



CAPITAL MARKET INSTITUTIONS FORUM 2024

Key Takeaways

FORUM OVERVIEW

Under the Patronage of H.E. Mr. Mohammed bin Abdullah El-Kuwaiz, Chairman of the Capital Market Authority (CMA), the Capital Market Institutions Committee held the 2024 Capital Market Institutions Forum in Riyadh on November 19, 2024, with the theme, «The Capital Market: Toward a Sustainable Future.»

The event started with a speech from the Capital Market Institutions Committee Chairman and SNB Capital CEO Rashed Sharif, who highlighted the impressive achievements of the Saudi capital market, as well as the Kingdom's attractiveness and resilience in a challenging global context.

The forum brought together thought leaders and industry experts from across the regional capital market landscape, examining key issues facing the capital sector and financial markets, the enhancement of Capital Market Institutions infrastructure, and growth opportunities for the Saudi capital market.

The 2024 Capital Market Institutions Forum agenda included critical topics such as the integration of Environmental, Social, and Governance (ESG) principles into financial market operations, the optimization of regulatory systems and human capital development, the practical aspects of preparing and launching an Initial Public Offering (IPO), and strategies to strengthen financial market systems through technological and regulatory advancements, among others.

The forum reflected the Capital Market Institutions Committee's emphasis on addressing systemic challenges, supporting sustainable growth, and fostering alignment with evolving global standards.

This report summarizes the key insights and findings that emerged from the forum, offering a forward-looking perspective on the future of Saudi Arabia's capital markets.



KEY FORUM INSIGHTS AND FINDINGS

- | **Under the CMA's 2021-2023 Strategic Plan**, total funds mobilized in the financial market nearly doubled, growing from SAR 230bn to SAR 400bn, while managed assets increased by 50% to reach SAR 900bn.
- | **Saudi Arabia's robust fiscal position**, low debt levels, and strong credit ratings are distinct advantages, particularly when compared to global markets facing high debt and deficits.
- | **Initiatives such as allowing omnibus accounts**, introducing market-making, and licensing an alternative trading platforms are expected to address the need for increased liquidity in the debt market.
- | **The Kingdom's pegged currency and sovereign debt spread** of 370 basis points (bps) make it an attractive destination for international investors; however, the deepening of domestic bond markets and boosted private sector participation is critical.
- | **Regulatory clarity, focused investment, scalable solutions, and continued adoption** of advanced fintech and blockchain technologies are essential to maintaining the competitiveness of the Kingdom's capital markets.
- | **By aligning regulatory frameworks** with global best practices and enhancing outreach efforts, Saudi Arabia can secure substantial foreign investments and drive market diversification.
- | **Despite potential risks from oil price volatility**, the Saudi economy is well positioned to withstand shocks, thanks to reduced reliance on oil revenues and sustained government spending in key sectors.
- | **The establishment of a Sustainability Department** at the CMA aligns with national sustainability goals, aiming to enhance sustainability-related information in the financial market.
- | **The CMA has introduced several reforms** aimed to position Saudi Arabia's Sukuk and debt market as a competitive, accessible, and efficient financing mechanism.
- | **Collaborative efforts among issuers**, regulators, and international investors are essential to scaling sustainable finance and positioning the MENA region as a leader in ESG-aligned markets.
- | **Alternative investments**, including private equity, venture capital private debt, and real estate, are poised for further development to diversify the Saudi capital market and attract investors.
- | **The number of financial technology companies** in Saudi Arabia has grown from 8 in 2019 to 41 companies by end of Q3 2024, facilitating SME financing and broader market participation.
- | **Capital market institutions** must invest in a future-ready workforce by fostering skills in technology, innovation, and adaptability. There is a need for collaboration between academia and the private sector to offer practical, skills-based education.
- | **Building a culture of innovation** across the financial sector is essential for maintaining competitiveness and meeting the evolving needs of a dynamic economy.



