Saudi Exchange

Listing Guide

3rd Edition

بسم الله الرحمن الرحيم

King Salman bin Abdulaziz Al Saud

Custodian of the Two Holy Mosques

His Royal Highness Prince
Mohammed Bin Salman Bin Abdulaziz Al-Saud

Crown Prince and Prime Minister

MESSAGE FROM THE CEO

Mohammed Sulaiman Al Rumaih
Chief Executive Officer

As the bridge between MENA and the larger financial world, the Saudi Exchange continues to serve as an important hub for initial public offerings (IPOs), with more and more Saudi companies looking to take the next step in their growth journey by entering the public market.

Even as IPO activity across the wider region has declined, the Saudi Exchange's IPO pipeline has remained robust throughout 2022. As one of the largest exchanges in the world the Saudi Exchange is helping Saudi companies to access capital, invest in their growth and development, and transform into mature contributors to the Saudi economy more easily in a short span of time. We continue to further diversify our offerings and invest in technology and infrastructure, making the Saudi Exchange an even more attractive destination for domestic and, increasingly, international investors.

We are pleased to present the third edition of our Listing Guide to help the next generation of companies in Saudi Arabia embark on their listing journey and unlock their full potential as public entities. We look forward to seeing more companies realize their ambitions by listing on our Exchange.

FOREWORD

Access to capital markets, whether equity or debt, is a key growth lever for companies throughout their development journey. Listing presents numerous advantages, including allowing companies to better diversify their business, invest in its growth, improve corporate governance, and raise their profile. As one of the world's most liquid exchanges, the Saudi Exchange offers companies access to a diverse range of capital pools from a broad array of international, global, regional, institutional, and retail investors, as well as a liquid secondary market.

The third edition of the Saudi Exchange's Listing Guide serves as a roadmap, clearly outlining the various steps involved in the listing journey so that any firm – whether an emerging startup or an established entity looking to take its development to the next level – can gain access to the vast resources available on one of the world's largest exchanges. To better understand the benefits of listing on the Saudi Exchange, companies only need to look at the performance of those who have already chosen the Exchange as their home. Companies that listed on the Main Market and Nomu - Parallel Market in 2022 raised an impressive SAR 38.8 billion in funding, providing the necessary capital to fund their strategic growth.

Importantly, the Saudi Exchange's offerings continue to grow. During the past years we have unveiled a robust array of new market enhancements, infrastructure and services to better facilitate listings and opportunities for market members. Investors can now take advantage of our expansive derivatives products, including our recently introduced single-stock futures. We also plan to launch single-stock and index options in the near future. Furthermore, we recently introduced Post-Trade Infrastructure Enhancements to provide efficient settlement, clearing, and custody services, helping create even greater value for investors and the market.

As of year-end 2022, the number of securities listed on the Main Market reached 223 securities, including 17 REITs. The parallel market, known as Nomu, has 47 securities listed, including one REIT. Furthermore, there are 7 ETFs and two CEFs. Nomu helps ensure that small and medium-sized companies play a part in the future of the Saudi economy by facilitating and diversifying financing options for companies that would otherwise not be able to access the equity market.

As the Saudi Exchange's offerings continue to grow, so does our ability to help investors and issuers. In this Listing Guide, we explain why there has never been a better time to enter the public market, and why we are better prepared than ever to help you access the Saudi capital markets with confidence. We are committed to helping build a thriving financial services sector, a key tenet of Vision 2030, and encourage you to be a part of this exciting transformation.

In this edition of the Listing Guide, we collaborated with a number of stakeholders, including our sponsors SNB Capital, Yaqeen Capital, Al Khabeer Capital, Musharaka Capital, Alinma Investment, and HSBC, who have all contributed their invaluable insights to ensure you and the wider public can benefit from their knowledge and experience. Along with our strategic partner, the Capital Market Authority, we have made it our mission to develop healthy capital markets, and this guide reflects that objective. Whether you are only just beginning to consider the possibility of listing on the Exchange or are ready to take that next step, we are here to guide you through the process.

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Introduction

The Saudi Exchange is a key driver of Saudi Arabia's vision to build a thriving economy with a technologically advanced and integrated capital market at its center. It is fast becoming a global investment destination, enabling companies to achieve success and investors to access opportunities that abound as the economy transforms under Vision 2030.

The Exchange is committed to delivering innovative solutions and technology to drive efficiency and provide benefits to employees, issuers, investors, brokers, and the wider market.

The Saudi Exchange saw significant progress in 2022, with 223 securities, 17 REITs, two CEFs and seven ETFs listing on the Main Market. Meanwhile, the Parallel Market, Nomu, saw an additional 47 securities listed. More companies and investors are taking advantage of the opportunities the Saudi Exchange is creating with each passing quarter, and the Saudi Exchange is committed to enabling all existing and potential market participants to realize the full potential of the Exchange's offerings.

The Saudi Exchange

The Saudi Exchange is the entity authorized in Saudi Arabia to act as the Kingdom's securities exchange, listing and trading in securities. The Saudi stock market is the dominant market in the GCC and the third-largest emerging market exchange.

Why List on the Saudi Exchange?

Accessing financial markets, whether for equity or debt, is an important step in the development of any company. Saudi Arabia is home to the largest, most liquid, and fastest-growing equity market in the Middle East and North Africa. Vision 2030, the Kingdom's long-term development plan, has had a significant impact on the maturation of the capital markets and enabled the Saudi Exchange to enhance its position as a key financial center. Investors are attracted to the clear and robust regulatory environment, as well as the confidence-inspiring infrastructure. As of year-end 2022, a total of 223 securities, 17 REITs, two CEFs, and seven ETFs were listed on the Main Market. Furthermore, 47 securities were listed on Nomu - Parallel Market, an alternative market that has lighter listing requirements.

In addition to listing shares, the Saudi Exchange provides for the listing and trading of sukuk, corporate bonds, exchange traded funds, REITs, and closed ended funds. Offerings have been diversified further, with the Saudi Exchange launching a derivatives market on 30 August 2020. Derivatives products such as futures, options, and swaps are used to hedge against risks.

Tadawul All Share Index (TASI) is a key indicator of the performance of companies listed on the Exchange and reflects the overall market sentiment. Real-time market information is available through a subscription service offered by TASI. The Saudi Exchange also publishes sector-specific indices such as Energy, Transportation, and Retailing, in accordance with the Global Industry Classification Standards.

Trading System

In 2015, the Saudi Exchange successfully launched its trading system, X-Stream INET, an advanced platform that offers low-latency trading. Securities listed on the Saudi Exchange are traded by way of order matching according to price, followed by time priority. Transactions are executed through brokers, each on behalf of its clients or itself.

Trade and legal finality are simultaneously recorded on the trading system, as well as on depository and settlement systems. All trading activities are matched, confirmed, and executed electronically. Additionally, the trading engine was designed to serve multiple types of orders. A securities settlement cycle starts when the buy and sell orders are matched, and ends when securities and cash settlements are completed.

A trade date plus two days, also known as T+2, settlement cycle ensures that all settlements are made within two business days. The system has increased security and is more closely aligned to the index with global settlement practices.

Post-Trade Services

Several bodies work alongside the Saudi Exchange to streamline processes and provide updated information to current and potential investors. One such entity is the Securities Depository Center Company (Edaa), which was established in 2016 as a closed joint stock company and provides and prepares securities settlement, clearing, depository, ownership registry, and safekeeping. It is wholly owned by the Saudi Tadawul Group.

Edaa offers a variety of post-trade services, in addition to depository services. These include registering companies, pledging securities, transferring the ownership of securities, clearing and settlement-related services, consolidated reporting, and asset servicing that benefit both issuers and investors. Post-trade services also cover independent custody services, in which a custodian is responsible for securing and administering an investor's assets while trading is performed by another trading entity. Edaa also provides a suite of services through Tadawulaty, which aims to increase investor confidence.

3,052

financial institutions were registered with the Saudi Exchange as qualified foreign investors as of year-end 2022. The program provides international investors with access to the Kingdom's capital markets, allowing them to directly invest in securities listed on the Saudi Exchange.

Clearing Center

Established in 2018, the Securities Clearing Center Company (Muqassa) is the only authorized securities clearing house in the Kingdom. Trades take place electronically on the Saudi Exchange and the Central Counterparty Clearing House (CCP) provides assurance to brokers that their trades are protected, regardless of who the counterparty is. The CCP also protects its members through a centralized risk management process, in addition to well-outlined rules and procedures for managing the default of a counterparty. This provides a high degree of legal certainty to clearing and centralized risk management processes. Additionally, the CCP facilitates multilateral netting, which reduces the number of settlements in the market.

International Investors

In 2015, the Saudi Exchange launched the Qualified Foreign Investor (QFI) program, providing international investors with access to the Kingdom's capital markets. The initiative was amended in 2019 to ease registration requirements and expand the range of eligible institutional investors.

A QFI can invest directly in listed securities in the local market, as well as in a limited set of investment funds. There are, however, some restrictions on the extent of their holdings. No QFI is allowed to hold 10% or more of the shares of a company listed on the Saudi Exchange. With the exception of foreign strategic investors, or those who seek to have a "strategic shareholding" in a Saudi Exchange-listed company, no more than 49% of a listed company's equity can be held in aggregate by foreign investors.

What Qualifies as a QFI?

Entities eligible for QFI status include banks, brokerage and securities firms, insurance companies, investment funds, and government-related enterprises (GREs). With the exception of GREs, applicants must have assets under management of at least SAR 1.9 billion. As of year-end 2022, 3,052 financial institutions were registered as QFIs with the Saudi Exchange.

Listing Requirements

The Capital Market Authority (CMA) issued clear requirements for companies wanting to list on the Saudi Exchange, with only joint stock companies allowed to be listed. There must be at least 200 public shareholders at the time of listing, and at least 30% of the class of shares to be traded should be owned by the public. For Nomu - Parallel Market, there must be at least 50 public shareholders at the time of listing, and the issuer must float at least 20% or SAR 30 million worth of the issued shares, whichever is less.

In light of changing market conditions, some stipulations have been relaxed. For example, minority shareholders who are not part of the Board or Executive Management – or their immediate family members – and hold less than 5% of equity are now classified as public owners. This has helped to stimulate public offerings and reduce placement risk, as well as give flexibility to companies that want to go public. A foreign firm that has securities listed on another regulated exchange can also apply to seek an additional listing on the Saudi Exchange. The Exchange may approve the application provided that the offering and listing requirements applicable in the foreign issuer's jurisdiction of listing are equivalent to those of the CMA and the Saudi Exchange. An issuer that wants to list its securities must apply to the Exchange and pay a fee to the CMA. In its application, the issuer must mention the number and class of shares issued, the nominal value per share, the amount paid up per share, the total paid-up amount for issued shares, and the offer price. Except where shares of the same class are already listed, at the date of listing the expected aggregate market value of the company to be listed must be at least SAR 300 million.

Overview

The Saudi capital market is highly developed, with more than SAR 872 billion raised in equity and debt between 2017 and 2022.

The total market capitalization of the Saudi Exchange stood at SAR 9,878.10 billion as of year-end 2022.

The Kingdom's long-term development plan, Vision 2030, encompasses a variety of legal and structural reforms that make it easier for foreign investors to participate in the capital markets.

Overview of Saudi Capital Market

Saudi Arabia was rated one of the most improved economies in the ease of doing business rankings, published by the World Bank's "Doing Business 2020" report. The report confirms the Kingdom's continuous efforts aimed at making it easier for entrepreneurs to open and operate their businesses, as well as protecting minority investor rights. As part of his efforts to introduce market-friendly reforms, Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud has promoted the Kingdom as a premier destination for global investment.

The Saudi capital market is highly developed, with over SAR 872 billion raised in equity and debt between 2017 and 2022. The total market capitalization of the Main Market stood at SAR 9.9 trillion and that of its parallel market, Nomu, at SAR 35.09 billion, as of year-end 2022.

The Saudi Exchange made history in December 2019 when the state-owned oil giant Saudi Aramco raised a record SAR 96 billion in its initial public offering (IPO), which attracted more than five million subscribers. The IPO was the largest in history and signaled a maturing of the Kingdom's capital markets.

As part of the PIF's initiatives to strengthen the Saudi financial market and increase its market value, Americana Restaurants International PLC (Americana Restaurants), has successfully completed a dual offering and dual listing on both the Saudi Exchange and the Abu Dhabi Securities Exchange. The offering size amounted to SAR 6.8 billion, representing 30% of the total issued shares. This is the first IPO of a non-Saudi company on the Saudi capital market, paving the way for other non-Saudi companies.

The Saudi Exchange is dominated by firms in the energy sector, which constitute 72% of the market. Other important sectors include banking, at 10%, and materials, at 7%. In terms of participation, 96.42% of the investors are local institutions, government-related enterprises, and individual investors. Investors from the GCC and foreign countries around the world make up a small, but expanding share of the market at 4.00% as of year-end 2022, which marks a 12% increase compared to the previous year. The Kingdom's long-term development plan, Vision 2030, encompasses a variety of legal and structural reforms that aim to make it easier for foreign investors to participate in the capital markets. 3,052 investors are a part of the Qualified Foreign Investor (QFI) program, making them eligible to trade on the Saudi Exchange.

In October 2019, the Capital Market Authority approved changes that would allow foreign companies to list on the Saudi Exchange, and subject them to the same listing, disclosure, and governance requirements as Saudi companies. Shares of such firms can then be traded on the Saudi Exchange in Saudi Riyals. This followed an agreement between the Saudi Exchange and the Abu Dhabi Securities Exchange (ADX) aimed at enabling dual listing between the Saudi Exchange and the ADX. An agreement to standardize operations for dual listings also exists between the Saudi Exchange and the Bahrain Bourse.

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72%

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Role of the CMA

The Capital Market Authority (CMA) oversees and regulates the capital markets sector in Saudi Arabia. It is responsible for approving share offerings and ensures that trade takes place in accordance with the rules and regulations laid out for investors, issuers, and other stakeholders. In addition, the CMA provides a clear and transparent regulatory framework against which capital market activity can take place.

The framework set by the CMA seeks to emulate international standards and lays out clear rules that govern the relationship between company owners, shareholders, and stakeholders.

Capital Market Authority

The Capital Market Authority (CMA) is the body that oversees and regulates the capital markets sector in Saudi Arabia. It is responsible for approving share offerings and ensures trade takes place in accordance with the rules and regulations laid out for investors, issuers, and other stakeholders. In addition, it provides a clear and transparent regulatory framework against which capital market activity can take place. The CMA was established under the Capital Market Law (CML), promulgated by Royal Decree No. M30 of 2003.

Functions

The CMA's functions are to regulate and develop the Saudi Arabian Capital Market by issuing required rules and regulations for implementing the provisions of Capital Market Law. The basic objectives are to create an appropriate investment environment, boost confidence, and reinforce transparency and disclosure standards in all listed companies, and moreover to protect the investors and dealers from illegal acts in the market.

Duties

The CMA is entrusted with the following duties:

- Regulate and develop the market, and promote appropriate standards and techniques for all sections and entities involved in securities trade operations
- Protect investors and the public from unfair and unsound practices involving fraud, deceit, cheating, manipulation, and insider information trading
- Maintain fairness, efficiency, and transparency in transactions of securities
- Develop appropriate measures to reduce risks pertaining to transactions of securities
- Develop, regulate, and monitor the issuance of securities and under-trading transactions
- Regulate and monitor the activities of entities working under the CMA
- Regulate and monitor the full disclosure of information related to securities and issuers

Market Conduct Regulations

Market Conduct Regulations define the standard code of conduct for all participants to ensure the smooth functioning of the market, combat illegal activity, and promote ethical trading.

Therefore, the rules prohibit participants from engaging in any activity intended to manipulate or deceive the market. These include:

- Any act of deception in the transaction of securities
- Any trade or transaction that is aimed at manipulating the price of the stock and thus influences the market
- Making any fictitious trade that brings about no effective change in the ownership of the security
- Insider information trading
- Placing a sale or purchase order of a security to pre-determine the sale, ask, or bid price
- Furnishing untrue statements that can influence the price of securities

What is insider trading?

Insider trading is the buying or selling of shares or securities listed on the stock exchange by an individual or a group of individuals who can access non-public information about the Company, giving them an unfair advantage over other investors.

Who is classified as an insider?

An insider is an individual who is a key member of the Management of the Company in question; who has a member of his or her family in the Management of the Company; or who is in a business or contractual relationship with the Management of the Company. An insider is also anyone who has access to non-public information.

What is non-public information?

Non-public information is knowledge about a company, whether positive or negative, that is not in the public domain, but which may have a material impact on the price of the stock when released.

Prohibition on Disclosure of Insider Information

An individual with any non-public information is prohibited from disclosing such information to any other person who would be able to take undue advantage for personal benefit. An individual who is not an insider is also prohibited from disclosing information about the Company to any other individual who may trade in its security, based upon the information received.

What is an untrue statement?

According to the CMA, a statement is considered to be untrue when it:

- Discloses false or inaccurate information
- Influences another person to make false or inaccurate claims
- Misrepresents material fact
- Influences another person to misrepresent a material fact
- Hides a material fact linked to a statement while it is being made

What is the liability for making an untrue statement?

