

هيئة السوق المالية
Capital Market Authority



*Frequently Asked Questions on the Rules for
Qualified Foreign Financial Institutions
Investment in Listed Securities*

English Translation of the Official Arabic Text



Frequently Asked Questions on the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities

Introduction:

The Board of the Capital Market Authority issued its Resolution Number 3-42-2015 Dated 15-7-1436H Corresponding to 4-5-2015G approving the Frequently Asked Questions on the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities. The Board of the Capital Market Authority has also issued its Resolution Number 1-115-2016 Dated 28-11-1437H Corresponding to 31-8-2016G approving the updated version of the Frequently Asked Questions on the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities The Board of the Capital Market Authority has also issued a Resolution Number 1-63-2018 Dated 19-9-1439H Corresponding to 4-6-2018G approving the updated version of the Frequently Asked Questions on the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities (the Rules).

The CMA has published this document to answer the questions that may be raised by foreign investors, authorised persons and other relevant parties in relation the Rules.

The content of this document shall not prejudice the provisions of the Capital Market Law and its Implementing Regulations and any other relevant laws.



Frequently Asked Questions

A. Introductory Questions:

1. What is the definition of a Qualified Foreign Investor (QFI)?

A QFI is a Qualified foreign investor to invest in securities listed in the Saudi Stock Exchange, in accordance with the Rules,

2. What are the securities that the Rules permit QFIs to invest in?

The Rules are governing the investment of foreign financial institutions in listed securities in the Saudi Stock Exchange, including equity, debt instruments, and listed funds.

3. Can a QFI invest in fund not managed by him and invest directly in the Saudi Exchange?

Yes, the QFI can invest directly in listed securities in the local market as well as invest in the following investment funds, according to the regulations set by the Authority:

- Foreign Investment Fund Qualified as QFI according to the Rules.
- Investment fund that invests in the Saudi Stock Exchange through the swap agreement.
- Approved local investment funds by the Authority.

4. How can non-resident foreign investors that do not qualify as QFIs be able to gain exposure to the Saudi listed securities?

Non-resident foreign investors that do not qualify as QFIs may enter the Saudi capital market through the Swap Agreements Framework or investment funds, in accordance with the procedures issued by the CMA in this regard.

5. How is investing through the QFI Framework different from investing through the Swap Agreements Framework?

The QFI Framework allows for legal ownership of Saudi listed securities under the name of the QFI, and participants in the Framework are able to exercise all rights as shareholders that are related to that securities including voting rights, appointing a representative to the board of directors of listed companies in accordance with the Companies Law, as well as trading rights during rights issues in accordance with CMA regulations. In contrast, the Swap Agreements Framework does not allow for legal ownership of the underlying securities. The investor only receives economic benefits from the securities under the Swap Agreements Framework.

6. Are QFIs subject to the Saudi Income Tax Law?

As per the Saudi Income Tax Law, QFIs are subject to a 5% withholding tax from the total dividends distributed by the listed company. Capital gains are not subject to tax. The Saudi Income Tax Law and its Implementing Regulations may be viewed through the following link:



<https://www.gazt.gov.sa/>

7. Who is responsible for deducting the withholding tax on dividends distributed to QFIs?
Listed companies are responsible for deducting the withholding tax from dividends that they distribute to QFIs.
8. Can QFIs participate in Initial Public Offerings (IPOs)?
Yes, in accordance with the relevant IPO prospectus.
9. Can QFIs vote in general assembly meetings?
Yes, in accordance with the Companies Law.
10. Are QFIs able to vote by proxy in relation to the shares they own?
Yes, in accordance with the Companies Law.
11. Are QFIs able to vote electronically in respect of the shares owned by them?
Yes, in accordance with Tadawulaty system.
12. Can QFIs nominate representatives for the board of directors of listed companies?
Yes, in accordance with the Companies Law.
13. Can GCC citizens and foreign residents invest in listed securities through the QFI Framework?
No, GCC citizens and foreign residents are prohibited to invest in listed securities through the QFI Framework. Both GCC citizens and foreign residents, by virtue of the rights already offered to them, can invest directly in Saudi listed securities in accordance with regulations set by the Authority.
14. How do the Rules define GCC citizens?
The Rules define GCC citizens as citizen meeting either of the following conditions:
 - A natural person holding the citizenship of one of the Cooperation Council for the Arab States of the Gulf countries.
 - A legal person that (i) capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf, and (ii) holding the citizenship of one of the Cooperation Council for the Arab States of the Gulf countries.
15. Can a legal person that capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf (GCC) and holding the citizenship of foreign nationality, submit an application to be as a QFI?
Yes, the legal person that capital of which is majority owned by citizens or governments of the Cooperation Council for the Arab States of the Gulf (GCC) and holding the citizenship of non-GCC nationality can submit the application for qualification as QFI if it satisfies the conditions prescribed by the Rules, because in this case, the definition of GCC citizens as referred to in paragraph (c) of Article 2 of the Rules, does not apply to the applicant. As described in the answer of question (14) of this document; the applicant must be a person that capital of which



is majority owned by citizens or governments of the GCC and holding the citizenship of one of the GCC countries.

