Cross-Border Listings Guide - Saudi Stock Exchange

Overview of exchange

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# Overview of exchange

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The Saudi Stock Exchange (commonly referred to as Tadawul) was formed as a joint stock company after receiving approval from the Council of Ministers on 19 March 2007. Tadawul acts as a securities exchange in the Kingdom of Saudi Arabia enabling companies to raise capital through offerings made on a platform and list their securities. Apart from listing services, Tadawul also provides cash trading, derivatives trading, market information, client relationship and operational services.

Tadawul is amongst the largest exchanges globally by market capitalization of listed companies (approximately SAR 11.26 trillion (approximately US$3.00 trillion) as at 31 December 2023).  This is demonstrated by the successful IPO of Saudi Aramco, one of the world's largest listed company in terms of market capitalization. The growing global relevance of Tadawul is further evidenced by its inclusion in the MSCI, FTSE Russell and S&P Emerging Market indices. Since April 2022, Saudi Arabia has been added to the FTSE Russell Emerging Markets Government Bond Index.

Historically, the first Saudi joint stock companies were established in the 1930s and by 1975 there were around 14 public companies in Saudi Arabia. In a bid to formalize, regulate and develop the Saudi market, the government formed a Ministerial Committee consisting of the Ministry of Finance and National Economy, the Ministry of Commerce and the Saudi Central Bank (SAMA). However, the SAMA was tasked with regulating and monitoring all market activities.

In July 2003, with the promulgation of the Capital Market Law pursuant to Royal Decree M/30, the Capital Market Authority (CMA) was established, which took over the regulating and monitoring functions of the Saudi stock market (as it was then) from SAMA. The CMA is now the sole regulator and supervisor of Tadawul and the Saudi Arabian capital markets generally. Its basic objectives are to create an appropriate investment environment, boost confidence, and reinforce transparency and disclosure standards in all listed companies, and moreover to protect the investors and dealers from illegal acts in the market.

The CMA has implemented a number of regulations with the aim of implementing the provisions of the Capital Market Law. These regulations include the Rules on the Offer of Securities and Continuing Obligations (OSCOs), the Listing Rules (outlining the minimum requirements and procedures for a company listing on the 'Main Market' referred to below), the Parallel Market Listing Rules (outlining the minimum requirements and procedures for a company listing on the 'Parallel Market' referred to below), the Market Conduct Regulations (outlining what constitutes illegal practices in relation to the market) and the Corporate Governance Regulations (outlining the basic governance of a listed company).

Tadawul does not limit the sectors from which companies are permitted to list. Current listed companies carry out insurance, pharmaceutical, banking, petrochemical, retail and telecommunication activities, among others. As of 1 January 2024, there were 231 companies listed on the Main Market and 79 companies listed on the Parallel Market of Tadawul.

Until recently, only domestic companies were allowed to apply for listing on the 'Main Market' of Tadawul. The Listing Rules allow for a foreign company to cross-list its securities on the Main Market and the exchange was opened up to foreign investors globally in 2015 with introduction of the "Rules for Qualified Foreign Financial Institutions Investments in Listed Securities", most recently amended in March 2023, under which certain 'Qualified Foreign Investors' (QFIs) are permitted to directly invest in Saudi listed companies. In addition, the most recent amendments of the OSCOs (the latest amendment being on January 2023) were introduced to provide further guidance around the cross-listing of foreign companies on the Main Market of Tadawul.

Another key development that signified the growing maturity of the Saudi market was the introduction of derivatives, which is a significant step to further advance the Saudi capital market by providing investors with a full and diversified range of investment products and services.

In early 2017 the CMA launched the 'Parallel Market' as an alternative listing platform for Saudi or Gulf Cooperation Council (GCC) companies (which are majority-owned by GCC citizens). The Parallel Market in intended to open up new investment opportunities for all types of companies, including SMEs, through greater access to capital as the listing requirements are less rigorous than those for the Main Market. The main objectives of establishing the Parallel Market, as stated by the CMA, include promoting the role of the exchange in providing funding sources and making the exchange more stable and appealing for investment, increasing diversification and deepening the Saudi capital market, as well as supporting the national economy and accelerating development.

Since 27 September 2022, the CMA announced a series of amendments to its implementing regulations designed to (i) facilitate the direct listing of debt instruments (including convertibles) offered by way of private placement; and (ii) introduce a framework for equity fundraising through crowdfunding platforms. The amended OSCOs now also provide for the public offer of exchangeable debt instruments.

These initiatives expand and further diversify the available channels for issuers to raise funds to achieve their business objectives. These developments permit a listed company to place up to 15% of its capital through the suspension of preemptive rights. The amendments signal the CMA's continuing commitment to drive the development of the Saudi capital markets through the further development of its debt market and its support for innovative practices, in the form of securities crowdfunding. The introduction of these developments are primarily reflected in the amended OSCOs and the Listing Rules, with certain additional amendments to Capital Market Institutions Regulations and Investment Account Instructions.

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