لجنة مؤسسات السوق المالية
Capital Market Institutions Committee

Investors Debt Capital Market Guidebook

Sukuk and Debt Instruments Market Development Strategy Committee

The Financial Sector Development Program (FSDP) aims to develop a diversified and effective financial sector to support the development of Saudi Arabia's economy, diversify its sources of income, and stimulate savings, finances, and investments. The aim is to achieve this ambition by boosting financial sector institutions and developing the Kingdom's financial market to become an advanced capital market without weakening the financial sector's stability. Several sub-sectors are listed under the Financial Sector Development Program's umbrella, including banking, insurance, investment, and stock and debt markets.

The Sukuk & Debt Instruments Market Development Committee was established in 2017 as a ministerial Financial Sector Development Program Committee subcommittee.

The Sukuk and debt instrument committee is comprised of the following members:

1. **Chairman:** His Excellency Mr. Mohammed Elkuwaiz, Chairman of the Board of the Capital Market Authority.

2. **Member**: Mr. Hani Al-Medaini, Chief Executive Officer and a board member of the National Debt Management Center.

3. **Member**: Eng. Khalid Al-Hussan, Chief Executive Officer and a board member of the Saudi Tadawul Group.

4. **Member**: Mr. Abdullah Binghannam, Deputy of Listed Companies and Investment Products at the Capital Market Authority.

5. **Member**: Faisal Alsharif, Director General of the Financial Sector Development Program

6. **Member**: Mr. Yaaqoub Aldekhayel, Head of Internal Fixed Income at the Saudi Central Bank.

This committee is a subcommittee of the ministerial Financial Sector Development Program Committee, which comprises of the following members**:**

1. **Chairman**: His Excellency Mr. Mohammed Al-Jadaan, Minister of Finance.

2. **Member**: His Excellency Eng. Khalid Al-Falih, Minister of Investment.

3. **Member**: His Excellency Mr. Faisal Alibrahim, Minister of Economy and Planning.

4. **Member**: His Excellency Mr. Ayman Alsayari, Governor of the Saudi Central Bank.

5. **Member**: His Excellency Mr. Mohammed Elkuwaiz, Chairman of the Board of the Capital Market Authority.

6. **Member**: Mr. Khalid Shareef, Chief of Staff of the National Development Fund.

7. **Member**: Mr. Fahad Alsaif, Head of Global Capital Finance at the Public Investment Fund.

Sukuk and debt instruments committee efforts accomplishments:

Among the efforts this committee has put in to incentivize the local DCM market are the following (Visualized below for reference):

a. 2017- CMA has waived its fees collected to process and review public offering of debt applications until 2025 to incentivize issuers to offer their debt instruments publicly, allowing a more significant segment of investors to subscribe. (Not applicable to local government issuances).

b. 2019- NDMC's reduction of local government sukuk par values from SAR 1,000,000 to SAR 1,000 starting in June 2019 to develop local sukuk market and investor base diversification.

c. 2019- the debt market trading hours were aligned with the stock market trading hours. In addition, Tadawul Group is continuously working to develop local DCM available data (transparency) and reporting, thus enabling a broader segment of investors to become knowledgeable and able to make investment decisions.

d. 2019-the debt market trading hours have been aligned with the stock market trading hours. In addition, Tadawul Group is continuously working to develop local DCM available data (transparency) and reporting, thus enabling a broader segment of investors to become knowledgeable and able to make investment decisions.

e. 2020- CMA has reduced its reviewing period for public offering of debt applications from 45 days to 20 days to incentivize issuers to offer their debt instruments publicly, allowing a more significant segment of investors to subscribe.

f. 2020- CMA allowed foreign investors to invest directly in local debt instruments to attract and incentivize the investing of foreigners in local DCM.

g. 2020- the launch of the Repo Collateral Transfer service to facilitate the transfer of collateral required under repurchase agreements, enabling the launch of the REPO platform.

h. 2021-the Instructions for International Central Securities Depositories were issued, enabling the linkage between Edaa Clearstream and Euroclear. These linkages will positively contribute to easing and attracting foreign investments to local DCM.

i. 2021- several investment restrictions imposed on non-specialized public investment funds and money market public investment funds were amended to enable a more significant investment and participation in government sukuk. These amendments include (1) allowing non-specialized investment funds to participate in private offerings of debt within specific criteria, (2) allowing money market public funds to invest in debt investment funds units, (3) excluding debt instruments issued by the Kingdom from restrictions of investment in securitization and investment in securities belonging to the same group, (4) increasing the maximum average date to maturity for public money market funds from 120 days to 180 days.

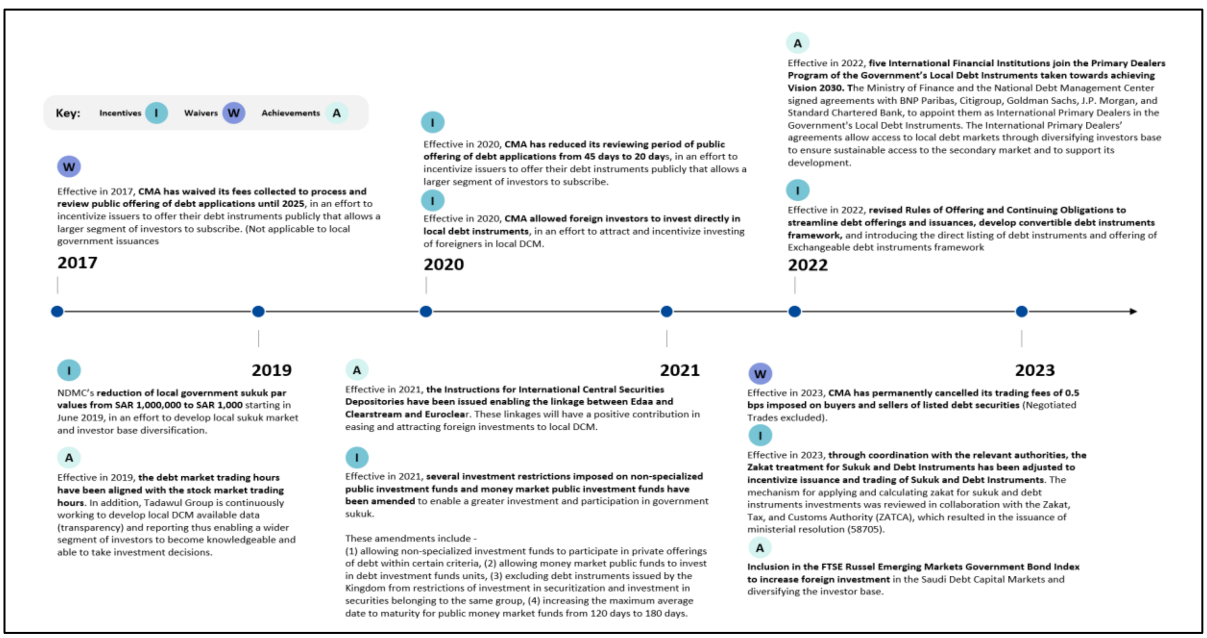
j. 2022-five International Financial Institutions joined the Primary Dealers Program of the Government's Local Debt Instruments taken towards achieving Vision 2030. The Ministry of Finance and the National Debt Management Center signed agreements with BNP Paribas, Citigroup, Goldman Sachs, J.P. Morgan, and Standard Chartered Bank to appoint them as International Primary Dealers in the Government's Local Debt Instruments. The International Primary Dealers' agreements allow access to local debt markets through diversifying investor base to ensure sustainable access to the secondary market and to support its development.

k. 2022- CMA revised Rules of Offering and Continuing Obligations to streamline debt offerings and issuances, develop convertible debt instruments framework, and introduce the direct listing of debt instruments and offering of Exchangeable debt instruments framework.

l. 2023- CMA has permanently canceled its trading fees of 0.5 bps imposed on buyers and sellers of listed debt securities (Negotiated Trades excluded).

m. 2023- through coordination with the relevant authorities, the Zakat treatment for Sukuk and Debt Instruments has been adjusted to incentivize the issuance and trading of Sukuk and Debt Instruments. The mechanism for applying and calculating zakat for sukuk and debt instruments investments was reviewed in collaboration with the Zakat, Tax, and Customs Authority (ZATCA), which resulted in a ministerial resolution (58705).

n. 2023- Inclusion in the FTSE Russel Emerging Markets Government Bond Index to increase foreign investment in the Saudi Debt Capital Markets and diversify the investor base.



An Introduction to debt securities

What are debt securities

A debt instrument is a legal agreement between two parties in which one party (the borrower) promises to repay a loan to the other (the lender) at a specified time and with a fixed interest rate. Debt instruments are a way for borrowers to raise capital and lenders to earn income.

Debt instruments are an essential part of the financial system. They allow borrowers to raise capital to invest in their businesses and grow the economy. They also provide investors a way to earn income and diversify their portfolios.

The definition of securities in the Kingdom of Saudi Arabia is mainly anchored in the Capital Market Law and its Implementing Regulations and Glossary of Defined Terms Used in the Regulations and Rules. Under Chapter One, Article Two of the Capital Market Law, Securities were defined for the Law as the following:

1) Convertible and tradeable shares of companies;
2) Tradeable debt instruments issued by companies, the government, public institutions, or public organizations;
3) Investment units issued by investment funds;
4) Any instruments representing profit participation rights and any rights in the distribution of assets or either of the foregoing.

