



Oversight of the Capital Market Infrastructure Institutions

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Disclaimer

This document does not include new provisions and its content is not considered a substitute for the provisions of the Capital Market Law and its Implementing Regulations. In case of any conflict between the document and the provisions of the Capital Market Law or its Implementing Regulations, such provisions shall prevail.

Since the Capital Market Authority's regulations are subject to continuous amendments. To stay updated, reliance shall always be on the Regulations published on the Capital Market Authority's website.



1. BACKGROUND

1.1 Introduction

The Capital Market Authority (“CMA”) regulates and oversees the Capital Market Infrastructure Institutions (“CMIIs”) and their activities in the Kingdom, which include the Securities Exchanges (“Exchanges”), the Securities Depository Centers (“SDCs”) and the Securities Central Counterparties (“CCPs”) pursuant to the Capital Market Law (“CML”) and its Implementing Regulations. The SDCs and the CCPs are financial market infrastructures¹ that facilitate the clearing, settlement and recording of financial transactions, pursuant to the Principles for Financial Market Infrastructures (“PFMIs”) issued by the Committee on Payment and Markets Infrastructures and the Technical Committee of the International Organization of Securities Commissions (“CPMI-IOSCO”).

The expressions and terms in this document shall have the meaning as defined in the CML and the Glossary of Defined Terms Used in Regulations and Rules of the CMA, unless the context indicates otherwise.

1.2 Overview of the Regulations, Supervisory & Oversight

The CMA is responsible for regulating, supervising and overseeing CMIIs in the Kingdom, and setting out the oversight framework adopted in respect of CMIIs including the regulatory requirements, oversight requirements and assessments approach.

The efforts are made between CMA and SAMA to implement their regulatory powers over the members of the SDCs and CCPs as well as to effectively oversee the implementation of the PFMIs by the Financial Market Infrastructures (FMIs)².

2. OVERSIGHT FRAMEWORK

2.1 Scope & Objectives

The CMIIs play a key role in enabling the efficient functioning of the capital market systems, which is a key component of the Kingdom’s financial system. As these CMIIs form an integral part of the Kingdom’s financial system, any failure or operational disruptions in these infrastructures is likely to have an impact to the functioning of the capital market and potentially the broader financial system given the inter-connectedness between market infrastructures and market participants. Given the significance of the roles of CMIIs, it is critical that these infrastructures operate in a safe and orderly manner in line with global regulatory standards.

¹ The PFMIs were issued in April 2012 by the CPMI-IOSCO, and are published on the Bank for International Settlements (BIS) website: ([Principles for Financial Market Infrastructures \(bis.org\)](http://Principles for Financial Market Infrastructures (bis.org)))

² A Financial Market Infrastructure (FMI) is defined, as per the PFMIs issued on April 2012 by CPMI-IOSCO, as a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. An FMI includes five key types of FMIs: payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.



Thus, the CMA's objectives in overseeing the CMIIs are to maintain the efficiency and safety in the trading, clearing, settlement and recording arrangements, to limit systematic risk and to foster transparency. Further, the CMA in cooperation with SAMA through the oversight of the SDC and CCP functions, aim to maintain and promote financial stability in the Kingdom, especially in periods of market stress.

Through this Oversight Framework, the CMA seeks to achieve the following main objectives:

- Safety and efficiency of the processes and systems of the CMIIs.
- Adequate and effective risk management framework to manage and minimize operational and financial risks of the CMIIs.
- Effective and robust business continuity and disaster recovery plans to minimize impact of any major disruptions of the CMIIs.
- Cooperation with the CMIIs to ensure on-going compliance with the CML and its relevant Implementing Regulations, and cooperation with the SDC and CCP to ensure their observance of the PFMIIs.

The oversight framework specified in this document is applicable to the CMIIs authorized by CMA in accordance with the provisions of the CML and its Implementing Regulations, and any applicant applying for the authorization to carry out the Exchange, SDC, or CCP activities in the Kingdom.

2.2 CMA's Implementing Regulations

To enable effective oversight over the activities of the CMIIs, the CMA sets the regulatory framework for the CMIIs in the Kingdom, enables continuous cooperation with the CMIIs, and protects Saudi capital market participants, investors and the general public.

