Muqassa
CPMI-IOSCO PFMI Self-Assessment

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Contents

Executive Summary ... 3
About the rating scale ... 4
About this assessment exercise ... 4
About Muqassa ... 5
About Saudi Tadawul Group (STG) ... 7
Changes to Muqassa since previous assessment ... 8
Assessment ... 9
Principle 1: Legal ... 9
Principle 2: Governance ... 9
Principle 3: Framework for the Comprehensive Management of Risks ... 10
Principle 4: Credit Risk ... 11
Principle 5: Collateral ... 12
Principle 6: Margin ... 13
Principle 7: Liquidity Risk ... 13
Principle 8: Settlement Finality ... 14
Principle 9: Money Settlement ... 15
Principle 10: Physical Securities ... 15
Principle 11: Central Securities Depositories ... 16
Principle 12: Exchange-of-value Settlement System ... 16
Principle 13: Participant-default Rules and Procedures ... 16
Principle 14: Segregation and Portability ... 17
Principle 15: General Business Risks ... 18
Principle 16: Custody and Investment Risks ... 18
Principle 17: Operational Risk ... 19
Principle 18: Access & Participation Requirements ... 20
Principle 19: Tiered Participation ... 21
Principle 20: FMI Links ... 21
Principle 21: Efficiency and Effectiveness ... 21
Principle 22: Communication Procedures and ... 23
Principle 23: Disclosure of Rules, Key Procedures and Market Data ... 24

Principle 24: Disclosure of Market Data by Trade 25

Executive Summary

Overall	Observed
Principle 1 - Legal Basis	Observed
Principle 2 - Governance	Observed
Principle 3 - Framework for the comprehensive management of risks	Observed
Principle 4 - Credit Risk	Observed
Principle 5 - Collateral	Observed
Principle 6 - Margin	Observed
Principle 7 - Liquidity Risk	Observed
Principle 8 - Settlement Finality	Observed
Principle 9 - Money Settlement	Observed
Principle 10 - Physical Deliveries	Not applicable
Principle 11 - Central Securities Depositories	Not applicable
Principle 12 - Exchange-of-value Settlement System	Not applicable
Principle 13 - Participant-default rules and procedures	Observed
Principle 14 - Segregation and Portability	Observed
Principle 15 - General Business Risk	Observed
Principle 16 - Custody and Investment Risks	Observed
Principle 17 - Operational Risk	Observed
Principle 18 - Access and Participation Requirements	Observed
Principle 19 - Tiered Participation Arrangements	Not applicable
Principle 20 - FMI Links	Not applicable
Principle 21 - Efficiency and Effectiveness	Observed
Principle 22 - Communication Procedures and Standards	Observed
Principle 23 - Disclosure of Rules, Key Procedures and Market Data	Observed
Principle 24 - Disclosure of Market Data by Trade Repositories	Not applicable

About the rating scale

CPMI-IOSCO has defined five categories concerning the degree of assessment of each Principle/Key Consideration. These are defined in Disclosure Framework and Assessment methodology published in December 2012.
http://www.bis.org/cpmi/publ/d106.htm.

Thomas Murray uses its experience and expertise in rating CSDs and CCPs to assess FMIs in the context of the Principles drafted by CPMI-IOSCO. Against this background, Thomas Murray has set specific ranges for each degree of observance. These are disclosed next to each definition below.

The categories of assessment defined by CPMI-IOSCO are:

Observed: The FMI observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable, and of a nature that the FMI could consider taking up in the normal course of its business. (TM score range: greater than 8).

Broadly Observed: The FMI broadly observes the principle. One or more issues of concern have been identified that the FMI is encouraged to address and follow up to better manage risks or improve operations. The FMI should pursue such improvements in a defined timeline. (TM score range: greater than 5 and less or equal to 8).

Partly Observed: The FMI partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner. The FMI should accord a high priority to address these issues. (TM score range: greater than 3 and less or equal to 5).

