

هيئة السوق المالية
Capital Market Authority



The Guidance Note for the investment of Non-Resident Foreigners in the Parallel Market

Issued by the Board of the Capital Market Authority
Pursuant to Resolution Number 4-95-2017
Dated 26/01/1439H Corresponding to 16/10/2017G
Based on the Capital Market Law
Issued by Royal Decree No M/30 dated 2/6/1424H
Amended by Resolution of the Board
of the Capital Market Authority Number 3-65-2019
Dated 14/10/1440H Corresponding to 17/6/2019G

Part 1: The objective of the guidance note

- A. This guidance note aims to clarify the investment of non-resident foreigners mechanism in the Parallel Market, and the restrictions related to that.
- B. This guidance note should be read in conjunction with and in addition to the provisions of the Capital Market Law and its Implementing Regulations and in particular the Authorized Persons Regulations, Anti-Money Laundering and Counter-Terrorist Financing Rules, Investment Accounts Instructions, Rules on the Offer of Securities and Continuing Obligations, Listing Rules, Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, conditions and requirements of Swap Agreements issued by the Authority, and other relevant laws.

Part 2: Categories of Non-resident foreigners whom are allowed to invest in the Parallel Market

The following categories of foreigners who do not reside in the kingdom are allowed to invest in the Parallel Market:

- 1. Qualified foreign investor according to the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.
- 2. Ultimate beneficiary in Swap agreement with an authorized person.
- 3. 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 in accordance with the list of jurisdictions issued by the Authority as required in sub-paragraph (2), and sub-paragraph (3) of paragraph (a) of article 6 of the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities.
- 4. Natural person holding the nationality of a country that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it in accordance with the list of jurisdictions issued by the Authority as required in sub-paragraph (2), and sub-paragraph (3) of paragraph (a) of article 6 of the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, and resides in such countries, and fulfil any of the following criteria:
 - a. Has conducted transactions in security markets of not less than 40 million Saudi riyals in total, and not less than ten transactions in each quarter during the last twelve months.
 - b. His net assets is not less than 5 million Saudi Riyals.
 - c. Works or has worked for at least three years in the financial sector.

- d. Holds the General Securities Qualification Certificate which is recognized by the Authority.
- e. Holds a professional certificate that is related to securities business and accredited by an internationally recognized entity.

Part 3: Investment restrictions

The investments of non-resident foreigners of all categories in the Parallel Market are subject to the following limitations:

1. 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.
2. 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 pursuant to the Instructions for the Foreign Strategic Investors' Ownership in Listed Companies) in aggregate is 49%.
3. Other legislative limitations on foreign ownership in joint stock companies.
4. The limitations set forth in the articles of association or by-laws of the listed companies or any instructions issued by the supervisory or regulatory authorities to which these companies are subject.

Part 4: Requirements for opening an investment account

A. Opening Investment Accounts for Foreign Natural Persons not Residing in the Kingdom:

To open an investment account for a foreign natural person not residing in the Kingdom for the purpose of investing in the permitted securities in accordance with the Capital Market Law and its Implementing Regulations and instructions issued by the Authority, the authorised person must check his valid passport and obtain copy of it, and obtain the client's residential address and place of work and work address. The authorised person also, must perform the customer due diligence in accordance with the provisions of the Anti-Money Laundering and Counter-Terrorist Financing Rules.

B. Opening Investment Accounts for Foreign Legal Persons out of the Kingdom:

1. Without prejudice to Clause (c) of this section and the provisions of the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities, to open an investment account for a foreign legal person for the purpose of investing in the

permitted securities in accordance with the Capital Market Law and its Implementing Regulations and instructions issued by the Authority, the authorised person must perform the customer due diligence in accordance with the provisions of the Anti-Money Laundering and Counter-Terrorist Financing Rules.

2. To open an investment account for a foreign legal person out of the Kingdom for the purpose of entering in swap agreements in accordance with the conditions and requirements of the swap agreements, the authorised person must perform the customer due diligence requirements in accordance with the relevant conditions and requirements of the swap agreements.

C. Opening Investment Accounts for Qualified Foreign Financial Institutions:

- I. When opening an investment account for any foreign financial institution as a qualified foreign investor, the authorised person must obtain the following documents:
 - Where applicable, a copy of the license or the commercial registrar for the foreign investor obtained from the relevant authority in the county of establishment.
 - Where applicable, a copy of the by-laws and its appendices, or a copy of the article of association and its appendices.
 - A list of names of the foreign investor's managers that are authorized signatory in regard to the account.
 - Where applicable, a list of all foreign investor's owners whose names are included in the article of association. An exception of this requirement is when the foreign investor is a joint-stock company listed in any exchange.
 - Where applicable, a delegation from the board of director's specifying names of authorized signatory in regard to the account.

Part 5: Reliance on other third parties for CDD

Authorized Person may rely on third party to perform elements in subparagraph (a) to (c) of the CDD measures in paragraph (2) article (8) of the Anti-Money Laundering and Counter-Terrorist Financing Rules, if the client is located in a country other than Saudi Arabia and must either be a commercial bank or financial institution that engages in securities activities, without prejudice to what is specified in the Anti-Money Laundering and Counter-Terrorist Financing Rules.

Part 6: Continuing obligations

1. Legal foreign persons out of the Kingdom are not allowed to be direct investors and qualified foreign investors in the Parallel Market at the same time, and in case the foreign investor out of the Kingdom is willing to transfer from qualified foreign investor to direct investor in the Parallel Market or vice versa, the investor shall transfer all securities from the qualified foreign investor account to the direct account or vice versa.
2. Authorized person must take customer due diligence measurements towards his client in accordance with the provisions of the Anti-Money Laundering and Counter-Terrorist Financing Rules.
3. Foreign investor must comply with the applicable provisions stated in the Capital Market Law and its Implementing Regulations, as well as the rules and the regulations of the Exchange and other relevant laws.
4. Authorized person must comply with the applicable provisions stated in the Capital Market Law and its Implementing Regulations, as well as the rules and the regulations of the Exchange and other relevant laws.