

Initial Public Offering (IPO) Rules for Receiving and Lending Banks

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Important note:

To keep abreast of the latest updates and amendments of SAMA's instructions, SAMA always advises you to use the documents published on its website: www.sama.gov.sa

البنك المركزي السعودي
SAMA
Saudi Central Bank



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1. Introduction

These Rules are issued by Saudi Central Bank (SAMA) in exercise of the powers vested upon it under its Law issued by the Royal Decree No. M/36 dated 11/04/1442H, and the Banking Control Law issued by the Royal Decree No. M/5 dated 22/02/1386H and the Rules for enforcing its Provisions issued by Ministerial Decision No. 3/2149 dated 14/10/1406H.

These Rules shall supersede the previous instructions issued by SAMA related to the role and participation of banks in IPOs in connection to Circular No. 38399/MAF/588 dated 12/11/1426H and No. MAF/337 dated 8/11/1425H and 333/MA/200 dated 22/8/1413H, and the circular on the general rules regulating underwriting transactions by Saudi joint stock companies, with an emphasis on compliance with these rules in line with the rules, instructions and other regulatory requirements issued whether by SAMA or other legislative authorities, where applicable.

2. Definitions

1. The following terms and phrases, wherever mentioned herein, shall have the meanings assigned to them unless the context otherwise requires:

Term	Definition
SAMA	Saudi Central Bank
Rules	Initial Public Offering (IPO) Rules for Receiving and Lending Banks.
Receiving Bank	A receiving bank that collects and processes application forms and subscription amounts from retail subscribers within an IPO. For an IPO with more than one receiving bank, the term “receiving bank” includes the main receiving bank or a sub-receiving bank.
Lending Bank	A bank that extends credit facilities to its clients for the purpose of facilitating their subscription for securities in an IPO.
Issuer	A person who issues or intends to issue securities.
Securities	A security is a document that shows a person’s legal ownership of a share in a joint stock company and reflects a financial value.
Offering Period	It includes the period of registration of subscription applications, the process of book building, the payment of the subscription value, and the final allocation of offered shares.
Related Parties	The parties outlined in Article 2, Paragraph 6 of the first update to SAMA Related Parties Rules for Banks vide SAMA’s Circular No. 41045379 dated 01/07/1441H.
Exposures	The Exposures outlined in Article 3.1, Paragraph 4 of the Large Exposure Rules for Banks vide SAMA’s Circular No. 67/1651 dated 09/01/1441H.
Retail Subscribers	A natural person who is not a legal entity nor of high net worth.
High-Net-Worth Subscribers	Natural persons with high solvency who are classified according to the limits and criteria of the bank, provided that their assets under the bank’s management are not less than SAR 5 million.
Legal Entities	A legal entity such as commercial institutions, companies, government and semi-government sectors, and financial institutions or a group of persons

Term	Definition
	and/or entities that come together for a specific purpose and form a legal entity.
Government Offering	The IPO of a company's Securities in which the Saudi government, or any entity directly or indirectly affiliated with it, owns 51% or more.

3. Objective

2. These Rules aim to assist a Receiving Banks or a Lending Bank Involved in an IPO of Securities in setting the minimum policies and procedures to reduce the potential risks to which they may be exposed.

4. Scope

3. These Rules apply to all banks that take part in an IPO of Securities, whether inside or outside Saudi Arabia, in the capacity of:
 - a. Lending Bank and/or;
 - b. Receiving Bank.

5. Governance

4. Banks shall incorporate the provisions of the Rules into its policies and procedures, and take the necessary measures to ensure compliance with them. Banks shall also apply, at a minimum, the following governance procedures:
 - a. Banks' board of directors, or their authorized delegate, shall be responsible for setting the criteria for participation as a Lending Bank or a Receiving Bank.
 - b. Banks shall prove its ability to take part in an IPO and undertake its role prudently and efficiently, by possessing the financial and operational capacity that includes the resources, systems and procedures necessary to manage the associated risks.
 - c. Banks shall set procedures to monitor IPO-related activities, and comply with the requirements contained in these Rules.
5. Banks may not contravene its internal policies related to financing programs or other programs without obtaining the approval of the bank's board of directors or its authorized delegate.
6. Banks shall ensure the effectiveness of all relevant systems before commencing an IPO.

6. Risk Management and Operational Capabilities

6.1 Lending Bank

7. A bank that wishes to participate in an IPO as a Lending Bank shall apply, as a minimum, the following:
 - a. The policy and procedures related to the financing of Securities shall be documented and adequately cover all the main risks that the bank may be exposed to.
 - b. Adhere to credit policies approved by the bank, and limit the total Exposures in each IPO within an amount that does not exceed the bank's ability to meet its obligations on the settlement date.

- c. Follow the internal policies of guarantees, or any other related policies.
- d. Conduct a comprehensive analysis, prior to financing the purchase of Securities, that at least includes the potential impact on the Capital Adequacy Ratio (CAR), Loan-to-Deposit Ratio (LDR), SAMA Liquidity Ratio, Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), Leverage Ratio, Large Exposure limits, and Exposures limits to Related Parties, taking into account the relevant instructions issued by SAMA.

6.1.1 Lending Limits

8. The Leverage Ratio for retail subscriptions shall not exceed 50% of the amount to be subscribed for each Retail Subscriber, with a maximum financing limit not exceeding 2 million Saudi Riyal.
9. Both High-Net-Worth Subscribers and Legal Entities are excluded from Paragraph 8 above. However, the bank shall follow its approved credit standards, and limit the total Exposures to an amount within the risk appetite of the subscriber (credit lines).
10. Banks shall not exceed the Exposures limits stipulated in the relevant instructions issued by SAMA.

