

CSDs: Tadawul (Saudi Arabia)

Date: 30 Aug 2013

SMI Markets: Saudi Arabia

## Tadawul Proposes Securities Independent Custody Model

The Saudi Stock Exchange (Tadawul) has proposed a new custody model, namely "Securities Independent Custody Model", which will enable custodians to participate in market settlement in the Saudi capital market. Details are summarised below:

- Custodians will be members of Tadawul with assigned member IDs and will settle cash obligations of their clients (investors) with the clearing house (Saudi Arabian Monetary Agency or SAMA) through their appointed clearing bank instead of the brokers as per existing module.
- A settlement cap will be maintained by local banks for custodians. In turn, custodians will maintain settlement cap for each of their clients so as to pre-validate their buying power before the execution a trade on exchange. This is expected to be achieved through a daily file upload mechanism. This settlement cap/buying power at individual investor level would be the available cash balance in the investors' cash account with their custodian.
- Custodians will maintain two accounts for each investor, namely custody account and trading (access) account. The trading account will allow brokers to trade on behalf of the investors. In addition, investors will be allowed to trade through multiple brokers.
- For a buy trade, the investor's trading account under the custodian will receive immediately the securities. The custodian can move these securities from the investor's trading account to the investor's custody account if needed. Broker will not have access to securities held in the custody account.
- For a sell trade, securities will be deducted from the investor's trading account maintained under the custodian. The custodian will have the option to block/unblock securities until cash payments are received from the investor.

The existing custody operating model will remain available to investors if they choose to continue with the existing module. The proposal is subject to the approval of the Capital Market Authority (CMA), with implementation planned for the 1st or 2nd Quarter of 2014.

## CSD Risk Impact

### Tadawul (Saudi Arabia)

CSD Rating: A-

CSD Flash Impact: Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Asset Safety Risk

Current Rating = AA

Flash Impact = Positive

Under the proposed model, the custodian will settle investors' market cash obligations with the clearing house (SAMA) through its appointed clearing bank instead of the brokers, mitigating counterparty risk exposures. Under the proposed model, the custodian will also have greater control over client securities through the operating of two accounts, i.e. trading account and custody account. Asset safety is therefore improved as brokers will not have access to those securities held in the custody account under the custodian.

## Market Information Impact

### Saudi Arabia

This information affects the data contained in the Settlement and Safekeeping/Post Settlement sections of the Securities Market Information Service.

## For further information contact:

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