WORKSHOP: Sustainable Finance



Speakers

Ghadeer Al-Abdullatif

International Relations & Organizations Department, CMA

Rawan Ouadait

Corporate Ratings Team Director, S&P Dubai

Saeed Al-Dosari

Offering, Sukuk, and Debt Instrument Issuance Department, CMA

The workshop provided an in-depth exploration of sustainability principles and tools for the financial market, focusing on green and sustainable Sukuk and debt instruments. The session included presentations on the principles of sustainability, financing tools, and global trends.



Key Insights

Sustainability Frameworks:

The workshop emphasized the importance of integrating ESG factors into investment decisions. Global standards, highlighting the global trend towards adopting standards set by the International Sustainability Standards Board (ISSB).

Initiatives such as the Saudi Green Initiative and the Circular Carbon Economy framework demonstrate that sustainability remains a national priority in Saudi Arabia. The establishment of a Sustainability Department at the CMA aligns with these goals, support national sustainable development and climate change goals and commitments and enhance sustainability-related information in the financial market. The first version of the national sustainability disclosure standards is expected to launch in 2025 as non-mandatory guiding standards, preceded by a public consultation, aiming to enhance transparency and align the financial market with global sustainability practices.

Sustainable Financing Tools:

The CMA is in the process of developing guidelines for the issuance of Green, Social, Sustainable, and Sustainability-Linked Debt Instruments, in alignment with international standards and the principles and guidelines set by the International Capital Market Association (ICMA).

A range of instruments, including green, social, and sustainability bonds and sukuk, have been explored

to finance or re-finance projects that deliver environmental and social benefits. In recent years, Saudi Arabia has witnessed notable growth in local issuers that issuing green, social and sustainable bonds and Sukuk

The International sustainable financing market has experienced substantial growth, with bond issuances sizes growing at a compound annual growth rate of 19% between 2019 and 2023.

Challenges such as sector-specific disclosures and reliable sustainability reviewer remain areas for improvement.

Global and Regional Trends:

Globally, sustainable bond issuance is nearing SAR 3.75 trillion annually, with significant contributions from Asia and Europe. Within the Middle East, Saudi Arabia and the United Arab Emirates lead efforts, with a rising share of sustainability-linked Sukuk issuance. Economic factors and high interest rates were noted as influencing market dynamics.

Key recommendations included enhancing transparency, establishing clear taxonomies, and leveraging government-led initiatives to spur sustainable financing. Collaborative efforts among issuers, regulators, and international investors are essential to scaling sustainable finance and positioning the Middle East North Africa (MENA) region as a leader in ESG-aligned markets.



WORKSHOP: Initial Public Offering (IPO) Masterclass for Professionals – Organized by the Financial Academy



Speaker

Zyed Toumi

CEO, Ezdihar Partners for Investment

The workshop examined how best to assess a company's readiness for an IPO to ensure smooth execution, provided an overview of IPO stakeholders' responsibilities, shared tips & advice on how to submit a high-quality IPO application to the CMA and Tadawul, and imparted strategies to ensure a strong post-listing performance.



Key Insights

Inorganic growth through the issuing of shares through an IPO is one of the primary objectives of high-growth companies.

IPOs enhance company governance and the relationship between company management, board, and shareholders.

In the first half of 2024, there were 14 new IPOs on the Nomu Market and 8 IPOs on the Tadawul Main Market.

Several advisory services are required for the successful running of an IPO:

- Issuer External Auditor
- Capital Market Institution
- Issuer Legal Advisor
- Financial Due Diligence Advisor
- Market Study Advisor
- Underwriter's Legal Advisor

Companies should ensure multiple investor engagements between IPO preparation and launch to assist with de-risking and to determine value and demand sensitivities pre-launch:

1. Early Look Meetings

First-stage marketing to introduce the company and management to leading investors using

a pre-marketing presentation that positions the company's equity story and introduces Key Performance Indicators to investors.

2. Pilot Fishing/Deep Dive

Two to three weeks prior to publishing the Intention to Float and research reports, the focus should move to financials and valuation using an updated pre-marketing presentation that further develops the analyst presentation and builds momentum with key investors.

3. Publication of Research and Pre-deal Investor Education

Analysts should publish research with a valuation range and engage with potential investors to collect their views on the valuation.

4. Management Roadshow

Publication of prospectus, including price range, followed by the start of the management roadshow with target investors determined by the investor education process.

