transactions, particularly among children and youth aged 9-14, including primary and secondary school students, with the aim of building a financially-savvy generation.

As a result of this programme, the Child and Youth Finance International (CYFI) awarded the CMA as the best institute offering youth financial awareness in the Middle East and North Africa (MENA) in 2013 and 2014. The CMA’s programmes ranked among the best five countries worldwide providing awareness programmes.

Moreover, the CMA started providing training courses for finance and business journalists and media professionals in 2009. The goal was to ensure that they have the basic information about capital markets and that they develop their financial analysis skills. It also sought to keep them informed about local and global financial developments, which would positively impact how they perform their role, especially as some media outlets were found to have exacerbated the crisis by providing misleading information to investors.

15.6. Developing the Skills of Capital Market Participants

Since its early days, the CMA has been working on developing the skills and capacities of those employed in the financial sector.

To do so, it drew on the experiences of SAMA’s Banking Institute, which launched the first certification for raising professional standards for investment professionals, called “the Investment Fundamentals Certificate”. The CMA developed this certificate and a series of capital market certificates, supporting the development of employees of authorised persons, directly benefiting the sector and the Saudi economy in general.

15.6.1. Qualification Certificates

The CMA places a strong emphasis on ensuring that employees working in the capital market possess the necessary qualifications and skills to perform their duties effectively. To this end, the CMA established mandatory certification exams for those seeking employment with authorised persons. The CMA requires individuals interested in certain jobs, as outlined in Part Four of the Authorised Persons Regulations, to pass the General Securities Qualification Examination (CME-1), which covers securities rules, regulations, and operations.

On 2nd March 2008, the CMA instructed authorised persons to promptly register their employees who carry out registerable functions and to include them in the list of candidates for passing the General Securities Qualification Examination by coordinating with SAMA's Banking Institute.

In January 2012, the CMA introduced a series of qualification examinations, which were based on the best international and professional standards, related to topics such as compliance, anti-money laundering and counter-terrorism financing, stockbroking, asset management, and asset and portfolio management. Moreover, the CMA established its own centre to administer these examinations and qualifications.

15.6.2. Graduates Development Programme

The CMA initiated the Graduates Development Programme (GDP) to create job opportunities for Saudi graduates in the financial sector and boost the representation of Saudi nationals in the industry. The programme began in 2006 and initially focused on training and qualifying high-achieving recent bachelor's graduates with specialised knowledge and skills to work with the CMA and within the capital market. The programme was introduced to meet the needs of the capital market for qualified human resources and support its growth. It involves comprehensive training on legal and technical aspects of the capital market, including on-the-job training for authorised persons.

The programme has certain requirements that applicants must meet, namely: being fully available; being a Saudi national; obtaining a bachelor's degree, master's degree or higher; having a diploma that is recognised by the Ministry of Education; having a good academic record; and being under 27 years old if the applicant holds a bachelor's degree and 30 years old if they hold a master's degree. Additionally, the programme includes personal interviews and requires a minimum IELTS score of 5 or equivalent language proficiency test results.

In addition to meeting the previously mentioned requirements, applicants must also present their "General Aptitude Test" or "Post-Graduate General Aptitude Test" results accredited by the National Centre for Measurement, as well as write a brief summary about their goals and aspirations for joining the programme. The CMA provides financial compensation during the training programme, with a monthly salary range of SAR 7,500 to 10,200 , depending on the applicant's educational level. Other benefits include a paid annual leave of 21 days, social security, and medical insurance during the training period. Upon completion of the programme, a graduation ceremony is held for the trainees.

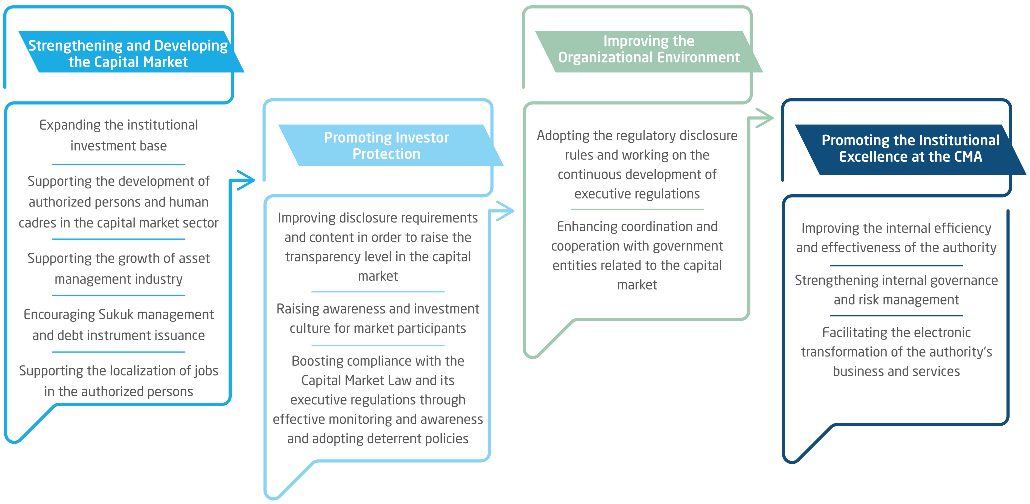
33 The Graduation Ceremony of the Fifth Cohort of the Graduate Development Programme.

Chapter 16: Towards Capital Market Development

From the beginning of this phase in early 2007 until 2014, the Saudi capital market witnessed several regulatory improvements accompanied by growth and product diversification. To maintain these gains and plan for future goals, the CMA introduced a market development strategy in 2015. One year later, the ambitious Saudi Vision 2030 was announced to mark the beginning of several programmes and initiatives, including the Financial Sector Development Programme (FSDP), which includes the Financial Leadership Programme (FLP) for the capital market.

16.1. Strategic Plan 2015-2019

In December 2014, the CMA Board approved the Strategic Plan for 2015-2019, which comprised four themes covering 13 objectives, to be achieved through 63 initiatives (Figure 33).



33 Themes of the Strategic Plan 2015-2019.

In 2015, the plan was reviewed by the Council of Economic and Development Affairs (CEDA), which approved its overall direction, objectives, and vision. An additional strategic objective of Deepening the Capital Market was added, as well as several strategic initiatives related to enhancing transparency and governance and increasing communication with investors. As a result, the plan had a total of 14 objectives and 69 initiatives. During the years 2015 and 2016, 63 initiatives were implemented, and the plan was later updated to align with the Saudi Vision 2030.

16.2. Saudi Vision 2030

In 2016, His Royal Highness Prince Mohammed bin Salman bin Abdulaziz, Crown Prince, Prime Minister, and Chairman of the Council of Economic and Development Affairs announced Saudi Arabia's vision for the future, a vision that expresses the country's long-term goals and expectations and reflects its strengths and capabilities. Saudi Vision 2030 is based on three pillars: a vibrant society with strong roots, fulfilling lives, and strong foundations; a thriving economy with rewarding opportunities, investing for the long-term, open for business, and leveraging its unique position; and an ambitious nation that is effectively governed and responsibly enabled.

Saudi Vision 2030 includes a wide range of economic, social, and development programmes aimed at preparing Saudi Arabia for a post-oil era. The Vision was endorsed by the Council of Ministers on 25th April 2016 (Document 88).


ملحق خاص مع العدد
للإعلانات الحكومية للمرة الثانية

أم القرى
UM AL-QURA

المملكة ٢٠٣٠م.. مجتمع حيوي واقتصاد مزدهر ووطن طموح
7-2

برئاسة خادم الحرمين الشريفين
مجلس الوزراء يوافق على رؤية المملكة العربية السعودية ٢٠٣٠

88 News of the Council of Ministers' Endorsement of Vision 2030.

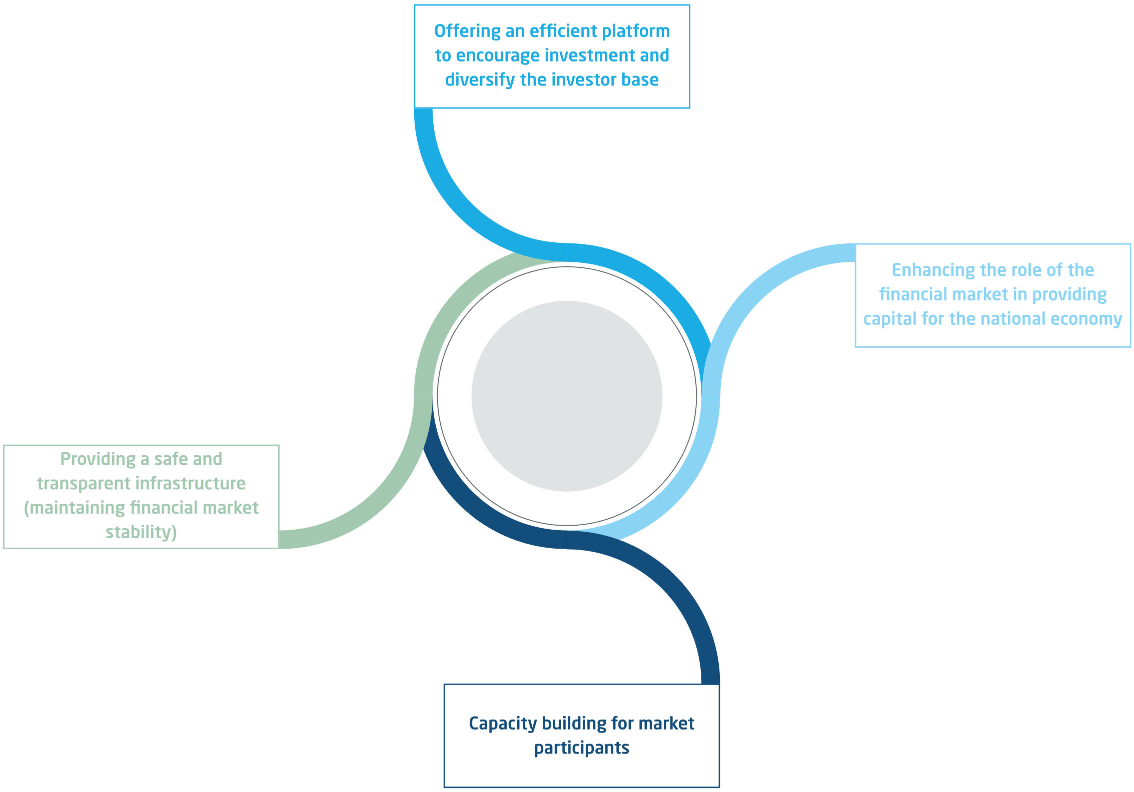
16.3. Financial Sector Development Programme (FSDP)

In April 2017, CEDA launched several Vision Realisation Programmes (VRP). The most prominent of these programmes is the Financial Sector Development Programme (FSDP), which aims to create a diversified and effective financial services sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finance, and investment. The FSDP will achieve this by enabling financial institutions to support private sector growth, ensuring the formation of an advanced capital market, and promoting and enabling financial planning, without impeding the strategic objectives intended to maintain the financial services sector's stability. In short, the strategic pillars of the FSDP are: 1) enabling financial institutions to support private sector growth 2) ensuring the formation of an advanced capital market, and 3) promoting and enabling financial planning.

CEDA directed the Ministry of Finance to establish the FSDP in cooperation with competent agencies in the sector, most notably the CMA and SAMA. Soon after, both entities began developing a detailed action plan, objectives, initiatives, timelines, and measures to address challenges and risks. Moreover, the CMA played a key role in setting the objectives of the FSDP—especially in relation to forming an advanced capital market—by drawing on its experience in developing its own strategies and initiatives.

Furthermore, the second strategic pillar of forming an advanced capital market comprises four objectives (Figure 34). The first is enhancing the role of the financial market in providing financing sources for the national economy to diversify sources of funding for the government and private sector by further growing and deepening liquidity of the equity and debt capital markets, as well as encouraging the planned privatisation of state-owned entities through IPOs on the Saudi Stock Exchange.

The second objective is offering an efficient platform to encourage investment and diversify the investor base by promoting institutional investment, attracting foreign investors to bring capital into the economy, and establishing co-trading linkage with developed markets, which could provide foreign investors with access to the Saudi capital market. The third objective is providing a safe and transparent infrastructure as well as maintaining financial market stability by further digitising the process of opening investment accounts to enhance the investor experience, while improving security informatics to ensure infrastructure stability and safety. Lastly, the fourth objective is capacity-building for market participants by establishing a financial sector academy covering all sub-sectors to improve local skills and capabilities, as well as considering the establishment of a regulatory entity to supervise the audit offices of listed companies to ensure compliance with the highest standards of disclosures and transparency.



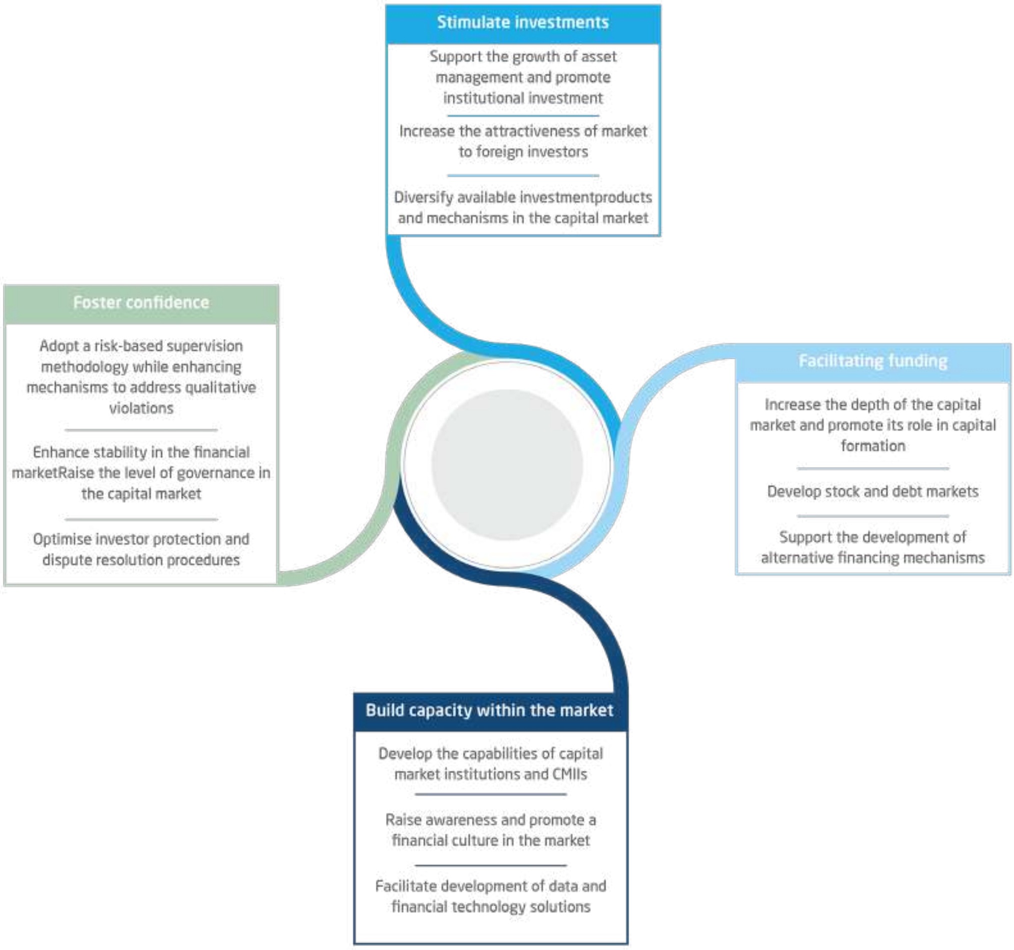
34 Objectives of Developing an Advanced Financial Market according to the FSDP.

16.4. FLP

The CMA launched a strategic plan for the capital market called the Financial Leadership Programme 2019-2021 as an initiative of Vision 2030's Financial Sector Development Programme (FSDP). The Programme aims to make the Saudi capital market the leading market in the Middle East for funding and investment seekers by attracting foreign investors, either through the primary market or direct trading, and increasing the rate of foreign investment in market capitalisation to over 15%. Furthermore, the programme aspires to enhance market depth and attract more start-ups through a parallel market with a significant number of companies and an efficient primary market with an efficient listing process, with the goal of increasing the number of listed companies in the primary and parallel market to 250 by 2021.

The programme aspires to include the Saudi market as part of international indices of emerging markets in order to increase liquidity rates and meet the objectives of capital market participants. The programme seeks to increase the volume of funds invested through managed channels, increasing the value of managed assets to SAR 600 billion, either via funds, portfolios, or other innovative financial instruments including private equity funds, venture capital, and fintech. In addition, targeted initiatives were developed to foster investor confidence in the capital market by reducing volatility, enhancing stability, protecting and compensating victims of unlawful or unjust actions, and imposing deterrent penalties on Capital Market Law violators.

FLP is based on four themes and includes 16 strategic objectives to be achieved through 172 initiatives (Figure 35).



35 Themes of the Financial Leadership Programme.

To achieve the objectives, the CMA developed a governance framework with a clear methodology to measure performance and evaluate progress. The governance framework is based on several assumptions which could contribute to realising the aspired goals.

Unlike the Strategic Plan of 2015, which relied on accumulated expertise in following five-year development plans and carrying out the responsibilities assigned under the Capital Market Law, the Financial Leadership Programme is based on the nationwide Vision 2030. Additionally, FLP is part of interrelated initiatives in which other entities are involved, such as the Ministry of Commerce, SAMA, and the Ministries of Finance and Housing. The CMA is working directly on some of these initiatives, and indirectly with other entities and the work goes smoothly and in harmony with the said entities.

In conclusion, the current focus has expanded beyond the capital market and its participants to include the development of the private sector to boost its contribution to GDP, which involves creating a more advanced capital market that encompasses all capital market pillars comprising stock market, sukuk and bonds market and participating institutions in the market.

Part 5:

Part 5: A Future-Ready Capital Market (2017-2020)

Chapter 17: Legislative and Regulatory Developments

Chapter 18: Investment Diversification and Stimulation

Chapter 19: Investor Protection and Capacity-Building

Chapter 20: Accession to International Indices

Chapter 21: Saudi Aramco's IPO and Listing

Chapter 17: Legislative and Regulatory Developments

The Saudi capital market has faced many challenges and overcame many obstacles in the past, achieving a good level of regulation and control. Based on the objectives of Saudi Vision 2030, the market is preparing for the future, focusing on legislative and regulatory development, which includes amending the legislative framework of the market, developing market sectors and trading, settlement, and clearing systems, and modifying rules related to authorised persons and auditors.

17.1. Amending the Capital Market Law

The Capital Market Law has been in place since 2003 without any major changes. However, a minor amendment was made in 2012, which assigned the CMA the task of granting authorisations for special purpose entities. In line with the passing of the Law of Commercial Pledge, which excluded traded securities from being subject to its provisions, a limited amendment to the Capital Market Law was made on 23rd April 2018 to assign the CMA the responsibility of regulating pledged securities. As a result, a sub-paragraph numbered 9 was added to paragraph A of Article 5, which addresses the CMA's responsibilities. The added sub-paragraph stipulates "Regulating the pledge of securities and its enforcement".

In light of Saudi Vision 2030 and the launch of the Financial Leadership Programme (FLP), it was necessary to amend the Capital Market Law to enhance the CMA's role in protecting investors and promoting the development of capital market institutions. In doing so, international best practices and regulations were taken into consideration, including the recommendations made by the IMF's Financial Sector Assessment Programme in 2011. Moreover, the CMA strove to increase compliance with international standards set by the International Organization of Securities Commissions (IOSCO) and took into consideration the views of market participants before amendments were proposed.
In 2016, following the announcement of Saudi Vision 2030, work began on proposing amendments to the Capital Market Law.

The Law amendment process included identifying obstacles and challenges and seeking feedback from relevant authorities such as Committees for the Resolution of Securities Disputes, Tadawul, and the Securities Depository Centre. A final draft of the proposed amendments to the Capital Market Law was prepared and presented to CEDA. After consideration of CEDA's comments, the draft amendments were published for public

consultation before being presented to King Salman - the custodian of the two holy mosques -. The proposed amendments were intended to benefit investors, issuers, authorised persons, and foreign investors. Figure 36 illustrates the main aspects that were intended to be addressed by the amendments.

36 Main Aspects to be Addressed by the Amendments to the Capital Market Law.

The draft included 25 amendments, which were reviewed and approved by competent authorities, followed by CEDA's recommendation 47-5/40/D to adopt them on 14th May 2019. The Shura Council, on 25th June 2019, approved the draft amendments—during its 49th ordinary session of the third year of the seventh term—after reviewing the report of the Council's Financial and Economic Affairs Committee. The draft was then presented to the Royal Court. On 17th September 2019, the Council of Ministers approved the draft amendments during a session chaired by King Salman Bin Abdulaziz, followed by a Royal Decree approving the adoption of the amended Capital Market Law[1] (Document 89).


6 أم القرى UM AL-QURA قرارات و أنظمة 97

قرار رقم (٥٢) وتاريخ ١٨-١-١٤٤١هـ

تعديل نظام السوق المالية الصادر
بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ

رئيس مجلس الوزراء

مرسوم ملكي رقم (م/١٦) وتاريخ ١٩-١-١٤٤١هـ

سلمان بن عبدالعزيز آل سعود

تعديل نظام السوق المالية

89 Announcing the Amendment of the Capital Market Law.

The amendments made changes to the titles of certain chapters of the law, including renaming Chapter 3 from "The Capital Market" to "The Exchange, the Depository Centre, and the Clearing Centre," Chapter 4 to "The Committee for the Resolution of Securities Disputes (CRSD) and the Appeal Committee for the

1 Royal Decree M/16 issued on 18th September 2019, which was published in Um Al-Qura newspaper in issue No. 479, stipulated amending the Capital Market Law which was issued by Royal Decree M/30 on 3rd July 2003. This included amending the titles of certain sections, amending the definition of "The Exchange" and "The Depository Centre" in Article 1, amending sub-paragraphs 14,9,8 and adding sub-paragraphs 22,21,20 to paragraph A of Article 6, adding sub-paragraph 6 to paragraph B of Article 13, amending Article 20, adding Article 20 Bis, amending Articles 21, 22, 23, 25, 27, 28, 29, 30, 31, 33, 34, 35, amending paragraph E of Article 55, and amending Articles 58, 59, 60, 61, 62, 63, 64.

Resolution of Securities Disputes (ACRSD)", and Chapter 5 from "Regulation of Broker" to "Brokers and Members Regulation". The titles of the remaining chapters remained unchanged. Figure 37 highlights the main amendments to the Capital Market Law.

37 Main Amendments to the Capital Market Law.

These amendments served as the legislative basis of capital market developments during this phase. The following sections will address major regulatory changes since 2017.

17.2. Reclassifying Market Industries

Having a stable market classification and indices is crucial as it is uncommon for a capital market to frequently reshape and reclassify its sectors. The current classification method has been considered sufficient from 2008, but as the economy in the Kingdom has developed, new industries have appeared in both public and private sectors. Therefore, it was necessary to adapt to these changes by reclassifying the sectors of listed companies on Tadawul.

In 2017, Tadawul announced the adoption of the Global Industry Classification Standard (GICS), a widely recognised worldwide standard for industry classification. GICS was developed jointly by Standard and Poor's (S&P) and Morgan Stanley Capital International (MSCI), which are leading global companies providing independent financial data, indices, and benchmark-related products and services.

The new industry classification consisted of 20 sectors (industry groups), representing Level 2 under the GICS's hierarchical classification system, and closely aligned a company's business activities and sources of revenues to its sector classification. On 7th January 2017, Tadawul adopted the new sector indices at 5,000 basis points, thus facilitating industry comparisons, and calculated their historical data for the previous year and made it available on Tadawul's website. The following day, Tadawul published its percentage changes and ceased to calculate previous industry indices as of 8th January 2017.

17.3. Developing Trading Mechanisms and Regulations

During this phase, Tadawul worked on regulating trading and membership procedures for registered traders. As a result, a new set of procedures and regulations has been issued (Table 2).

Key Trading Rules and Regulations

Date	Regulations	Purpose
15th March 2017 Amended: 22nd February 2021	Securities Borrowing and Lending Regula-tions	Regulating the borrowing and lend-ing of securities in the Kingdom
	Short Selling Regulations	Regulating the short selling of securitiess in the Kingdom
23rd March 2017 Amended: 1st April 2018 26th January 2021	The Exchange and Cen-tre Procedures	Specifying the Exchange and the Centre procedures that must be followed to comply with the provisions of relevant Exchange Rules, which include the following: 1- The amended Securities Depository Centre Rules 2- The amended Trading Procedures 3- Orders Aggregation Accounts Regulations 4- The amended Glossary of Defined Terms used in the Exchange Rules
30th July 2018 Amended: 6th May 2019	Trading and Member-ship Rules	Regulating Exchange membership and access to the trading system; the registration of registered trad-ers; the disclosure of information by Exchange members; and trading listed securities by Exchange mem-bers.
30th January 2019	Procedures of Sus-pending the Trading of Listed Securities	Determining the mechanism to deal with the centre accounts and the securities deposited therein when the custody member ceases or in-tends to cease his activities and terminate his connection with the Depository and Settlement System.
1st October 2019	Derivatives Exchange Trading and Member-ship Rules	Specifying the derivatives exchange trading and membership proce-dures that derivatives exchange members and derivatives exchange registered traders must follow in relation to listed derivatives prod-ucts.
9th December 2019	Derivatives Exchange Trading and Member-ship Procedures	

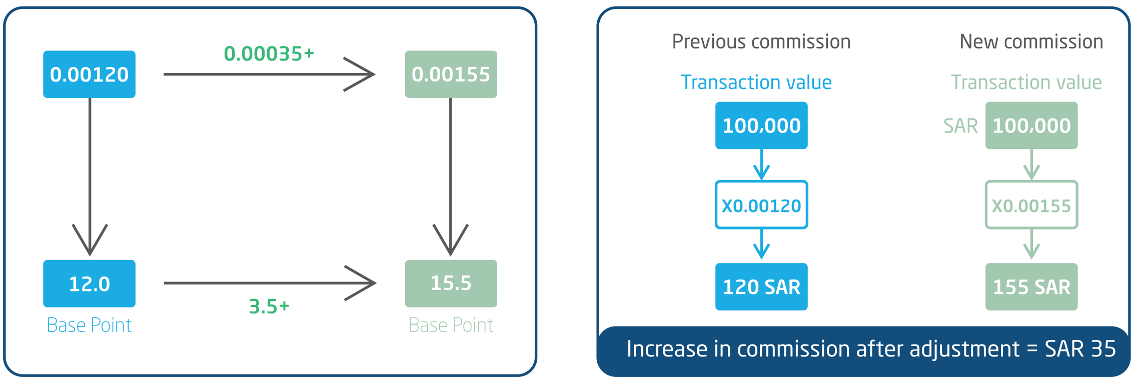
02 Key trading rules and regulations.

