

## CLIENT ALERT

### Saudi Arabia to Open Stock Market to Foreign Financial Institutions – The Draft Rules

October 16, 2014

On July 22, 2014, the Saudi Arabian Capital Market Authority (CMA) announced that foreign financial institutions would be permitted to buy and sell stocks listed on the Saudi stock market in accordance with rules to be adopted by the CMA. The CMA subsequently released its Draft Rules for Qualified Foreign Financial Institutions' Investment in Listed Shares (the Draft Rules) and has solicited opinions and suggestions from investors and other interested parties on the Draft Rules.

By way of a brief summary, the Draft Rules:

- Permit banks, brokerage and securities firms, fund managers, and insurance companies that: (a) are licensed by a regulatory authority in a jurisdiction that applies regulatory and monitoring standards equivalent or acceptable to the CMA; (b) have assets under management of a value of SAR 18,750,000,000 (about US\$ 5,000,000,000), although the CMA can reduce that limit to SAR 11,250,000,000 (about US\$ 3,000,000,000); and (c) have been engaged in activities related to securities and investments therein for a period of at least five years, to apply to be registered as Qualified Foreign Financial Institutions (QFI's) that can trade directly in shares listed on the Saudi Arabian Stock Exchange (Tadawul);
- Permit QFIs to trade directly on behalf of their clients in shares listed on Tadawul where: (a) the client is an investment fund or could itself qualify as a QFI; (b) the QFI manages the client funds that will be used to trade on behalf of the client directly in shares listed on Tadawul; and (c) the client has been approved and registered by the CMA (an Approved Client); and
- Place limits on the levels of investment by QFIs and Approved Clients. For example:
  - Each QFI (together with its affiliates) and each Approved Client (together with its affiliates) may own not more than five percent of the issued shares of any issuer whose shares are listed on Tadawul; and
  - Foreign investors (whether resident or non-resident, whether directly or indirectly) may not in the aggregate own more than 49 percent of the issued shares of any issuer whose shares are listed on Tadawul.

An English-language copy of the Draft Rules is available online at the CMA's website at [www.cma.gov.sa](http://www.cma.gov.sa). The CMA will accept opinions and suggestions from investors and other interested parties on the Draft Rules until November 20, 2014.

The CMA plans to open the Saudi stock market to investment by foreign financial institutions in the first half of 2015.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.