



Draft Amendments to the definition of the term “Related Party” for the Purposes of the Rules on the Offer of Securities and Continuing Obligation and the term “Related Parties” for the Purposes of the Corporate Governance Regulations

A) Introduction

As part of the Capital Market Authority's ("CMA") strategic objectives to regulate and develop the capital market, and in line with the Saudi Vision 2030, and based on the Capital Market Law issued by Royal Decree No. (M/30) Dated 2/6/1424 H, the CMA Board issued its Resolution to publish the draft amendments to the definition of the term “Related Party” stipulated in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority for purposes of the Rules on the Offer of Securities and Continuing Obligation and the definition of the term “Related Parties” Stipulate in the Corporate Governance Regulations ("Draft Amendment"), for public consultation for a period of (60) calendar days ending on 11/11/1441H corresponding to 2/7/2020G.

Given the importance of investors' confidence in the capital market to the growth of the capital market, and in pursuance to the CMA's efforts to improve and develop all aspects that would enhance such confidence and enhance the efficiency of the regulatory environment and the level of governance and transparency in the capital market, the CMA places the responsibility to review and continuously improve the regulatory environment on the top of its priorities, and therefore seeks to adapt the best international standards in the field of corporate governance and promote good practices in their application.

B) Objectives of the Drafts Amendments and its main elements:

The Draft Amendments aim to develop the definition of the term “Related Party” for purposes of the Rules on the Offer of Securities and Continuing Obligation and the term “Related Parties” or purposes of the Corporate Governance Regulations, as the CMA believes in the importance of the corporate governance in the investors' protection and corporate sustainability and growth. The main elements of the Draft Amendments are:

- a) Aligning the scope of the definition of the term “Related Parties” used for the purposes of the Corporate Governance Regulations with the scope of the definition of the term “Related Parties” used for the purposes of the Rules of the Offer of Securities and Continuing Obligation.
- b) Aligning the scope of relatives that are considered related party on both the Corporate Governance Regulations and the Rules of the Offer of Securities and Continuing Obligation.



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- c) Considering the international best practices and the International Financial Reporting Standards (IFRS) in determining the categories of related parties.

C) Receiving public views

The CMA, with full gratitude, would receive the opinions and comments of relevant and interested persons through the prescribed form via the following email (Laws.Regulations@cma.org.sa).

All comments will be taken into full consideration for the purpose of finalizing the Draft Amendments.



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D) Proposed amendments to the definition of the term “Related Party” for the purposes of the Rules on the Offer of Securities and Continuing Obligation compared with the current provisions:

Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority	
Current Provisions	Provisions after Proposed Amendments
<p>Related Party:</p> <p>In the Rules on the Offer of Securities Continuing Obligations, means:</p> <ol style="list-style-type: none"> 1) affiliates of the issuer; 2) substantial shareholders of the issuer; 3) directors and senior executives of the issuer; 4) directors and senior executives of affiliates of the issuer; 5) directors and senior executives of substantial shareholders of the issuer; 6) any relatives of persons described at (1), (2), (3), (4) or (5) above; 7) any company controlled by any person described at (1), (2), (3), (4), (5) or (6) above. 	<p>Related Party:</p> <p>In the Rules on the Offer of Securities and Continuing Obligations, means:</p> <ol style="list-style-type: none"> 1) affiliates of the issuer, <u>except for the issuer’s wholly owned subsidiaries;</u> 2) substantial shareholders of the issuer; 3) directors and senior executives of the issuer; 4) directors and senior executives of affiliates of the issuer; 5) directors and senior executives of substantial shareholders of the issuer; 6) any relatives of persons described at (1), (2), (3), (4) or (5) above; 7) any company <u>or other entity</u> controlled by any person described at (1), (2), (3), (4), (5), or (6) above. <p><u>For purposes of paragraph (6) of this definition, relatives shall mean: father, mother, husband, wife, and children.</u></p>



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E) Proposed amendments to the term “Related Parties” for the purposes of the Corporate Governance Regulations compared with the current provisions:

Corporate Governance Regulations		
	Current Provisions	Provisions after Proposed Amendments
1	<p>Article 1: Definitions</p> <p>...</p> <p>Related Parties:</p> <p>A) Substantial Shareholders of the company.</p> <p>B) Board members of the Company or any of its affiliates and their relatives.</p> <p>C) Senior Executives of the Company or any of its affiliates and their relatives.</p> <p>D) Board members and Senior Executives of Substantial Shareholders of the company.</p> <p>E) Entities, other than companies, owned by a Board member or any Senior Executive or their relatives.</p> <p>F) Companies in which a Board member or a Senior Executive or any of their relatives is a partner.</p> <p>G) Companies in which a Board member or a Senior Executive or any of their relatives is a member of its Board of directors or is one of its Senior Executives.</p> <p>H) Joint stock companies in which a member of the Board or a Senior Executive or any of their relatives owns (5%) or more, subject to the provisions of paragraph (D) of this definition.</p> <p>I) Companies in which a Board member or a Senior Executive or any of their relatives has influence on their decisions</p>	<p>Article 1: Definitions</p> <p>...</p> <p>Related Parties:</p> <p>1) <u>affiliates of the Company, except for the company’s wholly owned affiliates;</u></p> <p>2) <u>substantial Shareholders of the company;</u></p> <p>3) <u>directors and senior executives of the company;</u></p> <p>4) <u>directors and senior executives of affiliates of the company;</u></p> <p>5) <u>directors and senior executives of substantial shareholders of the company;</u></p> <p>6) <u>any relatives of persons described at (1), (2), (3), (4) or (5) above;</u></p> <p>7) <u>any company or other entity controlled by any person described at (1), (2), (3), (4), (5), or (6) above.</u></p> <p><u>For purposes of paragraph (6) of this definition, relatives shall mean; father, mother, husband, wife, and children.</u></p>



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Corporate Governance Regulations		
	Current Provisions	Provisions after Proposed Amendments
	<p>even if only by giving advice or guidance.</p> <p>J) Any person whose advice or guidance influence the decisions of the Company, the Board and the Senior Executives.</p> <p>K) Holding companies or affiliates.</p> <p>Advice or guidance that is provided on a professional basis by a person licensed to provide such advice shall be excluded from the provisions of paragraphs (I) and (J) of this definition.</p>	
2	<p>Article 1: Definitions</p> <p>...</p> <p>Holding Company: a Joint Stock Company or Limited Liability Company aims to control other Joint Stock Companies or Limited Liability Companies called affiliates by owning more than half of those companies' share capitals or by controlling the composition of their management.</p>	<p>Deleting the definition of the term “Holding Company” from the Corporate Governance Regulations due to deleting this term in the proposed amendments to the definition of the term "related parties", and as this term is not used in any other provisions in the Corporate Governance Regulations.</p>