



**Central Counterparty Clearing House (“CCP”)**

# **Cash Market Clearing Procedures**

**Approved by the Board of the Capital Market Authority Pursuant to its Resolution Number (1-2-2022) Dated 30/5/1443 H corresponding to 3/1/2022 G**

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**Arabic is the official language of the Clearing Centre**

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## Section 1: Preliminary Provisions

### 1. Provisions and Definitions

- 1.1. This document specifies Cash Market Clearing Procedures that Members must follow to comply with provisions of the Securities Clearing Centre Rules.
- 1.2. The Clearing House may, after obtaining the Authority's approval, waive any person's obligations to the provisions of these procedures either based on a request from the relevant person or on its own initiative.
- 1.3. The expressions and terms in these Procedures carry the same meaning as they do in the Capital Market Law, and Glossary of Defined Terms Used in the Exchange Rules unless the text explicitly notes an alternate meaning.
- 1.4. These Procedures will enter into effect as per its approval resolution.
- 1.5. Clearing Member stated in these Procedures covers General Clearing Member and Direct Clearing Member; Member stated in these Procedures means Clearing Member and Non-Clearing Member together.
- 1.6. In these Procedures, the following terms shall have the following meanings unless context otherwise requires:

**Cash Market:** market in which the assets are traded for cash and immediate delivery (up to T+5).

**Clearing House System:** means an application interface to process clearing operations and get related reports at Clearing House.

**Delta Hedge:** means Margin methodology used by Clearing House for the calculation of Margin requirement based on the portfolio-based risk management algorithm.

**End-Client:** a person that the relevant Depository Centre Account is opened under its name.

**External Account ID:** means a unique code composed of identifier published by Clearing House, SARIE Code and account number of the Bank in SARIE.

**IBAN:** means International Bank Account Number.

**Intended Settlement Date:** intended settlement date of the Open Position.

**Mark-to-Market:** revaluation of the Open Positions and/or Collateral for a specific account with the prices determined by the Clearing House.

**Standard Portfolio Analysis of Risk (SPAN):** means a methodology for calculating portfolio-based Margin requirements.

**Standard Settlement Instructions:** the set of information that facilitate the processing of securities and/or cash transactions between accounts in accordance with Section (10) of these Procedures.

**Stress Testing:** means estimation of credit exposures that would result from the realization of extreme price changes.

## 2. Conditions for Direct Clearing Membership

**2.1.** An applicant that wishes to apply for a Direct Clearing Membership must meet, in addition to the conditions listed in Article 7 and 8 of the Securities Clearing Centre Rules, the following conditions:

- 2.1.1.** have a minimum internal credit score of 5 based on Clearing House credit criteria methodology published on its website;
- 2.1.2.** have an agreement with a Local Bank acting as paying agent for cash transactions including Collateral transfers.

## 3. Conditions for General Clearing Membership

**3.1.** An applicant that wishes to apply for a General Clearing Membership must meet, in addition to conditions listed in Article 7 and 9 of the Securities Clearing Centre Rules, the following conditions:

**3.1.1.** the minimum capital requirements stipulated in the table below;

Number of Non-Clearing Members	Minimum Capital Requirement
From 1 to 3	100,000,000 Saudi Riyals
From 4 to 7	200,000,000 Saudi Riyals
Above 7*	300,000,000 Saudi Riyals
*Subject to Clearing House's approval.	

- 3.1.2. have a minimum internal credit score of 4 based on Clearing House credit criteria methodology published on its website;
- 3.1.3. be a Local Bank or have an agreement with a Local Bank acting as paying agent for cash transactions including collateral transfers.

#### **4. Non-Clearing Members**

- 4.1. Each Non-Clearing Member can only appoint one General Clearing Member to clear its transactions.
- 4.2. An applicant that wishes to apply for a Non-Clearing Membership must meet the conditions listed in Article 25 of the Securities Clearing Centre Rules.

#### **5. Membership Admission and Activation**

- 5.1. Upon approval by the Clearing House, the applicant must pay the membership fee and Upfront Default Fund Contribution. Details of required documentation and relevant deadlines for membership application process shall be published on the Clearing House's website.
- 5.2. After the conditions stipulated in Paragraph (5.1) of these Procedures are fulfilled, the membership will be activated in the Clearing House System.

#### **6. Fees, Payment and Invoice**

- 6.1. The Clearing House will submit invoices to Members on a periodic basis and defines deadline for payment accordingly.
- 6.2. The Clearing House shall publish all fee types and their calculation method at the Clearing House's website.
- 6.3. The Clearing House shall notify Members, at least, **30** Calendar days before imposing new fees or changing the fees stipulated in Paragraph (6.2) of these Procedures.

#### **7. Pass-Through service**

- 7.1. The Clearing House will facilitate settlement of Open Positions subject to Pass-Through service, in accordance with Section (13) of these Procedures.

## **8. Notices**

**8.1.** Clearing House shall publish notices on its website for clarification and details related to these Procedures.

## **Section 2: Accounts**

### **9. Accounts Structure and Accounts Types**

**9.1.** The Clearing House shall offer accounts to process trades, Open Positions, Margin requirements, and Collateral.

**9.2.** Trading Account will be opened to reflect trades executed in the Trading System.

The following Trading Account types and its attributes will be as follows:

**9.2.1.** The house Trading Account will be opened to reflect Member's own trades and temporary allocated client trades. The house Trading Account can be opened with the following attributes:

**9.2.1.1.** Member to End-Client Settlement Instructions resulting from trades allocated to a gross house Trading Account will be settled on a gross basis in accordance with Section (13) of these Procedures.

**9.2.1.2.** Member to End-Client Settlement Instructions resulting from trades allocated to a net house Trading Account will be settled on a net basis in accordance with Section (13) of these Procedures.

**9.2.1.3.** Members market making activities shall be allocated to house market making Trading Account, and it will be considered as a net house Trading Account.

