

**KINGDOM OF SAUDI ARABIA**

**Capital Market Authority**

**CENTRAL COUNTERPARTIES REGULATIONS**

*Issued by the Board of the Capital Market Authority*

*Pursuant to its Resolution Number 00-00-2019*

*Dated 00/00/1441H Corresponding to 00/00/2019G*

*Based on the Capital Market Law*

*issued by Royal Decree No. M/30 dated 2/6/1424H*

**Arabic is the official language of the Capital Market Authority**

**Important Notice:** The current version of these Regulations, as may be amended, can be  
found at the CMA website: [www.cma.org.sa](http://www.cma.org.sa)

## TABLE OF CONTENTS

### **Part 1: General Provisions**

- Article 1 – Preliminary
- Article 2 – Definitions
- Article 3 – Compliance with the Regulations and Rules
- Article 4 – Compliance with Principles for Financial Market Infrastructures
- Article 5 – Waivers

### **Part 2: Authorisation**

- Article 6 – General Provisions
- Article 7 – Requirements for Authorisation of a CCP Established in the Kingdom
- Article 8 – Ownership Structure of a CCP Established in the Kingdom
- Article 9 – Procedure and Powers of the Authority in relation to an Application for Authorisation of a CCP Established in the Kingdom
- Article 10: Requirements for Authorisation of a CCP Established out of the Kingdom
- Article 11: Maintenance of Authorisation
- Article 12 – Variation or Amendment to Authorisation
- Article 13 – Right of Appeal
- Article 14 – Fees
- Article 15 – Governance
- Article 16 – Withdrawal of Clearing Services and Cancellation of Authorisation

### **Part 3: Clearing**

- Article 17 – CCP Effecting Clearing
- Article 18 – Designated Securities

### **Part 4: Capital Base**

- Article 19 – General Business Risk Management
- Article 20 – Capital Base

### **Part 5: Clearing Members**

- Article 21 – Categories of Clearing Members
- Article 22 – Minimum Requirements

Article 23 – Clearing Membership

Article 24 – Monitoring of Compliance by Clearing Members

Article 25 – Exchange Members that Do not Hold Clearing Memberships

## **Part 6: Collateral**

Article 26 – Method of Delivering Collateral

Article 27 – Acceptable Collateral

Article 28 – Wrong-way Risk

Article 29 – Valuation Practices and Haircuts

Article 30 – Avoiding Concentration of Collateral

Article 31 – Management of Collateral

Article 32 – Reuse of Collateral

## **Part 7: Custody and Investment Risks**

Article 33 – Use of Custodians

Article 34 – Investment Strategy

## **Part 8: Margin**

Article 35 – Margin Requirement

Article 36 – Initial Margin Methodology

Article 37 – Variation Margin Methodology

Article 38 – Margin Calls

Article 39 – Testing Margin Coverage

## **Part 9: Credit Risk**

Article 40 – Measuring, Monitoring and Mitigating Credit Risk

Article 41 – Default Fund

Article 42 – Dedicated own Resources Allocated from CCP's own Capital

Article 43 – Testing the Sufficiency of the CCP's Total Financial Resources

## **Part 10: Liquidity Risk**

Article 44 – Measuring and Monitoring Liquidity Risk

Article 45 – Stress Testing Liquidity Needs and Resources

## **Part 11: Settlement Finality**

Article 46 – Settlement Finality

Article 47 – Money Settlements

Article 48 – Physical Deliveries

Article 49 – Exchange-of-value Settlement System

## **Part 12: Segregation and Portability**

Article 50 – Account Types

Article 51 – Framework for the Porting of Positions

Article 52 – Requirement to Disclose

## **Part 13: Clearing Member Default Management**

Article 53 – Designation of Clearing Member as Defaulting

Article 54 – Default Rules and Procedures

Article 55 – Periodic Testing and Review of Default Procedures

## **Part 14: CCP Recovery**

Article 56 – CCP Recovery Plan

Article 57 – Approving the Recovery Plan

## **Part 15: Other CCP Obligations**

Article 58 – Communication Procedures and Standards

Article 59 – Control Systems

Article 60 – Record Keeping

Article 61 – Disclosure of CCP Rules and Material Costs to Clearing Members

## **Part 16: Operational Risk**

Article 62 – Identifying Sources of Operational Risk

Article 63 – Operational Risk Management

Article 64 – Business Continuity Management

## **Part 17: Links between CCPs**

Article 65 – Interoperability Arrangements

Article 66 – Risk Management of Interoperability Arrangements

Article 67 – Provision of Margin among CCPs

**Part 18: Qualifying Central Counterparty**

Article 68 – Recognition of Qualifying Central Counterparty Status

**Part 19: Publication and Entry Into Force**

Article 69 – Publication and Entry Into Force

DRAFT

## PART 1: GENERAL PROVISIONS

### Article 1 : Preliminary

- a) The purpose of these Regulations is to regulate Securities Clearing activities in the Kingdom and specify the procedures and conditions for obtaining an authorisation to carry out such activities.
- b) The provisions of these Regulations shall apply to each CCP authorised in accordance with the Capital Market Law and these Regulations and to any applicant applying for authorisation.
- c) The provisions of these Regulations shall not apply to the clearing services provided by SAMA to Local Banks.

### Article 2 : Definitions

- a) Any reference to the “Capital Market Law” in these Regulations shall mean the Capital Market Law issued by the Royal Decree No. M/30 dated 2/6/1424H.
- b) Subject to paragraph (c) of this Article, expressions and terms in these Regulations have the meaning which they bear in the Capital Market Law and the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, unless the context indicates otherwise.
- c) For the purpose of implementing these Regulations, the following expressions and terms shall have the meaning they bear as follows, unless the context indicates otherwise:

**Novation:** a process whereby the original contract between one party and another party is discharged and replaced with two new contracts, one between the CCP and the first party and the other between the CCP and the second party.

**Interoperability Arrangement:** an arrangement between two or more CCPs that involves a cross system execution of transactions.

**Pass Through Service:** a service which may be offered by the CCP in respect of Designated Securities and Transactions to facilitate their settlement without providing Clearing services.

**Close Links:** means the relationship between a person (who is an applicant for authorisation or a CCP) and any of the following persons:

- 1) a controller of that person;
- 2) a company controlled by that person;
- 3) a company controlled by a controller of that person; or
- 4) a company controlled by any combination of the persons described in (1), (2) or (3) above..

**Liquid Net Assets:** assets funded by equity (including common stock, disclosed reserves or other retained earnings) which are not otherwise encumbered and freely available to cover General Business Risk.

**Qualifying Central Counterparty:** a CCP that has demonstrated that it is established and operating consistently with the Principles for Financial Market Infrastructures.

**Open Offer:** a process whereby the CCP extends an open offer to act as a counterparty to market participants and is immediately interposed in a transaction at the moment the two parties agree on the terms and pre-agreed conditions are satisfied.

**Independent Member of the Board:** a non-executive member of the board who enjoys complete independence in his position and decisions, including having no business, family or other relationship that raises a conflict of interests regarding the CCP, its management or its Clearing Members, and who has had no such relationship during the five years preceding his membership of the board.

**Clearing Member:** a Direct Clearing Member or a General Clearing Member.

**General Clearing Member:** has the meaning specified in paragraph (a) of Article 21 of these Regulations.

**Direct Clearing Member:** has the meaning specified in paragraph (a) of Article 21 of these Regulations.

**Convertible Currency:** a currency that can be readily bought or sold without restrictions imposed by any governmental authority in the Kingdom or in the jurisdiction which has issued the currency.

**Client:** a natural or legal person which:

- 1) is not a Clearing Member; and
- 2) has a contractual relationship with a Clearing Member which enables that person to clear its transactions with the CCP.

**CCP Rules:** the regulations, rules, procedures and instructions proposed by the Board of Directors of the CCP and approved by the Board of the Authority.

**Principles for Financial Market Infrastructures:** the international standards for financial market infrastructures issued by the Committee on Payment and Settlement Systems (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

**General Business Risk:** the risks and potential losses arising from the CCP's operation as a business, but excluding risks and losses related to a Clearing Member default. General Business Risk includes any potential impairment of the CCP's financial position as a consequence of a decline in its revenues or an increase in its expenses.

**CCP:** a central counterparty authorised in carrying out Securities Clearing activities in the Kingdom in accordance with the Capital Market Law and these Regulations that interposes itself between the counterparties to the Securities traded on one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

**Procyclical:** the changes in risk-management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability.

**Designated Securities and Transactions:** means Securities in respect of which the CCP has issued a notice designating such Securities as not benefitting from its Clearing service.

**Clearing:** the process of establishing each party's rights and obligations arising from Securities trading, including the calculation of net obligations, and ensuring that financial instruments or cash are available to secure the exposures arising from such obligations.

**Exchange-of-value settlement systems:** a system whereby settlement of transactions involve settlement of two linked obligations.

**Margin:** a Variation Margin or an Initial Margin.

**Variation Margin:** margin that is collected to cover the current exposure resulting from actual changes in market prices for each Clearing Member's position.

**Initial Margin:** margin that is collected to cover the potential future exposure resulting from potential changes in the value of each Clearing Member's position over the appropriate close-out period in the event that Clearing Member defaults.

### **Article 3 : Compliance with the Regulations and Rules**

- a) The CCP must comply with these Regulations and the regulations and rules applicable to it. The CCP must provide to the Authority without delay any information, records or documents that the Authority may require for the purpose of implementing the Capital Market Law and its Implementing Regulations.
- b) The governing body and employees of the CCP must comply with any request issued by the Authority to appear to explain any matter or to assist in any enquiry relating to implementing the Capital Market Law and its Implementing Regulations.

### **Article 4 : Compliance with Principles for Financial Market Infrastructures**

The CCP authorised in accordance with these Regulations shall be designated as a systematically important financial institution in the Kingdom. In this regard, the CCP is required to adhere to the Principles for Financial Market Infrastructures on an ongoing basis, including any related supplemental guidance issued from time to time by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions.

### **Article 5 : Waivers**

- a) The Authority may waive a provision of these Regulations in whole or in part as it applies to an applicant or a CCP either on an application from the applicant or the CCP or on its own initiative.
- b) The Authority will make an announcement of the waiver of any provisions where it believes that:
  - 1) the waiver of the provision may be of application to more than one CCP; and
  - 2) the publication of the waiver will not materially prejudice the CCPs.