Not Observed: The FMI does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore, the FMI must accord the highest priority to address these issues in a timely manner. (TM score range: less or equal than 3).

Not Applicable: The principle does not pertain to the type of FMI being assessed because of the particular legal, institutional, structural, or other characteristics of the FMI.

The criteria described above will also apply to each Key Consideration.

About this assessment exercise

Muqassa commissioned Thomas Murray to assist in the CPMI-IOSCO self-assessment of the Principles for Financial Market Infrastructures (PFMIs) as part of the Kingdom of Saudi Arabia's efforts to comply with mandates set by G-20 authorities. Thomas Murray, as an independent capital markets expert, conducted an analysis of Muqassa's practices and arrangements in the context of the assessment methodology defined by CPMI-IOSCO.

The approach taken by Thomas Murray is based on its well-established methodology designed to assess FMI risk in the context of best global practices. The Thomas Murray methodology has been employed to assess CCPs and CSDs worldwide for the last 20 years.

Muqassa's assessment consisted of three stages: data collection, due diligence visits and remote analysis. During the first stage Muqassa completed a questionnaire designed by Thomas Murray to efficiently gather all the relevant information on Muqassa. This included copies of the legal framework governing Muqassa's operations and any other supporting material needed for the assessment.

The data was analysed, and a preliminary report was generated prior to conducting the due diligence in June 2023. During the due diligence, Thomas Murray held discussions with all of Muqassa's departments, market participants, and the regulator. The third stage consisted of analysis of the data collected in the first two parts of the assessment. The findings from this process are documented in this paper.

About Muqassa

Muqassa "The Securities Clearing Centre Company" was established in 2018 as a closed joint stock company fully owned by the Saudi Tadawul Group (STG).

The establishment and operation of Muqassa is one of the key initiatives in the Financial Sector Development Program 2020 (FSDP) in the kingdom of Saudi Arabia. In addition, it is an important component in the future market infrastructure to enhance market efficiency and has been a required step for the Saudi market expansion to new products and services such as derivatives.

Muqassa began operations in the second half of 2020 and has developed market infrastructure, derivatives rulesand procedures that are in accordance with international best practices and standards. Muqassa began operations clearing Stock Index Futures on the MT30 index and then launched Single-Stock Futures and Single-Stock Options and will eventually clear a variety of derivative instruments such as Interest rate swaps.

In April 2022, Muqassa launched central counterparty clearing services for all securities traded on the Saudi Exchange market i.e., the 'Cash and Fixed Income market' which includes equities, sukuks and government / corporate bonds, Exchange-Traded Funds (ETFs) and Real-Estate Investment Trusts (REITs) and REPO.

Saudi Exchange is one of the top 20 exchanges in the world by market capitalisation and its inclusion into the major indices (MSCI, FTSE and S&P) Muqassa has been providing the risk management techniques to remove systemic risks from the Saudi Capital Market as part of the Financial Sector Development Program.

Muqassa is recognized as a Qualified Central Counterparty and Member of the CCP Global association for central counterparties ("CCPs"), where Muqassa contribute with other CCP Global members in leading and assessing the global regulatory and industry initiatives that concern CCPs to form consensus views of its members and seeks to actively engage with regulatory agencies and industry constituents through consultation responses, forum discussions and position papers.

Muqassa is a member the International Swaps and Derivatives Association (ISDA).

Muqassa has done an initial assessment on CPMI-IOSCO self-assessment of the Principles for Financial Market Infrastructures (PFMIs) as part of the Kingdom of Saudi Arabia's efforts to comply with mandates set by G-20 authorities and was commissioned from independent consultants in 2019 during the development stage of the Muqassa projects, which was updated in May 2021 following go-live of the index futures market.