These regulations also included the following decisions to further develop the capital market:

- Approving the introduction of securities lending and covering short-selling.
- Allowing partial settlements on a daily basis to reduce the number of accounts in a failed chain.
- Developing the Independent Custody Service to enable institutional investors—locally and globally—to have access to better trading limits.
- Introducing a new optional service for asset managers to aggregate all orders of managed assets (discretionary portfolios and investment funds) under a single comprehensive order.
- Regulating trading and membership in the derivatives market, which was launched on 30th August 2020.
- On 7th May 2018, Tadawul moved from a Volume Weighted Average Price (VWAP) to an auction method for determining closing prices. The aim was to identify a fair closing price, based on demand and supply, when executing orders through the Tadawul system.

On Sunday, 17th July 2016, the CMA amended the share purchase and sales commission paid by sellers and buyers by increasing it from 12 base points (the equivalent of SAR 12) to 15.5 (SAR 15.5) for every SAR 10,000 of transaction value. At the same time, the minimum limit of commission for any executed order in the Exchange being equivalent to or less than SAR 10,000 was cancelled.

Example of the percentage change in commission



38 The Amendment of Share Purchase and Sale Commission.

Furthermore, the CMA Board issued a resolution to allocate part of the commission generated from share trading to support a permanent national programme that aims to raise awareness and spread the culture of investment among all traders and capital market stakeholders.

17.4. Developing Clearing and Settlement

17.4.1. Securities Settlement

Prior to establishing the CMA, the settlement period for securities transactions was changed from three business days (T+3) to one business day (T+1) in January 1992. With the implementation of the new Tadawul Electronic System (TES) in 2001, the settlement period was further shortened to real-time (T+0) and remained so until 2017. On 23rd April 2017, the settlement period was once again extended to two business days (T+2).

The reason for these changes is attributed to prevailing market conditions. The goal of reducing the settlement period from (T+3) to (T+1) and then to (T+0) was to increase market liquidity by allowing investors to buy and sell immediately, which, of course, required updating trading systems. Twenty years ago, the main objective was establishing and growing the capital market, and real-time settlement was the best way to do so. This development greatly served the capital market and has been one of the reasons for the increase in the size and liquidity of the market. The settlement period of T+0 was maintained when the capital market was largely closed to foreign investors.

As the Saudi market began to open up to the global economy, the Kingdom aimed to align its market and regulatory systems with international standards, which included a shift to a T+2 settlement cycle. This was particularly important to increase the possibility of the Saudi market being included in emerging market indices.

The settlement of securities refers to the process of transferring securities from a seller's portfolio to a buyer's portfolio, whereas cash settlements refer to the process of transferring the value of securities for executed transactions from the buyer's investment account to the seller's investment account, through Exchange members.

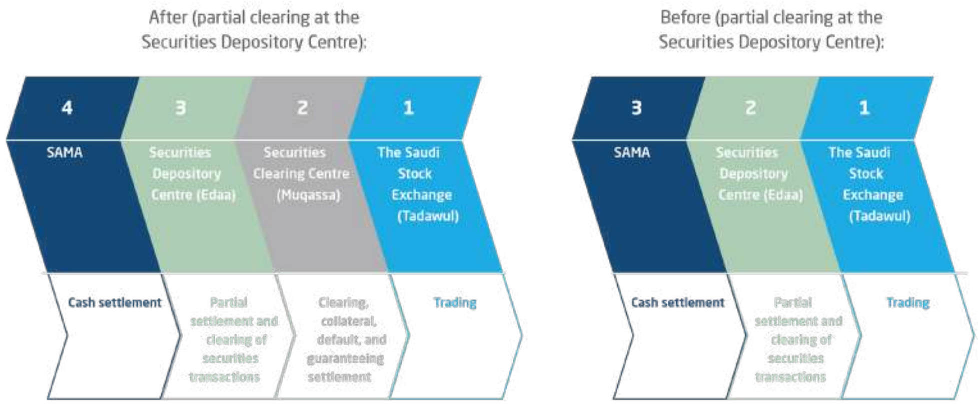
The T+2 settlement cycle has multiple benefits, such as increasing the protection of investors' assets, verifying the accuracy of the transaction and addressing any errors that may be present, and promoting a favourable investment environment that encourages institutional investment while taking into account future changes. Additionally, it is considered a crucial step towards cooperation and integration with other markets, both regionally and globally.

The change in the settlement cycle does not affect investors' behaviour in relation to stock trading and purchasing power. A buyer can sell securities immediately after the transaction is executed, without having to wait for the completion of the security settlement. Sellers can also gain purchasing power, allowing them to buy new securities immediately after the sale transaction is completed, without having to wait for the cash settlement to be completed.

17.4.2. Securities Clearing

The Securities Depository Centre continued to handle the deposit, transfer, settlement, clearing, and registration of traded securities. However, the clearing process was partially carried out partially by the centre. Clearing is a process that follows the trading of securities and includes determining the rights and obligations of each party in the transaction before the settlement process to minimise the risk of default.

On 2nd May 2018, the Saudi Stock Exchange (Tadawul) announced the establishment of a subsidiary company, the Securities Clearing Centre Company "Muqassa", with a capital of SAR 600 million. Muqassa was established to develop future clearing services in line with international risk management best practices. Muqassa began its clearing operations on 30th August 2020 in the derivatives market and was soon to provide its services in relation to other securities. Figure 39 shows a comparison of clearing operations before and after the establishment of Muqassa.



39 Clearing Operations before and after Establishing Muqassa.

The amendments to the Capital Market Law following Royal Decree M/16 established the regulatory framework for the Securities Clearing Centre to support capital market infrastructure institutions. In accordance with the amended law, the CMA, SAMA, and the Saudi Stock Exchange (Tadawul) began implementing the necessary regulatory procedures to enable Muqassa to begin its operations.

On 18th November 2019, the CMA Board issued a decision to approve the Securities Central Counterparties Regulations, which aimed to regulate the securities clearing activities in the Kingdom and specify the procedures and conditions for obtaining an authorisation to carry out such activities. The following year, on 12th January 2020, the CMA Board issued a decision to authorise the Securities Clearing Centre Company (Muqassa) to provide securities clearing services in the Kingdom and designate it as a Qualified Central Counterparty.

16 أم القـــرى UM AL-QURA قـرارات وأنظـمـة

السنة ٩٨ العدد ٤٨١٥

قرار مجلس هيئة السوق المالية رقم (٣-١٢٧-٢٠١٩)
وتاريخ ٢١-٠٣-١٤٤١هـ الموافق ١٨-١١-٢٠١٩م

مجلس هيئة السوق المالية

عضو مجلس هيئة السوق المالية
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يوسف بن حمد البليهد

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محمد بن عبدالله القويز

لائحة مراكز مقاصة الأوراق المالية

قرار مجلس هيئة السوق المالية

90 The Approval of the Securities Central Counterparties Regulations.

On 9th December 2019, the CMA Board approved the Securities Clearing Centre Rules, which aims to regulate the following: 1) clearing membership and access of clearing members to the clearing house 2) the disclosure of information by clearing members to the clearing house 3) the consequences of a default by the clearing house or any of its members, and 4) the relationship between clients and clearing members, and their rights and obligations under the clearing documentation. On the same day, the CMA Board also approved the Clearing Procedures, which specified derivatives clearing procedures that clearing members must follow before the derivatives market was launched, to comply with provisions of the Securities Clearing Centre Rules.

The development of clearing and settlement also involved technology upgrades. To that end, Tadawul signed an agreement to transform its post-trade technology infrastructure, which includes registry, depository and risk management technologies. The new technology replaced Tadawul's former X-STREAM INET system, which was implemented in 2001. Furthermore, the new central counterparty clearing solution enabled both Tadawul and market participants to introduce new asset classes to the market and offer new services to the investors in compliance with international best practices and standards.

17.5. From Authorised Persons to Capital Market Institutions

After establishing regulations for securities brokerage activities during the initial phase and developing prudential rules for authorised persons in the second, the current phase has seen several related developments. On 18th September 2017, the Authorised Persons Regulations and the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market were amended. Glossary amendments included changes to the definitions and descriptions of several terms, such as "sophisticated investor", "professional investor", "institution", and "compliance officer".

As for the Authorised Persons Regulations, the minimum paid-up capital requirements were set at SAR 50 million for dealing and custody, SAR 20 million for managing investments and operating funds, SAR 5 million for managing private non-real-estate investment funds and sophisticated investor portfolios, SAR 2 million for arranging, and SAR 400 thousand for advising. The amendments also stipulated that the value of assets under management by an authorised person shall not exceed SAR 1 billion if their activity is limited to managing private non-real-estate investment funds or managing sophisticated investor portfolios.

On 12th August 2020, the CMA Board issued a decision amending the Securities Business Regulations, Authorised Persons Regulations, and Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, in addition to amending the name of "Authorised Persons Regulations" to "Capital Market Institutions Regulations", effective as of 1st November 2020. The amendments included developing the scope of arranging and advising activities and the types of authorisations for dealing and managing activities; developing and facilitating the requirements for authorisation to carry out securities business, commencement of business, and capital requirements; developing the requirements for registrable functions, conduct of business, system, and controls and client money and assets; and developing the requirements for client's understanding of risk, and the requirements for client suitability, including the provisions related to client classifications and Know Your Client.

17.6. Adopting International Accounting and Auditing Standards

The CMA had always required listed companies and market institutions to appoint certified public accountants who would provide the CMA and market with independent annual reports. However, as a response to the G20's call to implement high-quality, internationally recognised accounting standards, the CMA took measures to support listed companies in adopting the International Financial Reporting Standards (IFRS), which were previously endorsed by the Saudi Organization for Certified Public Accountants (SOCPA) in 2012. To that end, a high-level steering committee was formed. The committee consisted of the Secretary-General of SOCPA, Chairmen and Vice Chairmen of the Accounting and Auditing Standards Committees, as well as representatives of the Ministry of Finance, the CMA, and SAMA.

As a result, SOCPA's board of directors decided to implement International Financial Reporting Standards (IFRS). The implementation was to be reflected on the financial statements of listed companies starting 1st January 2017. Moreover, the adoption plan identified several CMA-supervised entities that were required to apply IFRS in full, such as companies in the process of listing, companies which had debt instruments traded on the Saudi Stock Exchange, and other financial institutions such as investment funds. As for smaller entities, they were required to adopt the IFRS for Small and Medium-sized Entities (SMEs).

The new standards were more comprehensive, covering transactions and events that affect a company's financial position and results. They also included topics and industries not addressed by the previous standards, such as employee benefits, separate financial statements, real estate investments, agriculture, and mining. Additionally, the IFRS include more comprehensive coverage of certain areas, such as requiring a periodic audit of depreciation rates and the residual value of machines and equipment, as well as providing detailed investment disclosures.

One of the key features of IFRS is their emphasis on fair value accounting, which allows for the revaluation of fixed assets and investment properties based on their fair market value. Fair value is defined as the price that would be received on sale of an asset or payment to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The IFRS were to be applied in their entirety, and this adoption would ensure improving the quality and effectiveness of the audit profession.

17.7. Rules for Registering Auditors

In 2018, a major change occurred in relation to the auditing of companies' accounts, as auditors were required to register with the CMA and to publish annual reports for transparency. On 19th December 2018, the CMA Board adopted the Rules for Registering Auditors of Entities Subject to the Authority's Supervision, such as listed companies, investment funds, and Tadawul. The rules also required accounting firms and certified public accountants to be registered with the CMA prior to being appointed to take on audit engagements with those entities.

Furthermore, to register with the CMA, an accounting firm must: 1) be licensed to practise the profession of account auditing in accordance with the Law of the Profession of Accounting and Auditing 2) not have a

12 أمّ القـــرى UM AL-QURA قـــرارات و أنظـمــة
الجمعة ١٩ جمادى الأولى ١٤٤٠هـ • ٢٥ يناير ٢٠١٩م
السنة ٩٧ العدد ٤٧٦٣
97 السنة

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (١-١٣٥-٢٠١٨) وتاريخ ١٢-٤-١٤٤٠هـ الموافق ١٩-١٢-٢٠١٨م

إن مجلس هيئة السوق المالية

بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ ولوائحه التنفيذية، ونظام الشركات الصادر بالمرسوم الملكي رقم (م/٣) وتاريخ ٢٨-١-١٤٣٧هـ.

يقرر ما يلي:

(أ) اعتماد قواعد تسجيل مراجعي حسابات المنشآت الخاضعة لإشراف الهيئة وفقاً للصيغة المرافقة.

(ب) نشر قواعد تسجيل مراجعي حسابات المنشآت الخاضعة لإشراف الهيئة المشار إليها في الفقرة (أ) من هذا القرار، ويُعمل بها من تاريخ نشرها.

(ج) استثناء من الفقرة (ب) من هذا القرار، يُعمل بالفقرة (أ) من المادة الخامسة من قواعد تسجيل مراجعي حسابات المنشآت الخاضعة لإشراف الهيئة ابتداءً من تاريخ ٣٠-٦-٢٠١٩م.

(د) استثناء من الفقرة (ب) من هذا القرار، يُعمل بالفقرة الفرعية (أ) من الفقرة (٢) من المادة الثامنة من قواعد تسجيل مراجعي حسابات المنشآت الخاضعة لإشراف الهيئة ابتداءً من تاريخ ٢٠-١٢-٢٠٢١م.

(هـ) إعلان مضمون هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

(و) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

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محمد بن عبدالله القويز

قواعد تسجيل مراجعي حسابات المنشآت الخاضعة لإشراف الهيئة

91 The Approval of the Rules for Registering Auditors of Entities Subject to the Authority's Supervision.

judicial decision that has been issued against it as a result of an offence involving fraud or any act involving a lack of integrity or dishonesty during the five years preceding the date of application for registration, and 3) have adequate indemnity insurance for the risks of professional failures. As for certified public accountants, they are required to submit their applications for registration through accounting firms.

As of the end of 2020, the CMA had 13 registered accounting firms with 39 registered and certified public accountants. Moreover, the CMA conducts annual audits on the financial statements of entities under its supervision to ensure compliance with the internationally recognised accounting standards adopted in the Kingdom.

Chapter 18: Investment Diversification and Stimulation

The capital market continued to introduce new developments aimed at diversifying and stimulating investment. This has been achieved through new initiatives and amended regulations that facilitated the offering and listing of joint-stock companies on the main market, the establishment of the Saudi Parallel Market (NOMU) for SMEs, updates to merger and acquisition rules, and improved corporate governance. These efforts have helped to bring a wider range of investors, including individuals, foreign institutions, and domestic institutions to the market and have also contributed to the diversification of investment products, which has further attracted more investment.

18.1 Evolution of Joint-Stock Companies Regulations

18.1.1 Main Market

The Offer of Securities Regulations and the Listing Rules were put into effect in the main market on 4th October 2004. Upon the separation of the functions and jurisdictions between the CMA and Tadawul, the CMA developed the Rules on the Offer of Securities and Continuing Obligations and the Glossary of Defined Terms Used in the CMA Regulations and Rules. Meanwhile, Tadawul prepared the Listing Rules and Glossary of Defined Terms Used in the Exchange Rules. The CMA Board approved these regulations on 27th December 2017, and they became effective in Q2 2018.

The CMA Board also approved, on 12th May 2020, the termination of the Supreme Joint Committee work on the separation of functions and jurisdictions between the CMA and Tadawul, which was launched in 2013.

At the same time, the capital market planned several strategic initiatives to enhance the efficiency of offering and listing procedures of companies in the capital market. The CMA reviewed and improved the regulatory framework for the offering of shares for public subscription and expedited the review of applications for such offerings.

The CMA worked with ministries and relevant entities to explore ways to encourage unlisted companies to go public and list their shares in the capital market. A preparatory programme was developed to enable companies to meet the offering and listing requirements. In January 2018, the CMA Board approved the amendments to the Instructions for Book Building Process and Allocation Method in IPOs, which were designed to improve pricing efficiency by allowing GCC investors with a legal personality to participate in the process. The Instructions were amended again on 17th September 2019.

On 6th August 2018, the CMA Board approved the Instructions on the Price Stabilisation Mechanism for IPOs to regulate the price stabilisation activities for the shares of newly listed companies on the Exchange after the IPO (Document 92). The Instructions were amended on 14th January 2021.

16 أم القـــرى | الجمعة ٣ صفر ١٤٤٠هـ • ١٢ أكتوبر ٢٠١٨م
السنة ٩٦ . العدد ٤٧٤٨

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قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٤-٨٧-٢٠١٨) وتاريخ ٢٤-١١-١٤٣٩هـ الموافق ٠٦-٠٨-٢٠١٨م

اعتماد التعليمات الخاصة بتنظيم آلية الاستقرار السعري للطروحات الأولية

إن مجلس هيئة السوق المالية

بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.

يقرر ما يلي:

(أ) اعتماد التعليمات الخاصة بتنظيم آلية الاستقرار السعري للطروحات الأولية وفق الصيغة المرافقة بعد معالجة ملاحظات المجلس، ويُعمل بها من تاريخ نشرها.

(ب) تفويض سعادة نائب رئيس المجلس الأستاذ يوسف البليهد بإجازة الصيغة النهائية للتعليمات الخاصة بتنظيم آلية الاستقرار السعري للطروحات الأولية بعد معالجة ملاحظات المجلس المشار إليها في الفقرة (أ) من هذا القرار.

(ج) إعلان مضمون الفقرة (أ) من هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

(د) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

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خالد بن محمد الصليع

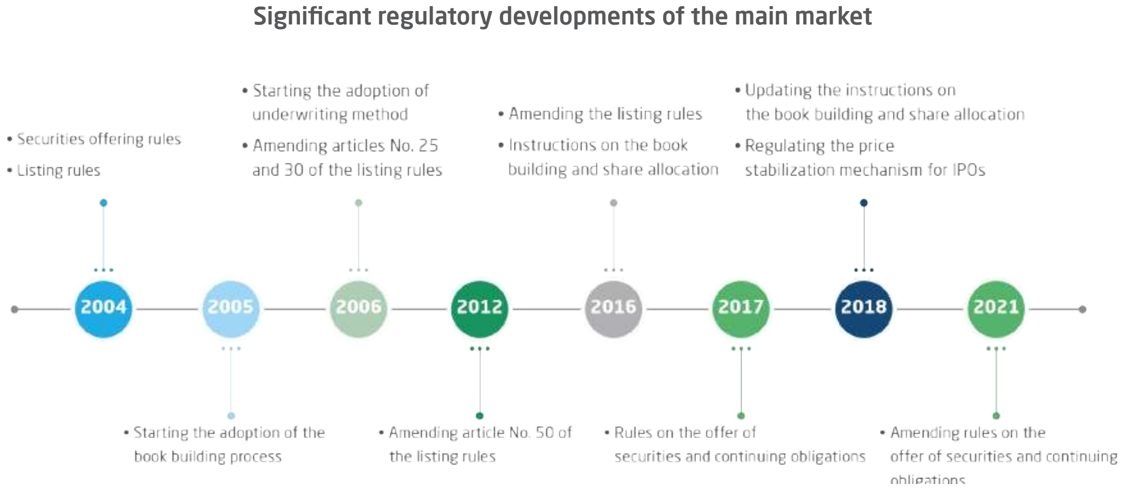
نائب رئيس مجلس هيئة السوق المالية
يوسف بن حمد البليهد

رئيس مجلس هيئة السوق المالية
محمد بن عبدالله القويز

التعليمات الخاصة بتنظيم آلية الاستقرار السعري للطروحات الأولية

92 The Approval of the Instructions on the Price Stabilisation Mechanism for IPOs.

Figure 40 shows key main market regulatory developments between 2004 and 2021:



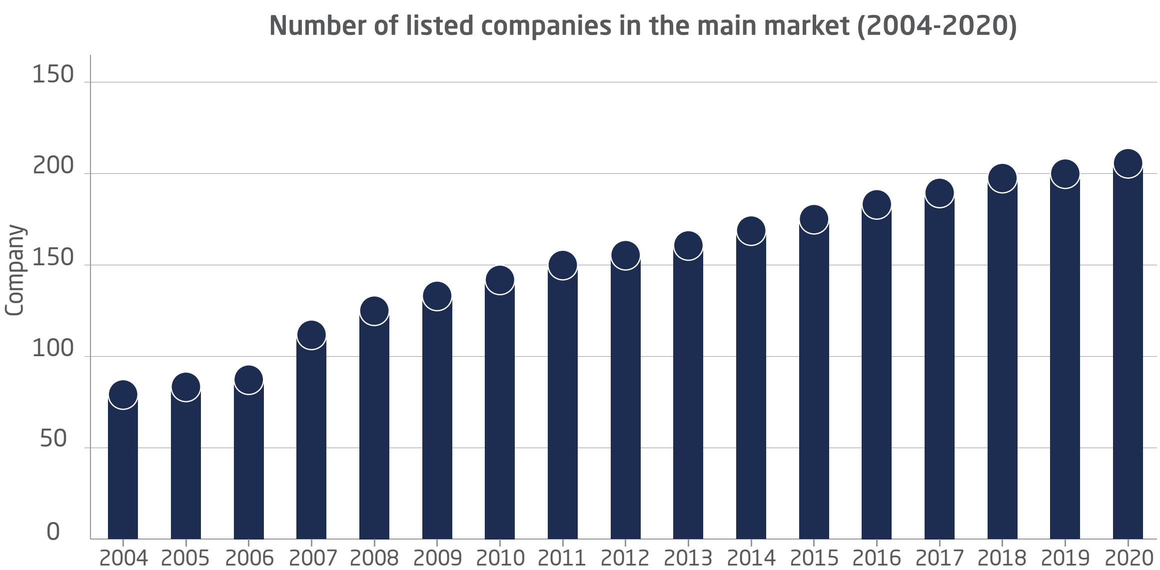
40 Key Main Market Regulatory Developments.

The initiative to stimulate public offerings in the capital market was launched in line with Vision 2030's objectives of two of its three pillars: a thriving economy and an ambitious nation, as well as the Financial Sector Development Programme (FSDP).

Entities and ministries, such as the Saudi Industrial Development Fund (SIDF), the Ministry of Investment, and the Saudi Food and Drug Authority (SFDA), collaborated with the CMA to implement this initiative by launching incentives for companies to list on Tadawul.

During the forum on Listing in the Capital Market in May 2018, His Excellency CMA Chairman Mohammed Abdullah Elkuwaiz stated that "the financial market rewards merit and punishes shortcomings regardless of a company's size, age, and record. The purpose of offering and listing a company, as well as the associated disclosure and governance and separation of ownership and management, is to safeguard the company from the potential conflicts and disruptions that can arise between stakeholders and undermine its operations." Elkuwaiz emphasised that these amendments are a qualitative leap in terms of facilitation and simplification, compared to previous provisions.

The number of listed companies from 21 sectors increased from 73 companies in mid-2004 to 203 companies by the end of 2020 in the main market, as shown in Figure 41:



41 Number of Companies Listed in the Main Market (2004-2020).

18.1.2 Establishment of the Parallel Market

One of the objectives of Saudi Vision 2030 is to support entrepreneurship and increase SME contribution to GDP from 20 to 35% and non-oil GDP from 33 to 35%. The Financial Leadership Programme (FLP) approved the creation of a parallel market, and the CMA conducted a feasibility study that was approved by its Board on 11th April 2016. Tadawul then announced its intention to establish an equity market specifically for SMEs in early 2017. This market was designed to provide financing for SMEs and motivate them to improve governance and disclosure, which would increase opportunities for business growth and development. Tadawul developed the regulations for the establishment of the parallel market. On 21st December 2016, parallel market listing rules were adopted and the Offer of Securities Regulations was amended to include provisions for share offerings on the parallel market.