16. What is the process to submit a waiver from any of the provisions of the Rules in whole or in part?

In accordance with Article 3 of the Rules, an applicant, a QFI, or an AP can apply for a waiver from any of the Rules provisions in whole or in part by sending a request for a waiver along with justifications to CMA's Chairman. The CMA will study the request to reach a decision to whether accept or reject it. The decision will be sent to the applicant of the waiver with explanation of rejection or the process to be followed if the request is approved.

B. Qualification Conditions for QFIs:

17. What are the QFI qualification conditions set out in the Rules?

- a. The applicant must be a financial institutions 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 one billion eight hundred and seventy five million Saudi Riyals (or an equivalent amount) or more.
- c. The financial institutions in sub-paragraphs (1), (2), (3) of paragraph (a) of this answer must be licensed or otherwise subject to regulatory oversight by a regulatory authority in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it.
- 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.
- e. The affiliates of a QFI or a foreign portfolio manager who meets the requirements stated in paragraph (b) of Article 6 of the rules, and the managed funds by them, shall be considered as a qualified foreign investor without applying for a separate application conditioned by meeting paragraph (a) of Article 6 of the rules.

18. Is it required for Investment Funds to be licensed by a regulatory authority in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it to fulfill the conditions of qualification ?

No, investment funds need only to be incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it.



19. What are the jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA or acceptable to it?

The CMA provided Authorised Persons (APs) who have a dealing or custody licenses with the standards to determine jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA 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.

20. Can newly established Financial institutions submit an application to qualify as a QFI?

Yes, conditioned by the fulfillment of the qualification requirements specified in the Rules, given that the minimum asset under management requirement apply on the assets of the applicant or the group. If the applicant is an investment fund, this include also the assets of the foreign portfolio manager or its group.

21. Are affiliates and managed funds of a QFI or foreign fund manager will be qualified to invest in listed securities as a separate QFI?

Yes, after qualifying affiliates and managed funds of a QFI or foreign fund manager who fulfilled the requirements of paragraph (b) of Article 6 of the Rules, the affiliates and managed funds will be considered as an independent QFI and continuous obligation requirements in section 3 in the Rules will apply on them.

22. Does the cancellation of qualification of the QFI will cancel the qualification of the affiliates and managed funds as well?

No, this will not cancel affiliates and managed funds qualification as they will be considered as an independent QFI.

23. Is it required to qualify the foreign financial institution before qualifying its affiliates and managed funds?

No, the foreign financial institution can be qualified with its affiliates and managed funds in one application.

24. Is it required for foreign fund manager to be qualified to be able to qualify affiliates and managed funds?

No, if the foreign fund manager fulfilled paragraph (b) of Article 6, then they are able to qualify their affiliates and managed funds by only providing a list of them accompanied by a proof of fulfilling paragraph (a) of Article 6 of the Rules .

25. What is the requirement for qualifying affiliates and managed funds of a QFI or foreign fund managers in one application?

The affiliates and managed funds of a QFI or foreign fund managers are required to fulfill paragraph (a) of article (6) of the Rules.



26. What is the procedures for directly qualifying an affiliates and managed funds of a QFI or foreign fund managers ?

The assessing authorized person and the QFI or foreign fund manager can determine the appropriate procedure.

27. Does the CMA require the assessing authorized person to use a specific form for determination letter?

No, the CMA does not require the assessing authorized person to use a specific form for determination letter given that the minimum requirements stated in paragraph (b) of Article 9 of the Rules are met.

28. Does the CMA require the assessing authorized person to use a specific form for assessment agreement?

No, the CMA does not require the assessing authorized person to use a specific form for assessment agreement given that the minimum requirement stated in paragraph (b) of Article 10 of the Rules are met.

29. What do assets under management or under custody include?

Assets under management include:

- Assets owned by the applicant or its group for the purpose of investment. And in relation to investment funds, including assets owned by the foreign portfolio manager or its group for the investment purposes; and
- Assets under custody by the applicant or its group for the account of another person or persons.
- Assets managed by the applicant or its group for the account of another person or persons. And in relation to investment funds, including assets owned by the foreign portfolio manager or its group for the account of another person or persons.

The term "group" is defined in the in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "in relation to a person, means that person and each affiliate of it". It defines the term "affiliate" as: "a person who controls another person or is controlled by that other person, or who is under common control with that person by a third person. In any of the preceding, control could be direct or indirect". The Glossary of Defined Terms Used in the Regulations and Rules of the CMA also defines the term "control" as: "the ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate (a) holding 30% or more of the voting rights in a company, or (b) having the right to appoint 30% or more of the members of the governing body; "controller" shall be construed accordingly".