A person making an untrue statement is liable to compensate a claimant who incurs a loss from acting on the untrue statement, which otherwise would not have been incurred.

Corporate Governance

Corporate governance determines shareholder confidence. As the global economy becomes more mindful toward corporate governance, the importance of effective corporate governance has become more significant than ever. Effective corporate governance protects the rights of shareholders and promotes transparency, making the listed company more accountable and attractive to investors. It reduces the cost of capital and allows the Company access to a wider range of investors. Companies that apply the principles of good corporate governance enhance trust with shareholders. It indicates an awareness on the part of Executive Management and the Board of Directors of the risks facing the Company. This in turn raises investor confidence and helps them make informed decisions. The framework set by the CMA seeks to emulate international standards and lays out clear rules that govern the relationship between the Board of Directors, Executive Directors, shareholders, and other stakeholders such as employees, customers, and suppliers.

The framework set by the Capital Market Authority seeks to emulate international standards and lays out clear rules that govern the relationship between the Board of Directors, Executive Directors, shareholders, and other stakeholders.

The CMA has set out clear corporate governance regulations that:

- Protects the rights of shareholders
- Lays out the competencies and responsibilities of Board of Directors and companies committees
- Outlines the requirements for internal controls
- Lays out the rules that govern the relationship between various stakeholders
- Sets professionalism and ethical standards

Every company planning to list its shares on the Exchange is required to publish a prospectus that contains all information necessary to enable an investor to assess the activities, assets and liabilities, financial position, management, and prospects of the issuer.

Regarding transparency and disclosure, an investor is entitled to know the full and true picture of a company's performance and have access to all material information that may affect the price of its shares. CMA regulations, therefore, require listed companies to make full disclosure on all financial data and other important matters. These should be fully and accurately disclosed at a specific time and without discrimination.

Please click here for a detailed description about self-assessment of the level of corporate governance.

Prospectus and Financial Statements

Every company planning to list its shares on the Exchange is required by the CMA to publish a prospectus that contains all information necessary to enable an investor to assess the activities, assets and liabilities, financial position, management, and prospects of the issuer and its profits and losses, and must include information relating to the number and price of the securities and any obligations, rights, powers, and privileges pertaining to the aforementioned securities. If it turns out that the information in the prospectus is incorrect, misleading, incomplete, or if the prospectus failed to include some information that needed to be included, the Company issuing the securities – represented by its Executives, Board members, and the financial or legal advisor who prepared the prospectus – can be held liable for any damages to investors incurred as a result of investors basing their decisions on the incorrect or incomplete information. In addition to the prospectus, CMA's Rules for Offering Securities and Continuing Obligations require ongoing disclosure of financial statements, Board of Directors reports, and any developments that might have an effect on the listed company's assets or liabilities, its financial position, or its general line of work. The annual and preliminary financial statements for the first, second and third quarters for companies in the Main Market, and the annual and semi-annual financial statements for those in the Nomu - Parallel Market, must be disclosed after being approved by the Company's Board of Directors. The requirements of the Companies Law and other relevant laws and regulations must be taken into account when preparing and approving the annual and preliminary financial statements.

For companies listed in the Main Market and Nomu - Parallel Market, interim and annual financial statements must be prepared in accordance with the accounting and auditing standards adopted by the Saudi Organization for Certified Public Accountants (SOCPA), and must be released to the public through the electronic system specifically designated for such purposes by the Exchange. The mandatory timeline for disclosing annual statements is within three months from the end of the fiscal year; preliminary financial statements of companies in the Main Market must be disclosed within 30 working days following the end of the financial period.

In Nomu - Parallel Market, disclosure of semi-annual financial statements must be made within a period not exceeding 45 working days from the end of the period. Disclosure of annual financial statements must be made within a period not exceeding three months from the end of the fiscal year. The issuer must ensure that the external auditor who audits or reviews its financial statements and any of its partners' complies with the SOCPA rules and regulations in relation to the ownership of shares or securities of the issuer or any of its subsidiaries. This is to ensure the accounting office's independence and the independence of any partner or employee of that firm. If the issuer is a special purposes entity, the sponsor is required to provide the special purposes entity's interim and annual financial statements along with the report of the Board of Directors in a timely manner to enable it to fulfill its disclosure obligations.

Board of Directors Report

Every listed company must release the Board of Directors report within three months of the end of the financial year, according to Article 82 of the Rules for Offering Securities and Continuing Obligations. Such a report must contain a review of the Company's operations during the last financial year and any relevant factors affecting its business, which an investor needs to evaluate assets, liabilities, and the overall financial position of the Company. The issuer must immediately disclose any of the following developments, among others, regardless of whether they qualify as material under Article 79 of the Rules for Offering Securities and Continuing Obligations:

- Any transaction to purchase, sell, lease, or mortgage an asset at a price equal to or greater than 10% of the net assets of the issuer, according to the latest reviewed interim financial statements or audited annual financial statements, whichever is most recent
- Any losses equal to or greater than 10% of the issuer's net assets, according to the latest reviewed interim financial statements or audited annual financial statements, whichever is most recent
- Any significant change in the issuer's production environment or activity, including but not limited to the availability of resources and the possibility of obtaining them
- Any change in the composition of the Directors, the audit committee, or to the CEO's position, and – in case the issuer is a special purposes entity – any changes in the composition of the Directors, the audit committee, or to the CEO's position of the sponsor and the special purposes entity
- Any dispute – including litigation, arbitration, or mediation – where the value in question is equal to or greater than 5% of the net assets of the issuer, according to either the latest reviewed interim financial statements or audited annual financial statements, whichever is most recent
- An increase or decrease in the net assets of the issuer that is equal to or greater than 10%, according to either the latest reviewed interim financial statements or audited annual financial statements, whichever is most recent
- An increase or decrease in the gross profit of the issuer equal to or greater than 10%, according to the latest audited financial statements
- A call to convene a general or special assembly and the proposed agenda
- Any proposed change in the issuer's capital
- Any change in the rights attached to any class of listed shares or to the debt instruments convertible to such shares

Interim financial statements for companies listed in the Main Market must be disclosed within

30

working days of the end of the financial period covered by the statements.

Risk Mitigation

Participation in capital markets is not without risk. However, the CMA attempts to reduce those risks by enforcing rules that compel listed firms to disclose financial statements and material information to investors without discrimination. The CMA also increases investor awareness through advertising campaigns, booklets, workshops, seminars, and symposiums. For example, the CMA has produced a guide for investors on how to read the financial statements released by a listed company. It has also published a guide on how to invest in the stock market and a compendium explaining common investment terminology.

Shareholders' Rights

One of the most important pillars of good corporate governance is to protect the privileges and rights of a shareholder. CMA regulations define the rights that can be exercised by shareholders. These include the right to obtain a share of the dividends, the right to company assets in case of liquidation, the right to attend and participate in the Company's general assembly, the right to vote, and the right to monitor the Board of Directors' performance. Shareholders have the right to ask for information that does not compromise the firm's interests or conflicts with market regulations.

Board of Directors

The Board of Directors is fully responsible for the actions of the Company, thus its membership comes with high responsibilities. Every member of the Board represents all shareholders and is therefore expected to diligently carry out the duties responsibly and in good faith. The core functions of the Board are:

- To set the strategic direction and key objectives of the Company, and oversee its implementation
- Formulate internal control and monitoring mechanisms
- Develop a company governance framework
- Formulate clear policies, standards, and procedures for Board membership, and put them into effect after approval by the general assembly
- Develop a policy that regulates the relationship with various stakeholders in order to protect their rights

Participation in capital markets is not without risk. However, the Capital Market Authority attempts to reduce those risks by enforcing rules that compel listed firms to disclose financial statements and material information to investors without discrimination, while also increasing investor awareness.

The Board of Directors should exercise independence in making decisions. Therefore, the majority of Board members must be of Non-Executive status, and the number of independent members must not be less than two or one-third of the total number of members, whichever is greater.

Corporate governance regulations allow the Board of Directors to delegate specific tasks and responsibilities to specialized committees. After completing such tasks, the committees submit their findings to the Board of Directors. Although they are expected to report to the Board of Directors and may often consist of members of the board themselves, these committees are expected to exercise independence in carrying out their work. A notable example of such an independent committee is the audit committee.

Main Market

As the largest by capitalization and the most liquid stock market in the Middle East and North Africa, the Saudi Exchange offers issuers the ability to expand their capital base with confidence by facilitating trade in securities such as equities, debt, and exchange traded funds.

An initial public offering (IPO) is the process by which a private company issues its first shares to the public, with stocks available for retail and institutional investors.

Proceeds from an IPO can be used to finance new projects, invest for future growth, make acquisitions, pay debts, or restructure capital.

MAIN MARKET AT A GLANCE

87.90 MILLION
transactions were carried out in 2022.

SAR 300 MILLION
minimum aggregate market value of the company to be listed.

223
Listed companies and REIT's as of 2022.

The Main Market

Private limited companies often consider going public to access financing, as raising capital through the stock exchange allows a company to tap into a larger investor base than would otherwise be possible. As of 2022, 223 companies had accessed the Main Market, with a total market capitalization of SAR 9,878.10 billion. In 2022 alone there were 87.89 million transactions valued at SAR 1,708.04 billion.

Why Choose the Main Market?

As the largest by capitalization and the most liquid stock market in the Middle East and North Africa, the Saudi Exchange offers issuers the ability to expand their capital base with confidence by facilitating trade in securities such as equities, debt, and exchange traded funds.

Under the Financial Sector Development Program (FSDP), the Kingdom of Saudi Arabia launched a series of incentives to encourage family-owned and private sector companies to list on the Main Market. Such incentives include fast-track services regarding requests from the Zakat, Tax and Customs Authority, prioritization of listed companies when applying for the Authorized Economic Operator Program managed by Saudi Customs, and preference in government procurement contracts. There are also sector-specific incentives, such as increased loan limits from the Saudi Industrial Development Fund, a fast-track clearance process for health and pharmaceutical firms from the Saudi Food & Drug Authority, and higher credit limits from the Agricultural Development Fund.

Since 2015, 223 companies have accessed the Main Market, with a total market capitalization of SAR 9,878.10 billion.

Under the Financial Sector Development Program, the Kingdom of Saudi Arabia launched a series of incentives to encourage family-owned and private sector companies to list on the Main Market, which include fast-track services regarding requests from the Zakat, Tax and Customs Authority.

Going Public

An initial public offering (IPO) is the process by which a private company issues its first shares to the public, with stocks available for both retail and institutional investors. Institutional investors include mutual funds, pensions, financial companies, and listed companies.

Proceeds from an IPO can be used to finance new projects, invest for future growth, make acquisitions, pay debts, or restructure capital. Capital raised can also allow shareholders to monetize part or all of their holdings through secondary shares. Private equity, venture capital, and investment firms regularly utilize IPOs as an exit strategy. Governments also look to IPOs as a means to privatize state-owned enterprises, while some family businesses use IPOs for succession planning and investment.

Making a Company IPO Ready

Companies that go public are required to comply with International Financial Reporting Standards set by the International Accounting Standards Board and regulations established by the Capital Markets Authority (CMA), as well as issue financial statements in a timely manner. To implement an offering, the Company must have carried out its main activity for at least three years and provide three years of audited financial statements. At least 30% of shares must be offered to the public, with at least 200 public shareholders at the time of listing. The aggregate value of the company market cap listed must be at least SAR 300 million. Companies have an ongoing obligation to disclose material developments and financial information.

The development and implementation of a corporate strategy backed by well-defined goals and objectives is necessary to attract investors. Corporate governance standards must match those established by the CMA and the Saudi Exchange; to issue an IPO, the Company must produce a corporate governance manual aligned with these laws and regulations. It is also critical to establish an organizational structure with clear roles and responsibilities. An independent Board of Directors should be set up to ensure the Company is run according to the guiding principles established in the Articles of Incorporation. The Board must also have audit, nomination, and remuneration committees. A CFO and independent auditor may be necessary to monitor and prepare financial statements in a timely manner. An experienced CEO will help guide the Company through the process.

Advisory Support

Financial Advisor

Preparing a company for a debut on the stock exchange requires the appointment of a financial advisor, who is mainly tasked with offering the shares to investors and coordinating various work streams. The role of the financial advisor is similar to that of a project manager, which is to be responsible for coordinating the various requirements necessary to go public. This can cover everything from drafting a prospectus to ensuring compliance with CMA rules. In addition, the financial advisor acts as a liaison between the Company and other stakeholders in the process, and is often part of a syndicate of partners who assist the Company in marketing the IPO, educating investors, and underwriting the offering. In many cases, investment banks assume the role of financial advisors.

Legal Advisor

A legal advisor is also required to navigate the IPO process. The advisor is responsible for ensuring that all legal and regulatory requirements have been met during the IPO, and ensures that all documentation is accurate and complete. This includes the listing application, the Board offering resolution, the Directors' declarations, the prospectus, and all other ancillary and non-regulatory documentation that is required. The legal advisor is responsible for the preparation of the legal due diligence report and drafting the prospectus. The advisor will also support the Company in the event of any corporate or legal restructuring.

Accounting Consultant

Preparing a company for an IPO also requires the appointment of an accounting consultant whose role mainly revolves around the review and assessment of the Company's financial statements required for the IPO. An auditor cannot act as an accounting consultant so as to avoid any conflict of interest. Unlike the auditor, the accounting consultant's review does not provide any sort of assurance on the financial statements, but instead measures its quality and accuracy. The scope of the accounting consultant is limited to the audited financial accounts of the Company, but in some cases the consultant may review unaudited reports in order to correctly reflect the financial position of the Company. The accounting consultant's role includes the preparation of a financial due diligence report, as well as the preparation of the working capital report. A company issuing an IPO must have sufficient working capital for 12 months following the publication of the prospectus.

Other Advisors

Depending on the nature of the offering, the appointment of other advisors may be necessary. A marketing consultant can analyze the Company's business and industry, and issue a market study that will be used to assist the Company with the development of its operation plan and offerings. Insurance companies are required to appoint an actuarial consultant to conduct due diligence on the insurer's underwriting and policies, whereas a REIT needs to appoint a valuation agent to value the underlying property. Additional parties such as selling agents, data room service providers, professional printers, and translators may be required to prepare a company for a successful IPO.

Structuring the Offer

The three most important factors that determine an optimal transaction structure for an IPO are:

- The shareholders' objectives: why is the Company going public and what does it intend to do with the capital raised?
- The type of offer: the issuance of new or primary shares results in proceeds going to the Company, while an offering of secondary shares goes to the shareholders as they monetize their holdings. An IPO may combine primary and secondary shares.
- The size of the offering: the number of shares and issue price.

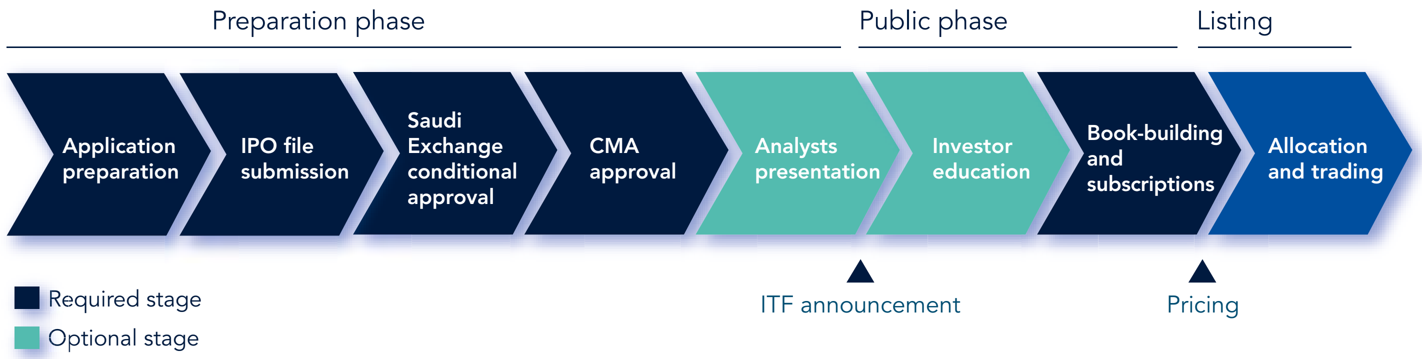
There are two phases in the IPO process: the preparation phase and public offering phase. In the first, the Company and its advisors prepare for the public offering phase, during which shares are marketed, priced, and allocated.

Preparation Phase

Kick-Off Meeting

The preparation phase starts with a kick-off or organizational meeting between members of the Board, the Company's Senior Management, and its financial and legal advisors to formulate a plan of action. In this meeting a liaison official is often appointed by the Company in agreement with other stakeholders to coordinate and oversee the implementation of the plan.

A Roadmap of the IPO Process



To be effective, such an officer should not only have a keen understanding of the Company, but have access to top decision-makers. It is also important for the Management to give its advisors unrestricted access to corporate, legal, and financial documents, which is often done by creating a secure online data room.

Project governance is agreed upon during the kick-off meeting to facilitate smooth execution. A Management presentation is prepared covering the business model, market strategy, products and services offered, financial performance, and other areas that may be of relevance. The goal is to educate all advisors on the Company's activities.