4 أمُّ القُــرَى | الجمعة ٢٢ ربيع الآخر ١٤٣٨هـ ● ٢٠ يناير ٢٠١٧م
السنة ٩٤، العدد ٤٦٥٤
قـرارات و أنظـمـة UM AL-QURA 94

قرار مجلس هيئة السوق المالية رقم (٣-١٥١-٢٠١٦)
وتاريخ ٢٢-٣-١٤٣٨هـ الموافق ٢١-١٢-٢٠١٦م

إن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.
يقرر ما يلي:
(أ) اعتماد قواعد التسجيل والإدراج في السوق الموازية بحسب الصيغة المرافقة.
(ب) اعتماد تعديل لائحة طرح الأوراق المالية بالصيغة المرافقة.
(ج) تُنشر قواعد التسجيل والإدراج في السوق الموازية ولائحة طرح الأوراق المالية المعدلة، وتعدّ نافذة من تاريخ نشرها.
(د) تكون نسبة التذبذب اليومي في أسعار أسهم جميع الشركات المدرجة في السوق الموازية عشرين بالمئة (٢٠٪).
(هـ) إعلان مضمون هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.
(و) تتولى وكالة الهيئة للشئون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

الدكتور طارق بن عبدالله النعيم — الأستاذ وائل بن محمد القحطاني
الأستاذ محمد بن عبدالله القويز

قواعد التسجيل والإدراج في السوق الموازية

قرار مجلس هيئة السوق المالية

93 The Adoption of the Parallel Market Listing Rules.

Given the higher risk profile of issuers listed on the parallel market compared to the main market, only qualified investors are allowed to invest in securities listed on NOMU. The total market cap of the company must be at least SAR 10 million, compared to SAR 100 million in the main market. Listing on the parallel market requires offering at least 20% of the shares to the public and the daily fluctuation limit is set at 20%.

NOMU was established on 26th February 2017 (Image 34), as a way for SMEs to access new investment opportunities in an alternative market with less stringent listing requirements than the main market. NOMU is intended to be a platform for companies that are growing in terms of size and governance, but do not meet the requirements for listing on the main market. Once a company listed on NOMU meets the necessary conditions, it can then be listed on the main market.

34 Launching the Parallel Market (NOMU).

NOMU, the first market for SMEs in the Gulf region, was launched with the listing of seven companies with a total of 16.7 million shares and an offering size of SAR 1.9 billion.

The Rules on the Offer of Securities and Continuing Obligations, issued on 27th December 2017, replaced the Offer of Securities Regulations and the Listing Rules issued in 2004 and the Parallel Market Listing Rules issued in 2016 (Document 94). The new rules subsequently apply to both the main and parallel markets.

On 27th February 2019, the CMA and Tadawul implemented structural changes to NOMU, which were intended to promote the parallel market's growth and increase the number of listed companies and market liquidity. The changes came two years after launching NOMU as part of CMA and Tadawul's plans to support SMEs through a more flexible platform. The changes were based on a thorough analysis of the market and the needs of market participants.


96 UM AL-QURA قـرارات و أنظـمـة أم القـرى 19

قرار مجلس هيئة السوق المالية رقم (٣-١٢٣-٢٠١٧) وتاريخ ٠٩-٠٤-١٤٣٩هـ الموافق ٢٧-١٢-٢٠١٧م

اعتماد قواعد طرح الأوراق المالية والالتزامات المستمرة و قائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها

إن مجلس هيئة السوق المالية

بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.

يقرر ما يلي:

مجلس هيئة السوق المالية

عضو مجلس الهيئة
خالد بن عبدالعزيز الحمود

عضو مجلس الهيئة
أحمد بن راجح الراجح

نائب رئيس مجلس الهيئة
يوسف بن حمد البليهد

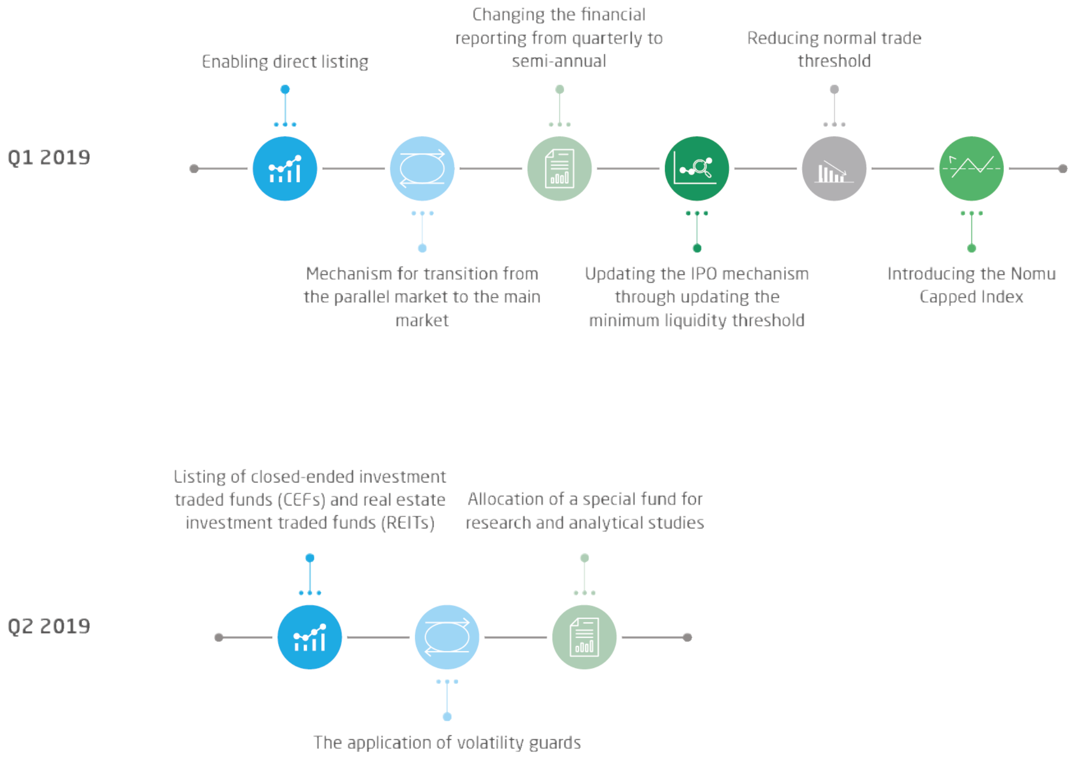
رئيس مجلس الهيئة
محمد بن عبدالله القويز

قواعد طرح الأوراق المالية والالتزامات المستمرة

94 Adopting the Rules on the Offer of Securities and Continuing Obligations.

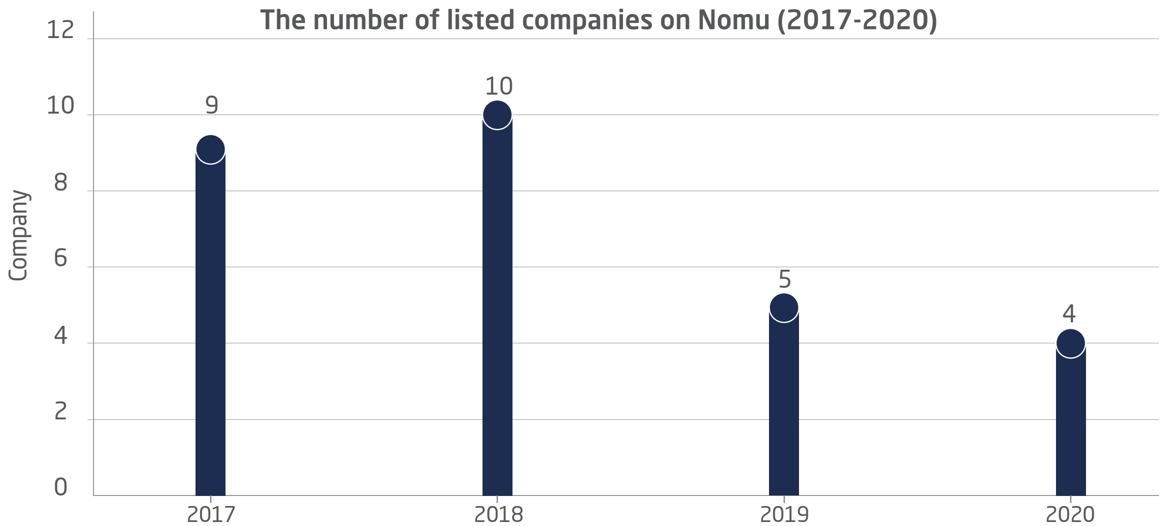
The structural changes were implemented in two phases taking place in the first two quarters of 2019. Changes in the first phase included allowing direct listings on NOMU without an IPO, streamlining the process for issuers to transition from NOMU to the main market, requiring issuers to report financial earnings on a semi-annual basis instead of quarterly, establishing access mechanisms by applying a minimum liquidity threshold, reducing normal trade thresholds, and introducing the NOMU Capped Index. Changes rolled out in the second phase included the listing of close-ended funds and REITs on NOMU and the introduction of volatility guards and independent research. To transition to the main market, the company must meet several conditions, such as being listed on NOMU for at least two years and meeting the main market requirements at least a year before the transition.

Significant changes in Nomu-Parallel Market in 2019



42 **Main Changes to NOMU in 2019.**

On 29th October 2019, Alkathiri Holding Company was approved to move from NOMU to the main market by Tadawul. This was the first time a company had made this transition following these amendments. Alkathiri had capital of SAR 45.2 million and 4.52 million shares and met all statutory requirements stipulated in the Listing Rules. The number of listed companies on NOMU from 2017 to 2020 is shown in Figure 43.



43 The Number of Companies Listed on NOMU (2017-2020).

On 24th March 2019, Tadawul launched the NOMU Capped Index (NOMUC) as part of the announced enhancement and instructions to include all eligible securities listed on NOMU. A capping threshold of 20% for any security was applied to avoid a single security dominance on the Index. The NOMUC sets a maximum percentage on the relative weighting of a component that is determined by its market capitalisation. The index value for capped indices is calculated as follows:

Index = (today's total free float capped market capitalisation / previous day total free float capped market capitalisation) x index value of the previous day.

Upon approval by Tadawul to transfer the issuer's shares from NOMU to the main market and the completion of the necessary procedures, the issuer is removed from the NOMUC and added to the Main Market Headline index (TASI) and Industry Group indices after meeting the eligibility criteria, and new constituents are included in Tadawul's indices.

Tadawul later announced the weighting threshold for each issuer in NOMUC would be capped at 35%, effective from the start of trading on Tuesday 14th April 2020. In addition, the calculation and publishing of the Parallel Market Index were suspended by the end of trading on Thursday 14th May 2020.

On 26th December 2019, Tadawul updated its indices methodology and management to include revisions in the methodology for the calculation of free float shares, a new rule for fast inclusion in TASI at the close of the fifth trading day, and the application of index capping for TASI with a threshold of 15%, in addition to announcing indices maintenance and adding/deleting shares from the index three business days prior to the execution date.

NOMUC closed out 2020 at 26,245 points. The market value of shares outstanding amounted to SAR 12.18 billion and trading values reached SAR 7.11 billion, with 109 million traded shares and 287,500 deals.

18.1.3 Updated Regulations to Regulate Mergers and Acquisitions

The updated Merger and Acquisition Regulations, issued on 15th October 2017, replaced the previous Regulations issued on 3rd October 2007 (Document 95). This update reinforced the importance of full and fair disclosure in mergers and acquisitions, while clarifying the relevant procedures and obligations related to owning or acquiring shares or controlling interests in listed companies. In addition, the updated Regulations established a regulatory framework for offers to acquire all of a listed company's shares or merge with it, subject to the approval of the General Assembly of shareholders. It also allowed for partial takeovers of a listed company's shares, which were not previously available in the 2007 Regulations. The updated Regulations included provisions that applied to anyone who increased their ownership of a listed company's shares to 40% or more. Certain provisions of the Regulations were modified on 23rd April 2018.

6 أم القـــرى | الجمعة ٢١ صفر ١٤٣٩هـ ـ ١٠ نوفمبر ٢٠١٧م السنة ٩٥ ـ العدد ٤٦٩٧ | قـرارات و أنظـمـة | UM AL-QURA 95 السنة

قرار مجلس هيئة السوق المالية رقم ٢-٩٤-٢٠١٧
وتاريخ ٢٥-١-١٤٣٩هـ الموافق ١٥-١٠-٢٠١٧م

إن مجلس هيئة السوق المالية

وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ ونظام الشركات الصادر بالمرسوم الملكي رقم (م/٣) وتاريخ ٢٨-١-١٤٣٧هـ

يقرر ما يلي:

(أ) اعتماد لائحة الاندماج والاستحواذ وفق الصيغة المرافقة، على أن تحل محل لائحة الاندماج والاستحواذ الصادرة بقرار المجلس رقم (١-٥٠-٢٠٠٧) وتاريخ ٢١-٩-١٤٢٨هـ الموافق ٣-١٠-٢٠٠٧م المعدلة بقرار المجلس رقم (٢-٤-٢٠١٢) وتاريخ ٢٨-٢-١٤٣٣هـ الموافق ٢٨-١-٢٠١٢م، ويُعمل بها من تاريخ نشرها.

(ب) اعتماد قائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها المعدلة، بالصيغة المرافقة، ويعمل بها ابتداءً من تاريخ نشرها.

(ج) نشر لائحة الاندماج والاستحواذ وقائمة المصطلحات المستخدمة في لوائح هيئة السوق المالية وقواعدها المعدلة المشار إليهما في الفقرة (أ) و(ب) من هذا القرار في موقع الهيئة الإلكتروني بتاريخ ١٩-١٠-٢٠١٧م.

(د) إعلان مضمون الفقرتين (أ) و(ب) من هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين بتاريخ ١٩-١٠-٢٠١٧م.

مجلس هيئة السوق المالية

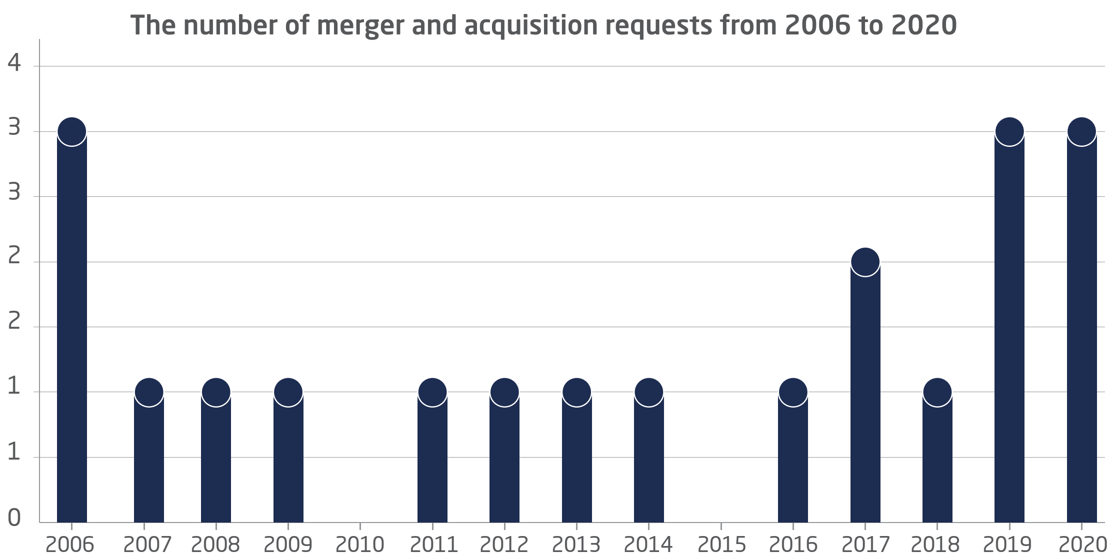
عضو مجلس الهيئة	عضو مجلس الهيئة
طارق بن عبدالله النعيم	وائل بن محمد القحطاني
نائب رئيس مجلس الهيئة المكلف	معالي رئيس مجلس الهيئة
عبدالرحمن بن محمد البراك	محمد بن عبدالله القويز

لائحة الاندماج والاستحواذ

قرار مجلس هيئة السوق المالية

95 The Adoption of the Updated Merger and Acquisition Regulations.

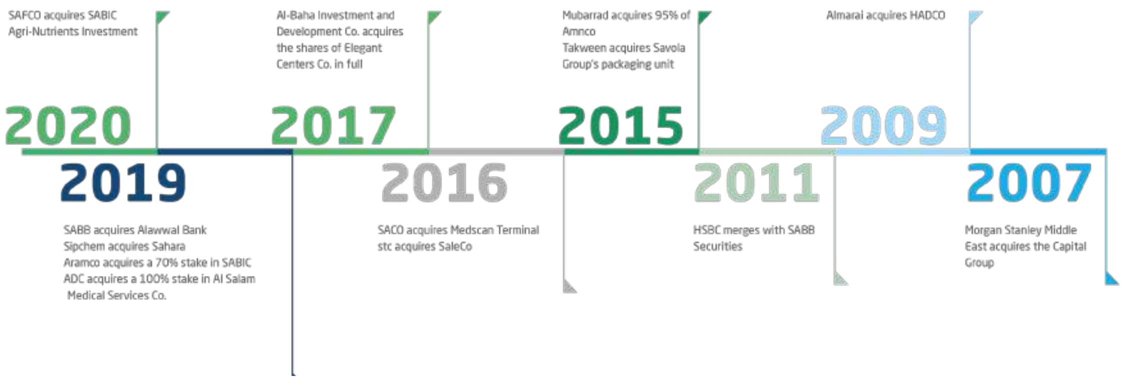
Figure 44 shows the evolution of the number of merger and acquisition requests between 2006 and 2020:



44 The Number of Merger and Acquisition Requests between 2006 and 2020.

Saudi Arabia's Alawwal Bank formally merged with Saudi British Bank (SABB) to constitute the largest merger and acquisition deal of 2019. After the merger agreement, all of the assets and liabilities of Alawwal Bank were transferred to SABB, in exchange for SABB issuing 500 million ordinary shares with a nominal value of SAR 10 per share in SABB in favour of Alawwal Bank shareholders by way of increasing the paid-up capital of SABB from SAR 15 billion to SAR 20.54 billion. This represents an increase in the number of shares from 1.5 billion shares to 2.05 billion fully paid shares. Tadawul suspended trading on shares of Alawwal Bank as of 16th June 2019, ahead of share delisting procedures. Also in 2019, Aramco acquired a 70% stake in SABIC for a total purchase price of SAR 259.125 billion (USD 69.1 billion), which we will elaborate on later. Figure 45 shows key mergers and acquisitions in the Saudi market:

The most significant merger and acquisition deals in the Saudi market



45 Key Acquisitions in the Saudi Market.

18.1.4 The New Corporate Governance Regulations

The Corporate Governance Regulations, issued on 12th November 2006, and their subsequent 2008, 2009, 2010, and 2011 amendments, continued to apply until they were replaced by the new Corporate Governance Regulations in February 2017 (Document 96). The new more detailed regulations comprise 98 articles and are fully aligned with the Companies Law issued in 2015, while the 2006 Regulations' 19 articles were associated with the 1965 Companies Law. The Regulations are the result of coordinated efforts by the

CMA and the Ministry of Commerce to align the regulations with the Companies Law. Corporate Governance Regulations underwent a first amendment on 23rd April 2018, a second on 20th May 2019, and a third on 14th January 2021.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قـرارات و أنظـمـة
الجمعة ٣ رجب ١٤٣٨هـ • ٣١ مارس ٢٠١٧م
السنة ٩٥ • العدد ٤٦٦٤
أم القــرى 5

قرار مجلس هيئة السوق المالية رقم (٨-١٦-٢٠١٧) وتـاريـخ ١٦-٥-١٤٣٨هـ الموافــق ١٣-٢-٢٠١٧م

إن مجلس هيئة السوق المالية
بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ ونظام الشركات الصادر بالمرسوم الملكي رقم (م/٣) وتاريخ ٢٨-١-١٤٣٧هـ.

يقرر ما يلي:

أ) اعتماد لائحة حوكمة الشركات وفق الصيغة المرافقة لهذا القرار، على أن تحل محل لائحة حوكمة الشركات الصادرة بقرار مجلس الهيئة رقم (١-٢١٢-٢٠٠٦) وتاريخ ٢١-١٠-١٤٢٧هـ الموافق ١٢-١١-٢٠٠٦م ابتداءً من تاريخ العمل بها.

ب) نشر لائحة حوكمة الشركات بحسب الصيغة المرافقة ويُعمل بها ابتداءً من تاريخ ٢٢-٤-٢٠١٧م.

ج) استثناءً من الفقرة (ب) من هذا القرار، يعمل بالفقرة الفرعية (أ) من الفقرة (١) والفقرات (٣) و(٤) و(٥) من المادة الثانية والعشرين، والفقرتين (١) و(٢) من المادة الثالثة والعشرين، والفقرة (١) من المادة الخامسة والعشرين، والمادة الثامنة والعشرين، والمادة السادسة والخمسين، والفقرة (ب) من المادة الستين، والمادة الحادية والستين، والمادة الثانية والستين، والفقرة (ب) من المادة الرابعة والستين، والفقرات (١) و(٣) و(٥) و(٦) و(٨) و(٩) من المادة الخامسة والستين، والمادة الرابعة والثمانين، والمادة السادسة والثمانين، والمادة التاسعة والثمانين، والفقرات (٥) و(٧) و(١١) و(١٢) و(٣٢) من المادة التسعين، والفقرة الفرعية (١) من الفقرة (أ) من المادة الثالثة والتسعين، والمادة الرابعة والتسعين من لائحة حوكمة الشركات ابتداءً من تاريخ ٣١-١٢-٢٠١٧م.

د) على مجالس إدارة شركات المساهمة المدرجة التي تنتهي سنتها المالية في تاريخ ٣١-١٢-٢٠١٧م (وما بعد) استيفاء جميع المتطلبات الواردة في المادة التسعين من لائحة حوكمة الشركات عند إعداد واعتماد تقرير مجلس الإدارة الذي سيتم الموافقة عليه من قبل الجمعية العامة في تاريخ ٣١-١٢-٢٠١٧م (وما بعد).

هـ) إلغاء الدليل الاسترشادي للائحة حوكمة الشركات الصادر بقرار مجلس الهيئة رقم (٣-٣١-٢٠١٢) وتاريخ ٩-١١-١٤٣٣هـ الموافق ٢٥-٩-٢٠١٢م اعتباراً من تاريخ ٢٢-٤-٢٠١٧م.

و) إعلان مضمون القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

ز) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

الدكتور طارق بن عبدالله النعيم	الأستاذ وائل بن محمد القحطاني
الدكتور عبدالرحمن بن محمد البراك	الأستاذ محمد بن عبدالله القويز

لائحة حوكمة الشركات

قرار مجلس هيئة السوق المالية

96 The Adoption of the New Corporate Governance Regulations.

In a new move, proxy voting was introduced, allowing shareholders to participate in General Assembly meetings without physically attending them. It helped increase shareholder participation and improve efficiency at these meetings. It also helped ensure that a quorum is reached and meetings are held, and reduced the cost for companies by avoiding delays or rescheduling meetings. This mechanism was introduced to overcome obstacles that might otherwise prevent shareholder participation or the convening of the assembly.

In 2019, electronic voting emerged as a convenient and efficient way for shareholders to participate in General Assembly meetings and vote on decisions. It also helped to increase transparency and accountability for companies. The number of electronic voters increased in 2019 by 7% compared to 2018, while the number of physical voters decreased by 30% compared to 2018. Electronic voting also allowed investors to exercise their rights, leading to a 38% increase in the number of (electronic and physical) voters in general assemblies, from 21,695 in 2018 to 29,847 in 2019.

In 2020, due to COVID-19 prevention measures, in-person assemblies of companies listed on the capital market were suspended and held remotely instead. This led to a 14% increase in the number of electronic voters in H1 2020 compared to H1 2019, making up 99% of total voters in shareholders' assemblies, compared to just 1% of in-person voters. The overall number of electronic and in-person voters increased by 133% during this time, with most shareholders participating through electronic voting, resulting in a 170% increase in electronic voting shareholders in H1 2020 compared to the same period in the previous year.

18.2 Diversifying Investors

18.2.1 Individual Investors

The CMA was established to promote fairness and support individuals with limited income in public offerings by setting conditions for subscriptions that prioritised the allocation of shares to individual investors, which helped increase the number of individual investors. The CMA later focused on encouraging institutional investment, which is common in global markets and helps promote stability. On 3rd April 2016, the CMA approved the Investment Accounts Instructions (Document 97) to improve and enhance the procedures for authorised persons regarding opening and operating investment accounts for clients, as well as defining relevant supervisory and control rules. These Instructions were amended on 21st November 2018 (Document 98), with one significant change being the simplification of the process for opening and operating investment accounts electronically.


12 أمّ القــرى | الجمعة ٢٩ رجب ١٤٣٧هـ • ٦ مايو ٢٠١٦م
السنة ٩٤. العدد ٤٦١٧
قــرارات و أنظــمــة UM AL-QURA 94 السنة

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٤-٣٩-٢٠١٦) وتاريخ ٢٥-٦-١٤٣٧هـ الموافق ٣-٤-٢٠١٦م باعتماد تعليمات الحسابات الاستثمارية

إن مجلس هيئة السوق المالية
وبناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.

يقرر ما يلي:

(أ) اعتماد تعليمات الحسابات الاستثمارية بالصيغة المرافقة.

(ب) إلغاء قرار مجلس الهيئة رقم (١-٩٥-٢٠٠٥) وتاريخ ٣٠-٨-٢٠٠٥م في شأن الضوابط المنظمة للوكالات الشرعية الخاصة والعامة (وما في حكمها) من تاريخ نفاذ تعليمات الحسابات الاستثمارية، وعلى الأشخاص المرخص لهم إبلاغ عملائهم بتصحيح أوضاعهم وفقاً لتعليمات الحسابات الاستثمارية.

(ج) إعفاء الأشخاص المرخص لهم من الالتزام الوارد في الفقرة (ج) من المادة التاسعة والثلاثين من لائحة الأشخاص المرخص لهم بالطلب من عملائهم الأفراد تحديث المعلومات المطلوبة مرة واحدة سنوياً كحد أدنى ليكون الالتزام على الأشخاص المرخص لهم بالطلب من عملائهم الأفراد تحديث المعلومات المطلوبة مرة واحدة كل ثلاث سنوات كحد أدنى، ويعمل بذلك من تاريخ نفاذ تعليمات الحسابات الاستثمارية.