## **PART 2: AUTHORISATION**

### **Article 6 : General Provisions**

- a) The CCP shall provide the services required to clear Securities transactions entered into on an Exchange or over-the-counter basis in accordance with the provisions of these Regulations. The CCP, after obtaining the Authority's approval, may provide any other service to Clearing Members.
- b) The CCP must have rules, procedures and contracts that are clear, understandable and consistent with the provisions of the Capital Market Law and these Regulations.
- c) The CCP, upon obtaining an authorisation from the Authority in accordance with the Capital Market Law and these Regulations, shall be considered an exempt person in accordance with the provisions of the Securities Business Regulations.
- d) The CCP shall submit an annual report to the Authority to ensure its compliance with all provisions of these Regulations.

### **Article 7 : Requirements for Authorisation of a CCP Established in the Kingdom**

- a) For the purposes of this Article, an applicant for authorisation means a legal person incorporated as a joint stock company in the Kingdom that is applying for authorisation to provide Securities Clearing services in the Kingdom. An applicant for authorisation becomes subject to these Regulations from the date of submission of its application.
- b) An applicant for authorisation as a CCP Established in the Kingdom must demonstrate to the Authority that:
  - 1) it has Liquid Net Assets greater than the higher of:
    - a. SAR 100,000,000;
    - b. six months anticipated operating expenses, excluding depreciation and amortization expenses; or
    - c. such other amount as required by the Authority in its absolute discretion;
  - 2) it is fit and proper and has adequate expertise and resources to carry out Securities Clearing services in the Kingdom;

- 3) it has managerial expertise, financial systems, risk management policies and systems, technological resources, policies and procedures, and systems that are sufficient to fulfil its business and regulatory obligations;
  - 4) its governing body, employees who will be involved in the applicant's Clearing services have the necessary qualifications, skills, experience and integrity;
  - 5) the identities of the shareholders that have holdings, whether direct or indirect, of 5% or more and of the amounts of those holdings.
  - 6) it will, upon authorisation, be in compliance with the Principles for Financial Market Infrastructures including, without limitation, the disclosure framework and assessment methodology; and
  - 7) the time span for the CCP recovery in accordance with the provisions of Article 20 of these Regulations.
  - 8) it will be in compliance with such requirements as may be determined by the Authority, in its discretion, from time to time.
- c) In addition to the authorisation requirements set out above, the Authority may stipulate additional authorisation requirements to be met by, or specific conditions or limitations to be applied to either all applicants for authorisation, or particular applicants or categories of applicants, as it considers appropriate.
- d) An application for authorisation may be submitted by the founders or controlling shareholders of an applicant if the applicant is not yet established. The founders or controlling shareholders become subject to the provisions that apply to an applicant from the date of submission of the application.
- e) The form and contents of the application and all information and documents filed with it must be as prescribed by the Authority.
- f) An applicant for authorisation must notify the Authority immediately of any material changes to the information provided to the Authority for the purposes of application for authorisation.
- g) If the applicant has close links with another natural or legal person, the Authority must be satisfied with the integrity, regulatory status, business record and financial soundness of any such natural or legal person, and that such close links will not impair

the effective supervision of the applicant, or its operations and compliance with these Regulations.

#### **Article 8 : Ownership Structure of a CCP Established in the Kingdom**

- a) The Authority shall refuse an application where it is not satisfied as to the suitability of the substantial shareholders of the applicant.
- b) The CCP established in the Kingdom shall be required to obtain prior approval from the Authority for any change in any shareholding that exceeds 5%.
- c) The CCP established in the Kingdom must notify the Authority, in such form as the Authority may prescribe, that a person is intending to establish close links with the CCP At least 30 days in advance of the proposed effective date, or if such advance notice is not possible, immediately on the CCP becoming aware of any change in close links. The notice must include such information as the Authority requires to satisfy itself of the identity of the person with whom the CCP proposes to establish close links, its integrity, regulatory status, business record and financial soundness.
- d) The CCP established in the Kingdom must not establish close links with another person unless the Authority has approved the close links in writing.
- e) Before approving any close links, the Authority must be satisfied that such links will not impair the effective supervision of the CCP established in the Kingdom or its operations and compliance with the Capital Market Law and its Implementing Regulations.
- f) Clearing Members, and Clients of Clearing Members, shall have no recourse to the equity of the CCP established in the Kingdom, save as provided in these Regulations and in the relevant CCP Rules. The liability of such CCP to its Clearing Members is limited as set out in these Regulations and in the relevant CCP Rules. Such CCP shall have no liability to any Client of its Clearing Members.

#### **Article 9 : Procedure and Powers of the Authority in relation to an Application for Authorisation of a CCP Established in the Kingdom**

- a) In considering an application, the Authority may:
  - 1) carry out any enquiries that it considers appropriate;

- 2) require the applicant, or its representative, to attend before the Authority to answer questions and explain any matter the Authority considers relevant to the application;
  - 3) require the applicant to provide such additional information as the Authority considers appropriate within 30 days of the request; and
  - 4) verify any information furnished by the applicant.
- b) The Authority may refuse to consider an application for authorisation where an applicant has failed to provide information requested from it, or has failed to provide information requested from it within the time requested.
- c) The Authority shall, upon receipt of all information and documents required, notify the applicant in writing of the same, and shall take any of the following decisions within a maximum period of 30 days from the date of the notice:
- 1) approve the application in whole or in part; or
  - 2) approve the application subject to such conditions and limitations as it considers appropriate; or
  - 3) refuse the application, giving reasons.
- d) The Authority may extend the period for assessment of an application for authorisation referred to in paragraph (c) of this Article if the applicant for authorisation intends to outsource any of its functions in accordance with paragraph (j) of Article 15 of these Regulations.
- e) If the Authority resolves to authorise the applicant, it will inform the applicant of this in writing and of any conditions and limitations that the Authority may consider appropriate.
- f) If the Authority resolves to refuse the application, it will notify the applicant in writing.
- g) An applicant must not provide, or hold itself out as providing, Securities Clearing services in the Kingdom prior to receiving the Authority's decision referred to in paragraph (e) of this Article.

## **Article 10 : Requirements for Authorisation of a CCP Established out of the Kingdom**

- a) For the purposes of this Article, an applicant for authorisation means a legal person incorporated as a joint stock company out of the Kingdom that is applying for authorisation to provide Securities Clearing services in the Kingdom. An applicant for authorisation becomes subject to these Regulations from the date of submission of its application.
- b) An applicant for authorisation as a CCP Established out of the Kingdom must demonstrate to the Authority that:
  - 1) it is authorised or otherwise subject to regulatory oversight by a regulatory authority and incorporated in a jurisdiction that applies regulatory and monitoring standards equivalent to those of the Authority or acceptable to it. For the purpose of this sub-paragraph, the Authority may, at its absolute discretion, determine whether the regulatory and monitoring standards are equivalent to those of the Authority or acceptable to it;
  - 2) it has given notice to its foreign regulator of its intention to offer Clearing services within the Kingdom;
  - 3) by conducting Clearing services in the Kingdom it will not violate any laws or regulations to which it is subject or any relevant requirements imposed by its foreign regulator;
  - 4) its foreign regulator is either willing, or has already, put in place cooperation arrangements which provide for the exchange of information between the foreign regulator and the Authority regarding the applicant;
  - 5) it complies with all relevant requirements set out in the CPMI IOSCO Principles.
- c) Based on the application submitted in accordance with paragraph (b) of this Article and any additional documents requested by the Authority, the Authority shall have the discretion to determine whether to approve the application. The Authority may stipulate additional authorisation requirements to be met by, or specific conditions or limitations to be applied to either all applicants for authorisation as a CCP established out of the Kingdom, or particular applicants or categories of applicants, as it considers appropriate.

## **Article 11 : Maintenance of Authorisation**

- a) As a condition for the maintenance of authorisation, the CCP must continue to be fit and proper to carry out Securities Clearing services in the Kingdom.
- b) The skills, experience, competence and integrity of a CCP's or applicant's employees and officers is an important factor in assessing whether it is fit and proper. The skills, experience, competence and integrity of the employees and officers will be assessed against the following criteria:
  - 1) they must possess adequate qualifications and professional experience to carry out their responsibilities, including appropriate technical knowledge and skills;
  - 2) they must have probity and soundness of judgement commensurate with their positions;
  - 3) they must fulfil their responsibilities with diligence and to protect the interests of Clearing Members and Clients in accordance with these Regulations and the Implementing Regulations;
  - 4) they must not have committed an offence involving fraud or dishonesty; and
  - 5) they have not been insolvent.
- c) Each CCP shall develop a code of conduct which will define acceptable and unacceptable behaviours and, at a minimum, should:
  - 1) make clear that employees are expected to conduct themselves ethically and perform their job with skill, due care and diligence in addition to complying with all the relevant laws, regulations and policies;
  - 2) require the CCP Board to oversee and approve how and by whom legitimate concerns shall be investigated and addressed.
- d) The Authority may require, as it considers appropriate, the CCP to maintain a minimum rating from an internationally recognised rating agency as a condition to maintaining authorisation.

## **Article 12 : Variation or Amendment to Authorisation**

- a) The CCP must apply to the Authority for approval of any proposed variation or amendment to its authorisation.
- b) The Authority has all the powers set out in this Part to consider a proposed variation or amendment, and may also require some or all of the information or documents referred in this Part to be updated.
- c) The Authority will aim to process an application to vary or amend an authorisation within 30 days from receiving all information that it considers necessary.
- d) After considering an application to vary or amend an authorisation, the Authority may:
  - 1) approve the application for variation or amendment in whole or in part;
  - 2) approve the application subject to such conditions and limitations as it considers appropriate;
  - 3) defer making a decision for such period as it may consider necessary to carry out further study or examination or to allow for the provision of additional information; or
  - 4) refuse the application, giving reasons.
- e) If the Authority resolves to approve an application for a change in authorisation, it will inform the CCP of this in writing and of its new authorisation, including any limitations that the Authority may consider appropriate.
- f) The CCP must not provide (or hold itself out as providing) the amended Clearing services before receiving the Authority's notification under paragraph (e) of this Article.
- g) If the Authority resolves to refuse the application for variation or amendment, it will notify the CCP in writing.

## **Article 13 : Right of Appeal**

An applicant for authorisation or the CCP may appeal to the Committee in respect of any decision or action that the Authority takes under these Regulations.

## **Article 14 : Fees**

- a) The applicant for authorisation must pay such fees as may be prescribed by the Authority.
- b) The CCP must pay all such fees as the Authority may prescribe for the maintenance of the CCP's authorisation.
- c) All fees proposed by the CCP for its Clearing services shall be approved by the Authority.