Due Diligence

The due diligence exercise is one of the most important and resource-consuming parts of the IPO process. The objective is to ensure that information provided in the offer documents is up-to-date and accurate. An IPO requires four types of due diligence: legal, business, financial, and market.

Legal

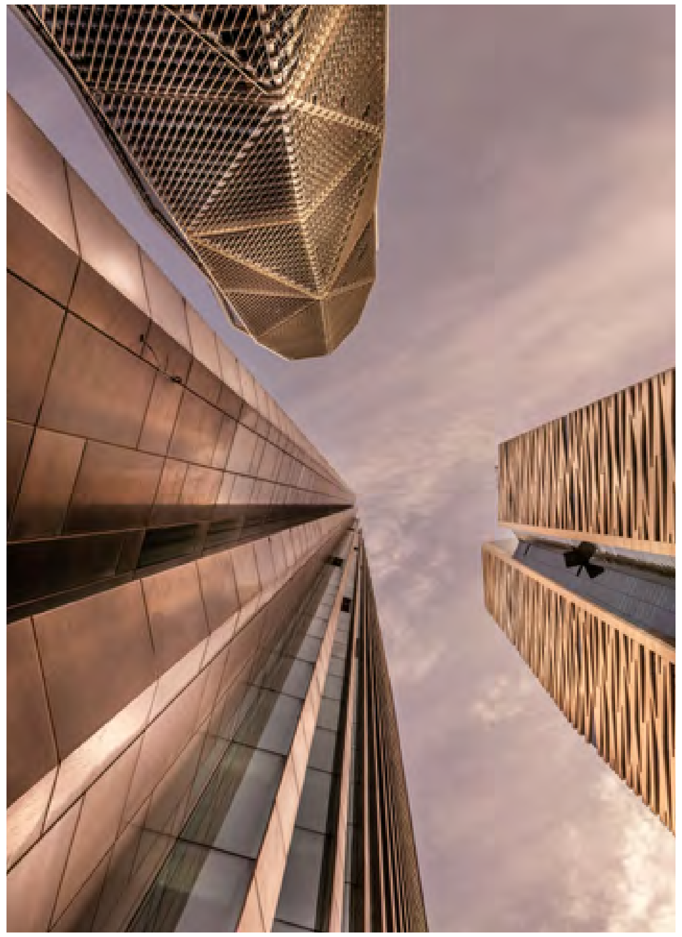
Legal due diligence includes a review of all legal documentations, an assessment of compliance with prevailing regulations, an analysis of the materiality of any outstanding litigation or claims, and a review of contracts and agreements. This due diligence is performed by a legal counsel who is expected to submit a report once the exercise is complete.

Business

Business due diligence is conducted mainly by financial advisors and verifies the Company's business strategy, operating model, and financial performance. The process may include visits to the operational facilities and interviews with Management and/or employees. Findings from this exercise help the Company create a compelling story for the investors and positions itself in the market.

Financial

Financial due diligence is conducted by an accountant who is appointed by the Company to review its audited financial statements, examine the business' financial health, and review its



accounting procedures. At the end of the exercise, the financial accountant is expected to offer their findings in a detailed report that is submitted to the Board. This due diligence often includes details about sources of revenue and identifies risks that may impact the financial sustainability of the business.

Market

A market study analyzes the market and industry in which the Company operates. It is conducted by a market consultant who analyses the Company's performance and position in the market. This report is important when information about the Company and its business is not publicly available. It is also used to assist the Company in the development of its business plan and financial projections.

Business Plan

A business plan should support and explain the Company's growth plan, typically for five years, which can vary by business model and industry. The plan forms the basis on which the market makes the valuation of its shares. Conducting a valuation exercise, therefore, is important to derive fair value in the prevailing economic environment when a company goes public.

Prospectus

The CMA requires a number of topics to be covered in the prospectus as part of the IPO:

- All regulatory disclosures, undertakings, and commitments of the Company
- The main market messages
- Risks associated with the issuer's operations, industry, and shares
- A market overview
- A business description providing a background and overview of the Company
- Analysis of the Company's operational performance, financial position, and business trends in the period under review
- Legal information including the Company's operational licenses and permits, contracts, real estate, insurance, financing agreements, and litigation

Approval

The CMA is responsible for the approval of registration and offering, including reviewing the prospectus, while the Saudi Exchange is responsible for the approval for listing. It takes ten days for the Saudi Exchange to issue a conditional approval, but could take the CMA up to 45 days to approve or decline a listing application. Once the CMA has approved the application, an announcement is published on its website. The statement includes a description of the issuer, its intention to undertake the offer, the size of the offer, and the names of the advisors. The issuer is expected to publish the approved prospectus on the CMA website.

Public Offering Phase

Once the preparatory phase is complete, a company moves on to the public offering phase, during which investors scrutinize the Company.

Sections in a Prospectus	Description
Organization	Ownership structure and corporate governance approach
Dividend Policy	Dividend policy and dividend payouts in the three years preceding the issue
Use of Proceeds	Estimates of the proceeds of the issue and detailed schedule of its use, including a timetable for expenditure
Experts' Statements	Affirmation from experts on the prospectus, including qualification of their expertise and confirmation of independence
Director's Declaration	Attests to the accuracy of information in the prospectus, including financial information, shareholding interest, and working capital sufficiency
Underwriting	Information about the terms of the underwriting agreement
Shares Issue	Information about the public offer, including number of shares, share price, nominal share price, subscription methods, offer period, share allocation, and refunds
Subscription	Information about the subscription, allocation, and the Exchange
Documents	List of documents available for inspection
Expenses	Expenses incurred by the Company in connection with the offering
Risk	Information about the underlying risks
Regulatory Waivers	Details of any waiver granted by the CMA to the Company, if applicable

Early Engagement

Prior to receiving CMA approval, an issuer may engage in early meetings with investors to receive feedback on its equity story, offering structure, and key terms of the offering. Early investor engagement can help de-risk the IPO by allowing investors more time to understand the opportunity. Their feedback can also help the Company address concerns and help determine a realistic share price range. This proved critical in the success of the Saudi Aramco IPO. Investors place value on having a clear understanding of the various operational and financial aspects of an issuer, and as such, a well-structured marketing or investor engagement plan is integral to the offering process.

Book-Building Period

Once the CMA approves the application, the prospectus is posted on the CMA website. The lead underwriter of the issue, also called the bookrunner, sets a price range for the shares to help guide investor bids. The bookrunner is responsible for engaging investors leading up to the IPO over a period that typically lasts two weeks following the announcement of the intention to float. The investor education period usually features roadshows, allowing the CEO and CFO to pitch to investors. On the last day of the book-building period, the bookrunner reviews the bids received by eligible investors and determines the final price for the IPO.

Subscription

Once the final price is determined and an approval has been received to list the IPO on the Saudi Exchange, the issue can be opened to retail investors. The retail subscription period typically lasts for a few days and can commence at a minimum of 14 days from the date the prospectus is published. The final share allocation is determined by the issuer and registered with the Saudi Exchange and Securities Depository Center (Edaa). In the event an IPO is oversubscribed, the issuer is obliged to refund the excess money received.

Costs

An issuer applying for listing of its securities is required to pay all applicable listing fees. This includes a fixed, one time initial listing fee, followed by an annual variable fee calculated on the amount of paid-up capital and market capitalization. An issuer whose securities are listed is required to pay all applicable periodic fees as determined by the Exchange and approved by the CMA.

Costs	Amount	Frequency
Initial Listing Fee	SAR 50,000	One time
Annual Listing Fee	1 basis point of paid-up capital + 0.5 basis point of market capitalization (up to SAR 1 million)	Recurring
Annual Edaa Registration	SAR 180,000 - SAR 700,000 (depending on the issuer's capital size)	Recurring
Uploading Shareholders' Details with Edaa	SAR 50,000 + SAR 2 for each subscription, up to SAR 500,000	One time
CMA Filing Fee	SAR 40,000 (Submission SAR 30,000 + Review SAR 10,000)	One time
Saudi Exchange Filing Fee	SAR 20,000	One time

Please refer to www.saudiexchange.sa, www.edaa.com.sa, and www.cma.org.sa for more details. You can also call +966 92000 1919 or email listing@saudiexchange.sa

Cenomi Centers

SNB Capital CENOMI CENTERS cenomi سينومي

Website: ir.cenomicenters.com
Region: Saudi Arabia
Sector: Real Estate

The IPO of Cenomi Centers (formerly known as Arabian Centres) in 2019, was the first time that shares in a Saudi firm could be offered to qualified institutional buyers in the US under Rule 144A of the Securities Act.

Cenomi Centers is a leading developer and operator of shopping malls in Saudi Arabia. It was established in 2005 and grew rapidly to acquire 21 malls in over ten cities across the Kingdom.

The fair value of the Company's portfolio was estimated be SAR 21.9 billion as of March 2019. Its developments included the Mall of Arabia in Jeddah, the Mall of Dhahran, and Nakheel Mall in Riyadh. Cenomi Centers lets a portion of its outlets to sister company Cenomi Retail (formerly known as Fawaz Alhokair Fashion Retail Company), which in turn holds franchise rights to a large portfolio of well-known international retail brands such as Banana Republic and Gap.

In 2018 the mall operator reported a revenue of USD 576 million and planned to increase operations to 27 malls. The following year it went public, aiming to raise SAR 3.1 billion by selling 65 million existing shares and 30 million new shares. A syndicate of financial advisors, which included Samba Capital and NCB Capital, was appointed to facilitate the IPO.

According to Samba Capital, the decision to list was made with the aim of institutionalizing the Company and providing liquidity for existing shareholders. The Company itself, however, indicated that proceeds from the IPO were to go towards debt repayment and expansion.

The syndicate arrived at a valuation range between SAR 12.3 billion (SAR 26 per share) and SAR 15.7 million (SAR 33 per share). The offer price was eventually fixed at SAR 26 per share and the sale fetched SAR 2.8 billion, which was less than what the Company had initially projected.

Although the retail coverage fell below expectations, it was merely the result of allotting only one day for the offering. This was done to ensure that a backlog clearance of retail subscriptions by the receiving banks did not overrun its allotted time under Rule 144A of the Securities Act, which allowed Cenomi Centers to sell shares directly to qualified institutional buyers in the US without subjecting the firm to US Security and Exchange Commission registration.

In the end, the overall market reception of the IPO turned out to be positive and received a strong buy-in from institutional investors. At the time, it was the Kingdom's third-largest IPO since National Commercial Bank raised SAR 22.5 billion in 2014. It was also the first time that shares in a Saudi firm could be directly offered to qualified institutional buyers in the US under Regulation 144A.
In 2019 the Company issued a fixed-rate, US Dollar-denominated sukuk with a tenor of five years, which was oversubscribed four times by investors, most of whom were from beyond the GCC.

The Cenomi Centers IPO demonstrates the importance of early engagement with a financial advisor to help navigate through the complexities of the IPO process. It also underscores the need for investor education. Communication of a strong business plan and strategy are key to generating investor interest.

The Cenomi Centers IPO demonstrates the importance of early engagement with a financial advisor to help navigate the complexities of the IPO process. Communication of a strong business plan and strategy are key to generating investor interest.

Amlak International

Website: amlakint.com
Region: Saudi Arabia
Sector: Real Estate Finance

Having set the standard for real estate financing within a few years of its founding, Amlak entered a new and important stage in its growth journey. It was time to test the market and expand its customer base. Only the Saudi Exchange could provide that opportunity.

Amlak International is involved in financing the selling, purchasing, and leasing of real estate. It was established as a closed joint stock company in 2007 with a paid-up share capital of SAR 1 billion – divided into 100 million Ordinary shares with a fully paid nominal value of SAR 10 per share. In 2013 it was licensed by the Saudi Arabian Monetary Authority (SAMA) to provide Shari'ah-compliant real estate financing solutions to both corporate and individual clients, and by 2015 had financed over 1,000 contracts. In 2016 the value of its financing portfolio reached SAR 3 billion. Amlak continued to grow rapidly and by 2019 had acquired 28% of the real estate finance market share. Its paid-up share capital, however, had been reduced to SAR 906 million, divided into 90,600,000 shares with a fully paid nominal value of SAR 10 per share. The Saudi Investment Bank (SAIB) was the largest institutional shareholder in the Company, holding more than 32% of the equity (29 million shares) before the initial public offering (IPO), while Sami Saeed Ali Al Angari remained the largest individual shareholder, holding more than 2.5 million shares and representing 2.81% of the equity. A total of 300,000 shares valued at SAR 3 million were registered for some employees under the Employee Share Scheme.

Having set the standard for real estate financing within a few years of its founding, the Company was entering a new and important stage in its growth journey. It was time to test the market and expand its customer base. Only the Saudi Exchange could provide that opportunity. The Company appointed NCB Capital as its lead manager in 2019 and decided to list on the Main Market. It received approval from the Capital Market Authority (CMA) in December 2019 and the Company went public in July 2020, amid an economic crisis triggered by Covid-19. However, Abdullah Al Sudairy, the firm's CEO, made a decision to put 30% of the Company's total share capital on the market, making an IPO of 27.2 million Ordinary shares at a share price of SAR 16, which came within the median price range expected during the book-building phase. He told Arab News that the IPO represented a "vote of confidence" in the long-term fundamentals of Amlak's business.

The response to the IPO was overwhelming: institutional investors bought 90% of the offering in the first tranche, oversubscribing the coverage by 500%. The rest was acquired by individual investors in the second tranche. Individuals could buy a minimum of ten shares and a maximum of one million shares. Although the subscription period only lasted for four days, all of the remaining available shares – 2,718,000 Ordinary shares representing 10% of the offering – were snapped up by retail investors. The retail investors outbid the institutional investors in terms of coverage by oversubscribing the IPO 27-fold.

This came as no surprise to the market. Against an otherwise gloomy economic backdrop, investor interest in the Saudi housing mortgage market remained strong, boosted by a government initiative to increase home ownership to 70% by 2030. Amlak's earning-before-tax margin stood at 34.4% in 2019, making it one of the most profitable firms in its sector. The IPO hit its target, reaching almost SAR 434.9 million. The net proceeds, estimated to be SAR 419.9 million (after deducting expenses) were paid to the major shareholders on a pro-rata basis (in proportion to the number of shares each one sold). SAIB, which reduced its holdings in Amlak to 22.41% by selling 8.7 million shares in the IPO, earned most from the sale.

A number of factors lay behind the success of this IPO. First, Amlak positioned itself as one of the most profitable companies in the real estate finance sector. This was disclosed clearly in its Annual Report. Secondly, it had an independent Board and an experienced Management team. Third, it was built on a resilient business model with a strong capital base, a low debt-to-equity ratio, and enough headroom for growth. It was also aided by the Kingdom's ambition to significantly raise the quantity of mortgage loans from SAR 290 billion to SAR 502 billion by the end of 2021. Fourth, it had put prudent risk-management and credit-evaluation strategies in place.

The timing of the IPO, however, proved to be a challenge. Covid-19 forced the Company to delay the launch, with the CMA only granting a two-week extension. NCB Capital nevertheless rose to the challenge and conducted the roadshow remotely, making virtual investor presentations. It was the first virtual IPO roadshow conducted in the local market. The choice of a committed team of financial advisors, therefore, was the fifth, and perhaps most critical factor, that allowed Amlak to make a successful debut on the Main Market.

Nomu - Parallel Market

Nomu is a parallel market with lighter listing requirements that serves as an alternative platform to the Main Market for companies – especially small and medium-sized enterprises – that wish to go public.

The Saudi Exchange issues a conditional listing approval within ten days and the final approval comes from the CMA in the subsequent 45 days.

While a non-resident foreign investor can trade in this market, for residents of Saudi Arabia access to Nomu - Parallel Market is restricted to qualified investors only.

NOMU AT A GLANCE

2017
year of inception.

676.91 MILLION
transactions executed in 2022.

SAR 13.48 BILLION
value of shares traded in 2022.

Both institutions and individuals can invest in the parallel market, provided they meet certain conditions.

Why List on Nomu - Parallel Market?

Saudi Exchange launched Nomu - Parallel Market on 26 February 2017, marking a step towards fulfilling its plans to further develop the capital market. It is also in alignment with Vision 2030, which stresses the importance of developing a more advanced capital market that is open to the world, allowing greater funding opportunities and stimulating growth. This will in turn generate more diverse investment opportunities and instruments for capital market participants. SMEs account for one-fifth of GDP and more than one-third of jobs, but have traditionally been underserved by financial institutions. Under Vision 2030, the Kingdom aims to raise the GDP contribution of SMEs to 35% by facilitating access to funding and encouraging financial institutions to allocate up to 20% of loans to them.

Saudi Arabia has made it easier for entrepreneurs to set up a business by establishing a single window registration procedure. It has also simplified raising capital and getting credit. By listing on Nomu - Parallel Market, small businesses can access finance to fund growth and diversify risk with less stringent regulatory requirements. Firms can also opt to list without a public offering, thus enjoying the benefits of a public company without divesting equity. Unlike the rules that govern the Main Market, minority shareholders – those with less than 5% equity – of a firm going public on the parallel market can trade on the first day of listing, like any other retail investor.

