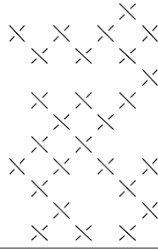




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Investing in Saudi Arabia: Direct Financing Investment Funds

Capital Markets Law

Since 2003 and the implementation of the Capital Markets Law (the “**Law**”), capital markets in Saudi Arabia have been regulated by the Capital Markets Authority (“**CMA**”). The CMA has been tasked with protecting investors and therefore a licensing and regulatory regime has been implemented. Securities¹ offered to the public are regulated in view of promoting a healthy, liquid and sophisticated capital market, encouraging investment vehicles such as funds.

Fund Structures in KSA

The CMA issued the Investment Fund Regulations (the “**IFR**”) providing initially for the following fund structures:

Fund Type	Permitted Investments
Public Fund	<ul style="list-style-type: none"> - Securities - Money market transactions concluded with a party subject to Saudi Central Bank supervision or equivalent regulator to the Saudi Central Bank in a jurisdiction outside the Kingdom - Bank deposits with a local bank or institution regulated by an equivalent regulator to the Saudi Central Bank in a jurisdiction outside the Kingdom - Real estate assets (however money and assets of a non-real estate closed-ended investment traded fund may not be invested in real estate) - Commodities
Real Estate Investment Fund	Publicly traded units in a real estate fund that owns, operates or finances income-producing real estate, property and projects.
Index Fund	May only invest in constituent securities of a specified index - solely comprised of securities traded on the Saudi Stock Exchange or any other exchange which is subject to regulatory standards and requirements at least equivalent to those of the Saudi Stock Exchange.

¹ Securities means any of the following (1) shares (2) debt instruments (3) warrants (4) certificates (5) units in funds (6) options (7) futures (8) contracts for differences (9) long term insurance contracts.

Exchange Traded Fund	A type of investment fund that tracks an underlying index; the exchange traded fund may invest in its own measurement indicator according to its terms and conditions.
Closed-End Investment Traded Fund	A closed-end investment fund with minimum initial subscription value of SAR 300 million for main market and SAR 100 million for parallel market.
Private Funds (including Private Real Estate Funds)	A private placement offer of units in a private fund where the investors are institutional and qualified clients and the maximum amount payable per offeree does not exceed SAR 200,000.
Foreign Funds	Private placement of a foreign fund authorized by the CMA.

Direct Financing Investment Funds

The CMA has recently approved the Instructions on Direct Financing Investment Funds (the “**Instructions**”). Any Direct Financing Fund in Saudi Arabia must comply with the Instructions in establishing, managing the fund and any offering. When creating and offering units in a Direct Financing Fund, the units must be offered by way of a private placement (Article 4 of the Instructions). The fund must also be a closed-ended special purpose vehicle whereby the total fund size at the time of establishment must be at least SAR 50million. In approving the application to establish a Direct Financing Fund, the CMA will review a detailed feasibility study to be submitted by the fund manager and the terms and conditions must be drafted carefully in compliance with the Law, IFR and Instructions.

Investors will benefit from Direct Financing Funds on the basis that they may invest directly towards limited investment projects with specific intentions. The limited scope of the fund offers investors the opportunity to direct their investments in a specific manner as opposed to open ended fund structures generally prevailing.

The Instructions include limitations on the Direct Financing Fund. Firstly, the fund may not provide direct financing to individuals (Article 5 of the Instructions). Secondly, the fund may not grant financing for a duration exceeding the lifetime of the fund and the borrowing may not exceed 50% of the fund’s size. Finally, the total direct financing provided by the Direct Financing Fund may not exceed its total size and the fund’s total exposure to one beneficiary or more in the same group may not exceed 25% of the total fund’s size.

Any Direct Financing Fund will be managed by a licensed Fund Manager who must manage the fund in accordance with Article 6 of the Instructions. The Fund Manager will set the policies and procedures of the fund including all aspects of granting credit, collection, complaints procedure and conflicts of interest policy whereby the board of directors of the fund will ensure the accuracy and completeness of such information. All calculations for profit and loss and accounting must be calculated in accordance with International Financial Reporting Standard (Article 6(7) of the Instructions).

Continuous Developments

The issuance of the Instructions on Direct Financing Investment Funds falls in line with the scope of the Financial Sector Development Program that was launched in 2017 as part of Saudi's Vision 2030 National Transformation Program. The program aims to develop a diversified and effective financial sector to support the development of the national economy, diversify its sources of income, and stimulate savings, finances, and investments. The aim is to achieve this ambition by boosting financial sector institutions, and by developing the Saudi financial market to become an advanced capital market without weakening the financial sector's stability.

Therefore, in addition to the issuance of the Instructions on Direct Financing Investment Funds, it is surely certain for further developments to be initiated in the coming months and years to provide ever-more sophisticated offerings in accordance with the expectations set by the traditional markets.