(د) إعفاء الأشخاص المرخص لهم من الالتزام الوارد في المادة الثامنة عشرة من قواعد مكافحة غسل الأموال وتمويل الإرهاب بإجراء مراجعة سنوية أو إجراء مراجعة حسب الحاجة للسجلات الحالية وبخاصة سجلات فئات العملاء أو علاقات العمل ذات المخاطر العالية عند حصول حالات تستدعي تحديث هذه المعلومات، ليكون الالتزام (هـ)على الأشخاص المرخص لهم بإجراء مراجعة كل ثلاث سنوات أو إجراء مراجعة حسب الحاجة للسجلات الحالية وبخاصة سجلات فئات العملاء أو علاقات العمل ذات المخاطر العالية عند حصول حالات تستدعي تحديث هذه المعلومات ويعمل بذلك من تاريخ نفاذ تعليمات الحسابات الاستثمارية.

(هـ)على الأشخاص المرخص لهم الحصول من عملائهم الأجانب المقيمين في المملكة -الذين لديهم حسابات استثمارية قبل تاريخ نفاذ تعليمات الحسابات الاستثمارية- على مستند مكتوب يتضمن المتطلبات الواردة في الفقرة الفرعية (٣) من الفقرة (ج) من المادة السادسة من تعليمات الحسابات الاستثمارية، وفي حال عدم تقديم أي عميل منهم لذلك المستند قبل تاريخ نفاذ تعليمات الحسابات الاستثمارية، يجب على الشخص المرخص له تجميد الحساب الاستثماري لذلك العميل وإشعاره بتاريخ التجميد قبل ثلاثة أشهر على الأقل من تاريخ التجميد.

(و) تنشر تعليمات الحسابات الاستثمارية في موقع الهيئة الإلكتروني ويُعمل بها ابتداءً من ٣-١-١٤٣٨هـ الموافق ٤-١٠-٢٠١٦م.

(ز) يعلن مضمون الفقرة (أ) والفقرة (ب) والفقرة (ج) والفقرة (د) والفقرة (هـ) والفقرة (و) من هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

(ح) تتولى وكالة الهيئة لمؤسسات السوق ابلاغ الأشخاص المرخص لهم بمضمون الفقرة (ب) من هذا القرار.

(ط) تكليف وكالة الهيئة للشؤون القانونية والتنفيذ مراعاة ما ورد في الفقرتين (ج) و(د) من هذا القرار عند تعديل لائحة الأشخاص المرخص لهم وقواعد مكافحة غسل الأموال وتمويل الإرهاب.

(ي) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ الفقرة (ز) من هذا القرار.

مجلس هيئة السوق المالية

الدكتور عبدالرحمن بن محمد البراك — نائب الرئيس الأستاذ عبدالرحمن بن محمد الراشد

رئيس مجلس هيئة السوق المالية
محمد بن عبدالله الجدعان

تعليمات الحسابات الاستثمارية

97 The Adoption of the Investment Accounts Instructions.


10 أمّ القــرى | الجمعة ٢١ ربيع الآخر ١٤٤٠هـ • ٢٨ ديسمبر ٢٠١٨م
السنة ٩٦. العدد ٤٧٥٩
قــرارات و أنظــمــة UM AL-QURA 96 السنة

قرار مجلس هيئة السوق المالية

قرار مجلس هيئة السوق المالية رقم (٢-١٢٤-٢٠١٨) وتاريخ ١٣-٣-١٤٤٠هـ الموافق ٢١-١١-٢٠١٨م

إن مجلس هيئة السوق المالية
بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ.

يقرر ما يلي:

أ) اعتماد تعليمات الحسابات الاستثمارية المعدّلة وفق الصيغة المرافقة، ويُعمل بها من تاريخ نشرها.

ب) إلغاء قواعد مكافحة غسل الأموال وتمويل الإرهاب الصادرة بقرار المجلس رقم (١-٣٩-٢٠٠٨) وتاريخ ٣-١٢-١٤٢٩هـ الموافق ١-١٢-٢٠٠٨م والمعدلة بقرار المجلس رقم (١-٨٥-٢٠١٧) وتاريخ ٢٧-١٢-١٤٣٨هـ الموافق ١٨-٩-٢٠١٧م.

ج) الموافقة على تعديل الأسئلة الشائعة المتكررة المفسرة لتعليمات الحسابات الاستثمارية أو المكملة لها وفقًا للعرض المرافق، وتنشر وفق الآلية المعتمدة لإعداد ونشر الأسئلة الشائعة الخاصة بنظام السوق المالية ونظام الشركات ولوائحهما التنفيذية.

د) إعلان مضمون الفقرتين (أ) و(ب) من هذا القرار في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

هـ) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

عضو مجلس هيئة السوق المالية
خالد بن محمد الصليع

عضو مجلس هيئة السوق المالية
خالد بن عبدالعزيز الحمود

عضو مجلس هيئة السوق المالية
أحمد بن راجح الراجح

نائب رئيس مجلس هيئة السوق المالية
يوسف بن حمد البليهد

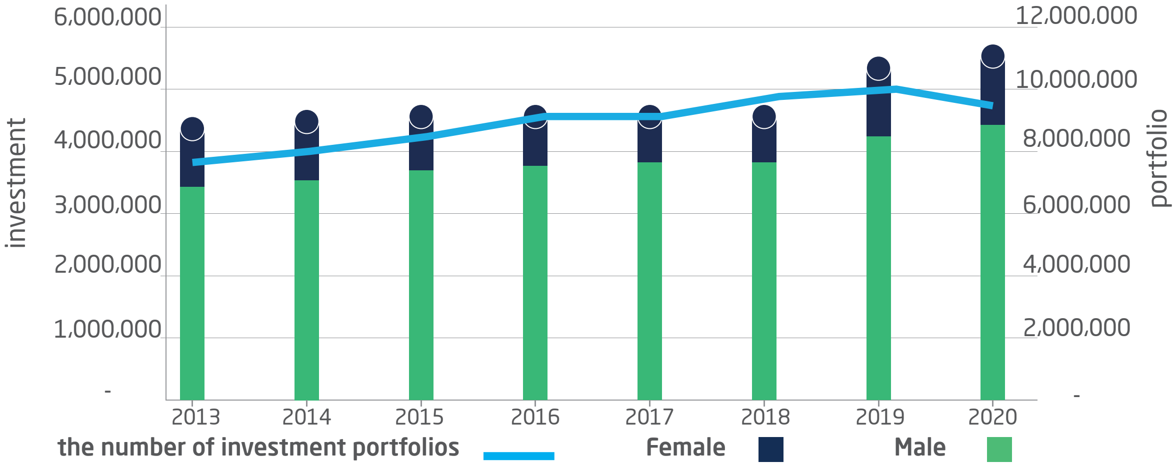
رئيس مجلس هيئة السوق المالية
محمد بن عبدالله القويز

تعليمات الحسابات الاستثمارية

98 The Amendment of the Investment Accounts Instructions.

As of the end of 2020, there were a total of 9.03 million investment portfolios for individuals. The number of individual investors was approximately 5.58 million, 75% male and 25% female. In the first half of 2013, there were 7.9 million investment portfolios for individuals and 4.29 million individual investors, as shown in Figure 46.

The number of individuals and investment portfolios between 2013 and 2020.



46 Number of Individual Investors and Investment Portfolios.

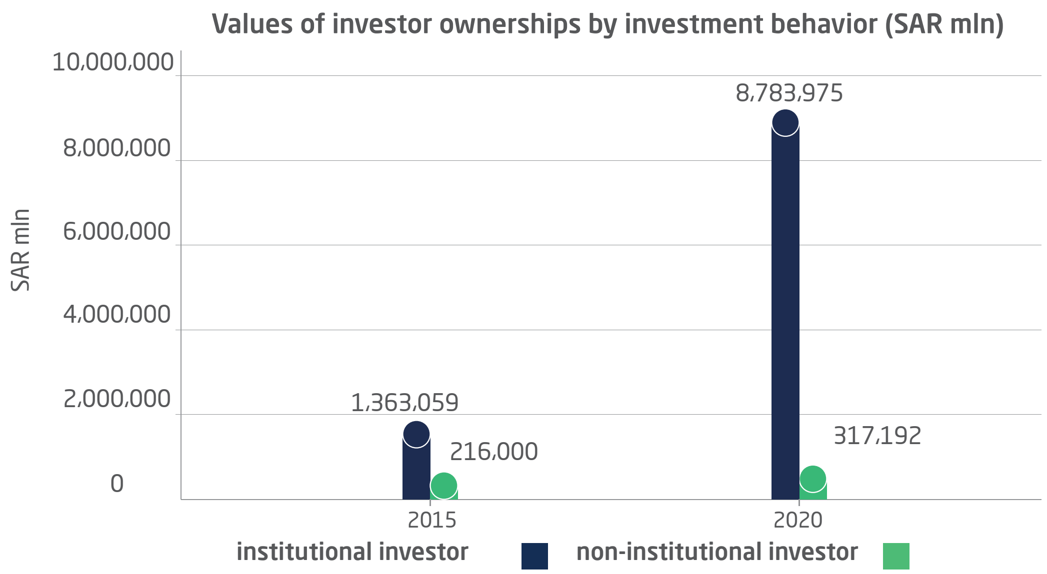
18.2.2 Institutional Investment

In 1688, the Spanish writer Joseph de la Vega referred to financial market participants as bulls and bears, drawing inspiration from the sport of bullfighting, which was popular among miners in California during the Mexican rule. The phrase "the struggle of bulls and bears" became widely used to describe financial markets as a battleground between these opposing forces. In recent years, financial markets have sought to increase institutional investment, which is perceived as more stable and less prone to individual investor greed and panic. This trend can be seen as an effort to reduce market volatility resulting from the actions of individual investors, who are more prone to overreacting to market conditions and global events, contributing to market instability, as was the case during the 2006 bubble.

The Financial Leadership Programme (FLP) aimed to support asset management and promote institutional investment by implementing initiatives such as encouraging individuals with no previous experience to invest through investment funds and facilitating the establishment and growth of endowment funds.

To promote professional practices and institutional behaviour in the market and to provide a wider range of investment products for individual investors, the CMA gradually increased the proportion of shares allocated to institutional investors in IPOs for issues offered above the nominal value, specifically those invested through investment funds. The reasoning behind this is that fund managers are more experienced in evaluating the risks outlined in prospectuses and investing through funds allows for a greater variety of investment options. As a result, investment funds comprise 90% of institutional investors' share allocations. The change in ownership between individual and institutional investors from 2015 to 2020 is shown in Figure 47.

Investors share ownership values according to investment behaviour in SAR million;



47 Investors Share Ownership Values according to Investment Behaviour in SAR Million.

To promote institutional investment, the CMA initiated the use of endowment funds. In 2017, the CMA and the General Authority for Awqaf launched the Waqf Investment Funds Project, which aims to support community and development needs while also increasing the contribution of the non-profit sector to the Gross Domestic Product. These investment funds, which follow the CMA's Instructions for Investment Funds, are open-ended and do not have a set term. All units of these funds are endowed and not available for circulation, and they are open to contributions from anyone.

The General Authority for Awqaf and the CMA are responsible for supervising the endowment fund, with each agency having specific areas of oversight. To establish such a fund, at least SAR 10 million must be collected. The fund manager must follow the defined investment policy to ensure that the value of the fund's investments is no less than 75% of the total value of the fund's assets, based on the latest audited financial statements. At least 50% of the fund's distributable net profits should be distributed to the beneficiary on an annual basis.

The cooperation between the CMA and the General Authority for Awqaf resulted in the CMA Board approving the public offering of Alinma Wareef Endowment Fund in June 2018. This Fund, which was created by Alinma Investment Company, was the first in a series of endowment funds. By the end of 2020, a total of eight funds had been created.

18.2.3 Foreign Investment

On 9th January 2018, the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities were modified (Document 99) to make the qualification process quicker and easier. This was done by lifting the requirement for the CMA to review and register qualified foreign investors and increasing the pool of qualified foreign investors by decreasing the asset requirement for qualified foreign investors from USD 1 billion to USD 500 million. It also allowed financial institutions affiliated with qualified foreign investors or foreign portfolio managers, as well as investment funds managed by them, to be qualified without the need for separate applications, and eased some of the ongoing requirements for qualified foreign investors.

Non-resident foreign investors were allowed to take strategic stakes of up to 10% in stock exchange-listed companies as part of the second step. In October 2017, the CMA and the General Investment Authority signed a Memorandum of Cooperation (MoC) to develop guidelines and standards for this process based on the powers granted to each party. On 17th June 2019, the CMA Board approved the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies (Document 100), developed by the CMA to outline the requirements and conditions for foreign strategic investors to own shares in listed companies, as well as the obligations of both the investors and authorised parties in this regard.

99 The Modification of the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.

100 The Adoption of the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies.

The Instructions allowed foreign strategic investors to exercise all rights related to the shares of the listed companies they own, including trading rights. However, these Instructions do not apply to citizens of the GCC[1].

1 The Instructions defined the foreign investor as a foreign legal entity that aims to own a strategic shareholding in listed companies, meaning the direct ownership percentage in the listed company's shares, and through which the aim is to contribute to promoting the financial or operational performance of the listed company.

On 30th September 2019, the Listing Rules were amended to allow foreign companies to list on Tadawul while being held to the same standards of listing, disclosure, and governance as Saudi-listed companies. The CMA and Tadawul created the necessary provisions and requirements for listing foreign companies, and also formed bilateral agreements with other markets in the region to link the Saudi market to these markets in an effort to promote integration with regional markets, provide new financing options for issuers, and offer investors more diverse investment opportunities.

On 7th September 2020, the CMA Board approved the Instructions for Issuing Depositary Receipts Out of the Kingdom, which define the requirements and conditions for issuing Depositary Receipts for shares issued in the Kingdom that are either already listed on the Exchange or are in the process of being listed. The goal of issuing depository receipts is to increase the efficiency of pricing securities between local and foreign markets and to allow issuers to offer securities in the currency of the foreign market. Table 3 illustrates the evolution of the value of ownership of Saudi, Gulf, and foreign investors from 2015 to 2020:

SAR mln

Year	Saudi investors	Gulf investors	Foreign investors	Total
2015	1,467,237	39,672	72,149	1,579,058
2016	1,571,785	38,120	72,047	1,681,952
2017	1,583,834	35,321	70,447	1,689,602
2018	1,734,953	36,739	86,845	1,858,537
2019	8,782,729	44,709	198,001	9,025,439
2020	8,847,286	45,544	208,337	9,101,167

03 **The Value of Ownership in the Main Market per Investor Type in SAR Million.**

18.3 More Diversified Financial Instruments

Financial products and instruments continue to evolve in the capital market. From the inception of the Financial Leadership Program, a range of new offerings have been introduced, such as government debt instruments, closed-end investment traded funds, FinTech products, and financial derivatives.

18.3.1 Government Debt Instruments Listing

From its inception, the CMA has strived to promote government debt instruments in the capital market. In H1 2017, it began registering sukuk and debt instruments on Tadawul and displaying them on the Tadawul website. In December of the same year, the CMA updated its Rules on the Offer of Securities and Continuing Obligations, introducing greater flexibility in the requirements for sukuk and debt issuance and the regulatory requirements for listing through special purpose entities that allow the issuance of different debt instrument structures through public or private offerings. By listing government debt, the CMA aimed to provide more financing options for public projects, offer a diverse range of investment products for all types of investors, and increase liquidity in the secondary market. The trustworthiness, security, and steady returns of these government debt instruments make them an attractive choice for both issuers and investors.

In an effort to align with the goals of Saudi Vision 2030, the CMA approved the listing and trading of government debt instruments on Tadawul in April 2018. This move, made in conjunction with the Public Debt Management Office at the Ministry of Finance, resulted in a total of 45 government debt instruments listed, with a nominal value of SAR 204.385 billion. These issues were divided among fixed-return instruments (20 issuances, totalling SAR 77.72 billion), floating-return instruments (13 issuances, totalling SAR 68.21 billion), and sukuk (12 issuances, totalling SAR 58.46 billion). The government debt instruments index was also added to the sukuk and bonds market.

At a press conference on 8th April 2018, the CEO of Tadawul, Eng. Khalid Abdullah al-Hussan, announced that all investors can trade in government debt instruments issued by the Kingdom during the trading window; i.e. from 11:30 a.m. to 3:00 p.m. every day.

In the capital market, debt indices can be grouped into three main categories: sukuk and bonds market, government debt, and corporate bonds and sukuk. The quantity of sukuk and bonds are expressed in par value terms; not number of units. The price of sukuk and bonds is set as a percentage of the par value.

Tadawul, in collaboration with IHS Markit - a world leader in critical information, analytics, and solutions - recently launched iBoxx Tadawul SAR Government Sukuk Index Series. These Indices are used to develop financial products, including ETFs, and are calculated on a daily basis using independent fair value pricing by tracking the performance of daily fair value sukuk price movements. They aim to provide transparency to Saudi local currency and Saudi Government sukuk market performance.

Asset managers, ETF issuers, hedge funds, insurance and retirement institutions, investment banks, legislators, central banks, research centres, and academics can all use these indices, which are also useful for ETFs, research, and risk management. The iBoxx Tadawul SAR Government Sukuk Index Series can be found on the Tadawul website at the end of each day. The base date for the index is 30th June 2019, and the base value is set at 100.

In parallel, the CMA oversaw the operations of facilities specialised in issuing debt instruments. As previously mentioned, the CMA was responsible for granting licences to establish special purpose entities through an amendment to Article 5 of the Capital Market Law issued on 2nd July 2012. In order to put these provisions into practice, the CMA Board approved rules and Articles of Association (AoA) for special purpose entities on 27th December 2017 (Document 101). These rules became effective in early April 2018.

Special purpose entities are set up to achieve specific financial objectives, such as issuing debt instruments through a specialised entity that dissolves upon completion of its purpose, accessing alternative financing other than bank and financial institution loans, and protecting investor rights from the bankruptcy of


96 UM AL-QURA قـرارات و أنظـمـة أم القـرى 7

قرار مجلس هيئة السوق المالية رقم (٤-١٢٣-٢٠١٧) وتاريخ ٠٩-٠٤-١٤٣٩هـ الموافق ٢٧-١٢-٢٠١٧م

اعتماد القواعد المنظمة للمنشآت ذات الأغراض الخاصة والنظام الأساسي للمنشأة ذات الأغراض الخاصة

مجلس هيئة السوق المالية

عضو مجلس الهيئة
خالد بن عبدالعزيز الحمود

عضو مجلس الهيئة
أحمد بن راجح الراجح

نائب رئيس مجلس الهيئة
يوسف بن حمد البليهد

رئيس مجلس الهيئة
محمد بن عبدالله القويز

القواعد المنظمة للمنشآت ذات الأغراض الخاصة

101 Adopting the Rules for Special Purpose Entities.

related parties, such as the sponsor or owner. The CMA issued the first licence for a special purpose entity to issue asset-backed debt instruments on 22nd January 2019. On 14th January 2021, the CMA amended the rules for special purpose entities, which became effective on 28th January 2021. These changes offer investment fund managers the option to establish a special purpose entity as the legal entity for their investment fund and modify the structure of special purpose entities that offer debt by registering their shares in the name of a trustee rather than the owners. Under the revised rules, Saudi joint-stock companies, authorised persons, banks, finance companies, and limited liability companies can all act as sponsors for a special purpose entity.

The market for sukuk and bonds in Saudi Arabia is still relatively small compared to other emerging markets due to the lengthy process required to offer them for public subscription. Obtaining loans from banks is generally easier and faster than going through the various procedures required to issue sukuk or bonds, such as applying to the CMA, appointing a financial advisor, and presenting a prospectus. In an effort to address this challenge and encourage the development of the sukuk and bond market, the CMA, Tadawul, and the Public Debt Management Office coordinated to implement a series of improvements in June 2019. These included restructuring the financial consideration for services provided in the market and reducing the nominal value of government-issued sukuk from SAR 1 million to SAR 1,000. It is hoped that these changes will encourage investment in governmental sukuk and revitalise the secondary market for it.

The CMA made a decision on 12th August 2020 to allow both resident and non-resident foreigners to invest directly in listed and unlisted debt instruments. This was an important move towards offering a variety of investment options to different investor groups. The decision allows all foreign natural and legal persons to invest directly in debt instruments, but a non-resident foreign individual cannot simultaneously invest as a direct investor in listed debt instruments and as a qualified foreign investor or ultimate beneficiary in swap agreements. The CMA also created a guide for non-resident foreign investors to understand the available channels for investing in listed securities, as well as the procedures for opening an investment account.

18.3.2 Close-Ended Investment Traded Funds

Closed-end investment traded funds offer investors a high level of transparency and disclosure. Managed by CMA-licensed fund managers, these funds provide the convenience of liquidity, allowing investors to easily trade units. In addition, closed-end funds offer a wide range of investment options for the fund manager. When units of closed-end funds are initially offered, investors have the opportunity to purchase them. After being listed, these units can be traded on the secondary market just like shares of listed companies during trading hours. The price of closed-end fund units is determined by supply and demand in the market and the value of the underlying assets.

This product made a belated entrance into the Saudi capital market, with Closed-ended Investment Traded Funds Regulations only released on 6th June 2018 (Document 102). Their purpose was to oversee the offering of closed-ended investment traded fund units, their management, and operations within the Kingdom.

On 24th February 2021, the CMA Board approved the amendment of the Investment Funds Regulations and Real Estate Investment Funds Regulations with an effective date of 1st May 2021. These amendments include merging the Closed-ended Investment Traded Funds Regulations with the Investment Funds Regulations, and merging the Real Estate Investment Traded Funds Instructions with the Real Estate Investment Funds Regulations.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الجمعة ١٤ربيع الآخر ١٤٤٠هـ • ٢١ ديسمبر ٢٠١٨م
السنة ٩٦ • العدد ٤٧٥٨
أم القــرى 25

قرار مجلس هيئة السوق المالية رقم(٢-٦٦-٢٠١٨)
وتاريخ ٢٢-٩-١٤٣٩هـ الموافق ٦-٦-٢٠١٨م

إن مجلس هيئة السوق المالية
بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ،
يقرر ما يلي:
أ) اعتماد التعليمات الخاصة بصناديق الاستثمار المغلقة المتداولة وفق الصيغة المرافقة، ويُعمل بها من تاريخ نشرها.
ب) تنشر التعليمات الخاصة بصناديق الاستثمار المغلقة المتداولة المشار إليها في الفقرة (أ) من هذا القرار بالتزامن مع نشر التعليمات الخاصة بصناديق الاستثمار العقارية المتداولة المحدثة وقواعد الإدراج المعدلة -المقترحة من قبل مجلس إدارة شركة السوق المالية السعودية (تداول)-، التي يجري العمل عليها، في موقع الهيئة الإلكتروني.
ج) يعلن مضمون الفقرة (أ) من هذا القرار بالتزامن مع نشر التعليمات الخاصة بصناديق الاستثمار المغلقة المتداولة، في موقعي الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.
د) تتولى وكالة الهيئة للشؤون القانونية والتنفيذ تنفيذ هذا القرار.

مجلس هيئة السوق المالية

عضو مجلس الهيئة خالد بن عبدالعزيز الحمود	عضو مجلس الهيئة خالد بن محمد الصليع
نائب رئيس مجلس الهيئة يوسف بن حمد البليهد	رئيس مجلس الهيئة محمد بن عبدالله القويز

التعليمات الخاصة بصناديق الاستثمار المغلقة المتداولة

102 Closed-Ended Investment Traded Funds Regulations.

18.3.3 FinTech Lab

The Kingdom's capital market established a more streamlined regulatory framework for FinTech projects through the FinTech Lab initiative. This framework allowed companies with innovative financial services to receive a temporary licence to test their ideas for a period of two years, particularly if they may not fit within the traditional regulatory framework. At the end of this period, the company can choose to seek a permanent licence, pivot to a different business without significant risks or investment, or request an extension if more time is needed to determine the viability of the service. This approach provided some regulatory oversight to a field that is moving faster than regulators can keep up with.

The CMA approved the Financial Technology Experimental Permit Instructions on 10th January 2018 to regulate the provision of FinTech products and services in the capital market and support FinTech projects. In February 2018, the CMA began accepting applications for the first batch of permits to experiment with FinTech. In July 2018, the CMA granted the first two permits to companies to test their collective ownership financing services through an electronic portal owned and supervised by the company. The purpose of these permits is to allow licensed companies to experiment with their FinTech products and services.

In October 2018, the CMA formed the FinTech Lab Committee to assist FinTech projects in the capital market. The Committee has a range of responsibilities, including reviewing and evaluating FinTech applications, helping applicants understand regulatory requirements, supervising companies granted permission to experiment with FinTech, and monitoring compliance with regulations as well as potential risks. The Committee also works on developing regulatory concepts for FinTech and participates in educational campaigns, workshops, seminars, and periodic publications related to FinTech. By the end of 2020, 16 companies had received permission to experiment with FinTech in securities business, including a variety of services such as collective ownership financing, automated advisor services, and the use of distributed ledger technology (DLT) for securities issuance and preservation, as well as offering and investing in debt instruments.

During the Financial Sector Conference on 14th April 2019, Their Excellencies Ahmad Al-Kholifey, SAMA Governor, and Mohammed Abdullah Elkuwaiz, CMA Chairman, signed a Memorandum of Understanding (MoU) to establish the Saudi FinTech Centre in partnership with the King Abdullah Financial Centre. The centre serves as a hub for those interested in financial technologies, such as entrepreneurs and SMEs, to design innovative solutions and models by providing collaborative workspaces, technical labs in partnership with leading companies and actors in the sector, and business accelerator and incubator programs.

