



Foreign Investor Guide in the Saudi Securities

This guide was prepared for the purpose of clarifying the categories of non-resident foreign investors and how to invest in securities, this guide is not a substitute of The Capital Market Law or its Implementing Regulations, and when there is any conflict between what is stated in this guide and the Capital Market Law and its Implementing Regulations, the reference will be to those laws and regulations.



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The guide's objective:

This guide aims to clarify the channels of investment available for non-resident foreign investors, and the methods and procedures of their investment in securities, and the restrictions related to that. Note that the resident foreign investor is allowed to invest directly in the Saudi Capital Market, without prejudice to the provisions in the articles of association of listed companies, the terms and conditions of investment funds, and other related provisions.



Introduction

■ A foreign investor who is non-resident in the Kingdom of Saudi Arabia can invest in the securities through one of the following:

- ▶ As a qualified foreign investor, according to the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, which allows him to invest in all listed securities.
- ▶ As an ultimate beneficiary in swap agreements, according to the Authority's circular issued in this regard, which allows him to invest in all listed securities.
- ▶ As a foreign strategic investor, according to the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies, which allows him to invest in listed companies equities.
- ▶ As a direct investor, which allows him to invest in the parallel market and debt instruments, in addition to investment funds.

Note that the investment procedures in securities for the above mentioned methods will be detailed in the last section of this guide.



The background of the slide is a blue-tinted image of financial documents. It features several line charts with fluctuating data series, a bar chart with alternating blue and black bars, and a pen resting on the papers. The overall aesthetic is professional and data-oriented.

Channels of investment in securities



Channels of investment in securities

A non-resident foreign investor can invest in securities in the main market and the parallel market through several channels as follows:

■ Stock market

- ▶ All categories of non-resident foreign investors can invest in equities and participate in initial public offerings in the parallel market, while investment and participation in initial public offerings in the main market is limited to the categories of allowed non-resident foreigners if permitted by the prospectus. Details below clarify the categories of non-resident foreigners who can invest in the main market and the parallel market:

Main market

- ▶ A qualified foreign investor, an ultimate beneficiary in swap agreement, and a foreign strategic investor can invest in equities listed in the main market.

Categories of non-resident foreigners allowed to invest in the main market



**Qualified Foreign
Investor**



**Ultimate Beneficiary
in Swap Agreement**



**Foreign Strategic
Investor**



Channels of investment in securities

Parallel market (Nomu)

- ▶ All categories of non-resident foreign investors can invest in equities listed in the parallel market according to the requirements prescribed in The Guidance Note for the investment of Non-Resident Foreigners in the Parallel Market.

Categories of non-resident foreigners allowed to invest in the parallel market



**Qualified Foreign
Investor**



**Ultimate Beneficiary
in Swap Agreement**



**Foreign Strategic
Investor**



Legal Person



Natural Person*

* Natural Person who meets the criteria according to the "Direct Investor" section, Paragraph (c) The Parallel Market (Nomu), in the investment procedures in the Saudi Capital Market for non-resident foreign investors below.

■ Debt market

- ▶ All categories of non-resident foreign investors can invest in debt instrument.

■ Investment funds

- ▶ All categories of non-resident foreign investors can invest in investment funds, and there are no restrictions on foreign investors, unless there are restrictions stipulated in the fund's terms and conditions.



Channels of investment in securities

Investment channels available for non-resident foreign investors and investment methods in securities

Available investment channels	Available investment methods			
	Qualified Foreign Investor	Ultimate Beneficiary in Swap Agreement	Foreign Strategic Investor*	Direct Investor
Stock market - Main market	✓	✓	✓	—
Stock market - Parallel market (Nomu)	✓	✓	✓	✓
Debt market	✓	✓	—	✓
Investment funds	✓	✓	—	✓

*A foreign strategic investor can invest in debt market and investment funds as a qualified foreign investor, ultimate beneficiary in swap agreements, or as a direct investor.



Investment procedures in Securities for non-resident foreign investors



Investment procedures in Securities non-resident foreign investors

1- Qualified foreign investor

In case a qualified foreign investor is willing to invest in listed securities in the Saudi Capital Market, an application must be submitted to one of the capital market institutions that have been licensed by the Capital Market Authority to conduct custody or dealing activities, without prejudice to the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities (The Rules).

The qualification conditions:

A- The applicant must be a financial institution that has a legal personality which falls within one of the following types:

- 1- Banks.
- 2- Brokerage and securities firms.
- 3- Insurance companies.
- 4- Government and government related entities.
- 5- Investment funds.
- 6- Any other financial institution considered eligible by the Authority.

B- With the exception of government and government related entities, the applicant must have assets under management or custody of SAR 1,875,000,000 (or an equivalent amount) or more, And the Authority may reduce these assets.

C- The financial institutions in sub-paragraphs (1), (2), (3) of paragraph (a) must be licensed or otherwise subject to regulatory oversight by a regulatory authority and incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues in regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering.

D- The financial institutions in sub-paragraphs (4), (5) of paragraph (a) must be incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues in regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering.