Qualified Investors

Both institutions and individuals can invest in the parallel market, provided they meet certain conditions. Among the many requirements for an individual to be considered as a qualified investor is that they should hold a General Securities Qualification Certificate, as well as a professional certificate that is related to securities business and accredited by an internationally recognized entity. The individual should also have conducted at least ten transactions in each quarter during the previous 12 months, worth a minimum of SAR 40 million. Moreover, the investor's net assets should be worth at least SAR 5 million.

Qualified foreign investors are regarded as institutions and are permitted to trade on the parallel market. A Capital Market insitution, through which shares are traded in the parallel market, is responsible for ensuring compliance. A more detailed description of the criteria is listed on www.saudiexchange.sa.

Listing Requirements

Listing on Nomu - Parallel Market is characterized by lighter requirements in comparison to the Main Market.

- The issuer must be a joint stock company
- Minimum market cap of SAR 10 million
- Minimum one year of operational and financial performance
- Appointing a financial advisor is mandatory; a legal advisor is optional
- Annual audited financial statements
- There must be a sufficiently liquid market for the shares that are the subject of the application for listing on Nomu - Parallel Market, as per the following:
  1) There are at least 50 public shareholders at the time of listing
  2) At least 20% of the class of shares that are the subject of the application will be owned by the public at the time of listing, or the market value of shares owned by the public at the time of listing is not less than SAR 30 million (whichever is less)
- For other requirements, please visit www.saudiexchange.sa.

Corporate governance requirements are also lighter. Unlike the Main Market, which requires companies to submit three years of audited financial statements, Nomu - Parallel Market requires them to submit statements for the previous year only. In addition, there is no longer a requirement to disclose financial statements every quarter. Companies listed on the parallel market only need to disclose half-yearly statements. Legal and financial due diligence is optional and, although a financial advisor and lead manager are necessary, the need to appoint an underwriter is not. Overall, this reduces the cost of listing, making the parallel market more attractive to firms. Please refer to www.saudiexchange.sa for a detailed description of the listing requirements.

Listing on Nomu - Parallel Market

A company preparing to list needs to make an informed decision. Listing on the market comes with a cost and requires the firm to meet higher corporate governance standards. This could mean making changes to the organizational structure. For example, a proprietor of a family-run business looking to list on the market would first have to form a joint stock company with a Board of Directors, Chairman, CEO, CFO, and an audit committee. There must be a clear division of responsibility between the CEO, the Board, and other Executives.

Preparing a company for a debut on the parallel market requires the appointment of a financial advisor who not only provides support on financial matters, but also guides the Company through the process. The role of the financial advisor is akin to that of a project manager responsible for coordinating the various requirements necessary to go public. This can cover anything from drafting a prospectus to ensuring compliance with the Parallel Market Listing Rules implemented by the Capital Markets Authority (CMA).

35%

of GDP is planned to be generated from small and medium-sized enterprises under Saudi Arabia's Vision 2030 national development strategy.

In addition, the financial advisor acts as a point of liaison between the Company and the other stakeholders. The appointment of a legal advisor is optional and CMA rules do not require securities offered on the parallel market to be covered by an underwriter.

The application to list should be submitted through the Saudi Exchange web portal. If the documentation is correct, the Saudi Exchange issues a conditional listing approval within ten days and the final approval comes from the CMA in the subsequent 30 days.

Due Diligence

For listing on Nomu, there are no specific requirements imposed by the CMA regarding financial, legal, and market due diligence.

Nomu - Parallel Market Capped Index is a new headline index that runs alongside the existing market index and carries a capping threshold of 20%. Such capped indices are primarily used by fund managers, but can also be useful for other investors.

However, an issuer may decide to voluntarily do due diligence, in order to strengthen its initial public offering (IPO) application. Disclosing information resulting from the due diligence process in the prospectus helps investors to make informed decisions and improves the position of the Company in the market.

Capped Index

Nomu - Parallel Market Capped Index is a new headline index that runs alongside the existing market index and carries a capping threshold of 20%. Such capped indices are primarily used by fund managers but can also be useful for other investors. They serve as a benchmark by reducing the concentration risk of the portfolio. Capped indices follow the same free-float market cap weighted calculation methodology that is currently used for all Saudi Exchange market and sector indices. Capped index values are published on www.saudiexchange.sa and made available by authorized providers.

Costs of Listing

An issuer applying for listing on the Nomu - Parallel Market is required to pay all applicable listing fees. This includes a fixed, one time initial listing fee of SAR 50,000, followed by an annual variable fee calculated according to the size of the paid-up capital and market capitalization. There are no filing fee charges levied by the CMA or the Saudi Exchange. However, an issuer whose securities are listed is required to pay all applicable periodic fees as determined by the Exchange and approved by the CMA.

Costs	Amount	Frequency
Initial Listing Fees	SAR 50,000	One time
Annual Listing Fees	SAR 50,000	Annual
Annual "Edaa" Registration	SAR 75,000	Annual

Please refer to www.saudiexchange.sa, www.edaa.com.sa, and www.cma.org.sa for more details. You can also call +966 92000 1919 or email listing@saudiexchange.sa.

Al Kathiri Holding

Website: alkathiriholding.com
Region: Riyadh Province
Sector: Building Materials

The IPO of Al Kathiri Holding was a resounding success, with 251% coverage and the Company raising SAR 60 million from the parallel market.

Al Kathiri Holding is primarily engaged in the transport and distribution of cement, gravel, and sand used in the construction industry. Its main areas of operation are the central and western regions of Saudi Arabia. The Company, which began operations in August 2008, runs its own fleet of transport vehicles that are used to move the materials. It is also engaged in the production and sale of ready-made cement, which is produced at a company-owned concrete factory in Riyadh with a capacity to produce 50,000 cubic meters of the material per month.

Al Kathiri Holding was listed on the Nomu - Parallel Market on 9 July 2017, with an offering of 31,395,000 shares valued at SAR 31 per share, which fell within the highest expected price range. It was among the first companies to list on Nomu - Parallel Market. The traded value soon reached SAR 150 per share. The IPO was a resounding success, with 251% coverage, and the Company managed to raise SAR 60 million from the parallel market.

The Riyadh-based cement and construction material supplier started out as a small business registered as Mohammed Nasser Al Kathiri. It was established in 2008 with an initial paid-up capital of SAR 100,000. Six years later it converted into a limited liability company and eventually transformed into a closed joint stock company, known as Al Kathiri Holding, with a total paid-up capital of SAR 5 million in 2017. The Company's CEO, Meshal Al Kathiri, decided to first go public on the Nomu - Parallel Market because it was easier and lower risk than listing on the Main Market, given that only qualified investors are permitted to participate.

Listing not only brought in more capital, but also generated good publicity. However, it required Al Kathiri to make important organizational changes in compliance with the corporate governance rules and regulations that govern public companies. This included the creation of a Board of Directors and the appointment of an auditor who was certified and acknowledged by the CMA. In addition, the Company's financial statements were updated and brought in line with the standards set by the IFRS.

At the time, Nomu - Parallel Market was a new entity and there was a need to approach things differently.

"For example, the lack of a financial due diligence required us to have a closer look at the financial statements in order to better explain the situation in the risk section of the prospectus," said Rami Atwan, head of investment banking group Yaqeen Capital, who was hired as a financial advisor to assist Al Kathiri's listing on the market. "Fortunately, he chose to hire a legal advisor and have a legal section in the prospectus, which is not required for listing on Nomu - Parallel Market," he continued. This decision paid off, and in December 2018 the Company successfully made the transition to being listed on the Main Market.

	Main Market	Nomu – Parallel Market
Minimum Market Cap	SAR 300 million	SAR 10 million
Percentage Offered	At least 30% at the time of listing	At least 20% of the issued shares Or floating SAR 30 million worth of shares in the market, whichever is less
Public Shareholders	At least 200	At least 50
Direct Listing	Not allowed	Allowed
Continuous Obligations	Standard disclosure requirements Disclosure of quarterly financial statements within 30 calendar days from the end of the period Year-end financial statements within three months from the end of the period	Lighter financial disclosure requirements than the Main Market Disclosure of semi-annual financial statements within 45 calendar days from the end of the period Year-end financial statements within three months from the end of the period
Daily Fluctuation Limits	±10% (±30% applicable only during the first three days of trading newly listed equities, real estate investment traded funds and closed ended investment traded funds)	±30%
Due Diligence	Mandatory	Optional
Underwriter	Required	Not required

Listing Incentives

There are several general and sector-specific incentives offered for listing. For companies primarily concerned with access to capital, a listing makes the Company eligible for more significant loans from the Saudi Industrial Development Fund, for example, or from the Agricultural Development Fund. The latter also gives listed companies higher debt service limits and lower required guarantees.

Meanwhile, for companies interested in contracting for the public sector, the Ministry of Finance offers preference in procurement processes for listed companies.

Developing the financial sector is a central element of Saudi Arabia's long-term economic development strategy, rooted in the Vision 2030 roadmap for diversification.

Attracting listings on the Saudi Exchange is key, and as such, various bodies have created incentives to encourage firms to list.

As of year-end 2022, 14 ministries and authorities offered 20 incentives, one of which is yet to be launched, but has received State Properties General Authority approval.

Supervision Authority

These efforts to attract listings are supervised by the Council of Economic and Development Affairs under the Financial Sector Development Program (FSDP), which was launched to help execute Vision 2030.

The aim of the FSDP is to encourage the development of a diversified and effective financial sector, which would in turn support the emergence of a more robust and powerful economy by enabling financial institutions to offer products and services that support the expansion of the private sector.

Under Vision 2030, Saudi Arabia will develop an economy with diversified sources of income and an enhanced access to finance, as well as increased levels of savings and investment.

In time, these changes will be self-perpetuating, as with more sophisticated capital markets comes greater access to financial tools for companies, which in turn creates wealth that will heighten demand for financial services and asset management.

As companies leverage capital and grow, their employees will amass wealth on their own, as well as in pension funds and savings schemes. This wealth – in the hands of qualified asset managers – will become pools of investable capital in the market, creating opportunity for future generations of entrepreneurs.

Other government agencies with leadership roles include the Ministry of Finance; the Saudi Arabian Monetary Agency, the Kingdom's central bank; and the Capital Market Authority.

Benefits of Listing on the Saudi Exchange

The benefits of listing on the Saudi Exchange extend beyond enhancing a company's ability to attract capital and boost profits. Listed companies can, for example, enjoy larger loans, fast-tracked approvals and permits from certain state agencies, and greater access to support services.

These benefits were introduced because Saudi Arabia's leadership believes that robust and liquid capital markets with breadth and depth are crucial to creating a financial center that meets the needs of businesses and investors, in line with the economic and social transformation taking place under Vision 2030.

Several of the goals established for market development by Vision 2030 have already been met. However, some objectives have yet to be reached, such as the volume of assets under management and coverage ratios of insurance schemes. As such, companies considering a listing are likely to enjoy continued access to the incentive programs on offer.

General and Sector-Specific Incentives

There are several general incentives offered for listing, as well as those that are sector-specific. For companies primarily concerned with access to capital, a listing makes the Company eligible for more significant loans disbursed by the Saudi Industrial Development Fund, for example, or from the Agricultural Development Fund. The latter also gives listed companies higher debt service limits and lower required guarantees.

For companies interested in contracting for the public sector, the Ministry of Finance offers preference in procurement processes for listed companies. There are also incentives designed to ensure compliance with Saudi rules and regulations.

The Ministry of Investment offers fast-track approval for registering foreign partners in joint ventures, while the Saudi Food and Drug Authority offers similar priority services.

Another category of incentives features upgrades to the services available from public entities. Incentives from the Ministry of Health include preferential access to training programs; priority access, speaking privileges, and advertising at events managed by the ministry; and priority access to medical databases.

Zakat, Tax and Customs Authority

In order to facilitate tax compliance, a listed company is eligible for the appointment of a relationship manager at the Zakat, Tax and Customs Authority to help settle transactions, and follow up on tasks related to zakat and income taxes. The authority also provides a fast-track service to listed companies.

Incentives to address compliance issues include priority access to Saudi Customs' Authorized Economic Operator program, which offers qualified companies adequate supply chain controls, and fast lanes for imports and exports.

	Saudi Industrial Development Fund (SIDF)	Increased loan limits granted to listed companies
	Ministry of Investment (MISA)	Facilitated approval process for listed companies to register foreign partners (joint ventures)
	Saudi Food and Drug Authority (SFDA)	Fast-track services at the authority's Business Support Center, and advisory services including training courses on the electronic systems of the authority
	Agricultural Development Fund (ADF)	Increased funding percentage, and increased credit services limits for each customer
	Ministry of Finance (MOF)	Preference in business and government procurement (under competition and government procurement rule) for listed companies in the capital market
	Ministry of Health (MOH)	Priority on training programs for listed companies
		Priority for reporting and statistical data
		Priority for advertisement in ministry events
	Zakat, Tax, and Customs Authority	Providing a relationship manager for listed companies to help settle all transactions with the authority and follow up on all tasks related to zakat or income taxes
		Providing a fast-track service to deal with the requests of companies listed in the capital market
		Priority access to Saudi Customs' Authorized Economic Operator program
	Ministry of Human Resources and Social Development	Inclusion of all listed companies in the SAFWAH program
	Off-plan Sales or Rent Program (Wafi)	Passing the approved real estate developer program qualifies them to obtain an off-plan sales license; VAT refund for real estate supplies to qualified real estate firms
	Saudi Authority for Industrial Cities and Technology Zones (Modon)	Appointing an account manager to expedite requests and ease of doing business
		Priority in obtaining industrial land and ready-built factories (new/expansion)
		The ability of building a factory based on the Company's request (Built to Suit Model)
	Tourism Development Fund	Financing up to 75% of tourism project value; repayment period of up to 15 years; 50% discount on administrative fees; flexible grace period of up to three years to repay financing
	Monsha'at (Small and Medium Enterprises General Authority)	Covers financial advisory cost for companies planning to list on Nomu - Parallel Market
	Projects Support Fund	Provides loans for mega projects in the health, education, and real estate sectors

REITs

After their introduction on the Saudi Exchange in 2016, REITs gained immediate popularity among investors.

They account for roughly the same share of trading as equities in sectors such as utilities, media and entertainment, and consumer durables and apparel.

The next steps for the REITs market will feature more investors and a more diverse offering. Most REITs have not chosen to focus on properties of a specific type, size, or grade, but this kind of specialization is expected and will enhance the variety and choice for investors.

REITs AT A GLANCE

2016
REITs are introduced on the Saudi Exchange.

SAR 16.4 BILLION
in capital raised by listed REITs to date.

18 REITs
listed on the Saudi Exchange as of 2022.

REITs own properties that are fully developed, and generate income for their unitholders through rent payments.

Pooling investment-grade properties in a fund such as a REIT and selling ownership of fund units makes it possible for mass investment in real estate through a securities exchange – creating a connection between real estate and capital markets.

What are REITs?

Real estate investment traded funds, or REITs, are funds that allow individuals to invest in real estate without having to buy property, or take on the risks of property development. REITs mainly own properties that are fully developed, and generate income for their owners through rent payments. Though there are other types of real estate funds, REITs in Saudi Arabia must pay at least 90% of their net profits to unitholders, typically in annual, semi-annual, or quarterly dividends. Investors buy or sell units in a REIT just as they do in publicly traded equities in Saudi Arabia, with units listed on the Saudi Exchange and prices set by the trading process. However, an important distinguishing characteristic of REITs compared to equities is that the objective of buying REIT units is primarily income generation rather than capital gains. Although REIT unit prices might change over time, the focus is on yield generation rather than price appreciation. Having REITs on the Saudi Exchange increases the number of people who can invest in real estate because an investment-grade property is typically too large for a single owner to buy. Pooling investment-grade properties in a fund such as a REIT and selling ownership of funds units thus makes it possible for mass investment in real estate through a securities exchange – creating a connection between real estate and capital markets. REITs also allow sales to be executed quickly as they are liquid assets, unlike physical real estate.

Recent REIT Performance

REITs were introduced on the Saudi Exchange in 2016 and gained immediate popularity among investors. There are now 18 REITs, which together have raised more than SAR 16 billion in capital.

The rise of REITs in Saudi Arabia mirrors a global increase in their profile and importance to investors. In 2016, S&P Dow Jones Indices and MSCI, two leading global index providers, reclassified REITs in their own, newly created real estate sector for market-tracking purposes, rather than grouping them with financial services securities.

That change represents a convergence with investor preferences in Saudi Arabia and the broader region, where real estate has always been a highly valued investment option.

Unit prices for REITs in the Saudi market have fluctuated more than expected, as the initial popularity of the first few REITs led to rises in unit prices, even though the securities are designed to deliver value to investors through dividends rather than appreciation.

As more REITs came to market, unit price performance was uneven, and this led to less trading and issuance after 2016-17, as investors continued to monitor how this new type of security would perform. The share of overall trading is roughly the same as equities in sectors such as utilities, media and entertainment, and consumer durables and apparel.

Unit prices are now more stable, and with a rising number of investors having had the opportunity to receive their dividends, the approach to REIT investing is maturing.

