

Saudi Arabia plans to open its stock market to allow foreign investment

On 22 July 2014, the Capital Market Authority of Saudi Arabia (the CMA) announced that the Saudi Arabian Council of Ministers had granted authority to the CMA to permit foreign financial institutions to buy and sell shares in companies listed on the Saudi Arabian Stock Exchange (Tadawul) and to prescribe the rules that will govern their access to the market.

What is happening?

The Tadawul, which is valued at over US\$530 billion, is the largest stock market in the Middle East, however currently the only way for foreign investors to gain exposure to companies listed on the Tadawul is through investment funds, including exchange traded funds, and swap arrangements. Whilst clearly a politically sensitive move by the Saudi

Arabian authorities, this announcement is widely viewed as being a significant development for the market and, more generally, Saudi Arabia.

The impact of this development on the current swap arrangements and whether the swap framework will be revised or, possibly, cease to exist following the opening of the market to foreign financial institutions is currently unclear.

How might this help?

In addition to attracting direct foreign investment, it will also allow listed Saudi companies to access new pools of capital, improve standards of disclosure and transparency and, in time, may help to facilitate M&A and capital markets activity through simplifying certain structuring and ownership issues that currently exist.

Furthermore, it can be viewed as a step towards inclusion in MSCI's emerging-markets index, following the recent re-classification of Qatar and the United Arab Emirates.

Which foreign financial institutions will qualify and what, if any, restrictions might apply?

It is currently unclear what types of foreign financial institutions will qualify, or be eligible, to trade in Saudi listed shares, what requirements will need

to be satisfied and whether the CMA's approval will be required each time such an investor wishes to trade in shares.

Furthermore and in common with other markets in the Gulf Co-operation Council member states, foreign investors may be restricted from owning in excess of a specific percentage of a company's shares, either individually or in aggregate, and ownership of shares in companies operating in certain sectors might be restricted or even prohibited. It is also unclear whether foreign investors will be permitted to buy shares in the primary market or only the secondary market.

We would expect the CMA to clarify some of these in the coming months (see below).

What next?

The CMA intends to publish a draft of the new rules for consultation by interested parties within the next month. The consultation period will last for 90 days. The CMA has indicated that it will conclude its review process by the end of 2014 following which implementation of the new rules and opening of the market is expected to take effect during the first half of 2015.

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