**9.2.1.4.** Allocation account will be opened as a temporary house Trading Account that reflects both Member's own trades and client trades that shall be re-allocated in accordance with Section (14) of these Procedures. All trades reflected on allocation account will be considered as the Member's own trades until rectified. Member shall be responsible to provide their own Depository Centre Account while placing an order in the Trading System for trades associated with allocation account. Allocation account will be considered as a net house Trading Account.

**9.2.2.** Client Trading Accounts will be opened to reflect Member's client trades. Client Trading Account can be opened with following attributes:



- 9.2.2.1.** Member to End-Client Settlement Instructions resulting from trades allocated to a gross Client Trading Account will be settled on a gross basis in accordance with Section (13) of these Procedures.
  - 9.2.2.2.** Member to End-Client Settlement Instructions resulting from trades allocated to a net Client Trading Account will be settled on a net basis in accordance with Section (13) of these Procedures.
  - 9.2.2.3.** Omnibus Client Trading Account will be opened to reflect trades related to multiple Clients.
  - 9.2.2.4.** Individual Client Trading Account can be opened to reflect transactions related to an individual Client.
  - 9.2.2.5.** Client market making Trading Account can be opened to reflect Client market making activities, and it will be considered as a net Client Trading Account.
  - 9.2.2.6.** Client Murabaha Trading Account can be opened to reflect Murabaha Client trades, and it will be considered as gross Client Trading Account.
- 9.2.3.** Settlement Position Accounts will be opened to reflect Open Positions arising from the trades in the relevant Trading Accounts. Settlement Position Accounts can be opened with the following attributes:
- 9.2.3.1.** House settlement Position Account will be opened to book Open Positions related to house Trading Accounts.
  - 9.2.3.2.** Omnibus Client settlement Position Account will be opened to book Open Positions allocated to omnibus Client Trading Accounts. The Clearing House may open separate Omnibus Client settlement Position Account for Client Murabaha Trading Account.
  - 9.2.3.3.** Individual Client settlement Position Account will be opened to book Open Positions allocated to an individual Client Trading Account.
- 9.3.** Margin calculation accounts will be opened to calculate Margin requirements based on Open Positions in each settlement Position Account.
- 9.4.** The following Collateral Accounts can be opened to identify, value and evaluate Collateral provided by Clearing Members to meet Clearing House Collateral requirements:

- 9.4.1.** House Margin requirements account is used to book Members own Collateral. The Collateral at this account shall only be used to cover the Margin requirements calculated for the Open Positions in the house settlement Position Account and omnibus Client settlement Position Accounts.
- 9.4.2.** Individual Client Margin requirements account used to book Collateral of an individual Client. The Collateral at this account shall only be used to cover the Margin requirement calculated for the Open Positions in the Client settlement Position Account.
- 9.5.** Default Fund Account will be opened to identify, value and evaluate Collateral provided by the Clearing Member to meet Default Fund Contribution requirements, and it will be considered as house Collateral account. The Clearing House will open one Default Fund Account for each Clearing Member.
- 9.6.** Free cash account will be opened by the Clearing Member to facilitate settlements of Collateral obligations. Cash amount held on the free cash account will not be considered as Collateral until transferred to designated Collateral Account to meet the Collateral requirements. Funds held on the free cash account can be used to fulfill any unpaid obligations to Clearing House. The Clearing House will open one free cash account for each Clearing Member.
- 9.7.** Intraday funding account will be opened by the Clearing Member to cover deficits of all Margin requirement accounts, without a need to internally transfer from intraday funding account to Margin requirement account that have deficits. Intraday funding account will be considered as house Collateral account. The Clearing House will open one intraday funding account for each Clearing Member.
- 9.8.** Extra Margin Account will be opened and used by Clearing Member to identify and value Collateral posted to meet additional Margin demanded by the Clearing House pursuant to paragraph (f) of Article 50 of the Securities Clearing Centre Rules. Extra Margin account will be considered as house Collateral account. The Clearing House will open one extra Margin Account for each Clearing Member.
- 9.9.** The Clearing House shall implement an appropriate standard account structure for every single Member based on its membership and institution type.

**9.10.** Direct Clearing Member will have the following accounts opened as part of the Standard Account Structure:

**9.10.1.** Trading Accounts:

**9.10.1.1.** Gross house Trading Account; and

**9.10.1.2.** Gross omnibus Client Trading Account.

**9.10.2.** Settlement Position Accounts:

**9.10.2.1.** House settlement Position Account; and

**9.10.2.2.** Omnibus Client settlement Position Account.

**9.10.3.** Margin calculation accounts:

**9.10.3.1.** House Margin calculation account; and

**9.10.3.2.** Omnibus Client Margin calculation account.

**9.10.4.** Collateral Accounts:

**9.10.4.1.** House Margin requirement account;

**9.10.4.2.** Default Fund Account;

**9.10.4.3.** Free cash account;

**9.10.4.4.** Intraday funding account; and

**9.10.4.5.** Extra Margin account.

**9.11.** General Clearing Member acting as an Exchange Member will have the following accounts opened as part of the standard account structure:

**9.11.1.** Trading Accounts:

**9.11.1.1.** Gross house Trading Account; and

**9.11.1.2.** Gross omnibus Client Trading Account.

**9.11.2.** settlement Position Accounts:

**9.11.2.1.** House settlement Position Account; and

**9.11.2.2.** Omnibus Client settlement Position Account

**9.11.3.** Margin calculation accounts:

**9.11.3.1.** House Margin calculation account; and

**9.11.3.2.** Omnibus Client Margin calculation account.

**9.11.3.3.** The following Margin calculation accounts will be opened for each of his

Non-Clearing Members:

