

Newsflash

09 June 2015

Opening of Saudi stock market to foreign investors

Contact us:



[Florence Stainier](#),
Partner, Investment Management



[Bishr Shibliq](#),
Head of Dubai Office



[Emmanuelle Entringer](#),
Senior Advisor, Investment
Management

On 4 May 2015, the Saudi Capital Market Authority (“CMA”) issued “Rules for Qualified Foreign Financial Institutions Investment in Listed Shares” (the “QFI Rules”) which provide for a selective opening of the Saudi stock market. From 15 June, the Saudi stock market will therefore allow Qualified Foreign Investors (“QFIs”) to access the Saudi stock market (“Tadawul”).

Who can be a QFI?

The QFI Rules provide that only foreign banks, brokerage and securities firms, fund managers and insurance companies may obtain QFI status, provided that they are duly regulated and incorporated in a jurisdiction considered equivalent by the CMA.

For the avoidance of doubt, entities from the Gulf Cooperation Council (GCC) are not considered foreign and hence not eligible to obtain QFI status.

In addition the QFI must have USD 5 billion (or USD 3 billion if the CMA grants an exemption) in assets under management, *i.e.* either own these assets or manage them for third parties. Finally the QFI must have at least 5 years of experience in order to qualify under the CMA rules.

Who can invest on the Tadawul?

Whereas the QFI can invest for its own account, it may also do so, under certain conditions, on behalf of its clients. The QFI must be responsible for the management of its client’s assets when investing on their behalf on the Saudi market.

A QFI’s client, in order to be approved as such, must either be a bank, a brokerage and a securities firm, a fund manager, an investment company or an investment fund.

Investment funds are defined under the CMA rules as sovereign wealth funds, pension funds and collective investment schemes. In order to be a QFI client, an investment fund will need to be incorporated in a jurisdiction considered equivalent by the CMA.

A QFI cannot itself be a QFI client and each QFI client may only be approved with regard to one specific QFI.

What are the investment restrictions?

Foreign ownership of Saudi stocks is subject to the investment limits set out in the QFI Rules.

A limit of 5% of any issuer's shares applies for instance to each QFI together with its affiliates and to each QFI's client, together with its affiliates.

In addition, a global limit of 49% of foreign ownership applies to any listed issuer and a maximum of 20% applies to any listed issuer for holdings by QFIs and QFI clients.

In aggregate QFIs and their clients will not be able to hold more than 10% of all available listed shares.

In this context it is worth noting that the CMA rules consider this foreign ownership widely to also incorporate interests in Saudi stocks obtained by foreign investors through swaps.

What is the registration procedure?

An application to become a QFI must first be submitted to a so-called "assessing authorised person", which has the responsibility to check on an initial and ongoing basis that the QFI complies with all requirements of the QFI Rules. A QFI must at all times have an appointed assessing authorised person and to this effect, a QFI assessment agreement must be mandatorily entered into. The content of such agreement is defined precisely in the QFI Rules.

The assessing authorised person normally has 5 days to review the QFI's application and pass it on to CMA for approval, if it is deemed complete. The CMA in turn normally has 5 days to review the application and approve or reject the QFI's registration.

Certain items of information and documents, as further detailed in the QFI Rules, must be submitted as part of the registration procedure and must be kept up to date once the QFI has been approved. The QFI registration procedure applies *mutatis mutandis* to each of its clients.

This publication is intended to provide information on recent legal developments and does not cover every aspect of the topics with which it deals. It was not designed to provide legal or other advice and it does not substitute for the consultation with legal counsel before any actual undertakings.

[Read our latest newsflashes](#)

In order to be added to the mailing list, any interested person can send an email to subscribe@arendt.com

If you wish to opt-out from our mailing list, please click here: [unsubscribe](#)