5. Bookbuilding

At the end of bookbuilding, the analyst and the issuer should have a pricing discussion and agree on the best price for the IPO.



ROUNDTABLE DISCUSSION: Sustainability of Human Capital in Capital Market Institutions



Moderator

Dr. Omar Al-Kharashi

Advisor, CMA - Research Department



Panelists

Professor Asim Al-Humaidi

Assistant Professor of Finance and Investment, King Saud University

Mashaal Al-Ismael

Chair of the Governance Committee, Capital Market Institutions Committee

Mohammed Al-Hamzani

Head of Capacity Development Sector, The Financial Academy

Ahmed Hamdi

General Manager of Skills Planning, Ministry of Human Resources and Social Development

The discussion highlighted the evolving role of human capital in Capital Market Institutions amid rapid technological and economic changes. Industry leaders and educators emphasized the need for strategic alignment between education, training, and market demands to ensure a skilled workforce.



Key Insights

The Evolution of Capital Market Institutions (CMIs) and Their Appeal to Human Resources

- **Growth in the Sector:** Panelists discussed the impact of growth in the Capital Market institutions sector on human capital, highlighting increased demand for traditional roles like fund management, operations, and compliance, as well as emerging cross-functional roles (roles spanning multiple functions). They noted that advancements in complex funds, such as real estate, have created new roles, including engineers. Additionally, institutions are shifting toward skill-based organizations, focusing on specialized competencies to meet industry demands. Finally, speakers identified declining demand for roles like brokerage, impacted by technological advancements, reflecting the sector's transformation.
- **University and Training Institutions Collaboration:** Speakers highlighted the emergence of professional and executive programs designed to meet the needs of Capital markets professionals. However, participants emphasized the need for further alignment between academic curricula and market demands. They called for the development of specialized academic and training programs, including multidisciplinary offerings, such as those combining finance and IT, to address the growing demand in areas like fintech. These efforts aim to better prepare graduates for an evolving and competitive job market.
- **Graduate Awareness and Career Guidance:** Panelists noted that students are actively participating in the country's dynamic movement, including conferences, workshops, and seminars on investment and the future of the financial sector. However, they emphasized the need to further raise awareness among graduates about specializations in Capital Market institutions and guide them toward career opportunities. For example, it appears that graduates are mainly aware of traditional functions in the sector, such as asset management and investment banking, while the industry has evolved to offer many more roles. This effort should involve collaborative initiatives between educational institutions, training organizations, and the Capital Market institutions to ensure graduates are equipped to meet the accelerating demands of the industry.



- **Training for Graduates of Non-Financial Specializations:** There is significant potential for graduates from non-financial disciplines to contribute to the Capital Market institutions sector. Panelists emphasized the importance of developing training programs designed to equip these graduates with the skills needed to succeed in the sector. Such initiatives not only enhance professional diversity but also broaden the talent pool, fostering innovation and adaptability within the industry.

I Challenges That May Hinder the Sustainable Growth of Human Resources

- **Attractiveness to Other Sectors:** Panelists discussed the migration of skilled workers to other sectors, highlighting the high demand for these skills across industries. This shift presents a challenge for CMIs, prompting the need for institutions to reconsider employee benefits and retention strategies. However, speakers emphasized that this shift can be viewed positively, as it indicates the sector is effectively developing talent and skills. This image of growth and development should be promoted and leveraged as a key tool for employee retention, showcasing the sector's ability to nurture and advance talent. By highlighting opportunities for professional growth and skill enhancement, the industry can attract and retain top talent.
- **Sector-Specific Challenges:** Speakers noted that the sector requires highly skilled talent due to regulatory changes and technical expertise demands. While many applicants exist, it's difficult to find fully prepared employees, leading to long training periods. The issue is compounded when employees resign after significant training investment, creating a challenge for CMIs. This turnover disrupts operations and hampers workforce stability. Participants, therefore, emphasized the need for incentives, such as rewards and continuous training, to reduce turnover and improve retention.