In 2023 Muqassa has done full IOSCO self-assessment for both Cash market and Derivative market through independent consultants (Thomas Murray) with the latest changes in Muqassa procedures and operations resulting from the commencement and launching the central clearing services for all securities traded on the Saudi Exchange i.e., the 'Cash and Fixed Income market' which includes equities, sukuks and bonds, Exchange-Traded Funds (ETFs) and Real-Estate Investment Trusts (REITs) and REPO.

As a result of that Muqassa is Observed in all the applicable Principles to Muqassa

The audience for this report will again primarily be Muqassa's Board, Management and its Operational Functions; however, its findings will be shared with Saudi Tadawul Group's

Senior Management and the Capital Markets Regulator, CMA, where required and published on the Muqassa website.

About Saudi Tadawul Group (STG)

Saudi Tadawul Group ('the Group' or 'STG') was established in March 2021 as a Holding Company and became a listed company on Dec 2021 with a portfolio of four subsidiaries: Saudi Exchange, a dedicated stock exchange business (previously known as the Saudi Stock Exchange Company (Tadawul), the Securities Clearing Centre Company (Muqassa), the Securities Depository Centre Company (Edda) and Tadawul Advanced Solutions Company (WAMID).

Changes to Muqassa since previous assessment

Since the previous assessment in May 2021, Muqassa launched central clearing for all securities traded on the Saudi Exchange i.e., the 'Cash and Fixed Income market' which includes equities, sukuks and bonds, Exchange-Traded Funds (ETFs) and Real-Estate Investment Trusts (REITs) and REPO. This has resulted in the development of new systems, processes and risk controls in Muqassa which have been identified, detailed and tested as part this enhanced assessment.

Assessment

Principle 1: Legal

Observed

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Principle Summary

The Capital Market Law regulates the capital markets in the Kingdom of Saudi Arabia. The CMA Implementing Regulations specify the provisions related to the licensing of the Clearing Centre and include the requirements for licensing and maintaining such license across all markets. Certain key concepts have been identified and defined in the Capital Markets Law, Implementing Regulations and the Muqassa Rulebook including finality, collateral arrangements, default procedures, clearing and netting.

As per provisions of Article 23 of the Capital Markets Law, Muqassa is required to put in place the required rules and regulations for its operations and any amendments to these requires CMA approval. Any amendments to Rules or procedures undergo a market consultation.

Muqassa makes available through its website the relevant laws, regulations, and resolutions for its activities. Muqassa advises participants of any change in the pertinent regulation and procedures via market engagements and electronic means.

Principle 2: Governance

Observed

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle Summary

The purpose and objectives of Muqassa are defined in its Articles of Association (AoA). The governance arrangements and the responsibilities of the Board are also detailed in the AoA.

The Muqassa Board of Directors Charter is approved by the CMA and details the responsibilities and authorities of the Muqassa Board.

The Securities Central Counterparties Implementing Regulations requires Muqassa to outline the governance arrangements, the management operations, the division of responsibilities and reporting lines. These are required to be disclosed to the clearing members and the public.

Amongst others, the Board Charter outlines the responsibilities and authorities of the Board, the Board Composition, duties and responsibilities of the Board member. As required in the CCP implementing Regulations, several Board committees have been established to comply with the corporate governance requirements. The established committees are responsible for overseeing the governance framework.

The Implementing Regulation defines the minimum number of committees that need to be established. Muqassa operates seven board committees: Audit Committee, Nomination and Remuneration Committee, Compliance Committee, Investment Committee, Risk Management Committee, Information Technology Committee and the Regulatory Policy and Oversight Committee. Each of the committees mentioned have their own charter which outlines their roles and responsibilities.

Principle 3: Framework for the Comprehensive Management of Risks

Observed

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Principle Summary

Risks are identified at STG and Muqassa level. Muqassa has a Risk Management Committee, a designated risk department with a head count of 17 employees headed by the Chief of Risk officer. Muqassa has its own ERM framework, risk policy and KRIs. BCP and cybersecurity is a shared service and undertaken by the STG. An SLA for shared services is in place between STG and Muqassa.

