

## The Regulatory Framework of the Saudi Capital Market Authority in Light of IOSCO Principles.

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### Abstract

This study aims to analyze the regulatory rules of the Saudi Capital Market Authority (CMA) in light of IOSCO Principles (1–8), in order to identify strengths and gaps through a critical comparative analysis and to provide recommendations that enhance investor protection and market efficiency. Using the descriptive–analytical method to analyze the texts of the Capital Market Law and its regulations, and the comparative method to compare the Saudi framework with IOSCO principles, the findings indicate that the Saudi Capital Market Law was drafted with due regard to those principles—which were issued before the Law—thus contributing to a high level of alignment between the Law and its implementing regulations and IOSCO requirements. Nevertheless, the study identifies certain gaps, based on which a set of recommendations is presented to achieve full alignment with IOSCO requirements.

**Keywords:** Capital Market Authority; IOSCO; regulatory principles; governance; investor protection.

### 1- Introduction

In November 1996, the World Bank submitted a report to the Saudi Government outlining the Kingdom's efforts, beginning in the mid-1980s, which focused on ensuring that banks provided brokerage services in the stock market in an orderly manner; ensuring the integrity of trading operations and the related procedures; and ensuring the soundness of initial public offering (IPO) procedures. The report noted that these efforts had produced clear results, bringing trading and settlement systems to a good level of efficiency during the period from the mid-1980s to the mid-1990s. However, it also stated that maintaining these gains and achieving the market's desired future objectives required corrective measures to raise the market to a level of maturity and to achieve the objectives of the development plan. The report emphasized the existence of obstacles that constrained the market and that needed to be removed, including the lack of clarity of market regulations and regulatory duplication. It further noted that the number of shares offered for subscription from the establishment of the ministerial committee up to the time of the study (1996) was limited compared with the size of the Saudi economy and the high level of individual savings. It called for opening the licensing field to institutions and financial brokerage firms, and recommended establishing a comprehensive regulatory and supervisory framework for the capital market through the issuance of a comprehensive capital market law that would close existing gaps, establish unified regulatory standards for all market activities and apply them to all participants, focus on disclosure and transparency requirements, and create a new independent institution/authority to supervise the market. Following the World Bank's recommendations, the Saudi Government began preparing the necessary studies to implement them. In 1999, the Ministry of Finance and the Saudi Arabian Monetary Agency (SAMA) formed a team of specialists to implement the recommendations of the World Bank study and to begin drafting a Capital Market Law, as well as to prepare the studies and procedures needed to establish an independent capital market authority. The ministerial committee—which was

responsible at the time for supervising and overseeing the Saudi securities market—tasked SAMA with preparing a study on the development of the stock market. The issuance of the Capital Market Law facilitated the transfer of regulatory responsibilities from several bodies whose tasks had been distributed among the ministerial committee and the standing committee for supervision and oversight of stock trading to a new authority established with expanded powers. The Law also sought to avoid any legal vacuum during the transitional period until the authority was established. Royal Decree No. (A/114) was issued on 2 July 2004 to form the Board of the Capital Market Authority consisting of five members, in accordance with Article (7) of the Capital Market Law. The Board then engaged in discussing its phased plans and programs, which included issuing the executive regulations, rules, instructions, and procedures governing the various aspects of the market's operations as provided in the Law. The CMA Board was granted the power to prepare and issue such regulations. The preparation process passed through two main stages: (1) studying the regulations of other countries and extracting the key concepts and agreeing on them in a manner consistent with the Law; and (2) drafting and formulating the regulation.<sup>3704</sup>

Over the past decades, global capital markets have witnessed rapid developments in regulatory and supervisory structures aimed at enhancing market efficiency, ensuring investor protection, and reducing systemic risks. In this context, the International Organization of Securities Commissions (IOSCO) has played a pivotal role by issuing an integrated set of international principles and standards that constitutes the most widely relied-upon global framework for regulating securities markets. In the Kingdom of Saudi Arabia, the Capital Market Authority has built an advanced regulatory system based on the Capital Market Law and its implementing regulations, seeking to keep pace with international best practices and to support the growth of the capital market in line with the targets of Saudi Vision 2030. This study analyzes the CMA's regulatory rules in light of IOSCO principles, with the aim of measuring the level of alignment between the two frameworks, identifying aspects of high consistency, and determining aspects that may require further strengthening or additional harmonization, thereby contributing to the development of the supervisory framework and the achievement of the highest levels of market efficiency.

IOSCO principles aim to provide protection for investors; ensure that financial markets achieve fairness, efficiency, and transparency in transactions; and limit systemic risk. These objectives are interconnected and overlapping in most respects. Many requirements that help ensure fair, efficient, and transparent markets also provide investor protection and contribute to reducing systemic risks; likewise, measures that reduce systemic risk also provide investor protection. Securities regulators seek to achieve these objectives by setting standards; supervising markets, market participants, and their activities; enforcing those standards effectively; and cooperating closely with other regulatory authorities.<sup>3705</sup>

IOSCO principles are organized into eight groups. The first group relates to the regulatory authority (i.e., the body entrusted with establishing the regulatory rules for the capital market). The principles specify the required characteristics of the regulator and emphasize the need for an independent and accountable regulator that possesses appropriate powers and resources, to ensure the achievement of the three core objectives of securities regulation. The principles address the regulator's role in enforcement and market surveillance, the necessity of cooperation to achieve the regulatory function, the regulator's role in identifying, monitoring, mitigating, and managing systemic risk, the regular review of the regulatory framework, and the management of conflicts of interest.

<sup>3704</sup> - Capital Market Authority, 2021, Documenting the history of the Saudi stock market (1926- 2020).P 134–166.

<sup>3705</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation, P. 10

While financial regulation is among the fundamental pillars for ensuring market transparency and integrity, protecting investors' rights, and strengthening confidence in the financial system, the Saudi Capital Market Authority (CMA) plays a pivotal role in regulating and supervising the Saudi capital market by developing laws and regulations that balance investors' interests with the requirements of market growth.

Undoubtedly, when domestic legislation and regulatory bodies within states take IOSCO principles into account and comply with them, this improves the transparency and effectiveness of securities markets and protects investors. It also enhances cooperation among regulators to curb economic crimes and plays an effective role in efforts to address financial crises that affect markets. Accordingly, this study examines the extent to which securities-related legislation and the rules governing the work of the Saudi Capital Market Authority comply with IOSCO principles.

These principles hold significant importance due to their broad applicability and their potential to achieve positive outcomes regardless of the market type adopting them. The findings of two consecutive studies have<sup>3706</sup> concurred that the International Organization of Securities Commissions (IOSCO) principles are applicable to Islamic capital markets in their current form, without the need for detailed or bespoke regulatory frameworks.

The assessment process serves as a critical tool for identifying gaps, inconsistencies, and weaknesses, which in turn assists in prioritizing improvements or amendments to laws and regulations.