I Technical Skills and Competencies

- **Graduate Readiness:** Speakers referenced a study assessing graduates' preparedness to meet the sector's workforce needs, which found that fresh graduates require at least 100 days of training to reach the level that aligns with market aspirations. They also cited a study highlighting that many university graduates lack essential soft skills, which can only be developed through field training and work simulations within a company, as they are tied to the work environment. They also highlighted that some jobs are based on competencies rather than specialization, such as compliance, for which there is no specific university degree titled "compliance." Participants also pointed out the significant variation in the readiness of graduates from different academic institutions.
- **Role of Academic Institutions vs. Training Providers:** Speakers discussed the contrasting roles of universities and training centers in preparing human capital for the sector. Academic institutions are slower to adapt due to the four-year cycle needed to evaluate and implement changes, while training providers are more agile in updating programs to match sector advancements. The panel emphasized the importance of an integrative approach, where universities provide foundational knowledge and training providers offer specialized, industry-specific skills.

Initiatives Launched by Ministry of Human Resources

The panel asserted that graduates often need further development of specialized skills, such as compliance and operational risk management, that are critical for financial market institutions. The Ministry of Human Resources is addressing these challenges through the Professional Planning Initiative, which includes the Sectoral Skills Councils Project and the National Professional Standards Project. These initiatives define job roles, specify required skills, and establish career pathways. The forthcoming National Professional Standards Platform will connect stakeholders to align training with labor market demands, ensuring graduates are equipped with the necessary tools to succeed.

Retaining Talent in a Competitive Market

The Saudi fintech sector is predicted to grow fourfold by 2030, further increasing the demand for specialized talent and putting pressure on capital market institutions to attract and retain top performers.

Retention strategies centered on improving job quality, offering flexible work arrangements, and providing mental health support. Institutions were encouraged to implement competitive benefits, provide clear career progression pathways and introduce recognition programs to enhance employee satisfaction and reduce turnover.

The session underscored the importance of continuous investment in human capital through education, training, and workplace innovation. These efforts are vital to meet the sector's evolving demands and retain top talent.



WORKSHOP: Streamlining Regulatory Frameworks for the Offering, Listing & Registration of Debt Instruments



Speaker

Mansour Al Malik

Sukuk and Debt Instruments Issuance Management, CMA

The workshop outlined the outcome of the strategic initiative by the CMA to enhance the Sukuk and debt instruments market in alignment with Saudi Vision 2030. Regulatory amendments are aimed at reducing costs and accelerating processes to increase efficiency and stimulate Sukuk and debt instruments issuance as a key catalyst of national economic growth.

The CMA Financing and Investment Deputyship analyzed regulatory practices from nine global markets, including the US, UK, Malaysia, and South Africa, aligning reforms with international best practices. Feedback from market participants regarding challenges and opportunities in the Saudi debt capital market were taken into consideration in the new framework.



Proposed Amendments

Exempt Offerings: Expanded eligibility for national development funds and local sovereign wealth funds with fewer reporting obligations.

Private Placements: Streamlined notification processes, reduced documentation requirements, and easing short-term sukuk and debt instruments from depository obligations.

Public Offerings: Simplified prospectus preparation, introduction of new disclosure mechanisms in the prospectus, reduced supporting documentation, and enhanced clarity for provisions of Sukuk and debt instruments issuance.

Ongoing Obligations: Focused on transparency by requiring issuers to disclose breaches of debt terms while exempting non-share-listed issuers from announcing assembly meetings.

Special Purpose Entities: Harmonized regulations



Key Changes for Market Development

Lowered minimum listing limit for debt instruments to SAR5 million to encourage broader participation.

Enhanced clarity and efficiency to reduce regulatory burdens while maintaining robust investor protections.

The session emphasized that these reforms aim to position Saudi Arabia's Sukuk and debt market as a competitive, accessible, and efficient financing mechanism.



SESSION I: Building Robust Capital Market Infrastructure



Moderator

Abdullah AlJeraiwi

CEO, Abyan Capital



Panelists

Manea AlKhamisan

CEO, The Financial Academy

Hadeel Biyari

Indirect Tax Partner, Deloitte

Hanan AlShehri

CEO, Securities Depository Center Company (Edaa)

Raed AlHumaid

Deputy of Market Institutions, CMA

The panel discussion explored the transformative progress of Saudi Arabia's capital market infrastructure over the past five years and its forward-looking initiatives to sustain growth.