The next steps for the REITs market will feature more investors and a more diverse offering. Most REITs have not chosen to focus on properties of a specific type, size or grade, but this kind of specialization is expected and will enhance variety and choice for investors.

Listed in Jan 2018 Fund Size: SAR 1.38bn	Listed in Oct 2017 Fund Size: SAR 880m	Listed in Feb 2018 Fund Size: SAR 2.17bn	Listed in May 2017 Fund Size: SAR 724m	Listed in Apr 2017 Fund Size: SAR 660m	Listed in Jan 2018 Fund Size: SAR 499m
Listed in Mar 2018 Fund Size: SAR 1.67bn	Listed in Mar 2018 Fund Size: SAR 1.17bn	Listed in May 2018 Fund Size: SAR 611m	Listed in Nov 2016 Fund Size: SAR 1.57bn	Listed in Mar 2019 Fund Size: SAR 1.09bn	Listed in Aug 2017 Fund Size: SAR 637m
Listed in Nov 2022 Fund Size: SAR 150m	Listed in Jul 2018 Fund Size: SAR 1.57bn	Listed in Aug 2018 Fund Size: SAR 1.05bn	Listed in Nov 2018 Fund Size: SAR 650m	Listed in May 2017 Fund Size: SAR 676m	Listed in Feb 2017 Fund Size: SAR 274m

Operational Framework

REITs in Saudi Arabia are regulated by the Capital Market Authority (CMA), and must comply with the Real Estate Investment Funds regulations, which apply to all types of real-estate funds, and the Real Estate Investment Traded Funds Instructions, which are specific to REITs. The regulations require an investment management, CMA-licensed Capital Market institution to manage a REIT. They are responsible for managing the fund, overseeing its administration according to its terms and conditions, making required disclosures to the regulator, and ensuring compliance with all rules and regulations.

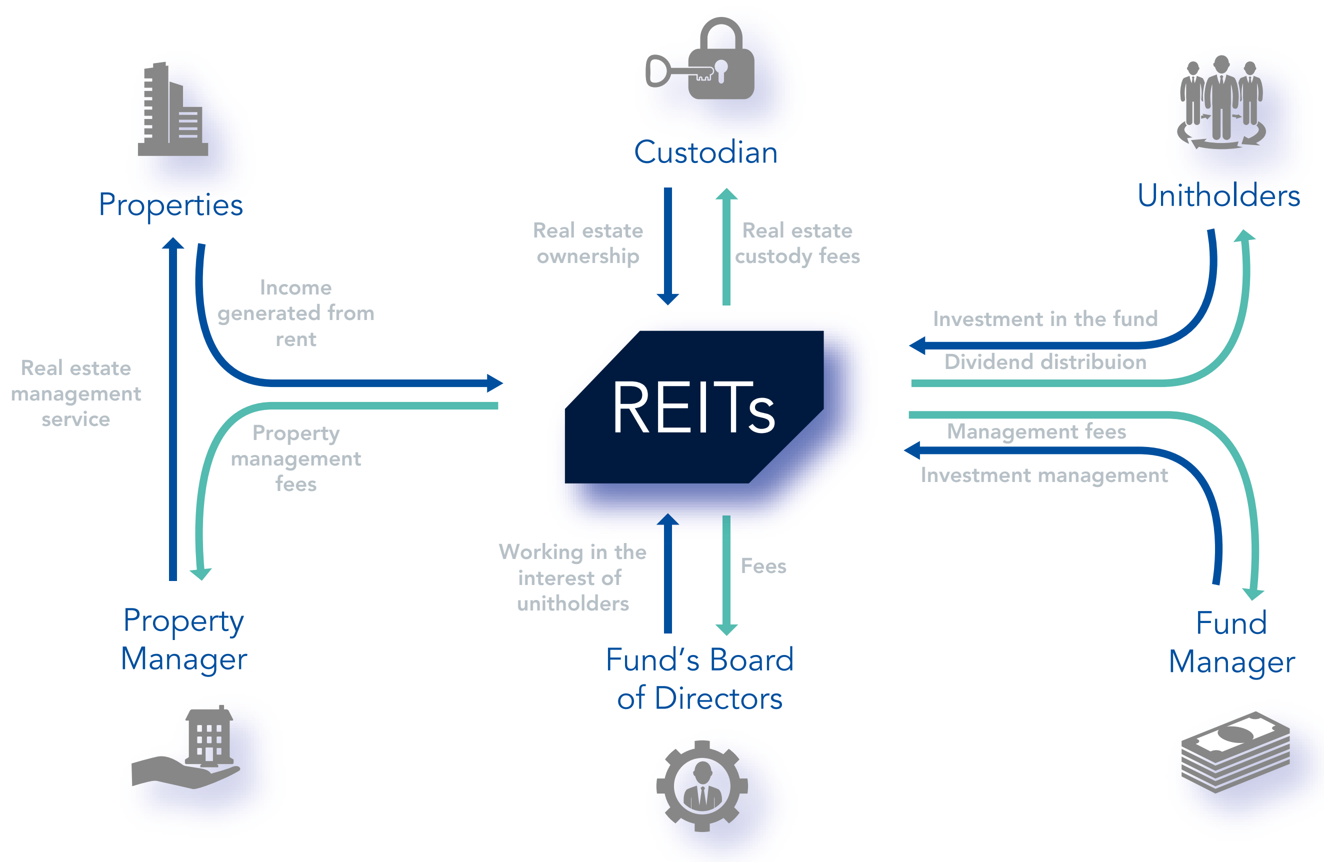
Other roles to be appointed by the fund manager include a licensed real estate management company, and a custodian responsible for formally holding titles and other documentation demonstrating ownership of the fund's assets. REITs are closed ended funds. Units can be purchased in initial offers, and after that point new units are created only through additional sales via rights issues.

There are several restrictions on how capital can be raised/spent:

- A maximum of 10% of annual profits can be reinvested in the fund
- Debt cannot exceed 50% of AUM value
- A minimum of 75% of assets must be invested in fully developed real estate
- A minimum of 75% of assets must be invested within Saudi Arabia

In the future REITs may be required to make a tax payment called zakat, if they are not exempt from a proposed change that would collect this levy at a rate of 2.5% of the zakat base, which represents net worth calculated for zakat purposes. Under current regulations, unitholders pay zakat on their own, and REIT units are one element of the assets that help determine the amount. However, changes could require the funds themselves to pay zakat, which would shift the burden from unitholders. This could impact the size of dividends paid to unitholders, but also reduce their zakat payments as individuals.

REIT Structure and Key Stakeholders



Offering Requirements

The minimum required to capitalize a REIT is SAR 500 million. An application to list a REIT must be accompanied by a document outlining the terms and conditions which should contain all the information needed by potential unitholders, including unitholders' rights, and policies on issues including dividends, capital raising, liquidation, and termination, among other things. Specific details are outlined in Annexure 1 of the CMA's Real Estate Investment Funds Regulation. The offering must include a diverse group of assets; the income from any one tenant cannot exceed 25% of the total.

Fund Legal Type	Closed ended fund
Number of Investors	Minimum 200 investors
Initial Offer	Minimum SAR 500 million
Nominal Value per Unit	SAR 10 per unit
Asset Ownership	The assets must be registered under the name of a third party (custodian) and owned by the unitholders
Leverage	The borrowing of the fund must not exceed 50% of the total asset value of the fund
Investment	At least 75% of the fund's total asset value, according to the last audited financial statements, must be invested in constructed developed real estate qualified to generate periodic and rental income
Vacant Lands	The fund manager is prohibited from investing in vacant lands
Real Estate Development	The fund manager is allowed to invest up to a maximum of 25% of the fund's total asset value, according to the last audited financial statements, in real estate development, whether on real estate owned by the fund manager or not, and to renovate or redevelop these properties outside the Kingdom
Geographical Universe	75% in Saudi Arabia, 25% outside the Kingdom
Public Ownership	At least 30% of the total REIT units are owned by unitholders from the public
Pre-listing Owners' Lock-up Period	One year

The minimum amount required to capitalize a REIT is SAR 500 million. The offering must include a diverse group of assets; the income from any one tenant cannot exceed 25% of the total.

Disclosure Requirements

Fund managers must share details of the fund's performance, assets, management, and ownership on both the fund manager's website and that of the Saudi Exchange. These include a terms and conditions document that is updated when necessary, details on fees unitholders must pay to the fund manager, regular reporting covering specific periods, and announcements of significant changes. Regular reporting requirements include an Annual Report with financial statements, an annual risk assessment, quarterly updates including unit price, and cost and performance metrics for the unit and for the fund. Significant changes to funds that require public announcement include any material developments not publicly available and which any potential investor or current unitholder would consider impactful on the fund's activities, assets and liabilities, financial position, or unit price. Specific examples would include any drop in assets or profits exceeding 10%; the acquisition, sale, lease, or mortgaging of an asset comprising more than 10% of the fund; and any change to the Board of Directors or its committees. Material changes also require an update of the terms and conditions.

Musharaka Capital

Website: Musharaka.sa
Region: Eastern Province
Sector: Financial Services

After raising SAR 880 million in an offering that was ten times oversubscribed, Musharaka expanded its portfolio to SAR 1.3 billion. It has gone from five primary assets to 11.

Capital markets in Saudi Arabia enjoy the natural advantage of a large pool of sophisticated investors, but there has historically been a struggle to offer them a diverse range of liquid assets with consistent exposure to all sectors of the economy – traditionally, sectors such as real estate have been under-represented in the mix.

This is now changing, with the historic listing of Saudi Aramco and the development of the funds market. The presence of REITs on the market is thanks to years of work by stakeholders such as the Saudi Exchange and Capital Market institutions like Musharaka Capital. The Al Khobar-based firm's shareholders came together in 2013, united by the vision of using REITs to break down the barriers to entry that made it difficult for retail investors to access investment-grade property.

The firm hoped to offer its own expertise in real estate investment and became operational in 2014. Another piece of the puzzle came in 2016, with the CMA's release of its Real Estate Investment Traded Funds Instructions. Musharaka's leaders now found themselves among a handful of investment firms working to release the first generation of REITs."Our main challenges became operational," Ibrahim Al Assaf, CEO of Musharaka Capital, recalled. Huge initial demand for REITs in Saudi Arabia supported the investment thesis he and others had developed years before, but this now meant that firms like Musharaka would need to build platforms to manage a huge investor base. This became apparent since the expected number of subscribers was around 4,000. However, subscription closed at more than 12,000 subscribers.

Musharaka raised SAR 880 million in an offering that was ten times oversubscribed. It later expanded its portfolio to SAR 1.3 billion, and has gone from five primary assets to 11 – a mix of commercial, residential, hospitality, and industrial properties, mostly in the Eastern Province.

The first international acquisition came in May 2020, when Musharaka purchased a self-storage facility in Dubai that it expects will provide a rental yield of 8.7%. The REIT's target net annual yield is 7%.

Now that investors have had a chance to sample REITs in their portfolios, Ahmed Al Owaid, Musharaka's Real Estate Funds Manager, believes the next step in the evolution of this young asset class will feature specialization. Most REITs currently have diversified portfolios, and the asset mix of the 18 REITs trading on the Saudi Exchange is somewhat similar, instead of offering distinctions that create choice and diversity for investors.

In the future, specialty products focused on certain types of real estate could emerge, to offer specific themes in the real estate sector that investors can focus on. REIT managers will have the opportunity to create funds with distinct strategies and specialties within the category – an especially useful feature given that real estate use and demand may change over time, impacting supply and demand unevenly across asset types. More than ever, therefore, picking the right assets will be a key success factor for REIT managers going forward.

"Investors are learning more about REITs. We will have to stand out in the market by finding unique assets and innovative offerings that put quality at a premium. It will be crucial to choose the locations and find the right tenants," Al Assaf concluded.

Real estate has always been a valued asset class in Saudi Arabia, and we realized there was a gap in the Saudi Exchange and believe that REIT's will bridge the gap.

- Ibrahim Al Assaf, CEO

ETFs

Exchange traded funds, or ETFs, are among the growing number of security options available to investors on the Saudi Exchange, and are listed like company shares.

ETFs appeal to a wide range of investors, providing them with exposure to various asset classes without requiring either direct ownership or paying a minimum amount to acquire such assets.

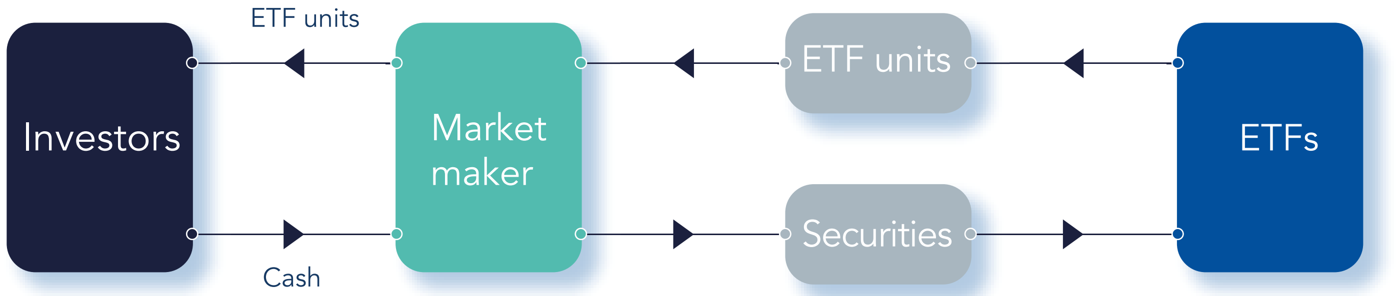
ETFs provide liquidity or extra liquidity to many of the assets they hold, which eliminates any potential risks for investors that must sell quickly or liquidate sizable positions.

ETFs AT A GLANCE

February 2020
Launching one of the largest ETF for Sukuks through Tadawul Saudi Arabia.

SAR 2 BILLION
total trading value of ETFs in 2022.

SEVEN ETFs
listed on the Saudi Exchange.



What are ETFs?

Exchange traded funds, or ETFs, are a part of the growing family of investment alternatives available to investors on the Saudi Exchange. They provide investors with options to gain exposure to various asset classes without requiring either direct ownership of those assets or paying a minimum amount to acquire them. Investors can buy or sell units in an ETF just as they would with publicly traded equities in Saudi Arabia. These units are listed on the Saudi Exchange the same way that company shares are, and prices are set by the trading process. ETFs can generate positive returns when the value of units rise, when dividends are disbursed by the fund, or both. However, like any other publicly traded equity, ETFs may also lose value when unit prices go down.

ETFs appeal to all types of investors, depending on the underlying assets – typically domestic equities or debt. In the future, the Capital Market Authority (CMA) may also allow ETFs to hold foreign equities, debt, and commodities other than gold, which already has an ETF. The nature of the holdings of an ETF will determine its balance of risk and reward, such as whether it is a high-risk and high-reward investment, or a safer alternative with smaller returns but with a less significant risk of loss of capital. The latter can be designed for long-term institutional investors such as pension funds and insurance companies that are typically risk-averse, looking for steady returns, and willing to forego the potential for larger ones. For investors willing to take on some degree of risk, low-risk ETFs provide balance and diversity to their portfolios.

ETFs provide liquidity or extra liquidity to many of the assets they hold, which eliminates any potential risks for investors that must sell quickly or liquidate sizable positions. The liquidity problem is solved through market making.

Regulations require an ETF manager to serve as or appoint a market of shares to be listed. A market maker obliges an investment firm to step in and provide bids and offers at market value with a certain capped spread if no others are willing to do so, creating guaranteed liquidity in the process.

Liquidity can sometimes be a particular challenge in markets like Saudi Arabia, especially for retail investors, the majority of which may lack the portfolio size and flexibility of more sophisticated market participants.

A market maker obliges an investment firm to step in and provide bids and offers at market value with a certain capped spread if no others are willing to do so, creating guaranteed liquidity in the process.

ETFs can thus provide greater access to a wider variety of assets for retail investors by creating more liquid alternatives for normally less liquid or illiquid securities such as bonds and sukuk. Another important feature of ETFs is their typically lower expense ratio compared to other types of funds. This is attributed to several factors, among them the fact that ETFs normally employ what is called passive investing, whereby an ETF portfolio replicates the contents of a specific index – typically stocks or debt instruments – which is less expensive than active investing. ETFs are a relatively new addition to global markets; the first of their kind appeared in Canada in 1993. Most, but not all, ETFs around the world use an index. They have appeal because the higher fees associated with actively managed funds are not a guarantee of better performance. A US study found that between 2009 and 2019, just 23% of actively managed funds had better returns than the average among passive funds. The Saudi Exchange's first ETF was Yaqeen Capitals' Yaqeen 30, launched in 2010 to match the performance of the largest stocks. The Saudi Exchange now has five ETFs, including the largest sukuk ETF, launched by Alinma Investment in February 2020. The trading value of ETFs on the Saudi Exchange rose from SAR 1.6 billion in 2019 to SAR 2 billion in 2022.