The International Monetary Fund (IMF) study represents the first assessment conducted to evaluate the implementation of the *Objectives and Principles of Securities Regulation* issued by IOSCO. This evaluation was performed by Mr. Martin Kinsky, an IMF consultant appointed for this purpose in April 2010, at the request of the Kingdom of Saudi Arabia. Although IOSCO updated its principles in June 2010—resulting in the addition of nine new principles—the assessment was based on the 2003 IOSCO methodology (updated in 2008). Consequently, the new principles were not included in the scope of the evaluation. Regarding the market regulator, the assessment covered five core principles governing regulatory bodies prior to the update: the necessity of clearly and objectively defining the regulator's responsibilities; ensuring operational independence and accountability in the exercise of its functions and powers; possessing adequate powers, proper resources, and the capacity to perform its duties; and adopting clear and consistent regulatory processes while ensuring staff adhere to the highest professional standards.<sup>3707</sup>

The assessment of the Kingdom's compliance with these principles revealed a high level of alignment. However, certain shortcomings were identified, particularly regarding a lack of transparency in enforcement. These included the non-disclosure of fine values—which the Capital Market Authority (CMA) treats as a source of income—and the inconsistent publication of sanctions imposed by the Board on licensed persons. To achieve full compliance, the assessment recommended the mandatory publication of disciplinary fines. Furthermore, there was an absence of published statements explaining how the Authority conducts consultations on new regulations prior to their issuance. Additionally, while the CMA is the sole entity responsible for implementing the Saudi Capital Market Law, in practice, there is a functional overlap with the Ministry of Commerce and Industry and other entities regarding companies operating within the capital market—a matter upon which the

<sup>3706</sup> - OICU- IOSCO, (2008) "Analysis of The Application of IOSCO's Objectives And Principles of Securities Regulation For Islamic Securities Products" EXECUTIVE COMMITTEE OF THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS, SEPTEMBER 2008, P.P. 4- 40.

- OICU- IOSCO, (2004), "REPORT OF THE ISLAMIC CAPITAL MARKET TASK FORCE OF THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS" ISLAMIC CAPITAL MARKET FACT FINDING REPORT, JULY 2004, p.p 2- 74

<sup>3707</sup> - IMF, (2013) "Saudi Arabia: financial sector assessment program update-detailed assessment of observance of the IOSCO objectives and principles of securities regulation" IMF country report NO. 13/ 212/ July 2013.p.4.

regulations remained silent. There was also a noted absence of an information-sharing agreement with the Saudi Arabian Monetary Authority (now the Saudi Central Bank).<sup>3708</sup>

Despite the CMA's advanced efforts, a question arises concerning the extent to which Saudi regulatory rules align with international standards—particularly IOSCO principles, especially Principles 1–8 relating to the authority's powers, independence, investor protection, risk oversight, disclosure, and corporate governance. The study problem may therefore be formulated in a main question: To what extent do the CMA's regulatory rules align with IOSCO principles relating to the market regulator?

The main question gives rise to a number of subsidiary questions as follows:

- What are the IOSCO principles related to the market regulator, and what is their content?
- What are the rules related to regulating the work of the Saudi Capital Market Authority?
- To what extent do the rules governing the work of the Saudi Capital Market Authority align with the IOSCO principles related to the market regulator?

Therefore, the study aims to: analyze the extent to which the CMA's regulatory rules align with IOSCO Principles 1–8; identify strengths and gaps in the Saudi regulatory framework; and provide practical recommendations to enhance regulatory effectiveness and investor protection.

To achieve these objectives, the study addresses the IOSCO principles related to the market regulator, namely the first group of principles from Principle One through Principle Eight. Each principle is presented by explaining its content, followed by identifying the regulatory rules governing the market regulator in the Kingdom of Saudi Arabia, represented by the CMA, as set out in the Saudi Capital Market Law and the regulations governing the market. The study then assesses the extent to which IOSCO principles have been incorporated and reflected in the Law, its implementing regulations, circulars, and other rules, in order to ensure that the Saudi framework keeps pace with the latest global developments in the securities industry, and to identify strengths and weaknesses so as to propose appropriate recommendations.

This research contributes to improving understanding of the relationship between local rules and international standards and assists decision-makers in developing regulatory rules. It also strengthens investor protection and enhances the global credibility of the Saudi market. Compliance with IOSCO principles contributes to raising the international credibility of the Saudi market, enhancing independence and risk oversight, increasing investor protection, and reducing the likelihood of financial crises. Moreover, alignment with international standards helps attract foreign investment and supports the sustainable development of the Saudi capital market.

This study adopts the descriptive–analytical method to analyze the texts of the Capital Market Law and its regulations, and the comparative method to compare the Saudi framework with IOSCO principles. This is achieved by reviewing and analyzing the regulatory rules issued by the CMA, then comparing them with the core principles of IOSCO and analyzing gaps in order to determine the level of alignment and difference and to derive development points. Data sources include statutory texts, implementing regulations, and CMA reports, in addition to IOSCO documents and relevant academic studies. The study relies on content analysis, comparative analysis, and gap analysis. The temporal scope includes the laws and regulations in force up to (2025), while the geographic scope is limited to the Kingdom of Saudi Arabia.

<sup>3708</sup> - MF, (2013) “ Saudi Arabia: financial sector assessment program update-detailed assessment of observance of the IOSCO objectives and principles of securities regulation” IMF country report NO. 13/ 212/ July 2013.pp. 12- 14.

- IMF, (2012) “Saudi Arabia: Reports on the Observance of Standards and Codes” IMF Country Report No. 12/93, April 2012, p.p 4- 21.

**Principles related to the securities regulator (Principles 1–8)** set out the desirable attributes of a regulator, including:

**2- Principle One: “clear and objectively stated responsibilities “**

The responsibilities of the regulatory authority must be defined clearly and objectively. If they are not clearly defined, investors and market participants may doubt the authority’s ability to protect market integrity through fair and effective oversight. Where such doubt exists, concerns about market integrity may become merely illusory, harming all market participants. Accordingly, the regulator’s ability to act responsibly, fairly, and effectively is strengthened by a clear statement of responsibilities—preferably set out in legislation—together with close cooperation among the relevant regulatory authorities. Legislation should therefore be designed to ensure that any allocation of responsibilities among regulators avoids gaps or inconsistencies. Where responsibilities are allocated among regulators, broadly the same conduct and product should be subject to consistent regulatory requirements. In addition, the regulator must have an organizational structure and powers enabling it to achieve the fundamental objectives of securities regulation.<sup>3709</sup>