**9.11.3.3.1.** House Margin calculation account; and

**9.11.3.3.2.** Omnibus Client Margin calculation account.

**9.11.4.** Collateral Accounts:

**9.11.4.1.** House Margin requirement Account;

**9.11.4.2.** Client Margin requirement account for each of his Non-Clearing Members;

**9.11.4.3.** Default Fund Account;

**9.11.4.4.** Free cash account;

**9.11.4.5.** Intraday funding account; and

**9.11.4.6.** Extra Margin account.

**9.11.5.** The following accounts will be opened for each of his Non-Clearing Members:

**9.11.5.1.** Trading Accounts:

**9.11.5.1.1.** Gross house Trading Account; and

**9.11.5.1.2.** Gross omnibus Client Trading Account.

**9.11.5.2.** Settlement Position Accounts:

**9.11.5.2.1.** House settlement Position Account; and

**9.11.5.2.2.** Omnibus Client settlement Position Account.

**9.12.** General Clearing Member – not acting as an Exchange Member will have the following accounts open:

**9.12.1.** Trading Accounts for each of his Non-Clearing Members:

**9.12.1.1.** Gross house Trading Account; and

**9.12.1.2.** Omnibus Client Trading Account.

**9.12.2.** Settlement Position Accounts for each of his Non-Clearing Members:

**9.12.2.1.** House settlement Position Account; and

**9.12.2.2.** Omnibus Client settlement Position Account.

**9.12.3.** Margin calculation account for each of his Non-Clearing Members:

**9.12.3.1.** House Margin calculation Account; and

**9.12.3.2.** Omnibus Client Margin calculation Account.

**9.12.4.** Collateral Accounts:

**9.12.4.1.** House Margin requirement account;

**9.12.4.2.** Client Margin requirement Account for each of his Non-Clearing Member;

- 9.12.4.3.** Default Fund Account;
  - 9.12.4.4.** Free cash account;
  - 9.12.4.5.** Intraday funding account; and,
  - 9.12.4.6.** Extra Margin account.
- 9.13.** If trading for his own account, General Clearing Member which is not acting as an Exchange Member, shall appoint an Exchange Member and open at least individually segregated Trading Account with the relevant Exchange Member, which will be used to allocate Clearing Member's trades. Corresponding Client settlement Position Account will be opened that propagate to Clearing Member's House Margin Calculation Account where Margin requirements are calculated that shall be fulfilled by Clearing Member using the house Margin requirement account.
- 9.14.** Appropriate account structure shall be configured in the Depository Centre to facilitate settlements and Collateral transactions in accordance with the Securities Depository Centre Rules.
- 9.15.** The Clearing House will open a Settlement Pool Account at the Depository Centre which will be used to settle Open Positions between the Clearing House and the Member.
- 9.16.** Each Member acting as an Exchange Member shall ensure that:
- 9.16.1.** Exchange Member Settlement Pool Account is opened at the Depository Centre which will be used as a delivery account to settle Open Positions between the Member and the Clearing House Open Positions originating from Members' house settlement Position Accounts.
  - 9.16.2.** Exchange Member Clients Settlement Pool Account is opened at the Depository Centre which will be used as a delivery account to settle Open Positions between the Member and the Clearing House Open Positions originating from Members' Client's settlement Position Accounts.
- 9.17.** Each General Clearing Member shall ensure that Settlement Pool Accounts set out in paragraph (9.16.1) of these Procedures are opened for each of their Non-Clearing Members.
- 9.18.** The Clearing House shall open a corresponding Collateral Account for each Collateral Account that is eligible to hold securities at the Depository Centre.

## **10. Standard Settlement Instructions**

- 10.1.** Clearing House shall configure Standard Settlement Instructions on settlement Position Accounts to facilitate settlement of related Open Positions by transmitting Settlement Instructions through the Depository Centre.
- 10.2.** Clearing House shall configure Standard Settlement Instructions on Collateral Accounts to facilitate settlement of Collateral withdrawal requests by transmitting Settlement Instructions through the Depository Centre for Securities and through SAMA for cash.
- 10.3.** Members are responsible for providing Standard Settlement Instructions related information to the Clearing House for every settlement Position Account and Collateral Account opened in the Clearing House System.
- 10.4.** Member acting as an Exchange Member shall provide Exchange Member Settlement Pool Account and Exchange Member Clients Settlement Pool Account numbers at the Depository Centre.
- 10.5.** For each Collateral Account, Clearing Member shall provide IBAN and the Depository Centre account with Identification Number of the Collateral provider. Provided Identification Number shall be the same for Collateral provider's Depository Centre Account and corresponding Collateral Account.

## **11. Account Opening and Closing**

- 11.1.** Clearing Member shall request the Clearing House to open the standard account structure as a part of the membership application process.
- 11.2.** Clearing Members can request the Clearing House to open any additional account outside of the standard account structure in accordance with Section 9 of these Procedures.
- 11.3.** For each individual Client Trading Account and corresponding settlement Position Account, Margin calculation account and Margin requirement account, Member must provide Identification Number information of the respective Client.
- 11.4.** Clearing Member is solely responsible for validation and consistency of the Identification Number provided to the Clearing House.

- 11.5.** Any Trading Accounts opened at the Clearing House System will be reflected to the Trading System for order level validation purpose and will become eligible for trading on the next day.
- 11.6.** Accounts closing shall only be conducted by the Clearing House.
- 11.7.** Clearing Members can request to close Accounts in accordance with the form prescribed for this purpose to the Clearing House.
- 11.8.** Clearing Members can close only additionally requested accounts, outside of the standard account structure.
- 11.9.** The Clearing House will not close any account that have or is related to any Open Position, Collateral or entitlement related to the account.

## **12. On-Behalf-Of Operations**

- 12.1.** Clearing Member will conduct clearing operations through the Clearing House System. Non-Clearing Member will have limited access to Clearing House System functionalities. If in exceptional circumstances, the Member cannot utilize the access to the Clearing House System, then the Member shall request the Clearing House to proceed with the related clearing operation “on behalf” of that Member, the Member must initiate and send a request to the Clearing House.
- 12.2.** Forms shall be signed by the authorized personnel of the Member. The Clearing House, in its discretion, may not proceed with the related request if the Clearing House is unable to confirm the authenticity and authorization of the request based on documents provided by the Member.

