

هيئة السوق المالية
Capital Market Authority



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

English Translation of the Official Arabic Text



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

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 Shares (the Rules). The Board of the Capital Market Authority has also issued its Resolution Number 25-65-2016 Dated 22-8-1437H Corresponding to 29-5-2016G approving the updated version of the Frequently Asked Questions on 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 foreign investor registered with the Capital Market Authority (CMA), in accordance with the Rules, to invest in shares listed in the Saudi Stock Exchange.

2. What is the definition of an approved QFI Client (QFI Client)?

A client of a QFI who has been approved by the CMA in accordance with the Rules. The QFI invests the approved QFI Client's funds in shares listed in the Saudi Stock Exchange.

3. What are the securities that the Rules permit QFIs and approved QFI Clients to invest in?

The Rules introduce the framework for direct investment in shares listed on the Saudi Stock Exchange.

4. Can a QFI and/or an approved QFI Client invest in all listed shares?

QFIs and approved QFI Clients may trade in all listed shares as per the conditions specified in the Rules, specifically in Article (21). Furthermore, it is advised to check the published information on the Saudi Stock Exchange's website prior to making any trades. The website can be accessed via the following link:

<http://www.tadawul.com.sa>

5. How can non-resident foreign investors that do not qualify as QFIs or approved QFI Clients be able to gain exposure to the Saudi listed shares?

Non-resident foreign investors that do not qualify as QFIs or approved QFI Clients 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.

6. 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 shares under the name of the investor, and participants in the Framework are able to exercise their rights as shareholders 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 shares. The investor only receives economic benefits from the shares under the Swap Agreements Framework.



7. Are QFIs and approved QFI Clients subject to the Saudi Income Tax Law?

As per the Saudi Income Tax Law, QFIs and approved QFI Clients are subject to a 5% withholding tax from the total dividends distributed by the listed company. The Saudi Income Tax Law and its Implementing Regulations may be viewed through the following link:

<https://dzit.gov.sa>

8. Who is responsible for deducting the withholding tax on dividends distributed to QFIs and approved QFI Clients?

Listed companies are responsible for deducting the withholding tax from dividends that they distribute to QFIs and approved QFI Clients.

9. Can QFIs or approved QFI Clients participate in Initial Public Offerings (IPOs)?

QFIs and approved QFI Clients' participation in IPOs are subject to the relevant IPO prospectus.

10. Can QFIs and approved QFI Clients vote in general assembly meetings?

Yes, in accordance with the Companies Law.

11. Are QFIs and approved QFI Clients able to vote by proxy in relation to the shares they own?

Yes, in accordance with the Companies Law.

12. Can QFIs and approved QFI Clients nominate representatives for the board of directors of listed companies?

Yes, in accordance with the Companies Law.

13. Can GCC citizens and foreign residents participate through the QFI Framework?

No, GCC citizens and foreign residents are prohibited from participation 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 shares.

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 for registration as a QFI or an approved QFI Client?

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 registration as QFI or an approved QFI Client if it satisfies the conditions prescribed by the Rules. As it is 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 or one of its clients, a QFI or one of its approved QFI Clients, 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 with explanation of rejection or the process to be followed if the request is approved.

17. Can a foreign investor who is not required- according to the regulations in the jurisdiction in which it is established or licensed by or subject to its regulation and control- to prepare an audited financial statements of its own to submit an application for registration as QFI or an approved QFI Client?

It is allowed for the foreign investor to submit the application for registration as a QFI or an approved QFI Client in this case if it has been granted a waiver from the CMA in accordance with Article 3 of the Rules- as described in the answer of question (16) of this document- from the requirement prescribed in sub-paragraph (l) of paragraph (1) of Annex (2.1) of the Rules regarding the applicant's submission of its financial statements that are prepared and accredited by the applicant's external auditors.



B. Registration Conditions for QFIs or Approving QFI Clients:

15.18. What are the QFI registration conditions set out in the Rules?

The conditions are:

1. The applicant must be a financial institutions that has a legal personality which falls within one of the following types:
 - Banks
 - Brokerage and securities firms
 - Fund managers
 - Insurance companies
2. The applicant or any of its affiliates must have been engaged in securities activities and investment therein for a minimum of five years.
3. The applicant must have assets under management of SAR 18.75bn or more; however, CMA may reduce the minimum for these assets to SAR 11.25bn.
4. The applicant 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.