While it is important that the market regulator clearly states its responsibilities and powers, identifies its objectives and functions, and is granted such powers under the relevant legislation, the scope and definition of regulatory powers may vary among securities regulators across jurisdictions. This is common: some are defined broadly in general provisions, while others are defined in specific provisions. Regardless of whether powers and definitions are stated generally or specifically, the fundamental objectives remain the same—namely, ensuring that the regulator has sufficient powers to perform the tasks necessary for licensing, supervision, inspection, investigation, and enforcement.<sup>3710</sup>

By referring to the Capital Market Law, we find that it clearly sets out the objectives of establishing the CMA and the powers needed to achieve those objectives. Article 5 of the Capital Market Law defines the objectives of establishing the Authority, providing that the CMA is the body responsible for issuing regulations, rules, and instructions and for implementing the provisions of the Law. To that end, the CMA undertakes, inter alia, regulating and developing the capital market; developing the methods and practices of entities and bodies engaged in securities trading; developing procedures that limit risks associated with securities transactions; regulating and monitoring the issuance of securities and trading therein; regulating and monitoring the activities of entities subject to the CMA’s supervision and oversight; protecting citizens and investors in securities from unfair or improper practices, or practices involving fraud, deception, misrepresentation, or manipulation; achieving fairness, efficiency, and transparency in securities transactions; regulating and monitoring full disclosure of information related to securities and their issuers, and the dealings of insiders, major shareholders, and investors; determining and providing the information that market participants must disclose to shareholders and the public; and regulating proxy solicitations, purchases, and public offers of shares. Article 5 also provides that the CMA may publish draft regulations and rules before issuing or amending them; that the effect of regulations, rules, and instructions issued by the CMA applies as specified by their provisions; and that, for the purpose of conducting investigations deemed necessary by the Board to implement the Law and its regulations and rules, CMA members and employees designated by the Board have the authority to summon witnesses, take evidence, and request the submission of any records, papers, or other documents that the CMA deems relevant or important to its investigation. The CMA may inspect records and other documents regardless of who

<sup>3709</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation, P. 22.

<sup>3710</sup> - OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P. 13

holds them, in order to decide whether the relevant person has violated or is about to violate the provisions of the Law, the implementing regulations, or the rules issued by the CMA.

Article 6 of the Capital Market Law addresses the CMA's functions, providing that the CMA has the authority to implement the tasks stipulated in the Law, as well as the regulations, rules, and instructions issued pursuant thereto. This includes, by way of example and without limitation: setting policies and plans, conducting studies, and issuing the rules necessary to achieve the CMA's objectives; issuing and amending implementing regulations necessary to apply the Law; approving the offering of securities; providing opinions and recommendations to government bodies on matters contributing to market development and investor protection; suspending market activity for a period not exceeding one day (and, where the CMA or the Minister of Finance deems it necessary to suspend market activity for more than one day, the Minister of Finance must issue an approval decision); approving the listing, delisting, or suspension of listing of any Saudi security traded in the market by a Saudi issuer on any securities market outside the Kingdom; prohibiting any securities in the market or suspending their issuance or trading when the CMA deems it necessary; setting maximum or minimum brokerage commissions when the Board deems it appropriate; approving fees and other commissions charged by the market and the center; setting standards and conditions for external auditors who audit the books of the market and the center and their records, brokerage firms, investment funds, and listed joint-stock companies (and, subject to its supervisory responsibility, the CMA may delegate this responsibility to the Saudi Organization for Chartered and Professional Accountants); determining the contents of annual and periodic financial statements and reports and documents that issuers offering securities to the public or listed entities must submit; defining and explaining terms and provisions in the Law; issuing decisions, instructions, and procedures necessary to implement the Law and implementing regulations; conducting inquiries and investigations into violations of the Law and implementing regulations; issuing internal bylaws and the instructions and procedures necessary to manage the CMA; approving the bylaws, rules, and policies of the market and the center; preparing the bylaws and rules for monitoring and supervision of entities subject to the Law; approving the establishment, merger, liquidation, and operating rules of investment funds pursuant to Article 39 of the Law; appointing a licensed auditor to audit the CMA's financial statements and final accounts; granting licenses required under the Law and its regulations (including licensing rating agencies and setting related conditions); and preparing the CMA's annual budget.

To ensure the application of this principle, the regulator must have powers enabling it to enforce compliance in the event of non-compliance. In this respect, regulators differ in the range of sanctions available for enforcing laws, including administrative measures, disciplinary procedures, and criminal sanctions.<sup>3711</sup>

Research findings further indicate that global financial compliance requirements are an integral part of maintaining the stability and integrity of financial markets, enhancing transparency, and mitigating risks such as money laundering, fraud, and corruption. The results of these studies emphasize that while compliance may be resource-intensive, the cost of non-compliance often far outweighs these investments, reinforcing the necessity of a proactive approach to regulatory adherence<sup>3712</sup>

By referring to the Capital Market Law, paragraph (z) of Article 30 provides that:

“It shall not be permissible to file any statement of claim with the Committee unless a complaint has first been filed with the Authority, and unless a period of ninety (90) days has elapsed from the date of its filing, except where the Authority notifies the complainant that filing with the Committee is permissible before the expiry of this period. The Authority may determine exceptions to the provisions

<sup>3711</sup> - OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P. 13.

<sup>3712</sup> - Brown Kinton, Lucas Doris , “A COMPREHENSIVE REVIEW OF GLOBAL FINANCIAL COMPLIANCE REQUIREMENTS AND THE COST OF NON-COMPLIANCE.” P.p 1- 15.

of this paragraph, in accordance with what it deems to be conducive to market integrity and the protection of investors.”

Article 59 further provides that if the CMA determines that a person has committed, participated in, or attempted acts or practices that constitute a violation of any provision of the Law, or the regulations or rules issued by the CMA, or the rules of the market, the depository center, or the clearing center, then the CMA may bring an action against that person before the Committee to obtain a decision imposing an appropriate sanction. The Article sets out such sanctions. In addition, it permits the CMA itself to take measures including warning the person concerned, requiring the person to take steps to avoid the occurrence of a violation, or imposing fines.

And Article 61, paragraph (b), provides that:

“The Authority shall be entitled, in accordance with its powers set forth in Article Fifty-Nine of Chapter Ten of this Law, to take the necessary measures against any person who violates, from among the members of the Market, the members of the Depository Center, or the members of the Clearing Center, the rules specific to the performance of their functions.”

Article 62 provides that the CMA Board may issue a decision reprimanding any person licensed under the Law and its implementing regulations, or may impose restrictions, suspend the conduct of activities, or withdraw the granted license, if it is established—after notifying the concerned person and providing an opportunity to be heard at a hearing—that the person has committed, whether before or after obtaining the license, one of the violations set out in that Article.

Article 63 provides that the license of any person granted a license under the Law and its implementing regulations may be suspended by an order of the Board in the event it is discovered that the licensed person no longer exists, or if the person ceases to conduct the licensed activity for a period of twelve months.