ETF Statistics - December 2022

ETFs	Volume Traded	Value Traded (SAR)	No. of Trades
Yaqeen 30	2,424,046	106,927,440.30	1,766
Yaqeen Petrochemical	33,203	1,079,971.55	348
Alawwal MT 30	8,219	348,773.45	260
Albilad Sukuk	819,445	7,141,788.76	1,599
Alinma Sukuk	20,889	2,069,321.30	113
Albilad Gold	422,399	4,153,846.20	2,599
Albilad MSCI	89,953	854,257.46	572
Total	**3,818,154**	**122,575,399.02**	**7,257**

2022 Traded Value of ETFs **SAR 2 bn**

The nature of passive investing mandates different roles for fund managers. In this regard, the fund manager is no longer actively engaged in evaluating assets; however, their role remains important nonetheless, particularly if they serve as their own market maker. Unlike mutual funds, for which investments can only be added or withdrawn at the close of the day's trading, ETF trades are conducted at any point during trading hours.

Operational Framework

The CMA is the regulatory authority for all ETFs in Saudi Arabia. The funds must comply with the body's Rules on the Offer of Securities and Continuing Obligations, in addition to the Investment Funds Regulations. These are a broader set of rules applying to all funds and include some that are specific to ETFs.

On the Saudi Exchange, a market maker must step in to facilitate a trade if the spread between current bids and current asks exceed a pre-determined threshold, which several ETFs have set at 2% but can vary. Market making requires taking on the risk of losses in order to shield investors. The difficulty of the job can vary depending on the size of a fund. Smaller funds may be unable to meet peak demand, whereas larger funds may leave the market maker holding a significant share of the fund's units. Larger funds may also deliver value to investors by pushing down fees, as certain fixed costs borne by such a fund are shared across a greater number of units.

The task of asset selection is done before listing an ETF, when fund managers select an existing index of securities to track or when they commission a new one, as Alinma Investment did in hiring the global consultancy IHS Markit for its sukuk fund. Rules for precisely how a fund will track an index are to be set up in advance, with procedures clarified for the timing and speed at which the fund's portfolio must be rebalanced when circumstances change. Such circumstances may include, for example, rebalancing the underlying index, or significantly changing the fund size.

A fund manager must contract external auditors and a custodian responsible for formally holding titles and other documentation of ownership of the fund's assets.

In the future, ETFs in Saudi Arabia may be required to make mandatory payments to the Government of Saudi Arabia called zakat, which is a fee, similar to a tax, that is collected from domestic entities. This would occur if the offerings are not exempt from a proposed law that would collect zakat at a rate of 2.5% of either net worth or profits. Zakat could impact the size of dividends paid to unitholders. However, for local sukuk and bonds issued by the Government in Saudi Riyals, the proposed regulatory changes would make the state itself responsible for the payment, which would lower the amount of zakat exposure for the fund and its unitholders.

Offering Requirements

There are three main steps to creating an ETF, taking an ETF based on an index as an example:

1. Nominating its managers and main service providers
2. Documentation and approvals
3. Marketing and distribution

The CMA's Rules on the Offer of Securities and Continuing Obligations outlines the processes for establishing a listing and ongoing disclosure requirements. To start the process, the creators of an ETF should appoint a manager and Board members. The fund manager should then appoint people and outside companies to perform the fund's key roles, which include an index provider, a custodian, and an auditor to verify financial statements, and to review both taxation and zakat information. Legal counsel required for the listing process should also be named at this time.
With these appointments in place, the next phase of the listing process involves structuring the fund and creating the necessary offering documentation. The CMA requires a series of records detailing leadership, managers, service providers, financial statements, and other disclosures, all of which must be available at least in Arabic. However, the main document at the core of the process is a prospectus, also known as an offering circular, a terms and conditions sheet, or an information memorandum.

This document must provide investors with enough information to evaluate the offering, including details of the fund's managers and key roles; the index it is to be based on and how the fund will track that index; objectives and strategy; whether the fund will seek capital appreciation, return income to investors via regular dividends, or both; and the conditions that would mandate the active intervention of the market maker. The various types of fees must be made clear, as well as the total expense ratio, which adds up all fees to be deducted from the ETF's assets in a single figure. Shareholder rights, termination and liquidation processes, and processes for capital raising are also important elements.

Once all necessary documentation has been submitted to the CMA and regulatory approvals have been obtained, the next step is to market the fund and find investors. The distribution phase of the offering process requires the creation of a marketing strategy. Once the unitholders are in place, transaction documents are executed, capital is transferred from the investors to the fund, and the fund is registered with the registrar and listed on the Saudi Exchange. The CMA is notified of final allocations to investors and the total proceeds.

Disclosure Requirements

Fund managers must share certain details regarding the fund's performance, assets, management, and ownership. Some are to be disclosed once or more per day, and others periodically. The information should be posted on the websites of both the fund manager and the Saudi Exchange.

Daily obligations include:

- The total net asset value of the funds – total assets minus liabilities, including fees – at the close of each trading session, calculated by the fund manager
- The total indicative net asset value and indicative net asset value per unit, calculated by the fund manager and disclosed in real time on the Exchange

Non-daily obligations include:

- Maintaining a condensed version of the prospectus as a fact sheet about the ETF, updated as needed after material changes to the fund, its leadership, capital base, or performance
- Announcements following significant changes
- An Annual Report with audited financial statements, an annual risk assessment, quarterly updates including unit price, and cost and performance metrics for the unit and the fund

Significant changes to funds that require public announcement include any material developments not publicly available and which any potential investor or current unitholder might consider as having a material impact on the fund's activities, assets and liabilities, financial position, or unit price.

Examples include a drop in assets or profits over 10%; the acquisition, sale, lease, or mortgaging of an asset comprising more than 10% of the fund; and any change to the Board of Directors or its committees. Material changes also require an update to the terms and conditions, or the information memorandum.

Fund managers must share certain details regarding the fund's performance, assets, management, and ownership. Some are to be disclosed once or more per day, and others periodically.

The information should be posted on the websites of both the fund manager and the Saudi Exchange.

Alinma Investment

الإنمـاء للاستـثـمار
alinma investment

Website: alinmainvestment.com
Region: Riyadh Province
Sector: Financial Services

Taking less liquid but low-risk investments such as sukuk sold by the Saudi Government and packaging them into more liquid fund units could allow retail investors to participate.

Adding breadth and depth to Saudi Arabia's capital markets benefits its citizens and economy, and is a central goal of the long-term development plan Vision 2030. This process is well underway, and steps are being taken to build on this trend. A sufficiently diversified and liquid capital market requires more types of assets that are easily tradable by investors of all levels of sophistication and wealth.

Motivated by the goals of Vision 2030, such as forming an advanced capital market and enabling and promoting financial planning, Alinma Investment identified sukuk as an underexposed asset that could be utilized. Alinma Investment built an ETF based on government sukuk which will not only create extra liquidity in the Government sukuk market, but will also enable small, retail investors to easily participate in a promising, developing market.

Alinma Investment's vision included several investor profiles ideal for the potential fund. Taking less liquid but low-risk investments such as sukuk sold by the Saudi Government and packaging them into more liquid fund units could allow retail investors to participate. For Shari'ah-compliant banks, a sukuk ETF could address liquidity management challenges via a safe and short-term alternative, with a reasonable return that may not be easily satisfied via a direct but less liquid investment in sukuk. For longer-term investors and institutional players such as insurance companies, pension funds, or institutions offering saving programs, a sukuk ETF offers a new type of low-risk investment with steady income to fit their needs. "We knew it was important to get the details right because this was a new product," Zaki Al Awami, Chief Asset Management Officer at Alinma Investment, said. "If we had launched it six months later, there might not have been investor appetite."

The first challenge was to solve the problem of a fair-value methodology for sukuk, because the assets are unique products with their own attributes, including rates of return and liquidity. Valuation via market price or book value was seen as insufficient in many cases.

Working together with the Saudi Exchange, Alinma Investment reached out to IHS Markit, a global leader in market services with experience creating indices. The team conceived an alternative based on yield-curve pricing, which allows for side-by-side comparison of different

Motivated by the goals of Vision 2030, such as forming an advanced capital market and enabling and promoting financial planning, Alinma Investment identified sukuk as an underexposed asset that could be utilized.

- Zaki Al Awami, Chief Asset Management Officer

sukuk to determine fair values for those that are unfairly priced or have no market prices. With that methodology set and tested, IHS was able to produce a working index by November 2019. Another early question was that of size: a fund that was too small could fail to meet investor demand, whereas one that was too large would shift a degree of risk to the fund manager. Alinma Investment chose the latter option and took on the risk, believing that over time the popularity of the product would grow. The Alinma Investment sukuk ETF was launched in February 2020, and is the largest of its kind in the world to date.

Over the long term, ETFs could go beyond domestic equities and debt securities to include foreign offerings or investments in commodities or other assets. The immediate challenge is to help the domestic investor base gain familiarity with the product, as ETFs are one of several types of funds available on the Saudi Exchange.

"This is a product that matches investors' desire for a reasonable return with an acceptable risk, and with the best liquidity available," Al Awami said. "It is however a new product. Education and awareness take time, but we have already started that process. It will pay off in the future, when it is time to welcome additional new types of securities to the market."

CEFs

Closed ended investment traded funds, commonly known as closed ended funds, are financial vehicles issued to the public that pool investments. Doing so allows a wide range of investors to obtain exposure to a diverse set of underlying assets. The pool is divided into units of smaller value that are more affordable and easier to access for retail investors.

After an initial public offering, the assets are bought and sold on the Saudi Exchange as is done with equities and REITs, with prices set by bids and offers through the same process by which stocks and bonds are traded.

CEFs AT A GLANCE

2018
regulations establish the rules for publicly traded CEFs.

25%
maximum that an asset can comprise of the fund's value.

30%
ceiling for leverage when compared to assets.

Although there are closed ended investment funds in Saudi Arabia that are not listed, in 2018 the amended Investment Funds Regulations were issued that set the rules for listing closed ended investment funds on Saudi Exchange.

Similar to other investment instruments, closed ended funds adhere to rules and regulations issued by the Capital Market Authority and must abide by high standards. They are also highly transparent, as a fund manager is required to publish regular reports on the Saudi Exchange's website.

Closed ended funds allow a wide range of investors to obtain exposure to a diverse set of underlying assets. The pool is divided into units of smaller value that are more affordable for retail investors.

Closed Ended Investment Traded Funds and the Basics of Trading on the Exchange

Closed ended investment traded funds, commonly known as closed ended funds (CEFs), are financial vehicles issued to the public that pool investments. Doing so allows a wide range of investors to obtain exposure to a diverse set of underlying assets. The pool is divided into units of smaller value that are more affordable and easier to access for retail investors.

After an initial public offering, the assets are bought and sold on the Saudi Exchange as is done with equities and REITs, with prices set by bids and offers through the same process by which stocks and bonds are traded.

CEF Regulations

Similar to other investment instruments, CEFs adhere to rules and regulations issued by the Capital Market Authority (CMA) and must abide by high standards. They are also highly transparent, as a fund manager is required to publish regular reports on the Saudi Exchange's website.

Although there are CEFs in Saudi Arabia that are not listed on the Saudi Exchange, a new set of regulations – the Closed Ended Investment Traded Funds Instructions – introduced in 2018 established the rules for a publicly traded version of this type of fund. Investment firms are in the process of examining the regulations and evaluating the options for this new type of security.

The Benefits of CEFs

The Saudi Exchange hopes that CEFs will add diversity to the range of investment options available to investors, as well as further develop the Kingdom's capital markets offering. These funds provide more liquidity to investors, as they can be traded at any time during trading hours. By comparison, there is a limited secondary market for debt securities such as bonds and sukuk, and private equity is not as easily purchased and sold through daily market trading. The more traditional options are largely only affordable and realistic investments for institutions or high net worth individuals. However, packaging units together in funds makes them attractive to retail investors because they do not engender excess risk. This is due to the fact that the various units decrease the chances of overall loss. Simultaneously, the vehicles enhance portfolio diversity and encourage the growth of assets.

CEFs present an opportunity to investment firms as well, allowing the institutions to innovate new securities that address the specific needs of different types of investors. They also allow firms to create products that leverage their specific areas of expertise.

Stability

In Saudi Arabia, CEFs can invest in all asset types except for real estate, as such investments fall under REITs. CEFs and REITs are similar in several ways, the first of which is that both raise a set amount of capital and use it to generate returns that are distributed to unitholders. Unlike stocks, prices for units in CEFs and REITs are generally a stable investment, and as such, investors should not expect to make or lose money due to fluctuations in price. These funds are therefore a safe and predictable type of investment.

Closed ended funds and REITs are similar in several ways, the first of which is that both raise a set amount of capital and use it to generate returns that are distributed to unitholders. Unlike stocks, prices for units in the funds are generally a stable investment.

Characteristics	Real Estate Investment Traded Funds (REITs)	Closed Ended Funds (CEFs)
Fund Legal Type	Closed ended fund	Closed ended fund
Fund Size	Minimum SAR 500 million	Minimum SAR 300 million
Nominal Value per Unit	SAR 10 per unit	SAR 10 per unit
IPO	Public offering of units	Public offering of units
Number of Investors	Minimum 200 investors	Minimum 200 investors
Dividend Distributions	At least 90% of the fund's net profits must be distributed annually to the unitholders	Not applicable
Leverage	Leverage must not exceed 50% of the total asset value of the fund	Leverage must not exceed 30% of the total asset value of the fund
Asset Ownership	The assets must be registered under the name of a third party (custodian) and owned by the unitholders	The assets must be registered under the name of a third party (custodian) and owned by the unitholders
Free Float	At least 30% of the total REIT units are owned by unitholders from the public	At least 30% of the total CEF units are owned by unitholders from the public
Investment Scope and Restrictions	At least 75% of the fund's total assets value, according to the last audited financial statements, must be invested in constructed developed real estate qualified to generate periodic and rental income	Restricted from investing more than 25% of the fund's total assets in a single asset. Permitted to invest more than 35% of the net asset value of the CEF in government debt instruments
Trading Time	Similar to Main Market trading hours	Similar to Main Market trading hours
Fluctuation Limits	±10%	±10%

30%

of closed ended fund units should be owned by public unitholders, according to Saudi regulations. Meanwhile, the minimum number of unitholders in the investment vehicle is 200.

Liquidity

Both types of funds are seen as ideal for investing in assets that lack of liquidity – without sufficient willing buyers and sellers in volumes to make trading easy – because they are closed ended. The capital base of open ended funds such as mutual funds fluctuates when investors buy units or sell them back to the fund, which necessitates an adjustment of the fund's holdings to ensure the proper asset mix.

The structure is appropriate for funds that invest in liquid assets such as equities, but not for those that invest in less liquid assets. Having a set amount of capital, as well as shifting investments and the redemption process to exchange-based trading, protects the fund from lower returns that can stem from the need to sell into illiquid markets to rebalance portfolios. Doing so can expose funds to having to sell assets at discounted prices.

Operational Framework

CEFs are regulated in Saudi Arabia by the CMA, which has issued several regulatory documents that pertain to the vehicle. The Closed Ended Investment Traded Funds Instructions specifically address the operations and governance of these funds, and make clear that this security is appropriate for a range of assets, with the notable exception of real estate. The Investment Funds Regulations are a broader set of implementing regulations that apply to all funds. The regulations cover fund management and custody, and contain provisions for public, private, and foreign funds. Meanwhile, the CMA's Rules on the Offer of Securities and Continuing Obligations details the process for establishing a listing and lays out the requirements for ongoing disclosures.

Specifically, the minimum amount of capital a CEF must seek to raise is SAR 300 million, and the minimum number of unitholders is 200. Additionally, at least 30% of the total CEF units should be owned by unitholders from the public.

Fund Manager

CEFs must be operated by a fund manager registered by the CMA. The manager is responsible for overseeing the fund's administration according to its terms and conditions, making required disclosures to the regulator, and ensuring compliance with all rules and regulations.

The fund manager is financially responsible for any losses caused by their own negligence or misconduct, and reports to the fund's Board of Directors, which must satisfy the required qualifications for independence, as established in the Investment Funds Regulations.

Roles to be appointed by the fund manager include external auditors, as well as a custodian responsible for formally holding titles and other documentation of ownership of the fund's assets.

The fund manager is permitted to use third party services for roles in administration. If the fund invests in assets that require a third party, the identities of these sub-managers should be disclosed to the regulators. A fund that invests in assets outside Saudi Arabia, for example, may hire a foreign investment firm in that country to help identify and choose those equities.

Offering Process

The first step in launching a CEF is to decide between a public offering or a private placement. The latter is often preferable as there are fewer disclosure and documentation requirements, although more sophisticated investors are needed.

After the structure is chosen, the process of taking a fund from idea to reality also requires its creators to appoint a suite of advisors to play key roles. These individuals and institution include a fund manager and members of the Board.

Those leaders will in turn appoint outsiders for professional and management services, including legal counsel, to ensure compliance with Saudi law; a custodian who will serve as the formal holder of asset-ownership documentation; and secondary managers to oversee specific types of assets.

Auditors must also be appointed to review financial statements and review taxation and zakat information. Zakat is a fee, similar to a tax, that is collected from domestic entities at a rate of 2.5% of their assets. Zakat regulations may change if pending ministerial resolutions are implemented, with the burden of payment in some cases shifting from the holders of securities to the fund.