The term "affiliate" is defined in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA 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". In addition, the term "control" is defined in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA 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".

16.19. What are the jurisdictions that apply regulatory standards acceptable to the CMA?

The CMA provided Authorised Persons (APs) who have a dealing license with the list of jurisdictions that apply regulatory and monitoring standards equivalent to those of the CMA or acceptable to it, and will provide any subsequent updates to that list. All jurisdictions on the list must satisfy all international financial standards and the requirements of the Anti-Money Laundering and Counter-Terrorist Financing Rules.

17.20. Can central banks apply for registration as QFIs or approved QFI Clients?

Yes, if they meet the conditions specified in the Rules.



~~18~~.21. What assets under management include?

Assets under management include:

- Assets owned by the applicant or its group for the purpose of investment; and
- Assets managed by the applicant 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".

~~19~~.22. Do assets under management include the assets of the funds managed by the applicant even if such funds did not satisfy the conditions for approving a QFI Client?

Yes, assets under management include the assets of the funds managed by the applicant even if such funds did not satisfy the conditions for approving a QFI Client.

~~20~~.23. What are the conditions for approving a QFI Client?

A QFI Client may not be approved as such unless:

1. The QFI or the applicant is responsible for the management of the client funds when invested in listed shares;
2. The client is neither a QFI nor an approved QFI Client with another QFI; and
3. The client is either:
 - An investment fund which must incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the CMA or acceptable to it.
 - A financial institution that meets each of the conditions prescribed in the Rules for registering a QFI.

~~21~~.24. What is the required information to satisfy the "identity of any affiliate" requirement as specified in sub-paragraph (f/1) and sub-paragraph (4/b/2) of Annex 2.1?

Providing the name and nationality of the affiliate shall satisfy this requirement.



C. Registration Process:

22-25. Who is responsible for submitting the QFI Client's approval request to the Assessing Authorised Person (AAP)?

The QFI applicant or the registered QFI is responsible for submitting the QFI Client's approval request.

23-26. Who is an AAP?

An AAP is a person authorised "AP" by the CMA to conduct securities business, who has agreed with an applicant to assess its application for registration as a QFI, or an AP that has executed a QFI assessment agreement with a QFI.

24-27. What is the role of the AAP?

The AAP will assess the QFI's registration request to ensure that the application complies with the requirements prescribed by the Rules, and then provide the CMA with a written notification of its determination with regard to the QFI registration request to the CMA.

25-28. How should the AAP notify the CMA with its determination with regard to the QFI registration request?

The AAP should send an electronic copy of the notification mentioned above to the CMA, which should be submitted through the CMA Portal using the following link:

<https://ecma.cma.org.sa/en>

26-29. What licenses must the AAP have in order to assess a QFI's registration request?

The AAP must be authorised by the CMA to conduct dealing activities. For the list of APs, please refer to the CMA website through the following link:

<http://www.cma.org.sa/En/Pages/AuthorisedPersons.aspx>.

27-30. What is the required timeframe for the AAP to provide its determination on the foreign applicant's application to the CMA?

The AAP must submit its determination on the request received from the QFI within five days of receiving all information and documents required by the Rules, unless the QFI and AAP agree otherwise.

28-31. How long does it take to be registered as a QFI, or to be approved as a QFI Client?

The overall application process may take up to 11 days from the AAP's receipt of all required information and documents, unless the QFI and AAP agree on a different period of time to provide a determination on the application. Moreover, the CMA, as it deems appropriate, may impose an additional period to review the AAP's determination to accept the application.

The term "day" is defined in the Glossary of Defined Terms Used in the Regulations and Rules of the CMA as: "a business day in the Kingdom in accordance with the official working days of the Authority". Business days in the CMA are from Sunday to Thursday.



29.32. Is the AAP required to inform the QFI that it has been registered with the CMA?

Yes, the AAP must give the QFI a written notification that it has been registered with the CMA, and the AAP must also notify the applicant, in writing, in the case that the application is rejected.