Why Invest in debt securities

There are a number of reasons why an investor might invest in debt securities:

- Steady income: Debt securities typically pay investors a fixed rate of interest at regular intervals. This can provide investors with a steady stream of income, which can be helpful for budgeting and retirement planning.

- Diversification: Debt securities can be a good way to diversify an investment portfolio. By investing in both debt securities and equity securities (such as stocks), investors can reduce their overall risk.

- Capital preservation: Debt securities are generally considered to be less risky than equity securities. This is because debt securities have a fixed maturity date and investors are guaranteed to receive their principal back at maturity, unless the borrower defaults.

- Liquidity: Debt securities are typically liquid, meaning that they can be easily bought and sold. This can be important for investors who may need to access their cash quickly.

In addition to these general benefits, debt securities can also be used to achieve specific investment goals. For example, investors who are saving for a down payment on a house or a child's education may want to invest in debt securities with shorter maturity dates. This will help to ensure that they have access to their cash when they need it.

Investors who are looking for a steady stream of income may want to invest in debt securities with longer maturity dates. This will help them to generate income over a longer period of time.

What are the differences between debt securities and shares

The following table summarizes the key differences between debt securities and shares:

Characteristic	Debt Securities	Shares
Definition	Represent a loan made to an issuer, who promises to repay the principal and interest at a specified time and rate.	Represent ownership in a company, with shareholders entitled to a share of the company's profits and assets.
Income	Pay investors a fixed rate of interest at regular intervals.	Pay investors dividends, which are not guaranteed and may vary depending on the company's profitability.
Growth potential	Lower growth potential than shares, as the value of debt securities is typically more stable.	Higher growth potential than debt securities, as the value of shares can increase if the company performs well.
Risk	Generally considered to be less risky than shares, as debt securities have a fixed maturity date and investors are guaranteed to receive their	Generally considered to be riskier than debt securities, as the value of shares can fluctuate depending on the company's

	principal back at maturity, unless the issuer defaults.	performance and the overall market.
Voting rights	Typically do not have voting rights.	Typically have voting rights, which allow shareholders to participate in the decision-making process of the company.

Overall, debt securities and shares are two different types of investments with different risk and return profiles. Debt securities are generally considered to be less risky than shares, but they also offer lower growth potential. Shares are generally considered to be riskier than debt securities, but they also offer higher growth potential.

Investors should carefully consider their risk tolerance and investment goals before choosing between debt securities and shares.

Key Features and concepts of debt securities

Coupon

The bond coupon is the fixed interest rate that the bond issuer agrees to pay to the bondholder regularly, typically annually or semi-annually. The coupon rate is a percentage of the bond's face value, which is the amount the issuer will repay to the bondholder at the bond's maturity date.

For example, a bond with a face value of $1,000 and a coupon rate of 5% will pay the bondholder $50 in interest each year. The bondholder will also receive the $1,000 face value of the bond back at the bond's maturity date.

The coupon rate is one of the most important factors investors consider when buying bonds. Bonds with higher coupon rates are generally more attractive to investors because they offer higher yields. However, investors should also consider other factors, such as the creditworthiness of the issuer and the risk of interest rates rising.

Maturity

Maturity in bonds is the date on which the bond issuer is required to repay the bond's principal amount to the bondholder. The maturity date is set when the bond is issued and is typically expressed in years. For example, a 10-year bond will mature in 10 years.

When a bond matures, the bondholder is entitled to receive the bond's principal amount back, plus any accrued interest. The bond issuer is no longer obligated to make further payments to the bondholder.

The maturity date is one of the most important factors investors consider when buying bonds. Bonds with longer maturities are generally riskier than bonds with shorter maturities because they are more exposed to interest rate risk. However, bonds with longer maturities also typically offer higher yields.

Short-term	Medium-term	Long-term	Perpetual
1-3 years	4-10 years	Over 10 years	No maturity date

Yield to Maturity (YTM)

The yield to maturity (YTM), often referred to simply as the yield, measures the annual return an investor is expected to earn if the bond is held to maturity, expressed in an annualized rate of return based on the future cash flows of the debt instrument.

This measure considers all future coupon payments, the price at which the security was purchased, the remaining term of the investment. This is often used by investors to compare securities with similar maturities.

How are debt securities structured

Debt securities can be structured in a variety of ways, but they are typically classified into five main categories: fixed, floating, convertible, callable, and perpetual:

- Fixed-rate debt securities have a fixed interest rate that is set at the time the security is issued and remains constant over the life of the security. This means that the investor knows exactly how much interest they will receive each period.

- Floating-rate debt securities have an interest rate that is reset periodically based on a benchmark interest rate, such as SAIBOR or generally any reference rate. This means that the investor's interest income can fluctuate over the life of the security.

- Convertible Securities: A structure that gives the buyer the option to convert the bond into a predetermined number of shares of the company.

- Callable Securities: A structure allowing the issuer the ability to call back the bond - repaying the principal prior to maturity.

- Perpetual Securities: A security with no maturity date.

Debt securities can also be classified into two main types: bonds and sukuk.

Bonds are debt securities issued by governments and corporations. They typically have a fixed maturity date and pay a fixed interest rate at regular intervals.

- Sukuk are Sharia-compliant financial certificates through which investors gain partial ownership of an issuer's assets until the Sukuk maturity date. Sukuk holders receive a share of the profit generated by the underlying asset. The profit rate is a percentage of the Sukuk's par value, which is paid annually or semi-annually by the issuer.

- Bonds are financial certificates through which investors lend money to the issuer, indicating an obligation for repayment at the maturity date. Bondholders receive regular interest payments determined at the bond issuance date.

The issuance of Sukuk requires an exchange of a Sharia-compliant underlying asset for financial consideration through the application of various Sharia principles such as Ijarah, Murabaha, etc. The structure of Sukuk has to be reviewed and approved by Sharia advisers to ensure compliance with Sharia.

1-Mudarabah: a particular type of partnership where one party contributes funds for the venture, bearing the financial risk and agreeing to accept any losses on the project. The other party provides the managerial effort in implementing and operating the project and sharing the profit based on a predetermined ratio. Still, it is not responsible for potential losses unless it results from misuse.

2-Musharakah: A partnership contract where each party contributes towards an investment project, with profits and losses shared in proportion to their contributions.

3-Murabahah: An agreement between a seller and a buyer, where the seller will acquire the commodity and deliver it to the buyer for an agreed-upon price. The seller thus acts as the provider of funds.

4-Ijarah: A contract between two or more parties where one party leases out the asset and its benefits to the client at the agreed lease price and duration.

5-Wakalah: An arrangement whereby one party entrusts another party to act on its behalf.

What drives bond prices

The price of a bond is driven by several factors, including:

- Interest rates: As interest rates rise, the price of existing bonds falls. This is because investors can buy new bonds with higher interest rates, making existing bonds less attractive. Conversely, as interest rates fall, the price of existing bonds rises.

- Creditworthiness of the issuer: The creditworthiness of the issuer is the risk that the issuer will default on their obligations. Bonds issued by governments are generally considered to be the safest type of bond, while bonds issued by corporations are riskier. Bonds issued by corporations with lower credit ratings are even riskier. Investors demand a higher yield on riskier bonds, which means that the price of these bonds is lower.

- Supply and demand: The price of a bond is also affected by supply and demand. If there is more demand for a bond than supply, the price of the bond will rise. Conversely, if there is more supply of a bond than demand, the price of the bond will fall.

- Maturity date: Bonds with longer maturities are generally more sensitive to changes in interest rates than bonds with shorter maturities. This is because bonds with longer maturities have more cash flows that are exposed to interest rate risk. As a result, bonds with longer maturities tend to be more volatile than bonds with shorter maturities.

The relationship between interest rates, bond prices, and yields is varied in directions, the following table will summarize the relationship:

Interest rates	Bond prices	Yields
Rise	Fall	Rise
Fall	Rise	Fall

As you can see from the table, there is an inverse relationship between interest rates and bond yields. This means that when interest rates rise, bond prices fall and yields rise. Conversely, when interest rates fall, bond prices rise and yields fall.

This relationship is caused by the fact that investors can buy new bonds with higher interest rates if interest rates rise. This makes existing bonds with lower interest rates less attractive, which causes their prices to fall. Conversely, if interest rates fall, investors can buy new bonds with lower interest rates. This makes existing bonds with higher interest rates more attractive, which causes their prices to rise.

The relationship between interest rates, bond prices, and yields is important for investors to understand because it can affect the value of their bond portfolios. For example, if an investor holds a portfolio of bonds with long maturities, their portfolio value will be more sensitive to changes in interest rates than if they held a portfolio of bonds with short maturities. This is because bonds with longer maturities have more cash flows that are exposed to interest rate risk. Investors should carefully consider their risk tolerance and investment goals when choosing bonds to buy. They should also monitor interest rates and make changes to their bond portfolios as needed.

Yield curve

The yield curve is a graphical representation of the relationship between interest rates and bond maturities. It is plotted with interest rates on the vertical axis and maturities on the horizontal axis. The yield curve can be used to predict future interest rates and economic activity.