6.2 Receiving Bank

11. A bank that wishes to participate in an IPO as a Receiving Bank shall apply, as a minimum, the following:
 - a. Have a clear understanding of the respective role and responsibilities of the Receiving Bank and the Issuer of an IPO. This shall be clearly defined in the Receiving Bank agreement.
 - b. Only undertake the role commensurate with its financial and operational capacity, and to conduct a thorough analysis in advance of the potential financial impact arising from an IPO.

6.2.1 Operational Capabilities

12. If a bank has not previously acted as a Receiving Bank in an IPO, or is wishing to act as a Receiving Bank in a large-scale IPO or a government offering, the bank shall notify SAMA in advance and, in particular, prove its financial and operational capacity to process the share applications in accordance with Paragraph 11-b above. It shall also prove its ability to manage the subscription amounts and recycle the application monies in the money market when needed.
13. If a bank intends to act as a Receiving Bank in a large-scale IPO or Government Offering, it shall have sufficient experience and a track record in acting as a Receiving Bank.
14. Banks shall give proper consideration to the number and readiness of branches or any other channels to be designated as channels for receiving subscription applications, and ensure the adequacy of arrangements to meet the expected demand of subscribers.
15. The bank shall ensure that it is fully qualified and conversant with IPO process, while ensuring concentrating its resources and effecting its relevant policies. For large-scale IPOs or government offerings, the bank shall establish a temporary internal committee to coordinate the receipt of information on the subscription and escalate to senior management if necessary.
16. In determining whether an IPO is of a large scale for the bank for the purposes of paragraphs 12, 13 and 15 above, the bank shall benchmark the scale of the IPO against its own financial capacity (capital base) by multiplying the expected share price by the number of shares to be issued and dividing the result by the bank's Tier 1 regulatory capital. If the resulting percentage is equal to or

greater than 100%, the IPO will be considered of large scale. Factors to be considered include the estimated value of subscription monies to be recycled, the general trends in the stock market during the IPO, and the expected level of demand from subscribers.

17. The Receiving Bank shall agree in advance with the Issuer and approve a plan to deal with the high levels of demand for purchasing Securities in the IPO process. The plan must include - at least - the following considerations:
 - a. Possibility of adding branches to receive subscription applications if needed, including making relevant announcements.
 - b. Possibility of using another Receiving Bank to assist in receiving or processing applications.
 - c. Possibility of extending working hours to receive applications, if possible.
 - d. Arrangements for printing and distributing additional copies of subscription application forms and prospectuses, if needed.
 - e. Arrangements to hire additional staff, if necessary.
18. The Receiving Bank shall work closely with the Issuer during the IPO process to determine the need for contingency measures in accordance with the approved plan, as required.

6.2.2 Liquidity Requirements

19. Banks shall effectively manage its balance sheet and plan well in advance to ensure continuous compliance with the LDR, SAMA Liquidity Ratio, LCR, NSFR, and any other liquidity requirements required by SAMA.
20. Banks shall review the collateral pledged with SAMA and their daytime limits to ensure they have sufficient collateral to cover large intraday transfers and liquidity needs during the IPO process.
21. Banks shall take due diligence when recycling application monies in the money market, if needed. A Receiving Bank is encouraged to participate in the interbank lending, as needed.

7. Cybersecurity

22. Banks shall establish appropriate precautionary cybersecurity controls to protect the information assets and data of banks and subscribers from cyberattacks, taking into account compliance with the regulatory requirements related to cybersecurity.
23. Banks shall ensure that controls related to cybersecurity monitoring are applied to all systems and applications used in the IPO process. The monitoring incident response capabilities shall be governed by the cybersecurity incident response policy, and ensuring the readiness of incident response teams.
24. Banks shall conduct a comprehensive testing program to ensure cyber resiliency and controls effectiveness of the systems and applications used in the IPO process, including - but not limited to - the following:
 - a. Vulnerability assessment and penetration testing.
 - b. Cybersecurity compromise assessment.
25. Banks shall ensure operational resiliency by testing a range of potential disruptive scenarios, in line with regulatory requirements related to business continuity management.

26. Banks shall implement preventive measures to reduce the risks arising from the third-party and service providers dependencies and should also ensure the readiness of third-party arrangements to support the systems and applications involved in the IPO process.

8. Subscription Surplus Refund

27. Banks shall establish documented procedures to refund the value of the subscription surplus, if any, after share allocation.

28. Banks shall inform subscribers of the subscription surplus refund process and timeline. The surplus amount shall be refunded to the subscriber's account via electronic means only.

29. In the event of IPO cancellation or incompleteness, banks shall return the entire subscription amounts to the subscriber's account via electronic means only, according to the respective timetable.

30. Banks shall exercise due diligence in handling subscription amounts refunds and, at minimum, shall verify the identity of the subscriber before refunding the amount.

9. Reporting

31. Banks shall submit to SAMA an IPO data report based on the following:

a. End of Offering Period report.

b. In the event that an IPO falls under the definition of a large-scale IPO or a Government Offering, reports shall be submitted on daily basis during the Offering Period.

32. Reports shall be submitted to SAMA within a maximum of one working day based on abovementioned instructions.

33. Reports shall be submitted to SAMA via e-mail: BankingDataSection@SAMA.GOV.SA

34. SAMA, at its sole discretion, may apply Article 31-b to subscriptions that do not fall under the definition of a large-scale IPO or Government Offering.

10. Implementation and Effective Date

35. These Rules shall come into force from issuing date.