The ERM Policy framework contains clearly defined processes for the identification, measurement, monitoring and management or risks, and a clear structure for updating and reviewing the framework, policies, and accompanying controls.

Four key risk categories have been identified within the risk management framework, these being, Operational Risks, Financial Risk, Business Environment Risk and Corporate Risks.

A three-line defence approach is adopted for risk identifications, utilising all operational units (line1), the risk policy framework (line 2) and the internal audit function (line 3). Identified risks are managed through the use of KRIs, which are established in accordance with pre-determined risk appetites. The ongoing monitoring of risk and control performance is conducted manually on excel spreadsheets.

Muqassa has identified various scenarios that could prevent it from being able to provide services as a going concern, as part of a detailed recovery plan that is reviewed annually by the board.

Principle 4: Credit Risk

Observed

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should 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 largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Principle Summary

Muqassa maintains a well-documented range of policies, methodologies and procedures designed to effectively identify, calculate, validate, and manage credit exposures faced by the CCP for its derivatives, cash and repo clearing services, as well as the financial resources to cover these exposures. Credit risk is ultimately managed by the Board and enacted by the Risk Management department through use of the Credit Risk Assessment Framework (CRAF).

As CCP for the cash, fixed income, repo and derivatives markets, Muqassa's main exposure is to its General and Direct Clearing members. Capital and other membership requirements control the quality of members on entry and on a continuous basis via quarterly monitoring. Sufficient financial resources are maintained by Muqassa to cover at least the two largest clearing members that would potentially cause the largest loss in extreme but plausible market conditions, even though Muqassa does not clear more complex products or operate in multiple jurisdictions. All of the financial resources are pre-funded, with around 99% in cash and the remainder accessible on a T+2 basis (sukuks). Stress testing is conducted on a daily basis to examine the sufficiency of the financial resources, with reverse testing monthly. The tests are based mainly on one historical and one hypothetical scenario.

Principle 5: Collateral

Observed

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle Summary

Muqassa has a clearly documented policy for collateral eligibility, management, and valuation, and has documented procedures on handling deposited collateral. In addition, Muqassa's clearing rules include provisions for the reuse of collateral. Muqassa's policy is compliant with the regulatory requirements as set out by the Capital Market Authority (CMA). CMA's regulations closely follow the PFMIs thus ensuring close alignment with the principle. Muqassa accepts only cash, primarily in local currency, as collateral for the clearing of derivatives contracts, while it has recently allowed the use of non-cash collateral for cash market clearing activities. By way of regulation, Muqassa must ensure that it only accepts non-cash collateral that has a low risk profile and the CCP has opted for Saudi government bonds of short-to-medium term maturity. The non-cash collateral is subject to strict concentration limits and haircuts that are adjusted and tested regularly.

Principle 6: Margin

Observed

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle Summary

An effective margining system is a key risk-management tool for a CCP to manage the credit exposures posed by its participants' open positions. Muqassa uses a margin methodology provided by Nasdaq, which is compatible with the internationally recognised and widely used SPAN methodology. Muqassa calculates and collects initial and variation margin and issues frequent margin calls during the day and at a minimum at the end of the clearing day. The CCP establishes margin levels by considering the risks and attributes of the cleared products, price volatility and correlation, as well as lack of historical data. The parameters used in the initial margin model are conservative and the CCP offers offsets for closely correlated and with an offset floor that is in line with international practices. Muqassa uses anti-procyclicality buffers integrally in its margin model. The CCP runs daily back tests and monthly sensitivity analysis across various scenarios. Muqassa has a separate, documented Model Validation Policy that is approved by the Board and reviewed frequently.

Principle 7: Liquidity Risk

Observed

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Principle Summary

Muqassa has an appropriately sharp focus on liquidity, which is a primary area of concern for a CCP managing derivatives exposure or even in a cash securities environment with a short, deferred settlement period. There is a well-defined and documented liquidity management framework which outlines appropriate powers, responsibilities and controls to ensure Muqassa maintains sufficient liquidity resources to settle its payment obligations in good time.