There are three main types of yield curves:

- Normal yield curve: A normal yield curve is one in which interest rates on longer-term bonds are higher than interest rates on shorter-term bonds. This is the most common type of yield curve and is typically associated with a growing economy.

- Inverted yield curve: An inverted yield curve is one in which interest rates on longer-term bonds are lower than interest rates on shorter-term bonds. This is an unusual type of yield curve and is often seen as a sign of a recession.

- Flat yield curve: A flat yield curve is one in which interest rates on bonds of all maturities are approximately equal. This type of yield curve is typically associated with an economy that is neither growing nor shrinking.

The yield curve is an important tool for investors and economists. Investors can use the yield curve to make informed decisions about when to buy and sell bonds. Economists can use the yield curve to predict future interest rates and economic activity.

It is important to note that the yield curve is not a perfect predictor of future interest rates or economic activity. However, it is a valuable tool that can be used to make informed investment decisions.

Risks

Investing in bonds is generally considered to be less risky than investing in stocks, but there are still a number of risks that investors should be aware of. These risks include:

- Interest rate risk: Interest rate risk is the risk that the value of a bond will fall if interest rates rise. This is because investors can buy new bonds with higher interest rates, making existing bonds with lower interest rates less attractive.
- Credit risk: Credit risk is the risk that the issuer of a bond will default on their obligations. This risk is higher for bonds issued by corporations with lower credit ratings.
- Inflation risk: Inflation risk is the risk that the purchasing power of a bond's fixed income will decline over time due to inflation.
- Liquidity risk: Liquidity risk is the risk that a bond may be difficult to sell at a fair price. This risk is higher for less liquid bonds, such as bonds issued by smaller corporations.
- Reinvestment risk: Reinvestment risk is the risk that the proceeds from a maturing bond may have to be reinvested at a lower interest rate. This risk is higher when interest rates are falling.

Basic types of debt securities investments

Government Sukuk/bonds

Government bonds are debt securities issued by governments to raise money to finance government spending and obligations. They are typically considered to be low-risk investments, as they are backed by the full faith and credit of the government. Local Saudi Sukuk Issuance Program in Saudi Riyal: Established in 2017, where the Ministry of Finance issues local instruments denominated in Saudi riyals, that arranged by the National Debt Management Center (NDMC) and divided into monthly tranches for investors. NDMC's role in the Sukuk program is based on its mandate to secure the Kingdom's financing needs at the best possible costs in the short, medium and long term, and in support of the Sukuk and Debt Instruments market in Saudi Arabia.

For information about the Program, kindly Click here to download the Program's Information Memorandum. For more information about the monthly issuance calendar, kindly Click here.

Corporate Sukuk/bonds

Corporate bonds are debt securities issued by corporations to raise money to finance their operations, investments, and growth. They are typically sold in denominations of $1,000 or more and have a maturity date of 10 years or more. Corporate bonds pay investors a fixed rate of interest at regular intervals, such as semi-annually or annually.

Corporate bonds are generally considered to be riskier than government bonds, as they are not backed by the full faith and credit of the government. However, they also offer the potential for higher returns.

The concept of credit quality

Credit rating agencies (CRAs) are companies that assign credit ratings to debt securities issued by governments and corporations. Credit ratings are opinions on the creditworthiness of an issuer, which is the likelihood that the issuer will be able to repay its debt obligations on time and in full.

CRAs use a variety of factors to determine credit ratings, including the issuer's financial statements, business history, management team, and industry outlook. Credit ratings are typically expressed as a letter grade, such as AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. AAA is the highest rating, indicating that the issuer is extremely creditworthy, while D is the lowest rating, indicating that the issuer is in default or is likely to default on its debt obligations.

Credit ratings are important for both investors and issuers. Investors use credit ratings to assess the risk of different debt securities and to make informed investment decisions. Issuers use credit ratings to attract investors and to obtain lower interest rates on their debt.

The credit hierarchy

It is a representation of the creditworthiness of corporate or government bonds. Credit rating agencies publish the ratings and evaluate a bond issuer's financial strength and capacity to repay the bond's principal and interest according to the contract.

Grade	Moody's	S&P	Fitch	SIMAH	Financial Analytics
Investment Grade	Aaa	AAA	AAA	AAA	AAA
	Aa1	AA+	AA+	AA+	AA+
	Aa2	AA	AA	AA	AA
	Aa3	AA-	AA-	AA-	AA-
	A1	A+	A+	A+	A+
	A2	A	A	A	A
	A3	A-	A-	A-	A-
	Baa1	BBB+	BBB+	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB-	BBB-	BBB-
Non-Investment	Ba1	BB+	BB+	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB-	BB-	BB-

Grade (Speculative)	B1	B+	B+	B+	B+
	B2	B	B	B	B
	B3	B-	B-	B-	B-
	Caa1	CCC+	CCC	CCC+	CCC+
	Caa2	CCC	-	CCC	CCC
	Caa3	CCC-	-	CCC-	CCC-
	Ca	CC	CC	CC	CC
		C	C	C	C
	C	D	D	D	D

Payment priority is the classification of the priority of creditors and investors over the issuer's assets in the event of default or bankruptcy.

Low to high risk	Payment Seniority
	Senior Secured
	Secured
	Senior Unsecured
	Subordinated
	Junior Subordinated
	Equity
Higher Risk	

Default of an Issuer

Default of an issuer means that the issuer has failed to make a required payment on its debt obligations, such as interest or principal. This can happen for a variety of reasons, such as financial distress, bankruptcy, or fraud.

When an issuer defaults, it can have a number of negative consequences for investors. For example, investors may lose all or part of their investment. Additionally, a default can make it more difficult for the issuer to borrow money in the future, which can further damage its financial condition.

Credit rating agencies

This section covers the regulations and requirements for credit rating agencies (CRAs) operating in the Kingdom of Saudi Arabia.

CRAs must be authorized by the CMA for rating Sukuk and Debt Instruments in Saudi Arabia, pursuant to the Credit Rating Agencies Regulation issued in 2014.

The CMA requires rigorous and systematic rating methodologies in the abovementioned Regulations while upholding the highest standards. The CMA Regulations also specifies the following for CRAs:

1. It is fit and proper and has adequate expertise and resources to carry out rating activities in the Kingdom.
2. It has managerial expertise, financial systems, risk management policies and systems, technological resources, policies and procedures, and systems sufficient to fulfill its business and regulatory obligations.
3. Its governing body, rating analysts, employees, and any other natural person involved in the applicant's rating activities have the necessary qualifications, skills, experience, and integrity.

In addition, in the case of an authorized credit rating agency incorporated in the Kingdom, the following functions are considered functions that registered persons must perform:

1. CEO or Managing Director
2. A Director or Partner
3. Compliance Officer
4. Lead Rating Analysts and
5. Any other function designated by the Authority as a registrable function.

In the case of an authorized foreign credit rating agency, the following functions are considered functions that registered persons must perform:

1. Branch Managing Director or Branch Manager
2. Branch Compliance Officer
3. Any other function designated by the Authority as a registrable function.

In the Kingdom, there are five authorized CRAs:

Agency Name	Classification
S&P Global Ratings Europe Limited	Foreign Credit Rating Agency
Moody's Investors Services Middle East Limited	Foreign Credit Rating Agency
Fitch Australia PTY Ltd	Foreign Credit Rating Agency
SIMAH Rating Agency	Incorporated in the Kingdom
Financial Analytics Company	Incorporated in the Kingdom

Overview of the Saudi debt capital market

Key Market facts and figures

1. Largest market in the GCC region, and MENA.
2. A top 10 global exchange.
3. 3rd largest stock market among emerging markets
4. 396 listed securities, between all Saudi Exchange platforms as of 2022
5. Market capitalization reached SAR 10.21 trillion (US $2.63 trillion) as of 2022.

Key Debt Market facts and figures

1. The Exchange's debt market was launched in 2009, becoming one of the first GCC nations to establish a sukuk and debt instruments trading platform.
2. 27th largest debt market among global debt markets as of 2022.
3. 11th largest debt market among emerging markets as of 2022.
4. 74 exchange traded debt instruments with a total value exceeding SAR 525.3 Bn. (US $139.9 Bn) out of 618 Bn outstanding debt instruments issuances (US $164.8 Bn) as of 2022.
5. 137 exchange registered instruments with the exchange and depository center with a total value of SAR 738.3 Bn (US $196.6 Bn.) as of 2022.
6. 2022 trading activity compromising 5,895 trades with a traded value of SAR 21.5 Bn (US $5.7Bn)

Saudi Exchange publish a quarterly debt market report, in-line with its objectives to raise awareness of the debt market, enhance its attractiveness, and increase transparency for both investors and issuers by presenting information and reports on the debt market.

This comes as a part of Saudi Exchange's continuous efforts to promote and develop the Saudi Capital Market as it is the leading market in the region and one of the most prominent capital markets in the world.

To view the Market Statistics reports, Click Here.

Regulatory structure

Generally, Saudi Arabia's capital market is governed by the rules and regulations issued and enforced by the Capital Market Authority, as well as by Saudi Tadawul Group and its subsidiaries.

Capital Market Authority

The Capital Market Authority is the primary authority with respect to the regulations and activities of the Saudi capital market.