## **Article 15 : Governance**

- a) The CCP shall have documented governance arrangements which clearly and directly define the structure of the CCP Board, how management operates, division of responsibilities and reporting lines. The Authority will consider the CCP's governance arrangements as part of the authorisation process. In addition, the CCP shall disclose such arrangements to Clearing Members and the public.
- b) As a minimum, the CCP's written governance arrangements shall include:
  - 1) the role and composition of the CCP Board and any board committees;
  - 2) the Senior Executives structure;
  - 3) reporting lines between Senior Executives and the board;
  - 4) the ownership structure;
  - 5) internal governance policy;
  - 6) the design of risk management and internal controls;
  - 7) procedures for the appointment of board members and Senior Executives; and
  - 8) the processes for ensuring performance accountability.
- c) Governance arrangements should ensure sufficient independence for key functions such as risk management and internal audit.
- d) The number of Independent Directors in the CCP Board shall not be less than two members or one-third of the Board members, whichever is greater. The CCP Board

members should have a clear understanding of their roles in corporate governance, be able to devote sufficient time to their roles, ensure that their skills remain up-to-date, and have appropriate incentives to fulfil their roles.

- e) The CCP shall establish an audit committee in accordance with the Capital Market Law and the Companies Law and their Implementing Regulations. In addition, the CCP Board shall establish the committees referred to in paragraph (f) of this Article at a minimum, which shall be composed of suitable individuals that have an appropriate skills, experience, and knowledge of the CCP activities. Such committees may include the CCP Board members where needed.
- f) The CCP Board shall establish, as a minimum, the following committees:
  - 1) an information technology technical committee;
  - 2) a nomination and remuneration committee;
  - 3) a regulatory compliance committee; and
  - 4) a risk committee.

All such committees, and any other committees the CCP Board considers appropriate, shall have clearly assigned responsibilities and procedures and shall document all decisions reached and any supporting rationale for such decisions.

- g) The CCP Board policies and procedures shall include processes to identify, address, and manage potential conflicts of interest of the CCP Board members.
- h) The CCP Board shall establish a clear, documented risk-management framework that includes the CCP's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. The CCP Board shall regularly monitor the CCP's risk profile to ensure that it is consistent with the CCP's business strategy and risk-tolerance policy.
- i) The CCP Board shall ensure that there is adequate governance surrounding the adoption and use of models, such as for credit, collateral, margining, and liquidity risk-management systems. The CCP shall validate, on an ongoing basis, the models and their methodologies used to quantify, aggregate, and manage its risks. The validation process should be independent of the development, implementation, and operation of

the models and their methodologies, and the validation process should be subjected to an independent review of its adequacy and effectiveness.

- j) The CCP may outsource specific functions to an external party provided that:
  - 1) the appropriate safeguards are in place, which shall include a requirement that the external party implements equivalent business continuity requirements as are imposed on the CCP and undertakes to cooperate with the Authority in connection with the outsourced function;
  - 2) the Authority approval is obtained prior to the outsourcing of any material CCP functions, and
  - 3) none of its risk management functions are outsourced to an external party.

The CCP Board should ensure that outsourced functions meet the same requirements they would need to meet if they were provided internally. The CCP shall have robust arrangements for the selection, close monitoring of the performance and substitution of such external parties and shall make all information necessary to enable the Authority to assess the compliance of the performance of any outsourced functions with these Regulations.

- k) The CCP Board shall take into consideration the interests of all relevant stakeholders, including those of Clearing Members and the Clients of Clearing Members, in making major decisions, including those relating to the CCP's design, rules, and overall business strategy.

#### **Article 16 : Withdrawal of Clearing Services and Cancellation of Authorisation**

- a) The CCP that proposes to cease providing Securities Clearing services in the Kingdom must notify the Authority in writing of the date on which it intends to cease providing such Clearing services and the reasons for the decision:
  - 1) at least 45 days in advance of that date; or
  - 2) immediately on making such decision if such advance notice is not possible because cessation is caused by an external event to which the CCP was not aware.
- b) Where the CCP decides to cease providing certain Clearing services, it must ensure that any such Clearing business that is outstanding is properly completed or, after obtaining the Authority prior approval, is transferred to an appropriate service provider. The CCP

shall provide reasonable notice to its Clearing Members of the cessation of Clearing services.

- c) The CCP may request the cancellation of its authorisation, and must in this case submit a written request to the Authority not less than three months prior to the proposed date of the cancellation.
- d) A request to cancel an authorisation must include sufficient information concerning the circumstances of the cancellation to enable the Authority to determine whether to accept the cancellation, to postpone the date of the cancellation, or to require other measures that it considers necessary for the protection of Clearing Members of the CCP.
- e) The Authority may refuse a request to cancel an authorisation if it considers that the maintenance of the authorisation is necessary to investigate any matter affecting the CCP, to protect the interests of a CCP's Clearing Members, or to impose a prohibition or requirements on such CCP under the Capital Market Law or its Implementing Regulations.
- f) The Authority may suspend the CCP's authorisation on its own initiative if the CCP does not offer Securities Clearing services in the Kingdom for a period of 12 months, or 6 months following the date on which the CCP has ceased to offer any such Securities Clearing services after notification to the Authority in accordance with paragraph (a) of this Article.
- g) The CCP continues to be subject to the jurisdiction of the Authority in respect of any act or omission that occurred before the cancellation of its authorisation and for two years thereafter. If at any time during this period the Authority commences any enforcement investigation or proceedings, the CCP shall continue to be subject to the jurisdiction of the Authority until the end of the enforcement investigation or proceedings.

## **PART 3: CLEARING**

### **Article 17 : CCP Effecting Clearing**

- a) The CCP shall prescribe the process through which it effects Clearing in its CCP Rules. Such processes may include:
  - 1) Open Offer; or
  - 2) Novation.
- b) The CCP may establish in its CCP Rules different processes to effect Clearing depending on the type of Securities or type of transactions it is Clearing.

### **Article 18 : Designated Securities**

- a) The CCP may determine that certain Securities are not appropriate to clear, including where Securities are unlisted or illiquid. Where the CCP makes such a determination, it must notify the Authority of its intention not to clear such Securities, and it shall issue a notice on its website specifying such Securities as Designated Securities which shall not benefit from its Clearing service but shall be capable of benefiting from a Pass Through Service.
- b) The CCP shall not be permitted to become a counterparty to trades referencing Designated Securities, whether by way of Open Offer, Novation or otherwise. Consequently, the CCP shall ensure Designated Securities will be excluded from the determination of a Clearing Member's default fund contribution; and
- c) The CCP may determine the appropriate margin requirements for Designated Securities, with any pass through service being outside of the remit of the margining provisions set out in Part 8 of these Regulations.

## **PART 4: CAPITAL BASE**

### **Article 19 : General Business Risk Management**

- a) The CCP shall have robust management and control systems to identify, monitor and manage General Business Risk. Such management and control systems shall:
  - 1) identify the sources of General Business Risk and their potential impact on the CCP's operations and services, taking into account past loss events and financial projections where possible; and
  - 2) consider a combination of tools, such as risk management and internal control assessments, scenario analysis and sensitivity analysis to manage General Business Risk.
- b) The CCP shall notify the Authority immediately of any material changes to its General Business Risk management policy.

### **Article 20 : Capital Base**

- a) As part of its management of General Business Risks, the CCP shall hold Liquid Net Assets so that it can continue operations as a going concern if it incurs general business losses.
- b) The amount of Liquid Net Assets to be held by the CCP shall be determined taking into consideration the length of time required to achieve a recovery, as appropriate, of the CCP's critical operations and services.
- c) In order to determine the length of time referred to in paragraph (b) of this Article, the CCP shall submit to the Authority its estimate of the appropriate time span for recovering its activities as a condition of its authorisation. The estimated time span shall be sufficient to ensure restructuring of its activities or reorganising its operations. The CCP shall update its estimate of the appropriate time span for recovery whenever there is a significant change in the assumptions underlying the estimation and submit this updated estimate to the Authority for approval.
- d) In order to estimate the amount of Liquid Net Assets required, the CCP shall regularly analyse and understand how its revenue and operating expenses may change under a variety of adverse business scenarios as well as how it might be affected by extraordinary one-time losses.

- e) At a minimum, the CCP must hold Liquid Net Assets greater than the higher of:
  - 1) SAR 100,000,000;
  - 2) six months of current operating expenses, excluding depreciation and amortization expenses; or
  - 3) such other amount as required by the Authority in its absolute discretion.
- f) If at any time the amount of Liquid Net Assets held by the CCP is lower than the amount required pursuant to paragraph (e) of this Article, the CCP shall immediately notify the Authority and keep it updated at least weekly or as the Authority may otherwise specify, until the amount of capital held by such CCP returns above the approved amount.
- g) Assets held by the CCP to cover General Business Risk should be of high quality and sufficiently liquid and include cash denominated in SAR, other Convertible Currencies and liquid securities. When accounting for Liquid Net Assets available, the CCP shall not include any assets held to cover risks or losses relating to:
  - 1) the default of a Clearing Member; or
  - 2) the default of a third party, such as a settlement bank, payment system or other intermediary entity.

## **PART 5: CLEARING MEMBERS**

### **Article 21 : Categories of Clearing Members**

- a) The CCP shall establish, at a minimum, two categories of Clearing Members consisting of:
  - 1) Direct Clearing Members: a Clearing Member who is authorised to clear Securities which it has traded in its capacity as a member of an Exchange, including Securities it has traded on its own account and on behalf of its Client(s). A Direct Clearing Member shall not be permitted to clear for Exchange members that do not hold clearing memberships; and
  - 2) General Clearing Members: a Clearing Member who is authorised to clear Securities on behalf of its Client(s), including Exchange members that do not hold clearing memberships. A General Clearing Member, to the extent that it is a member of an Exchange, shall be permitted to clear Securities which it has traded in its capacity as a member of an Exchange, including Securities it has traded on its own account and on behalf of its Client(s).
- b) The CCP Rules may introduce classes of Direct Clearing Members and General Clearing Members per type of Securities or transactions cleared.

### **Article 22 : Minimum Requirements**

- a) The CCP Rules shall establish requirements applicable to Direct Clearing Members and General Clearing Members, which at a minimum must satisfy the following requirements:
  - 1) Direct Clearing Members must be (and maintain their status at all times as) a member of the Exchange in respect of which they clear Securities;
  - 2) General Clearing Members shall have the necessary additional financial resources and operational capacity to perform the activity of Clearing Securities on behalf of Exchange members that do not hold clearing memberships (in addition to Clearing Securities it has traded on its own account); and
  - 3) as a condition to becoming a Clearing Member, such party must enter into a contract with the CCP summarising the key terms of its relationship and agreeing to be bound by such CCP Rules as such may be amended from time to time.