The main liquidity risk identified would be from the timely close-out of a defaulting clearing member's portfolio. As a matter of prudence, around 99% of Muqassa's margin and default fund resources in the waterfall are kept as cash on deposit with SAMA. The liquidity risk is entirely in Saudi rials, and liquidity resources are designed to cover the default of the two largest clearing members. The resources are tested from a liquidity perspective as part of the daily stress testing exercises and evidence has been provided to confirm their sufficiency.

As part of a vertical silo, Muqassa has good information on trading conditions just upstream from the clearing process and has insight into members cash positions with an alert system should there be issues with a member's funding position.

Principle 8: Settlement Finality

Observed

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Principle Summary

Finality is defined in the Securities Central Counterparties Implementing Regulations Article 46 and in Muqassa CCP Rules Article 38. An instruction to transfer money or securities is irrevocable once it is recorded in the Muqassa system.

Principle 9: Money Settlement

Observed

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Principle Summary

This principle describes the risk related to money settlement, i.e. when participants settle their payment obligations for various purposes. Money settlement can be conducted via central bank or commercial bank money, but Muqassa utilises exclusively central bank money settlement at SAMA. This is considered as the safest method to settle cash as opposed to using commercial banks who bear credit and liquidity risks. The use of commercial bank money settlement, many more controls and monitoring are required to guard against commercial bank liquidity or capital issues. Muqassa holds payment accounts directly with SAMA for all money settlements, so has no exposure to commercial banks, either from a credit lor liquidity perspective.

Principle 10: Physical Securities

N/A

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

This principle does not apply to Muqassa as all securities are in dematerialised form in the Saudi market, and Muqassa does not clear derivatives contracts requiring fully physical delivery (e.g. physical commodities warehousing).

Principle 11: Central Securities Depositories

N/A

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

This principle does not apply to Muqassa.

Principle 12: Exchange-of-value Settlement System

N/A

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

This principle does not apply to Muqassa.

Principle 13: Participant-default Rules and Procedures

Observed

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle Summary

Default management is a critical component of a CCP's responsibility due to the mutualised loss sharing arrangement aspect, as each member, as well as the CCP itself, could potentially be impacted by a default of a clearing member. As such, in addition to managing the default properly, a CCP should ensure that the losses are contained for other members and that the CCP keeps functioning.

There is a well-defined default management process set out by Muqassa's Clearing Rules and Default Management policy. The powers, responsibilities and actions of the Default Management Committee (DMC) are clearly laid out, as are the rules for using the financial resources in the default waterfall to close out a defaulting members' portfolio. The rules and procedures are freely available to members and Muqassa has conducted fire drill tests with members to test their sufficiency.

Principle 14: Segregation and Portability

Observed

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

Principle Summary

Segregation is a key concept in order to mitigate asset safety risk and prevent a knock-on effect to other members in the case of a default. As a CCP maintains accounts for positions and collateral purposes, it is important that it protects its customers from a default by identifying positions and related collateral from non-defaulting members. Furthermore, a CCP should have portability arrangements in place to allow the transfer of assets from one party to another. This is particularly important to minimise the need to close out positions and reduce any market disruption.

Portability is well defined in law and in Muqassa's Securities Clearing Rules. Muqassa allows for individual segregation as well as omnibus accounts but mandates that clearing member assets must always be segregated from clients'. This would allow Muqassa to readily identify client's positions and collateral, a key factor in porting positions to another clearing member in an accurate and timely fashion. The Default Management Committee is charged with overseeing the process and can elect to close out the positions if porting is unsuccessful or significantly delayed.