With regards to this, the CMA issued the Implementing Regulations to regulate, supervise and oversee the CMIIs activities as below:

- (i) The Board of CMA issued the Securities Exchanges and Depository Centers Regulations pursuant to its resolution number (4-77-2022) dated 23/11/1443H corresponding to 22/6/2022G based on the CML, which is the Implementing Regulations related to the Exchanges and SDCs, to specify the regulatory framework for the authorization and supervision of the Exchanges and SDCs in the Kingdom.
- (ii) The Board of CMA issued the Securities Central Counterparties Regulations pursuant to its resolution number (3-127-2019) dated 21/3/1441H corresponding to 18/11/2019G based on the CML, which is the Implementing Regulations related to the CCPs, to specify the regulatory framework for the authorization and supervision of the CCPs in the Kingdom.

The regulatory framework for the CMIIs aim for the efficient performance of their duties and obligations, and to further the stability and regulatory environment of the capital market. The CMA in drafting the Implementing Regulations governing the CMIIs, is guided by the international standards in point (2.4) of this section and best practices related to the CMIIs



activities, in addition, to the Saudi capital market law and the operating model of the Saudi capital market.

2.3 Exchange, SDC and CCP Rules

The Board of Directors of the CMII shall propose the necessary regulations, rules and instructions for their operations, and for the protection of investors through ensuring fairness, efficiency and transparency in all affairs related to the Exchange, the Depository Center or the Clearing Center. The CMII's shall submit to CMA the regulations, rules, and instructions for their operations, and the amendments thereof, for approval by the Board of CMA.

The CMII's also specify – each within its own purview - the Technical Procedures relevant to execute securities transactions including, but not limited to, settlement, clearing, ownership registration, transfer and deposit of securities. The Exchanges, the SDCs and the CCPs have the power to set the technical procedures required for implementing the provisions of their rules, in accordance with the provisions of the CML and its Implementing Regulations.

2.4 Application of International Standards

The CMA is always working on aligning its regulations, rules and instructions governing the work of the CMII's, with the international standards. The regulatory regime for the Exchange is guided by the relevant standards issued by IOSCO. The regulatory regime for the SDC and CCP is guided by the PFMI issued by the CPMI-IOSCO.

On 27 December 2017, the CMA publicly announced its implementation of the CPMI-IOSCO's PFMI's in the Kingdom³. The PFMI's are international standards for payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories, with the objective to help ensuring the safety, efficiency and resilience of these financial infrastructures. The compliance requirement of the PFMI application on an ongoing basis imposed on the SDC and CCP, is incorporated in the CMA's Regulations (Securities Exchanges & Depository Centers Regulations, and Securities Central Counterparties Regulations), and further clarified in the CMA's policy on the Application of the PFMI's by the SDCs and CCPs⁴.

2.5 Licensing & Authorization

Any person to carry out any activities of the Exchange, SDC or CCP, or establish or operate any of them, has to obtain a license from CMA. The CMA's regulations clarify the provisions related to the licensing of the Exchange, SDC, and the CCP, including the requirements for licensing and maintaining such license, as well as the provisions relating to its relinquishment. The provisions of the Securities Exchanges and Depository Centers Regulations specify the requirements and procedures for obtaining the license to carry out the Exchange and SDC activities in the Kingdom⁵, and the provisions of the Securities Central Counterparties

³ The announcement and the related policy are published in CMA's website, please visit ([Link](#)).

⁴ The policy on the Application of the CPMI-IOSCO's PFMI by SDC and CCP, is published on CMA's website.

⁵ The SDC license in the Kingdom covers the activities of the central securities depository and the securities settlement systems.



Regulations specify the requirements and procedures for obtaining the license to carry out the CCP activities in the Kingdom.

2.6 Pricing

The CMA approves the fees and commissions charged by the CMII. The CMA follows a pre-determined approach in reviewing the approval requests for the fees and commissions charged by the CMII. The approach mainly focuses on the international practices and the impact on the Saudi capital market, and the market participants. The CMA's Board has approved the policy on the Mechanism for Obtaining CMA's Approval on the Fees Charged by the Capital Market Infrastructure Institutions, pursuant to the CMA's Board resolution no. (3-89-2022) dated 12/01/1444H correspondent to 10/08/2022G. The objective of this policy is to improve the already existing procedures to review the approval requests for the proposed fees and commissions by the CMII. The policy includes the required information and documents to be accompanied with the approval request submitted by the CMII. The CMII has to follow the policy above to obtain CMA's approval on its fees and commissions.

