



Securities Depository Centre Company (“Edaa”)

Securities Borrowing and Lending Regulations

Approved by the Board of the Capital Market Authority Pursuant to its Resolution

Number (1-28-2017) Dated 16/6/1438H corresponding to 15/3/2017G

*And Amended Pursuant to Resolution Number (21-1-2021) Dated 10/7/1442H
corresponding to 22/2/2021G*

Arabic is the official language of the Saudi Stock Exchange

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PART 1 PRELIMINARY PROVISIONS

Article 1 Preliminary

The purpose of these Regulations is to set out the framework for securities borrowing and lending activities in respect of listed securities in the Kingdom.

Article 2 Definitions

- a. Any reference to the "Capital Market Law" in these Regulations shall mean the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H.
- b. Expressions and terms in these Regulations have the meaning which they bear in the Capital Market Law and in the Glossary of Defined Terms Used in the Exchange Rules, unless the contrary intention appears.

PART 2 SECURITIES BORROWING AND LENDING TRANSACTIONS

Article 3 SBL transactions

- a. An SBL transaction is a privately negotiated trade settled in Depository Centre accounts, under the terms of which:
- 1) a lender temporarily transfers ownership of listed securities to a borrower; and
 - 2) the borrower commits to return equivalent listed securities as specified by the Depository Centre.
- b. An SBL transaction must not be entered into unless all of the following conditions are met:
- 1) the SBL transaction is entered into between eligible participants as specified in Article 4 of these Regulations;
 - 2) the SBL transaction is entered into in respect of eligible listed securities as specified in Article 5 of these Regulations;
 - 3) in relation to the borrower, the SBL transaction is entered into for one of the following purposes:
 - i. executing a short selling transactions pursuant to the Short Selling Regulations;
 - ii. relending Securities to the clients of the Broker, Custody Member, or the Qualified Foreign Investor;
 - iii. the resolution of securities settlement failures;
 - iv. return of borrowed securities;
 - v. the creation of units of exchange traded fund; or
 - vi. other purposes determined by the Depository Centre from time to time;
 - 4) the SBL transaction complies with the minimum collateral requirement as specified in Article 6 of these Regulations;

- 5) the parties of the SBL transaction have in place a binding written SBL agreement in compliance with the requirements of Article 7 of these Regulations;
 - 6) The borrower and the lender or its agent, if any, have suitable arrangements for custody and to execute the SBL transaction, either by being a Custody Member or appointing a Custody Member; and
 - 7) the Custody Members referred to in subparagraph (6) of paragraph (b) of this Article and the lending agent, if any, must ensure that securities lending and borrowing by the investors that are not Qualified Investors is according to paragraph (b) of Article 4 of these Regulations.
- c. The requirements set out in Article 43 except subparagraphs (1), and (2) of paragraph (j) of the Capital Market Institutions Regulations applies to the SBL transactions.

Article 4 Eligible participants

- a. Entering into an SBL transaction is limited to the Qualified Investors.
- b. Notwithstanding paragraph (a) of this Article, investors who are not Qualified Investors may enter into an SBL transaction as a lender or a borrower (where applicable) after satisfying the following:
 - 1) in case of entering the transaction as a lending party, it must appoint a Lending Agent in accordance with Article (9) of these Regulations.
 - 2) in case of entering the transaction as a borrowing party, it must borrow the securities as a client from its Custody Member or Broker.

Article 5 Eligible listed securities

An SBL transaction may only be entered into in respect of listed securities which the Depository Centre specifies, after notifying the Authority.

Article 6 Minimum collateral

- a. A borrower entering into an SBL transaction shall provide and maintain financial collateral as specified in the SBL agreement.

- b. The value of collateral provided by the borrower shall at all times be not less than 100% of the current market value of the borrowed securities.

Article 7 SBL agreement

- a. The parties of an SBL transaction must enter into a binding written SBL agreement which, as a minimum, contains terms which govern the matters specified in Annex 1 of these Regulations.
- b. The Depository Centre may prohibit any potential party to an SBL transaction, whether as agent or principal (where applicable), from entering into an SBL transaction where in its view the terms of the SBL agreement do not meet the requirements set out in these Regulations.
- c. The Depository Centre is not obligated to review the relevant SBL agreement or verify its contents.

Article 8 Return of borrowed securities and collateral

- a. A lender of borrowed securities or its agent shall accept every return of equivalent securities from the borrower as specified in the SBL agreement, and re-deliver collateral corresponding to such return to the borrower as agreed in the SBL agreement.
- b. Where there has been a failure to return the borrowed securities or the collateral in accordance with the terms of the SBL agreement, the Custody Member entered into the SBL transaction shall notify the Depository Centre, and the Depository Centre will terminate the SBL transaction in accordance with the mechanism and controls prescribed by the Depository Centre from time to time.

PART 3 LENDING AGENT

Article 9 Lending agent

- a. A person may enter into an SBL transaction as lending agent if it is a Custody Member or a Broker.
- b. Each person who acts as a lending agent for a client who is a lender must ensure, before entering into SBL transactions on behalf of such client, that:
 - 1) a binding written SBL agreement with the relevant counterpart which complies with the requirements of these Regulations is in place;
 - 2) the terms on which the lending agent will act on behalf of the client are documented in writing; and
 - 3) the terms on which the Custody Member will act on behalf of the Broker referred to in paragraph (a) of this article are documented in writing, where applicable.
- c. The lending agent may assign a third party to carry out any of its functions as specified in the SBL agreement.