- b) In establishing the minimum requirements set out in paragraph (a) above, the CCP shall consider risk-related considerations to ensure the relevant Clearing Member meets appropriate operational, functional and legal requirements to allow them to fulfil their obligations to such CCP on a timely basis and so as to ensure fair and open access to such CCP.
- c) The CCP Rules may impose specific additional obligations on Clearing Members, such as the requirement to participate in auctions of a defaulting Clearing Member's position. Such additional obligations shall be proportional to the risk brought by the relevant Clearing Member and shall not restrict participation to certain categories of Clearing Members.

### **Article 23 : Clearing Membership**

In addition to the requirements set out in Article 22 of these Regulations, Direct Clearing Members and General Clearing Members must satisfy one of the following requirements:

- 1) be an Authorised Person authorised by the Authority to carry on dealing business;
- 2) be an exempted person in accordance with the Securities Business Regulations; or
- 3) be a Local Bank which has received non-objection letters from both the Authority and SAMA to act as a Clearing Member. Upon becoming a Clearing Member, such Local Bank will be exempted from the authorisation requirement to carry on securities business in relation to its Securities clearing activities.

### **Article 24 : Monitoring of Compliance by Clearing Members**

- a) The CCP shall ensure the application of the criteria referred to in Article 22 of these Regulations is satisfied on an on-going basis and, in this regard, shall ensure its CCP Rules require delivery of timely and accurate information from Clearing Members. In addition, Clearing Members shall be required to deliver to the CCP upon its request information regarding the arrangements they adopt to allow their Clients access to such CCP, including in the case of General Clearing Members the arrangements they adopt to allow Exchange members that do not hold clearing memberships access to such CCP. Responsibility for ensuring that Clients comply with their obligations shall remain with the relevant Clearing Member.
- b) The CCP shall conduct, at least once a year, a comprehensive review of compliance with the CCP Rules (including the criteria referred to in Article 22 of these Regulations)

by its Clearing Members. The CCP shall have objective and transparent procedures for the suspension and orderly exit of Clearing Members that no longer meet the criteria set out in their CCP Rules, in addition to the procedures implemented for the voluntary termination by a Clearing Member of its membership.

#### **Article 25 : Exchange Members that Do not Hold Clearing Memberships**

- a) The CCP shall require the Exchange member that does not hold a clearing membership to clear Securities it has traded in its capacity as a member of an Exchange member through a General Clearing Member.
- b) The CCP may require the Exchange member that does not hold a clearing membership to satisfy additional requirements, which may include (without limitation):
  - 1) entering into a direct contractual relationship with the CCP; and
  - 2) the provision of additional information regarding its Clients on whose behalf has traded transactions.
- c) The CCP may permit the Exchange member that does not hold a clearing membership who has satisfied any additional requirement specified by such CCP in accordance with paragraph (b) of this Article to access certain services of the CCP including (without limitation):
  - 1) Opening, in its name, account(s) at the CCP detailing the positions of its Clients; and
  - 2) the generation of reports relating to the positions of its Client(s).
- d) At all times the Exchange member that does not hold a clearing membership shall be required to have a contractual relationship with a General Clearing Member, and such General Clearing Member shall remain liable to the CCP for all contracts cleared and attributable to such Exchange member. In this regard, such Exchange member shall not be required to:
  - 1) contribute to the default fund in accordance with Article 42 of these Regulations; and
  - 2) provide the CCP with margin in accordance with Part 8 of these Regulations,

which shall each remain obligations of the such Exchange Member's General Clearing Member.

DRAFT

## **PART 6: COLLATERAL**

### **Article 26 : Method of Delivering Collateral**

The CCP shall require each Clearing Member to deliver collateral. Any method permitted for the delivery of collateral by a Clearing Member to the CCP as specified in the CCP Rules must ensure that:

- 1) any collateral delivered shall be applied by the CCP in accordance with these Regulations; and
- 2) the CCP's ability to liquidate collateral to cover the positions of a Clearing Member to which such collateral relates is not restricted.

### **Article 27 : Acceptable Collateral**

- a) The CCP shall limit the assets it accepts as collateral to those with low credit, liquidity and market risks. It shall apply appropriate haircuts to such assets to reflect the risk that the collateral value may decline in the event of liquidation, particularly in stressed market conditions where the time taken to liquidate collateral may increase. The CCP shall take into consideration concentration risks when determining acceptable collateral and the haircuts to be applied to such collateral.
- b) The CCP may accept the following assets as acceptable collateral:
  - 1) cash denominated in SAR, EUR and USD;
  - 2) cash denominated in currencies other than those specified in paragraph (1) above, provided that it is a Convertible Currency and the CCP publishes procedures specifying how such additional Convertible Currency is accepted as collateral;
  - 3) financial instruments issued or explicitly guaranteed by the government of the Kingdom;
  - 4) financial instruments issued or explicitly guaranteed by a government body or supranational organization recognised by the Authority, provided that the CCP can demonstrate they have a low credit and market risk based upon an internal assessment objectively carried out by the CCP and the CCP publishes procedures specifying such additional financial instruments as acceptable collateral; and

- 5) financial instruments (other than those specified in paragraphs (3) and (4) above), provided that (i) the CCP can demonstrate they have been issued by an issuer with a low credit and market risk based upon an internal assessment objectively carried out by the CCP, (ii) such financial instruments are freely transferable and without any regulatory or legal constraint or third party claims that impair liquidation, (iii) such financial instruments have reliable price data published on a regular basis, and (iv) the CCP publishes procedures specifying such additional financial instruments as acceptable collateral.

### **Article 28 : Wrong-way Risk**

The Clearing Member may not provide collateral to the CCP that is guaranteed by such Clearing Member or by the group the Clearing Member belongs to.

### **Article 29 : Valuation Practices and Haircuts**

- a) The CCP shall establish and implement prudent valuation policies and procedures, and develop haircuts, that take into account stressed market conditions. The CCP's policies and procedures shall provide for marking the value of collateral to market at least on a daily basis.
- b) The CCP shall monitor on a regular basis, and at a minimum annually and each time a material change occurs that impacts on the CCP's risk exposure, the adequacy of its valuation policies and procedures. Such validation should be carried out by persons independent to the personnel that created and applied the valuation policies and procedures.
- c) Haircuts shall reflect the potential for asset values and liquidity to decline over the interval between their last revaluation and the time by which the CCP can reasonably assume that the assets can be liquidated. The CCP will establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions in order to reduce the need for Procyclical adjustments.
- d) In determining the haircut to be applied to each collateral asset, the CCP shall consider the following relevant criteria to produce a confidence level of at least 99% for Securities traded in an Exchange and 99.5% for Securities traded over the counter:
  - 1) the type of asset and level of credit risk associated with such asset based upon an internal assessment objectively carried out by the CCP;

- 2) the maturity of the asset;
- 3) the historical and hypothetical future price volatility of the asset in stressed market conditions. For this purpose, the CCP shall use 10 years of historical data if such data is available;
- 4) the liquidity of the underlying market. For this purpose, the CCP shall, at a minimum, assume a holding period of at least 2 days;
- 5) the foreign exchange risk, if any; and
- 6) any potential wrong-way risk associated with the collateral.

#### **Article 30 : Avoiding Concentration of Collateral**

- a) The CCP shall maintain policies and procedures regarding concentration limits to ensure collateral received remains sufficiently diversified to allow its liquidation quickly without significant market impacts. Such policies and procedures shall also detail the techniques to be employed by the CCP when concentration limits are breached.
- b) The CCP shall monitor on a regular basis the adequacy of its concentration limit policies and procedures. The CCP shall review its concentration limit policy and procedure at least annually and whenever a material change occurs that affects the risk exposure of the CCP.
- c) The concentration limits will consist of:
  - 1) minimum limits to be applied on the amount of SAR denominated cash to be provided as collateral; and
  - 2) maximum limits to be applied on all other asset classes. Such maximum limits shall be developed by the CCP and, with respect to financial instruments, on the basis of:
    - a. individual issuers, taking into account the level of credit risk of their financial instrument or of the issuer based upon an internal assessment objectively carried out by the CCP. In any event, no more than 10% of the total collateral received by the CCP may be guaranteed by a single issuer or by a legal person that is part of the same group as such issuer, save that such limitation shall not

- be applicable to financial instruments issued or guaranteed by the government of the Kingdom;
- b. issuers of the same type in terms of economic sector, activity, geographic region;
  - c. the liquidity and the price volatility of the financial instruments;
  - d. each Clearing Member; and
  - e. all Clearing Members.
- d) The CCP shall inform Clearing Members of the applicable concentration limits and of any amendment to these limits. If the CCP materially breaches a concentration limit set out in its policies and procedures, it shall rectify the breach as soon as possible.

### **Article 31 : Management of Collateral**

- a) The CCP shall establish and implement policies and procedures to continuously monitor the handling of collateral, including recording the extent of reuse of collateral. Such policies and procedures will underpin an effective, efficient and operationally flexible system which also provides functionality to accommodate the timely deposit, withdrawal, substitution and liquidation of collateral.
- b) The CCP shall be required to review its policies and procedures regarding the management of collateral at least annually and each time a material change occurs that affects the CCP's risk exposure.

### **Article 32 : Reuse of Collateral**

The CCP shall be permitted to use collateral provided to it by Clearing Members if:

- 1) the CCP Rules to which such Clearing Member is bound explicitly permit the use by the CCP of such collateral;
- 2) the CCP has clear and transparent rules and procedures regarding the reuse of collateral, which specify when such CCP may reuse collateral and the process of returning such collateral to Clearing Members; and
- 3) at all times the CCP is in adherence with its investment policy, in accordance with Article 34 of these Regulations.