The process of taking a fund from idea to reality requires its creators to appoint a suite of advisors to play key roles, including a fund manager and Board members. Those leaders will appoint outsiders for professional services and management, including legal counsel.

With these key roles filled, the next step in the process for listed funds is to structure the fund and create the necessary offering documentation. The CMA requires a series of records detailing leadership, managers, and service providers; financial statements; and other required disclosures, all of which must be available in Arabic. The main document is the terms and conditions, which should include basic details such as the fund's duration, objectives, strategies, expected targets for the types of assets it plans to acquire, methods for liquidity management, asset computation, and scenarios in which the fund could be terminated. Conflicts of interest must be disclosed, as well as unitholders' rights and policies on issues such as dividends and the raising of capital. The various fees to be paid to the fund manager, the Saudi Exchange and other service providers must also be specified.

The end result should give investors a comprehensive understanding of what to expect as a unitholder, and how they can participate as well as trade in and out of their holdings.

Fund managers should share broad aims and strategies in the document, but it is not necessary to detail specific investment plans that managers are not absolutely certain can be executed.

Once all necessary documentation has been submitted to the CMA for regulatory approval, it is time to prepare for the sale. The distribution phase requires the lead manager to create a marketing strategy, including an investor presentation. The manager will then coordinate meetings with potential investors to market the offering. Following that transaction documents are executed, capital transferred from the investors to the fund, and the fund registered with the registrar and listed on the Saudi Exchange. The CMA is notified of final allocations to investors and the total proceeds.

Limitations and Provisions

There are several provisions governing the mix of assets in a fund's portfolio, including:

- No one single asset in a fund can comprise more than 25% of the net asset value, with some exceptions for special public funds
- Leverage cannot exceed 30% of the assets
- More than 10% of net asset value can be invested in non-liquid assets
- More than 35% of the fund's net asset value may be invested in government debt

Disclosure Requirements

After a listing has been completed, the fund's terms and conditions must be posted on the websites of the investment firm and the Saudi Exchange, and updated promptly after any material changes to the vehicle. Fund managers must also share information including:

- Announcements of material changes that are reflected in the terms and conditions
- Regular reports sharing financial results for specific periods
- A fund valuation at least every six months

Material changes that require announcement include any significant developments not in the public domain, and those that any potential investor or current unitholder may consider as having a material impact on the fund, including:

- Any change in fees
- A drop in assets or profits exceeding 10%
- The acquisition, sale, lease, or mortgaging of an asset comprising over 10% of the fund
- Any change to the Board or its committee

CORPORATE DEBT

Saudi Arabia hosts the region's most active debt market, both in terms of conventional bonds and the Shari'ah-compliant alternative, sukuk. These offerings are sold by companies, governments, and government-linked companies. They offer a way to diversify sources of financing and deepen resilience in challenging times by reducing the Company's reliance on banks for loan capital.

Governments also sell debt in order to facilitate the broadening and deepening of capital markets, as government sales tend to make it easier for the private sector to follow suit by setting a pricing benchmark.

CORPORATE DEBT AT A GLANCE

2017
Saudi Arabia emphasizes development of debt market.

SAR 21.4 BILLION
the issuance amount for corporate sukuk/bonds as of the end of 2022.

FIVE YEARS
the most popular debt tenor.

What is the Debt Market?

Saudi Arabia hosts the region's most active debt market, both in terms of conventional bonds and their Shari'ah-compliant alternative, sukuk. These offerings are sold by companies, governments, and government-linked companies, which in the region are called government-related enterprises (GREs). They offer a way to diversify financing and deepen resilience in challenging times by reducing the Company's reliance on banks for loan capital.

Governments also sell debt in order to facilitate the broadening and deepening of capital markets, as government sales tend to make it easier for the private sector to follow suit by setting a pricing benchmark. Saudi GREs have historically tapped local markets in Saudi Riyals before going to international credit markets to borrow in other currencies.

For companies, selling bonds is an opportunity to access capital without having a credit rating, as the market attracts a pool of sophisticated investors who do their own research and analysis on the offering and the Company. Bonds and sukuk also provide more options when a company is raising capital for a specific purpose, expansion, or product, as opposed to general operating expenses. Examples of these options include an enhanced ability to structure the timing of repayments; convertible debt, which can be transformed into equity if certain conditions are met; and debt-issuance programs, in which multiple sales over time can be approved in a single process.

The Saudi Exchange aims to boost secondary trading of debt instruments in the coming years, and there are hopes that new types of securities, such as closed ended funds that are available on the market, will help to create mutually beneficial relationships that indirectly boost trading.

For investors, corporate and government debt are considered safer and more stable investments than stocks because the expected return is a fixed value, instead of an unknown sum. There is also less of a risk of debt investors losing money. Bonds and sukuk are therefore suitable for retail investors, banks, and others who want to earn returns without a serious risk of losing capital. These investments are also a way to balance risk in a portfolio that includes stocks and other investments that aim to increase shareholders' capital.

Bonds and sukuk can be listed on the Saudi Exchange, the Saudi Stock Exchange, and traded like equities or exchange traded funds, or they can be sold in private placements. The advantage of a public sale is the larger pool of potential investors, whereas the disadvantage is the greater number of requirements for disclosure, both at the time of listing and on an ongoing basis until the debt is settled. As such, private placement is the more popular and faster option.

The history of the debt market in Saudi Arabia highlights the role it plays in company development. In particular with the rise in popularity of Shari'ah-compliant financing in the past three decades, sukuk has become a popular option for Saudi firms, including small and medium-sized enterprises, for financing. Since 2017 greater public sector commitment to the debt market has increased activity in the segment across Saudi Arabia's capital markets.

The Saudi Exchange aims to boost secondary trading of debt instruments in the coming years, and there are hopes that new types of securities available on the market will help to create mutually beneficial relationships that indirectly boost trading. Closed ended funds, for example, are a new product offering that investment firms can create and list on the Saudi Exchange, with units to be traded. Additionally, it may be easier for retail investors to participate in the debt market through sukuk or bond funds because units comprising the funds are often easier to trade than the bonds or sukuk themselves.

Overview of Saudi Arabia's Debt Capital Market

Government issuances

Year	Local issuance amount (SAR bn)
2022	76.5
2021	75.3
2020	50.4
2019	69.8
2018	48.8

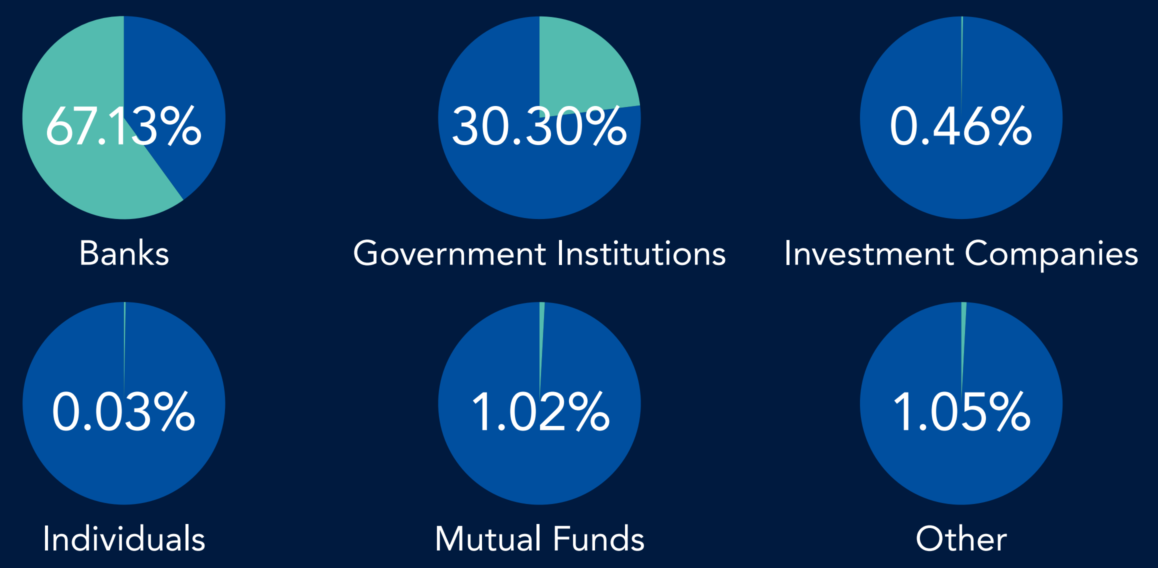
Source: NDMC, MoF, Tadawul

Total volume of secondary market trading for government sukuk

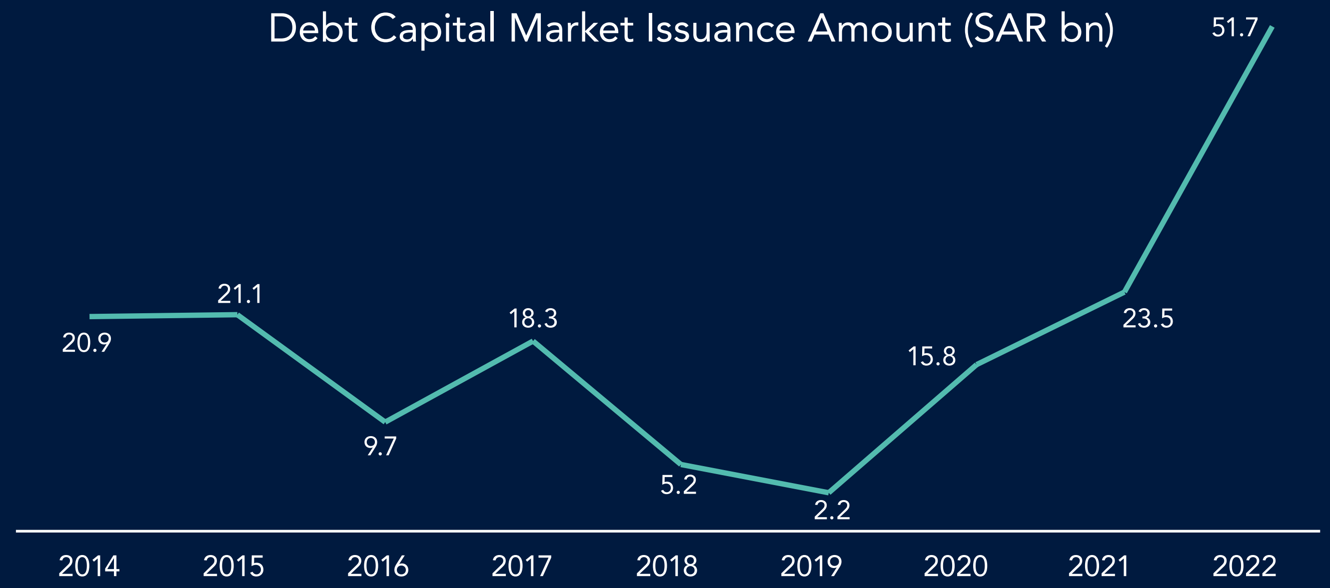
Year	Secondary market volume (SAR bn)
2022	24
2021	61
2020	75
2019	10
2018	0.8

Source: Tadawul, Argaam

General Investor Distribution



Debt Capital Market Issuance Amount (SAR bn)



Source: HSBC, Bloomberg

Operational Framework

Debt instruments can be structured as conventional bonds or Shari'ah-compliant sukuk. The latter are far more common because Shari'ah compliance is a requirement for some investors. Sukuk are like bonds in that they offer a set return over a fixed period – a coupon – but are different in that the return is not an interest payment. The coupon is instead a payment for sharing in the commercial risks of the seller.

The majority of debt in recent years was issued with a five-year tenor, or maturity date. The second-most-popular tenor has been seven years, followed by ten. The majority of issuances offered a floating rate rather than a fixed one, typically set by offering a premium against the Saudi Arabian Interbank Offered Rate, an average of the interest rates banks offer to other banks for unsecured, short-term lending. In most cases the coupon comes due in a bullet payment, or lump sum, at maturity. Other options can include regular payments during the bond's tenor, called amortization, and early repayment options, known as a call option.

Shari'ah-Compliant Options

Sukuk issuers have their choice of several structures that have become common and widely accepted in the world of Shari'ah-compliant finance:

- Mudaraba: a profit-sharing arrangement in which one party contributes an idea it will execute and the other provides capital. Profits are shared according to previously agreed upon terms, and any losses will be borne by the provider of the capital
- Musharaka: a partnership in which both parties contribute capital. Both profits and losses are shared according to the ratio of capital contributed
- Wakala: a contract of agency arrangement in which one party appoints another to perform a service or task on the former's behalf
- Ijara: a leasing structure in which Shari'ah-compliant assets are leased to a partner for a specific period of time in exchange for specified payments
- Murabaha: a deferred-sale contract in which a Shari'ah-compliant commodity is purchased or sold in exchange for installments that add up to the purchase price, plus an agreed upon profit margin

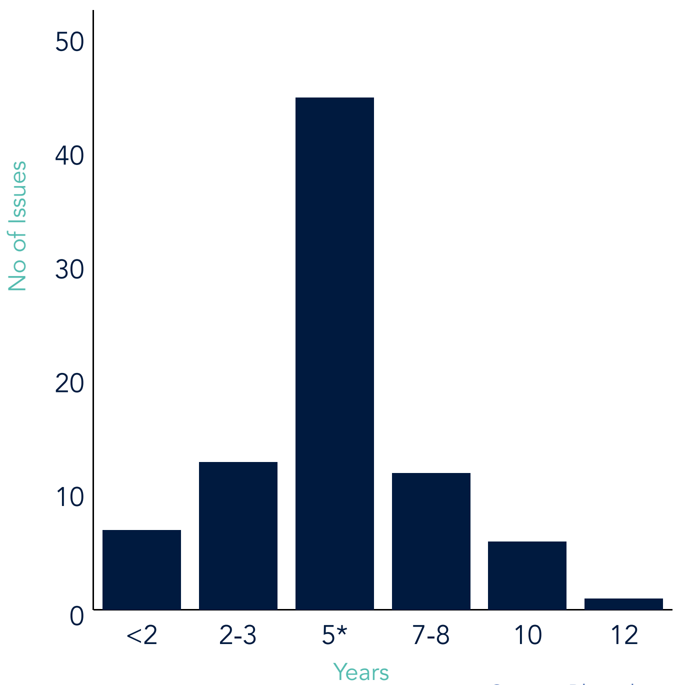
The dominant sukuk structure used in the Saudi debt market is Sukuk Al Istithmar, which is a hybrid of the Mudaraba and Murabaha models. In the Sukuk Al Istithmar structure typically 51% or more of sukuk proceeds are invested in Mudaraba assets, while the remaining proceeds are invested in Murabaha transactions.

Characteristics of Debt Instruments

Tenor or Maturity

For the past five years, the majority (62.2%) of debt instruments have been issued with a five-year tenor, which remains the sweet spot for investors in the market. There are also issuances with seven- and ten-year tenors, which accounted for 21.6% due to demand from certain group investors, typically bank treasuries, pension funds, and government related entities. The chart below summarizes the maturity of debt instruments in the Saudi debt capital markets.