2.7 Other Oversight Instruments

2.7.1 Dialogue

There is an open communication between CMA and CMII. Meetings are conducted when needed to assess the CMII in complying with relevant regulatory requirements and to clarify any other aspects. Committees or working groups consisting of relevant representatives from CMA and CMII in addition to any other relevant parties, are formulated for major projects to govern the project, to manage the risks associated with the project, and to provide the support needed during the project.

2.7.2 Consumer Protection and Public Awareness

The CMA, as part of its responsibilities, protects investors in securities from unfair and unsound practices involving fraud, deceit, cheating or manipulation as it regulates and monitors the works and activities of parties' subject to the control and supervision of CMA, which includes the CMII. The CMA has the powers to conduct related investigations to determine whether the CMII has violated, or is about to violate any provision of the Law, the Implementing Regulations or the rules issued by CMA.

In that regard, the CMA raises awareness and promotes an investment culture in securities. The aim is to raise and strengthen awareness regarding laws and regulations issued by CMA's Board and enhance the financial and investment culture with a view to increase confidence, knowledge, and the acquisition of skills needed to manage investment instruments.

The CMA strives to protect investors through increasing awareness regarding risks investors might be exposed to in the capital market as well as manipulative and misleading acts. Therefore, CMA has established several channels to raise investor awareness in the capital market through the implementation of informational programs and investment cultural programs. In regards to increasing awareness to achieve consumer protection, the CMII has a role to play, which is for instance, through conducting educational workshops related to



explaining their services and requirements to their members and ensuring smooth implementation of any changes related to their requirements.

3. OVERSIGHT APPROACH

The CMA in conducting the supervision and oversight functions over the CMII, may request the following from the governing body and employees of the CMII, to be able to perform such functions:

- Appear to explain any matter; assist in any enquiry relating to implementing the CML and its Implementing Regulations; and
- Provide any information, records or documents required for the purpose of implementing the CML and its Implementing Regulations.

The CMII has to comply with the requests of CMA, and provide the information, record or documents requested by CMA, without delay. For the purpose of conducting all investigations over the CMII which, in the opinion of CMA's Board, are necessary for the enforcement of the provisions of the CML and other regulations and rules issued pursuant to the CML, the members of CMA and its employees designated by CMA's Board are empowered to subpoena witnesses, take evidence, and require the production of any records, papers, or other documents which the CMA deems relevant or material to its investigation.

The CMA's oversight approach is represented by the oversight activities conducted to ensure the CMII's compliance with the regulatory requirements and with their required duties pursuant to the provisions of the CML, its Implementing Regulations, and the relevant Exchange, SDC and CCP Rules. To achieve this approach, the CMA's oversight is conducted through off-site reviews, on-site reviews, independent reviews and follow-up actions as elaborated in the sections below.

3.1 Off-Site Reviews

The continuous oversight over the CMII and their activities, is conducted mainly through the off-site reviews. The reviews enable CMA to evaluate the degree of the CMII's compliance with the relevant regulatory requirements in accordance with CMA's oversight scope.

3.1.1 CMA's Regulations & CMII's Rules

The CMA receives periodic reports submitted by the CMII pursuant to the provisions of the CML, its Implementing Regulations, and the Exchange, SDC and CCP Rules, and any other relevant direction issued by CMA's Board. These reports include amongst others:

- Financial reporting to reflect the financial position of the CMII;
- Regulatory reporting to reflect the CMII's compliance with the related regulatory requirements;
- Records reporting of deposited securities at the SDC to ensure proper and accurate recording of deposited securities; and



- Margin related reporting by the CCP to ensure the appropriate initial margin coverage for the daily positions of the clearing members, to achieve the intended coverage necessary to capture possible market conditions.

The CMA reviews the submitted reports in light of the relevant regulatory requirements to ensure the compliance with the required periods for submitting the report to CMA and the aspects required to be included in the report. The CMA's review includes the assurance of achieving the objectives of the required reports. The CMA will share with the CMII, its comments, if any, on the submitted reports, in order to be addressed by the relevant CMII.

The CMA also receives the approval requests and notifications submitted by the CMII pursuant to the provisions of the CML, its Implementing Regulations, and the Exchange, SDC and CCP Rules, and any other relevant direction issued by CMA's Board. The CMA reviews these requests and notifications and provide the CMII with its comments, if any, in order to be addressed by the relevant CMII.