30.33. Does the CMA impose fees for QFI registration or QFI Client approval?

The CMA is currently considering the fees that might be applied to register QFIs, to approve QFI Clients, and to maintain registration and approval status. Moreover, the CMA intends to set, announce and impose the fees at the beginning of 2017.

31.34. When does the CMA's five day period specified to review the AAP determination to register a QFI or approve a QFI Client begin?

The five day review period begins on the day that the AAP receives the CMA's notification that it has received all the information and documents required by Article 13 of the Rules.

32.35. In the case that a request for registering a QFI or approving a QFI Client 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.

33.36. In what language should the information and documents required by the Rules be submitted?

Arabic is the official language in the Kingdom of Saudi Arabia, information and documents attached to the application may be submitted in the English language. In case of any discrepancy between the Arabic and English text, the Arabic text shall prevail.

34.37. Can a QFI and its approved QFI Clients have different AAPs?

No, a QFI and all of its QFI Clients must have the same AAP.

35.38. Can an approved QFI Client apply to be registered as a QFI?

Yes, an approved QFI Client may submit an application for registration as a QFI, however, the CMA shall not register the applicant as long as it is an approved QFI Client of another QFI.

39. What are the required information to satisfy the "identity of any controllers" requirement as specified in paragraph (d) and sub-paragraph (b/3) of paragraph (2) of Annex (2.1) of the Rules? To satisfy this requirement, only provide the name of the controller whether a natural or legal person and the jurisdiction of establishment (where applicable).

40. 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 Article (14) of the Anti-Money Laundering and Counter-Terrorist Financing Rules and Article (13) of the those rules regarding Investment Funds.



D. Trading:

36.41. When will a QFI be eligible to commence trading?

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

- Holding a client account.
- Holding an account with the Depository Center.
- Any conditions as may be imposed by the CMA.

A QFI may invest in any listed shares on behalf of any of its approved QFI Clients upon satisfying the above mentioned requirements by the QFI Client in question.

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".

37.42. How can the applicant satisfy the registration or client approval 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 CMA approval requirements and 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. Additionally, the CMA published on its website a document that includes all the information and documents required from foreign investors to invest in listed shares

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

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

<http://cma.org.sa/en/Pages/QFI.aspx>



39.44. 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 QFI and the approved QFI Client pursuant to the applicable procedures set forth by the CMA and the Saudi Stock Exchange, which may be viewed through the following link:

<http://cma.org.sa/en/Pages/QFI.aspx>

40.45. 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/>

41.46. Is a QFI or an approved QFI Client required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in shares listed in the Saudi Stock Exchange?

The QFI and approved QFI Client are not required to obtain authorisation by the CMA in relation to carrying on dealing as principal activity to invest in shares listed in the Saudi Stock Exchange.

42.47. Is a QFI required to obtain CMA authorization in relation to carrying on managing activity to manage the QFI Client's fund when invested in shares listed in the Saudi Stock Exchange?

A QFI is not required to obtain authorisation by the CMA in relation to carrying on managing activity to manage the QFI Client's fund when invested in shares listed in the Saudi Stock Exchange.



43.48. Can a QFI send trading orders through an international broker that is not registered as a QFI?

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 register as a QFI. Provided that the international broker must have the authority to send such orders.

44.49. Are existing Swap Agreements' ultimate beneficiary allowed to apply to become a QFI or an approved QFI Client?

Yes, provided that the ultimate beneficiary satisfies the conditions prescribed in the Rules to be registered as a QFI or to be approved as a QFI Client. In Addition, all shares underlying Swap Agreements, where the ultimate beneficiary of such shares is the QFI or the approved QFI Client, must be transferred to the QFI or the approved QFI Client account in accordance with the procedures issued by the CMA, which are stated in the answer of question (50) of this document. The ultimate beneficiary means; non-resident foreign investor that receives the economic benefits of the shares listed on the Saudi Stock Exchange through swap transactions executed under the Swap Agreements.

