



Saudi Stock Exchange (Tadawul)

Securities Borrowing and Lending Regulations

Approved by the Board of the Capital Market Authority Pursuant to its Resolution

Number (1-28-2017) Dated 16/6/1438H corresponding to 15/3/2017G

Arabic is the official language of the Saudi Stock Exchange

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PART 1 PRELIMINARY PROVISIONS

Article 1 Preliminary

The purpose of these Regulations is to set out the framework for securities borrowing and lending activities in respect of listed securities in the Kingdom.

Article 2 Definitions

- a. Any reference to the "Capital Market Law" in these Regulations shall mean the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H.
- b. Expressions and terms in these Regulations have the meaning which they bear in the Capital Market Law and in the Glossary of Defined Terms Used in the Exchange Rules, unless the contrary intention appears.

PART 2 SECURITIES BORROWING AND LENDING TRANSACTIONS

Article 3 SBL transactions

- a. An SBL transaction is a privately negotiated trade settled in centre accounts, under the terms of which:
 - 1) a lender temporarily transfers ownership of listed securities to a borrower; and
 - 2) the borrower commits to return equivalent listed securities as specified by the Centre.

- b. An SBL transaction must not be entered into unless all of the following conditions are met:
 - 1) the SBL transaction is entered into between eligible participants as specified in Article 4 of these Regulations;
 - 2) the SBL transaction is entered into in respect of eligible listed securities as specified in Article 5 of these Regulations;
 - 3) the SBL transaction is entered into for one of the following purposes:
 - i. executing a short selling transactions pursuant to the Short Selling Regulations;
 - ii. relending transactions;
 - iii. the resolution of securities settlement failures;
 - iv. the creation of units of exchange traded fund; or
 - v. other purposes determined by the Centre from time to time;
 - 4) the maximum duration of the SBL transaction is twelve months;
 - 5) the SBL transaction complies with the minimum collateral requirement as specified in Article 6 of these Regulations;

- 6) ~~the borrower and the lender~~the parties of the SBL agreement have in place a binding SBL agreement in compliance with the requirements of Article 7 of these Regulations;
- 7) the lender is a custody member or have appointed a custody member for executing the SBL transaction; and
- 8) the borrower is a custody member or have appointed a custody member for executing the SBL transaction.

Article 4 Eligible participants

Entering into an SBL transaction is limited to:

- 1) legal persons;
- 2) investment funds; ~~or~~
- 3) natural persons; or
- 3)4) clients of a person authorized by the Authority to conduct managing activities provided that:
 - a. the Authorized Person has been appointed as an investment manager on terms which enable it to make a decision to enter into an SBL transaction on behalf of its client without obtaining prior approval from that client; and
 - b. the decision to enter into an SBL transaction was made by the Authorized Person on behalf of its client.

Article 5 Eligible listed securities

An SBL transaction may only be entered into in respect of listed securities which the Centre specifies, after notifying the Authority.

Article 6 Minimum collateral

- a. A borrower, or any of his agents, entering into an SBL transaction shall provide and maintain financial collateral as ~~agreed with~~ specified in the ~~lender~~ SBL agreement which, as a minimum, complies with the requirements set out in Sections 84 and 85 of Annex 3 of the Prudential Rules.
- b. The value of collateral provided ~~by~~ against the ~~borrower~~ borrowed securities shall at all times be not less than 100% of the current market value of the borrowed securities.

Article 7 SBL agreement

- a. The parties of an SBL transaction must enter into a binding written SBL agreement which, as a minimum, contains terms which govern the matters specified in Annex 1 of these Regulations.
- b. The Centre may prohibit any potential party to an SBL transaction, ~~whether as agent or principal~~, from entering into an SBL transaction where in its view the terms of the SBL agreement do not meet the requirements set out in these Regulations.
- c. The Centre is not obligated to review the relevant SBL agreement or verify its contents.

Article 8 Return of borrowed securities

A lender of borrowed securities shall accept every return of equivalent securities from the borrower, as specified by the Centre, and re-deliver collateral corresponding to such return to the borrower as agreed in the SBL agreement.