PART 4 POWERS OF THE AUTHORITY AND THE DEPOSITORY CENTRE

Article 10 Powers of the Authority and the Depository Centre

- a. The Authority, or the Depository Centre having obtained the approval of the Authority, may suspend or prohibit SBL transactions in respect of an eligible listed security, or may suspend or prohibit all SBL transactions in the Kingdom, at any time and as they deem fit, including but not limited to the following circumstances:
- 1) there are adverse events or developments which constitute a serious threat to financial stability or to market confidence;
 - 2) for the protection of investors;
 - 3) for the maintenance of an orderly market; or
 - 4) trading in a listed security is suspended.
- b. The Exchange will publish on its website any action taken by the Authority or the Depository Centre pursuant to their powers under paragraph (a) of this Article.

PART 5 REPORTING AND RECORD KEEPING REQUIREMENTS

Article 11 Copy of the SBL agreement

The Depository Centre may at any time require some or all Custody Members who entered into an SBL transaction, to submit a copy of the SBL agreement with the relevant counterpart to the Depository Centre in accordance with the mechanism and the controls prescribed by the Depository Centre from time to time.

Article 12 Reporting of SBL transactions

A Custody Member who has entered into an SBL transaction must report complete and accurate details of such transactions to the Depository Centre in accordance with the mechanism and the controls prescribed by the Depository Centre.

Article 13 Public disclosure of information

The Depository Centre may disclose any information with regard to SBL transactions as it deems fit.

Article 14 Record keeping

- a. A Custody Member who has entered into an SBL transaction must ensure recording and retaining sufficient information about its securities borrowing and lending activities to demonstrate compliance with the Capital Market Law, its Implementing Regulations, the Exchange Rules in general and these Regulations in particular.
- b. A Custody Member must ensure the records required to be maintained by these Regulations are retained for a period of at least ten years from the date of the SBL transaction unless the Depository Centre specifies otherwise. In the event such records relate to any litigation or claim (including any potential litigation) or any on-going investigations, the Custody Member must ensure such records are retained until the conclusion of that litigation, claim or on-going investigation.
- c. In addition to its powers under the Capital Market Law, the Depository Centre may request to inspect the records directly or through a person it appoints for that purpose upon giving reasonable prior notice in the context of the request to the Custody Member.

d. Records may be recorded in any form, but the Custody Member must be capable of reproduction in hard printed form. If the Depository Centre requires records to be produced in a particular electronic or other format, it shall give the Custody Member a reasonable period of time in the context to meet that request.

PART 6 GENERAL PROVISIONS

Article 15 Limit of liability

a. Without prejudice to the provisions of the Capital Market Law, its Implementing Regulations and the Exchange Rules, the Exchange or the Depository Centre shall not be held liable for any losses or damages incurred by any participant referred to in Article 4 of these Regulations, their clients or any other person who deals with the Depository and Settlement System which may arise directly or indirectly as a result of:

- 1) any procedures, orders or transactions that are subject to these Regulations;
- 2) the use of the Depository and Settlement System for SBL activities;
- 3) the partial or complete suspension or prohibition of SBL transactions, or the interruption of activities and services provided by the Exchange or the Depository Centre;
- 4) the exercise by the Exchange or the Depository Centre of any of their relevant powers under these Regulations, the Capital Market Law, its Implementing Regulations and the Exchange Rules; or
- 5) any service failure attributable to the Exchange or the Depository Centre by reason of an event outside of its control.

b. Without prejudice to the provisions of the Capital Market Law, the Exchange and the Depository Centre shall have no liability in respect of the accuracy, timeliness or completeness of SBL transaction reports or any other information published on its website from time to time.

Article 16 Waivers

The Depository Centre may, after obtaining the Authority's approval, waive any requirement in these Regulations either based on a request from the relevant person or on its own initiative.

Article 17 Publication and entry into force

These Regulations shall become effective upon their publication.

PART 7 ANNEX

ANNEX 1 MATTERS TO BE INCLUDED IN SBL AGREEMENTS

1.	Parties
	The names of all relevant parties of the SBL transaction including the borrower and the lender or any lending agent, as specified in paragraph (10) of this annex.
2.	Duration
	The SBL agreement period.
3.	Return of borrowed securities
	The provisions of the return of borrowed securities, including any related notice periods.
4.	Securities
	Unless the parties agree otherwise, the securities to be borrowed and any securities provided as collateral must be delivered to the other party free of any encumbrances or restrictions.
5.	Acceptable collateral
	Arrangements for the delivery of collateral, the maintenance of margin and the substitution of collateral.
6.	Voting rights, distributions and corporate actions
	Determining the rights of the parties in respect of voting rights, distributions, and corporate actions relating to the borrowed securities and any securities provided as collateral.
7.	Recall right
	The terms on which the lender has the right to recall the borrowed securities, if any, before the loan period end date.
8.	Events of default

	The rights and powers of either party in the event of a default by the other party, including with regard to collateral.
9.	Notices
	The methods of sending notices between the parties.
10.	SBL agreement annex (in case of appointing lending agent)
	<ul style="list-style-type: none"> a. lending Agent name. b. all lending agent client's names in the SBL agreement.

Note: the SBL agreement and any other relevant agreements shall be in line with and not contradicting these Regulations and any Procedures issued by the Depository Centre from time to time.