45.50. How shares are transferred from a Swap Agreement account to a QFI or approved QFI Client account?

The transfer operation is done according to the following:

1. QFI submits– through the AAP- a detailed transfer request of all shares underlying the Swap Agreement, where the ultimate beneficiary of such shares is the QFI or its approved QFI Client, to their accounts 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 and close the Swap Agreement account in relation to the QFI or its relevant approved QFI Client.
4. The transfer operation shall be executed after ensuring that there are no obligations (such as: a pledge or a seizure of the shares) or outstanding buy and sell orders, regarding the shares requested to be transferred.

46.51. What are the costs of transferring shares from a Swap Agreement account to a QFI or approved QFI Client account?

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

47.52. Does transferring shares from a Swap Agreement account to QFI or approved QFI Client account affect the market value of such shares?

Transferring shares from a Swap Agreement account to a QFI or approved QFI Client account does not affect the market value of the shares.



48.53. How long does it take to transfer shares from a Swap Agreement account to a QFI or approved QFI Client account?

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

49.54. Can a QFI or approved QFI Client be the Foreign Counterparty under a Swap Agreements Framework?

Yes, a QFI or approved QFI Client can be the Foreign Counterparty in Swap Agreements, but neither QFIs nor approved QFI Clients can participate as ultimate beneficiaries under the Swap Agreements Framework.

55. Will a QFI be allowed to appoint foreign portfolio managers (outside the Kingdom) to manage its investment in listed shares in the Saudi Capital Market?

It is not allowed for unauthorised managers to manage their clients' investments in listed shares in the Saudi Capital Market; in accordance with Article 5 of the Securities Business Regulations which states that "A person must not carry on securities business in the Kingdom unless he is: 1) an authorised person authorised by the Authority; or 2) an exempt person as specified in Annex I to these Regulations". However, the CMA may grant a waiver to foreign portfolio managers to manage their clients' investments in listed shares in the Saudi Capital Market if a request for a waiver in this regard was received. In this case, the following is required:

- The QFI must provide a list of foreign portfolio managers who want to manage their client investments in listed shares.
- Each foreign portfolio manager mentioned in the list referred above has to submit a request for a waiver from the license requirement to carry on securities business which is referred to in Article 5 of the Securities Business Regulations. The request should specify the type of license to be exempted from and the names of persons of which investments in listed shares in the Saudi Capital Market will be managed by the foreign portfolio managers.
- Each foreign portfolio manager that was granted a waiver from the license requirement mentioned above must comply with the Capital Market Law and its Implementing Regulations ,as well as the rules and regulations of the Saudi Stock Exchange and any other relevant laws.



E. Investments limit

50-56. Does the ownership limit of 49% 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 for each listed company, including interests under the Swap Agreements Framework.

51-57. Does the 10% investment limit of market value of shares of all issuers whose shares are listed include strategic foreign investors?

No, since this limit only applies to the QFIs, approved QFI Clients and any interests under Swap Agreements.

52-58. How can the information on ownership limits in listed companies stipulated in the Rules be obtained?

The Saudi Stock Exchange shall publish on its website statistical information reflecting ownership percentages as per the paragraphs (a/3), (a/4) and (a/5) of Article 21 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/6) and (a/7) of Article 21 of the Rules.

53-59. What are the responsibilities of APs, QFIs and approved QFI Clients 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/2), (a/6), and (a/7) of Article 21 of the Rules, both for investments in their account and investments on behalf of their approved QFI Clients' accounts. It should be noted that the Saudi Stock Exchange will automatically control some of the ownership limits specified in Article 21 of the Rules. An automatic control of a limit means that the Saudi Stock Exchange's systems will reject orders that are not considered to be compliant with the ownership limits in listed companies stipulated in the Rules.

54-60. What are the ownership limits in listed companies stipulated in the Rules that will be automatically controlled by the Saudi Stock Exchange?

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

- Each QFI may own a maximum of 5% of the shares of any issuer whose shares are listed.
- Each approved QFI Client may own a maximum of 5% of the shares of any issuer whose shares are listed.



- All foreign investors (in all categories, whether residents or non-residents) in aggregate may own 49% of the shares of any issuer whose shares are listed, including interests under Swap Agreements.
- The maximum proportion of the shares of any issuer whose shares are listed that may be owned by QFIs and approved QFI Clients is 20%.

