



The Kingdom of Saudi Arabia Set For Capital Markets Expansion

The Kingdom of Saudi Arabia (a G20 member) is by far the largest economy in the GCC and MENA regions with a GDP of \$678 billion, high rates of investment and stable monetary and exchange rate policies. Demographically, KSA population has reached 33.4 million in 2019 with nearly 60% of Saudis below 30 years of age and an urbanization rate of 80%.

In 2016, the Saudi government initiated Vision 2030, a comprehensive agenda of socio-economic reforms which is transforming the Saudi economy and is creating unprecedented investment opportunities.

Capital market reform is one of the main pillars of Vision 2030 and has been a linchpin in unlocking economic and investment potential.

Far-ranging reforms undertaken by the Saudi Stock Exchange (Tadawul), the Kingdom's sole authorised securities exchange, in conjunction with the Capital Market Authority (CMA) have improved market function and efficiency, expanded access, enhanced corporate governance, and increased transparency, further aligning the Saudi capital market with international standards and making it more attractive to both domestic and foreign investors.

Tadawul is the largest equity market in the GCC and MENA regions, the seventh largest emerging market and the 24th largest stock market in the world within the World Federation of Exchanges members. Moreover, Tadawul is home to more than 200 Saudi companies with a combined market capitalisation of more than \$548 billion. Tadawul is considered highly liquid with an average daily trading value of approximately \$1 billion YTD, and offers exposure to a diversified portfolio of asset classes covering 20 sectors.

From a regional perspective, Tadawul accounts for 69.1% of the combined market capitalisation and more than 76% of the combined trading value of all GCC Exchanges as of July 2019.

Over the past three years, Tadawul has implemented numerous measures to enhance the effectiveness of the Saudi Capital market, foster an attractive investment environment for local and international investors and align its regulatory frameworks with international best practices.

These measures have paved the way for fulfillment of the varying criteria used by the global index providers to reclassify KSA from Standalone Market to Emerging

Market status. In 2018, Tadawul gained inclusion in all three of the preeminent global benchmark indices – MSCI, FTSE Russell and S&P Dow Jones. Foreign investment inflows resulting from index inclusion will further support liquidity in the Saudi Capital Market, which is already among the most liquid emerging markets in the world, and diversify opportunities for issuers and investors alike, contributing to greater market maturity and stability.

Internationally, the promotion to EM status marks a key milestone for Saudi Arabia and rewards the depth and pace of reform that has taken place within the Kingdom's capital market.

Since inception of the program, more than 1300 international financial institutions have joined the Qualified Foreign Investors (QFI) program with hundreds more at various stages in the qualifying process. We expect that Saudi Arabia's recent inclusion in emerging market indices of all of the global index providers to further increase interest in the program.

In 2017, Tadawul introduced its Securities Borrowing and Lending ("SBL") and Short Selling Regulations (SSR) framework. Recently, in June 2019, Tadawul issued a Consultation Paper on proposed changes to the SBL and SSR frameworks. The key proposals in the Consultation Paper were as follows:

For SBL:

1. The existing requirement that Lenders and/or Lending Agents must be a custody member of the Securities Depository Centre (SDC) proposed be replaced with the requirement that Lenders/ Lending Agents must either be a custody member of the SDC or appoint a custody member of the SDC to facilitate the SBL.
2. The existing requirement that Borrowers must be a custody member of the SDC proposed to be replaced with the requirement that Borrowers must either be a custody member of the SDC or appoint a custody member of the SDC to facilitate the SBL.
3. Natural persons can be a Lender and Borrower.

For SSR:

1. The investment limits and monitoring process will be clarified.
2. Natural persons can participate in SSR.

The above changes are subject to final regulatory approval.

The proposed changes are expected to expand participation of SBL and SSR to a wider group of investors and intermediaries and will further enhance the market's efficiency and liquidity. The SBL and SSR proposals are part of a larger objective of Tadawul to become an active player in global capital markets, thus becoming an attractive investment destination, building on its current role as the regional hub leading capital market development in the GCC and the wider MENA region.

Mohammed Al-Rumaih has extensive experience in the financial sector, where he has successfully led several roles and responsibilities. Over the past 10 years in the Saudi Stock Exchange, he has successfully led various sales and marketing activities. Mohammed holds a Bachelor degree in Management Information Systems from King Fahd University of Petroleum & Minerals, and holds an MBA from the Manchester Business School.

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