30. How are investment fund assets will be calculated in the event of not fulfilling the minimum assets under management requirement and has appointed more than one foreign portfolio manager?

If the investment fund or its group does not fulfil the minimum assets under management requirement and has appointed more than one foreign portfolio manager, the investment fund or its group with one of the appointed portfolio managers or their group must have the assets under management of SAR (1,875,000,000) or more, and this condition is continuously met excluded from that any decline in the assets under management for market conditions or funds redemption reasons, and any decline for these reasons will not be considered a violation of the qualification conditions under Rules.

31. What are the government related entities?

The government related entities mean central banks and investment funds- including sovereign funds and funds that take the form of pension funds and endowments- that are fully owned directly or indirectly by a government entity.

32. Are there any conditions that must be met by the foreign portfolio manager?

Yes, the foreign portfolio manager must has a legal personality which manages the assets of clients and 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 and in which engages or intend to engage with the QFI or the applicant for the purpose of investing on its behalf in listed securities in the Saudi Stock Exchange.

33. is it required for the foreign portfolio manager to be a QFI?

The foreign portfolio manager is not required to be qualified ,it is sufficient to provide a list of all the foreign portfolio managers to the AAP in which the QFI intends to deal with them and to be accompanied by the proofing information and documents in accordance with the Rules. Taking into account the required additional documents that must be submitted by the applicant who intends to deal with the foreign portfolio managers to invest in the Saudi market if they are not a QFI, as stipulated in the paragraph (b) of Annex 2.1 of the Rules.

34. Can QFI deal with a GCC portfolio manager?

Yes, the QFI can deal with a GCC portfolio manager for the management of its investments in the Saudi Stock Exchange.

35. Can a portfolio manager be an AP licensed by the Authority?

Yes, the QFI can deal with portfolio manager who is licensed by the CMA.

36. Can a QFI deal with more than one portfolio manager?

Yes, the QFI can deal with more than one portfolio manager at the same time, either if it was an AP authorised from the CMA or a foreign portfolio manager which includes a GCC



portfolio manager, though, the QFI must notify the AAP when dealing with a new portfolio manager in accordance with Annex (3.1) of the Rules.

37. Is it possible for QFI to deal with another QFI to manage his investments in listed securities?

Yes, the QFI can deal with another QFI to manage his investments in listed securities and that does not prejudice the responsibility to abide by the law and its implementing regulations and market rules and its regulations, and other rules that are related.

38. Do assets under management include the assets of the funds managed by the applicant even if such funds did not satisfy the conditions required to be qualified as QFI?

Yes, assets under management include assets of the funds managed by the applicant even if such funds did not satisfy the conditions required to qualify as QFI.

C. Qualification Process:

39. Who is an AAP?

is an authorised person “AP” by the CMA to conduct custody or dealing activities, and has agreed with an applicant to assess its application for qualification. to invest in the Saudi Stock Exchange.

For the List of APs, please refer to the CMA website through the following link:

<https://cma.org.sa/Market/AuthorisedPersons/Pages/default.aspx>

40. What is the role of the AAP?

The AAP will assess the QFI’s qualification request to ensure that the application complies with the requirements prescribed by the Rules. Then, the AAP will provide the determination regarding the application whether accepted or rejected.

41. When will the applicant becomes a QFI?

An applicant becomes a QFI from the date of the AAP accepting the applicant according to the Rules.

42. In the case that a request for Qualifying a foreign investor is rejected, can an applicant re-apply?

Yes, the applicant can re-apply and there is no specific time period which must lapse before the applicant can resubmit the application.

43. Can a QFI delegate the foreign portfolio manager to process the application for qualification and sign the assessment agreement with the AAP?

Yes, the QFI may delegate the foreign portfolio manager to process the application for qualification and sign the assessment agreement with the AAP, providing a proof of such delegation to the AAP when submitting the application.



44. Can an AAP rely on a third party to conduct Know Your Client "KYC" process?

Yes, the AAP can rely on a third party to conduct Know Your Client "KYC" process in accordance with the Anti-Money Laundering and Counter-Terrorist Financing Rules

45. Is it required that the terms of business agreement to be signed between the authorized person and the qualified foreign investor?

In accordance with CMA Board's resolution issued on 23/11/2017, paragraph (b) of Article (38) of Authorised Persons Regulations does not require that the terms of business with the clients be signed between the authorized person and the investor as a legal person or the qualified foreign investor directly. The agreement may be indirect, provided that the terms of business define the basis for conducting securities business with the client or for his account. For example: a qualified foreign investor may delegate a third party to sign the terms of business agreement with the authorized person, or the authorized person may sign a master agreement with a third party covering the terms of business to the qualified foreign investor introduced by that party.

46. What is meant by the requirement of obtaining copies of the documentation and information of third party Customer Due Diligence procedures as per sub-paragraph (5-a) of Article (14), of the Anti-Money Laundering and Counter-Terrorist Financing Rules?