3.1.2 CPMI-IOSCO's PFMI

The CMA reviews the observance of the SDC and CCP with the PFMI. Each of the SDC and CCP submits its self-assessment reports to the CMA based on the Disclosure Framework and Assessment Methodology pursuant to the Securities Exchanges and Depository Centers Regulations, the Securities Central Counterparty Regulations and the policy on the Application of the CPMI-IOSCO Principles for Financial Market Infrastructures by SDC and CCP.

The CMA reviews the self-assessment reports and provide the SDC and CCP with its comments, if any, in order to be addressed by the relevant SDC and CCP. The CMA by itself or through a third-party⁶ appointed by CMA or by the CMII as per the direction of CMA, conduct a review of the SDC and the CCP observance with the PFMI in accordance with the related provisions in the CML, its Implementing Regulations, and the policy on the Application of the CPMI-IOSCO's Principles for Financial Market Infrastructures by SDC and CCP.

The review is conducted for a minimum period of every three years or when required based on major events affecting the SDC or CCP. The SDC and CCP have to cooperate with CMA during the review process, which includes, but not limited to, providing CMA without delay with any information, records or documents that CMA may require for the purpose of conducting the PFMI review. The CMA will provide the SDC and CCP with the review results and may request the SDC and CCP to implement corrective actions to achieve the observance required with the PFMI.

3.2 On-Site Reviews

The on-site reviews complement the CMA's off-site reviews and provide the opportunity for close assessment over the CMII's operations, management and controls. The on-site reviews are conducted based on internal evaluations that rely on – for instance but not limited to - the

⁶ A consulting institution or company that provide the services of financial and non-financial auditing and review, legal consultancy, and other related aspects.



results of the off-site reviews over the CMII during the year. The scope of an on-site review could focus on priority areas that might be identified through other oversight activities. These include high-risk areas or where validations are needed to ensure addressing the previous related issues. A report of the on-site review results will be shared by CMA with the concerned CMII, identifying the regulatory violations and the areas of risks require remedial actions.

3.3 Independent Reviews

To supplement off-site and on-site reviews, the CMA may direct the CMII to appoint a third-party⁷ to conduct an audit on high-risk areas or other areas of concern, and to submit the audit report to CMA, in order to assist the CMA in deciding whether the CMII is in compliance with the relevant regulatory requirements and to assist in identifying any regulatory violations or areas of risk require remedial actions.

3.4 Follow-up Actions

Following the evaluation of the compliance of the CMII through the off-site, on-site and independent reviews, in addition to the areas of risks associated with the CMII and their activities, the CMA may request the concerned CMII to implement corrective actions to comply with the relevant regulatory requirements and address the issue of concerns related to the risks associated with the CMII and their activities. When the CMII receive the request to implement corrective actions, the CMII have to submit to CMA the corrective action plan⁸ within the specified period by CMA, which includes the proposed corrective actions and the timeline for implementation. The CMA will provide its feedback on the proposed corrective action plan, and will monitor the implementation of the plan through quarterly progress updates on the corrective actions. When the corrective action is implemented by the CMII, the CMA may follow-up to conduct an off-site review or an on-site review, or request an independent review, of any implemented corrective action, to ensure the successful implementation of the corrective actions.

3.5 Meetings with the Senior Management of CMII

The CMA may hold meetings with senior management of each CMII to discuss the findings of the off-site reviews (and on-site and independent reviews if conducted), particularly any significant deficiencies in safety and efficiency identified, or any other matters of concern or mutual interest. The meetings would enable the CMA to better understand how the CMII view and control risks and how they assess their business situation and future development.

⁷ A consulting institution or company that provide the services of financial and non-financial auditing and review, legal consultancy, and other related aspects.

⁸ The corrective action plan is a plan submitted by the CMII to CMA, with the objective of addressing the final comments for the results of the off-site, on-site, and independent reviews, related to the non-compliance with the CML, its Implementing Regulations, and the relevant regulatory documents, as well as the areas of risks associated with the CMI and its activities. The plan includes the CMI's corrective actions for addressing each comment and the timeline for completing such actions.



4. COOPERATIVE ARRANGEMENTS

4.1 Co-Operation with Domestic Regulator

The CMA coordinates with SAMA in connection with procedures that the CMA intends to implement that may have an impact on the Kingdom's monetary situation. The SAMA objectives include maintaining the monetary stability and supporting the stability of the financial sector and promoting trust therein.