PART 3 RELENDING

Article 9 Relending of securities

- a. Securities which have been borrowed under an SBL transaction may only be relent once.
- b. ~~The~~A custody member of a borrowing party must ensure that ~~SBL~~the relending transactions it enters into ~~as lender or as lending agent~~ to relend securities comply with the relending requirements set out in paragraph (a) of this Article.
- c. Where a custody member enters into a relending transaction ~~as a lender or lending agent~~to relend securities in accordance with paragraph (a) of this Article, it must ensure that the ~~borrower and the custody member of~~ borrowing ~~agent (if applicable) are~~party of the SBL transaction is duly notified that the borrowed securities are being relent.
- d. Notwithstanding the above:
 - 1) where an SBL transaction has been entered into in contravention of the relending requirements in paragraph (a) of this Article, such SBL transaction shall not be void against the ~~borrower and/or the~~ borrowing ~~agent~~party, unless ~~they were~~it was aware that such transaction was being entered into by the ~~lender~~lending party in contravention of such requirements; and
 - 2) a custody member shall not be construed to be in breach of its obligation in paragraph (b) of this Article if it has not received the notification prescribed in paragraph (c) of this Article from the relevant lending ~~agent~~party stating that the borrowed securities it received under a back-to-back loan were relent.

PART 4 LENDING AGENT AND BORROWING AGENT

Article 10 Lending agent

a. A person may enter into an SBL transaction as lending agent ~~only~~ if it is a custody member, ~~or by appointing a custody member to execute the SBL transaction.~~

~~a.~~b. Each person who acts as a lending agent for a client who is a lender must ensure, before entering into SBL transactions on behalf of such client, that: ___

- 1) the client is eligible pursuant to paragraphs (1), (2) or (3) of Article 4 of these Regulations;
- 2) ~~the client has in place a~~ binding written SBL agreement with the relevant counterpart which complies with the requirements of these Regulations is in place;
- 3) where the client intends to enter into a relending transaction, neither it nor the client has received a notification under paragraph (c) of Article 9 of these Regulations that the relevant securities have already been relent; and
- 4) the terms on which the custody member will act as the client's lending agent are documented in writing.
- 5) the terms on which the lending agent will act as the client's lending agent are documented in writing.
- 6) the terms on which the custody member will act on behalf of the lending agent are documented in writing.

~~b.~~c. Where there has been a failure to return borrowed securities in accordance with the terms of the SBL agreement, the ~~lending agent~~ custody member entered into an SBL transaction shall notify the Centre as specified by the Centre from time to time.

Article 11 Borrowing agent

a. A person may enter into an SBL transaction as borrowing agent ~~only~~ if it is a custody member, ~~or by appointing a custody member to execute the SBL transaction.~~

b. Each person who acts as a borrowing agent for a client who is a borrower must ensure, before entering into SBL transactions on behalf of such client, that:

1) the client is eligible pursuant to paragraphs (1), (2) or (3) of Article 4 of these Regulations;

2) ~~the client has in place a~~ binding written SBL agreement with the relevant counterpart which complies with the requirements of these Regulations; is in place;

3) the terms on which the custody member will act as the client's borrowing agent are documented in writing.

4) the terms on which the borrowing agent will act as the client's borrowing agent are documented in writing.

5) the terms on which the custody member will act on behalf of the borrowing agent are documented in writing.

c. Where a custody member acting ~~as a borrowing agent~~ to borrow the securities has been duly notified of a relending transaction in accordance with paragraph (c) of Article 9 of these Regulations, it must ensure that its client is made aware that such borrowed securities must not be relent.

d. Where there has been a failure to return the collateral provided against borrowed securities in accordance with the terms of the SBL agreement, the custody member entered into SBL transaction shall notify the Centre as specified by the Centre from time to time.

PART 5 POWERS OF THE AUTHORITY AND THE CENTRE

Article 12 Powers of the Authority and the Centre

- a. The Authority, or the Centre having obtained the approval of the Authority, may suspend or prohibit SBL transactions in respect of an eligible listed security, or may suspend or prohibit all SBL transactions in the Kingdom, at any time and as they deem fit, including but not limited to the following circumstances:
 - 1) there are adverse events or developments which constitute a serious threat to financial stability or to market confidence;
 - 2) for the protection of investors;
 - 3) for the maintenance of an orderly market; or
 - 4) trading in a listed security is suspended.
- b. The Exchange will publish on its website any action taken by the Authority or the Centre pursuant to their powers under paragraph (a) of this Article.