The meaning of obtaining copies of the Customer Due Diligence documentation and information is to obtain copies of documents and information of the customer's due diligence procedures the third party undertakes to assess and assure the suitability of such procedures and their conformity with the local requirements stated in paragraph (6) of Article (14) as follows: " Authorised persons must conduct periodic reviews to ensure that a third party upon which it relies, continues to conform to the criteria set out above. This may involve review of the relevant policies and procedures and sample checks of the due diligence conducted "In this case, copies of the documents mentioned in subparagraphs (a), (b) and (c) of paragraph(2) of Article (8) of the Anti-Money Laundering and Counter-Terrorist Financing Rules shall not be obtained, nevertheless appropriate steps shall be taken to ensure that the third party submits copies of documentation and data regarding the requirements of due diligence procedures towards the client upon request.

47. Is it permissible to rely on a third party to verify the documents required to open an investment account as per the Investment Accounts Instructions?

Yes, taking into consideration the provisions of reliance on third parties to conduct customer due diligence procedures as per the Anti-Money Laundering and Counter-Terrorist Financing Rules.

48. Is the AP when opening an investment account for a QFI, or relying on a third party for opening an investment account for a QFI, required to obtain copies of identifications of the QFI's owners, managers, authorized signatories and persons authorized to manage the account?



As per the CMA Board resolution issued in this regard, the Authorised Person (AP) when opening an investment account for a QFI is not required to obtain copies of the identification of the QFI's owners, managers, authorized signatories and persons authorized to manage the account, without prejudice to the AP's obligation to identify and verify their identity using reliable, independent source documents, data or information in accordance with the related laws, regulations and instructions. This includes cases in which the AP rely on a third party for opening an investment account for a QFI, without prejudice to the AP's obligation to take adequate steps to ensure that copies of identification documents and other relevant documentation relating to the CDD requirements will be made available from the third party promptly upon request in accordance with the related laws, regulations and instructions.

49. Is the QFI required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in securities listed in the Saudi Stock Exchange?

The QFI is not required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in securities listed in the Saudi Stock Exchange.

50. Is the foreign portfolio manager required to obtain authorisation by the CMA in relation to carrying on managing activity when managing listed securities belonging to a QFI in the Saudi Stock Exchange?

The foreign portfolio manager is not required to obtain authorisation by the CMA in relation to carrying on managing activity when managing listed securities belonging to a QFI in the Saudi Stock Exchange.

51. Is the foreign custodian required to obtain authorisation by the CMA in relation to carrying on custody activity when safeguarding listed securities belonging to a QFI?

The foreign custodian is not required to obtain authorisation by the CMA in relation to carrying on custody activity when safeguarding listed securities belonging to a QFI without prejudice to appoint local custodian authorised by the CMA.

52. Is the foreign advisor required to obtain authorisation by the CMA in relation to carrying on advising activity when providing advice to a QFI?

The foreign advisor is not required to obtain authorisation by the CMA in relation to carrying on advising activity when providing advice to a QFI.

D. Trading:

53. When can a QFI start trading listed securities?

A QFI may commence trading in any listed securities upon satisfying the following:

- Holding a client account.
- Holding an account with the Depository Center.



- Any conditions as may be imposed by the CMA.

The term "client account" is defined in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "an account at a local bank which is in the name of an authorised person and fulfills the conditions required by the Client Money Rules".

54. How can the applicant satisfy the qualification requirements, the client account opening requirements and the requirements for opening an account with the Depository Center?

The CMA worked in coordination with the relevant authorities to facilitate the establishment of a unified platform [One-Stop -Shop] for the account opening requirements and the requirements for opening an account with the Depository Centre and bank account, to facilitate the fulfillment of such requirements, and the applicant will only need to provide the required information and documents in this regard to the AAP, provided that the concerned AAP takes the necessary actions in accordance with the procedures issued by the CMA in this regard.

55. What are the procedures to open a client account?

The concerned AP shall open a client account for the QFI pursuant to the applicable procedures set forth by the CMA and the Saudi Arabian Monetary Agency, which may be viewed through the following link:

<https://cma.org.sa/en/Market/QFI/Pages/default.aspx>

56. What are the procedures to open an account with the Depository Center?

The concerned AP shall open an account with the Depository Center for the pursuant to the applicable procedures set forth by the CMA and the Saudi Stock Exchange, which may be viewed through the following link:

<https://cma.org.sa/en/Market/QFI/Pages/default.aspx>

57. Is there a specific period to open an account with the Depository Center after being qualified to invest in Saudi listed securities?

No, there is no specific period to open an account with depository after being qualified to invest in Saudi Stock Exchange.

58. How can the QFI's investment account be linked to a bank account in the name of the QFI, and how could the authorized person ensure that the money transferred to the investment account is received from an account that belongs to the QFI?