Principle 15: General Business Risks

Observed

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle Summary

General business risks play an important part for an FMI as it relates to the viability of the entity and its ability to continue operations and avoid disrupting the financial market. Similar to any risk, this principle looks at how general business risks are identified, assessed, monitored and managed. In order to manage such risks, the FMI is expected to have sufficient assets that are liquid and a plan explaining how to recover from any financial downturn.

Muqassa is part of the Saudi Tadawul Group which has large financial resources, and despite being a young company which has yet to record a profit, its liquid assets are sufficient to cover over the minimum six months operating expenses. Muqassa also maintains a recovery plan setting out the actions it would need to take in order to ensure continuity of its operations.

Principle 16: Custody and Investment Risks

Observed

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Principle Summary

A CCP typically holds proprietary assets as well as collateral on behalf of its clearing members. Whether the assets are invested in cash or securities, the CCP should ensure that they are easily accessible and held within financially regulated and robust entities.

Muqassa has well documented policies setting the guidelines for investing clearing members' cash collateral as well as the CCP's own investments and adopts a low-risk strategy to investments. All cash collateral is held on deposit at the central bank, SAMA, so commercial bank deposit risk exposure is eliminated. All securities collateral is held directly at the central securities depository, Edaa, which is an affiliate company to Muqassa under the STG umbrella group.

Principle 17: Operational Risk

Observed

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Principle Summary

Muqassa has a thoroughly developed operational risk-management framework in place, which incorporates necessary systems, policies, procedures, and controls to effectively manage potential risks. Operational risk is identified as a crucial aspect and is defined in a comprehensive way. Muqassa's operational risk management strategy uses a 'three lines of defence' model for risk identification, five-point risk control effectiveness scoring system, and a 25-point risk scoring methodology for evaluation.

Muqassa ensures operational procedures are meticulously documented, reviewed, and updated, further bolstering risk management. The company also has a dedicated Internal Audit Division (IAD) that reports directly to the Board of Directors, conducting rigorous audits based on a rolling three-year audit strategy. This strategy encompasses all departments and their risk self-assessments, ensuring comprehensive risk evaluation. In terms of external audits, Muqassa follows a coordinated approach aligned with the company's internal audit function.

Muqassa's robust physical and information security measures, including two geographically separated active data centres, and detailed security policies, ensure the protection of its IT infrastructure. The firm maintains a meticulous Business Continuity Plan (BCP) and Disaster Recovery (DR) strategy, backed by rigorous testing routines. This includes real-world scenario simulations to validate their readiness to maintain critical operations, even in extreme circumstances.

Muqassa has a systematic approach to identifying and managing risks posed by key participants, other FMIs, and service providers, captured in a dedicated risk register. The use of Key Risk Indicators (KRIs) and an internal Credit Risk Assessment Framework (CRAF) allows Muqassa to monitor its risk landscape continually and respond proactively to emerging threats.

An annual assessment of members and ongoing due diligence procedures for linked FMIs ensures Muqassa's risk management process is responsive and current. Financially, the company actively monitors the liquidity and exposure levels of its participants on a daily basis, enhancing its ability to manage financial risk. Cybersecurity is prioritised, with stringent measures imposed on all linked entities.

Overall, Muqassa's approach to operational risk management is comprehensive and robust, leveraging advanced techniques and best practices to ensure consistent operational reliability and compliance across its operations.

Principle 18: Access & Participation Requirements

Observed

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Principle Summary

This principle relates to the criteria established for clearing members to use the CCP’s services and whether they are fair and allow for open access. The criteria should typically be risk-based and monitored continuously. In line with most CCPs, Muqassa has direct

participants and indirect ones. General Clearing Members (GCMs)
and Direct Clearing Members (DCMs) have a direct access to the CCP whereas Non-Clearing Members (NCMs) use a GCM to clear their trades.

Principle 19: Tiered Participation

N/A

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

This principle does not apply to Muqassa.

Principle 20: FMI Links

N/A

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

This principle does not apply to Muqassa.