## **Section 3: Clearing Operations**

### **13. Open Position Management**

**13.1.** The Clearing House will determine Open Positions obligations for both Members to End-Client and Members to the Clearing House for cleared trades and Physical Delivery of the Underlying Asset of Derivatives or Member to Member and Member to End-Client obligations for trades subject to Pass-Through Service, by aggregating receivables/deliverables to receive/deliver Securities (Quantity) and/or receive/pay cash (Settlement Amount) for captured trades given the following criteria:

**13.1.1.** Security;

**13.1.2.** Transaction date;

**13.1.3.** Settlement date;

**13.1.4.** Open Position type, which is:

**13.1.4.1.** Gross for the Open Positions below:

**13.1.4.1.1.** Member to Member Open Positions;

**13.1.4.1.2.** Member to End-Client Open Positions resulting from trades allocated to gross Trading Account; and

**13.1.4.1.3.** Open Positions resulting from trades with T+0 settlement date.

**13.1.4.2.** Net for Open Positions resulting from all the other trades if the below is matched;

**13.1.4.2.1.** Settlement Position Account; and

**13.1.4.2.2.** Counterparty.

**13.2.** For each trade with the unique set of attributes stipulated in paragraph (13.1) a new Open Position will be generated, otherwise the existing relevant Open Position will be updated if the trade has the same attributes.

**13.3.** Clearing House shall be responsible for transmitting the Settlement Instructions related to obligations resulting from Open Positions to the Depository Centre. The Settlement Instruction shall indicate that settlement shall take place in the designated Settlement Pool Account in the Depository Centre. Exchange Member shall be responsible for providing all the information necessary to settle Open Position in accordance with Exchange Rules and Securities Depository Centre Rules.



**13.4.** Clearing House will transmit delivery versus payment Settlement Instructions for Open Positions corresponding to Member to Clearing House and Member to Member obligations.

**13.5.** Clearing House will transmit free of payment Settlement Instructions for Open Positions corresponding to Member to End-Client obligations if the respective Settlement Pool Account and the End-Client are operated by the same Custody Member, otherwise Settlement Instructions will be transmitted as delivery versus payment.

**13.6.** Default attributes for Settlement Instructions transmitted to the Depository Centre in accordance with the Depository Centre Procedures are stipulated in the table below.

<b>Open Position type</b>	<b>Partial Indicator</b>	<b>Hold Status</b>	<b>Priority</b>
<b>Clearing House to Member</b>	Yes	No	Top Priority
<b>Member to Member</b>	No	No	Top Priority
<b>Member to End-Client (Member's Custody Member) – Cleared Securities</b>	Yes	No	Normal
<b>Member to End-Client (Member's Custody Member) – Designated Securities</b>	No	No	Normal
<b>Member to End-Client (different Custody Member) – Cleared Securities</b>	Yes	Yes	Normal
<b>Member to End-Client (different Custody Member) – Designated Securities</b>	No	Yes	Normal
<b>Buy-in process</b>	Yes	No	Top Priority

**13.7.** If for any reason Settlement Instruction is rejected by the Depository Centre, the Exchange Member shall rectify the trade associated with the rejected Settlement Instruction in accordance with Section (14) of these Procedures.

**13.8.** If the trade related to Settlement Instruction in paragraph (13.7) of these procedures is not rectified before Trade Management cut-off time, the related Settlement Instruction will be auto-rectified to a designated Exchange Members' Securities Account in the Depository Centre.

**13.9.** Clearing House will transmit the Settlement Instructions resulting from gross and T+0 Intended Settlement Date Open Positions immediately and resulting from net Open Positions end of day to the Depository Centre.

## **14. Trade Management**

**14.1.** Exchange Members can rectify any trade held in the Trading Account by changing the attributes for the relevant trade.

**14.2.** Trade rectify can be used to amend the post-trade information by changing the following:

**14.2.1.** Trading Account; and /or

**14.2.2.** End-Client.

**14.3.** Trade rectify by changing the End-Client from house to the related Client and vice versa, the Trading Account shall be changed accordingly.

**14.4.** Rectified trade will have its original trade price and quantity.

**14.5.** Split trade can be used for splitting the quantity of one trade into multiple trades.

The quantity and corresponding settlement amount of the original trade is split proportionally by specifying the following attributes for each resulting trade:

**14.5.1.** Trading Account,

**14.5.2.** End-Client,

**14.5.3.** Quantity.

**14.6.** Split trades will have its original trade price.

**14.7.** Average price trade can be used to combine a group of trades into one trade. The quantity of the resulting trade is the sum of the quantities of the group of trades. The settlement amount of the resulting trade is the sum of the settlement amounts of the group of trades. The price of the resulting trade is the volume-weighted average price of the group of trades. To average price a group of trades, the group of trades must share the same attributes:

- 14.7.1.** Trading Account,
- 14.7.2.** End-Client
- 14.7.3.** Security,
- 14.7.4.** Order type (buy/sell),
- 14.7.5.** Transaction Date,
- 14.7.6.** Settlement Date.
- 14.8.** Trade Management activities shall not be possible for trades with Intended Settlement Date that is T+0, and settlement instructions initiated from the Physical Delivery of the Underlying Assets of the Derivatives.
- 14.9.** Trade Management activities shall be limited to cut-off time at T+0 for trades with Intended Settlement Date that is T+1.
- 14.10.** Trade Management activities shall be limited to cut-off time at T+1 for trades with Intended Settlement Date that is or further than T+2.
- 14.11.** Trade Management cut-off time will be announced in the Notice. Clearing House may change the cut-off time.
- 14.12.** Non-Clearing Member can authorize its Clearing Member to conduct Trade Management activities on its behalf.

## **15.Porting**

- 15.1.** Non-Clearing Member can request the Clearing House to transfer all Open Positions and related Collateral to another General Clearing Member.
- 15.2.** Member can request from the Clearing House to transfer all Open Position and related Collateral of an individual Client to a specified account at another Member.