E- Qualified foreign investor affiliates are considered qualified to invest in the Capital Market without applying in a separate application.



Investment procedures in Securities non-resident foreign investors

- ▶ The capital market institution that has been licensed by the Capital Market Authority to conduct custody or dealing activities, agrees with the foreign investor on a foreign investor assessment draft agreement to assess its application for qualification as a qualified foreign investor, to invest in securities listed in the Saudi Capital Market.
- ▶ After accepting the qualification application, a qualified foreign investor can invest in listed securities, without prejudice to the investment restrictions stipulated in the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, which includes the following:
 - ▶ Each qualified foreign investor, may not own 10% or more of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer.
 - ▶ The maximum proportion of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer that may be owned by all foreign investors (in all categories, whether residents or non-residents, except the foreign strategic investors) in aggregate is 49%.

2- Ultimate Beneficiary in Swap Agreement

Non-resident foreign investor that do not meet the qualification conditions, can invest in listed securities as an ultimate beneficiary in the swap agreements through one of the capital market institutions that have been licensed by the Capital Market Authority to conduct dealing activities, according to the requirements and conditions stipulated in the circulation of allowing authorized persons to enter into swap agreements, which includes the following:

- ▶ The duration of swap agreement shall not exceed (4) years from the date of its signature.
- ▶ The total securities underlying the swap transactions executed for each ultimate beneficiary must not reach 10% or more of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer.

3- Foreign strategic investor

Non-resident foreign legal person -whether it is a financial or non-financial institution- is allowed to own strategic shareholdings in listed companies, according to the Instructions for The Foreign Strategic Investors Ownership in Listed Companies. The investor applies to open an investment account directly in the market, and there is no minimum or maximum limit for the targeted ownership percentage of the strategic shareholdings, without prejudice to the investment restrictions, which includes the following:





Investment procedures in Securities non-resident foreign investors

- ▶ The foreign strategic investor, may not dispose of any of the shares it owned within a period of two years after the date of ownership of such shares.
- ▶ The foreign strategic investor may own strategic shareholdings in listed companies in any of the methods of ownership available under the Capital Market Law and its Implementing Regulations, including but not limited to the following:
 - ▶ Buying through the market directly.
 - ▶ Through a private transaction.
 - ▶ Proposing an offer for the acquisition of shares.
- ▶ The foreign strategic investor shall be established or licensed in a country that applies regulatory and supervisory measures similar to those applied by the Authority or are accepted by it, which are the state members of the International Organization of Securities Commissions (IOSCO) that are applying and cooperating in anti-money laundering and financing of terrorism in accordance with the Financial Action Task Force (FATF), in a manner that does not conflict with the relevant laws in force in the Kingdom and published by the Anti-Money Laundering Permanent Committee

4- Direct investor

Direct investment means the investment that does not need to fulfil any requirements to invest in Securities except for the requirements related to the parallel market.

A- Investment funds

A non-resident foreign investor can invest in investment funds, where the subscription process begins with opening an investment account at the capital market institution that has been licensed by the Capital Market Authority, and that issued the units of the chosen fund, and completing the forms related to the subscription and redemption. In addition, a non-resident foreign investor can buy and sell units of listed investment funds.

B- Debt instruments

All categories of non-resident foreign investors can invest in the debt market, by submitting an application to open an account directly at one of the licensed capital market institutions. Note that it is not allowed for a non-resident foreign investor to invest in the market as a direct investor and as a qualified foreign investor or ultimate beneficiary in a swap agreement at the same time.



Investment procedures in Securities non-resident foreign investors

C- Parallel market (Nomu)

All categories of non-resident foreign investors can invest in the parallel market, by submitting an application to open an account directly at one of the capital market institutions that has been licensed by the Capital Market Authority, where they must be one of the following:

- ▶ Legal person allowed to open an investment account in the Kingdom and an account at the Depository Center and are licensed or incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues In regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering.
- ▶ Natural person holding the nationality of a country that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it, by pursuance what Financial Action Task Force (FATF) issues In regard to non-compliant or non-cooperative countries without contradicting with the related laws, regulations in force In the kingdom, and The Permanent Committee for Anti-Money Laundering, and resides in such countries, and fulfills any of the following criteria:
 - ▶ Has conducted transactions in security markets of not less than forty million Saudi Riyals in total and not less than ten transactions in each quarter during the last twelve months.
 - ▶ His net assets is not less than 5 million Saudi Riyals.
 - ▶ Works or has worked for at least three years in the financial sector.
 - ▶ Holds the General Securities Qualification Certificate, which is recognized by the Authority.
 - ▶ Holds a professional certificate that is related to securities business and accredited by an internationally recognized entity.

The investments of non-resident foreigners of all categories in the parallel market are subject to investment restrictions stipulated in the Guidance Note for the investment of Non-Resident Foreigners in the Parallel Market, which includes the following:

- ▶ Each non-resident foreign investor may not own 10% or more of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer.
- ▶ Legal foreign resides out of the Kingdom are not allowed to be direct investors and qualified foreign investors in the Parallel Market at the same time.