TENOR 2013-2022

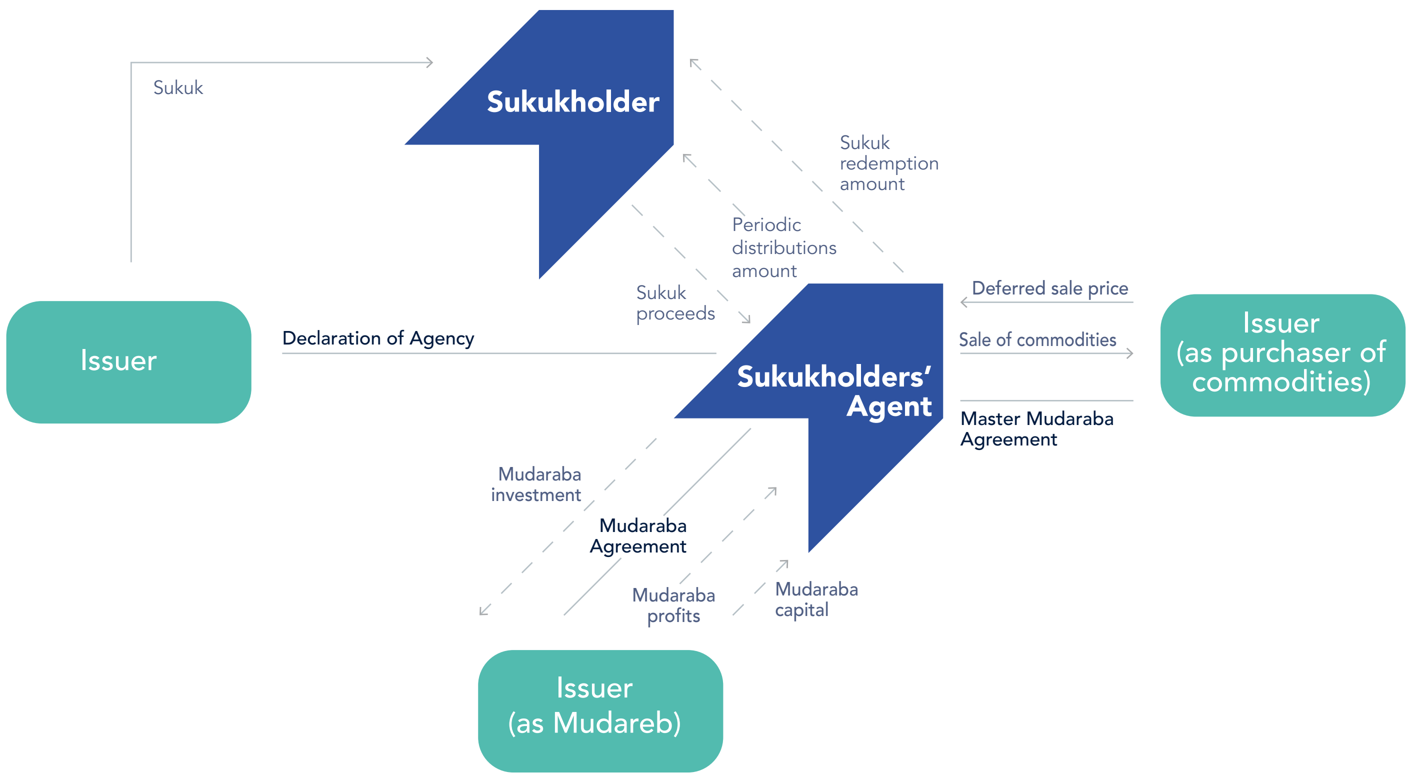


Source: Bloomberg

The Islamic principles that are commonly applied in sukuk transactions are described below:

Principle	Description
Mudaraba	A contract of profit sharing where one party contributes his entrepreneurial efforts while the other provides capital. Any profits are shared between the two parties on a pre-agreed basis, while losses are borne by the provider of the capital
Musharaka	A partnership contract between two or more parties, each contributing capital. The profit is shared among the parties based on the profit sharing ratio agreed in the contract and any loss is shared among the parties based on the agreed contribution ratio
Wakala	A contract of agency in which one party appoints another entity to perform a certain task on the former's behalf
Ijara	Ijarah involves leasing of Shariah-compliant leaseable assets such as land, building, plant, equipment, etc. over a specified period for a specific price (lease payments)
Murabaha	A contract that refers to the purchase and sale transaction of certain Shari'ah-compliant commodities; whereby payment of the sale price is on a deferred and an installment basis with a pre-agreed payment period. The sale price shall be equivalent to the purchase price plus profit

The generic Sukuk Al Istithmar structure is depicted below:



Offering Requirements

The Rules on the Offer of Securities and Continuing Obligations, published by the Capital Market Authority (CMA), details the processes for establishing a listing and for ongoing disclosure requirements.

The first choice a potential issuer must make is whether to pursue a public offering or a private placement. The latter is often preferable because there are considerably fewer disclosure requirements, but the investor pool is limited to those sophisticated enough and with sufficient capital to participate. This has not historically been an obstacle due to the fact that Saudi Arabia has a large pool of sophisticated investors. Public offerings also do not typically generate significantly more demand compared to private placements.

An added incentive is that private placement is faster: the CMA is required to respond to an application for a private placement within ten days of receiving documentation, compared to an application for a public offering within 45 days. In both cases the seller hires an investment firm to manage the debt sale by preparing the documentation, ensuring compliance, finding investors, and completing the transaction.

Public Offerings

Public offerings have historically given a wider pool of investors access to an offering, but today most participating investors are eligible to invest in the private placement format. Even so, public issuances are key to developing the market and are generally seen as socially responsible.

Another key difference is that public offerings require a prospectus, a document in Arabic that will be shared with potential investors. It should include all relevant information potential investors would need before making a decision, including details about the debt instrument to be issued; the issuing company, its financial history, and market prospects; market conditions; and perceived risks.

A prospectus can be offered for one debt sale or for a series of sales. Ongoing issuance programs allow the seller to use the same set of documentation to issue multiple debt securities over time. Costs of preparing the documentation are slightly higher, but since the documents allow for multiple sales, the effective cost to the seller is lower. An issuance program allows for sales at regular intervals or on an opportunistic basis, when the seller perceives market conditions to be favorable.

Who is Involved?

There are multiple parties involved in a listing process, and in some cases on an ongoing basis until the debt matures. A lead manager, typically an investment firm, is contracted to manage the listing, including structuring the debt instrument; ensuring compliance with CMA regulations and Shari'ah, if applicable; creating the prospectus; and marketing the offer to potential investors.

A legal counsel ensures compliance with Saudi Arabian law, English law and those of other jurisdictions if the listing is to take place on multiple exchanges in different countries. Typically both the issuer and the lead manager employ separate counsel.

A payments administrator is required to calculate redemptions and distribute them, and in the case of sukuk, to calculate profits.

Auditors must review financial information in the documentation, as well as review taxation and zakat information. Zakat in Saudi Arabia is a fee, similar to a tax, that is collected from domestic entities at a rate of 2.5% of their assets. Zakat regulations may soon change if outstanding ministerial resolutions are implemented, shifting the burden of payment in some cases from the holders of certain securities to the securities' issuers or managers. These changes may only apply to non-government bonds in the debt market, while the zakat for debt sold by the Government would be paid by the state itself. Roles required for sukuk issuance include the approvals of a Shari'ah committee, typically a Board of qualified religious scholars versed in finance. In addition, a sukukholders' agent represents their interests by monitoring compliance throughout the process.

Key Parties

They key parties that are typically involved in a Sukuk or Bond transaction are:

Party	Role
Lead Manager	• Leads and manages the issuance process, which includes structuring, obtaining relevant approvals (i.e. Shari'ah approval), preparation of the documentation required (i.e., offering circular, transaction documents), applicable regulatory filings (i.e., CMA), etc. • Leads the entire marketing, distribution, and settlement work stream
Legal Counsel	• Provides legal advice related to Saudi law, English law or the law of other jurisdictions (where applicable) and drafts the offering circular, transaction documents, and other relevant documents • Typically, two legal counsels will be appointed to advise the issuer and the lead manager, respectively
Shari'ah Committee (only applicable for sukuk)	• Advises on Shari'ah-related matters and issues Shari'ah pronouncement in relation to the structure and transaction documents • Typically, the lead manager has its own Shari'ah committee
Auditor	• Provides comfort on the financial information presented in the offering circular and reviews the zakat and taxation section in the offering circular • Typically, the existing auditor will be appointed
Sukukholders' Agent	• Represents the sukukholders and monitors the compliance of the terms and conditions
Payments Administrator	• Calculates and transfers profit and redemption payments to the investors and publishes the notice of the periodic distribution payment

The First Steps

Once a potential debt seller has decided on key distinctions, such as a private placement or public offering, and settled on a conventional or Shari'ah-compliant structure, the listing process passes through several phases.

In the appointment phase companies receive internal approvals from their Boards of Directors for the issuance, and subsequently select a lead manager, counsel, and other roles.

Thereafter the structuring and documentation phase takes place, in which the terms of the debt are determined, the prospectus created, Shari'ah compliance verified if applicable, and due diligence conducted.

In the notification phase, the lead manager will alert the CMA and submit the prospectus or private placement documentation for review.

Preparing for the Sale

There are fewer document-related requirements for private placements, with several documents to be filed with the CMA at least ten business days ahead of an offering describing the offering and its management. At this point, listers prepare for the sale.

The distribution phase requires the lead manager to create a marketing strategy, including an investor presentation. The lead manager will coordinate meetings with potential investors to market the offering, follow up on potential interest, and begin the book-building process, in which potential investors submit bids for the amount of the issue they would like to buy, and the proposed return they would expect. The lead manager will use this feedback when determining the final details of the offering, including the interest rate for conventional debt or a profit-based return for sukuk.

Key Phases

The typical key phases and major milestones in a sukuk or bond transaction:

Appointment Phase	• Internal approval such as from the Board of Directors to approve the sukuk/bond issuance, appointment of advisers for the sukuk/bond, etc. • Appointment of lead manager • Appointment of other parties such as legal counsels, auditor, etc.
Structuring and Documentation Phase	• Drafting terms and conditions and commercial terms • Shari'ah structuring and Shari'ah committee's approval on the sukuk structure (only applicable to sukuk) • Drafting of offering circular and transaction documents • Due diligence meeting • Shari'ah sign-off on the transaction documents (only applicable to sukuk)
Notification Phase	• Preparation of notification for private placement or submission for public offering to the CMA
Distribution Phase	• Formulate strategy for marketing • Preparation of investor presentation • Coordination with potential investors and follow-up on potential interest • Book-building • Announcement of final price
Allocation and Settlement Phase	• Final allocation to investors • Execution of transaction documents • Payment of proceeds from allocated investors to the issuer
Post-Closing Phase	• Registration of the sukuk/bond by the registrar • Listing of the sukuk/bond by the Saudi Exchange (applicable for listed sukuk/bond only) • Notification to the CMA on the final allocation to the investors and total proceeds of the sukuk/bond

51%

of the assets in the dominant sukuk structure used in the Saudi debt market, Sukuk Al Istithmar, is in Mudaraba assets, while the remaining proceeds are invested in Murabaha transactions.

Allocation

The sale execution occurs in the allocation phase, in which the lead manager distributes proportions of the sale to the investors who submitted bids. Transaction documents are then executed, and capital transferred from the investors to the debt issuer. In the final post-closing phase, the sukuk or bond is registered and then listed on the Saudi Exchange if the offering is public, and the CMA is notified of final allocations to investors and the total proceeds. For private placements, the CMA must be informed of key terms and allocations to Saudi investors.

Disclosure Requirements

Once a sale has been completed, issuers of publicly listed debts have ongoing disclosure requirements. These include:

- Immediately notifying the CMA and the public of developments that could have a material impact on the price of the security; the issuer's assets, liabilities, or financial position; or its general ability to repay the debt according to the set terms. Examples include any transaction, debt, or loss valued at 10% of net assets or greater; a change of CEO or Board composition; or legal actions that could impact net assets by 5% or more
- Annual and interim audited financial statements to be submitted to the CMA
- An Annual Report containing financial statements, business activity, share capital, risks, and business prospects

The Saudi Exchange and the Capital Market Authority would like to see more public offerings, which would add liquidity and diversity to the market by creating a greater number of listed debt securities.

	Common Mistakes	Suggested Solutions
1	Failing to comply with all the requirements of the Corporate Governance Regulations issued by the Capital Market Authority (CMA), and in particular the failure to comply with Article 16 of the Corporate Governance Regulations with regard to the independence of the members of the Board of Directors and their failure to meet the required number of independent members. Additionally, not forming committees (the audit committee and the nomination and remuneration committee) in accordance with the requirements of the Corporate Governance Regulations.	Comply with all requirements of the Corporate Governance Regulations issued by the CMA before submitting the application file.
2	The application files are submitted without complying with all the requirements of the rules on offer of securities, and continuing obligations and other related regulations, and not notifying the CMA of this before or at the time of submitting the application file.	Clarify and discuss the non-compliant requirements with the CMA before submitting the application file.
3	The information/numbers/dates included in prospectuses or registration documents varies in different parts of the prospectus or registration document. For example, but not limited to: the date of incorporation of the Company – where different dates for its incorporation are mentioned in the prospectus or registration document. Not making sure to include the date in all letters submitted to the CMA.	Ensure that all information included in the prospectuses/registration documents, where provided, is consolidated and consistent. Ensure that all letters submitted to the CMA are dated.
4	Not all documents or all copies of the required documents are provided to the CMA. For example, but not limited to: Memorandum of Association, Articles of Association and all amendments.	In addition to making sure that they are authenticated, ensuring that all required documents are obtained and submitted clearly.
5	Prospectuses and registration documents may be based on documents for previous companies, which results in adding some information that is not related to the nature of the Company's business or not addressing all the risks that apply to the Company and its business model as well as not including the relevant values, amounts, and ratios in the description and analysis of the risk factors. For example, concentration ratios; financial impact.	Ensure that all risks applicable to the Company are included in the prospectus/registration documents in accordance with the relevant regulations and consistent with the Company and its business model.
6	The details and information contained in the financial due diligence report, the legal due diligence report, or any other related reports are not disclosed, disclosed inappropriately, or are incomplete.	Ensure that all information has been clearly and completely disclosed in the prospectus and in accordance with disclosure requirements and the relevant regulations.
7	The audited interim financial statements are submitted within the application documents, without taking into account that the comparative figures for the same period are also audited.	Providing audited interim financial statements for the Company and ensuring that the comparative figures are audited and are not management accounts figures.
8	The draft prospectus/registration document is submitted with a different date from the date on which the application documents were submitted to the CMA.	Ensure that the date of the submitted copy of the prospectus/registration document matches the submision date of the application documents to the CMA.
9	Certain application documents are submitted and signed by representatives with a date prior to the date of the letter of appointment or authorization.	Ensure that all documents signed by the issuer's representatives do not precede the date of their appointment/authorization letter, which authorizes them to sign these documents.
10	Failure to submit all documents required under the rules on offer of securities and continuing obligations with the application file submitted to the CMA.	Ensure submission of all documents required under the rules on offer of securities and continuing obligations, and other laws and regulations (as applicable), and submit the application file to the CMA in full without any deficiencies.
11	Failure to obtain the approval of the General Assembly on the topics that require approval. For example, but not limited to: the assembly's approval of the offering and listing of the Company's shares (as applicable); transactions with related parties; and the participation of members of the Board of Directors in business competing with the Company.	Ensuring that the approval of the General Assembly is obtained on all topics/transactions that require such approval.
12	Failure to indicate the latest date of the amended regulations or rules in the application documents or prospectus/registration document.	Ensure that the latest amendment date of the regulations or rules is included in the application documents or the prospectus/registration document before submitting the application to the CMA.
13	Failure to comply with all the required annexes of the Listing Rules.	Be sure to fill in all the required items in the Listing Rules annexes and do not exclude any item included in the annexes.

Listing Ceremony

In addition to continued support for companies throughout their IPO journey, the Saudi Exchange hosts a Listing Ceremony at their Media Center for newly listed companies to celebrate their listing date before their shares begin trading on the market.

As a key milestone, the event offers a platform to highlight the successful road to the IPO, and provides opportunities to acknowledge the collective efforts of leadership, employees, and partners. Moreover, the Listing Ceremony serves to foster connections with potential investors and sets the pace for the company's future as a public entity.

The services provided by the Saudi Exchange in relation to the Listing Ceremony include:

- Ceremony reception and attendee welcome
- Preparation of a press release and distribution to different media outlets
- Photographs of the ceremony
- Social media coverage
- The Company can invite any media to conduct interviews and coverage, subject to the approval of the Saudi Exchange


Trades
Symbols Traded
Symbols Up
Symbols Down
TIBBIYAH
طبية
تداول
السعودية


تداول
السعودية
حفل إدراج الشركة السعودية
لتمويل المساكن
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تداول
السعودية
إدراج
شركة شور العالمية للتقنية
Saudi Exchange

Glossary

CMI	Capital Market institution
CCP/Muqassa	Central Counterparty Clearing House
CMA	Capital Market Authority
Coupon	Annual interest payment that the bondholder receives from the bond's issue date until it matures
Debt	A sum of money that is owed or due
Edaa/SDC	The Saudi Securities Depository Center Co.
ETF	Exchange Traded Fund
FDD	Financial Due Diligence
GICS	Global Industry Classification Standard
IPO	Initial Public Offering
LDD	Legal Due Diligence
Main Market	Main companies segment
Maturity / Tenor	Amount of time left for the repayment of a loan or until a financial contract expires
NAV	Net Asset Value
NOMU	A parallel equity market
QFI	Qualified Foreign Investor
REIT	Real Estate Investment Traded Fund
Share	Share of any company wherever incorporated. The definition of "share" includes every instrument having the characteristics of equity
Sukuk	Islamic Bonds
TASI	Tadawul All Share Index
Unit	The interest of the holders in an investment fund consisting of units
CEF	Closed Ended Fund

Appendix

Overview of the Saudi Exchange Listing and Annual Fees

Platform	Fee Type	Amount	Frequency
Main Market	Initial listing fees	SAR 50,000	One time
	Annual listing fees	1 bps of paid-up capital + 0.5 bps of the average market capitalization The annual listing fee is subject to: Maximum: SAR 1 million	Annual
Nomu - Parallel Market	Initial listing fees	SAR 50,000	One time
	Annual listing fees	SAR 50,000	Annual
REITs	Initial listing fees	SAR 50,000	One time
	Annual listing fees	0.3 bps of market capitalization The annual listing fee is subject to: Minimum: SAR 50,000 Maximum: SAR 300,000	Annual
Closed Ended Funds	Initial listing fees	SAR 50,000	One time
	Annual listing fees	0.3 bps of market capitalization The annual listing fee is subject to: Minimum: SAR 50,000 Maximum: SAR 300,000	Annual
Sukuk and Bonds	Annual issuance fees - first issuance	0.00001 (0.1 bps) of issuance size	Annual
	Annual issuance fees - additional issuances	0.000005 (0.05 bps) of issuance size	Annual
	Minimum annual issuance fees	SAR 30,000	Annual
ETFs	ETF listing fee	SAR 50,000	One time

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4. IT
5. Communication Services
6. Utilities
7. Consumer Discretionary

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