The Capital Market Authority was established on the 31st of July 2003 under the Capital Market Law. The Authority shall be the agency responsible for issuing regulations, rules, and instructions, and for applying the provisions of the Law. To achieve these objectives, the Authority shall:

1. Regulate and develop the Exchange, seek to develop, and improve methods of systems and entities trading in Securities, and develop the procedures that would reduce the risks related to Securities transactions.
2. Regulate the issuance of Securities and monitor Securities and dealing in Securities.

3. Regulate and monitor the works and activities of parties subject to the control and supervision of the Authority.
4. Protect citizens and investors in Securities from unfair and unsound practices or practices involving fraud, deceit, cheating, or manipulation.
5. Seek to achieve fairness, efficiency, and transparency in Securities transactions.
6. Regulate and monitor the full disclosure of information regarding Securities and their issuers, the dealings of informed persons and major shareholders and investors, and define and make available information which the participants in the market should provide and disclose to shareholders and the public.
7. Regulate proxy and purchase requests and public offers of shares.
8. License the establishment of special purposes entity, and regulate and control its business, uses, issuance of Securities, the registration in its registry established by the Authority and the provisions of its articles of incorporation, and regulate the provisions of the registration of funds transferred to it, including documentation of the rights thereof and its legal standing against others, and the issuance of rules governing thereof.
9. Regulate the pledge of Securities and its enforcement.

The Capital Market Authority administers the Capital Market Law. The Authority also has the ultimate responsibility of investors protection.

Prior to 2003, there was no single authority entrusted with the responsibility of regulating and systematically developing the Saudi capital market. Supervisory powers were shared between the Saudi Central Bank (SAMA) and the stock exchange. To streamline the regulatory structure of the capital market, the CMA was established as a self-funding statutory body with investigative and enforcement powers.

Ministry of Finance / National Debt Management Center

The Ministry of Finance is the government body responsible for proposing public fiscal policies and plans to achieve economic growth and stability, managing sustainability and efficiency of fiscal resources, and following up on their implementation. It is also responsible for regularly developing fiscal, tax and customs regulations, in addition to supervising and protecting state properties and proposing the optimal ways to exploit them.

The issuer of debt securities is the Ministry of Finance acting through the National Debt Management Center. The National Debt Management Center was established in the fourth quarter of 2015 to secure the Kingdom of Saudi Arabia's financing needs with best financing costs in the short, medium, and long term under acceptable degree of risk in compliance with the financial policies and to maintain the Kingdom's ability to access different international financial markets at fair pricing. The center is Chaired by His Excellency the Minister of Finance.

NDMC's main Goals include the following:

a) Debt Strategy:

Contributing to developing the Kingdom's public debt policy, and securing the Kingdom's financing needs in the short, medium, and long term.

b) Sustainability of Funding:

Maintaining the Kingdom's ability to access different debt markets to produce sovereign debt instruments at a fair pricing within informed foundations and frameworks of risk management

c) Credit Rating:

Following up on the Kingdom's credit-rating affairs in cooperation with the relevant government agencies.

d) Empowerment and Support:

Providing advisory services and proposing implementation plans for government agencies and companies in which the government owns more than (50%) of their capital and public institutions in the area of NDMC's competence, including the collecting, processing and follow-up of direct and indirect public debt data, and negotiation of debts, and negotiation of debts restructuring, repricing or re-contracting, services related to hedging policies, investors relationships management in public debt instruments credit rating affairs, or other related services.

Saudi Exchange (and its subsidiaries)

Saudi Tadawul Group:

The Saudi Tadawul Group is the parent company of Saudi Exchange, a dedicated exchange business, the Securities Clearing Center Company (Muqassa), the Securities Depository Center Company (Edaa), and Wamid – the innovation arm of the Group

a) Saudi Exchange:

The Saudi Exchange conducts listing and trading in securities for local and international investors. The Exchange is instrumental in achieving the long-term growth plans for the Group and providing market participants with attractive and diversified investment opportunities.

The Saudi Exchange operates as a subsidiary of the Saudi Tadawul Group, capitalizing on the support provided by the Group to deliver best-in-class services, diversified offerings, and investment opportunities, increasing the Saudi capital market's attractiveness among local and foreign investors, and reinforcing its position as the issuers' exchange of choice.

Saudi Exchange is a top 10 global exchange among the 67 members of the World Federation of Exchanges and is the dominant market in the Gulf Cooperation Council (GCC). It is the 3rd largest Exchange amongst its emerging market peers and is an affiliate member of the International Organization of Securities Commissions (IOSCO), the World Federation of Exchanges (WFE), and the Arab Federation of Exchanges (AFE).

b) Edaa:

The principal activity of Edaa is to operate and maintain the depository, settlement, securities and to register the ownership of securities. Edaa also offers several additional services such as the management of issuers' General Meetings (GM) including remote voting services (E-Voting), reporting notifications, and maintenance of critical core data, providing any other service related to its activities that Edaa deems to be provided in accordance with the capital market law and its implementing regulations.

Edaa aims to achieve the strategic objectives of the financial market in terms of developing the infrastructure and implementing the resulting procedures to execute transactions in line with international standards.

The main activity of Edaa is to operate the depository and settlement system used to register and maintain securities and their ownership electronically. Edaa seeks to develop its infrastructure, systems, and procedures to comply with international standards while providing the highest levels of reliability and efficiency.

c) Muqassa:

Muqassa is the clearing house of the Saudi Stock Exchange. Muqassa reduces post-trade risk, provides a centralized counterparty risk management service, and develops clearing services in accordance with international best practices.

Muqassa Clearing process is to guarantee and confirm the transactions prior to settlement between the Participants, to establish final positions for settlement.

Muqassa clears exchange traded transactions on open offer basis, where Muqassa places itself between the counter parties at the time of matching. Furthermore, Muqassa clears Saudi Exchange MT30 Index Futures, OTC derivatives, cash markets clearing services.

d) Wamid:

Wamid is part of the Saudi Tadawul Group and was created to deliver pragmatic solutions to business problems. It is focused on developing the Saudi capital market through innovation, disruptive ideas and bold new products, services and digitalization initiatives.

Wamid offers a co-location service that offers the lowest latency route possible and provides advanced infrastructure that meets the requirements of sophisticated trading participants. Co-location service will provide the market an opportunity to co-locate their servers and equipment within our Tier IV Data Center allowing them to have LAN connectivity access to our trading engine. This service targets both trading and non-trading customers, enabling them to reduce their latency as well as architecture complexity by utilizing high density cabinets. This innovative, unique co-location service will support customers in implementing their data, trading and execution strategies efficiently and swiftly.

Market accessibility

Investors of all types (local or foreign) can invest directly in the debt capital market by contacting one of the brokers authorized by the CMA. Investing does not need to fulfill any requirement; even all categories of non-resident foreign investors can invest in Sukuk and Debt Instruments by applying to open an account directly at one of the licensed capital market institutions.

Types of Offering

The Authority has outlined three types of offers in the Rules on the Offer of Securities and Continuing Obligations:

Exempt Offer

Which is an offer exempt from the requirements of these Rules when any of the following cases applies as per Article (6):

1) Where the securities are issued by the government of the Kingdom of Saudi Arabia.
2) Offers of contractually based securities, provided that the offer of unlisted contractually based securities shall be limited to the following cases:

a. Where all offerees are investors under the categories of Institutional and Qualified Clients.
b. Where all offerees are employees of the issuer of any of its affiliates.
3) Offers in an insolvency situation where shares are offered to creditors.
4) Where an issuer whose shares are not listed on the Exchange increases its capital by way of debt conversion.
5) Where the subscription in total value for the securities being offered is less than 10 million SR or an equivalent amount, in accordance to the following conditions:
    a. The offer shall not be made more than one time during the twelve months after the completion of the offer.
    b. Subscription in the offered securities shall be limited to (50) offerees or less (excluding investors under the categories of Institutional and Qualified Clients) provided that the amount payable per offeree (excluding investors under the categories of Institutional and Qualified Clients) shall not exceed two hundred thousand SR or an equivalent amount.
    c. Declaration by the offeree who participates in the subscription for such offered securities (excluding investors under the categories of Institutional and Qualified Clients) to the offeror or the Capital Market Institution (if the offer is carried out through a Capital Market Institution) of its acknowledgment to the risks associated with the investment, including what may result in loss of the full amount of the investment, and that the Authority shall not give any assurance as to the accuracy and completeness of the documents related to the offering, and expressly disclaim any liability whatsoever for any loss arising from or incurred in reliance upon any part of these documents, and its acknowledgment that the offeror or the Capital Market Institution (if the offer is carried out through a Capital Market Institution) does not have to notify the Authority of the suitability of such an investment.

Private Placement Offer

An offer of securities is a private placement where it is not an exempt offer, or a public offer and falls under any of the following cases as per Article (8) of the Rules:

1) The subscription is restricted to investors under the categories of Institutional and Qualified clients; or
2) The offer is a limited offer.
    a. An offer of securities is a limited offer if the subscription is limited to no more than (100) offerees (excluding investors under the categories of Institutional and Qualified Clients) and the amount payable per offeree does not exceed (200) thousand SR or an equivalent amount.
    b. Securities of the same class may not be offered as a limited offer per (a) more than once in a twelve-month period ending with the date of the offer in question.
3) The Authority may, in circumstances other than those described in (1) and (2) and upon application of a person seeking to make an offer of securities, determine that such an offer shall be treated as a private placement subject to compliance with such limitations as the Authority may impose.