## PART 7: CUSTODY AND INVESTMENT RISKS

### Article 33 : Use of Custodians

- a) The CCP shall develop rules and procedures to ensure that assets are held at authorised, supervised and regulated legal persons and must undertake a risk assessment prior to holding assets with them to ensure that the custodian has in place adequate arrangements to safeguard the assets, and is subject to appropriate standards of regulatory oversight. The CCP must conduct such assessment as frequently as required to ensure that the requirements stated in this paragraph are met on a continuing basis.
- b) The CCP shall ensure that assets are held in a manner that assures the CCP of prompt access to such assets.
- c) To mitigate the custody risk taken, the CCP must ensure that assets held in custody will be protected against claims of a custodian's creditors, provide for the segregation of assets.
- d) Without prejudice to the requirements relevant for custodians as set out in paragraph (a) of this Article, the CCP may hold assets with:
  - 1) Depositories Centres for assets held in the Kingdom, and central securities depositories and securities settlement systems for that the CCP considers offer equivalent protections and safeguards as the Center for assets held out of the Kingdom;
  - 2) operators of payment systems where such assets are cash, either in the Kingdom and falling within the remit of SAMA or out of the Kingdom and in respect of which the CCP considers equivalent protections and safeguards are maintained, without prejudice to SAMA's authority in supervising and regulating payment systems in the Kingdom; or
  - 3) any other entities as may be determined by the Authority.
- e) Without prejudice to the requirements relevant for custodians as set out in paragraph (a) of this Article, where the CCP uses a custodian that does not fall within the categories designated in paragraph (d) of this Article, the CCP shall regularly evaluate its exposure to such custodian. As part of its monitoring, the CCP shall take into account the full scope of relationships with such custodian, particularly where such custodian is also a Clearing Member, provider of liquidity or issuer of financial

instruments received by the CCP as collateral. The CCP should consider using multiple custodians to diversify its exposure to a single custodian and shall, in any event, monitor the concentration of risk exposures to, and financial condition of, such custodians on an ongoing basis. Any choice of custodian should at all times be subject to no conflicts of interest and to, as far as possible, neutralising the risks the CCP is exposed to.

#### **Article 34 : Investment Strategy**

- a) The CCP shall maintain policies and procedures to ensure that the financial instruments in which its financial resources are invested are at all times consistent with its overall risk management strategy.
- b) The CCP shall invest its financial resources only in cash or in highly liquid financial instruments with minimal market and credit risk. The CCP's investments shall be capable of being liquidated rapidly with minimal adverse price effect.
- c) The CCP shall determine concentration limits and monitor the concentration of its financial resources as they apply to investments at the level of:
  - 1) individual financial instruments, taking into account the liquidity and the price volatility of such financial instruments;
  - 2) individual issuers, taking into account the level of credit risk being taken on the issuer and the group to which such issuer belongs based upon an internal assessment objectively carried out by the CCP; and
  - 3) issuers of the same type in terms of economic sector, activity and geographic region.
- d) The CCP shall monitor on a regular basis the adequacy of its concentration limit policies and procedures as they apply to investments. The CCP shall review its concentration limit policy and procedure at least annually and whenever a material change occurs that affects its risk exposure.
- e) The CCP shall inform Clearing Members of the applicable concentration limits and of any amendment to these limits. If the CCP materially breaches a concentration limit set out in its policies and procedures, it shall rectify the breach as soon as possible.

## PART 8: MARGIN

### Article 35 : Margin Requirement

- a) The CCP Rules shall specify margin requirements with clear models and parameters, and the CCP shall impose, call and collect margin to limit its credit exposure to its Clearing Members. The CCP's margin requirements shall establish margin levels commensurate with the risks and particular attributes of each product and market it serves and must reflect the availability of timely, high-quality pricing data.
- b) The models and parameters adopted by the CCP must provide for Initial Margin and, where appropriate, Variation Margin and the CCP shall regularly monitor and, if necessary, revise its models and parameters to reflect current market conditions. Any such revisions shall take into account any potentially Procyclical effects. In addition, the CCP may provide, where a Clearing Member has breached limits set by the CCP, for the provision of additional margin as determined by the CCP and set out in the CCP Rules.
- c) In calculating margin requirements, the CCP may allow offsets or reductions in required margin amounts between financial instruments that it clears if the risk of one product is significantly and reliably correlated with the risk of another product. The CCP shall base such offsets on a methodology that reflects the degree of price dependence between the products. Such methodology shall be documented and shall at least provide that the correlation, or an equivalent statistical parameter of dependence, between two or more products cleared is shown to be reliable over any specified lookback periods. Notwithstanding the foregoing, offsets or reductions in required margin amounts between financial instruments shall only be permitted to the extent such financial instruments are covered by the same default fund.

### Article 36 : Initial Margin Methodology

- a) The CCP shall adopt a risk-based Initial Margin model that generates margin requirements that are sufficient to cover its potential future exposures to a Clearing Member in the interval between the last margin collection and the close out of positions following a Clearing Member default. Initial Margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure.
- b) As part of its risk-based Initial Margin model, the CCP shall:

- 1) select an appropriate close-out period for each product that it clears, which shall be no less than 2 days for transactions concluded on an Exchange and 5 days for transactions concluded over the counter, and document the close-out periods and related analysis for each product type. It shall base its determination upon historical price and liquidity data, as well as reasonably foreseeable events in a default scenario;
  - 2) select an appropriate sample period to calculate required Initial Margin for each product that it clears and document the period and related analysis for each product type. Selection of the period should be carefully examined based on the theoretical properties of the model and empirical tests on these properties using historical data;
  - 3) identify and mitigate any credit exposure that may give rise to specific wrong-way risk, where an exposure to a Clearing Member is highly likely to increase when the creditworthiness of that Clearing Member is deteriorating; and
  - 4) address Procyclicality in its margin arrangements to limit the need and likelihood of large or unexpected margin calls in times of market stress.
- c) Following the application of offsets and reductions in accordance with paragraph (c) of Article 35 of these Regulations and without prejudice to the provisions of this Article, the CCP needs to ensure that Initial Margin meets or exceeds the single-tailed confidence level of at least 99 percent with respect to the estimated distribution of the future exposure of the portfolio.

### **Article 37 : Variation Margin Methodology**

- a) The CCP must:
  - 1) ascertain its current exposure to each Clearing Member by marking each Clearing Member's outstanding positions to current market practices; and
  - 2) collect Variation Margin from Clearing Members whose positions have lost value.
- b) The CCP has the right to settle any Variation Margin collected against gains and losses. Where the CCP intends to exercise such right this must:
  - 1) be provided for in the CCP Rules; and
  - 2) shall also specify which Securities are subject to such right to settle Variation Margin against gains and losses.

### **Article 38 : Margin Calls**

- a) The CCP shall have the right and operational capacity to make both end of day and intraday margin calls, both scheduled and unscheduled, to Clearing Members. Such right shall be included in the CCP Rules.
- b) Margin calls are transmitted to Clearing Members through an electronic system and/or other channels that are defined in CCP Rules. Clearing Members are obliged to meet each margin call within the stipulated deadlines determined by the CCP.

### **Article 39 : Testing Margin Coverage**

- a) The CCP shall have a reliable source of timely price data as well as procedures and sound valuation models for addressing circumstances in which pricing data or third-party sources are not readily available or reliable. The valuation models used by the CCP shall be validated under a variety of market scenarios at least annually by a qualified and independent party to ensure that any such models accurately produce appropriate prices, and where appropriate, the CCP should adjust its calculation of Initial Margin to reflect any identified model risk.
- b) The CCP shall analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and, on at least a monthly basis, sensitivity analysis. The CCP shall regularly conduct an assessment of the theoretical and empirical properties of its margin model in respect of all products it clears.
- c) The CCP shall backtest its margin coverage using Clearing Members' positions from each day in order to evaluate whether there are any exceptions to its margin coverage. This assessment of margin coverage should be considered an integral part of the evaluation of the model's performance. In case backtesting indicates that the model did not identify the appropriate amount of Initial Margin necessary to achieve the intended coverage, the CCP should have clear procedures for recalibrating its margining system.
- d) The CCP should test the sensitivity of its margin model coverage using a wide range of parameters and assumptions that reflect possible market conditions in order to understand how the level of margin coverage might be affected by highly stressed market conditions and should ensure that the range of parameters and assumptions captures a variety of historical and hypothetical conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.

- e) The CCP shall report the results of its backtesting and sensitivity analysis to the Authority on a regular basis, and at a minimum quarterly.

DRAFT

## **PART 9: CREDIT RISK**

### **Article 40 : Measuring, Monitoring and Mitigating Credit Risk**

- a) The CCP shall identify sources of credit risk and effectively measure and monitor its credit exposures to Clearing Members and those arising from its payment, Clearing, and settlement processes. In particular, it shall regularly measure and monitor its credit risks throughout the day using timely information.
- b) The CCP shall establish a robust framework to manage its credit exposures to Clearing Members and the credit risks arising from its payment, Clearing, and settlement processes. In order to estimate the potential future exposures that could result from Clearing Member defaults, the CCP should identify risk factors and monitor potential market developments and conditions that could affect the size and likelihood of its losses in the close out of a defaulting Clearing Member's positions.
- c) The CCP shall mitigate its credit risks to the extent possible.
- d) The CCP shall at all times maintain sufficient financial resources to cover its credit exposure to each Clearing Member fully with a high degree of confidence. In addition, the CCP shall maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two Clearing Members and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. The CCP shall document its rationale for determining its aggregate levels of total financial resources, and shall share this rationale with the Authority upon request.
- e) The CCP is entitled to impose risk limits on each of its Clearing Members.

### **Article 41 : Default Fund**

- a) To limit the CCP's credit exposure to its Clearing Members and reduce systemic risk in the market, the CCP shall maintain a pre-funded default fund to cover losses that exceed the losses covered by the margin requirements provided for in Part 8 of these Regulations.
- b) The CCP may establish more than one default fund for the different classes of instrument that it clears. The level of the default fund shall be sufficient to enable the CCP to withstand the default of its largest Clearing Member or the default of its second and third largest Clearing Members if the sum of their exposures is larger, each under

extreme but plausible market conditions. The CCP shall develop scenarios of extreme but plausible market conditions, which shall include the most volatile periods that have been experienced by the markets for which the CCP provides its services and a range of potential future scenarios.

- c) The determination of the size of the default fund in accordance with paragraph (a) of this Article shall be revalued on at least a monthly basis and each time a material change occurs that impacts the CCP's risk exposure.
- d) The CCP Rules shall establish the minimum size of contributions to the default fund and the criteria to calculate the contributions of each Clearing Member.
- e) The contributions of each Clearing Member to the default fund shall be proportional to the risks of each Clearing Member.
- f) All contributions provided by a Clearing Member to satisfy its default fund contribution must be provided from such Clearing Member's own balance sheet. The Clearing Member shall not be permitted to use any assets attributable to an Individual Client Account or an Omnibus Client Accounts, or otherwise legally or beneficially owned by a Client, to satisfy such Clearing Member's default fund contributions to the CCP.
- g) The CCP shall open and operate separate accounts to maintain the default fund contributions of its Clearing Members.