The bank account is considered to be in the name of the QFI (belonging to the QFI) as indicated in the electronic record kept by the authorised person, that is based on the information provided by the QFI to the authorised person whether in the beginning of their contractual relationship or during such relationship. Such information may include the



information obtained by the authorised person from an international bank (commercial or investment banks, brokerage and securities institutions including custodians) on behalf of the QFI, such as, a written statement to the authorised person confirming that the money transferred to the QFI investment account belongs to the same client.

Taking into consideration the authorised person's compliant with the client money rules in the Authorised Persons Regulations, and its obligation to take all necessary steps to ensure that the obtained information are true, according to Article (8) of the Anti-Money Laundering and Counter-Terrorist Financing Rules.

59. Should each QFI open a separate account in the Depository Center?

Yes, every QFI shall open an independent account. After that, the QFI can open several investment portfolios that are linked to the account.

60. Who is the competent authority responsible for the resolution of disputes resulting from trading?

The Committee for the Resolution of Securities Disputes (CRSD) has the jurisdiction over the disputes falling under the provisions of the Capital Market Law, its Implementing Regulations, and the regulations, rules and instructions issued by the CMA and the Exchange, with respect to public and private actions, including any trading disputes that may arise among all parties subject to the Rules. The CRSD's decision may be appealed before the Appeal Panel that is formed by a Council of Ministers' resolution. The Appeal Panel shall have the discretion to refuse to review the decisions of the CRSD, to affirm such decisions, to undertake a de novo review of the complaint or suit based on the record developed at the hearing before the Committee and to issue such decision as it deems appropriate in relation to the complaint or the suit. The decisions of the Appeal Panel shall be final.

The decisions issued by these committees are published in both Arabic and English on the Committees for the Resolution of Securities Disputes' website, and those decisions can be viewed through the following link:

<http://www.crsd.org.sa/>

61. Can a QFI send trading orders through an international broker that is not qualified as a foreign investor?

If the international broker's role is limited to sending orders issued by the QFI to the AP, then the international broker is not required to qualify as a QFI, provided that the international broker must have the authority to send such orders.

62. Can a QFI establish a discretionary portfolio management (DPM)?

A QFI can establish a DPM with an AP in relation to its investments.

63. Are existing Swap Agreement's ultimate beneficiary allowed to invest as a QFI?



Yes, provided that the ultimate beneficiary satisfies the conditions prescribed in the Rules to be qualified as a QFI. In Addition, a foreign investor who wants to invest in the Saudi Stock Exchange as a QFI can retain a swap agreement account for not more than twelve months from the opening of the QFI account, afterward, all securities underlying the ultimate beneficiary swap account must be transferred to the QFI account. The ultimate beneficiary is defined as "non-resident foreign investor that receives the economic benefits of the securities listed on the Saudi Stock Exchange through swap transactions executed under the Swap Agreements".

64. Can the foreign investor transfer owned securities from the ultimate beneficiary swap account to the QFI account within the twelve months period?

Yes, the foreign investor is allowed to transfer some of the securities from the ultimate beneficiary swap account to the QFI account and vice versa during the twelve months period.

65. What is the following procedure after the elapse of twelve months of opening a qualified foreign investor account while retaining ultimate beneficiary swap account?

After the elapse of twelve months of opening a QFI account, the Assessing Authorized Person (AAP) must ensure that the QFI closed one of the accounts and transferred all securities from the account which the foreign investor is intending to close to the account that foreign investor is intending to continue his investments through.

66. How securities are transferred from a Swap Agreement account to a QFI account?

The transfer operation is done according to the following:

1. QFI submits– through the AAP- a detailed transfer request of all securities underlying the Swap Agreement, where the ultimate beneficiary of such securities is the QFI, to his account with the Depository Center, according to the form prepared by the Exchange for this purpose.
2. Submitting the transfer request, referred to in paragraph (1) above, must be done as soon as a request is submitted to open an account with the Depository Center.
3. The Exchange takes the necessary procedures to execute the transfer operation from Swap Agreement account in relation to the QFI as stipulated in the circular issued in this regard.
4. The transfer operation shall be executed after ensuring that there are no obligations (such as: a pledge or a seizure of the securities) or outstanding buy and sell orders, regarding the securities requested to be transferred.

67. What are the costs of transferring securities from a Swap Agreement account to a QFI account?

The cost of transferring is 20 SAR for the securities of each listed company (not per security).



68. Does transferring securities from a Swap Agreement account to QFI account affect the market value of such securities?

Transferring securities from a Swap Agreement account to a QFI account does not affect the market value of the securities.

69. How long does it take to transfer securities from a Swap Agreement account to a QFI account?

The shares shall be transferred within 2 business days from the date on which all the requirements were completed.

70. Can a QFI be the Foreign Counterparty under a Swap Agreements Framework?

Yes, a QFI can be the Foreign Counterparty in Swap Agreements.