Public Offer

A public offer is an offer that is mandatory to have the issuances listed, that requires disclosures of the prospectus, and has continuing obligations as outlined in the relevant rules and regulations and has no restrictions on the type of investors.

Provisions applicable to the public offer are covered in part 4 of the rules. An offer may not offer securities to the public without obtaining all approvals required pursuant to the issuer's bylaws, the companies' law and its implementing regulations.

Article 42 of the rules cover the conditions for a public offer of debt instruments.

Methods of participating in Saudi debt instruments
Primary Markets

i. Government Securities Offering Methods

The Auction of SAR Sukuk Program is conducted by NDMC on behalf of the Ministry of Finance monthly with pre-announced dates in the beginning of each year in the issuance calendar, along with the annual borrowing plan.

This auction is handled via the Ministry of Finance Primary Dealers, which are local and international financial institutions responsible for receiving investors' bids and submitting it to the auction system (Bloomberg).

Prior to the formal announcement of the auction, NDMC will conduct a market sounding with market participants for market insight and investor's, after determining the issuance tenors and yield, the auction is opened for 24 hours on monthly basis whereby NDMC reviews the orders and decides the issuance size and allocation to the investors.

Settlement:
The settlement date for newly issued local government debt securities takes two business days following the transaction execution date (T+2).

Local Primary dealers:
The Primary Dealers program was launched in 2018, in partnership with five local financial institutions: Saudi British Bank, Al Jazeera Bank, Saudi National Bank, Alinma Bank and, Al Rajhi Bank. Being highly experienced, they have high potential to greatly help in developing the local debt market in Saudi Arabia.

International primary dealers:
The Ministry of Finance and the National Debt Management Center signed agreements with BNP Paribas, Citigroup, Goldman Sachs, J.P. Morgan, and Standard Chartered Bank, to appoint them as primary dealers in the government's local debt instruments.

Primary Dealers Program:
It enables banks to participate in the development of the financial sector in Saudi Arabia in accordance with vision 2030 objectives, by expanding the investor base in the primary market and supporting the development of the secondary market by increasing the liquidity of government securities.

ii. Corporate Securities Offering Methods

The public offering will be through a licensed financial institution; it will follow a process similar to the equity public offering, where investors will be aware of the offering through multiple channels, such as local banks, social media, and other means of communication.

i. Offering [regular listing]

The public listing of debt instruments can be done after meeting the CMA and Saudi Tadawul Group requirements. Furthermore, the public debt instruments listing in Saudi exchange market has many advantages for both side of issuers and investors as following:

Advantages for investors:

1) Diversify and reduce portfolio risk.
2) Provide a predictable income stream.
3) Increased transparency and trust.
4) More secure than equities.

ii. Direct Listing

Direct Listing is an option to publicly offer a privately issued debt instrument by an organization to be traded in the public exchange.

The difference between the Public Offering and Direct Listing of Private Placement is the public offering needs to issue a prospectus and the direct listing issues a registration document.

The direct listing advantages for the investors, is as follows:

1) **More Transparency:** Boost investor confidence by generating more transparency for the securities.

2) **Liquidity:** Listing brings in liquidity and ready marketability of securities on a continuous basis, it can also increase repo activity by having more listed and traded securities.

3) **Retail Participation:** Non-qualified retail investors can participate easily in trading the security while they are not allowed to do so if it's private.

4) **Market Access:** It's much easier and practical for different types of investors who can trade private placements, to trade the security on the exchange, which can reflect positively on the demand for the security.

5) **Regulation Advantage:** Fund managers can invest up to 20 % of the fund size in a listed debt instrument, compared to only 10 % if it's unlisted.

Secondary Market

The Saudi Exchange has one of the most sophisticated trading platforms that creates a seamless experience through full automation and processing.

All Sukuk and Debt Instruments trading activities are matched, confirmed and executed electronically following a T+2 settlement cycle. The trading engine has been designed to serve multiple types of orders to meet investors’ needs.

In addition, the Saudi Exchange provides Over The Counter (OTC) trading for privately placed Sukuk and Debt Instruments. The Saudi Exchange platforms support Debt Instruments with fixed, variable and zero coupons.

i. Direct Trading

Direct trading is conducted through brokers who are members of the exchange. Exchange Membership is granted to entities considered Authorized Persons with broker/dealer licenses, as defined by the Capital Market Authority and in line with the requirements of the Saudi Exchange's Trading & Membership Rules.

Dimension	Public market	Private OTC market
Pre-Trade	• Public information on traded instruments • Historical transaction and pricing data	Availability of last traded price
Trade	• Established order-driven market • Access: any investor, incl. retail • Full information on trading and transactions	• OTC board (platform) for the trading of unlisted privately placed debt instruments • Access: qualified investors mostly, small retail share • Partial information collected via SDC
Post-Trade	• Full set of post-trade services via SDC • Trade information repository	

ii. DPM

Discretionary portfolio management is a form of investment management in which buy and sell decisions are made by a portfolio manager.

The term "discretionary" refers to the fact that investment decisions are made at the portfolio manager's discretion. DPM services are usually offered to High Net Worth Investors and institutional investors with which strategies are developed based on return goals, risk tolerance and requirements.

iii. Investment funds with exposure to Sukuk and Debt Instruments

ETFs are among the wide range of investment options available on the Saudi Exchange.

They are traded on the Saudi Exchange's sophisticated trading platform, with all trades matched, confirmed and executed electronically following a T+2 settlement cycle.

In addition, the Securities Depository Center Company ("Edaa") offers a range of post-trade services to ETFs investors.

1. Exchange Traded Funds

Publicly available investment funds whose units are traded in the financial market.

Characteristics:

1) Units are bought and sold directly in the market, so they are highly liquid instruments.
2) Passive management strategy is followed, leading to lower management fees.

3) Funds offer the ability to the investor to invest in various Sukuk and Debt Instruments with a low capital.
4) Funds target monitoring the performance of Sukuk and Debt Instruments indices.
5) The ETF units can be traded like any other security through Brokers during trading hours. Also, units can be created and redeemed through the Market Maker or any other authorized party.

Examples of ETFs that track fixed income instruments:

1) Al-Bilad Sovereign Saudi Sukuk ETF focuses on Saudi Sovereign Sukuk denominated in Saudi riyals, listed on the main market with appointment Primary Dealers with a remaining maturity of 3 months or more.
2) Alinma Saudi Government Sukuk ETF Fund – Short Maturity focus on Invests in shariah-compliant local government Sukuk issued by the Saudi government and listed in the main market to generate a performance that mimics the performance of an index. Short-term maturity Sukuk (5 years remaining to maturity) fixed-rate Sukuk with a minimum issuance value not less than one hundred (100) million Saudi riyals.

Transfers of Interest in Sukuk and Debt Instruments

Saudi Arabia government debt securities and sukuk, as well as corporate debt securities and sukuk, can be transferred electronically.

a) Settlement instructions:

1) The Settlement Instructions are generated by the Custody Members, the Depository Centre and Securities Central Counterparties (CCP).
2) The Settlement Instructions require matched Settlement Instructions from the counterparty, except for the following cases:

   a) CCP Settlement Instruction related to listed and unlisted Securities settlement and Collateral withdrawal if such Collaterals are Securities; and
   b) The relevant Custody Member Settlement Instruction related to the distribution of public offer shares to the Investors accounts.

b) Settlement Instructions are as follows:

1) FOP – Free of Payment– Transfer of Securities without a corresponding transfer of funds.
2) DVP – Delivery versus Payment – a Securities settlement mechanism that links a Securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs.
3) FOD – Payment Free of Delivery – Transfer of funds without a corresponding transfer of securities.

c) Transfer of Securities:

1) The Settlement Instructions related to changing the beneficial owner are settled with the Depository Centre approval.
2) The Settlement Instructions generated by CCP or Depository and Settlement System may change beneficial owner including, but not limited to, trades or Corporate Actions.

d) Unlisted Securities transfers:

1) Unlisted deposited Securities and Designated Securities and Transactions shall be transferred without executing a transaction if the transfer instructions have been issued by a CCP, including DvP transfers between the Exchange Member settlement pool account and the Exchange Member's client settlement pool account.
2) Unlisted deposited Securities shall be transferred without executing a transaction if the transfer instructions have been approved by the Issuer to validate the Settlement Instructions issued by the Depository Centre or the Custody Member in the form prescribed for that purpose to settle at the Depository and Settlement System.

Trading of Sukuk and Debt Instruments

a) General Trading Overview of Sukuk and Debt Instruments

All Sukuk and Debt Instruments trading activities are matched, confirmed and executed electronically following a T+2 settlement cycle. The trading engine has been designed to serve multiple types of orders to meet investors' needs.

In addition, the Saudi Exchange provides Over The Counter (OTC) trading for privately placed Sukuk and Debt Instruments.

The Saudi Exchange platforms support Sukuk and Debt Instruments with fixed, variable and zero coupons.

Registration:

Sukuk/Debt Instruments registered in par value terms.

Time Executed:

Fractional part of execution time, microsecond precision.

Trading:

1) Price expressed as % over the par value
2) Quantity expressed as multiples of par value
3) Trade value ≠ Settlement value
4) Securities listed on the Exchange are traded by way of order matching according to price, and then time priority.
5) Transactions are executed through Exchange Members, each on behalf of its clients or itself.

