



# **Policy on Application of the CPMI- IOSCO Principles for Financial Market Infrastructures by SDCs and CCPs**

**Approved by the Board of the Capital Market Authority**

**Pursuant to Resolution Number (2-57-2023)**

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### **Disclaimer**

This policy 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 policy 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. Introduction

The Capital Market Authority (“CMA”) has announced on December 27<sup>th</sup>, 2017 the implementation of the Principles for Financial Market Infrastructures (“PFMIs”), issued by the Committee on Payments and Infrastructures (“CPMI”) and the International Organization of Securities Commissions (“IOSCO”)<sup>1</sup>. The PFMIs comprise of twenty-four principles for observance by Financial Market Infrastructures (“FMIs”) (“Principles”) and five responsibilities for central banks, market regulators and other relevant authorities in their regulation of FMIs.

The CMA supervises three main types of FMIs:

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

The legal regime in the Saudi capital market pursuant to the provisions of the Capital Market Law (“CML”) and its Implementing Regulations, to perform the activities of the CMA-supervised FMIs, require a license to be obtained from CMA pursuant to the provisions of the CML and its Implementing Regulations. The CMA-supervised FMIs are as follow:

- *Securities Depository Center (“SDC”)*: A Securities Depository Center licensed, in accordance with the provisions of the CML, to carryout in the Kingdom operations of deposit, transfer, settlement, and registration of ownership of securities traded on the Exchange. The SDC license covers the two CMA-supervised FMIs which are the CSD and SSS. For the purpose of this policy, the reference to the SDC in the Kingdom will cover both the CSD and SSS.
- *Securities Central Counterparty (“CCP”)*: A Securities Clearing Center licensed, in accordance with the provisions of the CML, to carryout operations of securities clearing in the Kingdom.

### 1.1 Objective of the Policy

The CMA is responsible, among other responsibilities, for regulating and developing the Saudi capital market, and for seeking to achieve fairness, efficiency and transparency in securities transactions. The CMA pursuant to the provisions of the CML, has the power to set forth policies and plans, conduct studies and issue rules necessary to achieve the CMA’s objectives.

As per the provisions of the Securities Exchanges and Depository Centers Regulations, the SDC is required to comply with the PFMIs on an ongoing basis, including any related supplemental guidance issued from time to time by the CPMI and IOSCO. Also, the CCP is required, pursuant to the provisions of the Securities Central Counterparties Regulations, to adhere to the PFMIs on an ongoing basis, including any related supplemental guidance issued from time to time by the CPMI and IOSCO.

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<sup>1</sup> The announcement and the related policy are published in CMA’s website, please visit ([Link](#)).



The purpose of this policy is to further clarify for the SDCs and CCPs authorized in accordance with the provisions of the CML and its Implementing Regulations, the CMA's expectation with regard to the application of the PFMI by the SDC and the CCP in their discharge of their duties under the CML, its Implementing Regulations, and the SDC and CCP's regulations, rules and procedures.

The expressions and terms in this policy have the meaning, which they bear in the CML and the Glossary of Defined Terms Used in Regulations and Rules of the Capital Market Authority, unless the context indicates otherwise.

## **2. International Standards for FMIs**

The Principles for FMIs<sup>2</sup> are the international standards issued by the CPMI and Technical Committee of IOSCO. These standards are designed to ensure that the infrastructure supporting global financial markets is more robust and thus well placed to withstand financial shocks.

The main public policy objectives of the CPMI and Technical Committee of IOSCO in setting the Principles for FMIs are to enhance safety and efficiency in payment, clearing, settlement, and recording arrangements, and more broadly, to limit systemic risk and foster transparency and financial stability. The Principles provide guidance for addressing risks and efficiency in FMIs.

### **2.1 Overview on the PFMI**

The PFMI are broadly designed to apply to all systemically important Payment Systems, CSDs, SSSs, CCPs, and Trade Repositories<sup>3</sup>. FMIs that are determined by national authorities to be systemically important are expected to observe these principles. Hence, The SDC and CCP, the CMA-supervised FMIs, are obligated to observe these principles.

