

KINGDOM OF SAUDI ARABIA

CAPITAL MARKET AUTHORITY

Instructions on the Direct Financing Investment Funds

English Translation of the Official Arabic Text

Issued by the Board of Capital Market Authority

Pursuant to its Resolution Number 0-0-0000

Dated 00/00/0000H. Corresponding to 00/00/0000G.

Based on the Capital Market Law

issued by Royal Decree No. M/30 dated 02/06/1424H.

Arabic is the official language of the Capital Market Authority

The current version of these Regulations, as may be amended, can be found at the CMA

website: www.cma.org.sa

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First: Preamble

- a) These Instructions aim to regulate the offering of units of investment funds that are established for the purpose of carrying out direct financing activity, and the management and operations of those funds.
- b) These Instructions are without prejudice to the Capital Market Law and its Implementing Regulations, including the provisions of the Investment Funds Regulations and other relevant regulations.

Second: Definitions

- a) Any reference to the “Law” in these Instructions shall mean the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H.
- b) Subject to paragraph (d) of this Article, expressions and terms in these Instructions have the meaning which they bear in the Capital Market Law and in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, unless the context indicates otherwise.
- c) Definitions of terms used in the Investment Funds Regulations stipulated in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority shall apply to the words and phrases mentioned in these Instructions, unless the context indicates otherwise
- d) For the purpose of implementing the requirements of these Instructions, expressions and terms shall have the meaning they bear as follows, unless the context indicates otherwise:
 - **Direct Financing Fund:** An investment fund established for the purpose of carrying out the activity of direct financing for legal persons and investment funds.
 - **Beneficiary:** The beneficiary of the financing.
 - **Fund size:** It means the Fund's Total Assets Value plus any capital pledged to be paid by the unitholders.

Third: General Provisions

- a) The offering of the units, operations and management of the Direct Financing Fund in the Kingdom must be in accordance with these Instructions and the Investment Funds Regulations.
- b) The Authority may waive a provision of these Instructions in whole or in part as it applies to a person either on an application from such person to whom the relevant provisions of this Article would otherwise apply or on the Authority’s own initiative.

Fourth: Conditions for Establishing and Offering Units of the Direct Financing Fund

The following conditions must be satisfied when offering units and establishing the Direct Financing Fund:

- 1) The fund's units shall be offered by a way of a private placement in accordance with the provisions of Part (5) of the Investment Funds Regulations.
- 2) The fund shall be closed ended.
- 3) The fund shall take the form of a special purpose entity in accordance with the Capital Market Law and its Implementing Regulations.
- 4) The total fund size at establishment shall not be less than (50) Million Saudi Riyals.
- 5) The Fund Manager shall submit to the Authority a detailed feasibility study that includes the target sector and its details.
- 6) The fund's terms and conditions shall include the investment decision-making mechanism, and any relationships that may lead to a conflict of interests when the fund's practice its activity, and a statement that the fund investment would be in grant finance processes and the investment risk may extend to lose the value of the fund's assets.

Fifth: Investments Limitations

- a) The Direct Financing Fund is prohibited from practicing in the activity of direct financing to individuals.
- b) The duration of the financing granted through the Direct Financing Fund may not exceed the remaining period of the fund's lifetime, including any rescheduling or extension of the financing.
- c) The Direct Financing Fund's total borrowing may not exceed (50%) of the total fund's size.
- d) The total direct financing provided through the Direct Financing Fund may not exceed its total size.
- e) The Direct Financing Fund may not bear any exposure to one beneficiary or more than one belonging to the same group at a rate of (25%) or more of the total fund's size.
- f) When selling a financing contract for a beneficiary in the Kingdom to a person in the Kingdom, the Fund Manager must include the right of full recourse, provided that the purchaser of the financing contract has the right to refer to the fund to demand payment according to the arrangements indicated by the contract.
- g) The Fund Manager may not sell financing contracts concluded outside the Kingdom to financial institutions licensed by the Saudi Central Bank (SAMA).

Sixth: Additional Duties to a Direct Financing Fund Manager

- a) The policies and procedures set by the Fund Manager must include the aspects related to granting credit and the collection provisions and procedures. The Board of Directors of the fund must ensure the completeness and accuracy of those policies and procedures.

- b) The Fund Manager must maintain all documents, records and files of the beneficiary in an orderly and secure manner, verify the completeness of the files and update them periodically, for a period of, at least, (10) years from the date of termination of the relationship.
- c) The Fund Manager must set clear procedures for receiving and documenting the beneficiaries' complaints, studying them, and responding to them, and must commit to taking appropriate and immediate corrective actions related to those complaints. Provided that the complaints shall be registered in special records for this purpose, which include all the necessary information related to the subject matter of the complaint and the actions taken in this regard.
- d) The Fund Manager must maintain the confidentiality of the beneficiaries' data and operations, and not disclose or detect it to other parties, or report it even after the termination of the relationship with the Fund, except as required by the relevant regulations and instructions.
- e) The Fund Manager must disclose to the Fund's Board of Directors any conflict of interest that may arise between the Fund Manager and the Direct Financing Fund under his management caused by dealing with one of the beneficiaries - if any - or a related party. such conflict of interest must be approved or validated by the Fund's Board of Directors and disclosed to unitholders.
- f) The Fund Manager must include in the financing contract concludes with the beneficiaries a mechanism for considering disputes that may arise from it; such as adding an arbitration clause in those contracts, provided that such a mechanism shall be disclosed in the Fund's terms and conditions.
- g) The Fund Manager must calculate the provisions for potential losses and risks for the fund in accordance with the International Financial Reporting Standard.

Seventh: Credit Information of the Beneficiary

- a) The Fund Manager must examine the beneficiary's credit record, after its approval, to verify its financial solvency, ability to fulfill and credit behavior, and document this in the financing file.
- b) The Fund Manager must register the credit information of the beneficiary, after its approval, with one or more licensed companies for the credit information collection, in accordance with the Credit Information Law and its implementing regulation, and such information shall be updated throughout the period of dealing with the beneficiary.
- c) In the event that the Fund Manager is not able to implement the provisions of paragraphs (a) and (b) of this Article, financing must not be provided.
- d) The Fund Manager must follow clear and transparent written standards and procedures to assess the beneficiary's creditworthiness and ability to fulfill, and update them when needed. Such standards and procedures shall be approved and any update thereon by the Fund's Board of Directors. The Fund Manager must implement these procedures before granting the finance and document such in the financing file.

- e) Subject to Article (59) of the Regulations of Capital Market Institutions, the Fund Manager may contract with finance companies licensed by the Saudi Central Bank (SAMA) to delegate any of the duties described in these Instructions.

Eighth: Board of Directors of the Direct Financing Fund

The provisions governing the Board of Directors of the fund and the responsibilities of its members stipulated in Articles (84) and (85) of the Investment Funds Regulations shall apply to the Direct Financing Fund.

Ninth: Reporting to Unitholders

The Fund Manager must include, as additional information, in its annual report stipulated in paragraph (a) of Article (93) of the Investment Funds Regulations the following:

1. The ratio of the fund's lending to the Direct Financing Fund's Total Assets Value.
2. The dual unit price of the fund.

Tenth: Publication and Entry Into Force

These Instructions shall become effective upon its publication.