Commentary and Recommendations

BlackRock welcomes the publication for consultation of Capital Market Authority’s (CMA) draft rules for Qualified Foreign Financial Institutions - Investments in Listed Shares (the Draft Rules). In our view, their circulation marks a significant and encouraging move towards opening up of Saudi Arabia’s capital markets to foreign investment and diversifying the investor base in Saudi companies. BlackRock is one of the world’s leading asset management firms, managing approximately $4.65 trillion (as of 31 December 2014) on behalf of institutional and individual clients worldwide, including governments, pension funds, and corporations.

General comments

Developing the Saudi capital market
There are a number of practical steps, which with the encouragement of the CMA, could go a long way to stimulate greater foreign participation in the Saudi capital market. We believe that there is no substitute for corporate access. Investor confidence in specific companies is best engendered by face-to-face meetings in which the investor can ask questions around a company’s strategy and test the business plan. Such interaction between investors and companies could be more easily facilitated by periodically staging roadshows in London, New York and other global financial centres. The roadshows could, for example, be sponsored by the Saudi Stock Exchange. Additionally, greater foreign capital could be attracted into the Saudi market if companies are required to prepare their financial statements in accordance with globally accepted accounting standards and to publish them in English.

Pre-funding through t+0 settlement
The existing requirement to settle at t+0 coupled with the dual account structure creates a high degree of operational complexity in a no fail market. This could be a significant deterrent to foreign investors in the Saudi market. In our experience with other markets in the region requiring a dual account structure, the sub-custodian has failed to move shares to the trading account almost every single time we’ve had sell transactions, leading to operational events, costs and complexity.

In the short term and with respect to the Draft Rules, we would appreciate clarity around settlement time constraints and deadlines, as well as the communication and protocol to ensure we don’t fail. Examples of deadlines we are interested in learning about are:

- By what time does the SAR have to be in the account in order for the sub-custodian to inform the Stock Exchange of funds available for that day’s trading?
- Could wire transfers for transactions executed at the end of the trading sessions be processed the same day?
- What is the settlement time window after the end of the trading session?

In the longer term, we would suggest that the CMA reviews the unintended consequences of the requirement to pre-fund positions in Saudi securities via the t+0 rule on liquidity and foreign participation in the domestic capital market.

Technical comments

In relation to the Draft Rules, based on BlackRock’s experience of operating across a range of global markets we believe the following technical points merit further consideration:

- **Appeals – Article 4**
  We understand that any person subject to these Rules may appeal to the Committee in respect of any decision or action that the Authority takes under these Rules. We would appreciate the CMA specifying the ‘Committee’ being referred to in Article 4.

- **The Registration Conditions – Article 6**
  We would appreciate confirmation of the definition of ‘fund manager’ given the particular regulatory requirements that exist in certain jurisdictions that are based on this. As regards Article 6 (2), will the CMA be publishing a list of jurisdictions that it considers to be ‘equivalent’ or ‘acceptable’? As regards Article 6 (b) (1),
does ‘the applicant’ mean solo (i.e. the actual legal person applying to be the QFI) or consolidated (i.e. its
group as a whole)?

- **Accuracy of information submitted to the assessing authorised person – Article 10**
  As regards Article 10(b), which requires an applicant to notify an Authorised Assessing Person (AAP)
  “immediately” of any material changes to registration materials, we would appreciate clarification of what
  “immediately” would mean in this case.

- **Determination by the assessing authorised person – Article 11**
  We believe that a pre-application period prior to market opening could be appropriate to streamline the flow of
  authorisations.

- **QFI agreements – Article 12**
  We would encourage the CMA to publish standardised forms for all QFI agreements.

- **Authorisation requirements – Article 15**
  We would appreciate confirmation that if local brokers need to register for a trading account within the QFI’s
  trading account, whether the QFI would need to approve it. We would also appreciate confirmation of if there
  would be an option to leave shares in the trading account. If so, what custodial protections will be in place to
  prevent unauthorised trading of shares in the trading account?

- **Investment restrictions – Article 21**
  We consider the proposed limitations set out in Article 21 will prove to be overly restrictive and could in fact
disincentivise foreign investment in Saudi stocks. The restriction on QFIs in aggregate not being permitted to
hold more than 20% of the shares of any traded company, and the maximum proportion all foreign investors
(investing directly and via Swap Agreements) in total can hold is 10% of the total market value will restrict
Saudi companies being included in relevant benchmarks thus undermining the policy objectives of the Draft
Rules around diversifying sources of liquidity on the Saudi Stock Exchange. We would recommend that these
restrictions be revised to strike a better balance between protecting the interests of domestic and foreign
investors in Saudi stock. Additionally we would appreciate further clarity around whether the QFI is the
individual fund (e.g., iShares MSCI Saudi Arabia ETF, a fund complex (e.g., iShares Inc. or iShares Trust), the
Fund Advisor (e.g., BlackRock Fund Advisors, or BlackRock Inc.)

From a technical perspective it would be important to clarify that the data on the limitations mentioned in
Article 21 of the Draft Rules and summarised above are monitored, reported and available to authorised
persons and QFIs. It would be similarly important to clarify where and how this information will be
disseminated to the market, for example via the Saudi Stock Exchange or the Securities Depository Centre.

- **Powers of the Authority in relation to QFIs – Article 28**
  Regarding point d) in respect of the expression ‘QFI or any of its approved QFI clients’ (points 1-4 and 6) we
would recommend that there be a distinction drawn between the QFI and the clients of the QFI so the actions
or omissions of a QFI impact the QFI, while the actions or omissions of a particular QFI client impact the
particular QFI client rather than all QFI clients of the particular QFI.

Regarding point d) 2, “the QFI has not commenced trading in listed shares within 30 days of its registration,”
since the commencement of trading is dependent on a number of entities and organisations in multiple
jurisdictions, we would recommend removing this event from the list under Article 28 d., or to ameliorate it by
changing from 30 days to 180 days.

Regarding points e) and f) we would appreciate clarity on if ‘investor’ means QFI.

BlackRock appreciates the opportunity to provide comments and recommendations for the Draft Rules. We look
forward to continued engagement on this important project for the Saudi capital markets.