E. Investments limit

71. Does the ownership limit of 49% of the issued shares or convertible debt instrument of any listed company include the strategic foreign investors in such company?

Yes, all foreign investors (in all categories, whether residents or non-residents), including strategic foreign investors, cannot own more than 49% of the issued shares or convertible debt instrument for each listed company, including interests under the Swap Agreements Framework.

72. How can the information on ownership limits in listed companies stipulated in the Rules be obtained?

The Saudi Stock Exchange (Tadawul) shall publish on its website statistical information reflecting ownership percentage as per the paragraphs (a/2) of Article 14 of the Rules. In addition, according to the information received from listed companies, the Saudi Stock Exchange shall also publish on its website the limits stated in paragraphs (a/3) and (a/4) of Article 14 of the Rules.

73. What are the responsibilities of APs and QFIs with regard to the ownership limits in listed companies stipulated in the Rules?

- APs must comply with the relevant rules set out in the Capital Market Law and its Implementing Regulations, in particular the Authorised Persons Regulations, Market Conduct Regulations and the Rules.
- QFIs must comply with the ownership limits specified in sub-paragraphs (a/1), (a/3), and (a/4) of Article 14 of the Rules for investments in their account. It should be noted that the Saudi Stock Exchange (Tadawul) will automatically control the ownership limits specified in Article 14 of the Rules. An automatic control of a limit means that the Saudi Stock Exchange's (Tadawul) systems will reject orders that are not considered to be compliant with the ownership limits in listed companies stipulated in the Rules.



74. Who is responsible of complying with the investment limits and disclosure requirements when the QFI engages with foreign portfolio manager?

The QFI is responsible of complying with investment limits and disclosure requirements and abide by the Capital Market Law and its Implementing Regulations and the rules of the Exchange and other relevant laws.

75. What are the ownership limits in listed companies stipulated in the Rules that will be automatically controlled by the Saudi Stock Exchange (Tadawul)?

The following ownership limits will be automatically controlled by the Saudi Stock Exchange:

- Each QFI 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 share 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) in aggregate is 49%.

76. Can the foreign investor own a percentage that exceed 10% through his QFI account and his ultimate beneficiary swap account within the first twelve months after the opening of a QFI account while retaining an ultimate beneficiary swap account?

No, foreign investor ownership through the QFI account and the ultimate beneficiary swap account shall not exceed 10% of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer for both accounts aggregated. Foreign investor must comply with the investment limitations provisions in the Capital Market Law and its Implementing Regulations, as well as the Rules and Regulations of the Exchange and other relevant laws.

77. What are the consequences for non-compliance of qualified foreign investor with the ownership limits in listed companies stipulated in the Rules?

In the case of non-compliance with the ownership limits, the foreign investor is considered in breach of the Rules, and the CMA can take the action it sees fit in accordance with Article (20) of the QFI Rules which includes the action stipulated in sub-paragraph (7/a) that enables the CMA to exercise any of its other powers under the Capital Market Law specifically the power stipulated under paragraph (a) of Article (59) of the Capital Market Law that states: "If it appears to the Authority that any person has engaged, is engaging, or is about to engage in acts or practices constituting a violation of any provisions of this Law, or the regulations or rules issued by the Authority, or the regulations of the Exchange, the Authority shall have the right to bring a legal action before the Committee to seek an order for the appropriate sanction. The sanctions include the following: (3) obliging the person concerned to take the necessary steps to avert the violation, or to take such necessary corrective steps to address the results of the violation".



F. Ongoing Obligations

78. Is the QFI required to provide the CMA with notifications?

Where a notifiable event, as set out in Annex 3.I of the Rules, has occurred and the QFI reasonably believes that disclosure of the event to the AAP in accordance with paragraph (a) of Article 16 of the Rules would materially prejudice the operations and businesses of the QFI or a third party, the QFI may make a notification to the CMA in substitution for notifying the AAP.

79. What is the required period of time for the QFI to notify the AAP if any of the notifiable events occurs?

A QFI must within a reasonable period of time not exceeding 30 days notify the AAP engaged by it if any of the notifiable events occurs as set out in Annex 3.I.

80. Are the QFI required to provide the Exchange with notifications regarding their ownership in listed companies?

Yes, the QFI is required to notify the Exchanger as per the events stipulated in article 68 of Rules on the Offer of Securities and Continuing Obligations which are as follow:

a) Any person must notify the Exchange if such person becomes the owner of, or is interested in, 5% or more of any class of voting shares or convertible debt instruments of the issuer at the end of the third trading day following the execution of the transaction or the occurrence of the event which results such ownership or interest; The person notification to the Authority shall also include a list of persons, in which those persons, have an interest in the shares or convertible debt instruments which they own or control".

b) The person referred to in paragraph (a) of this Article must notify the Exchange in the event of any change to the list of persons referred to in paragraph (a) of this Article including any event which requires the inclusion of a person to that list or the exclusion of any person who has been previously included in that list. Such notification must be made at the end of the third trading day following the occurrence of the relevant event.