The centre focuses on the growth of the FinTech sector, regardless of whether it falls under the jurisdiction of SAMA or the CMA, to ensure that entrepreneurs do not fall between the two entities.

18.3.4 Launching the Derivatives Market

MSCI Tadawul 30 (MT30) Index is a collaboration between Tadawul and MSCI, a global provider of index services. It was created to serve as the basis for financial products such as derivatives and ETFs. The MT30 Index targets the top 30 securities of MSCI Saudi Arabia IMI Index based on free float market cap, allowing the number of constituents to range between 25 and 35. The maximum security weight is capped at 15%.

The MT30 Index was launched on 5th December 2018 and was calculated retrospectively for a period of five years on a base date of 26th November 2013, with a base value of 1,000 points. The Index is primarily used as an alternative benchmark for the Saudi equity market.

Tadawul introduced the Saudi Futures 30 (SF30) Index Futures Contract, based on the MT30 on 30th August 2020, marking the launch of the Kingdom’s first exchange-traded derivatives market. Goldman Sachs Saudi Arabia has been granted membership to Tadawul and has the authority to provide brokerage services for derivatives trading and act as both a principal and an agent in the new market. Tadawul intends to roll out other derivative products and services in the future. The total value of derivative contracts traded amounted to SAR 346.5 thousand by the end of 2020.

Chapter 19: Investor Protection and Capacity-Building

Protecting investors has always been a top priority for the CMA as per the Capital Market Law. Since its inception, the CMA has implemented various measures, even indirectly, to safeguard the rights of investors. Initially, it focused on creating a fair market and reducing risks through the issuance of implementing regulations. It also provided a platform for investors to file complaints and take legal action against violators. In subsequent years, the CMA introduced an automated complaint system, a call centre, and an electronic investor protection system. It also approved class action lawsuits and launched the investor rights document to further support the rights of investors.

Protecting investors' rights goes beyond just having legal and legislative protections in place. It also requires investors to be knowledgeable and informed about their rights, so they can avoid being taken advantage of or falling victim to fraud. A famous saying states, "The law does not protect the fools." This saying has its roots in the story of an American man who, despite living in poverty, came up with a plan to make millions by placing an ad in the newspaper that read, "If you want to be rich, send a dollar to this mailbox". Seeing the small amount requested, many people were drawn in by "get-rich-quick" dream and sent in their dollars. However, when they realised they had been duped, they took the man to court and were met with the sarcastic response, "The law does not protect fools". This saying serves as a reminder for investors to be cautious and to be legally protected. The 2006 bubble serves as a reminder of the losses that can occur when individuals and the market as a whole lack financial awareness. To address this issue, efforts have been made to increase awareness and build the capabilities of market participants, leading to the creation of the Financial Academy (FA).

19.1 Evolution of Investor Protection

19.1.1 Investor Protection System

The Investor Protection System (EPS), launched by the CMA in 2017, aims to improve the speed and efficiency of processing and resolving complaints and reports through an electronic system that connects the CMA with all market participants (including plaintiffs, authorised persons, Tadawul, Securities Depository Centre Company (Edaa), listed companies, and the General Secretariat of the Committee for Resolution of Securities Disputes (GS-CRSD).

EPS allows the complainant to be easily notified of the filing of their complaint or claim with CRSD, eliminating the need for a paper notification. The complainant can proceed to contact CRSD directly once notified by text message or call from the employee handling their request. This has greatly streamlined the process for receiving and processing complaints, reduced the number of paper transactions related to complaints received by the CMA, and encouraged more citizens and investors to use electronic transactions. It has also provided an effective channel for investors to report issues. Table 4 shows the number of complaints received, classified by topic, between 2017 and 2020:

The number of received complaints by subject				
Item/Year	**2017**	**2018**	**2019**	**2020**
Agreements and contracts between investors and brokers	23	35	55	49
Services provided by authorised persons	77	70	475	2,685
Investment portfolios	137	346	312	657
Corporate governance	690	441	692	1,241
Conducting unlicensed securities business	140	566	1,097	1,008
Complaints outside CMA jurisdiction	72	69	122	47
IPOs and priority rights	160	144	279	252
Investment funds	146	202	227	164
Executing securities transactions	53	87	107	224
Distributing profits of listed companies	77	277	344	847
Compensation requests related to violations of laws and implementing regulations	134	318	2,048	902
Total	1,709	2,555	5,806	8,076

04 Number of Complaints Received, Classified by Topic.

19.1.2 Class Action Lawsuit

In November 2017, the Kingdom introduced amendments to the Dispute Resolution Regulations to include a section on class action lawsuits for the first time in the country and the region. The goal was to streamline litigation procedures for cases in which the plaintiff is a large group of people with shared legal issues and alleged facts, which is particularly relevant for joint-stock companies and their shareholders, as well as financial institutions and their clients. In 2019, the Capital Market Law was amended to include regulation of class action lawsuits in securities disputes, providing a key tool for protecting investors. The amended Resolution of Securities Disputes Proceeding Regulations, as approved by the CMA Board, is illustrated in Document 103.


أم القرى 7
الجمعة ٢٧ ربيع الأول ١٤٣٩هـ ، ١٥ ديسمبر ٢٠١٧م
السنة ٩٥، العدد ٤٧٠٢
قرارات وأنظمة
UM AL-QURA 94

قرار مجلس هيئة السوق المالية رقم ١-١٠٤-٢٠١٧ وتاريخ ٢-٠٣-١٤٣٩هـ الموافق ٢٠-١١-٢٠١٧م

إن مجلس هيئة السوق المالية

بناءً على نظام السوق المالية الصادر بالمرسوم الملكي رقم (م/٣٠) وتاريخ ٢-٦-١٤٢٤هـ

يقرر ما يلي:

(أ) اعتماد لائحة إجراءات الفصل في منازعات الأوراق المالية المعدلة وفق الصيغة المرافقة.

(ب) نشر لائحة إجراءات الفصل في منازعات الأوراق المالية المعدلة المشار إليها في الفقرة (أ) من هذا القرار في موقع الهيئة الإلكتروني، ويُعمل بها ابتداءً من تاريخ نشرها.

(ج) إعلان مضمون الفقرة (أ) من هذا القرار في موقع الهيئة وشركة السوق المالية السعودية (تداول) الإلكترونيين.

مجلس هيئة السوق المالية

عضو مجلس الهيئة	عضو مجلس الهيئة
خالد بن عبدالعزيز الحمود	خالد بن محمد الصليع
نائب رئيس مجلس الهيئة	عضو مجلس الهيئة
يوسف بن حمد البليهد	أحمد بن راجح الراجح

رئيس مجلس الهيئة
محمد بن عبدالله القويز

لائحة إجراءات الفصل في منازعات الأوراق المالية

103 Approving the Amendment of the Dispute Resolution Regulations.

Regulating class action lawsuits greatly enhanced the legal environment in the securities industry in the Kingdom, as it not only reduced investment risks but also streamlined the process for seeking compensation and reduced litigation costs. In 2020, there were 1,436 requests to join such lawsuits.

A class action lawsuit was filed against the Board of Directors of Mohammad Al-Mojil Group (MMG) in 2008 during the public offering of its shares. This first-of-its-kind case marked a defining point in the history of the capital market. To understand the events leading up to the lawsuit, let's provide some background on the Group and the violations that were made against it.

MMG was founded in the 1950s and quickly became a leading company in the fields of civil, mechanical, and engineering contracting for the oil, gas, petrochemical, and iron industries. On 24th June 1974, the company was registered as a sole proprietorship in Dammam. On 3rd April 2007, MMG became a limited liability company, and on 22nd May 2007, its capital was increased to SAR 1 billion, divided into 100 million shares. The capital increase was financed through retained earnings and credit accounts from the company's partners. On 10th November 2007, MMG was transformed into a joint-stock company by a ministerial resolution.

Prior to 2008, MMG had completed several projects worth more than SAR 5.37 billion. The founding shareholders then decided to offer 30% of MMG's shares for public subscription. On 11th March 2008, the CMA Board approved the offering of 30% (or 30 million shares) of MMG shares for public subscription, provided that, of these shares, 70% (or 21 million shares) were reserved for investment funds and subscribing institutions, while the subscription manager retained the right to reduce this allocation to 30% (or 9 million shares).

The subscription occurred from 3rd to 12th May 2008. During the fair pricing phase of the initial offering, the CMA used the book-building process to determine the value of the share at SAR 70 (SAR 10 nominal value and SAR 60 share premium) with a total value of SAR 2.1 billion. There were a large number of requests for shares submitted by investment institutions during the pricing process, which supported a higher price range and provided coverage equivalent to twice the entire subscription including both institutions and individuals.

After the subscription process began, there was a surge in the number of individuals participating. As a result, the subscription manager decided to increase the allocation of shares to individuals from 9 million to 21 million, which represents 70% of the total. This change was made at the expense of shares allocated to qualified investment institutions and funds, which was decreased from 21 million to 9 million shares.

The subscription manager and underwriter for MMG shares announced that, at the end of the subscription period, approximately 2.8 million people had subscribed to MMG shares and paid a total of approximately SAR 2.9 billion. The coverage rate of shares allocated to individuals reached 197%. MMG was listed on Tadawul on 26th May 2008. MMG also announced its audited annual financial results for the period from when the group converted to a joint-stock company until the end of 2008, showing a net profit of SAR 665.5 million for the 14-month period.

On 16th March 2009, the CMA approved MMG's request to raise its capital by SAR 1.25 billion by offering one free share for every four shares owned by shareholders at the end of trading on the day of the Extraordinary General Assembly (EGA). MMG announced its financial results at the end of 2009, which showed a 93.9% decrease in net profit compared to the previous year. MMG attributed this decline to higher direct labour costs, increased use of materials, and depreciation, as well as the US mortgage crisis of 2008 and the resulting decline in financing. MMG's profits began to decline and it registered losses starting in 2011.

In September 2012, MMG published its preliminary financial results on Tadawul website, but its chartered accountant declined to comment on the figures. The statements indicated that MMG incurred losses of SAR 540.80 million for the first financial period ending in mid-2012, resulting in a deficit of SAR 279.80 million in shareholder equity and significant losses for around 90,000 shareholders. In light of this, the CMA Board exercised its authority and decided to suspend trading of MMG's shares on Tadawul until the company could improve its financial conditions.

By the end of August 2014, MMG had accumulated losses of around SAR 2.7 billion, representing 215% of its paid-up capital. In response, MMG announced a restructuring plan to its shareholders, which included a 90% reduction in its capital. This involved reducing the capital from SAR 1.25 billion to SAR 125 million by decreasing the total number of MMG shares from 125 million to 12.5 million. Despite this plan, MMG continued to face financial and operational difficulties, leading to the delisting of its shares on Tadawul by CMA on 2nd May 2017.

The Dispute Resolution Regulations enabled those who were impacted by MMG's losses to file a class action lawsuit. An investor filed a class action lawsuit against MMG Board, certain senior executives, and auditors for the violations committed on MMG shares during the public subscription process. These same defendants were convicted on 8th February 2017 by the Appeal Committee for the Resolution of Securities Disputes (ACRSD) of violating Capital Market Law and Market Code of Conduct by giving a false and misleading impression of the value of MMG shares during the public offering. GS-CRSD approved the request to register the case and authorised anyone who subscribed to or bought MMG shares before the release of its first financial statements on 12th July 2008 and who were affected by these violations to join the class action lawsuit by submitting a request to CRSD within 90 days of the announcement, which was made on 4th February 2019. In total, 1,025 investors joined the class suit.

ACRSD issued a final decision in this lawsuit and ordered compensation for investors impacted by these violations. The compensation amount was based on the number of shares the injured party bought or subscribed to between the time of subscription and the publication of MMG's first financial statements on 12th July 2008, as the trading of MMG shares during this period was based on misleading information. The Committee calculated the value of the compensation by determining the difference between the subscription price of SAR 70 per share and the lowest estimated fair price of SAR 16 per share, which was SAR 54. This class action lawsuit established a new precedent in the capital market and allowed those impacted to receive compensation for the damage they experienced due to these violations.

19.1.3 Investor Rights Document

The CMA created a document in early 2018 outlining the basic rights of investors as stated in the Capital Market Law and the CMA's Implementing Regulations in an effort to clarify and consolidate these rights, to help investors better understand their rights, and to make it easier for them to assert these rights if necessary. The document was designed to be flexible and subject to ongoing development. Prior to its creation, the rights of investors were scattered across various regulations, which may have caused confusion and made it difficult for them to understand their legal rights.

The Investor Rights Document was issued on 23rd October 2019 to inform investors and participants in the capital market about their rights under the Capital Market Law and its Implementing Regulations, to enable them to actively participate in its development, and to promote confidence in the capital market (Image 35). The document also provides information on how to claim these rights, which is often the cause of complaints and disputes. The document stems from the CMA's belief that investors and participants in the capital market are the first line of defence for protecting the capital market from unfair or improper practices.

35 The Cover of the Investor Rights Document.

19.1.4 CRSD E-System

The judicial committees originally relied heavily on paperwork, which was time-consuming and inefficient. Adoption of technology improved the work of the committees. The CMA sought to provide the committees with laws that would support their mission. In October 2018, GS-CRSD introduced the Investor Protection System (EPS) to streamline litigation processes and improve the efficiency and speed of transactions. This was combined with new electronic services for filing and recording cases with the committees, as part of the CMA's efforts to promote transparency in securities transactions and build confidence in the capital market.

The first phase of EPS streamlined the process of filing and reviewing lawsuits in preparation for their registration and hearing before committees. It connected all parties involved in a case (plaintiff, defendant, and adjudication committees) electronically and kept them informed of all details, requests, and memorandums related to the case while eliminating the need for in-person visits to committee headquarters. EPS was created by GS-CRSD to expedite litigation procedures and allow parties to easily access any developments in their case electronically.

In its current phase, EPS offers services such as filing and registering lawsuits with CRSD, notifying litigants, exchanging notes between parties electronically, reviewing documents submitted by litigants, and reviewing directives and instructions issued by the case reviewer, as well as his time limits for responses and defences. EPS also provides notification of session dates, presents the schedule of case hearings, and communicates decisions made by CRSD.

These improvements have resulted in a reduction of the average litigation period to 10 months, down from 36 months at the start of EPS implementation. The CMA aimed to further reduce the litigation period to seven months in 2021. In addition, GS-CRSD has introduced the option for remote hearing sessions, with the first such session held on Sunday 27th April 2020.

19.1.5 Investor Protection Association

The Investor Protection Association (IPA) was founded for the first time in October 2019 with the goal of protecting investors by educating them about their rights and advocating for their interests. To achieve this, IPA analyses and evaluates laws, regulations, policies, and legislation that affect investors and makes recommendations to relevant authorities. IPA also works closely with regulatory and supervisory entities to identify and address any unethical or suspicious practices in the management of listed companies in the capital market. In addition, IPA may report any infringements of investors' rights and interests to supervisory and regulatory entities and provide legal assistance and advice to its members and individual investors seeking to hold accountable those who have violated their rights.

The Kingdom's endeavours to protect the rights of investors led to an improvement in its ranking on the Ease of Doing Business Index for 2020. According to the World Bank's Ease of Doing Business report, the Kingdom ranked third globally on the Minority Investor Protection Index, with a total score of 86 points. This is a significant improvement from its ranking of seventeenth in 2012 and seventh in 2019. Its performance is on par with that of New Zealand and Singapore, which are known for their favourable business environments. The ranking of economies on the strength of minority investor protections is determined based on scores that are the sum of the conflict of interest regulation index and the shareholder governance index.

19.2 Improving Skills and Abilities of Capital Market Employees

In 2018, the Jadarat project was launched in collaboration with Willis Towers Watson to enhance the professional capabilities of capital market employees. This project focuses on creating tailored training solutions and professional assessments based on market demands, as well as reviewing and updating the technical and behavioural skills required in the capital market sector. To achieve this, experts and specialists in the field participated in specialised technical workshops for each sector, with the aim of identifying skills that are relevant to the financial sector and can be implemented in practice.

19.3 The Financial Academy (FA)

The Financial Academy (FA) has greatly aided the development of financial awareness and the qualification of professionals in the financial sector in the Kingdom. SAMA first established the Institute of Banking Training in 1965 to provide theoretical and practical training to citizens working in the banking industry or seeking to enter it. In addition to its original focus on banking, the Institute has also offered daytime and evening courses in English, secretarial work, typing and computer literacy.

SAMA oversaw the Institute of Banking Training and supported it to achieve its mission and goals. As part of this support, SAMA funded scholarships for outstanding students to train at central and commercial banks and complete university studies abroad. In 1989, the Institute was renamed the Institute of Banking and began offering a range of diplomas and qualifying exams, including the Financial Planning Diploma and the Insurance Diploma, for the first time in the Kingdom. When TES was launched in 2001, the Institute designed exams to qualify financial brokers to work on the system. After the establishment of the CMA and the authorisation of brokerage activity in the country, the demand for Tadawul exams increased, and by the end of 2005, more than 1,200 financial brokers had taken the certification exam.

The Institute of Banking worked diligently to provide specialised financial education and improve its services to the banking and financial industries. However, as the financial sector continued to grow and evolve, the Institute recognised that meeting the training needs of the sector would be a challenge. As a result, the Institute conducted a study in 2014 to assess the needs of the entire financial sector and review its own operational model. The findings of this study prompted the Institute to adopt a new mission, strategy, and operating model in order to better serve the sector. It also changed its name from the Institute of Banking to the Financial Institute to reflect the broader scope of its services, which now included the insurance, money market, and finance industries in addition to the banking sector. The Institute also began collaborating with the CMA, which sought to improve the capabilities of financial sector employees by supporting training and qualification programmes and also had significant experience in professional exams. In addition to its own training programmes, the Institute now also administers the CMA and Tadawul standard exams.

In parallel with these efforts, the CMA collaborated with SAMA on a joint project that culminated in the signing of a memorandum of understanding in 2006 to establish a financial academy. Mr. Abdullah Abdulqader Shibatalhamd, CMA Deputy Assistant for Corporate Resources, narrates the history of this endeavour: Despite initial difficulties and setbacks and several attempts at revival, the CMA revisited the project in 2015 and determined that it was necessary and overdue, recommending the establishment of an academy specialised in capital market activities. However, it was ultimately placed on the backburner due to other prioritised initiatives by the CMA.

In 2017, the introduction of Saudi Vision 2030 and the National Transformation Programme revitalised hope for the establishment of FA, which had long been a goal for both the CMA and SAMA. This initiative, which aimed to develop the financial sector, progressed from an aspiration to a national project that was being closely monitored by government offices. The conditions were now favourable to move forward with the project, and there was no longer any possibility of halting or reversing its progress.

Granting administrative and financial autonomy to this new entity had to be brought before the Council of Ministers for approval. Both parties then took steps to organise, draft the proposal, review it legally, and submit it to the Council of Ministers. On 14th April 2020, the Council of Ministers approved the establishment of FA (Image 36) and organisational arrangements. This approval by the Council of Ministers showcases the Saudi leadership's dedication to advancing the financial industry in the Kingdom and fostering its growth and outputs.

The decision made by the Council of Ministers also included the organisational arrangements, which stated that FA would have its own legal identity, and financial and administrative autonomy, and be affiliated with the CMA Chairman. FA's goal is to train and develop human resources in the financial sector by enhancing the knowledge, abilities, skills, and culture of employees, including administrative leaders and board members of institutions within the sector, and promoting best practices in the field. FA's financial resources come from contributions from SAMA and the CMA, and fees for services and projects, as well as gifts, donations, grants, bequests, endowments, investments, and any other sources approved by the Council of Ministers that comply with all laws and regulations.

Also according to the organisational arrangements, FA must be governed by a board of trustees, led by the CMA Chairman. The board must include two representatives from SAMA, one of whom serves as Vice Chairman and is nominated by SAMA's Governor, a representative from the CMA, and five specialists with relevant expertise in fields related to FA's mission who are not affiliated with SAMA or the CMA. The appointment of members to the board is made by a decision from the CMA Chairman. The term of service for board members is three years, with the possibility of a one-time renewal.

On 18th May 2020, His Excellency CMA Chairman and Chairman of FA's Board of Trustees, Mr. Mohammed Abdullah Elkuwaiz, announced the appointment of the members of FA's Board of Trustees. The appointees included Dr. Fahad Abdullah Aldossari as Vice Chairman and SAMA representative, Dr. Abdulrahman Abdulmohsen Al-Khalaf as a member, Mr. Tareg Abdulrahman Al-Sadhan as a member, Mr. Tariq Ziyad Al-Sudairy as a member, Mr. Tal Hisham Nazer as a member, Mr. Al-Walid Abdul-Razzaq Al-Duraiaan as a member, Mr. Abdullah Abdulqader Shibatalhamd as a member and CMA representative, and Mr. Turki Dhaif Allah Al-Mutairi as a member and SAMA representative.

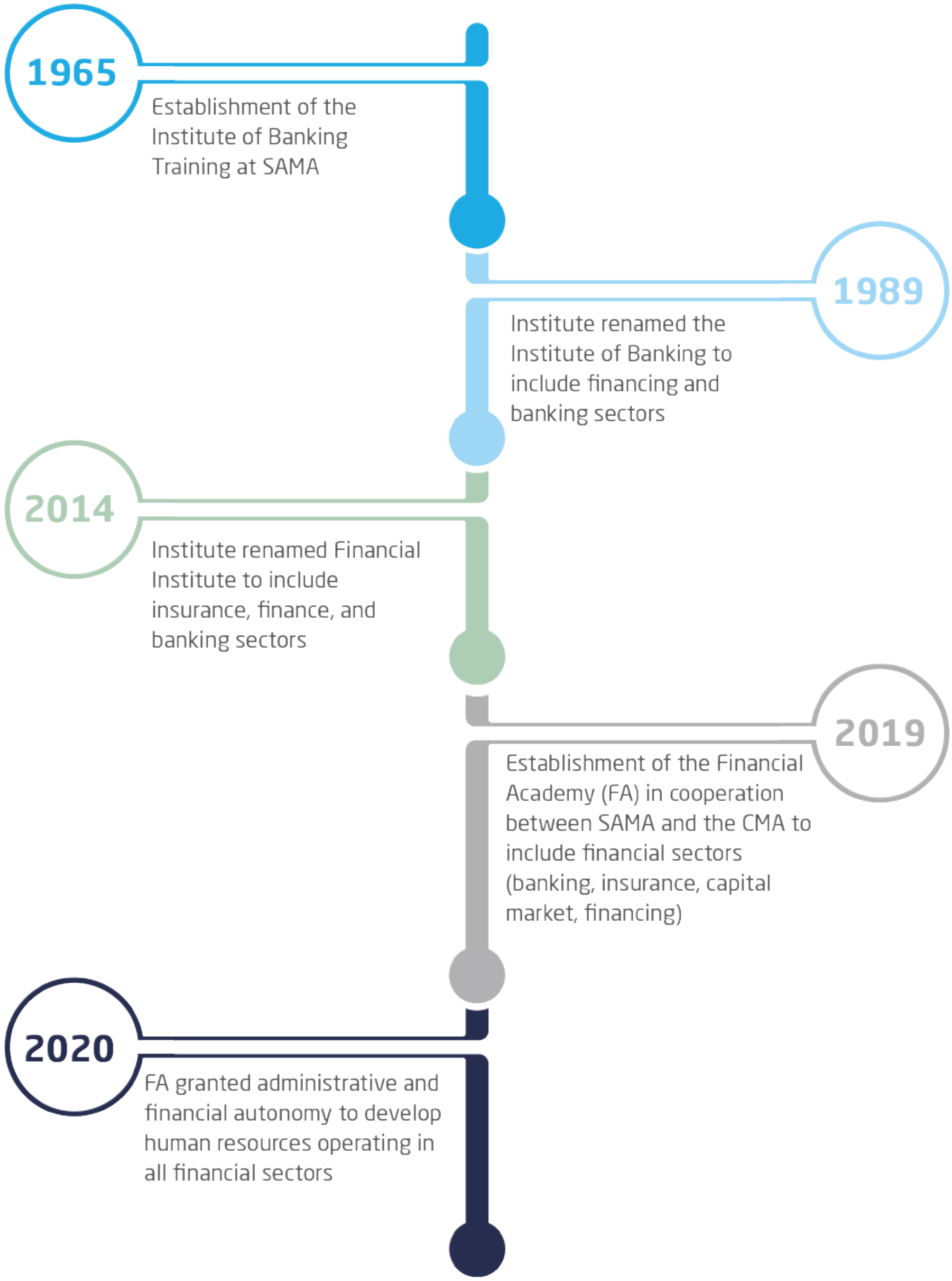
36 The Financial Academy.

Mr. Abdullah Abdulqader Shibatalhamd, a CMA representative serving on FA's Board of Trustees highlighted FA's expanding role. "FA's responsibilities include four key areas: training, testing, scientific and research endeavours, and supporting government employees. In terms of training, FA offers a range of specialised courses in the financial sector, including capital market, banking, insurance, and finance."

"To provide these courses, FA collaborates with leading international training entities. Despite being a relatively new institution, FA has already trained hundreds of individuals to a high standard. Regarding testing, FA conducts professional licensing exams as required by SAMA and the CMA, and also oversees the development and administration of tests by the Department of Professional Standards and Qualifications. FA works with local, regional, and international experts who specialise in designing and producing professional exams for the financial services sector, including the banking, finance, insurance, and money market industries. Additionally, FA collaborates with regulatory bodies in the Kingdom to align local professional exams with their international equivalents, and aims to host and implement international exams through international expert organisations."