Trading Hours:

1) Opening Auction: from 9:30AM to 10:00AM + 30sec random uncross
2) Continuous trading: from 10:00AM to 3:00PM
3) Closing Auction: Not Applicable
4) Trade-at-last: Not Applicable

Tick Size:

Tick size in Debt Market are expressed in percentage of 0.001%

Fluctuation Limits:

No fluctuation limits on Debt Market

Negotiated deals:

Negotiated deals have a minimum trading requirement of SAR1mn ($266k)

Settlement Cycle:

1) The Exchange settlement cycle is T+2
2) Negotiated Deals and OTC settlement cycle is T+2 unless buyer and seller agree on a different settlement cycle between T+0 to T+5

Day count Convention:

1) Day count convention determines the calculation of accrued coupon over a period of time where the investor is holding the Sukuk or Debt Instruments
2) The day-count convention in the Saudi Debt Market for fixed coupon is ICMA 30/360
3) The day-count convention in the Saudi Debt Market for variable coupon is ACT/360

Security Identifiers:

ISIN (International Securities Identification Numbering).

Trading Channels:

Orders routed to the Exchange must be submitted through specific channels below more details for each channel:

1) T Channel: A channel for Registered Traders to submit orders.
2) I Channel: A channel for clients to submit orders via Exchange Members websites and online applications
3) A Channel: A channel for clients to submit orders via Automated Teller Machines
4) V Channel: A channel for clients to submit orders via telephone calls
5) S Channel: A channel for clients to submit orders via the short massages system protocol (SMS)
6) G Channel: A channel for the submission of automated orders based on pre-defined calculated instructions (Algorithmic Trading)
7) M Channel: A channel for market makers to submit orders related to their obligations as Market Makers either via Registered Traders or Direct Market Access, including automated orders based on pre-defined calculated instructions (Algorithmic Trading)

b) Order Mechanisms

Order Types:

Limit Orders.

Order Execution Mechanism:

When Exchange Members transmit orders to the Trading System, the system sorts them by type (buy or sell), price, and entry time. The Trading System assigns order priority based on price and time of entry to the Trading System. It gives the highest buy order prices the highest priority. Conversely, it gives the lowest sell order prices the highest priority. The Trading System always gives market orders the highest priority. The Trading System prioritizes orders transmitted with the same price by their time of entry into the Trading System; it executes the orders transmitted earliest first.

Orders transmitted during auctions will contribute to the calculation of theoretical prices during these auctions.

The Exchange calculates the theoretical prices as follows:

The Trading System will assign a price at which the maximum quantity of securities might be traded. If the same quantity could trade at two or more prices, the Trading System will assign the price that leaves a minimum residual, which is the unmatched number of securities at that price.

If two or more prices have the same minimum residual, then the Trading System will assign the price as follows:

1) The highest price if the imbalance of unmatched quantity is on the buy side only;
2) The lowest price if the imbalance of unmatched quantity is on the sell side only
3) The average price between (a) and (b) when the imbalance of the unmatched quantity is on both sides (buy and sell). The Trading System will round average price to the closest valid tick size when applicable.

Limit Order Mechanism:

The Trading System will improve the execution prices of limit orders (by reducing them for buyers or increasing them for sellers) whenever the 5 price is better than the order's price limit on the opposite side (higher or lower as the case may be). In the absence of a better price on the opposite side, the order will be executed at the limit price.

Order Conditions:

Hidden Quantity

The order will disclose a portion of its quantity. Each time the disclosed portion is fully matched, the order will disclose an equal portion of its quantity, taking into consideration the following:

4) the full quantity of the Hidden Order participates in the Theoretical Prices calculations;
5) the minimum quantity of the order must be for Debt Instruments the minimum quantity of the order must be (50,000) Saudi Riyals;
6) the minimum disclosed portion must be (5%) of the total order quantity.

Order Validity:

The Trading System determines order validity according to when orders enter the system, as follows:

1) Session means that orders are subject to full execution at the end of either the First and they should be transmitted during either the First or Third Sessions of the same day.

2) Day means that orders are subject to full execution until the end of the second session.

3) Good till Cancelled ("GTC") means that orders are subject to full execution with a validity period of up to (30) days from the transmission of the order.

4) Good till Date ("GTD") means that orders are subject to full execution until a specified expiry date. The expiry date can be set up to a maximum of (30) days from the transmission of the order

Order Amendment, Cancellation and Deactivation:

The Trading System allows the cancellation of outstanding orders.

The Trading System allows the deactivation of outstanding orders. Deactivated orders cannot be executed. Deactivated orders will lose their assigned priority, as prescribed in Section (10) of the Trading and Membership Procedures. Deactivated orders remain in the Trading System until activated by the relevant Registered Traders. Upon activation, the orders must adhere to the requirements prescribed in Section (8) of the Trading and Membership Procedures.

c) Negotiated Deals

Process:

Negotiated Deals occur after both seller and buyer determine the quantity and price of the listed securities involved in the transaction.

The Negotiated Deal execution mechanism specified above must be initiated once both sellers and buyers determine the quantity and price of the listed securities involved in the transaction in accordance with the first point.

If both sellers and buyers determine the quantity and price of the listed securities involved in the transaction after the trading times, the negotiated deal execution mechanism must be initiated the following trading day.

Execution Mechanism:

The transaction may be executed during the continuous trading session.

If the buyer and seller are clients of two different Exchange Members, the following steps must be followed:

1) The seller's Exchange Member will transmit an order to execute the transaction to the Trading System, as determined by the Exchange.

2) The seller's Exchange Member must immediately notify the Exchange, as determined by the Exchange, after placing the order mentioned in sub-paragraph (a) of this paragraph.
3) The buyer's Exchange Member will receive a notification to accept the order mentioned in sub-paragraph (a) of this paragraph in the Trading System.
4) The buyer's Exchange Member must immediately notify the Exchange, as determined by the Exchange, after accepting the order received as per the notification mentioned in sub-paragraph (c) of this paragraph.

If the buyer and seller are clients of the same Exchange Member, the following steps must be followed:

1) The Exchange Member will transmit an order to execute the transaction for the seller and buyer in the Trading System, as determined by the Exchange.
2) The Exchange Member must immediately notify the Exchange, as determined by the Exchange, after submitting the order mentioned in sub-paragraph (a) of this paragraph.

Settlement Cycle:

The settlement cycle of the Negotiated Deals transaction is T+2 unless the Buyer and Seller agreed on a different settlement cycle from T+0 to T+5.

Calculation:

Negotiated Deals are included in the calculation of the last traded price (LTP), the highest and lowest security price, the opening and closing prices, as well as the calculation of the Exchange and sectors indexes and the number of Exchange traded transactions and the number and price of the traded securities.

d) Trading Market Infrastructure

Below is a list of systems used covering the full trading cycle of debt securities

Trading System:

Nasdaq's X-Steam INET trading system, it is providing Market Orders execution with the best price.

Clearing System:

Nasdaq`s CCP system, Nasdaq's real-time clearing solutions provide central counterparty clearinghouses (CCPs) with cost-efficient, high-velocity clearing, settlement and risk management capabilities for safe, efficient and reliable operations.

Depository and Settlement System:

NASDAQ CSD.

Surveillance System:

SMARTS Surveillance by NASDAQ.

Protocol:

FIX 5.1 is the protocol used to connect to the trading engine.

e) Trading Platforms

Service	Exchange Trading (Order Book)	Exchange Trading (Negotiated Deals)	OTC
Trade screen for investors	✓	✓	✓
Trade cash settlement*	✓	✓	✓
Bi-lateral trade negotiation	N/A	✓	✓
Bid/ask quotes	✓	N/A	N/A
Market making activities	✓	N/A	N/A
Access to all types of investors	✓	✓	✓**
Public information for Sukuk/Debt Instruments issuance details	✓	✓	✓
Public information for Sukuk/Debt Instruments performance	✓	✓	✓
Trade board for data dissemination	✓	✓	✓
FIX connectivity (via OMS)	✓	✓	✓
Note (*): trade cash settlement indicates full trade cycle from matching the trade on the Exchange's platform to sending the trade settlement instructions via Exchange to CSD Note (**): This will be accessible to all types of investors, but it should be noted that the focus of this service would be on and for the benefit of institutional investors.			

f) Sukuk and Debt Instruments Indexes

Fixed Income indices provide a way to overcome the complexities of the sukuk & bond market. Investing in an index fund that tracks a fixed income index removes the challenge of having individual sukuks and bonds.

Fixed income indices provide broad exposure to segments of the sukuk & bond market (considering the range of sukuk & bond characteristics).

For instance, a fixed income index can offer investors an opportunity to invest in multiple sukuk & bonds in a single instrument. Fixed income indices also allow for greater risk control by affording investors the ability to tailor their potential exposure to risk.