Article 64, paragraph (a), provides that, by agreement between the CMA and an accused person who committed any of the violations of the Law and its implementing regulations, such violations may be settled in accordance with the rules and procedures established by the CMA, provided that the amount paid to the CMA does not exceed three times the maximum fine set out in subparagraph (3) of paragraph (c) of Article 59 of the Law, in addition to paying an amount not exceeding three times the profits realized or three times the losses avoided as a result of committing the violation.

The regulator must also interpret its powers with sufficient transparency so as to prevent or avoid situations involving abuse of discretionary authority. Where there is an abuse of discretionary authority by the regulator in interpreting its powers, the matter must be referred to the courts.<sup>3713</sup>

By referring to the Capital Market Law, we find that paragraph (e) of Article 30 provides as follows: “The Committee’s jurisdictions include consideration of appeals (grievances) against the decisions and procedures issued by the Authority, the Market, the Depository Center, or the Clearing Center. The Committee shall have the right to issue a decision awarding compensation and ordering restoration of the status quo ante, or to issue any other decision that is appropriate and that safeguards the right of the injured party.”

Class actions are a vital legal tool for the enforcement of securities laws, providing a mechanism for shareholders to pursue fraud cases that might be prohibitively expensive to litigate individually<sup>3714</sup>. Securities-related class actions serve dual purposes: compensating aggrieved investors and deterring misconduct.<sup>3715</sup> Private enforcement offers various advantages, including the ability to expedite

<sup>3713</sup> - OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P. 14.

<sup>3714</sup> - Al dossari, A.F.,( 2025). “ The role of legal enforcement measures in managing financial market risks: a comparative analysis of public and private approaches in Saudi arabia” risk governance& controle : financial markets& institutions/ volume 15, issue 4, 2025.pp 76- 84.

<sup>3715</sup> - Johnson, K. L. (1997). Deterrence of corporate fraud through securities litigation: The role of institutional investors. Law and Contemporary Problems, 60(4), 155–166.

court cases and address individual grievances that public enforcement might overlook.<sup>3716</sup> The integration of public and private enforcement mechanisms promotes responsible behavior and serves as an additional deterrent against violations.<sup>3717</sup> One study demonstrated a complementary relationship between public and private legal enforcement mechanisms in the Saudi stock market. While the Saudi CMA performs the public enforcement function as the capital market regulator to ensure market integrity, private legal enforcement—through class actions and civil lawsuits—acts as a supplement. This synergy improves investor protection, enhances market resilience, and prevents violations of the Capital Market Law.<sup>3718</sup> Overall, a collaborative enforcement regime between the public and private sectors contributes to the enhanced performance of the financial market.<sup>3719</sup>

In summary, IOSCO's requirements under this principle may be encapsulated in: clearly defining tasks and responsibilities relating to licensing, supervision, and enforcement; having a legislative framework that clarifies powers and responsibilities; and separating operational and regulatory functions. The Capital Market Law conforms to this principle: the CMA's responsibilities are clearly stated; the Law grants the CMA powers enabling it to achieve its objectives and to enforce its authority in cases of non-compliance; and, to prevent the CMA from abusing discretionary authority in interpreting its powers, the Law allows appeals before the Committee for the Resolution of Securities Disputes against the decisions and procedures issued by the CMA. No significant gaps appear, except for the need for continuous and periodic updating of tasks in line with technological developments.

### 3- Principle Two: “operational independence and accountability in the exercise of its functions and powers”.

Independence and accountability are interrelated: independence means the ability to take, decide upon, and implement regulatory measures and decisions without external interference; accountability means that, in using its powers and resources, the regulator must be subject to appropriate scrutiny and review.<sup>3720</sup>

Under this principle, the regulator should be accountable within the legal and regulatory structure and possess all necessary powers. It should also be operationally independent, meaning that it has the ability to take regulatory measures and enforcement actions without external (political or commercial) interference. Without such independence, investors and other market participants may doubt the regulator's objectivity and integrity, negatively affecting market integrity. Regulatory independence is strengthened by a stable funding source. The regulator must also remain independent from the market participants it supervises. While certain regulatory policy matters may require consultation with, or approval by, the government, the minister, or another legislative authority, the cases in which such consultation/approval is required or permitted should be clearly defined and the process should be sufficiently transparent or subject to review to ensure overall integrity; such cases should not include daily technical decisions. Balancing independence and accountability is delicate. The principles do not take a position on where the regulator sits within the government structure; rather,

<sup>3716</sup> - andini, S. (2018). Private enforcement and market regulation. *Market and Competition Law Review*, 2(2), 47–70.

<sup>3717</sup> - Rajabiun, R. (2012). Private enforcement and judicial discretion in the evolution of antitrust in the United States. *Journal of Competition Law and Economics*, 8(1), 187–230.

<sup>3718</sup> - Al dossari, A.F.,( 2025). “ The role of legal enforcement measures in managing financial market risks: a comparative analysis of public and private approaches in Saudi arabia” risk governance& controle : financial markets& institutions/ volume 15, issue 4, 2025.p. 81.

<sup>3719</sup> - Wan, W. Y., Chen, C., & Goo, S. H. (2019). Public and private enforcement of corporate and securities laws: An empirical comparison of Hong Kong and Singapore. *European Business Organization Law Review*, 20, 319–361.

<sup>3720</sup> - OICU-IOSCO, May 2003, Objectives and Principles of Securities Regulation, P.20.

they focus on the practical operation of the relationship between the regulator and any governmental overseer.<sup>3721</sup>

By referring to the Capital Market Law, we find that it safeguards the CMA's independence. Article 4 provides that an authority shall be established in the Kingdom to be called the 'Capital Market Authority.' It shall be directly linked to the President of the Council of Ministers, and it shall enjoy legal personality and financial and administrative independence. It shall have all powers necessary to perform its duties and functions pursuant to this Law. The Authority shall enjoy the exemptions and facilities enjoyed by public institutions, and its employees shall be subject to the Labor Law."

Article 7 further sets out the controls governing the formation of the Board, the rules of its composition, and the mechanism of its work.

Articles 5 and 6 also set out the CMA's objectives and powers clearly.

Accountability means that the regulator is subject to appropriate scrutiny and review. The framework should allow judicial review of final decisions relating to licensing, authorization, or enforcement taken by the regulator, while respecting the confidentiality and sensitivity of the information held by the regulator. Safeguards should be put in place to protect such information from improper use or disclosure. The regulator's ability to act independently is also strengthened by providing adequate legal protection to the regulator and its staff when acting in good faith in the exercise of their functions and powers.<sup>3722</sup>

Article 8 of the Capital Market Law requires each CMA employee to make disclosure immediately upon assuming duties. Article 9 provides:

"Members of the Authority's Board and its employees are prohibited from practicing any profession or other work, including holding a position or employment in any company, or in the government, or in public or private institutions. They are also prohibited from providing consultancy to private companies and institutions."