Key Insights

Achievements in the Financial Market

Over the last five years, the number of capital market institutions in the Saudi financial market grew to 176, with revenues surging from SAR 5.7 billion in 2019 to SAR 13.5 billion in 2023, reflecting enhanced activities in asset management and financial advisory services. Five years ago, there were between three and four IPOs a year, whereas over the last two years, there has been an average of 40 IPOs per year. Financial technology companies also expanded dramatically, from eight in 2019 to 41 companies by end of Q3 2024, facilitating Small and Medium-sized Entities (SME) financing and broader market participation.

Key Initiatives for Infrastructure Development

The Omnibus Accounts Initiative simplifies portfolio management by allowing custodians to manage accounts for multiple clients, reducing costs and complexity. Revised regulations for investment accounts and foreign investment rules aim to streamline processes and expand investor categories, including Gulf Cooperation Council residents. Licensing updates, such as the introduction of offshore licenses, will support regional integration and competitive positioning.

Improvements in securities lending and borrowing rules, algorithmic trading, and market-making have bolstered liquidity and efficiency. Market-making programs, for example, have tripled daily trading volumes for some companies

Operational and Regulatory Advancements

Evolving regulations, including recent updates to tax and Zakat compliance frameworks, have increased transparency and investor trust. Enhanced professional training programs, supported by a CMA-led policy requiring 16 hours of annual training, are building human capital to meet the sector's needs. Upcoming technologies, such as AI-driven analytics and simulation-based training, are reshaping operations and workforce development.

The panel underscored the importance of sustaining market growth through global integration, technological innovation, and collaborative regulatory reforms. Initiatives such as transitioning to T+1 settlement cycles and expanding tax planning capabilities will further strengthen Saudi Arabia's position as a leading global financial hub.



ADDRESS: Economic Overview Presentation



Speaker

Fahad Iqbal

CIO, UBS Middle East

The presentation provided a comprehensive analysis of global economic trends, emphasizing the strength and resilience of the US economy as a central theme.



Key Insights

Robust US Recovery

Over the last year, the narrative around the US has shifted significantly. Concerns around whether the US economy would face a soft or hard landing have been replaced by discussions of either a soft landing or no landing at all. This shift reflects robust economic performance, supported by moderating inflation, which is expected to reach 1.9% in 2025 –aligning with the Federal Reserve’s (Fed) target – and consumer spending driven by historically high household wealth and a recovery in savings levels post-COVID.

Monetary policy adjustments were another focal point. The Fed is expected to cut rates by 125 bps by the end of 2025, with a similar trajectory anticipated for the European Central Bank and a 100 bps cut by the Bank of England, in the UK.

However, the market remains more conservative, forecasting only 75 bps in US cuts. High national debt and sustained deficits would push central banks toward more aggressive rate reductions for long-term economic sustainability.

The address also touched on currency markets, predicting a medium-term decline in the US dollar due to structural imbalances, including high debt levels and expansive deficits. Conversely, it highlighted investment opportunities in equities, particularly in the US technology sector, where artificial intelligence (AI) is seen as a transformative force.

The renewable energy sector was another area of focus. Concerns were raised about the impact of policy changes under President-elect Trump. However, the structural shift toward renewables is expected to persist due to its widespread bipartisan support and significant economic benefits in key US states.

Cautious Global Optimism

On the global front, the Eurozone and China were identified as potential sources of positive surprise. While the Eurozone has faced weak economic activity and muted consumer spending, declining inflation and interest rates, coupled with elevated household savings, could trigger a recovery. In China, economic growth has underperformed, but recent monetary and fiscal stimulus measures offer hope for a rebound. However, further large-scale fiscal initiatives are necessary to sustain this recovery.

Vision 2030 Gains in Saudi Arabia

Finally, Saudi Arabia’s Vision 2030 progress was celebrated, with achievements in economic diversification and labor market reforms, particularly increased female workforce participation. Despite potential risks from oil price volatility, the Saudi economy is better positioned to withstand shocks, thanks to reduced reliance on oil revenues and sustained government spending in key sectors.