## **16.Suspension of Member**

- 16.1.** Upon any suspension or cancellation decision initiated in accordance the Securities Clearing Centre Rules, the Clearing House will suspend all Clearing House System users of the related Member.
- 16.2.** Clearing House will offer a time frame for transferring of Open Positions and Collateral of Clients and Non-Clearing Member from the suspended Clearing Member to another Clearing Member.

## **17.Fails Management**

- 17.1.** If an Exchange Member fails to fulfil its obligation to the Clearing House in respect to the settlement of the Open Position on Intended Settlement Date, corresponding Open Position, including Open Positions of the other Exchange Members or the Clearing House affected by the failure, will be subject to fails management process. Failure can occur in case of the Exchange Member's inability to provide securities or to provide cash.
- 17.2.** Fails management process starts on Intended Settlement Date and ends upon the settlement of the failure or the Cash Substitution in accordance with paragraph (17.12) of these procedures.
- 17.3.** Clearing House may replace the failure and corresponding Open Positions transformation or generate additional Open Positions (Claim) if the Security to deliver is subject to corporate action.
- 17.4.** During the fails management process, Exchange Member will be charged daily for the fails management fee for the settlement instructions against the Clearing House. Fails management fee will be invoiced to the Exchange Member according to the Section (6).
- 17.5.** During the fails management process, Exchange Member will be levied for each overdue day for the cash compensation for the fails related to their own or their Clients trades.
- 17.6.** Cash compensation will be collected from the failed parties by the Clearing House and distributed to the affected parties in any method Clearing House deems appropriate.
- 17.7.** In case of the failure to provide Securities, Exchange Member shall cover its shortage immediately, if the shortage is not covered by the Exchange Member, the Clearing House will initiate a mandatory buy-in process on behalf of the failing Exchange Member, starting from the Intended Settlement Date +5.
- 17.8.** The Clearing House will initiate a mandatory buy-in process on behalf of the failing Exchange Member by transmitting orders to the Trading System. No Cancellations or amendments of such buy-in process orders are permitted to the Exchange Member.

- 17.9.** The Clearing House may facilitate mandatory buy-in process by appointing an Exchange Member or more.
- 17.10.** The Clearing House may appoint Exchange Member or more to buy or borrow securities on behalf of the Clearing House in order to cover any shortage of securities due to cash substitution of the failed party as set out in paragraph (17.12).
- 17.11.** Any associated costs or charges as result of appointing Exchange Member or more in accordance with paragraphs (17.9) and (17.10), will be charged to the failed party.
- 17.12.** In case of the shortage is not covered fully until end of Intended Settlement Date +8, the Clearing House will initiate a cash substitution to the failed party for the remaining amount not delivered, in order to settle the failure and affected Open Positions. Cash substitution process will cancel the relevant instruction of the failed party and generate cash obligation to be paid by the failing party. Cash substitution amount that will be collected from the failed party and be calculated using the following formula:
- Max[0; Reference Price · Quantity · Coefficient – Settlement Value].*
- 17.13.** Clearing House may determine the affected party or parties due to cash substitution as set out in paragraph (17.12), and hold the relevant instructions from settlement. Clearing House will cancel selected Open Positions of the affected parties and generate cash receivable instruction as set out in paragraph (17.14).
- 17.14.** Cash substitution will be collected from failed parties by the Clearing House as set out in paragraph (17.12) and distributed to the affected party or parties in any method Clearing House deems appropriate.
- 17.15.** Clearing House may initiate buy-in process or the cash substitution earlier than the time specified in paragraphs (17.7) and (17.12) in the following cases:
- 17.15.1.** Event of Default;
  - 17.15.2.** if the Security to deliver subject to the failure has an expiration date within the fail management period;
  - 17.15.3.** Trading is suspended in accordance with the Exchange Rules;
  - 17.15.4.** Security is delisted;
  - 17.15.5.** Corporate actions including full or partial redemption for bonds and sukuk; or

**17.15.6.** Any other reason Clearing House deems it necessary for the safety of the clearing and settlement process.

**17.16.** Settlement instructions initiated from the Physical Delivery of the Underlying Asset of the Derivatives are subject to the same fails management process in accordance with this section.

## **18. Processing of Daily Cycle**

**18.1.** The timings and the deadlines of the clearing activities will be published in the notices by the Clearing House on its website.

## **Section 4: Risk Management and Margin**

### **19. Trading Limit**

**19.1.** The Trading Limit is part of pre-trade risk management and designed to limit the potential exposure on a trading level.

**19.2.** For every Clearing Member, the Clearing House will determine and notify corresponding Clearing Member of a gross and net trading limit. Clearing Member can determine its trading limit or their Non-Clearing Members in accordance with the trading limit set by Clearing House. The Trading System calculates the following trading limits:

**19.2.1.** Gross limit: constraints gross (buys and sells corresponding absolute values of settlement amounts combined) multiplied by risk-weighted value of trades and orders an Exchange Member can execute during the trading day.

**19.2.2.** Net buy limit: constraints net (buy trades minus sell trades plus buy outstanding orders' corresponding absolute values of settlement amounts) multiplied by the risk-weighted value of trades and orders an Exchange Member can execute during the trading day.

**19.2.3.** Net sell limit – constraints net (sell trades minus buy trades plus sell outstanding orders' corresponding absolute values of settlement amounts) multiplied by the risk-weighted value of trades and orders an Exchange Member can execute during the trading session.

- 19.3.** The Clearing Member Trading Limit will be set for every Clearing Member on a gross and net basis by the Clearing House. Trading Limits for Clearing Members can be changed intra-day by transmitting instruction through Clearing House System.
- 19.4.** Value of the Trading Limit change instructed in accordance with paragraph (19.3) of these Procedures shall not be more than the corresponding limit determined by the Clearing House in accordance with paragraph (19.2) of these Procedures.
- 19.5.** Non-Clearing Member Trading Limit will be set by General Clearing Member provided that the aggregated limit of General Clearing Member shall not exceed total trading limit imposed by the Clearing House. Trading Limits for Non-Clearing Members can be changed intra-day by transmitting instruction through Clearing House System by the General Clearing Member.
- 19.6.** Buy and sell outstanding orders consume the limit. The treatment of buy and sell orders received after Trading Limit is fully consumed will be subject to Exchange Rules.
- 19.7.** Risk weight will be configured for each Security by the Clearing House and published on its website.