Moreover, Article 30, paragraph (h), of the Law permits lodging a complaint before the Committee for the Resolution of Securities Disputes against the decisions and procedures issued by the Authority.

Overall, the foregoing indicates strong alignment. The Capital Market Law contains clear provisions that ensure the CMA's independence in performing its duties and functions, and it confirms that CMA staff are subject to accountability and are bound by conduct rules that ensure their independence and protect the market and its participants. However, IOSCO prefers full financial independence, which the Saudi framework tends toward but has not fully achieved. Moreover, reporting directly to the Council of Ministers represents a balanced model, but it does not reach the level of complete independence found in some global markets.

#### 4- Principle Three: "adequate powers and resources to perform its functions. These include the powers of licensing, supervision, inspection, investigation and enforcement"

The regulator's powers include licensing, supervision, inspection, investigation, and enforcement. The regulator must also have the capacity and resources to attract and retain trained and qualified staff with appropriate skills to perform its tasks and exercise its powers, together with the ability to provide continuous training. Powers should be commensurate with the tasks assigned to the regulator. Where more than one authority is responsible, the necessary enforcement powers may be allocated among them, and the combined powers should be sufficient to enable the achievement of the other principles. Governance assessment should go beyond the rules and practices through which the regulator ensures accountability, fairness, and transparency, to include the regulator's capacity to formulate strategic direction and to carry out its tasks. This includes, for example, governance practices for setting

<sup>3721</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation, P. 25-29.

<sup>3722</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation, P. 25-29.

priorities and strategies, with attention to technology—essential for performing regulatory tasks efficiently. Attention to investor education programs also helps the regulator achieve its objectives.<sup>3723</sup>

By referring to the Capital Market Law, we find that Article 13 specifies the sources of financial resources that ensure the CMA can perform the tasks assigned to it. Article 14 provides that the CMA shall have an independent budget. Article 15 considers any amounts owed to the CMA by others to be public funds, stating that any amounts due to the Authority from third parties to be public funds, and provides that they shall be collected “in accordance with the procedures for the collection of debts due to the Public Treasury.”

To enhance staff competence, the CMA Board issued the Human Resources Development Committee Regulation to perform its role in developing CMA employees’ capabilities and skills and raising their scientific, technical, and administrative competence so that they can meet the requirements of the CMA’s work and perform their duties efficiently and professionally, through providing education and training programs inside and outside the Kingdom. It is noteworthy that the regulation was initially issued on 4/11/2006 under the title ‘Regulation of Scholarships and Training for CMA Staff’ and has undergone several amendments, the most recent on 24/01/2022.

The CMA Board also issued a decision on continuing professional education policies for persons registered with capital market institutions, to ensure raising the professional competence of registered persons in legislative and technical subjects related to their work.

In summary, IOSCO’s requirements under this principle include: adequate and sustainable financial resources; highly competent and professional human resources; and clear authority to obtain information from regulated entities. The Capital Market Law provides financial resources to the CMA in a manner that ensures it can perform its functions and supports its independence. The Law also permits the CMA to retain a general reserve equal to twice its total expenditures in the previous annual budget, considers CMA funds to be public funds collected under public-debt collection procedures, and provides the CMA with specialized staff in supervision, enforcement, and data analysis. The CMA has broad powers to request any information, data, or documents from licensed entities. Although alignment is high, the CMA has not yet reached full independent funding.

**5- Principle Four: “clear, consistent and transparent procedures and processes, including for public consultations and public disclosure of its policies”.**

Under this principle, there should be specific laws, rules, or procedures governing the administrative structure, and such rules should be clear, easily accessible, and transparent. These rules help ensure that procedures are applied consistently and understood, and that they are transparent to the public and fair and equitable. Clear, consistent, and transparent procedures and processes are an integral part of fundamental fairness and provide a framework for regulatory decision-making and actions that ensure accountability. Transparency policies must balance individuals’ confidentiality rights with the regulator’s needs for enforcement and surveillance, to achieve a fair and equitable regulatory process. When formulating such policies, concerns related to enforcement and surveillance should be considered through consultation with the public, including those affected by the policy, and by publicly disclosing policies in important operational areas. The regulator should be subject to procedural rules and regulations and adhere to standards of procedural fairness. The regulator should publish proposed rules for public comment and consult the public. The general criteria for granting, refusing, or revoking licenses should be announced, and the regulator’s decisions should be subject to judicial review. The regulator should ensure transparency by publishing investigation outcomes

<sup>3723</sup> - OICU-IOSCO, Final Report, OCTOBER 2014, Strategic Framework for Investor Education and Financial Literacy. P.7- 20.

- OICU-IOSCO, Final Report, SEPTEMBER 2015, Sound Practices for Investment Risk Education, P.19- 51.

where permitted, while balancing the individual's right to a fair trial and personal-data protection and avoiding publication during investigations. The regulator should also play an effective role in promoting education by educating investors and other market participants to protect investors<sup>3724</sup>. By referring to the Capital Market Law, we find that Article 5 sets out the CMA's functions clearly and establishes mechanisms for doing so through the CMA Board, granting it the powers to perform this role. In this context, the CMA Board approved the organizational structure and the CMA Chairman issued a circular regarding the CMA organizational structure, which was approved and made available on 1 April 2016 on the CMA's website ([www.cma.org.sa](http://www.cma.org.sa)). The structure places the CMA Board at the top, chaired by the Board Chairman, who is considered the Chief Executive Officer. It also includes a number of deputies/agencies, each comprising a set of departments, as well as several general departments and specialized committees. The tasks of the agencies, general departments, and committees were defined, and a set of regulations was issued to organize the work of the various committees affiliated with the CMA, such as the CMA Board Regulation, the Audit Committee Regulation, the Human Resources Committee Regulation, the Digital Transformation Committee Regulation, and the Administrative Committee Regulation.

All of the foregoing confirms the existence of specific laws, rules, and procedures governing the administrative structure of the Saudi Capital Market Authority, and that these rules are clear, easily accessible, and transparent.

With respect to licensing, Article 6, paragraph (a), item (18) of the Capital Market Law provides the CMA with authority to grant licenses. The Securities Business Regulations and the Authorized Persons Regulations set out the rules, requirements, and conditions governing licensing for each activity and provide the application forms. This confirms compliance with the requirement to announce general criteria for granting, refusing, or revoking licenses. As for judicial review, Article 30, paragraph (e), allows grievances against the CMA's decisions, confirming that CMA decisions are subject to judicial review.

The CMA also seeks public input by publishing all new rules, mechanisms, and tools before their adoption in order to solicit views, and it makes them continuously available on the CMA website. The CMA also responds on an ongoing basis to inquiries related to legislation, regulations, circulars, and the rules governing the market.