"The next area of focus is scientific and research endeavours, which are currently being developed. It is anticipated that FA will collaborate with leading research centres to produce working papers and specialised studies that will aid in the expansion of knowledge and improvement of financial expertise. Lastly, we address the fourth area of providing assistance to financial sector employees within government entities such as the Ministry of Finance, SAMA, the CMA, and the Zakat, Tax, and Customs Authority, among others, to train specialised professionals with a high level of competence in handling this crucial and delicate sector."

The following infographic (Figure 48) illustrates the significant milestones from the establishment of the Institute of Banking in 1965 to the Financial Academy (FA) in 2020.



48 **Significant milestones in FA history.**

Chapter 20: Accession to International Indices

The Saudi capital market, like other markets, aspires to join major global indices and increase its appeal to international markets. As the Kingdom strives to become the leading market in the Middle East, it has taken steps to overcome any issues preventing it from meeting the requirements for inclusion in these indices. The inclusion of the Saudi stock market index in the emerging markets index of the International Finance Corporation (IFC), a member of the World Bank Group, on 20th April 1998 was a significant achievement for the market. With ongoing developments in the Saudi capital market, it aspired to continue to progress and eventually join some of the most prominent global market indices.

20.1 Accession to Global Indices

20.1.1 Rationale for Accession

The inclusion of Saudi Arabia's capital market in global indices is a significant achievement that reflects confidence in the stability and potential of the country's economy and its capital markets. This move brings several key benefits to the market, such as promoting stability and efficiency by encouraging institutional investment in the Saudi capital market and increasing the market's attractiveness and liquidity to both foreign and local investors. This attracts new segments of investors, and the possibility of dual listing, in addition to a high level of free shares, which is a requirement for joining the indices.

Furthermore, the increased liquidity in the market provides a greater incentive for the government to privatise state-owned companies and list them on the capital market. Joining global indices also means integrating with advanced global markets and staying up-to-date with their developments. It also draws global attention to and promotes investment in the Kingdom's economy and investment products, as well as increasing transparency and reducing information discrepancy among investors and companies by encouraging the development of investment products that require a package of market information, such as ETFs, and making company and market reports available in English, thereby increasing global coverage by financial analysts.

In addition to these benefits, the inclusion of the Saudi capital market in global indices also contributes to the ongoing development of the investment environment and legal frameworks for the capital market (as this is one of the requirements for remaining in these indices). By meeting these requirements, the market will also see improved performance of authorised parties, increased participation of experienced investors in general assemblies, a higher level and number of studies published on listed companies, and fair valuations of share prices within these indices.

20.1.2 Requirements of Accession

The requirements for global indices are similar, with Morgan Stanley indices being among the most significant due to the large size of assets they target compared to other global indices. MSCI Market Classification Framework uses three criteria: economic development, size and liquidity, and market accessibility. For a market to be classified within a specific investment universe, it must meet the requirements of all three criteria, classified into frontier, emerging, and developed.

The FTSE Russell Index established a process for assessing the markets that are eligible for inclusion in the index. This process is anchored in specific criteria used to objectively evaluate and compare markets. To gather information, questionnaires are sent to capital markets and regulators. An evaluation advisory committee, using the established standards, conducts the assessment. Markets that are close to meeting the standards are placed on a watch list, which allows investors to anticipate future changes. These markets must remain on the watch list for at least one year before they can be included in the index.

20.1.3 Stages to becoming part of global indices

The process of becoming a part of global indices involves multiple steps, beginning with the decision to be added to the watch list. It typically takes three to five years to progress from being placed on the watch list to being accepted into the index. Being on the watch list signifies that a market meets the minimum requirements and is continuing to improve on them. Following this comes the phase of being included in the index, with a fixed period of 12 months for all markets, during which foreign investors can establish portfolios and formulate their investment plan.

20.1.4 Pre-Accession

Tadawul CEO Khalid Al-Hussan details the journey to joining global indices, explaining that the first challenge faced by the capital market was coordinating the opening of the market to foreign investors, which required both amending the legislative system and addressing operational matters. The process of opening the market to foreigners was not sudden, but rather the result of gradual changes. The biggest challenge was not just opening the market, but ensuring its success in attracting foreign investment.

The Saudi market's entry into global indices was delayed due to a lack of market readiness. However, with reassurance about legislative and operational aspects, the CMA and Tadawul collaborated on a phased strategy. The key element of this strategy was to fully understand the accession requirements, which were crucial to the success of the entry. This was followed by implementing necessary legislative and operational changes over a period of months, many of which were conducted outside of the Kingdom. As part of this process, stakeholders such as investors, custodians, brokerage firms, and index developers were consulted to discuss and implement the necessary changes to meet global index inclusion criteria.

Significant progress was made over the years in the Saudi capital market, allowing it to meet the requirements for inclusion in global indices. This includes shortening the settlement cycle for securities transactions to two business days after the trade date (T+2), aligning with global best practices, as well as dropping the cash pre-funding requirement for specific investors to bring trading practices in line with international standards, and streamlining procedures for institutional investors.

The introduction of fail management controls offered by SDC (Edaa) for executing brokers to cover securities shortages was among the achievements. These controls include transferring securities from the principal account, borrowing securities via securities borrowing and lending, buying securities on the open market, or optional purchase deals. A delivery versus payment (DvP) model was introduced wherein the delivery of securities occurs only if the corresponding payment occurs, in accordance with laws in force in the Kingdom and with the goal of increasing the level of protection for investor transactions.

Saudi Arabia opened its capital market to qualified foreign investors to broaden the foreign investment base in the market, marking a major market transformation. This included allowing foreign investors to subscribe to Saudi companies, a step instituted in January 2017. Changes to the independent custody model were implemented to support this move and enable custodians to reject unconfirmed trades executed by the executing brokers. Borrowing and lending of securities, as well as covered short-selling, were allowed to improve trading and provide new investment opportunities for market participants both locally and globally. Additionally, an independent custody service was developed to provide institutional investors with better trading limits. As a result, new laws were put in place to reduce risks associated with settlement procedures for all market participants.

20.1.5 Accession Success

The efforts put in place by the Saudi capital market paid off and resulted in its successful inclusion in major global indices such as the FTSE Russell Index, MSCI Emerging Markets Index, and the FTSE EPRA Nareit Global Real Estate Index.

20.1.5.1 FTSE Russell Index

In 2015, the Saudi capital market was placed on the watch list of the FTSE Russell Index for secondary emerging markets, following the introduction of the Qualified Foreign Investors Program. It retained its position on the watch list in 2016. In October 2017, the FTSE Russell Index created the FTSE Saudi Inclusion, which serves as a tool for local and foreign investors to track the performance of the Saudi capital market through the Index.

FTSE Russell began incorporating Saudi domestic stocks into its indices starting in March 2019. It completed the process on 22nd June 2020. The inclusion process of Tadawul was carried out over five phases, with the first phase implemented on 18th March 2019, the second phase on 1st May 2019, the third phase on 24th June 2019, and the fourth phase on 23rd September 2019. FTSE Russell divided the final phase into two tranches—the first with an inclusion factor of 25% implemented on 23rd March 2020 and the second with an inclusion factor of 75% completed on 22nd June 2020.

FTSE's semi-annual review on 8th March 2021 revealed that a total of 49 Saudi companies had been added to the index, with a market value of SAR 891.87 million (USD 237.8 million), resulting in a weight of 0.38% in the global index. Table 5 shows the phases of including the Saudi market in the FTSE Russell Index for secondary emerging markets.

<table>
<tr><th>Phases</th><th>Phase 1</th><th>Phase 2</th><th>Phase 3</th><th>Phase 4</th><th colspan="2">Phase 5</th></tr>
<tr><td>Review date</td><td>18th March 2019</td><td>1st May 2019</td><td>5th June 2019</td><td>23rd September 2019</td><td>23rd March 2020</td><td>June 2020</td></tr>
<tr><td rowspan="2">Phase Size</td><td rowspan="2">%10</td><td rowspan="2">%15</td><td rowspan="2">%25</td><td rowspan="2">%25</td><td colspan="2">%25</td></tr>
<tr><td>%25</td><td>%75</td></tr>
<tr><td>Total</td><td>%10</td><td>%25</td><td>%50</td><td>%75</td><td>81.25 %</td><td>100 %</td></tr>
<tr><td>Value of inactive investments in SAR billion</td><td>1.8</td><td>2.7</td><td>4.5</td><td>4.5</td><td>1.12</td><td>3.38</td></tr>
</table>

05 Phases of Including the Saudi Market in the FTSE Russell Index.

<table>
<tr><th rowspan="2">Phase</th><th>Investment value</th><th>Number of Traded Shares</th><th rowspan="2">Number of Transactions (thousand)</th></tr>
<tr><th>(SAR billion)</th><th>(SAR million)</th></tr>
<tr><td>Phase 1*</td><td>1.4</td><td>38.5</td><td>5.4</td></tr>
<tr><td>Phase 2</td><td>2.5</td><td>55.4</td><td>4.4</td></tr>
<tr><td>Phase 3</td><td>5.21</td><td>125.2</td><td>8.6</td></tr>
<tr><td>Phase 4</td><td>4.9</td><td>136.3</td><td>12.6</td></tr>
</table>

*** Inflow of external funds associated with the FTSE and S&P Dow Jones Indices**

06 Transactions Carried out during the Phases of the Inclusion of the Saudi Market in the FTSE Russell Index.

20.1.5.2 MSCI Index

The Saudi capital market's inclusion in MSCI Index is a significant achievement, as it is the second global index that the market joined after the FTSE Group. The process of being added to MSCI Index began in June 2017 when the market was placed on the index watch list. MSCI, a global provider of indices, recognised the

2018, MSCI announced that Tadawul had been added to MSCI Emerging Markets Index, officially classifying the Saudi capital market as an emerging market and making it the 25th country included in the index. This was a great step up for the Saudi market as prior to this it was considered an independent market with MSCI.

The Saudi capital market was added to MSCI Index in two phases, with the first phase taking place during the semi-annual review on 28th May 2019, and the second phase during the Q3 review on 28th August 2019. A total of 32 companies listed in the Saudi capital market were included in the index, increasing its market weight to 2.6%. This achievement represents a significant milestone in the development of the Saudi capital market, improving its appeal to investors.

20.1.5.3 FTSE EPRA Nareit Global Real Estate Index

The capital market of Saudi Arabia successfully launched REITs and listed the first REIT in late 2016. On 26th June 2019, Tadawul announced that it had been included in the FTSE EPRA Nareit Global Real Estate Index, which focuses on REITs and real estate companies. Similar to other global indices, a group of listed securities was chosen to be included in the index, which is periodically reviewed and announced on the FTSE EPRA Nareit Global Real Estate Index website.

20.1.5.4 S&P Dow Jones Index

The process of joining international indices continued as the global provider of indices, S&P Dow Jones, announced in September 2019 that Tadawul would be upgraded to an emerging market status. This upgrade was a result of the tangible efforts and developments made by the Saudi capital market in increasing its attractiveness and efficiency both domestically and internationally. This upgrade made companies listed on Tadawul eligible to join several indices, including S&P Global BMI, S&P Global BMI Shariah, S&P/IFCI Composite, Dow Jones Global Index, and Dow Jones Islamic Market World Index.

20.2 Global Competitiveness Indices

The capital market's advancements, in conjunction with the economic entities within the government, played a role in enhancing the Kingdom's standing in global financial indices.

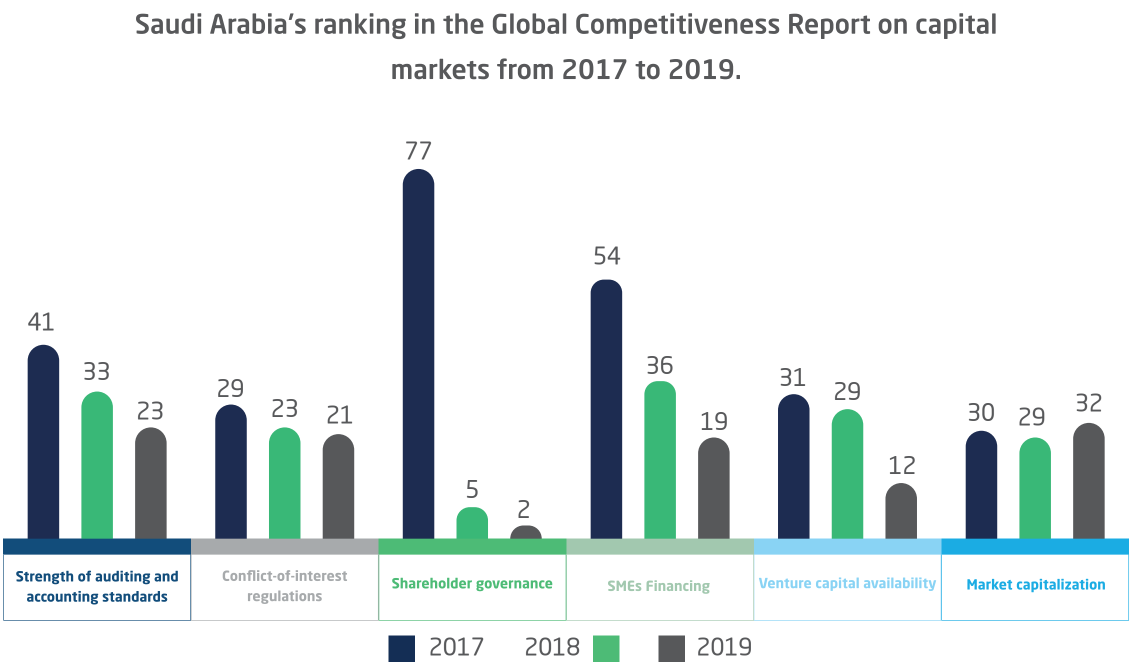
20.2.1 Global Competitiveness Index

In 2019, Saudi Arabia made its most significant progress in seven years, as reported by the World Economic Forum's Global Competitiveness Report. The country ranked in the top 25% of countries on the Global Competitiveness Index, earning 70 points out of 100. This led to an improvement in its ranking, from 41st in 2017, to 39th in 2018, and ultimately 36th out of 141 countries in 2019.

The improvement in Saudi Arabia's ranking in corporate governance is responsible for this progress. Specifically, the country's ranking in the strength of auditing and accounting standards improved to 23rd, its ranking in managing conflicts of interest improved to 21st (up two ranks), and its ranking in shareholder governance improved to 2nd in the world (up three ranks). Additionally, Saudi Arabia made significant progress in the area of financing for SMEs and the availability of venture capital, rising 17 ranks to reach 19th and 12th, respectively.

The capital market and other economic sectors in the country underwent a series of developments and measures in cooperation with regulatory entities, leading to significant progress. This progress resulted in the Kingdom rising to the second rank in the world for shareholder governance, after previously occupying the 77th rank in 2017, hence achieving first place in the Arab world and second in the G20. The CMA played a key role in this improvement, specifically through the development of corporate governance regulations for companies listed on the Saudi Stock Exchange. Additionally, the CMA made contributions in the area of financing for SMEs and the availability of venture capital through various initiatives, such as authorising companies to participate in the FinTech Lab.

The Global Competitiveness Report showed the Kingdom's progress towards meeting the ambitious goals outlined in Saudi Vision 2030. These goals focus on improving the business and investment climate, increasing foreign direct investments, and aiming to be among the top 10 in the Global Competitiveness Index by 2030. Figure 49 illustrates the Kingdom's ranking in the Global Competitiveness Report from 2017 to 2019.



49 Saudi Arabia's Ranking in the Global Competitiveness Report on Capital Markets from 2017 to 2019.

20.2.2 Doing Business

Saudi Arabia carried out a record number of business reforms in 2019, earning the country a top spot in this year's top 10 global business climate improvers, according to the World Bank Group's Doing Business 2020 report. The Kingdom implemented reforms in eight Doing Business areas, its busiest activity since the launch of the study. The country placed 62nd globally in ease of doing business rankings with an overall score of 71.6 out of 100.

Saudi Arabia ranked third globally in the protection of minority shareholders, which measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards, and corporate transparency requirements. It scored the highest among both Arab and G20 countries, having advanced four places from its 2018 ranking due to various reforms. The Kingdom scored 86 in Doing Business, 43 in the strength of investor protection on a scale of 0-50, and 9 in the scope of disclosure index on a scale of 0-10.

The integration of the Saudi market into global markets was facilitated by accession to global indices and improvements in the Kingdom's international rankings. The opening of the capital market to foreign investors and the successful inclusion in international indices created a favourable environment for the launch of the oil giant, Saudi Aramco, which would propel the Saudi market to the ranks of global markets and pave the way for future growth.

Chapter 21: Saudi Aramco's IPO and Listing

Saudi Aramco, the global oil industry leader with over 80 years of history, is a key contributor to the Saudi economy. As part of Saudi Vision 2030, the company aims to facilitate the offering of shares and listing of state-owned companies, including itself, in the capital market.

These initial steps would result in the largest IPO in the history of stock markets. The ultimate goal was to benefit the Saudi economy, with Aramco remaining a crucial pillar. The following story details the process of listing Aramco in the Saudi capital market and the efforts for greater company transparency and openness after years of keeping financial information and internal regulations private.

21.1 Beginnings and Establishment

Saudi Aramco's origins can be traced back to 1933, when a concession agreement was established between the Kingdom and Standard Oil Company of California (Socal) to form the California Arabian Standard Oil Company (CASOC) to explore and extract oil in Saudi Arabia. 1938 was a turning point as commercial production of oil began at Dammam Well No. 7, also known as "Prosperity Well". The company was renamed Arab American Oil Company (Aramco) in 1944 and focused on increasing the production of crude oil. To expand into the distribution sector, the company built the Tapline, a 1,212-km-long pipeline linking eastern Saudi Arabia to the Mediterranean Sea, sharply cutting the time and cost of exporting oil to Europe.

At the end of the 1950s, many Arab countries nationalised foreign interests. In response, the Saudi government decided to negotiate with Aramco to gradually purchase shares of the company instead of nationalising it. This resulted in a partnership agreement, where ownership of Aramco would be transferred to the Saudi government gradually. By 1973, the Saudi government had bought a 25% stake in Aramco, increasing it to 60% the following year. In 1980, the Saudi government fully acquired Aramco and established the Saudi Arabian Oil Company (Saudi Aramco) to take over all of Aramco's responsibilities.

21.2 Aramco's First Offering Announcement

The announcement of the Saudi Aramco IPO as part of Saudi Vision 2030 was not the first. Crown Prince Mohammed Bin Salman had previously discussed it in 2016 during his Thatcher Revolution interview with The Economist as part of a plan to privatise sectors, such as healthcare and education, as well as state-owned companies to reduce pressure on the government and provide greater opportunities for investors to participate in profitable and growing sectors of the economy. King Salman also stated that the offering of Aramco would allow investors to own shares in the leading company and would greatly enhance the size of the Saudi capital market, making it competitive with global markets, while also improving transparency and governance in the company in line with international standards. (Document 104)

At that time, the Saudi market did not allow foreign investment and was not included in global indices. Therefore, Aramco considered a dual listing, both inside and outside the Kingdom, to reach investors outside the local market. The company explored several foreign exchanges, such as New York, Hong Kong, and London, for a partial listing. Various exchanges, including the Tokyo Stock Exchange, Hong Kong Stock Exchange, Nasdaq, NYSE, LSE, and Toronto Stock Exchange, competed to host the Aramco offering.

The Japanese government announced that King Salman Bin Abdulaziz had agreed to consider a request from Prime Minister Shinzo Abe to list Saudi Aramco on the Tokyo Stock Exchange. The CEO of the Japan Stock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طرح جزء من أسهم أرامكو للاكتتاب العام تعزيز لدورها المحوري في المملكة والاقتصاد العالمي

104 King Salman Bin Abdulaziz's Statements Regarding Aramco's Offering.

Exchange, Kiyota Akira, met with the Crown Prince to express interest in offering shares in the Japanese market. China also offered options for the listing, including a dual offering of shares in Hong Kong and the Saudi market, with Chinese funds as the anchor investors. The Hong Kong Stock Exchange hoped to attract Aramco's listing by positioning itself as a gateway for wealthy Chinese investors.

American stock exchanges were also competing for the listing of Saudi Aramco's IPO. Nasdaq CEO Adena Friedman said in an interview that Nasdaq was touting its technology credentials in an effort to win the listing of Saudi Aramco's upcoming IPO, while His Excellency Minister of State for Foreign Affairs Adel Al-Jubeir revealed that the Kingdom was engaged in serious talks with the NYSE about the listing. Former President Donald Trump publicly supported listing the shares on the NYSE, stating it would be in the interest of the United States. He also spoke with King Salman Bin Abdulaziz about listing the shares on the NYSE and tweeted, "Would very much appreciate Saudi Arabia doing their IPO of Aramco with the New York Stock Exchange".

In Europe, the LSE updated its listing rules to accommodate a new category of sovereign companies, with the goal of listing Saudi Aramco. The LSE provided strong reasons for Aramco to list on their exchange. British Minister of State Alistair Burt addressed the English Parliament saying, "We would like the Aramco share offering to be issued in the United Kingdom and we will continue to suggest the City would be the best place for it." Additionally, international media reported on the Toronto Stock Exchange's strong position in the oil and gas sector and its ability to attract international investors, revealing its interest in listing Aramco shares.

Aramco evaluated various offers and markets as part of a comprehensive plan to prepare for its IPO. While some studies recommended caution, the initial plan, announced by the Crown Prince, was to list Aramco in 2017 or 2018. However, various factors emerged, and it was decided to list Aramco on Tadawul while the final decision on the foreign listing market and date was still being determined by regulatory authorities.

Setting a date for the Aramco IPO was not a straightforward task as it involved considering multiple external factors, such as market conditions and oil prices, as well as the complexity and size of the offering that required internal preparations within the company. The chosen date had to ensure that the company could meet all requirements in the selected market.

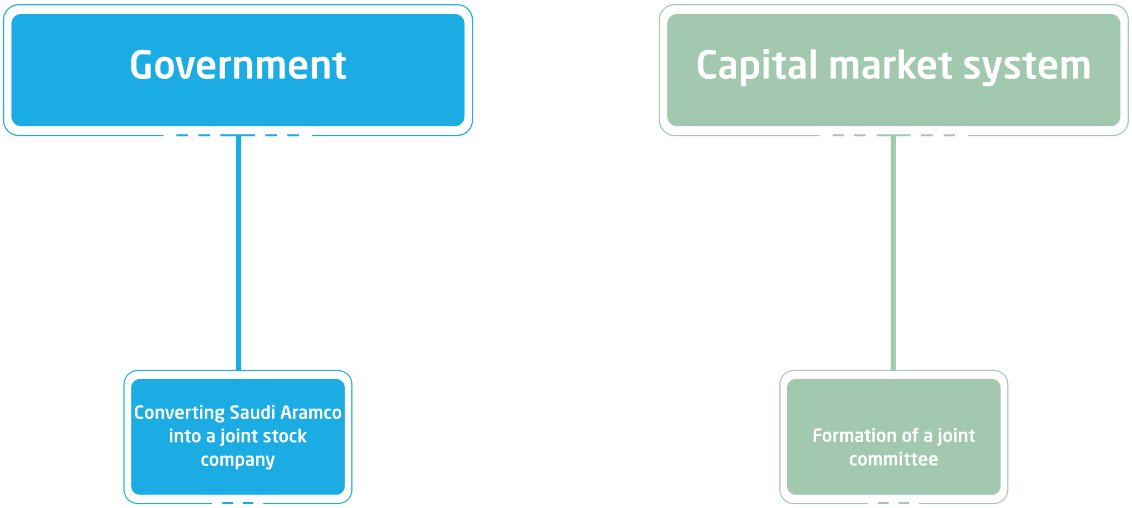
The SABIC deal was crucial for Aramco as it helped to mitigate the impact of declining oil prices. By owning a stake in the chemical company, Aramco's revenue was less susceptible to fluctuations in oil prices. The Crown Prince stated that the deal had to be completed before the Aramco IPO, explaining that it was not possible to go forward with the Aramco IPO and then surprise the shareholders a year later with a new deal that was not previously on the roadmap. For him, the IPO and the strategy needed to be clear to move forward.

Aramco and PIF held negotiations for the acquisition of SABIC, a deal that required 9-12 months to receive regulatory approvals from international antitrust authorities due to the international nature of both companies. After the deal was completed, Aramco needed additional time to update financial statements with SABIC's assets and shares before the IPO.

On 27th March 2019, Aramco and PIF concluded a share purchase agreement, with PIF as the selling party, where Aramco acquired 70% ownership in SABIC for a total of SAR 259.1 billion (USD 69.1 billion).

21.3 Preparations for the IPO

The regulators in the Kingdom continued to prepare for the IPO. Both the government and the capital market were involved in these efforts, which were extensive and difficult to fully enumerate. Some examples of these efforts are listed below:



50 Preparations for Aramco's IPO.

21.3.1 Government Efforts

Regulatory authorities in the Kingdom, including the Council of Ministers, worked to gradually transform the company and prepare the right ecosystem to support Saudi Aramco as the world's largest oil company. This included the decision to convert Saudi Aramco into a joint-stock company as per its Articles of Association (AoA), effective 1st January 2018, with the state retaining majority ownership. The Company's board of directors is appointed by the Council of Ministers based on a proposal from the Minister of Energy, Industry, and Mineral Resources, and its capital is SAR 60 billion divided into 200 billion shares without a nominal value per share. Its headquarters are located in Dhahran.

The Articles of Association (AoA) gave the Board of Directors the authority to issue, list, or offer Saudi Aramco's shares or other securities for public subscription, both within and outside the Kingdom. This decision preceded the Company's listing on the capital market, as only joint-stock companies are eligible for listing on Tadawul according to the Listing Rules. Document 105 confirms the Council of Ministers' Decision and the Royal Decree to convert Aramco into a joint-stock company.