Overall, the address highlighted a cautiously optimistic global economic outlook, underscoring the resilience of the US economy, potential recovery opportunities in the Eurozone and China, the transformative impact of AI and renewable energy investments, and Saudi Arabia’s remarkable progress under Vision 2030, all while acknowledging the need for strategic adaptability amid evolving fiscal, monetary, and geopolitical challenges.



SESSION II: Sustainability and Growth in the Capital Market Sector



Moderator

Arjun Vir Singh

Head of Global Financial Services, Arthur D. Little



Panelists

Charles Henry Monchau

Group Chief Investment Officer & Executive Committee Member, Syz Group

Mohieddine Kronfol

Chief Investment Officer- Global Sukuk & MENA Fixed Income, Franklin Templeton

Ammar AlKhudairy

Co-Founder, Amwal Capital Partners

The session explored key themes of debt markets, fintech innovation, and strategies for attracting foreign investment into Saudi Arabia. It also covered how market participants and policymakers can drive sustainability and growth in the Capital Market Sector.



Key Insights

Saudi Arabia's Debt Market Advantage

Panelists highlighted Saudi Arabia's robust fiscal position, low debt levels, and strong credit ratings as distinct advantages, particularly when compared to global markets facing high debt and deficits. The Kingdom's pegged currency and sovereign debt spread of 370 bps, as well as its 20%+ representation of the MB Index, make it an attractive destination for international investors. However, the need to deepen domestic bond markets and encourage private sector participation was emphasized as critical next steps for sustainable growth.

Key trends:

- **Economic Stability:** Low debt-to-GDP ratio, large digital reserves, and a strong sovereign credit rating position Saudi Arabia as an outlier in global fixed-income markets.
- **Global Recognition:** Saudi Arabia represents over 20% of the MB Index, signaling its growing appeal among international investors.

Shifting Dynamics in Funding

Historically reliant on commercial banks, Saudi Arabia's private sector is increasingly accessing capital markets. Panelists called for a more

diversified funding ecosystem, including support for mid-market companies and infrastructure projects, to reduce reliance on government guarantees and enhance commercial independence.

Key trends:

- **Expanding Opportunities:** The convergence of fintech and emerging technologies is opening new markets for sukuk, direct credit, and private credit solutions.
- **Private Sector Independence:** As private sector growth decouples from oil revenue, there is a rising demand for credit, particularly among SMEs and mid-market companies.

Key challenges:

- **Limited Diversification:** The debt market remains heavily reliant on government issuance, with limited participation from corporate issuers.
- **Dependency on Bank Funding:** Transitioning from traditional bank financing to domestic bond markets is essential to meet the economy's evolving credit demands.



Technology and Innovation

Fintech and blockchain technologies were identified as transformative forces in capital markets. Blockchain, in particular, offers opportunities for tokenization, reducing investment thresholds, and increasing market accessibility. Panelists praised the proactive regulatory framework in Saudi Arabia and highlighted that realizing the full potential of fintech requires regulatory clarity, focused investment, scalable solutions, and continued adoption of advanced technologies to maintain competitiveness.

Key trends:

- **Blockchain and Tokenization:** Blockchain technology is enabling the tokenization of assets, lowering entry barriers and expanding investment opportunities for institutional and retail investors.
- **Regulatory Sandboxes:** The CMA and SAMA are fostering a vibrant fintech ecosystem, with several startups achieving unicorn status.
- **Demand for Scalability:** To attract large-scale investments, operational frameworks must prioritize ease of access and cost efficiency.

Key challenges:

- **Legal and Tax Uncertainty:** Institutional investors require greater clarity on tax implications and the legal framework governing digital assets.
- **Accessibility Hurdles:** Operational inefficiencies, such as challenges in trading Saudi bonds, limit participation from international investors.

Global Collaboration and Awareness

The session stressed the importance of foreign capital to Saudi Arabia's vision of becoming a leading global financial hub. Participants advocated for scaling up operations, streamlining processes, and enhancing investor access. Roadshows and strategic collaborations were recommended to attract global capital and build trust in the Saudi market.