For the purpose of investor awareness, the CMA—through the Investor Awareness Center—designed a set of programs to achieve this objective. These include the 'Thameen' program, designed to raise and enhance awareness of the Capital Market Law and its implementing regulations and to increase financial and investment literacy so that individuals can better benefit from investment opportunities, grow their investments, and inject funds and savings into companies, thereby positively reflecting on the national economy. The CMA provides brochures, seminars, and other awareness materials through the Thameen library and through social media platforms. Another initiative is the 'Smart Investor' program, a community awareness program aimed at disseminating a culture of sound financial dealings among school students, targeting students from primary through secondary levels. The main mission is to convert correct financial-dealing rules and positive behaviors in financial culture into interactive materials for the target groups, with the aim of establishing a financially aware generation ready to interact positively with society in relation to financial transactions. It also aims to educate students about everyday financial transactions, teach them principles of money management and

<sup>3724</sup> - OICU-IOSCO, October 2003, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.22-25.

- OICU-IOSCO, February 2008, METHODOLOGY FOR ASSESSING IMPLEMENTATION OF THE IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION..P.11.

- OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.33-36.

investment and saving mechanisms, and introduce them to relevant financial entities and the role of each. Among its tasks is also instilling Islamic and ethical values regarding money, its rights, and its obligations. The program includes the Smart Investor magazine, an animated series, and a website containing interactive tools that contribute to preparing students and equipping them with the skills needed to make sound financial decisions. The CMA also provides, through the Investor Awareness Center, a statement of the websites of unlicensed companies—sites that are not licensed to conduct securities business in the Kingdom. The published list does not include all unlicensed companies; investors should exercise caution, verify before investing their funds with others, and refer regularly to the list of authorized persons published on the CMA website. The CMA emphasizes that it takes the statutory measures against those companies.<sup>3725</sup>

In summary, the regulator's requirements under this principle include: clear procedures for issuing regulations; publishing regulatory decisions to the public; managing conflicts of interest; and involving the market in consultation processes when issuing new rules. The discussion of the CMA's application of this principle confirms that the CMA adopts regulatory processes that are clear and internally consistent, through: specific laws, rules, and procedures governing its administrative structure that are clear, easily accessible, and transparent; announcement of general criteria for granting, refusing, or revoking licenses; subjecting CMA decisions to judicial review; seeking public views by publishing proposed rules, mechanisms, and tools before adoption and making them continuously available on the CMA website; responding continuously to inquiries related to legislation, regulations, circulars, and market rules; and playing a very important role in educating investors through the Investor Awareness Center. This confirms high alignment and satisfaction of IOSCO requirements.

#### 6- Principle Five: “staff observing the highest professional standards of integrity and complying with clear guidance in matters of conduct, including confidentiality and procedural fairness “.

This principle concerns the integrity of the regulatory authority and its staff, and the means of achieving and demonstrating such integrity (OICU-IOSCO, 2008: 26). Under this principle, the staff of the regulatory authority must observe the highest professional standards and are required to follow clear guidance on conduct issues, such as avoiding conflicts of interest, including the conditions under which staff are appointed, the restrictions imposed on staff regarding securities trading, the proper use of information obtained while exercising powers and performing duties, observance of rules of confidentiality, privacy, and the protection of personal data, and observance of standards of procedural fairness. Failure to comply with standards of professional integrity should be subject to sanctions. In the context of this principle, “staff” includes the head of the regulatory authority and its members, and the objectives of regulation cannot be achieved without the highest standards of professional conduct.<sup>3726</sup>

By referring to the Capital Market Law, we find that Article 7, paragraph (c), provides that: “The Board shall establish the Authority's internal bylaws, and the manner of appointing employees, consultants, auditors, and any other experts as necessity may require, for the purpose of carrying out

<sup>3725</sup> - Capital Market Authority: 25/4/ 2025

<https://cma.gov.sa/en/Pages/default.aspx>

<sup>3726</sup> - OICU-IOSCO, October 2003, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.10- 11.

- OICU-IOSCO, February 2008, METHODOLOGY FOR ASSESSING IMPLEMENTATION OF THE IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION..P.11, 26.

- OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.37-38.

- OICU-IOSCO, FEBRUARY 2023, IOSCO Standards Implementation Monitoring (ISIM) for Principles (1-5) Relating to the Regulator, P.48-57

the duties and functions assigned to it; and the Board shall determine the amount of their salaries and compensation.”

Article 8 also provides that: “Every person who becomes an employee of the Authority, or a member of its Board, must disclose to the Authority, immediately upon assuming his duties, in the manner specified in the Authority’s regulations, the securities that he owns or that are under his control, or under the control of any of his relatives, and any change occurring thereafter within three days from the date he becomes aware of the change. Any person who acts as an agent on behalf of the Authority must also make this disclosure insofar as it relates to the work entrusted to him, in the manner specified in the Authority’s regulations.”

Article 9 further provides that: “Members of the Authority’s Board and its employees are prohibited from practicing any profession or other work, including holding a position or employment in any company, or in the government, or in public or private institutions. They are also prohibited from providing consultancy to private companies and institutions.”

Article 19 provides that: “The internal regulations issued pursuant to this Law shall determine the rules, instructions, and procedures related to the Authority’s administrative and financial affairs and employees’ affairs, including rules of professional conduct, the means of developing the Authority’s work and achieving its objectives, and enhancing the performance of its employees and their level in terms of scientific and professional aspects.”

The Board of the Capital Market Authority also issued the Market Conduct Regulations, which prohibited disclosure of inside information or trading based on it, and also prohibited making false statements or promoting rumors.

Article 17 provides that: “Any non-public information obtained by the Authority shall be deemed confidential, and the Authority may disclose any part of such information as the Board deems necessary for the protection of investors.”

Article 50 provides for the prohibition of dealing based on inside information. To ensure the effectiveness of these provisions and instructions, Article 59 includes a number of sanctions to be imposed on any person who has committed, participated in, or attempted acts or practices that constitute a violation of any provision of this Law, or the regulations or rules issued by the Authority, or the regulations of the market, the depository center, or the clearing center.

Accordingly, the Capital Market Law, and the regulations, rules, circulars, and instructions issued in implementation thereof, took into account the obligation to adhere to the highest professional standards for the Authority’s staff, and to follow clear guidance on conduct issues by avoiding conflicts of interest, ensuring the proper use of information obtained while exercising powers and performing duties, observing confidentiality rules, and subjecting any violator of these provisions to sanctions.

#### 7- Principle Six: “the ability to identify, assess, monitor, manage and reduce systemic risks based on clear responsibilities, systems and processes that permit the sharing of information “.