21.3.2 Capital Market System's Efforts

Listing a company as large as Aramco in the capital market was a complex process that required the development of specific standards. This process was supervised by leaders in the capital market. To manage the requirements for the Aramco IPO, a joint committee was formed by His Excellency CMA Chairman, consisting of working groups from the CMA and Tadawul that met regularly to oversee all related activities.

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بسم الله الرحمن الرحيم

THE OFFICIAL NEWSPAPER FOR THE GOVERNMENT OF KINGDOM OF SAUDI ARABIA - PUBLISHED IN MAKKAH

قرار رقم (١٨٠) وتاريخ ١-٤-١٤٣٩هـ

الموافقة على أن تكون شركة الزيت العربية السعودية (أرامكو السعودية) شركة مساهمة طبقا لنظامها الأساس

رئيس مجلس الوزراء

مرسوم ملكي رقم (م/٣٦) وتاريخ ٢-٤-١٤٣٩هـ

سلمان بن عبدالعزيز آل سعود

105 Approving Aramco's Conversion into a Joint-Stock Company.

Months of work went into fulfilling legislative requirements and drafting laws to boost market absorption and openness to the world. The potential effects of an IPO of the size of Aramco on market stability were studied. With the Saudi market open to foreign investors and foreign investment becoming more accessible since 2015, the major barrier to Aramco IPO had been removed. The inclusion of the Saudi capital market in international indices also helped promote openness to global markets.

21.4 Newcomer's Market Reception

21.4.1 Before Making IPO Announcement

On 3rd November 2019, Saudi Aramco finally announced its intention to list its shares on Tadawul. The CMA approved the request and the announcement received a positive response globally and locally. The IPO is the largest globally, valued at SAR 96 billion (USD 25.6 billion), surpassing previous IPOs such as Alibaba's (USD 21.77 billion) in 2014 and SoftBank's (USD 21.35 billion) in 2018. It is also the largest locally, followed by the National Commercial Bank's IPO in 2014, valued at SAR 22.5 billion.

21.4.2 IPO Incentives

Individuals were given various statutory exemptions and incentives to participate in the public offering, including bonus shares. For every 10 allotted shares from the offer shares, a qualified subscriber received an additional 1 bonus share, up to a maximum of 100 free shares.

Aramco is the second company in the capital market to have price stability applied, which was previously successful with Arabian Centres Company. Despite fluctuations in crude oil prices, Aramco committed to providing sustainable and growing dividends to its shareholders. Subject to the Board's discretion after consideration of a number of factors, it declared aggregate ordinary cash dividends of at least USD 75 billion for 2020, in addition to any potential special dividends. The government would forgo its right to a portion of cash dividends on its shares in order to ensure that the minimum quarterly cash dividend amount of USD 0.09375 per share was paid to non-government shareholders for calendar years 2020 through 2024, as determined by the Board.

The CMA Board decided to waive certain requirements for qualified foreign financial institutions planning to invest in the offered shares and also allow certain non-financial institutions to participate in the public offering as qualified foreign investors, despite not meeting the standard qualifications stipulated in Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.

21.4.3 IPO Management

Aramco carefully selected top financial institutions, both international and local, to manage its public offering of shares. Nine joint financial advisors were chosen, along with eight joint global coordinators and institutional bookrunners. Additionally, four local and 12 foreign joint bookrunners and three private consultants were chosen, as well as 12 receiving banks and 25 underwriters. The Company also appointed a lead manager and an agent for international settlement.

21.4.4 Participants in Subscription

Saudi Aramco, in consultation with the selling shareholder, decided to limit the offering process to investors within the Kingdom and GCC, as well as qualified foreign investors and requests submitted to institutional bookrunners in accordance with the Instructions for Book Building Process and Allocation Method in IPOs.

Individuals and institutions participated in the subscription, and for the first time in Saudi Arabia's IPO history, with the exception of REITs IPOs, non-Saudi natural persons residing in the Kingdom and Gulf citizens were able to subscribe to Aramco shares as per a set timetable (Table 7).

IPO Timetable	Date
Submitting applications and book building process for subscribing institutions	17th November to 4th December 2019 (18 days)
Submitting applications and individual subscription	17th November to EOD 28th November 2019 (12 days)
Deadline for submitting subscription applications for subscribing institutions	4th December 2019
Deadline for submitting subscription application forms and settling subscription fees for individual subscribers	8th November 2019
Announcing the final share offer price	5th December 2019
Announcing the final allocation of shares to subscribing institutions and individuals	5th December 2019
Starting trading	11th December 2019

07 Aramco Offering Timetable.

21.4.5 Subscription Mechanism

The CMA and Tadawul Joint Committee recommended streamlining the offering and listing process by not following the traditional practice of first building a book for institutions and then for individuals, as this prolonged the subscription period. The teams discussed the possibility of parallel offerings for both institutional and individual investors, which would reduce the time between the allocation of shares and the first day of trading. However, this option would pose several challenges for the capital market as it had not been tried before. To address these challenges, the Committee worked closely with the listing manager to develop a daily plan that would ensure smooth and efficient implementation of the parallel offering. Tadawul received the subscription file every day at 6 p.m. and verified subscriber information until after midnight. During the two-week subscription period, Tadawul reviewed information for 5 million subscribers and opened over a million new portfolios.

21.4.6 Subscription Progress

The subscription period for the oil giant's shares began on 17th November 2019 and ended for individuals on 28th November 2019 and for institutions on 4th December 2019. Saudi Aramco offered a 1.5% stake, or about 3 billion shares, of its shares on Tadawul at an indicative price range of SAR 30-32. A third of those shares, 0.5%, was allocated to individual investors who were required to subscribe at the upper limit of SAR 32.

Aramco announced that the offering process generated by institutional subscriptions amounted to SAR 397 billion, which, together with the total demand from individual subscriptions, equalled SAR 446 billion, or 465% of the total offered shares, hence valuing the Company at SAR 6.4 trillion (USD 1.71 trillion). A total of 5.06 million individual investors subscribed to 1.54 billion shares at a total value of SAR 49.19 billion, i.e., 153.7% oversubscribed.

The subscription manager announced that, after ending the subscription, shares were allocated to individual subscribers. All receiving banks finished settlement and auditing procedures after closing subscriptions for individuals on 28th November 2019. Saudi Aramco allocated 1,500 shares to each individual subscriber, a full allocation ratio of 97.5% of total subscribers. The remaining shares were allotted pro-rata at a ratio of 10.9%.

Individual subscribers in Saudi Aramco varied by nationality, with Saudis making up the majority at 97.8%. The remaining 2.1% were residents and 0.5% were Gulf nationals. In terms of age, the largest group of subscribers was between 31-45 years old at 45.9%, followed by those between 46-65 at 33%. Table 8 is a breakdown of subscribers by nationality.

Subscribers Nationality	Number of Saudi Subscribers	4,947,275
	Number of Gulf Subscribers	2,467
	Number of Residents Subscribers	106,258

08 **Breakdown of Saudi Aramco Subscribers by Nationality.**

the Securities Depository Centre (SDC) (Edaa) announced that Saudi Aramco subscribed shares were deposited into eligible shareholders' Edaa Accounts on 6th December 2019, just 18 hours after the allocation announcement. This is a record timeframe compared to global markets, and the listing and trading of shares began as planned.

The successful IPO was a source of pride for all those working in the capital market ecosystem. It was only possible due to the hard work and dedication of all parties involved in the process. The listing of the oil giant in the capital market required thorough verification of details and a demonstration of the market's ability to handle Aramco's offering. To ensure a smooth process, Tadawul began testing all systems and running simulations at 4:30 a.m. on the day of listing.

21.5 Saudi Aramco Listing in the Capital Market

Following the IPO, the capital market ecosystem continued to work in the back offices to ensure a successful listing. As a result, Tadawul was able to list Saudi Aramco on 11th December 2019, just four days after the end of the subscription period, a record time compared to other global markets. The daily price fluctuation was set at a limit of ±10%. The opening auction session was from 9:30 a.m. to 10:30 a.m., and trading began at 10:30 a.m. and ended at 3:00 p.m. The opening auction for other securities listed on the main market remained from 9:30 a.m. to 10:00 a.m. and trading for the rest of the listed securities commenced as usual.

37 Aramco Listing Ceremony.

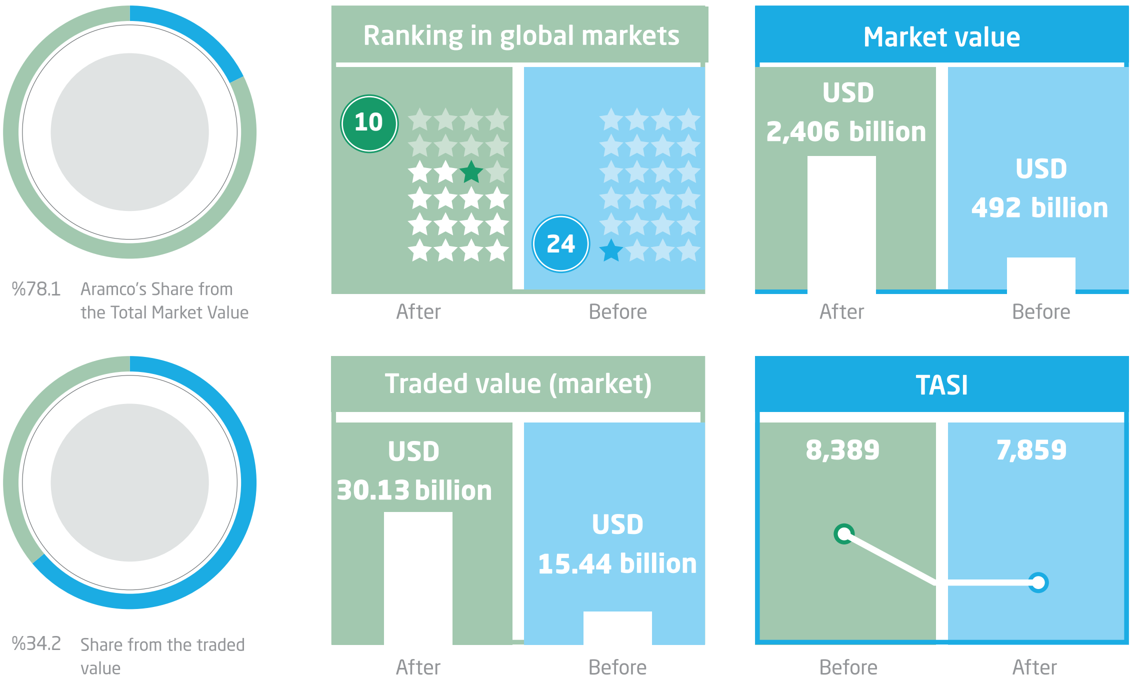
The bell signalling the start of trading rang, marking a defining moment in history (Photo 37). On the first day of public trading, Aramco's company valuation surged to SAR 7.04 trillion (USD 1.88 trillion), overtaking Apple's market value of USD 1.190 trillion and claiming the top spot as the largest listed company in the world by market value. Aramco's value is equal to the combined market value of both Apple and Alibaba, and it is 1.7 times greater than the combined market value of the top five international oil companies, which totals around USD 1 trillion.

21.6 A Global Shift

The Aramco IPO set a new record as the largest IPO in history and helped raise the standing of the Saudi capital market to the ranks of major markets. As of 31st December 2019, the market value of listed shares in the Saudi market had grown to SAR 9.025 trillion (USD 2.41 trillion), an increase of over 385% from the end of 2018, when it stood at SAR 1.858 trillion (USD 495.7 billion). This placed Saudi Arabia among the top 10 global markets, paving the way for more listings at local, regional, and international levels.

The CMA Chairman announced that the Saudi market, after the listing of Aramco, had become the ninth largest capital market in the world by the end of 2019, surpassing its 2030 target. Discussions are ongoing to revise future goals.

After the first week of listing Aramco, net foreign purchases in the Saudi capital market amounted to SAR 3.56 billion. According to MSCI, the inclusion of Aramco increased the weight of the Saudi stock market to 3%, making it the seventh largest market on the index, topping Middle East markets. The listing of Aramco on Tadawul also boosted the energy sector in the Saudi market, making it the largest sector in terms of market capitalisation, with 78.55% at the end of 2019. Additionally, it also strengthened the position of the energy sector globally. Figure 51 compares the capital market statistics in 2019, before and after the Aramco IPO.



51 The Capital Market in 2019, before and after Aramco IPO.

On 25th July 2020, SDC (Edaa) announced the distribution of bonus shares of Saudi Aramco to eligible shareholders. Each Saudi subscriber who continuously and uninterruptedly held offer shares from the date of listing until the end of the bonus shares entitlement period on 7th June 2020 was eligible to receive the bonus shares.

Capital Market: A Look at its Progress and Prospects

We have traversed a century of evolution of the Saudi capital market, chronicling its journey from the birth of the first Saudi joint-stock company in the early 20th century through the first two decades of the 21st century, all the way to the largest IPO in the world. Thus, our historical documentation of the capital market from 1926 to 2020 draws to a close.

The capital market has undergone a transformative journey, marked by three distinct phases of evolution. In the beginning, shares were traded in an unregulated market, with a proliferation of real estate and brokerage offices. As the banking sector underwent modernisation and the trend towards privatisation and the establishment of joint-stock companies gained momentum, the market transitioned to a new phase where SAMA, under the supervision of a governmental committee, regulated the market according to the requirements of the time. This phase lasted for approximately two decades, starting with the Royal Decree on regulating stock trading through Saudi banks in 1984. The third and current phase began in 2003 with the enactment of the Capital Market Law, marking the advent of a new era of capital market regulation and development, led by the CMA and Tadawul and characterised by increased expansion, depth, diversity, efficiency, and transparency.

As this book draws to an end, let us stop to ask ourselves, what has the capital market achieved? And what are its aspirations for the future? In recent years, the capital market has undergone significant changes in legislation, regulation, operations, and procedures. The number of listed companies has increased, and a variety of financial products have become available. The market has also welcomed foreign investment and expanded its reach by joining international indices, demonstrated by the successful public offering of Aramco.

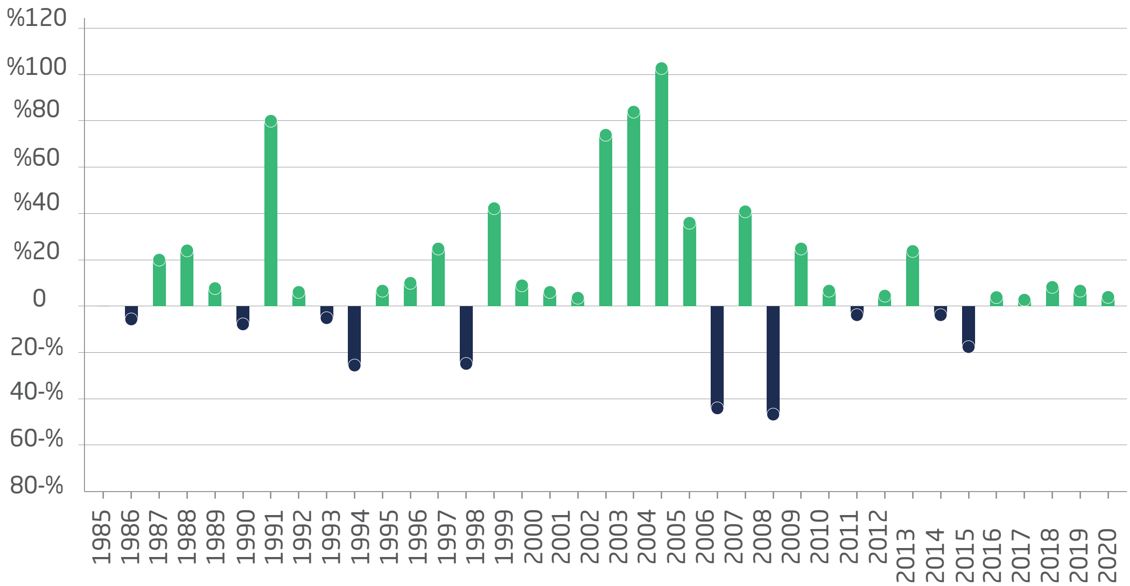
As for the future, the capital market is determined to achieve the goals of its Financial Leadership Programme (FLP) and work towards its aspirations of becoming the leading market in the Middle East and a significant player on the global stage. The market has always evolved gradually but steadily, keeping pace with successive legislative developments, and with the institutions tasked with their regulation, development and operation.

Prominent Capital Market Developments Since 1984

I. Stock Indices

The capital market faced a range of challenges following the Royal Decree to form a Ministerial Committee and restrict stockbroking to local banks in 1984. These challenges were influenced by economic, political, and financial conditions and crises, as reflected in the performance of the market and its indicators. Figure 52 shows a generally positive trend in the general stock price index from 1985 to 2020 and Figure 53 shows fluctuations in the annual percentage of change in the index over the same period.

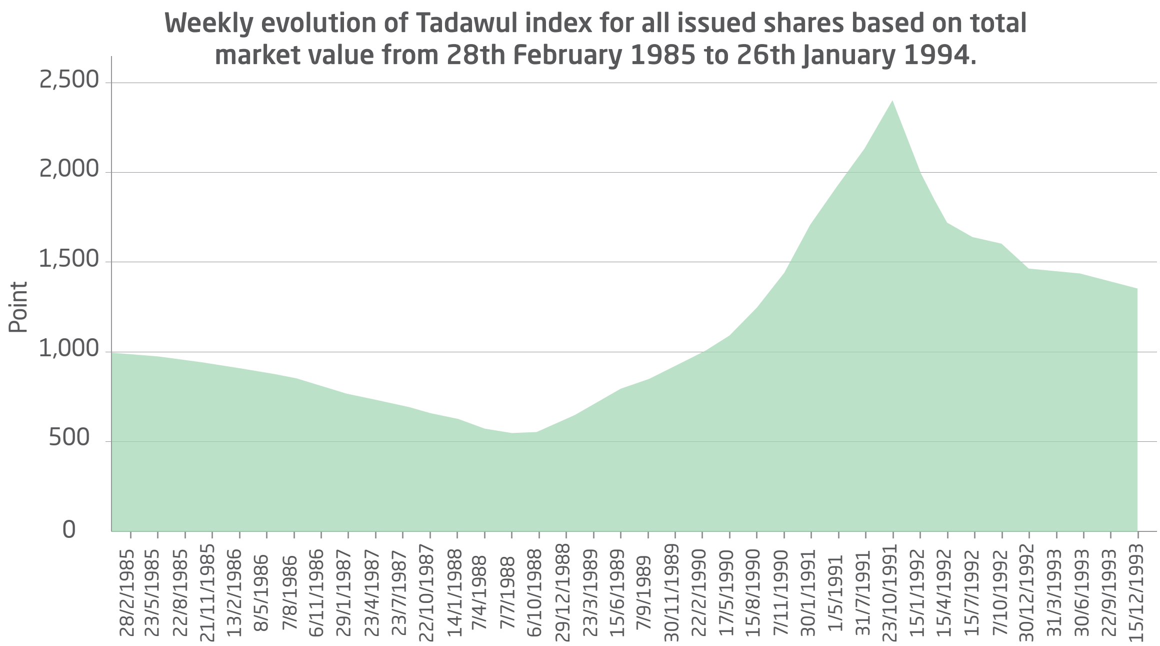
52 Trading Indices for All Shares between 1985 and 2020.



53 The Annual Percentage Change in the Index between 1985 and 2020.

Figure 54 illustrates the weekly evolution of Tadawul index for all issued shares based on total market value from the start of weekly index calculation on 28th February 1985 to 26th January 1994:

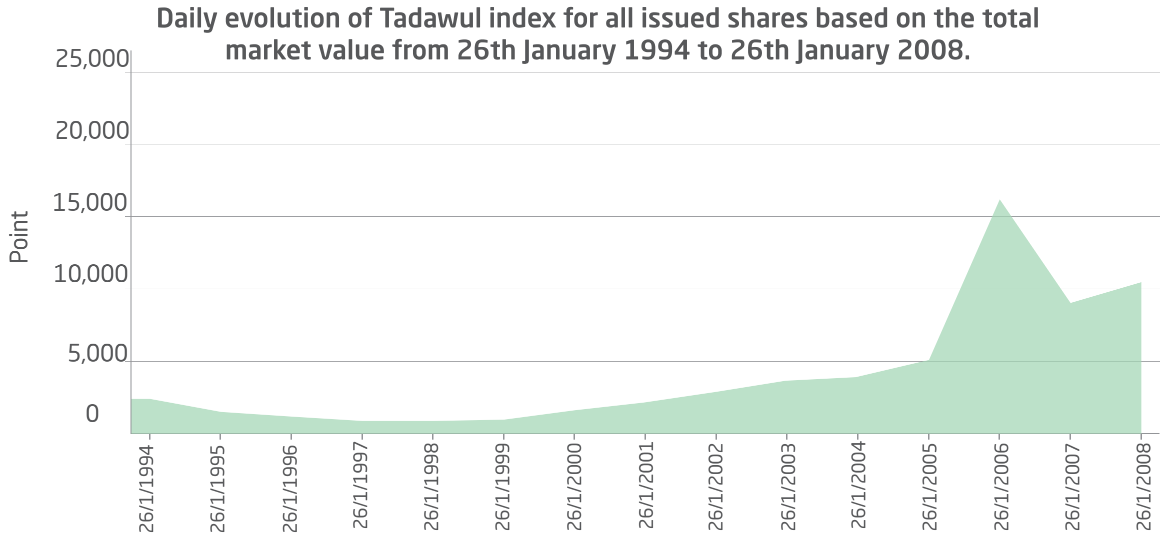
Weekly evolution of Tadawul index for all issued shares based on total market value from 28th February 1985 to 26th January 1994.



54 The Weekly Evolution of Tadawul Index for All Issued Shares based on Total Market Value.

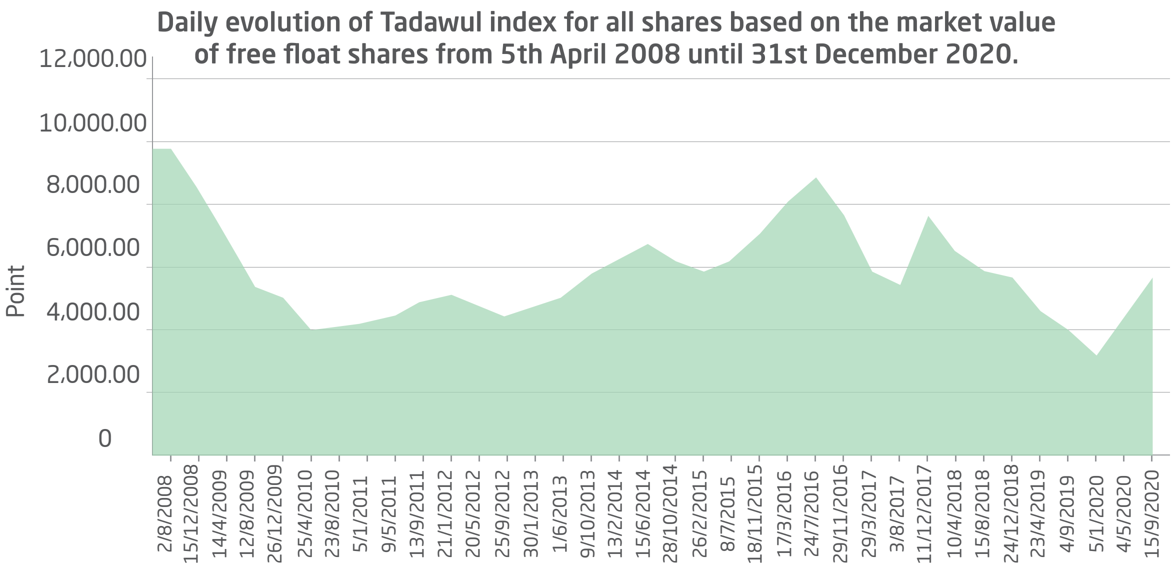
Figure 55 shows the daily evolution of Tadawul index for all issued shares based on the total market value from 26th January 1994 to 26th January 2008:

Daily evolution of Tadawul index for all issued shares based on the total market value from 26th January 1994 to 26th January 2008.



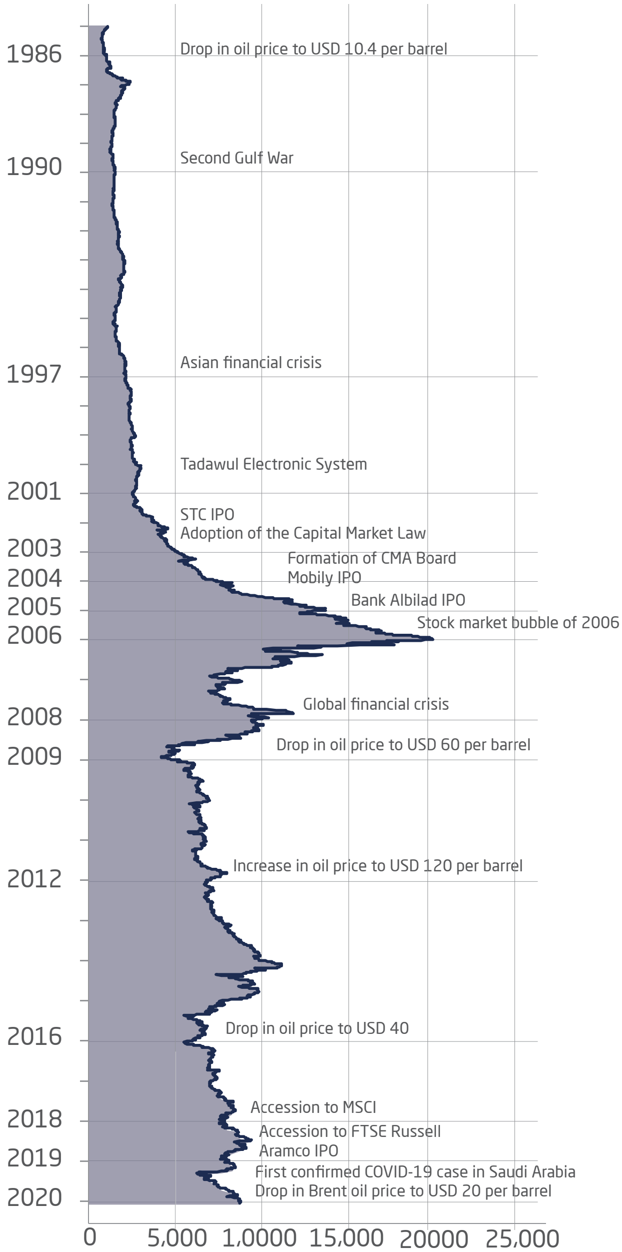
55 The Daily Evolution of Tadawul Index for All Issued Shares based on the Total Market Value.