Principle 21: Efficiency and Effectiveness

Observed

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Principle Summary

Muqassa's design and operational structure has continuously evolved with a strong emphasis on meeting the needs of its participants and the markets it serves. The company follows a participatory approach in major decision-making processes, including consultations with participants before introducing new services or enhancements.

Muqassa actively seeks input from its participants when preparing for the clearance of new instruments or markets. This is achieved by creating impact documents, which allow participants to help shape the new services. Muqassa also communicates any changes that impact the entire market, ensuring that participants remain informed about any modifications that could impact their operations.

The firm maintains regular contact with participants through regular communication and meetings, allowing Muqassa to understand and respond to the needs of its participants. While there is no standing user group, Muqassa does conduct training workshops to equip members with necessary knowledge and skills, especially before introducing new services.

In terms of achieving objectives, Muqassa has clear, measurable metrics in place to evaluate progress across different operational areas. Its risk management operates under a comprehensive risk register, outlining a wide range of risks with specific control measures for each.

To ensure smooth financial market operations in Saudi Arabia, Muqassa focuses on mitigating operational risks, managing technology risks, and limiting financial risks. To gauge its efficiency and effectiveness, Muqassa utilises feedback mechanisms such as ad hoc consultations, quarterly surveys, and impact documents.

Each team within Muqassa has a set of Key Performance Indicators (KPIs) to ensure alignment with business objectives. These KPIs are regularly tracked, serving as a quantifiable measure of progress towards their respective goals. Overall, Muqassa's operational framework exemplifies a participant-centric focus, underpinned by strong feedback mechanisms and clear, measurable performance indicators.

Principle 22: Communication Procedures and

Observed

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Principle Summary

Muqassa utilises globally recognised communication standards, including FIXML and SWIFT, to streamline payment, clearing, settlement, and recording processes. While FIXML is in active use, enabling members to conduct real-time queries on positions, balances, and activities, the SWIFT capability, although not currently used with members, underscores Muqassa's preparedness to adopt international norms as needed. A regular member of international organisations like CCP 12, Muqassa ensures its operational alignment with internationally accepted practices and fosters seamless cross-border collaborations. The direct access to the SAMA system ensures efficient payment confirmations, whilst the implementation of ISO 20022 standards for cross-border operations is still under confirmation.

Principle 23: Disclosure of Rules, Key Procedures and Market Data

Observed

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Principle Summary

Muqassa upholds transparency and participant engagement in its operations, encapsulating its rules and procedures in the 'Securities Clearing Centre Rules' and ensuring compliance with Saudi Arabian laws, the CMA regulations, and directives of its Board of Directors. Open to suggestions for amendments or clarifications from participants, Muqassa engages in regular consultations and provides access to these regulations via its website. While it doesn't explicitly outline the process for rule changes, it encourages dialogue with participants and solicits feedback. As per the regulations, Muqassa operates under the oversight of the CMA, and to date, has not needed to amend its rules due to an adverse legal outcome.

Muqassa ensures a clear understanding of its system's design and operations among participants, disseminating detailed operational procedures and guides via the official website. Changes to operations or rules are communicated in a timely manner, aiding participants in adjusting their risk assessments. Furthermore, Muqassa offers workshops and educational initiatives, equipping participants with a thorough understanding of its rules, procedures, and potential risks.

Muqassa maintains transparency in its fee structure, established through international benchmarking and market surveys, and publicly discloses fees for individual services and any discount policies. Proposed changes to the fee structure are communicated to affected members after approval from the CMA.

Muqassa is committed to regular self-assessment, in line with promoting transparency and adherence to financial market infrastructures standards. This commitment is demonstrated by undertaking its third CPMI-IOSCO PFMI assessment and publishing the report on its website. Additionally, Muqassa discloses a variety of transaction details, including trading volumes and values, changes in rules, market onboarding data, and more, ensuring participants have real-time access to critical market information.

Principle 24: Disclosure of Market Data by Trade

Repositories

N/A

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

This principle does not apply to Muqassa.