Systemic risk refers to the possibility that an event, action, or a series of events or actions will have a broad adverse impact on the financial system and thus on the economy. Limiting systemic risk is one of the three fundamental objectives of IOSCO. In most cases, systemic risks in securities markets do not arise from sudden negative events, but rather from a slow and prolonged accumulation of risks over a longer period of time; they may also take the form of a gradual erosion of market confidence as a result of widespread misconduct in the market. The nature of the risks largely determines the most effective tools for addressing them. The tools available to securities regulators to limit systemic risk generally include strong investor protection standards, enforcement measures, disclosure and transparency requirements, conduct regulation, and dispute resolution systems for market intermediaries. This principle acknowledges that securities regulators may not possess appropriate tools to address certain forms of systemic risk; therefore, it is important to cooperate with other regulators and relevant authorities to understand the linkages among market participants, markets, and

their infrastructure,<sup>3727</sup> while developing key risk metrics relevant to measuring systemic risks arising within securities markets, intermediaries, and regulated activities, improving their understanding and application, taking tangible steps to mitigate these risks, and benefiting from work undertaken by other supervisory bodies.<sup>3728</sup>

Weak disclosure and transparency played a role in the collapse of the Saudi stock market in 2006, which led to a loss of investor confidence. Therefore, the Saudi Capital Market Authority issued the Corporate Governance Regulations following the crisis to prevent similar crises in the future and to push companies toward greater transparency. Before the crisis, the Saudi market was not efficient; prices did not reflect information, access to company information was difficult, and the sanctions for non-compliance with disclosure were weak, and confirmed that the collapse of the securities market in the Kingdom of Saudi Arabia at the beginning of 2006 highlighted issues of transparency and questioned the ability of the Capital Market Authority to regulate and supervise the market, which prompted the Authority to develop listing rules consistent with international standards in order to enhance transparency.<sup>3729</sup>

By referring to the Capital Market Law, we find that Article 5 grants the Authority the power to take all measures necessary to limit risks associated with securities transactions, and to protect citizens and investors in securities from unfair or unsound practices, or practices involving fraud, cheating, deception, or manipulation, and to achieve fairness, efficiency, and transparency in securities transactions. It also provides for organizing and monitoring full disclosure of information relating to securities, and providing and disclosing such information to shareholders and the public. Chapter Seven, entitled "Disclosure", in Articles 40 to 48, sets out what the prospectus must contain, issuance instructions and procedures and the manner of issuance, and all matters relating to reports submitted to the relevant authorities, in addition to reporting material developments that may affect the prices of issued securities, and the mechanism for making available to the public the information held by the Authority. The Rules on the Offer of Securities and Continuing Obligations address, in Chapter One of Part Seven, the rules governing continuing obligations on issuers whose securities are listed on the Main Market, and these rules emphasize the importance of the clarity, accuracy, and completeness of disclosure information, and the need to disclose material developments, in Articles 77 to 84. The Listing Rules, in Part Five, entitled "Continuing Obligations", in Articles 25 to 31, determine the continuing obligations of the issuer whose securities are listed on the market. The Corporate Governance Regulations, in Part Nine, entitled "Disclosure and Transparency", in Articles 86 to 90, set out disclosure policies and procedures. To assist listed companies in the Saudi capital market in full compliance with disclosure requirements as stated in the laws and regulations mentioned above, the Saudi Capital Market Authority issued the instructions for company announcements, which specify the basic instructions that must be met in all company announcements published on the Saudi Tadawul website.

The Saudi Companies Law, in Part Five on penalties, stipulates a set of acts that constitute a breach of the principle of disclosure and transparency. The Saudi Capital Market Law added another set of acts that represent a breach of this principle. The Market Conduct Regulations and the Listing Rules also set out some manifestations that constitute a breach of the principle of disclosure and

<sup>3727</sup> - OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P.11-40.

<sup>3728</sup> - OICU-IOSCO, June 2009, Impact On and Responses of Emerging Markets to the Financial Crisis, Consultation Report, P. 29- 43.

- OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P.11-40

<sup>3729</sup> - Baamir, Abdulrahman, 2008. " Issues of Transparency and Disclosure in the Saudi Stock Market" Arab Law Quarterly. Brill, 2008. Vol. 22, No.1,P. 63–87.

transparency. These laws and regulations establish liability for the perpetrator of such acts by imposing sanctions and compensating the harmed party.<sup>3730</sup>

IOSCO recognizes that the timely disclosure of reliable, accurate, and accessible information contributes to the existence of liquid and efficient markets by enabling investors to make informed decisions based on material information.<sup>3731</sup>

We find that the Capital Market Authority, in order to avoid a recurrence of financial crises that could affect the securities market, has paid attention to disclosure and transparency and imposed laws and regulations that include disclosure and transparency requirements along with penalties in case of breach, through the imposition of criminal sanctions, the obligation to compensate the harmed party, as well as the suspension of trading and delisting in certain cases. This helps maintain the stability and prosperity of the securities market, protect investors, enhance their confidence in the market, attract investments, and avoid financial crises. The foregoing confirms that the Saudi Capital Market Authority adopts clear and effective policies to prevent crises and to address systemic risks.

**8- Principle Seven: “a process allowing for a regular review of the perimeter of regulation, including an assessment of the effectiveness of regulations and whether the regulator’s powers, structure and resources are sufficient to meet emerging risks “.**

Regular review enhances the regulatory framework that supports investor protection, fair, efficient, and transparent markets, and the reduction of systemic risks. Therefore, the regulator should undertake, or contribute to, a periodic review of the adequacy of its current requirements and regulatory framework for addressing risks that threaten investor protection and fair, efficient, and transparent markets, in addition to reducing systemic risks.<sup>3732</sup> (IOSCO, 2013: 11- 40)

We observe that Principles 6 and 7 are interconnected by their nature. The regulator may apply similar processes for both Principle 6 and Principle 7; however, Principle 6 focuses on systemic risks, while Principle 7 focuses on both systemic and non-systemic risks, and therefore Principle 7 is broader in scope.<sup>3733</sup>

Applying this principle requires ensuring several matters, including assessing the impact of the development of products, markets, market participants, and activities on the Authority’s scope of work; ensuring that the Authority’s powers and operational and legislative structure evolve in a manner that enables confronting risks, including the possibility of amending legislation and issuing legislation to address these risks; the extent of the Authority’s cooperation with peer authorities; and ensuring that the Authority participates in formal or informal memberships of financial regulatory bodies that share information and discuss the regulatory environment.<sup>3734</sup>

We find that one of the most important features of the Capital Market Law is that it is flexible legislation. It set out the main activities required and left the Capital Market Authority the freedom to determine detailed tasks precisely and to determine the appropriate procedure. This flexibility supported the Law’s response to market changes since its issuance and enabled the Authority to perform its duties and powers to take steps it deems appropriate to develop the market and to exercise

<sup>3730</sup> - Qamer, Mohamed, April 2024, Disclosure and Transparency of the Saudi Stock Exchange Listings, Spirit of the Laws, Vol. 36, No. 106," in Arabic", p.285- 332.