The index calculation methodology was updated on 5th April 2008 to be based on free float (available for trading) shares and announced on Tadawul website. Figure 56 shows the development of the index from 5th April 2008 until 31st December 2020:



56 TASI performance by total market cap of free-float shares

Tadawul Index for All Shares based on the Market Value of Free Float Shares.



57 **Significant Events Impacting TASI Performance between 1994 and 2020.**

The Tadawul All Share Index (TASI) evolved over multiple phases. From 1995 to 1997, TASI rose from 1,360 points to over 1,950 points due to rising oil prices that reached USD 18 per barrel. Despite the 1997 Asian financial crisis, its impact on the Saudi market was not felt until 1998, causing TASI to drop to 1,400 points by the end of the year. However, in 1999, the market recovered with a 43% increase in TASI, surpassing the 2,000-point barrier due to rising oil prices reaching USD 17 per barrel. TASI continued to rise at a moderate pace through 2002, driven by rising oil prices and returning Saudi money from abroad after the 9/11 attacks. TES was also launched in 2001.

The second phase of TASI evolution took place between 2003 and 2006, with the index rising by 76% in 2003, 84% in 2004, and 104% in 2005, resulting in the Saudi stock market bubble. The index reached its peak on 25th February 2006, surpassing 20,000 points, but experienced a sharp drop the next day, losing 980 points. TASI continued to decline until the end of 2006. This period also saw the occurrence of significant events. In 2003, STC shares were offered for public subscription and the Capital Market Law was adopted. In 2004, the CMA Board was formed and Mobily shares were offered for public subscription. Bank Albilad shares were offered for public subscription in 2005, and the nominal value of all listed companies' shares was divided to become SAR 10 per share instead of SAR 50.

TASI closed at 11,000 points in 2007, 4,800 points in 2008, and 6,000 points in 2009, due to the global financial crisis that affected oil prices and economic growth worldwide. The crisis continued to impact the Saudi market, resulting in the index closing at 6,600 points in 2010 and 6,400 points in 2011.

In 2012, the global economy began to show signs of recovery and oil prices reached record highs, resulting in increased revenue for the Kingdom and improved performance in various economic sectors. This was reflected in the rise of market indices, with TASI closing at 6,800 points in 2012, and continuing to rise to 8,500 points in 2013, remaining at a similar level in 2014.

In 2015, the oil price began to drop again, along with a slowdown in the global economy and rising interest rates, causing TASI to drop to below 7,000 points. However, the index quickly recovered in 2016 and 2017, reaching over 7,000 points by the end of 2017. In 2018, with the market's inclusion in global indices (FTSE Russell and MSCI), TASI closed at over 7,800 points. The historic offering of Aramco in

2019 also contributed to TASI's 7.2% increase, closing at 8,400 points.

The COVID-19 pandemic had a significant impact on TASI in 2020, causing it to hit its lowest level since 2016 on 16th March, reaching 5,960 points. However, it soon recovered and surpassed 7,000 points on 19th May and 8,000 points on 2nd September. By the end of the year, TASI closed at 8,689 points.

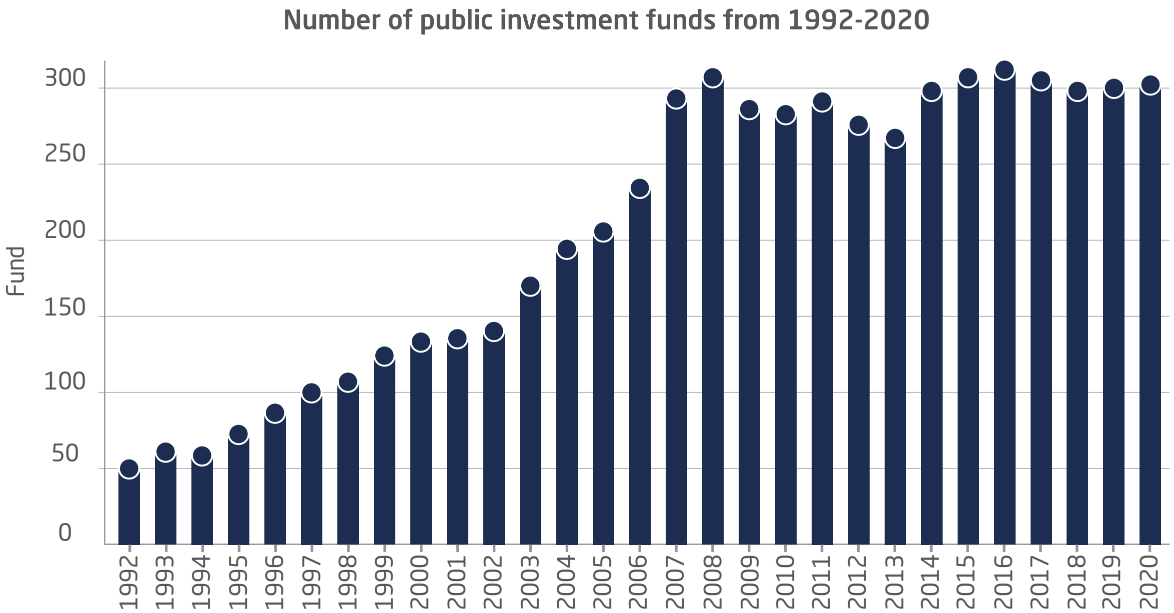
The market value of issued shares at the end of 2020 was SAR 9,101 billion, and the total value of traded shares was SAR 2,087 billion. A total of 76.69 million transactions were executed, with 79.32 billion shares traded during the year.

II. Investment Funds

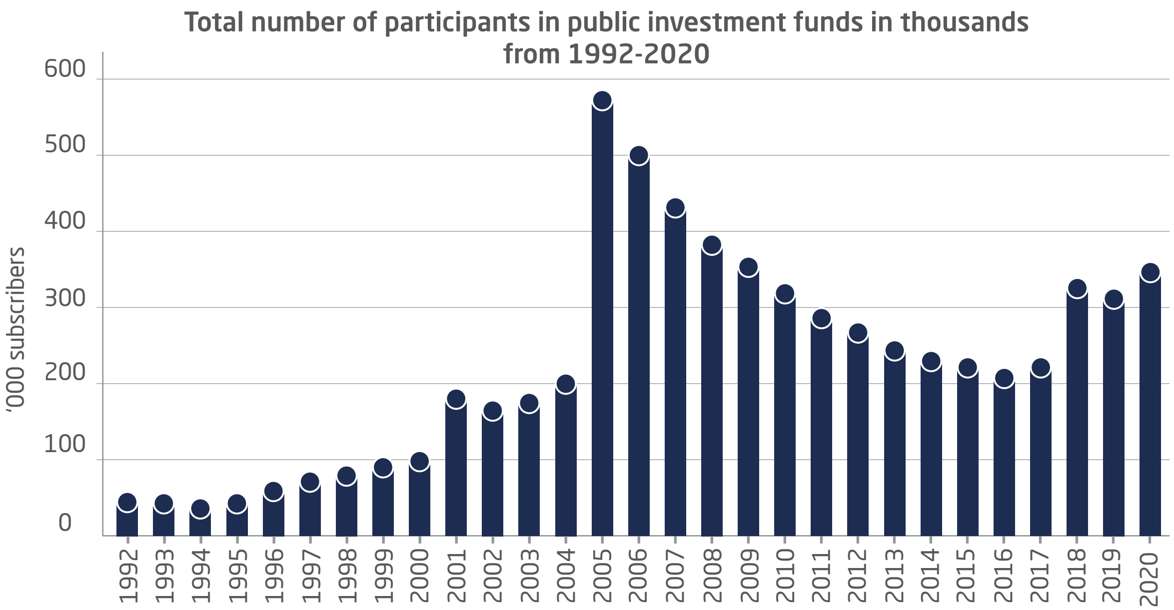
In 1992, Saudi commercial banks began offering investment funds. From 52 funds in 1992, the number grew to 170 by 2003 and 254 by 2020. The number of subscribers also grew, from 33,126 in 1992 to 172,197 in 2003, then to a peak of 563 thousand in 2005 during the stock market boom. However, the number of subscribers later declined to 358.9 thousand in 2020. The total assets of the funds increased from SAR 12.4 billion in 1992 to SAR 53.87 billion in 2003 and surged to SAR 137 billion in 2005. The value fluctuated and settled at SAR 209.7 billion in 2020.

The ongoing challenge is to establish a legal framework for funds, as they are currently only contractual agreements without official recognition as legal entities or independent legal status in the country. Efforts are continuing to give funds a recognised legal form, allowing for assets such as real estate to be registered under the fund's name and receive a commercial register from the CMA.

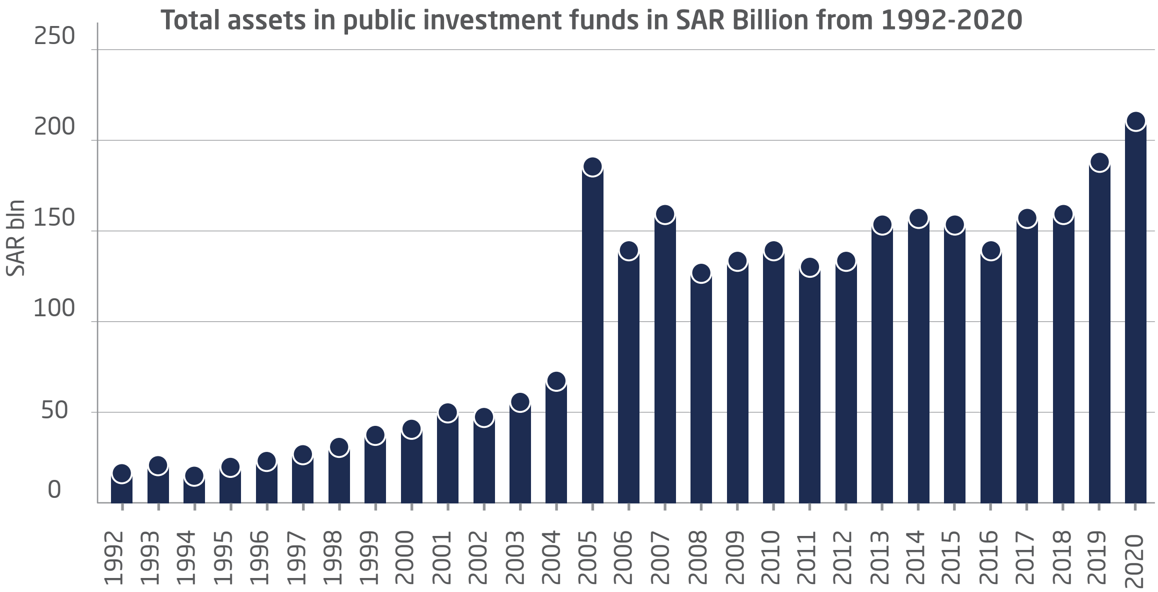
Figures 58-60 demonstrate the growth in the number of public investment funds from 1992-2020, the total number of participants in these funds, and total assets in funds during that time period.



58 Number of Public Investment Funds from 1992-2020.



59 Total Number of Participants in Public Investment Funds in Thousands from 1992-2020.



60 Total Assets in Public Investment Funds in SAR Billion from 1992-2020.

III. Bond and Sukuk Market Performance

In 2020, the total value of Sukuk and bonds was SAR 387.8 billion, with 72 listed Sukuk and bonds.

Table 9 shows the general Sukuk and bonds market statistics in 2020:

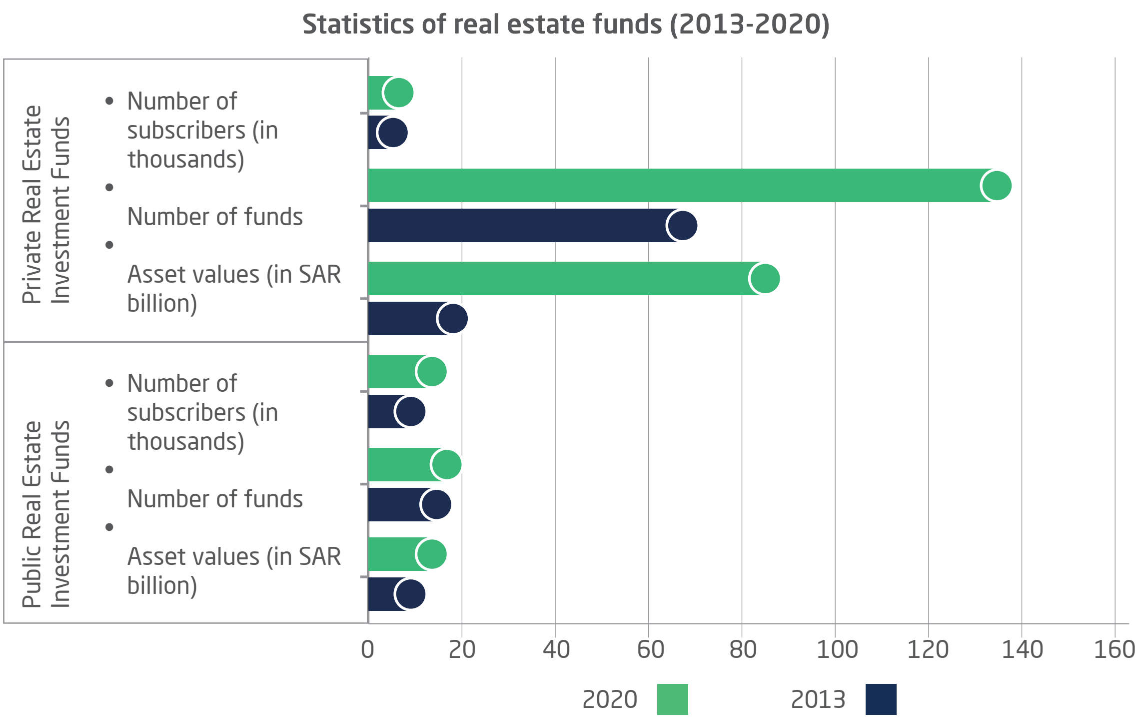
Sukuk and bonds	The number of Sukuk and bonds	Index closing	Traded nominal value (SAR)	Traded value (SAR)	Number of transactions
Corporate Sukuk/Bonds Index	5	994. 23	68,301,240	68,301,240	6
Government Sukuk/Bonds Index	67	1,036.33	34,733,290,000	37,469,751,729.22	1,468
Sukuk/Bonds Market Index	72	1,022.68	34,801,591,240	37,538,032,969.22	1,474

09 Sukuk and Bonds Market Statistics in 2020.

IV. Real Estate Investment Funds

Real Estate Investment Funds in the Saudi capital market are separated into two categories: public and private. The assets of public Real Estate Investment Funds grew from SAR 3.08 billion in H1 2013 (3% of total assets of public funds) to SAR 7,545 billion by the end of Q4 2020 (5% of total assets of public funds). The number of Real Estate Investment Funds increased to 10 by 2020, up from nine in 2013. Additionally, the number of subscribers in Real Estate Investment Funds increased from 4,706 in 2013 to 7,212 by 2020.

Private Real Estate Investment Funds saw a significant increase in both asset value and number of funds from 2013 to 2020. Asset values rose from SAR 17.7 billion to SAR 83.157 billion, and the number of funds increased from 68 to 136. Additionally, the number of subscribers in these funds grew from 1,355 to 2,531. Figure 61 shows Real Estate Investment Funds statistics between 2013-2020.



61 Real Estate Investment Funds Statistics between 2013-2020.

V. REITs

Real Estate Investment Traded Funds (REITs) were added to main stock market indices in Q4 2016. The assets of REITs grew from SAR 555 million in 2016, held by the only listed fund at the time, Riyad REIT, (1% of total assets of public funds) to SAR 21,645 billion by the end of 2020, (10.32% of total assets of public funds). The number of REIT subscribers increased from 1,457 in 2016 (0.65% of total subscribers to public funds) to 156,342 in 2020 (43.6% of total subscribers to public funds), indicating strong demand for this type of investment. There are currently 17 REITs available. Table 10 provides a summary of REITs' financial position in 2020.

Variable	Value
Issued Shares (in million)	1,657.21
Net Income (in million)	(231.51)
Shareholders Rights (in million)	15,427.45
Market Value (in million)	15,953.96
Earnings per Share	(0.14)
Price to Earnings	37.77
Book Value	9.31
Price/Book Value	1.03

10 Summary of REITs' Financial Position in 2020.

VI. ETFs

At the end of 2020, the number of the Exchange Traded Funds (ETFs) reached a total of six. The initial ETF, the FALCOM 30, was launched in 2010, followed by the FALCOM Petrochemicals ETF in the same year, and HSBC MSCI Tadawul 30 Saudi ETF in 2011. Three additional ETFs were added to the market in 2019 and 2020: Albilad Saudi Sovereign Sukuk ETF, which tracks the performance of the Albilad Ideal Ratings SAR Saudi Sovereign Sukuk Index; Alinma Saudi Government Sukuk ETF Fund - Short Maturity, which tracks the performance of the iBoxx Tadawul SAR Government Sukuk Index - Short Maturity; and Albilad Gold ETF, which closely tracks the returns of gold through an ETF structure. The volume of shares traded in 2020 amounted to 173.9 million, with a traded value of SAR 2.5 billion, and there were 1,287 transactions executed.

VII. The Financial Leadership Programme (FLP)

The following tables offer a comprehensive overview of the key advancements of the capital market in terms of initiatives for realising Saudi Vision 2030 and the objectives of the Financial Leadership Programme (FLP), from 2017 to 2020:

The most significant capital market developments represented in the initiatives to realize Saudi Vision 2030

2017	Shortening the settlement cycle for securities transactions to two business days after the trade date (T+2)
	Establishing a parallel market
	Allowing borrowing and lending of securities, as well as covered short selling
	Implementing IFRS for listed companies and market institutions
	Joining MSCI watch list
	Establishing an organisational entity to supervise audit offices that audit the work of listed companies.
	Adopting the updated Merger and Acquisition Regulations and Glossary of Defined Terms Used in the CMA Regulations and Rules
	Stimulating asset management activity by reducing management licence requirements
	Allowing non-resident foreign investors to invest directly in NOMU as qualified investors
	Contributing to improving Saudi Arabia's ranking from 63rd to 10th on the Protecting Minority Investors Indicator
	Transforming the Securities Depository Centre Company (Edaa) into a standalone entity with its own legal identity and autonomy
	Launching EPS to handle complaints and reports
	Regulating class action lawsuits in securities disputes
	Amending the Rules on the Offer of Securities and Continuing Obligations and the Listing Rules
	Adopting the rules for special purpose entities
	Adopting the FinTech Lab initiative
	Mandating electronic voting in general assemblies
	Establishing the Financial Academy (FA) to train and qualify financial sector employees

11 Financial Leadership Programme (FLP) Achievements for 2017.

The most significant capital market developments represented in the initiatives to achieve Saudi Vision 2030

2018	Adopting the Rules for Registering Auditors of Entities Subject to the Authority's Supervision
	Accepting applications for the second batch of permits to experiment with FinTech
	Establishing Saudi Tadawul Group's Securities Clearing Centre Company (Muqassa)
	The Saudi capital market joining MSCI Index, the FTSE Russell Index, and the S&P Dow Jones Index for emerging markets
	CMA represented in the International Organization of Securities Commissions (IOS-CO) and its affiliated committees for 2018-2020
	CMA representing Saudi Arabia in the Financial Stability Board (FSB) for 2019
	Adopting the Real Estate Investment Traded Funds Instructions and the amended Close-Ended Investment Traded Funds Instructions
	Adopting Financial Technology Experimental Permit Instructions
	Amending Investment Accounts Instructions
	Launching the Investor Protection app
	Amending Rules for Qualified Foreign Financial Institutions Investment in Listed Securities
	Amending Merger and Acquisition Regulations
	Amending the Rules on the Offer of Securities and Continuing Obligations and the Book Building Process and Allocation Method in IPOs
	Amending Merger and Acquisition Regulations
	Amending the Rules on the Offer of Securities and Continuing Obligations and the Book Building Process and Allocation Method in IPOs
	Listing debt instruments issued by the Saudi government
	Enabling fund managers to use aggregated orders to execute client orders

12 Financial Leadership Programme (FLP) Achievements for 2018.

The most significant capital market developments represented in initiatives to achieve Saudi Vision 2030

2019	Amending the Capital Market Law
	Offering 1.5% of Aramco shares for public subscription
	Issuing the Investor Rights Document
	Announcing several incentives for listed companies in cooperation with various government entities
	Accepting applications for the third batch of permits to experiment with FinTech
	Establishing FinTech Saudi
	Launching the Dividends Distribution (Paying Agent) service for all market participants
	Finalising Tadawul's accession to MSCI Index and S&P Dow Jones Index, and the implementation of the fourth phase of joining FTSE Emerging Index
	REITS' accession to FTSE EPRA Nareit Global Real Estate Index
	Launching MSCI Tadawul 30 (MT30) Index for the leading listed companies in the Kingdom
	Finalising the first merger between companies listed on the Saudi capital market (SABB and Alawwal Bank)
	Adopting the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies
	Applying fundamental changes to NOMU
	Applying the mechanism for the transfer of listed companies to the main market
	Introducing NOMU Capped Index
	Reducing the financial consideration for the services provided in the Sukuk and bonds market
	Applying a new trading session to the closing price
	Introducing new amendments to the Rules on the Offer of Securities and Continuing Obligations
	Adopting the Securities Clearing Centre Rules and the Derivatives Exchange Trading and Membership Rules and Procedures

The most significant capital market developments represented in initiatives to achieve Saudi Vision 2030

2019	CMA accession to IFIAR
	Establishing investment funds to trade in Saudi sovereign sukuk
	Reducing the nominal value of listed local Sukuk issued by the Kingdom
	Kingdom advancing in global competitiveness indicators related to the Saudi capital market
	FA and CISI conclude a strategic partnership agreement
	Launching the International Certificate in Wealth and Investment Management by CISI and IFSAH Certificate
	Releasing Cybersecurity guide for financial institutions
	Releasing electronic service for disclosure of a deceased's investment assets

13 Financial Leadership Programme (FLP) Achievements for 2019.

The most prominent developments in the capital market regarding the Kingdom's Vision 2030 initiatives

2020	Launching the Corporate Finance Technical Foundations Certificate provided by CISI
	CMA licences Securities Clearing Centre Company (Muqassa), and designates it as a QCCP
	Adopting Securities Central Counterparties Regulations
	Launching an electronic service for authorisation to conduct Securities Business
	Adopting the amendments to the Securities Business Regulations, Authorised Persons Regulations, and Glossary of Defined Terms Used in the Regulations and Rules of CMA
	Adopting Instructions on Issuing Depositary Receipts Out of the Kingdom
	Allowing Foreigners to Invest Directly in Debt Instruments
	Accepting applications for the fourth batch of permits to experiment with FinTech
	Adopting the amendment to Annex 1 of the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies
	Obligating the issuers of listed securities in the main market that any notification to the Exchange and disclosure to the public is made in both Arabic and English
	CMA takes measures to address the repercussions of COVID-19
	Launching derivatives market and trading in the MT30 Index Futures
	Finalising accession to FTSE Emerging Index
	Approving FA establishment and organisational arrangements
	Appointing the members of FA's Board of Trustees
	Adopting amendments to the Market Conduct Regulations[1]
	Adopting amendments to the Rules for Special Purpose Entities[2]
	Adopting amendments to the Rules on the Offer of Securities and Continuing Obligations and the Glossary of Defined Terms Used in the CMA Regulations and Rules[3]

14 **Financial Leadership Programme (FLP) Achievements for 2020.**

1 On 25th January 2021

2 On 14th January 2021

3 On 14th January 2021

2003 — Issuance of Royal Decree M/30 of 31st July 2003 on approving Capital Market Law

2004 — Formation of the first CMA Board

2005 — Formation of CRSD and ACRSD

2006 — Stock Market Bubble of 2006
Approval of the issuance and listing of Sukuk on the capital market

2007 — Release SAXESS System
Establishment of Tadawul

2008 — Allow authorised persons to conclude swap agreements for shares listed on the Saudi market

2009 — Launch the Sukuk and Bonds Market

2010 — List and trade the first ETFs

2015 — Allow foreign financial institutions to invest in listed securities

2016 — Launch REITS

2017 — Approval of class action lawsuits in securities disputes

2018 — Launch the FinTech Lab
Government Debt Instruments Listing

2019 — Offer 1.5% of Aramco shares for public subscription
Amend the Capital Market Law

2020 — Establish Securities Clearing Centre Company (Muqassa)
Launch the Financial Derivatives Market
Establish the Financial Academy (FA)

62 Capital market milestones from 2003 to 2020

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