Due to the SAMA's objective to maintain the Kingdom's monetary and financial sector stability, the CMA and SAMA have signed a Memorandum of Cooperation on 25 December 2019 on Implementing the Regulatory Powers over Members of the CCPs and the SDCs subject to SAMA's Oversight and Supervisions. The objective of the signed Memorandum of Cooperation is to specify the mechanism for alignment and cooperation between CMA and SAMA in the implementation of the regulatory powers over the CCP, the SDC, and the members of the CCP and the SDC that are banks subject to SAMA's oversight and supervision. The CMA and SAMA have also formulated a Committee for overseeing the implementation of the PFMI by the financial market infrastructures⁹.

The CMA may request documents or information from other government agencies, for the purpose of carrying its duties in accordance with the provisions of the CML. The government agencies and other persons must provide the CMA with these documents and information pursuant to the provisions of the CML.

4.2 Co-Operation with Regulators outside the Kingdom

For the Exchanges, SDCs and CCPs established out of the Kingdom, the CMA requires the applicant for authorization as an Exchange, SDC or CCP established out of the Kingdom, to satisfy certain regulatory requirements, that include but is not limited to, requirement to demonstrate to CMA that its foreign regulator is either willing, or has already, put in place cooperation arrangements which provide for the exchange of information between the foreign regulator and CMA regarding the applicant.

The Kingdom is a member of G20 group, and CMA is a member of IOSCO, and other regional and global committees and organizations. The CMA cooperates with the international regulators as part of their membership duties in the G20, IOSCO and the other regional and global committees and organizations.

⁹. ⁹ A Financial Market Infrastructure (FMI) is defined, as per the PFMI issued on April 2012 by CPMI-IOSCO, as a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. An FMI includes five key types of FMIs: payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.



5. ACCOUNTABILITY

5.1 Market Infrastructure Institutions Supervision Team

The Market Infrastructure Institutions Supervision Department (“MIIS”) in the CMA’s Market Institutions Deputy, is responsible for overseeing the CMIIIs and their activities based on the approved mandate of MIIS by CMA’s Board. The MIIS also oversee the application of CPMI-IOSCO PFMIIs by the SDC and the CCP.

Any undisclosed information obtained by MIIS team or CMA in general, is considered confidential. The CMA may disclose any part of this information as the CMA’s Board deems necessary for the protection of Saudi capital market investors.

5.2 Committee for Resolution of Securities Disputes (CRSD) & Appeal Committee for Resolution of Securities Disputes (ACRSD)

The CRSD have jurisdiction over the disputes, in public and private actions, falling within the provisions of the Capital Market Law, its Implementing Regulations, and the regulations, rules and instructions of CMA, the Exchange, the SDC, and the CCP. The CRSD’s jurisdiction shall include claims against decisions and actions taken by the CMA, the Exchange, the SDC or the CCP, and the CRSD shall have the right to issue a decision awarding damages and request to revert to the original status, or issue another decision that is appropriate and would guarantee the rights of the aggrieved.

The CMIIIs including an applicant for authorization to carry out the Exchange, SDC or CCP activities in the Kingdom, may appeal to the CRSD in respect of any decision or action that the CMA takes under the Securities Exchanges and Depository Centers Regulations and the Securities Central Counterparties Regulations. The appeal has to be in accordance with the provisions of the CML and the Resolution of Securities Disputes Proceedings Regulations¹⁰.

The CRSD’s decisions may be appealed before the ACRSD. The appeal has to be in accordance with the provisions of the CML and the Resolution of Securities Disputes Proceedings Regulations¹¹. The ACRSD have jurisdiction of considering objections on the decisions of the CRSD based on the information provided for in the claim’s file. The decisions of the ACRSD shall be final.

5.3 Transparency and Disclosure

The MIIS team aims at transparency with CMIIIs in its oversight of their activities as far as this is compatible with the security of the Saudi capital market, CMIIIs, participants, investors and general public, and the legitimate confidentiality of data handled by or relevant to these CMIIIs.

¹⁰ The Resolution of Securities Disputes Proceedings Regulations are issued by CMA’s Board based on the provisions of the CML. These regulations are published on CMA’s website.

¹¹ The Resolution of Securities Disputes Proceedings Regulations are issued by CMA’s Board based on the provisions of the CML. These regulations are published on CMA’s website.

The CML, its Implementing Regulations and any other regulations, rules or instructions issued by CMA's Board, are published on CMA's website. The information will be updated from time to time if required.