The Principles comprise of twenty-four principles for FMIs to observe with key considerations for each of these principles to further explain the related standard, and explanatory notes to provide guidance on the implementation of the standard. Some principles and key considerations are only relevant to specific types of FMIs<sup>4</sup>.

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<sup>2</sup> An FMI is defined, as per the Principles for Financial Market Infrastructures issued on April 2012 by the CPMI and Technical Committee of 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, CSDs, SSSs, CCPs, and Trade Repositories.

<sup>3</sup> The definition of each FMI which are the systematically important Payment Systems, CSDs, SSSs, CCPs, and Trade Repositories, based on the PFMI, are stated in the PFMI published on the website of the Bank for International Settlements (BIS) and can be accessed through this link: ([Link](#)).

<sup>4</sup> The document of the Principles for Financial Market Infrastructures issued on April 2012 by the CPMI and Technical Committee of IOSCO, is published on the website of the Bank for International Settlements (BIS) and can be accessed through this link: ([Link](#)). The principles applicable for CSDs, SSSs and CCPs are listed in Table (1) and the key considerations applicable for CSDs, SSS and CCPs are listed in Annex (E), of the Principles for Financial Market Infrastructures issued on April 2012 by the CPMI and Technical Committee of IOSCO. The applicability of the principles and key considerations to specific types of FMIs, is based on the definition of each FMI stated in the Principles for Financial Market Infrastructures issued on April 2012 by the CPMI and Technical Committee of IOSCO.



### **3. Application of PFMI for the Securities Depository Centers and the Securities Central Counterparties**

The CMA has the power to authorize the SDC and CCP to carry out their activities in the Kingdom, and the power to carry out the functions of regulating and monitoring the works and activities of the SDC and CCP pursuant to the CML and its Implementing Regulations. The CMA has adopted the PFMI as benchmarks against which to assess the SDC and CCP in the course of carrying out its function to regulate and monitor them.

#### **3.1 The Principles for Financial Infrastructures**

The PFMI issued by the CPMI and IOSCO are considered applicable to SDC and CCP in its entirety<sup>5</sup>. The SDC and CCP in carrying out their authorized functions and discharging their duties, has to observe the applicable principles including the applicable key considerations, the relevant parts of the explanatory notes and all relevant information in the PFMI issued by the CPMI and IOSCO.

The CMA expects the SDC and CCP to comply with the PFMI on an on-going basis (including any related supplemental guidance on observance of the PFMI issued by CPMI-IOSCO from time to time). The CMA takes such compliance into account in assessing if the SDC has discharged their duties under the Securities Exchanges and Depository centers Regulation, and in assessing if the CCP has discharged their duties under the Securities Central Counterparties Regulations. In this regard, the CMA appreciates that the way the PFMI are applied by SDCs and CCPs may vary depending on the nature of their operations, functions, activities and services provided.

#### **3.2 The Disclosure Framework and Assessment Methodology**

The Disclosure Framework and Assessment Methodology for PFMI published in December 2012 by the Committee on Payment and Settlement Systems (CPSS) and IOSCO, are also considered applicable to the SDC and CCP<sup>6</sup>. The CMA monitors the SDC and CCP to ensure that they comply with the PFMI as per the requirements.

The SDC and CCP are required to submit to CMA a self-assessment report on compliance with the PFMI and disclosure made based on the Disclosure Framework and Assessment Methodology for PFMI as per the related provisions.

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<sup>5</sup> The document of the Principles for Financial Market Infrastructures issued on April 2012 by the CPMI and Technical Committee of IOSCO, is published on the website of the Bank for International Settlements (BIS) and can be accessed through this link: ([Link](#)).

<sup>6</sup> The document of the Disclosure Framework and Assessment Methodology for the Principles for Financial Market Infrastructures, published in December 2012 by the Committee on Payment and Settlement Systems (CPSS) and IOSCO, on the website of the Bank for International Settlements (BIS) and can be accessed through this link: ([Link](#)).