55.61. Can the Saudi Stock Exchange control the ownership limits of a QFI, together with its affiliates, or an approved QFI Client together with its affiliates?

The Saudi Stock Exchange's systems do not recognize affiliation, thus the ownership limits of a QFI together with its affiliates and an approved QFI Client together with its affiliates will not be automatically controlled by the Saudi Stock Exchange. This is without prejudice to the QFI and the approved QFI Client's responsibility to comply with such limit.

56.62. How will the Saudi Stock Exchange control the ownership limits specified in Article 21 paragraph (a/5) stating that the maximum proportion of the shares of all issuers whose shares are listed that may be owned by QFIs and approved QFI Clients in aggregate is 10% by market value, including any interests under Swap Agreements?

This limit will be controlled by the Saudi Stock Exchange as per the following procedures:

1. If the aggregate ownership of QFIs, approved QFI Clients and investors under Swap Agreements reaches at the end of the trading day 9% or more by market value of the shares of all issuers whose shares are listed, all outstanding buy orders for QFIs, approved QFI Clients and investors under Swap Agreements shall be cancelled and receiving new buy orders from any of them shall be prohibited. Moreover, this procedure shall be enforced on the trading day following the day in which the percentage mentioned in this paragraph has been reached, and the Saudi Stock Exchange will make an announcement in this regard two hours before the opening of the trading session on the day that the procedure will be enforced.
2. If, after the procedure mentioned in paragraph (1) above is enforced, the aggregate ownership of QFIs, approved QFI Clients and investors under Swap Agreements reaches 8.5% or less by market value of the shares of all issuers whose shares are listed at the end of the trading day, the Depository and Settlement System will allow buy transactions. Moreover, this procedure shall be enforced on the trading day following the day in which the percentage mentioned in this paragraph has been reached, and the Saudi Stock Exchange will make an announcement in this regard two hours before the opening of the trading session on the day that the procedure will be enforced.



57.63. Are there any restrictions on QFIs and/or approved QFI Clients with regard to exiting the Saudi Stock Exchange?

There are no restrictions on QFIs and approved QFI Clients with regard to exiting the Saudi Stock Exchange, taking into account what was stated in paragraph (a) of Article 28 of the Rules.

58.64. What are the consequences for non-compliance of 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 (28) of the QFI Rules which includes the action stipulated in sub-paragraph (8/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) 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

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

Where an immediate notifiable event, as set out in Annex 3.1 of the Rules, has occurred and the QFI reasonably believes that disclosure of the event to the AAP in accordance with paragraph (b) of Article 23 of the Rules would materially prejudice the operations and businesses of the QFI or a third party, the QFI may make an immediate notification to the CMA in substitution for notifying the AAP.

60.66. Are the QFI or the approved QFI Client required to provide the CMA with notifications regarding their ownership in listed companies?

Yes, as per the events stipulated in Listing Rules such as becoming the owner of, or interested in, 5% or more of shares of any listed company.

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

No, a QFI may not engage with more than one AAP at the same time.

62.68. Can a QFI or any of its approved QFI Clients become a client of another AP for the purpose of investing in listed shares?

Yes, without prejudice to the responsibility of the QFI for the management of its approved QFI Clients' funds when investing in listed shares, and its authority to take investment decisions.

63.69. Can the approved QFI Client become an approved QFI Client of another QFI?

No, an approved QFI Client may not become an approved QFI Client of another QFI at the same time as per sub-paragraph (2/b) of Article 7 of the Rules. However, the CMA may waive this provision in the event that it receives an application in this regard as per Article 3 of the Rules. With regard to such a case, the following is required:

- Assigning the first QFI and AAP to be responsible for notifying the CMA in the events that require notification regarding approved QFI Client as per the Rules.

The first QFI mentioned above means; the first QFI to take responsibility for the management of the approved QFI Client funds when invested in listed shares.

- An undertaking by the approved QFI Client to provide all QFIs that it engages with to invest in the Saudi capital market, with the names of any other QFIs it is engaged with to invest in the Saudi capital market.
- The approved QFI Client must demonstrate to the CMA the procedures to be taken by the approved QFI Client to ensure its compliance with the ownership limits in listed companies stipulated in the Rules, which may include, providing all QFIs that it engages



with to invest in the Saudi capital market with the percentages of ownership available for each of those QFIs to invest on its behalf.