## **20. Margin Requirement**

- 20.1.** Clearing House calculates Margin requirements for all Open Positions with the Clearing House as the counterparty.
- 20.2.** The Margin components taken into consideration are the Initial Margin, Variation Margin and additional Margin within different forms.
- 20.3.** Margin requirement is calculated using the following three scenarios, which are different depending on the Intended Settlement Date and is used to capture time risk:
- 20.3.1.** Set 1– Includes all Open Positions from Intended Settlement Date (settles today, including rolled over trades), Intended Settlement Date+1 (settles next business day) and Intended Settlement Date+2 (settles the day after the next business day, or any business day later);
- 20.3.2.** Set 2– Includes all Open Positions from Intended Settlement Date+1 and Intended Settlement Date+2;
- 20.3.3.** Set 3– Includes all Open Positions from Intended Settlement Date+2.

**20.4.** Margin requirement can be represented in the following way:

*Margin Requirement*

$= \text{Max}[(\text{Initial Margin}_{S1} + \text{Variation Margin}_{S1} + \text{Additional Margin for Rolled Over Trades}), (\text{Initial Margin}_{S2} + \text{Variation Margin}_{S2}), (\text{Initial Margin}_{S3} + \text{Variation Margin}_{S3}), \text{Minimum Margin Requirement}]$

**20.5.** A minimum Margin requirement may be set by the Clearing House and will be communicated via a notice to protect the Clearing House against sudden increases in market volatility if the Initial Margin computed based on the margin model is low in periods of low volatility.

**20.6.** If minimum Margin requirement is selected as the Margin requirement for an account, the Initial Margin will be equal to minimum Margin requirement and Variation Margin will be displayed as zero.

**20.7.** Margin calculations are performed at scheduled times intra-Day and at the end of-Day. If it deems necessary, the Clearing House may calculate Margin requirements more frequently than the scheduled intraday batches for some of the accounts.

**20.8.** Real time Margin calculations are performed as soon as a trade occurs or relevant price changes above the threshold if determined.

## **21.Initial Margin**

**21.1.** Initial Margin calculation represents the potential liquidation loss of a portfolio based on possible market fluctuation scenarios, using Delta Hedge margining methodology.

**21.2.** Clearing House's margining guide is available for Clearing Members reference on the Clearing House website. A file with risk parameters, which could be used by Clearing Member for Margin replications, is compatible with SPAN-like expanded format and made available to Clearing Member after every Margin run.



- 21.3.** The Risk Parameter File contains key Delta Hedge parameters such as Margin prices, Price Scanning Range and Intermonth Spread Charge where applicable. Price Scanning Range is determined by the Clearing House using a minimum confidence interval of 99%, at least 2 Days for Margin period of risk and 10 years of historical data, where available.
- 21.4.** Any changes to these parameters will be communicated to Clearing Members on the Clearing House website.
- 21.5.** The Clearing Member can obtain a copy of the file from the Clearing House System, the Clearing House's FTP server and website.
- 21.6.** Initial Margin is calculated for every Margin calculation account and settlement Position Account. Initial Margin offset is not permitted across different Margin calculation accounts.
- 21.7.** The Clearing Members can refer to the Clearing House System for calculated Margin requirement for their settlement Position Accounts.

## **22. Variation Margin**

- 22.1.** Variation Margin calculations are performed at specific times intra-Day and end-of-Day, or, at a shorter interval as the Clearing House deems fit. The Clearing House may determine different price change thresholds for different Security types and if a Security has a price fluctuation more than the pre-determined threshold then only for that specific Security Variation Margin will be updated immediately for all of the accounts to reflect only its price change.
- 22.2.** Variation Margin is calculated separately for each Open Position within a settlement Position Account.
- 22.3.** Variation Margin value is based on the difference between an Open Position obligations/liabilities to be settled and the current market value of the Open Position as:
- $$VM = (-1) \cdot (Quantity \cdot Price + Settlement Amount)$$
- 22.4.** Price is the price determined by the Clearing House. For Debt Instruments securities, Quantity can be expressed as nominal. For coupon bearing securities dirty

price (including accrued interest) will be used for Variation Margin calculation.

**22.5.** End of day Variation Margin is calculated using the prices determined by the Clearing House.

**22.6.** Variation Margin is reflected within the total Margin requirement and not subject to settlement.

## **23. Additional Margin**

**23.1.** Clearing House may impose the following types of additional Margin:

**23.1.1. Add-on Margin for settlement concentration risk** - In order to mitigate settlement concentration risk, an additional Margin on certain instruments may be added once a Clearing Member holds a certain level of positions of a particular instrument as determined by the Clearing House.

**23.1.1.1.** The Clearing House will define the additional Margin in the form of a nominal amount or as a percentage based on the number of positions on predefined tiers and added to the total Margin requirement.

**23.1.2. Additional Margin upon limit breach** – This form of additional Margin is imposed on Clearing Members in the event that the accounts' aggregated Total Margin Requirement of the Clearing Member exceeds the Risk Limit assigned to that respective Clearing Member. The amount of increased Margin is calculated based on scaling of the Margin that exceeds the level, as defined and communicated to Clearing Members from time-to-time.

**23.1.3. Additional Margin on rolled-over trades** – This form of additional Margin is to cover for an overdue Open Position and is included as part of the Total Margin calculation. This component will not be in Initial Margin value, and will be displayed in a separately to be considered in total Margin calculation.

**23.1.4.** The additional Margin for rolled-over trades will be expressed as a percentage of the settlement amount for the rolled over trades, depending on how many business days has elapsed after the original Settlement Date.

**23.1.5.** As this additional Margin applies on overdue Open Positions, the first step is to check the Intended Settlement Date to see if the Open Positions has passed the Intended Settlement Date. The number of days overdue is determined by working

days.