Key trends:

- **Global Appeal:** High yields, diversification opportunities, and strong sovereign credit ratings make Saudi Arabia an attractive destination for foreign investors.
- **Outreach and Engagement:** Saudi companies and institutions need to actively educate global investors on market opportunities through roadshows and partnerships.
- **Diversified Financial Services:** Developing non-bank financial services, such as venture capital and private equity, will complement traditional markets and broaden appeal.

Key challenges:

- **Regulatory Alignment:** Foreign investors require clarity on lenders' rights under Saudi law and tax implications of investments.
- **Operational Complexity:** Challenges like separate account requirements for Saudi stocks (e.g., Aramco) can deter international investors.

The session concluded with a call for collective efforts among policymakers, institutions, and market participants to foster innovation, enhance accessibility, and position Saudi Arabia as a leader in sustainable capital market growth.



FIRESIDE CHAT: Recent Developments and the Future of the Capital Markets Sector



Moderator

Ghanem AlGhanem

Head of Investment Advisory, Jadwa Investment



Speaker

His Excellency Mr. Mohammed bin Abdullah El-Kuwaiz

Chairman, Capital Market Authority



This session provided a platform for an engaging discussion on the achievements, challenges, and strategic priorities shaping the future of Saudi Arabia's capital market sector, with insights provided by CMA chairman H.E. Mohammed bin Abdullah El-Kuwaiz.



Key Insights

Achievements in the Capital Market

The session highlighted the remarkable progress achieved under the implementation of the CMA's 2021-2023 Strategic Plan. Key indicators of this progress include:

- **Revenue and Profit Growth in Financial Institutions:** The capital market's expansion has driven more than a two-fold increase in revenue and profits for capital market institutions, with revenues rising from SAR 7-8 billion to SAR 13-14 billion
- **Doubling of Funds Raised:** Over the past three years, funds raised through the capital markets have surged to approximately SAR 400 billion, doubling from the previous range of SAR 200-230 billion
- **Significant Growth in Assets Under Management:** The value of assets under management has increased by 50%, rising from SAR 600 billion to SAR 900 billion, reflecting a substantial boost in investor confidence
- **Expansion in Listed Companies:** The number of companies listed on the stock exchange has more than doubled, underscoring the growing dynamism of the market

This impressive growth trajectory positions Saudi Arabia's financial services sector as a cornerstone of its economic transformation and a key enabler of

Vision 2030. It also highlights the shifting economic landscape, as the Saudi economy transitions from being a net exporter of capital to a net importer. This transformation underscores the pivotal role of the financial sector, particularly the capital market, in facilitating this economic evolution.

Strategic Focus Areas for the Future

The CMA Chairman emphasized five key areas for the next phase of development. The debt market, while foundationally developed, will now focus on increased private-sector participation and enhanced liquidity. The asset management sector, bolstered by recent pension reforms, has potential for further growth, aiming to double managed assets in the near term. Assets under management are 24% of GDP, which is much lower when compared to G20 countries.

Key opportunities for expanding the asset management sector:

- **Voluntary Savings and Pension Programs:** Recent pension reforms have created new opportunities, with potential to grow the sector by 50%, adding SAR 400-500 billion in AUM.
- **Product and Service Diversification:** Encouraging innovation in market-neutral strategies, derivatives, and private credit to expand investment offerings.



- **Allowing Omnibus Accounts:** Allowing omnibus accounts in asset management improves efficiency, simplifies portfolio management, enhances flexibility, and reduce costs making investments more attractive
- **Introducing Offshore License:** Enabling institutions to attract foreign capital and manage investments beyond Saudi Arabia.

Saudi Arabia's leadership in fintech and innovation was highlighted as a driver of regional and global opportunities. Efforts to integrate the market internationally include attracting foreign investments and easing access for international participants. A strong emphasis was placed on investor protection, with plans to enhance oversight, judicial systems, and compensation mechanisms to maintain market trust.

Key drivers of innovation are growth and competition, investment in technology, and human capital development:

- **Growth and Competition:** Rise of new fintech firms is intensifying competition.
- **Investment in Technology:** Data analytics and automation enable financial institutions to offer cutting-edge services.
- **Human Capital Development:** Necessitating targeted training and development programs.