- Complying with any additional requirements prescribed by the CMA.

70. What are the procedures followed in the event of CMA granting a waiver for an approved QFI Client from the provisions of sub-paragraph (2) of paragraph (b) of Article 7 of the Rules? When an approved QFI Client is granted a waiver by the CMA in accordance with Article 3 of the Rules, as described in the answer of question (16) of this document, the approved QFI Client has to submit and comply with the following requirements:

- An undertaking by the approved QFI Client to provide all names of any other QFIs it is engaged with to invest in the Saudi capital market to all QFIs that it engages with to invest in the Saudi capital market and ensure the names are constantly updated.
- An undertaking by the approved QFI Client to take the necessary procedures to ensure the compliance with the ownership limits in listed companies stipulated in the Rules, which include providing all QFIs that it engages with to invest in Saudi capital market with the ownership percentages available for each of those QFIs to invest on its behalf, and to constantly updated such ownership percentages .
- Comply with any additional requirement prescribed by CMA in this regard.

71. In the case of CMA granting a waiver for an approved QFI Client from the provisions of sub-paragraph (2) of paragraph (b) of Article 7 of the Rules; who is responsible for notifying CMA in the events that require notification regarding approved a QFI Client who has more than one QFI?

The first QFI and AAP - who is dealing with the first QFI - must be responsible for notifying the CMA in the events that require notification regarding an approved QFI Client.

The first QFI mentioned above means: the first QFI to take responsibility for the management of the approved QFI Client funds when investing in listed shares.

72. Can an approved QFI Client change the first QFI?

Yes, the approved QFI Client can engage with an alternative QFI who will perform the tasks of the first QFI within 10 days after the lapse of dealing with the first QFI. If the approved QFI Client fails to engage with an alternative QFI during that period, the approved QFI Client shall without delay notify the CMA in writing and the CMA in this case can give the approved QFI Client an extension or revoke its registration.



64-73. Who has the authority to manage an approved QFI Client's funds when invested in listed shares?

The concerned QFI is responsible to manage an approved QFI Client's funds when invested in listed shares, and also has the right to delegate an AP to manage his Client's funds on his behalf without prejudice to the responsibility of the QFI in regards to complying with the disclosure requirements and the investment limits stipulated in the Rules . Thus, the concerned QFI shall take the necessary procedures to ensure compliance with the investment limits in listed companies stipulated in the Rules, which include providing all APs that are engaged in managing the approved QFI Client's funds when invested in listed shares, with the allowable ownership percentages to invest on behalf of the approved QFI Client, and to constantly update such ownership percentages.

65-74. Can a QFI or an approved QFI Client establish a discretionary portfolio management (DPM)?

A QFI can establish a DPM with an AP in relation to its investments, also, a DPM may be established in relation to an approved QFI Clients' investments, taking into consideration the answer of question (73) of this document.

66-75. Can a QFI or an approved QFI Client invest through a fund that is not managed by them and holds direct investments in the Saudi capital market?

Yes, a QFI or an approved QFI Client can invest directly through their own QFI account and at the same time through the following investment funds, in accordance with the procedures issued by the CMA:

- An investment fund that is approved by the CMA as an approved QFI Client as per the Rules.
- An investment fund that invests in Saudi capital market through Swap Agreements.
- A local investment funds approved by the CMA.

67-76. Can a QFI change its AAP?

Yes, the QFI can change its AAP.

68-77. How can a QFI change its AAP?

A QFI can engage with a replacement AAP within 10 days after the lapse or termination of the QFI assessment agreement with the replaced AAP. The replacement AAP shall without delay notify the CMA in writing of its appointment and submit a copy of the executed QFI assessment agreement to the CMA. If the QFI fails to engage with a replacement AAP within the 10 day period, the QFI must notify the CMA of this fact without delay, whereupon the CMA may either grant an extension or revoke the QFI's registration.

69-78. Can the QFI trade listed shares during the 10 day period after the lapse or termination of the QFI assessment agreement?