#### **Article 42 : Dedicated own Resources Allocated from CCP's own Capital**

- a) The CCP shall maintain a certain level of financial resources to cover potential losses that exceed the losses covered by the margin requirements provided for in Part 8 of these Regulations and the default fund as provided for in Article 41 of these Regulations.
- b) The CCP Board shall allocate the quantum of the additional financial resources referred to in paragraph (a) of this Article, but at a minimum shall be no less than 10% of the minimum capital requirement of the CCP as determined in accordance with Article 20 of these Regulations, and shall not be double counted as forming part of the capital base.
- c) To the extent the CCP has more than one default fund, it shall allocate financial resources in accordance with this Article in proportion to the size of each such default fund.

- d) The CCP Board shall review the amount of dedicated own resources and, if applicable, allocation to each default fund on an annual basis and if necessary revise the quantum and/or allocation of its own dedicated own resources.

#### **Article 43 : Testing the Sufficiency of the CCP's Total Financial Resources**

- a) The CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. The CCP should have clear procedures to report the results of its stress tests to appropriate internal decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources.
- b) The CCP shall conduct reverse stress tests, as appropriate, to test how severe stress conditions would be covered by its total financial resources.
- c) In conducting stress testing, the CCP shall consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.
- d) Stress tests should be performed on a daily basis using standard and predetermined parameters and assumptions. The CCP, on a regular basis and at least monthly, shall perform a comprehensive and thorough analysis of stress-testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions.
- e) The CCP shall report the results of its stress test to SAMA and notify the Authority of it on a regular basis, and at a minimum quarterly.

## **PART 10: LIQUIDITY RISK**

### **Article 44 : Measuring and Monitoring Liquidity Risk**

- a) The CCP shall at all times have access to adequate liquidity and maintain sufficient liquid resources in all relevant currencies to settle its payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios. Such scenarios should include, but not be limited to, the default of the Clearing Member and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.
- b) To measure its liquidity requirements, the CCP shall identify its sources of liquidity risk. Such sources shall include, but not to be limited to, the following:
  - 1) potential defaults of Clearing Members;
  - 2) the value and concentration of its daily settlement and funding flows through its settlement banks, payment systems, any bank at which currency is held (whether denominated in SAR or otherwise) and other intermediaries;
  - 3) the risk that the CCP's investment activity does not generate the return expected;
  - 4) payments to settle required margin and other payment obligations over multiple days to account for multiday hedging and close-out activities as directed by a CCP's default procedures;
  - 5) the concentration of its liquidity risks, including its exposures to legal persons in the same group and interdependencies across different legal persons; and
  - 6) foreign exchange risk, particularly where liquid resources and settlement obligations of the CCP are denominated in different currencies.
- c) On the basis of the measure of liquidity carried out in paragraph (b) of this Article, the CCP shall assess its current and potential future liquidity needs on a daily basis and have in place effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.
- d) The CCP Rules of the CCP must explicitly enable it to effect same-day as well as, where appropriate, intraday and multiday settlement of payment obligations on time

following any individual or combined default among Clearing Members. The CCP Rules should address unforeseen and potentially uncovered liquidity shortfalls.

- e) The CCP shall carefully analyse its liquidity needs and shall maintain sufficient liquid resources in all relevant currencies to settle all payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios. The CCP shall regularly assess the design and operation of their liquidity management framework, including considering the results of the stress tests carried out in accordance with Article 45 of these Regulations.
- f) For the purposes of this Part, the following assets shall be considered liquid resources:
  - 1) the CCP's cash deposited at SAMA;
  - 2) the CCP's cash deposited at commercial banks;
  - 3) committed lines of credit or equivalent arrangements, save that where such arrangement is with a defaulting Clearing Member it shall not longer be treated as a liquid resource;
  - 4) highly marketable financial instruments held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions;
  - 5) other assets as described and provided for in the CCP Rules.
- g) The CCP shall have detailed procedures, which shall be approved by its CCP Board, for using its liquid resources to complete settlement during a liquidity shortfall. Such procedures should clearly document the sequence for using each type of liquid resource.

#### **Article 45 : Stress Testing Liquidity Needs and Resources**

- a) To ensure that the CCP has sufficient liquid resources to effect settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios, the CCP shall regularly test the sufficiency of its liquid resources through rigorous stress testing and shall have clear procedures to report the results of its stress tests to appropriate, internal, decision makers and to use these results to evaluate the adequacy of, and adjust its, liquidity risk management framework. In addition, the CCP

should regularly test its procedures for accessing its liquid resources, including by drawing down test amounts from committed credit facilities.

- b) In conducting stress testing, the CCP should consider a wide range of relevant scenarios. Such scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.
- c) The CCP shall conduct reverse stress tests aimed at identifying the extreme default scenarios and extreme market conditions for which it's liquid resources would be insufficient.
- d) Liquidity stress testing shall be performed on a daily basis using standard and predetermined parameters and assumptions. The CCP, on a regular basis and at least monthly, shall perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for achieving its identified liquidity needs and resources in light of current and evolving market conditions.

## PART 11: SETTLEMENT FINALITY

### Article 46 : Settlement Finality

- a) The CCP Rules shall clearly define the point at which settlement is final, including the irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by the CCP or its Clearing Members in accordance with the terms of the underlying contract.
- b) The CCP shall complete final settlement no later than the end of the date defined in the CCP Rules on which the payment, transfer instruction or other obligation is due and the associated funds and securities are typically available to the receiving party, and preferably intraday or in real time, to reduce settlement risk. This means that any payment, transfer instruction, or other obligation that has been submitted to, and accepted by, the CCP in accordance with its risk management and other relevant acceptance criteria should be settled on the intended date specified in the CCP Rules.
- c) The CCP Rules shall clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant and cut-off times and materiality rules for exceptions shall be clearly defined.

### Article 47 : Money Settlements

- a) To avoid credit and liquidity risks, the CCP shall conduct its money settlements using money held with SAMA, where practical and available. The CCP may use money made available to it by SAMA subject to SAMA's policy, requirements, and conditions.
- b) Where the CCP does not use money held or made available at SAMA where practical and available, it shall conduct its money settlements with little or no credit or liquidity risk. If this involves the CCP settling using money held or made available at a settlement bank, the CCP should monitor, manage, and limit its credit and liquidity risks arising from such settlement banks. In particular, the CCP, in its relation with settlement banks, shall establish and monitor adherence to strict criteria that take account of, without limitation, their regulation and supervision, creditworthiness, capitalisation, access to liquidity and operational reliability.
- c) In cash settlements referred to in paragraphs (a) and (b) of this Article, the timing of the finality of funds transfers should comply with Article 46 of these Regulations.

## **Article 48 : Physical Deliveries**

The CCP Rules shall clearly state the CCP's obligations with respect to the physical deliveries. The obligations that the CCP may assume with respect to physical deliveries vary based on the types of assets the CCP settles. The CCP shall clearly state which asset classes it accepts for physical delivery and the procedures surrounding the delivery of each.

## **Article 49 : Exchange-of-value Settlement System**

If the CCP is an exchange-of-value settlement system, it shall have in place an appropriate settlement mechanism to eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of when finality occurs. The final settlement of two linked obligations can be achieved either on a gross basis or on a net basis.

## PART 12: SEGREGATION AND PORTABILITY

### Article 50 : Account Types

- a) The CCP shall ensure that it employs an account structure that enables it to readily identify positions of a Clearing Member's Client and to segregate related collateral.
- b) The CCP shall provide for the benefit of each Clearing Member the following:
  - 1) House Accounts: the CCP shall provide separate records and accounts that shall enable it, at any time and without delay, to distinguish in accounts with such CCP the assets and positions held for the account of one Clearing Member from the assets and positions held for the account of any other Clearing Member and from its own assets. Clearing Members shall not be permitted to assign to such House Accounts assets and positions held for the benefit of its Clients (which must be recorded in either an Omnibus Client Account or Individual Client Account);
  - 2) Omnibus Client Accounts: the CCP shall provide separate records and accounts enabling such Clearing Member to distinguish in accounts with such CCP the assets and positions of that Clearing Member from those held for the accounts of its Clients. In the event of a shortfall attributable to an Omnibus Client Account, the CCP shall be permitted to apply any assets attributable to such account to cover any such shortfall, notwithstanding that the assets and positions may belong to different Clients held in the same Omnibus Client Account;
  - 3) Individual Client Accounts: where the CCP provides for this type of account in the CCP Rules, the CCP shall provide separate records and accounts enabling such Clearing Member to distinguish in accounts with such CCP the assets and positions of a Client from those held for the accounts of its other Clients, its own assets and positions and those of the CCP. The CCP shall have no recourse to the assets and positions attributable to such Individual Client Account in the event of a shortfall in any other account of the Clearing Member (whether it be the House Account, an Omnibus Client Account or another Individual Client Account); and
  - 4) other account types that are defined in the CCP Rules.
- c) The CCP shall offer the Clearing Member, upon request, the possibility to open more accounts in their own name or for the account of their Clients.

- d) Collateral that is maintained in an Individual Client Account or Omnibus Client Account shall, at all times, be attributed by the CCP to the Clients named in such accounts and shall only be used by the CCP to cover losses attributable to such account.
- e) The Clearing Member shall keep separate records and accounts that enable it to distinguish both in accounts held with the CCP and in its own accounts its assets and positions from the assets and positions held for the account of its Clients at such CCP. Such records and accounts shall enable the Clearing Member to distinguish each Client's assets and positions from other Clients with respect to each Individual Client Account and Omnibus Client Account maintained at the CCP.
- f) Where the CCP offers Individual Client Accounts, the Clearing Member shall offer its Clients the choice between Omnibus Client Accounts and Individual Client Accounts and inform them of the costs and level of protection associated with each option. The Client shall confirm its choice in writing.
- g) The requirement to distinguish assets and positions with the CCP in accounts is satisfied where:
  - 1) the assets and positions are recorded in separate accounts;
  - 2) positions recorded on different accounts are prevented from being offset; and
  - 3) the assets covering the positions recorded in an account are not exposed to losses connected to positions recorded in another account.

For the purposes of this Article, assets do not refer to default fund contributions.