c) For the purposes of this Article, in calculating the total number of shares or convertible debt instruments in which a person is interested, that person will be deemed to be interested in any shares or convertible debt instruments owned by or controlled by any of the following persons:

- 1) a relative of that person;
- 2) a company controlled by that person; or
- 3) any other persons with which that person has agreed to act in concert to acquire an interest in or exercise voting rights in the shares or in the



convertible debt instruments of the issuer.

d) The notices referred to in this Article shall be in accordance with the form prepared for this regard. The notice referred to in paragraph (a) of this Article must contain at least the following information:

- 1) the names of the persons who own or have the right to dispose of the subject shares or convertible debt instruments;
- 2) details of the ownership process;
- 3) details of any loans or financial support for the ownership process that the person has received from any other persons

81. What is meant by a person who is interested in shares or convertible debt instruments?

A person will be deemed interested in any shares or convertible debt instruments owned or controlled by any of the following persons:

- a. A relative of that person;
- b. A company controlled by that person;
- c. Any other persons with which that person has agreed to act in concert to acquire interest in or exercise voting rights in the shares or in the convertible debt instruments of the issuer.

The term "person" is defined in the in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "any natural or legal person recognised as such under the laws of the Kingdom".

82. Is there a special notification form with regards to the ownership in listed companies?

Yes, the notification shall be in accordance with a form prepared by the Exchange, which may be viewed through the following link:

<https://www.tadawul.com.sa/wps/portal/tadawul/knowledge-center/rules-%26-regulations/rules-forms>

83. Can a QFI engage with more than one AAP at the same time?

Yes, a QFI may engage with more than one AAP at the same time.

84. Can a QFI become a client of another AP for the purpose of investing in listed securities?

Yes, a QFI can be a client of any other AP when investing in listed securities.

85. Can a QFI change its AAP?

Yes, the QFI can change its AAP at any time. In case the QFI is engaged only with one AAP, a QFI can find a replacement for AAP within 30 days after the lapse or termination of the QFI assessment agreement with the replaced AAP.

86. Can the QFI trade listed securities during the 30 day period after the lapse or termination of the QFI assessment agreement?



Yes, the QFI can trade listed securities during this period, provided that it adheres to its responsibilities to comply with the Rules.

87. When should an AAP notify the CMA when the QFI no longer meets the qualification conditions?

If an AAP finds at any time that a QFI by which it is engaged with no longer meets the applicable qualification conditions stated in the Rules or has breached any of its obligations under the Rules, the AAP must report such findings to the CMA in writing without delay.

88. Is the QFI required to notify the AAP in the event in which the QFI no longer engages with the foreign portfolio manager?

Yes, the QFI must notify the AAP in the event in which the QFI no longer engages with the foreign portfolio manager. Also, the AAP must notify the CMA in writing without delay in case that considered a breach of the qualification conditions as explained in Annex3.1.

89. Can the QFI apply for cancellation of QFI qualification?

Yes, The QFI may submit a cancellation request to an AAP.

90. Does a QFI need to be aware of other laws or regulations?

QFIs must be aware of the relevant provisions of the Capital Market Law and its Implementing Regulations, the rules and the regulations of the Saudi Stock Exchange and any other relevant laws. This includes the Rules of Offering Securities and Continuing Obligations, the Market Conduct Regulations, the Authorised Persons Regulations, the Merger and Acquisition Regulations, the Anti-Money Laundering and Counter-Terrorist Financing Rules.

G. Others

91. What is the settlement cycle for securities listed in the Saudi Stock Exchange?

The settlement cycle for trading listed securities in the Saudi Stock Exchange is two business days after executing the transaction (T+2), and the prefunding condition is subject to the contractual arrangement with the concerned securities broker and is not a regulatory requirement.

92. What are the trading hours of the Saudi Stock Exchange?

Trading is open for one session from 10:00 am – 3:00 pm, Sunday through Thursday. The Saudi Stock Exchange is closed during all official holidays.

93. Will the Depository Center allow APs who are licensed to conduct custody activities, but who do not have a dealing license, to be connected with the Depository and Settlement System, in order to enable them to offer independent custody services for investors in Saudi listed securities?

Yes, the Depository Center allows APs with custody licenses to be connected with the Depository and Settlement System, so that they can offer custody and all related services to



the investors. Therefore, investors in Saudi listed securities are able to appoint an independent custodian different than the broker who executes their trades.

94. Can QFIs receive financing from local banks to fund their investments?

Yes, pursuant to the applicable procedures set forth by the CMA and the Saudi Arabian Monetary Agency, QFIs can receive financing from local banks to fund their investments.