CMA can play a role in supporting innovation through the fintech sandbox and regulatory exemptions:

- **Fintech Sandbox:** A controlled environment for experimenting with new financial products and services, reducing risks while driving innovation.
- **Regulatory Exemptions:** Flexible regulatory policies to accommodate innovative solutions, with transparency requirements to encourage further development.

Addressing Challenges and Opportunities

Key challenges and opportunities were discussed, including the need for increased liquidity in the debt market; Saudi Arabia's debt market remains underdeveloped with its debt market-to-GDP ratio standing at 18%, far below the global average of 114%.

Challenges in developing the debt market include building investor confidence, attracting liquidity, and promoting financial institution participation – to address these challenges, CMA is undertaking several initiatives including:

- **Zakat Treatment for Debt Instruments:** In collaboration with the Zakat Authority, the CMA has clarified tax treatments, making debt instruments more attractive for institutional investors.
- **Introduction of Market Making:** Building on the success in the equity market, the CMA is implementing a market-making regime in the debt market to enhance liquidity and trading activity.
- **Alternative Trading Platform:** Licensing a dedicated trading platform for debt instruments fosters competition and stimulates market activity.
- **Allowing Omnibus Accounts:** This option simplifies portfolio management, reduces operational costs, and increases flexibility for market participants.
- **Educational Campaigns:** Increasing awareness among investors and issuers about new market opportunities and the benefits of various financial instruments.

H.E. highlighted the importance of aligning workforce growth with expanding revenues and simplifying regulatory processes for Sukuk issuance.

There was also conversation around alternative investments (including private equity, real estate, venture capital, and private debt), which represent some of the fastest-growing segments in Saudi Arabia's capital markets. These asset classes are pivotal in attracting sophisticated investors and diversifying the financial ecosystem. However, challenges are that lack of well-defined frameworks for some asset classes creates uncertainty and that most opportunities are restricted to sophisticated investors, limiting market participation. **To harness the potential of alternative investments, CMA is undertaking initiatives including:**

- **Offshore License Implementation:** Facilitating the management of foreign capital and enabling institutions to target a broader range of clients and products in a regulatory environment suited to their needs.
- **New Institutional Fund:** Introducing a dedicated fund category for institutional and qualified investors, allowing greater flexibility in fund structuring and management.

The discussion reinforced the CMA's commitment to fostering a globally competitive and innovative capital market sector. By balancing market growth with robust investor protections, Saudi Arabia aims to drive its economic transformation in alignment with Vision 2030, cementing its role as a leading financial hub.

CONCLUSION

The 2024 Capital Market Institutions Forum underscored its pivotal role in fostering meaningful dialogue among industry leaders, regulators, and investors, creating a platform for the exchange of ideas and insights that drive the capital markets forward.

By bringing together a diverse range of stakeholders, the forum facilitated a collaborative environment where challenges were addressed and innovative solutions explored, strengthening the foundation of Saudi Arabia's financial ecosystem.

Aligned strategically with Saudi Vision 2030, the forum emphasized sustainability, technological innovation, and market growth as critical pillars for the future of the Kingdom's capital markets.

Discussions on integrating ESG principles into market operations demonstrated a shared commitment to long-term value creation, while sessions on technological advancements highlighted the transformative potential of digital platforms, AI, and fintech solutions in enhancing market efficiency.

Additionally, the focus on human capital development and regulatory optimization underscored the importance of building a resilient and adaptive capital market infrastructure.

The event showcased the collective ambition to not only address existing systemic challenges but also to seize emerging opportunities. Key takeaways included actionable strategies for navigating the complexities of IPO preparation, fostering market transparency, and leveraging alternative investments to attract foreign direct investment, all of which are crucial for positioning Saudi Arabia as a global financial hub.

The forum reinforced the CMI Committee's commitment to shaping a sustainable and competitive capital market that aligns with international best practices. By addressing both immediate and long-term priorities, the forum made significant strides in preparing Saudi Arabia's capital markets for a future defined by growth, innovation, and resilience.



لجنة مؤسسات السوق المالية
Capital Market Institutions Committee