Saudi Exchange Sukuk and Bonds indices:

1) Sukuk and Bonds Market Index Tracks both government and corporate sukuk and bonds.
2) Government Sukuk and Bonds Index Tracks only government issued sukuk and bonds.
3) Corporate Sukuk and Bonds Index Tracks corporate issued sukuk and bonds.
4) iBoxx Tadawul SAR Government Sukuk & Bond TRI, it is a Total Return Index level including accrued interest in the prices of the sukuk or bonds.
5) iBoxx Tadawul SAR Government Sukuk & Bond CPI, it is a Clean Price Index level does not include the accrued interest in the prices of the sukuk or bonds.

g) Repo Market

The repurchase agreement (repo) is a short-term secured loan where one party sells securities to another and agree to repurchase these securities at a later date and at a specific price.

Local Repo Market transactions are governed by the Master Repo Agreement ("MRA") and the Saudi Central Bank's (SAMA) repo market guidelines.

Repo transactions can occur on a bilateral basis or can be cleared through a General Clearing Member of Muqassa (Central Counterparty).

For cleared repos, novation takes place immediately when the trade legs are matched and accepted by the Muqassa Clearing Portal. Muqassa creates settlement instructions both for the first and second leg of repo transactions.

Under the non-cleared repo model, repo buyer and seller exchange cash and collateral as two independent transactions. Collateral transfer is facilitated through Edaa system (from seller to buyer), cash is settled independent of Edaa systems. Meanwhile, cleared repos are settled using a Delivery vs. Payment model ("DvP").

Description of the Securities Settlement System

A) Market Type

1) **Cash Market:** Muqassa provides central counterparty clears services for all securities traded on the Saudi exchange, Listed & Unlisted fixed income instruments that are listed in the Main/Parallel markets and FI traded in the unlisted/OTC board.

2) **OTC – Derivatives:** Over-the-counter derivative is a financial contract that does not trade on an assets exchange, it is a security with a price that is dependent upon of derived from one or more underlying assets.

3) **OTC – Derivatives Repo Market:** the repurchase agreement (repo) is a short term secured loan: one party sells securities to another and agrees to repurchase those securities later at a specific price.

B) Clearing Membership

It represents the set of elements required in its holder to provide clearing services for products traded in the Saudi exchange

C) Cleared & Non-Cleared Instruments

1) Cleared instruments: listed instrument traded in the main and parallel markets including “Fixed income, equity” it also clears off market negotiated trades.

2) Non-cleared instruments: Muqassa is also doing a pass-through service for OTC/unlisted traded instruments, generates instructions to EDAA without any grantee/ margining

D) Cash Market - Listed & Unlisted FI

They are fixed income instruments that are listed in the Main/Parallel markets and FI traded in the unlisted/OTC board

E) Repo Market – Listed – Sukuk instrument

Captured in debt instruments, two parties one agrees to sell and the other to buy in short term.

F) Trading Accounts

Trades captured from Saudi exchange are enriched and stored in trading account.

G) Trade Capture from Exchange trades: that are executed in exchange and captured from Muqassa for clearing Muqassa Portal for Repo:

1) Parties agree on a Repo deal over the counter.
2) Parties report the trade to Muqassa for clearing.
3) Muqassa calculates initial and variation margin daily.
4) Muqassa issues a margin call to the participants whose collateral is not enough to cover margin requirement.
5) Participants need to meet the margin call by a specified time next day.

H) Post Trade Management

A post-trade activity the refer to average pricing, splitting and rectifying trades.

I) Collateral Management

Clearing members are obliged to provide collateral against their margin and default fund requirements

J) Settlement Process

Muqassa provides central counterparty clearing services for all securities traded on the Saudi exchange, derivatives market, and create settlement instruction both for first and second leg of repo transaction

K) Risk Management on Debt Market

Muqassa is managing the Counterparty Credit Risk in debt market by requesting Variation Margin and portfolio based Initial Margin for debt securities, as well as collecting default fund requirements from the clearing members. Variation Margin is being requested to cover the daily price changes of the debt securities, while the Initial Margin is being collected to cover the potential price changes within the liquidation period of debt securities for the case of market participant default. Initial margin requirement per security is being determined by the risk group of debt securities considering their risk characteristics such as their issuers, duration and convexity.

L) Fails Management

Any settlement position where Muqassa is the counterparty is not settled on the intended settlement date would be subject to fail management process.

M) Manufactured Coupon payments

Coupon payments occurring during the course of the repo needs to be paid from repo buyer to seller next day following the payment day. Settlement instructions are created by Muqassa.

Investors protection

Special purpose Entities

The Special Purposes Entity is an entity established and licensed from CMA under The Rules for Special Purposes Entities for debt instruments and investment units, and shall have legal personality and financial autonomy, and it shall cease to exist with the end of the purpose for which it was established for, in accordance with the Rules and Regulations issued by the Capital Market Authority.

Main Purposes of Establishing a Special Purposes Entity is protecting the rights of investors in Special Purposes Entity from bankruptcy of related parties such as the sponsor in the event of issuing debt instruments or the investment fund manager in the event of issuing investment units.

Types of Debt Instruments Issued by the Special Purposes Entities:

Asset-backed debt instruments:

Means a debt instrument issued by a special purpose entity under whose terms:

1-The entitlement of holders of the debt instrument to a return is wholly dependent on the returns generated by the special purposes entity's assets.
2-The sponsor is not obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay any amounts.

Asset-linked recourse debt instruments:

Means a debt instrument issued by a special purpose entity under whose terms:

1-The entitlement of holders of the debt instrument to a return is defined by the ratio of the returns generated by the special purposes entity's assets.
2-The sponsor is obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay all amounts due on the debt instrument

Debt-based recourse debt instruments:

Means a debt instrument issued by a special purpose entity under whose terms:

1-The entitlement of holders of the debt instrument to a return is not determined by the returns generated by the special purposes entity's assets.
2-The sponsor is obliged to the holders of the debt instrument (whether by guarantee or otherwise) to pay all amounts due on the debt instrument.
3-Par value to be paid to the holders of the debt instrument at or before the maturity of the security.

Protection Tools

This section reviews several topics that have a bearing on the protection of investors in the Saudi Arabian bond market, particularly retail investors.

Investor Complaints

The Capital Market Authority receives complaints that fall within the scope of the provisions of the Capital Market Law and its Implementing Regulations. The Capital Market Authority will consider, study, and validate all complaints, and work to settle disputes that arise between the parties participating in the market in relation to securities.

Any registered complaint against the entities subject to the Authority's supervision will be referred to the same entity for settlement. The complainant has the right to escalate his complaint to the Authority when it is not possible to reach a settlement.

The following prerequisites are required to file a complaint:

1. For individuals: a copy of the National ID for Saudis and GCC citizens, Muqeem ID for non-Saudis or a copy of the passport for those residing abroad.
   For institutions and companies: a copy of the commercial registration, and the complaint should be signed by the authorized person (the complaint will not be considered, nor its procedures completed if it is not attached).
2. A copy of the power of attorney and the National ID for the legal representative.
3. A copy of the supporting documents of the complaint.

Violations

Investors and market participants are considered the first line in protecting the capital market. Do not hesitate to participate in preventing capital market violations by submitting reports on any practices that may constitute potential violations of the Capital Market Law and its Implementing Regulations. The Capital Market Authority appreciates the integrity, responsibility, diligence, and of those who take the initiative and submit violation reports through the available channels.

A violations report can be submitted anonymously, and if you opt to disclose your personal information, the Capital Market Authority assures that all information and identity details of the reporter will be treated confidentially.

Class Action Suit

The regulation of the Class Action Suit included in the Resolution of Securities Disputes Proceedings Regulations aims to facilitate litigation procedures in cases in which the plaintiff is a large group of persons who all share the same legal issues and claims, which is commensurate with the nature of the listed joint stock companies and the size of their shareholders. In addition, to develop the litigation mechanisms and procedures to meet the best international practices to promote the attractiveness of the Saudi capital market and minimizes the risks involved in investing therein; in addition to its role in reducing the time needed to decide on investors' compensation cases. This would ease the committee’s mission and focus investors’ efforts on the other hand.

The following prerequisites are required to join a class action suit:

4. For individuals: a copy of the National ID for Saudis and GCC citizens, Muqeem ID for non-Saudis, or a copy of the passport for those residing abroad.
   For institutions and companies: a copy of the commercial registration, and the request for joining class action should be signed by the authorized person (the request for joining class action will not be considered nor its procedures completed if it is not attached).
5. A copy of the power of attorney and the National ID for the legal representative.
6. A copy of the joining request's supporting documents.

Financial Compensation

The Capital Market Authority (CMA) receives compensation requests from aggrieved investors in the capital market, who are entitled to compensation by a decision delivered by the Committee for Resolution of Securities Disputes (CRSD).

The following prerequisites are required to request a financial compensation:

7. For individuals: a copy of the National ID for Saudis and GCC citizens, Muqeem ID for non-Saudis or a copy of the passport for those residing abroad.
   As for institutions and companies: a copy of the commercial registration, and the request for joining class action should be signed by the authorized person (the request for joining class action will not be considered nor its procedures completed if it was not attached).
8. A copy of the power of attorney and the National ID for the legal representative.
9. A copy of the compensation request's supporting documents.
10. A certificate from the bank with the IBAN number.

Bondholder Rights

Bondholder rights are protected under the Companies Law; Capital Market Law; and their various amendments and implementing regulations.

The Rules on the Offer of Securities and Continuing Obligations has stipulated the level of disclosure necessary to be following the Law and the Rules, and particularly with regards to public offers.