95. What protection is available to minority shareholders in relation to Merger and Acquisition transactions?

The provisions of the Companies Law and Merger and Acquisition Regulations included a number of protection means for minority shareholders, such as:

First: The Companies Law Article 94:

- An extraordinary general assembly meeting shall not be valid only if attended by shareholders representing at least one half of the company's capital, unless the company's bylaws provide for a higher proportion provided that such proportions shall not exceed the two-thirds .
- If this quorum has not been obtained at the first meeting in accordance with above paragraph, a notice shall be sent for a second meeting in the manner prescribed in Article (91) of the Companies Law. However, the second meeting may be held after an hour from the end of the period fixed for holding the first meeting. The notice sent for the first meeting must include an indication to the possibility of holding a second meeting. In all cases, such meeting shall be valid if attended by a number of shareholders representing at least one quarter of the company's capital.
- If this quorum has not been obtained at the second meeting, a notice shall be sent for a third meeting in the manner prescribed in Article (91) of the Companies Law, and such third meeting shall be valid regardless of the number of shares represented thereat, after the approval of the competent authority.
- Resolutions of an extraordinary general assembly shall be adopted by a two-thirds majority vote of the shares represented thereat. But if a resolution pertains to an increase or decrease in capital, or to extension of the term of the company, or to termination of the company prior to expiry of the term specified in its bylaws or to merger of the company into another company or firm, it shall be valid only if adopted by a three-fourths majority vote of the shares represented at the meeting.
- The Board of Directors must publish, in accordance with the provisions of Article (65) of the Companies Law, the resolutions adopted by an extraordinary general assembly meeting if such resolutions included an amendment of the company's bylaws.

Second: Merger and Acquisition Regulations

- Paragraph (c) of Article 3: In the case of an offer, All shareholders of the same class of an offeree company must be treated equally by an offeror.



- Paragraph (e) of Article 3: During the course of an Offer, or when an Offer is in contemplation by the Offeree Company, neither an Offeror, nor the Offeree Company, nor any of their respective advisors may furnish information to some shareholders which is not readily made available to all shareholders. This principle does not apply to the following: 1) the furnishing of information in confidence by the Offeree Company to a bona fide potential Offeror or vice versa in the context of an Offer; or 2) the furnishing of information in confidence by the selling shareholder and/or Offeree Company to an Offeror in the context of a Private Transaction.
- Paragraph (j) of Article 3: In case the board of the Offeree Company has reason to believe that a bona fide Offer might be imminent, the board of the Offeree Company may not take any action in relation to the affairs of the company, that may cause the rejection of the offer or preventing shareholders from making a decision on it, without the approval of the shareholders convened in a general assembly.
- Paragraph (o) of Article 3: A director shall not vote at a meeting of board or of its committees or a general assembly meeting on any resolution concerning an offer subject to these Regulations or any other relevant matter where the director, any relative or representative of his/her has a conflict of interest. In this context such a conflict of interest would arise if the director has, directly or indirectly, an interest related to the offer or the potential offer or the director is a shareholder in the Offeror and at the same time he/she is a director of the Offeree Company board, or vice versa. If the director is a director of the Offeror board and at the same time he/she is a board member of, or a manager in the Offeree Company, or vice versa.
- Paragraph (a) of Article 23: Where a person (or persons Acting in Concert with it) increase an aggregate interest in shares through a restricted purchase of shares or restricted Offer for shares so that such person's ownership (individually or collectively with persons Acting in Concert with it) becomes 50% or more of a given class of shares listed on the Exchange carrying voting rights, the Board shall have the right to exercise its discretionary power in accordance with Article 54 of the Capital Market Law to order such person (and any person or persons Acting in Concert with it) to Offer to purchase the shares of the same class it does not own of the Offeree Company on the terms set out in this Article and in accordance with the other relevant provisions of these Regulations. When an obligation to make a general Offer is incurred under this Article, it is not necessary for the Offer to extend to treasury shares in the Offeree Company .
- Paragraph (a) of Article 24: Any person obtaining shares (or have control over them) by a deal or number of deals (in owned or controlled shares, or which is controlled by persons acting in concert with it) that represent 40% or more of a specific class of shares that carry voting rights, may not have control over its shares during the following 6 months of obtaining such percentage without the Authority's approval and in accordance with the conditions it specifies.
- Paragraph (a) of Article 35: Information about the Offer, including announcements, statements, presentations, circulars and information concerning companies involved in an



Offer must be made equally available to all shareholders as nearly as possible at the same time and in the same manner, including publication on the website of the Offeror and Offeree Company, through the exchange or other Regulatory Information Service Providers (as applicable), no later than the end of the trading day.

- Sub-paragraph (2/b) of Article 36: Any break-up fee that is proposed must be of a minimal size (no more than 1% of the Offer value) and the Offeree Company board of directors and its Independent Financial Advisor must confirm to the Authority in writing that the fee is in the best interests of the Offeree Company's shareholders. Any break-up fee arrangement must be fully disclosed in the Offer Document and in the announcement made under paragraph (e) of Article 17.