**23.2.** Additional Margin requirements could be imposed at the end of the day or intraday by the Clearing House.

**23.3.** The Clearing House may also impose Additional Margin when the result of stress testing for a Clearing Member has exceeded predefined exposure limit, known also as Stress Margin.

**23.4.** In addition, the Clearing House can impose additional forms of additional Margin in its discretion.

## **24. End of Day Margin Call**

**24.1.** At the end of the day, the Clearing House will issue a margin call for Collateral Accounts which do not have sufficient Collateral to cover their margin requirements.

**24.2.** The Clearing Member must cover margin call amount by the cut off time to be published in the Notice for all the Collateral Accounts that are subject to end of day margin call.

**24.3.** The Clearing Members shall meet their End of Day Margin Call by depositing Collateral.

**24.4.** Those accounts that have not sufficiently covered end of margin call amount will be contacted by the Clearing House. At Clearing House discretion, default management procedure could be initiated for those Clearing Members.

## **25. Intraday Margin Call (IDMC)**

**25.1.** If the difference between the Collateral and margin exceeds a certain threshold, Clearing House may issue an intraday margin call.

**25.2.** Intraday margin calls have to be covered within 90 minutes, or as determined by The Clearing House via a notice, following the intraday margin call request by the Clearing House.

**25.3.** Intraday margin call could be covered by Open Position reduction, increasing Total Collateral Value or combination of both.

**25.4.** If an intraday margin call is issued before cut off time and an end of day margin call is pending, end of day margin call has always the priority for any collateral deposit.

## **26.Margin Call Notification**

- 26.1.** End of day margin calls and IDMCs are transmitted to Clearing Members through reports at the Clearing House System and other communication channels if required by the Clearing House.
- 26.2.** The Clearing Members are obliged to meet each margin call within the stipulated deadlines determined in these Procedures.

## **27.Late Settlement Fee**

- 27.1.** If a Clearing Member cannot cover its margin call or default fund requirement on the time specified in these Procedures, the Clearing House may impose late settlement fee on the overdue amount.
- 27.2.** If the Clearing House applies such fee, the Clearing House will publish its calculation method on its website.

## **28.Default Fund**

- 28.1.** The Clearing House shall establish and maintain the Default Fund in accordance with Article 60 of the Securities Clearing Centre Rules to support the obligations of the Clearing House with respect to the Relevant Transaction Type to which such Default Fund relates and reduce systemic risk in the market.
- 28.2.** The Clearing House determines the size of the Default Fund at every last day of a calendar month. The Clearing House can recalculate the Default Fund on ad hoc basis.
- 28.3.** Upon every resizing of Default Fund, Clearing Members are notified to cover their contribution amount within three Days; otherwise, they are subject to the same process applicable for end of day margin call.
- 28.4.** Clearing Members' contribution to the Default Fund are determined proportionally by reference to the average daily Initial Margin requirement of the relevant Clearing Member during the 30 days preceding the calculation.
- 28.5.** Minimum contributions to Default Fund from General Clearing Members and Direct Clearing Members are 750,000 Saudi Riyals and 250,000 Saudi Riyals respectively.

## **Section 5: Collateral**

### **29. Eligible Collateral**

- 29.1.** Clearing House accepts cash and selected Securities as the Collateral against Margin requirement and as default fund contribution.
- 29.2.** Eligibility of Collateral will be based on Clearing House internal risk assessment.
- 29.3.** List of eligible Collateral with Haircuts will be published on Clearing House website.

### **30. Deposit of Cash Collateral**

- 30.1.** A Clearing Member shall deposit Saudi Riyals Collateral to the Clearing House account at SAMA.
- 30.2.** Clearing Members shall state the External Account ID in the transfer instruction sent to SAMA.
- 30.3.** In cases where the Clearing Member specifies the wrong account number, then the pending transaction could be processed manually by the Clearing House to resolve the error in due time. The Clearing House cannot be held responsible for on time reconciliation and settlement of any such error.
- 30.4.** In cases where the Clearing Member deposits Collateral after the clearing operation hours, the amount to be deposited will have pending status and the pending transaction could be processed manually by the Clearing House in the next day.
- 30.5.** The Clearing House will announce the deadline for deposit of cash Collateral via a notice on its website.

### **31. Deposit of Securities Collateral**

- 31.1.** A Clearing Member shall deposit Securities Collateral to a designated Collateral Account opened by the Clearing House at the Depository Centre.
- 31.2.** Clearing House will validate a transaction content and eligibility of Security and settle the transaction if the conditions specified in the Securities Clearing Centre Rules and these Procedure are met.

- 31.3.** Collateral transaction settlement will initiate the Collateral valuation and evaluation in accordance with section 36 of these Procedures.
- 31.4.** The Clearing House will announce the deadline for deposit of Securities Collateral via a notice on its website.

## **32. Withdrawal of Collateral**

- 32.1.** Clearing Member may request to withdraw Collateral by transmitting an instruction to the Clearing House System.
- 32.2.** For every Collateral withdrawal request, Clearing House conducts a post-withdrawal margin and collateral evaluation.
- 32.3.** If the Margin and Collateral evaluation is successful, Collateral will then be transferred to the designated accounts.
- 32.4.** For cash Collateral withdrawal, the Clearing House will transfer the requested amount to designated Clearing Member's IBAN.
- 32.5.** For instructed quantity of securities, the Clearing House will create a free of payment Securities transaction to the Depository Centre Account specified in paragraph (10.5) of these Procedures.
- 32.6.** Collateral withdrawals are only allowed between times specified in the Notice.
- 32.7.** The Clearing House will announce the deadline for withdrawal of Collateral via a notice on its website.

## **33. Internal Transfer of Cash Collateral**

- 33.1.** Clearing Member may transmit instruction to Clearing House System to transfer Saudi Riyals Collateral between Collateral accounts under the same Clearing Member by submitting a request to the Clearing House System.
- 33.2.** Internal Collateral transfers shall not be allowed from Client Collateral Account to any Member's other Collateral Account.