Prevention of Fraud

The Capital Market Law has detailed Manipulation and Insider Trading in Chapter eight for those who are deemed in violation of the Law. The Market Conduct Regulations provides further details the acts which are in violation of the Law and the implementing regulations.

Capital Market Law

The Capital Market Law came into force on the 31st of July 2003, and was last amended on the 17th of September 2019. The CML provides strong protection for investors, and enhances corporate governance of listed companies and market transparency.

Bankruptcy Procedures

Based on Royal Decree No. (M / 50) dated 5/28/1439 H, the bankruptcy law was approved.

The Bankruptcy Law contains seven main procedures, as follows:

1) Protective settlement.
2) Financial restructuring.
3) Liquidation.
4) Protective settlement for small debtors.
5) Financial restructuring for small debtors.
6) Liquidation for small debtors.
7) Administrative liquidation.

According to The Bankruptcy Law that demonstrate who has the right to apply for opening a procedure, for each of the following procedures:

1) Protective Settlement: Debtor
2) Financial restructuring: Debtor, Creditor and Competent Authority
3) Liquidation: Debtor, Creditor, and Competent Authority
4) Administrative Liquidation: Debtor and Competent Authority

Further, the bankruptcy procedures aim to achieve the following:

1) Allow the bankrupt, distressed, or potentially distressed debtor to benefit from the bankruptcy procedures so that he or she can reorganize his or her finances, resume financial activities and contribute to the economy and economic growth.
2) Maintain the rights of creditors fairly and ensure the impartial treatment of parties involved.
3) Maximizing the value of bankruptcy assets, organizing sales, and ensuring fair distribution to creditors during liquidation.
4) Reducing the costs and time period of the procedures while increasing efficiency, particularly during the financial restructuring for small debtors or selling bankruptcy assets, and fairly distributing shares among creditors within a specified period.
5) Liquidating the administration of small debtors whose value of assets is insufficient to cover the costs of the liquidation procedure or liquidation for small debtors.

The following shall be considered regulated entities under bankruptcy Law:

a) Banking, financing, insurance, and exchange companies.
b) Persons licensed to trade in securities.
c) The Capital Market, and the financial settlement, clearing, and deposit
d) companies.
e) Credit rating companies.
f) Credit information and records companies.
g) Telecommunication, water, electricity, and gas companies.
h) Companies exploring minerals and energy resources.
i) Companies operating airports, railways, seaports and the like, as specified
j) in the Regulations.
k) Special purpose facilities.
l) Other persons specified in the Regulations.

According to article 47 of The Rules for Special Purpose Entity that state:

Compliance with the Bankruptcy Law (a) A special purposes entity must comply with the provisions of the Bankruptcy Law and its implementing regulations. (b) A special purposes entity must notify the Authority in writing of the result of any action taken from the Bankruptcy Law procedures, within (14) days of the procedure’s completion.

Therefore, a special purpose entity is subject to the following Bankruptcy Law articles:

Article 3:

A petition for the initiation of a bankruptcy procedure or a judicial depository for a regulated entity debtor shall not be registered without the issuance of a decision of approval by the competent authority.

The competent authority shall, upon completion of the application, issue a decision approving or rejecting the petition within a period not exceeding 30 days. The petition shall be deemed approved if the competent authority fails to issue a decision within such period.

Article 229:

The Competent Authority shall issue the necessary Regulations regulating the Regulated Entities under its control in line with the nature of these entities. Such Regulations may include provisions that exclude these entities from being subject to certain provisions of the Law, or add additional provisions, obligations or requirements to the provisions of the Law.

The bankruptcy Law shall apply to:

a) Natural persons engaging in commercial or professional activities, or any other for-profit activities in the Kingdom;
b) Commercial and professional companies, regulated entities, as well as other companies and for-profit entities registered in the Kingdom; and
c) Non-Saudi investors of a natural or legal personality holding assets in the Bankruptcy Law Kingdom, or engaging in commercial or professional activities, or any for-profit activities through a licensed establishment in the Kingdom. This Law shall only apply to said investors' assets which are located in the Kingdom.

For further details on the bankruptcy law and procedures it can be found on Saudi Arabia Bankruptcy Commission official website.

Event of Default and Cross Default

In article 195 under the bankruptcy Law, fees and expenses of the bankruptcy trustee and expert, if any, and the sale expenses of bankruptcy assets shall have priority over other debts during the liquidation procedure and small debtors' liquidation procedure, and must be satisfied prior to the distribution of sale proceeds of bankruptcy assets to creditors.

In article 196 under the bankruptcy Law, the liquidation procedure or small debtors' liquidation procedure, debts of a higher priority shall be satisfied before debts of a lower priority.

The priority of debts shall be as follows:

a) Debts secured by in-kind securities.
b) Secured financing in accordance with Article 184(a) of this Law and any other security specified in the Regulations in accordance with Article 184(e).
c) A 30-day wage for debtor's employees.
d) Family expenses established pursuant to a statutory provision or a court order.
e) Expenses necessary for the continuation of the debtor's business during the procedures, as specified in the Regulations.
f) Outstanding wages of the debtor's employees.
g) Unsecured debts.
h) Government fees, subscriptions, taxes, and unsecured entitlements, as specified in the Regulations.

The Regulations shall determine the priority of debts within each of the priorities provided for in this Article.

In article 3 under Jurisdiction in The Rules Governing Bankruptcy Procedures in Commercial Courts which states:

1) The Commercial Courts shall consider the following:

    a) The debtor's claims against third parties if arising from any of the bankruptcy procedures.
    b) The claims for compensation provided for in the Law.
    c) The disputes arising from officeholders' and experts' fees.

2) When necessary, the Court may, upon the request of the debtor or officeholder, decide to consider the debtor's claim against third parties. Such decision shall be governed by the provisions of Article (217) of the Law and paragraphs (3), (4) and (5) of Article (5) hereof.

For further details on the Rules Governing Bankruptcy Procedures in Commercial Courts it can be found on Saudi Bankruptcy Commission official website.

Debt instruments market costs, Zakat, and Taxation

Costs associated with Sukuk and Debt Instruments Trading

Brokerage Fee	
Broker	De-regulated
Listed Sukuk and Debt Instruments Trading Fees (Order Book)	
Saudi Exchange	0.5bps over traded value (clean price)
CMA	Not Applicable
Privately Placed Sukuk and Debt Instrument Trading Fees (OTC)	
Saudi Exchange	0.5bps over traded value (clean price) with a maximum cap of SAR 5,000 on each side of the trade
CMA	Not Applicable

Costs for settlement and transfer of Sukuk and Debt Instruments

Muqassa service as the clearing house of the Saudi Exchange for government issues and corporate Sukuk and Debt Instruments in the Saudi Arabian market includes charges for the following activities:

Clearing fee for cash market Fixed income	**(0.00005) which is equal to (0.5) basis points of the executed transaction value**
Post trade fee for cash market Fixed income	**Fees are waived for Fixed income instruments in the cash market. However, Saudi Exchange does charge 0.5 bps for trading (discounted from 0.9 bps)**
Repo clearing fee	**(0.0000011) which equal to (0.011) basis points daily of the executed transaction**

Taxation Framework and Requirements

Withholding tax:

A direct tax that is deducted from the amounts earned by a non-resident who does not have a permanent establishment in Saudi Arabia but earns income from another source in Saudi Arabia.

The non-resident investors who hold government debt that was issued by the Ministry of Finance are exempt from withholding tax. MoF paid the withholding tax on behalf the non-resident investors.

With respect to withholding tax it will be applicable to non-residents who hold corporate Sukuk or Debt Instruments, withholding tax rates vary from 5 per cent to 20 per cent depending on the nature of the underlying payment.

Withholding tax is reduced or eliminated pursuant to the provisions of an applicable double tax treaty signed between a non-resident's country of tax residence and the Kingdom.

Income earned by debt securities holder from their investment on corporate Sukuk or Debt Instruments in the nature of profit is akin to a financing activity and as such, should be considered as a Loan Charge as per Article 5(1) of the By-Laws to the Income Tax Regulation. A Loan Charge paid to a non-resident attracts 5 per cent withholding tax.

Zakat Framework and Requirements

The mechanism for applying and calculating zakat for sukuk and debt instruments investments was reviewed in collaboration with the Zakat, Tax, and Customs Authority (ZATCA), which resulted in the issuance of ministerial resolution (58705) amending The Implementing Regulations for Zakat Collection with the aim of incentivizing investments and deepening the debt capital market.

Calculating Zakat Before Amendment:

Zakat paying investors' zakat is calculated on their total investment value in Sukuk and bonds. Therefore, the investor is not allowed to deduct such investments from their zakat base.

Calculating Zakat After Amendment:

The issuer is given the choice to treat Sukuk and bonds issued as capital for zakat purposes, and the issuer is not allowed to change this treatment during the maturity period of these bonds and sukuk in such a case, the Sukuk and bonds investments are deductible from the investor's zakat base if they are held for other than trading purposes

Important links –

1. For quick access to the relevant laws and regulations, Click here
2.For the list of e-services provided by CMA, Click here
3. For key announcements in relation to KSA's capital markets, Click here
4. For information about the Government sukuk issuance Program, kindly, Click here
5. For more information about the Sukuk issuance monthly issuance calendar, kindly Click here
6. For the Saudi capital market statistics, Click Here.