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



70-79. In the case that a QFI replaces its AAP, would its approved QFI Clients move with the QFI?

Yes, when the QFI replaces the AAP, its approved QFI Clients must move with it.

71-80. When should an AAP notify the CMA to cancel the QFI registration or withdraw the approval from QFI Clients by sending a cancellation request to the CMA?

If an AAP finds at any time that a QFI by which it is engaged (or any of its approved QFI Clients) no longer meets the applicable registration 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.

72-81. Can the QFI apply for cancellation of QFI registration, or request the withdrawal of approval of one of its QFI Clients?

The QFI may submit a cancellation or withdrawal request to an AAP, so long as, the request is accompanied with a confirmation from the QFI that it does not, nor does any of its QFI Clients, own any listed shares including any rights related to it. If the cancellation or withdrawal request relates to the withdrawal of approval of one or more of its QFI Clients, the request must be accompanied with a confirmation from the QFI that the Clients in question do not own any listed shares including any rights related to it. The AAP must then submit a request to the CMA to that effect on the QFI's behalf.

73-82. Will the contractual relationship between the AAP and the QFI be affected if the CMA's decision is to decline the request to cancel the registration of the QFI or withdraw the approval from its Clients?

Declining the request for cancellation of the registration of the QFI or withdrawal of the approval from its Clients should not affect the AAP's decision of whether or not to maintain or terminate the contractual relationship with the related QFI.

74-83. Does cancelling the registration of a QFI result in the withdrawal of approval from its approved QFI Clients?

Yes, cancellation of the QFI's registration results in the withdrawal of the approval from its approved QFI Clients. The approved QFI Clients may move to another QFI provided that the approval of new QFI Clients' requirements are satisfied.

75-84. Does a QFI or an approved QFI Client need to be aware of other laws or regulations?

QFIs and approved QFI Clients 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 Listing Rules, the Market Conduct Regulations, the Authorised Persons Regulations, the Merger and Acquisition Regulations, the Anti-Money Laundering and Counter-Terrorist Financing Rules.



G. Others

76.85. What is the settlement cycle for shares listed in the Saudi Stock Exchange?

The settlement cycle for trading listed shares in the Saudi Stock Exchange follows (T+0) regime; however the CMA has approved the Saudi Stock Exchange's (Tadawul) request to change the settlement cycle to become (T+2), to be effective prior to the end of the first half of 2017, which will also ensure delivery versus payment (DvP). The prefunding condition shall be subject to the contractual arrangement with the concerned securities broker and not a regulatory requirement.

77.86. 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.

78.87. 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 shares?

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 shares are able to appoint an independent custodian different than the broker who executes their trades.

79.88. Can QFIs and approved QFI Clients 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 and approved QFI Clients can receive financing from local banks to fund their investments.

80.89. 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 (b) of Article 3: All shareholders of the same class of an offeree company must be treated equally by an offeror.
- Paragraph (c) of Article 3: During the course of an offer, or when an offer is in contemplation, neither an offeror, nor the offeree company, nor any of their respective advisers may furnish information to some shareholders which is not made available to all shareholders. This principle does not apply to the furnishing of information in confidence by the offeree company to a bona fide potential offeror or vice versa.
- Paragraph (m) of Article 3: A director shall not vote at a meeting of directors or of a committee of directors or a general assembly meeting on any resolution concerning an offer made under these Regulations or any other relevant matter where the director or any relative of his has a conflict of interest. In this context, such a conflict of interest would arise if he had, directly or indirectly, an interest (including his shareholding in the offeree company, if the director is a director of the offeror company, or his shareholding in the offeror company, if the director is a director of the offeree company) or duty (including where the director of the offeror company holds a position of a director or a manager of the offeree company, and where the director of the offeree company holds a position as a director or a manager of the offeror company) which is material and which conflicts or may conflict with the interests of the company.
- Paragraph (a) of Article 23: Information about 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.



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- Sub-paragraph (2/b) of Article 24: 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 and its financial adviser must confirm to the Authority in writing that the fee to be in the best interests of shareholders. Any break-up fee arrangement must be fully disclosed in the announcement made under Article 6 (f) and in the offer document.