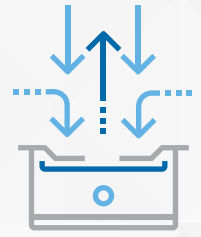




# IMPLEMENTING THE CPMI-IOSCO'S PRINCIPLES for Financial Market Infrastructures in Saudi Arabia



## Overview of Principles for Financial Market Infrastructures

The [Principles for Financial Market Infrastructures \(PFMI\)](#)<sup>1</sup> are the international standards for financial market infrastructures (FMIs) issued by the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in April 2012.

The PFMI comprise 24 principles that are designed to ensure that financial market infrastructures (FMIs) supporting global financial markets are robust and well placed to withstand financial shocks. The overall objective is to ensure that FMIs promote stability and efficiency in the financial system. The PFMI also set out five responsibilities for relevant authorities in regulating, supervising and overseeing FMIs.

CPMI and IOSCO members are expected to adopt and apply the Principles of PFMI within their regulatory frameworks, at least for FMIs that are deemed to be

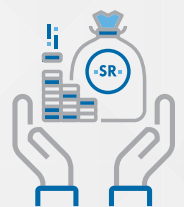
systemically important. As a member of the CPMI, IOSCO and one of the G20 countries, Saudi Arabia is always working on enhancing its legislative rules, regulations and other policies that will enable it to fully implement the PFMI.

The Capital Market Authority of Saudi Arabia (CMA) supervises three main types of FMIs:

- Central securities depository (CSD)
- Securities settlement system (SSS)
- Central counterparties (CCP)

The legal regime for all CMA-supervised FMIs is guided by the PFMI, the substance of which the CMA expects to be also reflected in any future rules, regulations and associated technical standards. Notwithstanding the above, the CMA-supervised FMIs themselves have full and primary responsibility for satisfying the minimum standards in the PFMI.

## Central securities depository (CSD) and securities settlement system (SSS)



The functions of CSD and SSS currently reside within the Securities Depository Center Company (SDC), a

closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul) following a spin-off that

<sup>1</sup> Principles for financial market infrastructures, CPMI Publications No. 101, Bank for International Settlements, April 2012. Available at <http://www.bis.org/publ/cpss101a.pdf>

took place in June 2016. The Board of CMA approved the revised Securities [Depository Centre Rules](#)<sup>2</sup> in March 2017.

The CMA has regulatory responsibilities under the [Capital Market Law \(CML\)](#)<sup>3</sup> for the CSD and SSS. Chapter 4 of the CML provides for the establishment of SDC solely entrusted to execute the transactions of deposit, transfer, settlement, clearing and registering ownership of securities traded on Tadawul.

The SDC's main activities include registering investment portfolios in the deposit and settlement system; ownership registration, deposit, transfer, settlement, and clearance; and registry of ownership limitations for deposited securities, in addition to linking market members and settlement agents with the deposit and

settlement system, as well as providing other related services in accordance to the CML.

In 2015, Tadawul conducted an internal assessment for SDC as a CSD and SSS against the PFMI using an independent party, of which the assessment results showed that concerned principles of the PFMI have been broadly observed.

In April 2017, Tadawul implemented a new settlement cycle of T+2 and simultaneously introduced the delivery versus payment (DvP) settlement provision to provide an extra layer of trade execution security to investors that trade securities on Tadawul. Further, Tadawul also introduced failed trade management, short selling and securities borrowing and lending (SBL) facilities.

## **Central counterparty (CCP)**

The function of securities clearing currently resides within the SDC. The CMA has regulatory responsibilities by virtue of the provision under Chapter 4 of the CML for the function of securities clearing. Effort is currently underway to effect necessary changes to the CML to include specific reference to the establishment



of the CCP in Saudi Arabia. The proposed regulatory changes to address the CCP are in an advanced stage of discussion, and a plan with target dates has been drawn, for the establishment of a CCP.

<sup>2</sup> Securities Depository Centre Rules, revised 15 March 2017. Available at [https://www.tadawul.com.sa/wps/wcm/connect/3a444916-5cf0-47c1-bac3-b7348e4896ee/Securities\\_Depository\\_Centre\\_Rules\\_2.pdf?MOD=AJPERES](https://www.tadawul.com.sa/wps/wcm/connect/3a444916-5cf0-47c1-bac3-b7348e4896ee/Securities_Depository_Centre_Rules_2.pdf?MOD=AJPERES)

<sup>3</sup> Capital Market Law. Available at <https://cma.org.sa/en/RulesRegulations/CMALaw/Documents/CMALaw.pdf>

<sup>4</sup> The relevant procedures and regulations of Tadawul and SDC are available at <https://www.tadawul.com.sa/wps/portal/tadawul/knowledge-center/rules-%26-regulations/Exchange-and-Centre-Procedures>