## **34. Collateral Investment**

- 34.1.** Collateral shall be invested by the Clearing House in accordance with Clearing House investment policy.
- 34.2.** Certain portion of the interest received for the purpose of the investment shall be distributed to the Collateral Accounts.
- 34.3.** Only Saudi Riyals posted as Collateral is eligible to receive interest.
- 34.4.** The Clearing House may set up a minimum daily cash balance that will be subject to interest calculation for the related Collateral Account; Clearing House may set up a minimum accrued interest balance that will be subject to settlement.
- 34.5.** The Clearing Member may choose not to receive interest for certain Collateral Accounts. Clearing Member who does not request any interest for such Collateral Accounts must notify the Clearing House by sending a related form for this purpose.
- 34.6.** Interest payments to the Clearing Member will be distributed on a periodic basis, frequency of which will be clarified in the Notice. The Clearing House will not be liable for any late processing of interest payment.
- 34.7.** In case of an optional corporate action subject to security as a Collateral held by Clearing House, the Clearing House will execute a default option.
- 34.8.** Clearing House will distribute any proceeds received from corporate actions to a Clearing Member, as soon as practicable, if the Clearing House hold the securities subject to the corporate action as the Collateral on a record date. The Clearing House shall not be held liable for any loss or delay caused by third party in processing the payment distribution.

## **35. Haircuts**

- 35.1.** The Clearing House shall apply appropriate haircuts to acceptable Collateral in order to reflect the risk that the collateral value may decline in the event of liquidation.
- 35.2.** In determining the haircuts to be applied to the acceptable Collateral, the Clearing House shall use a confidence level of at least 99% and in addition will consider the following criteria:

- 35.2.1.** Type of asset and level of credit risk associated with such asset based upon an internal assessment carried out by the Clearing House;
- 35.2.2.** The maturity of the asset;
- 35.2.3.** A minimum of 10 years of historical data, where available;
- 35.2.4.** A holding period of at least 2 Days;
- 35.2.5.** Foreign exchange risk, if any.
- 35.3.** The Clearing House will announce the applicable haircuts on acceptable Collateral via a notice on its website.

## **36. Collateral Valuation**

- 36.1.** Collateral position is defined by the single Collateral instrument's amount on a single Collateral Account.
- 36.2.** Collateral values are calculated based on the following calculation process, and the parameters of the calculation will be announced via a notice by the Clearing House:
  - 36.2.1.** Clearing House determines the Mark-to-Market value of a Collateral position;
  - 36.2.2.** Clearing House applies Haircuts on Mark-to-Market value of a Collateral position;
  - 36.2.3.** Clearing House applies individual Security limit by multiplying the limit by the market value of the total Collateral value after applying Haircut;
  - 36.2.4.** Clearing House takes the minimum of the market value of a Security after Haircut and the Security value after the individual Security limit;
  - 36.2.5.** Clearing House determines Collateral group values for each group defined by multiplying the limit with each Collateral group value in the step set out in paragraph 36.2.4 of these procedures.
  - 36.2.6.** Clearing House takes the minimum of the group value in the steps set out in paragraph 36.2.4 and 36.2.5 of these procedures as a single Collateral position Value.
  - 36.2.7.** The aggregated value in the step set out in paragraph 36.2.6 of these procedures makes the total Collateral Value of the corresponding Collateral Account.
- 36.3.** Parameters set out in paragraph 36.2 of these procedures is applied to each Collateral Account.



- 36.4.** If a Clearing Member is an issuer of the Collateral posted, corresponding Collateral position will be valued as zero.
- 36.5.** Clearing House will value non-eligible Collateral related Collateral positions as zero.
- 36.6.** The Clearing House will announce individual Security limits, valuation group constituents and valuation group limits via a notice on its website.

### **37. Collateral Evaluation**

- 37.1.** Collateral evaluation is the process of comparing the value of the provided Collateral valued within the limits specified under Section (35) and (36) of these Procedure, against the value of the required Collateral, i.e. Margin or Default Fund Requirement.
- 37.2.** The evaluation process runs at pre-determined intervals as determined and communicated by the Clearing House and ad hoc when the Clearing House deems it necessary.
- 37.3.** Where there is a minimum cash Collateral requirement, as specified by the Clearing house, this requirement will be compared with the deposited cash Collateral within the related account during the evaluation process.
- 37.4.** If the evaluated Collateral value is less than the total Margin requirement for an account, that account may be subject to a margin call.
- 37.5.** If the cash Collateral balance is less than the minimum cash requirement, a Margin call for cash may be issued, to be met by cash Collateral.

## **Section 6: Default Management Process**

### **38.Default Management**

- 38.1.** In the default of a Clearing Member, Clearing House shall use the resources in the following order:
- 38.1.1.** First, collateral provided by defaulting Clearing Member against Margin requirement. Clearing House shall not be entitled to use the assets of the Clients of such defaulting Clearing Member;
  - 38.1.2.** Second, Default Fund Contribution of defaulting Clearing Member;
  - 38.1.3.** Dedicated own resources of Clearing House
  - 38.1.4.** Upfront Default Fund Contributions of non-defaulting Clearing Members; and
  - 38.1.5.** Supplemental Default Fund Contributions from non-defaulting Clearing Members
- 38.2.** The details of the default management procedures including the Default Management Committee, porting, close-out/auction and procedures test applications are stipulated in the default management procedures approved by the Default Management Committee of the Clearing House.
- 38.3.** The Clearing House will disclose the summary of its default management procedures in the website.

### **39.Recourse at the End of Default Waterfall**

- 39.1.** The Clearing House Recovery Plan is initiated, if it is determined that the risk generating Open Positions cannot be completely closed out;
- 39.1.1.** within the time period which is equal to the stress period of risk that is specified in the risk appetite statement, and/or;
  - 39.1.2.** without exhausting the default waterfall resources limited for the related capped period.
- 39.2.** Remaining Open Positions and losses will be subject to recovery actions that are stipulated in Article 72 of the Securities Clearing Centre Rules.