PART 6 REPORTING AND RECORD KEEPING REQUIREMENTS

Article 13 Copy of the SBL agreement

The Centre may at any time require some or all custody members who ~~act as borrowers, lenders, borrowing agents or lending agents~~ entered into SBL transaction, to submit a copy of the SBL agreement with the relevant counterpart to the Centre as specified by the Centre from time to time.

Article 14 Reporting of SBL transactions

A custody member who has entered into an SBL transaction ~~as agent or principal~~ must report complete and accurate details of such transactions to the Centre as required and prescribed by the Centre from time to time.

Article 15 Public disclosure of information

The Centre may disclose any information with regard to SBL transactions as it deems fit.

Article 16 Record keeping

- a. A custody member who has entered into an SBL transaction ~~as agent or principal~~ must ~~record~~ ensure recording and ~~retain~~ retaining sufficient information about its securities borrowing and lending activities to demonstrate compliance with the Capital Market Law, its Implementing Regulations, the Exchange Rules in general and these Regulations in particular.
- b. ~~Records~~ A custody member must ensure records required to be maintained by these Regulations ~~must be~~ are retained for a period of at least ten years from the date of the SBL transaction unless the Centre specifies otherwise. In the event such records relate to any litigation or claim (including any potential litigation) or any on-going investigations, the custody member must ~~retain~~ ensure such records are retained until the conclusion of that litigation, claim or on-going investigation.
- c. In addition to its powers under the Capital Market Law, the Centre may request to inspect the records directly or through a person it appoints for that purpose upon giving reasonable prior notice in the context of the request to the custody member.

- d. Records ~~made by a custody member~~ may be recorded in any form, but [the custody member](#) must be capable of reproduction in hard printed form. If the Centre requires records to be produced in a particular electronic or other format, it shall give the custody member a reasonable period of time in the context to meet that request.

PART 7 GENERAL PROVISIONS

Article 17 Limit of liability

- a. Without prejudice to the provisions of the Capital Market Law, its Implementing Regulations and the Exchange Rules, the Exchange or the Centre shall not be held liable for any losses or damages incurred by any participant referred to in Article 4 of these Regulations, their clients or any other person who deals with the Depository and Settlement System which may arise directly or indirectly as a result of:
- 1) any procedures, orders or transactions that are subject to these Regulations;
 - 2) the use of the Depository and Settlement System for SBL activities;
 - 3) the partial or complete suspension or prohibition of SBL transactions, or the interruption of activities and services provided by the Exchange or the Centre;
 - 4) the exercise by the Exchange or the Centre of any of their relevant powers under these Regulations, the Capital Market Law, its Implementing Regulations and the Exchange Rules; or
 - 5) any service failure attributable to the Exchange or the Centre by reason of an event outside of its control.
- b. Without prejudice to the provisions of the Capital Market Law, the Exchange and the Centre shall have no liability in respect of the accuracy, timeliness or completeness of SBL transaction reports or any other information published on its website from time to time.

Article 18 Waivers

The Centre may, after obtaining the Authority's approval, waive any requirement in these Regulations either based on a request from the relevant person or on its own initiative.

Article 19 Publication and entry into force

These Regulations shall be effective as per its approval resolution.

PART 8 ANNEX

ANNEX 1 MATTERS TO BE INCLUDED IN SBL AGREEMENTS

1.	Parties
	The name names of <u>all relevant parties of the SBL transaction including</u> the lender <u>and its, any</u> lending agent (if applicable) and the name of, the borrower and its, any borrowing agent (if as applicable).
2.	Duration
	The securities lending period.
3.	Return of borrowed securities
	The provisions of the return of borrowed securities, including any related notice periods.
4.	Securities
	Unless the parties agree otherwise, the securities to be borrowed and any securities provided as collateral must be delivered to the other party free of any encumbrances or restrictions.
5.	Acceptable collateral
	Arrangements for the delivery of collateral, the maintenance of margin and the substitution of collateral.
6.	Voting rights, distributions and corporate actions
	Determining the rights of the parties in respect of voting rights, distributions, and corporate actions relating to the borrowed securities and any securities provided as collateral.
7.	Events of default
	The rights and powers of either party in the event of a default by the other party, including with regard to collateral.
8.	Notices
	The methods of sending notices between the parties.

Note: the SBL agreement and any other relevant agreements shall be in line with and not contradicting these Rules and any Procedures issued by the Exchange.