## **Article 51 : Framework for the Porting of Positions**

- a) The CCP shall ensure that its account structure is structured to facilitate the transfer of the positions and assets of a defaulting Clearing Member's Clients to a non-defaulting Clearing Member or, as the case may be, the orderly liquidation of the Clients' positions and the return of excess collateral to the Clients. Where the positions and assets are those of Exchange members that do not hold clearing membership, the account structure shall be structured to facilitate the transfer of the positions and assets from the defaulting General Clearing Member to a non-defaulting General Clearing Member.
- b) The CCP shall not be required to guarantee that positions of a defaulting Clearing Member's Clients will be ported and shall not be liable for any failure to effect porting.

## **Article 52 : Requirement to Disclose**

- a) The CCP shall disclose in its CCP Rules its segregation and portability arrangements in sufficient detail for Clients to understand:
  - 1) the level of protection being provided, and in particular whether their positions and collateral held at or through the CCP are segregated from positions and collateral of their Clearing Member and such CCP;
  - 2) how segregation is achieved, including who holds the segregated assets and whether such segregated assets are reflected on the books and records at the CCP or custodians that hold assets for the CCP;
  - 3) under what circumstances Client collateral may be used by the CCP;
  - 4) whether the CCP offers individual, as well as, omnibus Client segregation;
  - 5) how portability is achieved; and
  - 6) any risks or uncertainties associated with such Client segregation and portability arrangements.
- b) The CCP Rules must mandate that each Clearing Member shall disclose to their Clients the costs associated with different levels of segregation they, and the CCP, provide and shall offer those services on reasonable commercial terms.

## **PART 13: CLEARING MEMBER DEFAULT MANAGEMENT**

### **Article 53 : Designation of Clearing Member as Defaulting**

- a) The CCP Rules shall clearly specify what circumstances constitute a Clearing Member default, and shall address both financial and operational defaults.
- b) The CCP Rules shall specify whether a declaration of default is automatic or discretionary, and if discretionary, which person(s) exercise that discretion and shall set out the procedures to be followed if an event of default by a Clearing Member is not declared by the CCP.
- c) The CCP shall review the CCP Rules annually and disclose the key aspects of the default rules and procedures to the public.
- d) If the CCP designates a Clearing Member as defaulting, it shall immediately notify:
  - 1) the Authority;
  - 2) to the extent the defaulting Clearing Member is a Local Bank, SAMA;
  - 3) the defaulting Clearing Member;
  - 4) the relevant Exchange on which the cleared contracts of the defaulting Clearing Member related; and
  - 5) the Depository Centre, to the extent the cleared contract relates to the Exchange.
- e) Without prejudice to the obligation of the CCP to notify the parties specified in paragraph (d) of this Article, if the CCP designates a Clearing Member as defaulting, it shall also promptly publish a notice on its website to this effect. Such notice will be deemed to have informed participants in the market of the designation of the Clearing Member as defaulting.

### **Article 54 : Default Rules and Procedures**

- a) Where the CCP considers that a Clearing Member is likely to default, including where it will not be able to meet its future obligations, the CCP shall promptly notify the Authority before the default procedure is declared. Such notification shall include a brief description of any measures taken or proposed to be taken by the CCP. Where

such Clearing Member is a Local Bank, the CCP shall also promptly notify SAMA and consult and collaborate with it before the default procedure is declared.

- b) The CCP's default rules and procedures shall enable the CCP to take prompt action to contain losses and liquidity pressures, before, at and after the point at which the Clearing Member has defaulted. In taking any action, the CCP shall ensure that the closing out of any positions of such Clearing Member does not impact its operations or expose non-defaulting Clearing Members to losses they cannot anticipate or control.
- c) Without prejudice to paragraph (b) of this Article, the CCP Rules of the CCP may permit the CCP to:
  - 1) require non-defaulting Clearing Members to agree in advance to bid on the defaulting Clearing Member's portfolio; and
  - 2) should such auction fail, accept an allocation of the portfolio.
- d) Where used, such procedures should include consideration of the risk profile and portfolio of each Clearing Member before allocating positions so as to minimise additional risk for the non-defaulting Clearing Members.
- e) In the default of a Clearing Member, the CCP shall use the resources in the following order:
  - 1) proprietary assets provided by such defaulting Clearing Member, which shall include both collateral and the default fund contributions of that defaulting Clearing Member. The CCP shall not be entitled to use the assets of the Clients of such defaulting Clearing Member. To the extent there is any balance owed by the CCP after the completion of the defaulting Clearing Member's default management process, such balance shall be readily returned to those Clients when they are known to the CCP or, if they are not, to the Clearing Member for the account of its clients.
  - 2) its dedicated own resources as provided for in Article 42 of these Regulations. Once these dedicated resources are exhausted, a party will have no recourse to any other asset of the CCP, as provided in paragraph (f) of Article 8 of these Regulations, unless otherwise provided in the CCP Rules;
  - 3) default fund contributions of non-defaulting Clearing Members provided in accordance with Article 41 of these Regulations; and

- 4) additional default fund contributions from non-defaulting Clearing Members in accordance with the terms of the CCP Rules of such CCP.
- f) Upon the default of a Clearing Member who has cleared positions on behalf of Clients (including Exchange members that do not hold clearing membership), the CCP shall be required to trigger the process of dealing with the assets and positions recorded in the accounts of Clients of such defaulting Clearing Member as follows:
  - 1) where the account is an Omnibus Client Account, the CCP shall be permitted to apply any collateral attributed to the account to cover losses in such account notwithstanding that the collateral and losses may belong to different Clients held in the same Omnibus Client Account. To the extent another Clearing Member has agreed to accept the assets and positions attributable to such Omnibus Client Account, such assets and positions will be ported. If the transfer to another Clearing Member does not take place within the time specified in the CCP's default rules and procedures, the CCP may take all steps permitted by its rules to actively manage its risks in relation to such positions, including liquidating the assets and positions for the account of the Clients of such Omnibus Client Account;
  - 2) where the account is an Individual Client Account, the CCP shall port the assets and positions in such Individual Client Account to the extent another Clearing Member has agreed to accept such assets and positions. If the transfer to another Clearing Member does not take place within the time specified in the CCP's default rules and procedures, the CCP may take all steps permitted by its rules to actively manage its risks in relation to the positions in such Individual Client Account, including liquidating the assets and positions for the account of the Client of such Individual Client Account; and
  - 3) without prejudice to the provisions of this Article, where the account is an account of an Exchange member that does not hold a clearing membership, the CCP may only permit porting of such assets and positions to another General Clearing Member.
- g) After the application of the proprietary assets of a defaulting Clearing Member, in accordance with paragraph (e) of this Article, the CCP shall use its default fund contributions, as provided for in Article 41 of these Regulations, before applying the default fund provided by non-defaulting Clearing Members.

### **Article 55 : Periodic Testing and Review of Default Procedures**

The CCP shall test and review its default procedures to ensure that they are practical and effective. Such testing and review should be conducted at least annually or following material changes to the rules and procedures.

DRAFT

## PART 14: CCP RECOVERY

### Article 56 : CCP Recovery Plan

- a) The CCP shall have a comprehensive and effective recovery plan designed to permit it to continue to provide its critical services.
- b) In determining its recovery plan, the CCP shall take into account the interests of all Clearing Members, Clients of Clearing Members and other stakeholders who are likely to be affected by the recovery plan and shall establish appropriate procedures to ensure consulting with them in the formulation of the recovery plan.
- c) For the purposes of developing its recovery plan, the CCP shall identify:
  - 1) The critical services it provides, which shall at a minimum include its clearing, settlement and recording functions;
  - 2) scenarios that may prevent it from being able to provide its critical services, which shall at a minimum include credit losses or liquidity shortfalls created by a Clearing Member default, general business losses, liquidity shortfalls, the realisation of investment losses and risks taken on third party providers,and on such basis identify:
  - a. the criteria that will trigger the implementation of part or all of the recovery plan;
  - b. the appropriate recovery tools, the necessary steps and time needed to implement them and the associated risks to the CCP, its Clearing Members, Clients of Clearing Members and the market more generally if such tools are employed.
- d) The CCP should disclose, to those affected by the recovery plan, sufficient information about the recovery plan, including the degree of the CCP's discretion to exercise judgement.
- e) The CCP shall be required to carry out periodic simulations and scenario exercises to test and review its recovery plan. Such testing must be carried out at least annually as well as following changes to the CCP Rules that would materially affect the recovery plan. The CCP shall update its recovery plan as needed after the completion of each test and review.

## **Article 57 : Approving the Recovery Plan**

- a) The CCP's board of directors must approve the CCP recovery plan, and shall be required to have it approved by the Authority and SAMA.
- b) The CCP shall inform the Authority and SAMA immediately of any proposed changes to its recovery plan. Any proposed changes shall be subject to the approvals of the Authority and SAMA.
- c) The CCP shall obtain SAMA's non-objection prior to the implementation of any part of the recovery plan, including the recovery tools to be employed as a result of such implementation. The CCP shall also immediately notify the Authority.

## PART 15: OTHER CCP OBLIGATIONS

### Article 58 : Communication Procedures and Standards

The CCP shall use internationally accepted communication procedures to facilitate effective communication between its information systems, and those of its Clearing Members, their Clients, and others that connect to the CCP such as service providers. It shall also use internationally accepted communication standards, such as standardised messaging formats and reference data standards for identifying financial instruments and Clearing Members.

### Article 59 : Control Systems

- a) To establish a sound risk management framework, the CCP shall identify and regularly review the range of risks that arise within its system and the risks it directly bears from or poses to Clearing Members and Clients of Clearing Members. It shall identify those risks that could materially affect its ability to perform or to provide services as expected.
- b) The CCP shall identify and regularly review the material risks it bears from and poses to other legal persons (such as payment systems, settlement banks, liquidity providers and service providers) as a result of interdependencies and develop appropriate risk management tools to address such risks.
- c) The CCP Board and Senior Executives of a CCP are ultimately responsible for managing the CCP's risks. The board should determine an appropriate level of aggregate risk tolerance and capacity for the CCP and shall establish policies, procedures, and controls that are consistent with the CCP's risk tolerance and capacity. The CCP's policies, procedures, and controls should address all relevant risks, including legal, credit, liquidity, general business, and operational risks.
- d) The CCP shall employ robust information and risk control systems to provide it with the capacity to obtain timely information necessary to apply risk management policies and procedures. In particular, these systems should allow for the accurate and timely measurement and aggregation of risk exposures across the CCP, the management of individual risk exposures and the interdependencies between them, and the assessment of the impact of various economic and financial shocks that could affect the CCP.

