

Strategy in action

4 Post-trade

When the decision was made in 2015 to open the market to foreign investors, it became necessary to reassure investors of the efficiency of trading, and that infrastructure would facilitate smooth trade and post-trade functions.

The infrastructure and process changes made by Tadawul have eliminated the need for prefunding from investors. They have also reduced risk and enabled independent custody services.

Completed and ongoing changes in post-trade

→ Adopting best practices

- Develop enhancements to the post-trade business model that adopts best international practice
- Adopt Legal and Regulatory changes required for the post-trade enhancements
- Prepare the new post-trade technology platform, that will enable the market expansion to new products and services
- Enhance the market to a standalone financial market with infrastructures for settlement and clearing by introducing Edaa and Muqassa

→ Structural improvements

- Launching order aggregation framework
- Enhancing settlement efficiency
- Improving Edaa's processes based on ISO 9001 standards
- Enhancing QFI Access to the market through improvements to ICM model
- Optimising e-voting mechanism
- Amending fees for unlisted companies to encourage use of registry services

→ Process improvements

- Establishing the Quality Management Committee and the Quality Committee Charter
- Modifying fails management fees in line with international investor expectations
- Defining the methodology for Quality Management Function
- Developing key risk indicators for Edaa's operations

There were several initiatives that Tadawul had embarked on, which contributed to upgrading the post-trade function as illustrated on the previous page. In addition, fails management controls were also introduced to deal with a situation where shares were not available to complete a sale.

Enhancements were made to the Independent Custody Model (ICM), which permits custodians to hold shares on behalf of investors. The ICM enables custodians to reject the settlement of unconfirmed trades. Securities borrowing and lending was also introduced.

Muqassa (Central Counterparty Clearing House)

The Securities Clearing Center Company (Muqassa) was established in 2018 as a closed joint stock company fully owned by the Saudi Stock Exchange (Tadawul), with a capital of SAR 600 Mn.

Muqassa's establishment and operation is one of the Financial Sector Development Program 2020 initiatives. In addition, an important component in the future market infrastructure to enhance market efficiency and expansion to new products and services.

Muqassa will contribute to reducing post-trade risks, provide a centralized counterparty risk management, and develop clearing services in accordance with international risk management practices.

For more information on Muqassa, visit:

<https://www.muqassa.sa>

Securities Depository Centre Company (Edaa)

To develop the Saudi capital market in alignment with the Kingdom's Vision 2030, a new strategy was developed for Edaa covering activities that take place in the stock market value chain after a trade takes place.

Looking ahead, Edaa will take a gradual approach to becoming a regional Central Securities Depository (ICSD); this will settle trades in other securities in the region. The possibility of entering into banking services that will leverage assets under custody to provide securities financing and foreign exchange services will be explored. There is also potential to develop investment fund services.

For more information on Edaa, visit:

<https://www.edaa.com.sa>

