



International Securities Lending Association (ISLA)
Securities Borrowing & Lending Guide:
Kingdom of Saudi Arabia

Background Information

About ISLA

The International Securities Lending Association (ISLA) is a leading non-profit industry association, representing the common interests of securities borrowing & lending market participants across Europe, Middle East, and Africa. Its geographically diverse membership of over 180 firms includes institutional investors, asset managers, custodial banks, prime brokers, and service providers.

ISLA's Focus on the Middle East

ISLA's goal is to foster the growth of the securities borrowing & lending industry thereby supporting market liquidity, stability, and growth of markets, and actively represent the long-term interests of all stakeholders. To this end, ISLA was mandated by its members to review the regulatory rules and market infrastructure across the Middle East with the goal of developing a common understanding and interpretation across the securities borrowing & lending (SBL) markets in a number of jurisdictions in the region. The first phase of this body of work focuses on the Kingdom of Saudi Arabia with further jurisdictions to follow.

The Role of Securities Borrowing & Lending

SBL plays a vitally important role in today's global capital markets. It is a fundamental means of mobilising securities quickly to ensure the efficient function, liquidity, stability and resilience of financial markets and provides opportunities for investors to generate additional portfolio income for end-users.

Significance of Securities Borrowing & Lending to the Kingdom of Saudi Arabia's Economic Growth Ambitions

SBL is gaining traction in Saudi Arabia and carries significant importance for its financial markets and wider economy, particularly in light of Saudi Vision 2030, the jurisdiction's ambitious diversification plan.

SBL will play a crucial role in making Saudi Arabia's capital market more efficient and diversified and its impact on the economy is expected to grow significantly. Benefits of a robust SBL sector include:

1. **Increased Market Efficiency & Liquidity:**
 - **Improved price discovery:** SBL helps uncover potential overvaluations and inefficiencies in the market, leading to more accurate pricing.
 - **Enhanced liquidity:** SBL is a vital instrument to assist market makers providing the market making function and thereby ensuring market liquidity for investors.
 - **Facilitates settlement:** SBL enables participants to borrow securities to cover any fails, increasing the settlement rate and attractiveness to investors.
 - **Supports derivatives market and enables short selling:** SBL enables participants to hedge outright positions and underwrite derivative positions.

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2. Diversification & Growth:

- **Supports economic diversification:** As Saudi Arabia seeks to diversify its economy, a vibrant capital market is crucial. SBL facilitates investment in diverse sectors, driving economic growth across multiple industries.
- **Attracts international investors:** A developed SBL market with efficient infrastructure enhances transparency and reduces risks, increasing the attractiveness of Saudi investment opportunities to foreign investors.

Current & Potential Future State of SBL

The SBL market in Saudi Arabia is relatively nascent, however the potential is vast, considering the size and liquidity of the Saudi Exchange. Through the Financial Sector Development Program, policy makers are evolving the regulatory framework to actively promote the development of the market.

It is important to note that, as with other financial and capital markets instruments, there are also potential risks associated with SBL, such as operational, counterparty default or market volatility risks, for example. However, with proper risk management and controls, governance, regulatory oversight and active engagement with the industry, these risks can be well-managed and mitigated.

ISLA Scope of Work in the Middle East

ISLA aims to support the growth of SBL in Saudi Arabia and the broader region through a phased body of work. Firstly, ISLA will look to publish several **country-specific reports** for key jurisdictions, providing its members with an overview for how to participate in the current SBL market as well as a detailed view of current regulatory and market frameworks, and an outlook of netting legislation in each respective country.

The guides also include an annex which sets out various scenarios for engaging in SBL in each jurisdiction, in accordance with the specific regulatory framework. Whilst the annexes include a number of different potential operating models, we recognise that this is a document for guidance only, based on member inputs, and does not seek to be a comprehensive list of all possible product offerings, given that some market participants may develop their bespoke SBL models based on their own legal, tax and regulatory advice and engagement with local regulatory bodies.

These guides will not only provide members with market leading insights to help inform their own Middle East growth agenda but will also provide a common interpretation to form the basis of ISLA's future regulatory engagement on behalf of its members in the region. This will take place in a second phase and include supporting the application of netting regulation and developing effective netting opinions as well as any technical aspects facilitating a broad participation from international firms, both of which are crucial for well-functioning SBL activity in the capital markets.

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For more information about ISLA please visit: www.islaemea.org