## **Article 60 : Record Keeping**

- a) The CCP shall retain the following for a period of ten years at a minimum (unless the Authority specifies otherwise):
  - 1) all the records on the services and activity provided so as to enable the Authority to monitor the CCP's compliance with these Regulations; and
  - 2) all information on all contracts it has processed following the termination of such contracts. That information shall at least enable the identification of the original terms of a transaction before Clearing by the CCP.
- b) All records or information required to be kept by the CCP under these Regulations shall be provided to the Authority upon its request. The Authority may inspect the records directly or through a person it appoints for that purpose.
- c) The CCP shall maintain records with respect to all transactions in all contracts cleared by the CCP and ensure that its records include all information necessary to conduct a comprehensive and accurate reconstruction of the Clearing process for each contract. Each record on each transaction shall be uniquely identifiable and searchable by all fields concerning the CCP, Clearing Member, Client of a Clearing Member, if known to the CCP, and financial instrument.
- d) The CCP shall maintain records of positions held by each Clearing Member. Separate records shall be held for each account kept in accordance with Part 12 of these Regulations. The CCP shall ensure that its records include all information necessary to conduct a comprehensive and accurate reconstruction of the transactions that established the position. Each record shall be identifiable and searchable at least by all fields concerning the CCP, Clearing Member, Client of a Clearing Member, if known to the CCP, and financial instrument.
- e) At the end of each business day, the CCP shall make a record in relation to each position including the following details, to the extent they are linked to the position in question:
  - 1) the identification of the Clearing Member and Client of a Clearing Member, if known to the CCP;
  - 2) the sign of the position; and

- 3) the daily calculation of the value of the position with records of the prices at which the contracts are valued, and of any other relevant information.
- f) The CCP shall make, and keep updated, a record of the amounts of margins, default fund contributions and other financial resources called by the CCP and the corresponding amount actually provided by a Clearing Member at the end of day and changes to that amount that may occur intraday, with respect to each Clearing Member, Client of a Clearing Member, if known to the CCP.
- g) The CCP shall maintain a register of all derivative contracts cleared by the CCP and the underlying Securities or instruments to which such transactions relate.
- h) Records of the CCP may be recorded in any form, but must be capable of reproduction in hard printed form.
- i) When a Clearing Member of the CCP or a former Clearing Member of the CCP requests any records kept during the regulatory record-keeping period, the CCP must make available, within a reasonable period, any of the following:
  - 1) any written material or records which relate to that Clearing Member; and
  - 2) copies of any correspondence received from or sent to that Clearing Member relating to Clearing services.

#### **Article 61 : Disclosure of CCP Rules and Material Costs to Clearing Members**

- a) The CCP shall adopt clear and comprehensive CCP Rules and fully disclose them to Clearing Members.
- b) A CCP shall, at a minimum, publicly disclose free of charge the following:
  - 1) information regarding its governance arrangements;
  - 2) its CCP Rules;
  - 3) its rights and obligations, as well as those of each Clearing Member;
  - 4) key aspects of its default rules and procedures;
  - 5) its fees at the level of individual services it offers as well as its policies on any available discounts; and

- 6) basic data on transaction volumes and values.
- c) The CCP shall have a clear process for proposing and implementing changes to the CCP Rules.
- d) The CCP shall make the information and data referred to in paragraph (b) of this Article available on its website in Arabic and any other language the Authority may require. The data should be accompanied by explanatory documentation that enables users to understand and interpret the data correctly.

DRAFT

## **PART 16: OPERATIONAL RISK**

### **Article 62 : Identifying Sources of Operational Risk**

The CCP shall identify, monitor, and manage the various sources of operational risk and establish clear policies and procedures to address them. As part of this process, it should:

- 1) identify all potential single points of failure in its operations, which shall include internal processes (including, without limitation, deficiencies in its information systems, inadequate screening of its personnel and inadequate control of systems and processes) and external events (including, without limitation, the failure of critical service providers and the occurrence of natural disasters);
- 2) assess the evolving nature of the operational risk it faces on an ongoing basis, and
- 3) analyse its potential vulnerabilities and implement appropriate defence mechanisms.

### **Article 63 : Operational Risk Management**

- a) The CCP Board, either directly or through a relevant committee, shall establish clear policies and procedures that mitigate and manage the CCP's sources of operational risk. In particular, such policies and procedures must explicitly define the roles and responsibilities for addressing operational risk and endorse the CCP's operational risk-management framework. The CCP's operational risk-management framework should include setting operational standards, measuring and reviewing performance, correcting deficiencies, formal change-management and project-management processes to mitigate operational risk arising from modifications to operations and policies. A key competent to a sound operational risk-management framework is the requirement for the CCP to employ sufficient, well qualified, personnel who should be able to operate the system safely and efficiently during both normal and abnormal circumstances.
- b) The CCP shall test its arrangements with participants, including its operational policies and procedures, on a periodic basis. In order to minimise the effects of testing on operations, tests should be carried out in an environment which replicates, as far as possible, the environment under which such operations will need to adapt to abnormal circumstances and potential major incidents. This will include a periodic review to consider whether new technologies and business developments should be incorporated.

- c) The CCP shall manage operation incidents carefully and have comprehensive and well-documented procedures in place to record, report, analyse, and resolve all such incidents. The CCP shall undertake a review after every significant disruption to identify the causes and any required improvement to the normal operations or business continuity arrangements.

#### **Article 64 : Business Continuity Management**

- a) The business continuity plan is a key component of the CCP's risk management framework. All aspects of the business continuity plan should be clearly and fully documented. The business continuity plan must:
  - 1) identify and address events that pose a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption;
  - 2) focus on the impact on the operation of critical infrastructures and services if the identified events, including both internal and external threats, were to occur;
  - 3) include clearly stated objectives which deal with both measures that prevent disruptions of critical operations and policies and procedures to mitigate the effect of such disruption events by allowing for the rapid recovery and timely resumption of the operations of the CCP following a disruption. In this regard, the CCP should be able to resume operations within two hours following disruption events and should be able to complete settlement by the end of the day even in extreme circumstances; and
  - 4) include clearly defined procedures for crisis and event management.
- b) To ensure that the CCP is able to meet its objectives, the CCP shall set up a secondary physical off-site with sufficient resources, capabilities, and functionalities and appropriate staffing arrangements that would not be affected by a wide-scale disruption and would allow the secondary physical off-site to take over operations if required. The secondary physical off-site should provide the level of critical services necessary to perform the functions consistent with the recovery time objective identified by the CCP, which at a minimum shall require that the information technology systems can resume operations within two hours following disruptive events.
- c) The business continuity plan and associated arrangements of the CCP shall be subject to periodic review and testing. Tests should address various scenarios that simulate wide-scale disasters and inter-site switchovers. The CCP, after every test or significant

disruption, shall undertake a review to identify the causes and any required improvement to its business continuity plan.

- d) The CCP shall be required to communicate with the Authority in the case of a major disruption to its operations or any event of a wider market distress that affects the CCP. The CCP shall also promptly inform the Authority of any material amendments to its business continuity plan to the extent permitted. The Authority, in its discretion, may require the CCP to resubmit a copy of its amended business continuity plan.

DRAFT

## PART 17: LINKS BETWEEN CCPS

### Article 65 : Interoperability Arrangements

- a) The CCP may enter into an Interoperability Arrangement with other CCPs to enable its Clearing Members to clear transactions with participants in the other CCP and shall be permitted to do this where:
  - 1) the requirements laid down in Article 66 and Article 67 of these Regulations are fulfilled; and
  - 2) such CCP demonstrates its compliance with these requirements, as well as being able to demonstrate that the terms of the Interoperability Arrangement will provide for the smooth and orderly functioning of the market, to the satisfaction of the Authority whose approval must be obtained prior to such Interoperability Arrangement becoming effective.
- b) When establishing an interoperability arrangement with another CCP for the purpose of providing services to a particular trading venue, the trading venue must provide such CCP with the same level of access as afforded to other CCPs who satisfy the same operational and technical requirements mandated by the trading venue and/or its settlement system(s).

### Article 66 : Risk Management of Interoperability Arrangements

In order to enter into an Interoperability Arrangement, the CCP shall:

- 1) have in place policies, procedures and systems to identify, monitor and manage the risk arising from such Interoperability Arrangement, including the risk that a participant of the other CCP, or the other CCP itself, may default and how this would impact such CCP;
- 2) agree on each party's respective rights and obligations. Where the other CCP is established outside of the Kingdom, this agreement must also include the governing law which will govern the terms of such Interoperability Arrangement; and
- 3) to the extent the determination of exposure for transactions between the two CCP's differs, identify such differences, assess the risks that may arise from such differences and take appropriate measure to limit such risks on the CCP's operations.

## **Article 67 : Provision of Margin Among CCPs**

- a) The CCP and each CCP with whom the CCP has an Interoperability Arrangement shall distinguish in accounts the assets and positions held for the account of the other CCP.
- b) If the CCP with whom a CCP has an Interoperability Arrangement only provides initial margins to that other under a security financial collateral arrangement, the receiving CCP shall have no right of use over the margins provided by such CCP.
- c) Collateral received in the form of financial instruments shall be deposited with operators of securities settlement systems.
- d) The assets referred to in paragraphs (b) and (c) of this Article shall be available to the receiving CCP only in case of default of the CCP which has provided the collateral in the context of an Interoperability Arrangement.
- e) In case of default of the CCP which has received the collateral in the context of an Interoperability Arrangement, the collateral referred to in paragraphs (b) and (c) of this Article shall be readily returned to the providing CCP.

## **PART 18: QUALIFYING CENTRAL COUNTERPARTY**

### **Article 68 : Recognition of Qualifying Central Counterparty status**

- a) The CCP may apply to the Authority to be designated as a Qualifying Central Counterparty.
- b) The Authority shall publish on its website the CCPs that it designates as Qualifying Central Counterparties.
- c) To the extent the criteria published by the CPMI IOSCO Principles for FMIs is amended after the initial designation by the Authority, the Authority shall promptly review whether such changes impact a CCP's qualification as a Qualifying Central Counterparty. The CCP shall be required to promptly respond to any requests of the Authority for information or access in order for the Authority to make such a determination.
- d) If the Authority revokes a CCP's designation as a Qualifying Central Counterparty, it shall publish a notice on its website confirming this and confirming the date on which such designation will be revoked, which will be no earlier than 6 months from the date of designation. Until such time as the Authority publishes such notice, participants including Clearing Members shall be entitled to rely on the existing designation being in full force and valid.

## **PART 19: PUBLICATION AND ENTRY INTO FORCE**

### **Article 69 : Publication and Entry Into Force**

These Regulations shall become effective upon their publication.

DRAFT