<sup>3731</sup> - IOSCO, (2025), “ Recommendations for Secondary Market Disclosure” consultation report, the IOSCO Board, CR/03/25 November 2025, p. 7.

<sup>3732</sup> - OICU-IOSCO, Final Report, SEPTEMBER 2013, Thematic Review of the Implementation of Principles 6 and 7 of the IOSCO Objectives and Principles of Securities Regulation, P.11-40.

<sup>3733</sup> - - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.44

<sup>3734</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.44- 47.

development, supervision, and oversight functions, and to issue appropriate regulations for each stage and amend them in response to local and international developments, in accordance with Article 5 of the Capital Market Law. This enabled it to prepare the basic legislative infrastructure and issue initial regulations from the beginning of assuming its functions, and to introduce other regulations in line with the State's plans and events arising locally and globally.

The Saudi Capital Market Authority also participates in the membership of a number of regional and international financial organizations. It joined the Union of Arab Securities Authorities in 2007. In 2010, it joined the International Organization of Securities Commissions (IOSCO) and the Financial Markets Integration Project for the Gulf Cooperation Council States. In 2016, it joined the Accounting and Auditing Organization for Islamic Financial Institutions (Abu Dhabi). In 2017, it joined the Islamic Financial Services Board. In 2019, it joined the International Forum of Independent Audit Regulators.<sup>3735</sup>

Regarding the possibility of arbitration in securities disputes in the Kingdom of Saudi Arabia, the Saudi Arbitration Law prohibited arbitration in certain cases as stated in Article 2 of the Saudi Arbitration Law, namely matters relating to personal status in which reconciliation is not permissible. Accordingly, securities disputes were not among the matters prohibited from arbitration. Article 11 of the Saudi Arbitration Law, in its first paragraph, provides that: "The court before which a dispute is brought in respect of which an arbitration agreement exists must rule that it has no jurisdiction to hear the case if the defendant so pleads before submitting any request or defense in the case." Thus, securities disputes in the Kingdom of Saudi Arabia may be resolved through arbitration.

Therefore, we find that the regulatory rules of the Capital Market Authority took into account that the legislative process should be flexible in order to respond to market changes and reduce risks; that the Capital Market Authority participates in the membership of many international and regional financial regulatory bodies; and that the laws also allow arbitration in securities disputes.

**9- Principle Eight: "ensuring that conflicts of interest and misalignment of incentives among market participants are identified, avoided, eliminated, disclosed or otherwise managed"**.

This principle is a comprehensive one that defines the role that securities regulators should play in focusing on conflicts of interest. One concern facing securities regulators is the use by market participants who are charged with acting for the benefit of others of their positions, powers, or information to advance their own interests instead. Conflicts of interest are common in many financial markets and are often a focus of securities market regulators because they may undermine investor protection and undermine market processes based on fairness, efficiency, and transparency.<sup>3736</sup>

By referring to the Capital Market Law, we find that paragraph (b) of Article 4 provides that: "The Authority is prohibited from engaging in any commercial activity, or from having a private interest in any profit-making project, or from borrowing or lending any funds, or from acquiring, owning, or issuing any securities."

Article 9 also provides that: "Members of the Authority's Board and its employees are prohibited from practicing any profession or other work, including holding a position or employment in any company, or in the government, or in public or private institutions. They are also prohibited from providing consultancy to private companies and institutions."

Chapter Six of Part Three of the Corporate Governance Regulations, entitled "Conflict of Interest", in Articles 41–46, sets out the mechanism through which cases of conflict of interest are handled and how they are avoided. It also obliges the company's board of directors to adopt a written and clear

<sup>3735</sup> - Capital Market Authority, 2023, Annual Report.P.86-87

<sup>3736</sup> - OICU-IOSCO, MAY 2017, Methodology For Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation.P.48- 51.

policy for dealing with actual or potential conflicts of interest that may affect the performance of the board members, members of its committees, the executive management, or other employees when dealing with the company or with other stakeholders.

Accordingly, the Saudi Capital Market Authority has been keen to avoid conflicts of interest and has established a mechanism for dealing with cases of conflicts of interest.

## 10- Conclusion

The study analyzed the regulatory rules of the Saudi Capital Market Authority in light of IOSCO principles in order to clarify the extent to which these rules take IOSCO principles into account. Based on the comparative analysis between the regulatory framework of the Saudi Capital Market Authority and IOSCO principles relating to the regulator (Principles 1–8), the study concluded that the responsibilities of the Capital Market Authority are characterized by clarity, and that the Law granted the Authority powers enabling it to achieve its objectives and enforce its authority in cases of non-compliance. In order to avoid the Authority's misuse of its discretionary power in interpreting its powers, the Law allows appeals before the Committee for the Resolution of Securities Disputes against the decisions and actions issued by the Authority. Accordingly, the Saudi framework demonstrates clarity in the Authority's regulatory tasks under the Capital Market Law and its regulations, with an integrated regulatory structure covering most securities activities.

The Capital Market Law also clearly includes provisions ensuring the Authority's independence in performing its tasks and functions, and it affirms ensuring that Authority staff are subject to accountability and adhere to rules of conduct in a way that guarantees their independence and protects the market and participants. The Capital Market Law allocated financial resources for the Authority in a manner that ensures it can perform its functions in a way that supports independence. It also allowed the Authority to retain a general reserve equal to twice its total expenditures in its previous annual budget. It also considered the Authority's funds as public funds and they are collected in accordance with public debt collection procedures. Thus, the Authority enjoys regulatory independence and independent supervisory decisions; however, its financial independence remains partial compared with the level of independence emphasized by IOSCO.

The regulatory rules of the Capital Market Authority adopted implementation procedures characterized by clarity and internal consistency through the existence of laws, rules, and specific procedures that regulate the administrative structure of the Saudi Capital Market Authority. These rules are characterized by clarity, ease of access, and transparency, and the regulatory rules are committed to announcing general standards for granting, refusing, or revoking licenses, and the Authority's decisions are subject to judicial review. The Authority is also keen to solicit public opinions by publishing all new rules, mechanisms, and tools prior to their adoption to obtain views on them and making them permanently available on the Capital Market Authority's website, and continuously responding to all inquiries related to legislation, regulations, circulars, and rules governing the market, while performing a very important role in educating investors through the Investor Education Center.

The Capital Market Law, and the regulations, rules, circulars, and instructions issued in implementation thereof, also took into account the obligation to observe the highest professional standards by the Authority's staff, and to follow clear guidance on conduct issues by avoiding conflicts of interest, ensuring proper use of information obtained while exercising powers and performing duties, observing confidentiality rules, and subjecting any violator of such provisions to sanctions.

To avoid a recurrence of financial crises, the Capital Market Authority paid attention to disclosure and transparency, and imposed laws and regulations including disclosure and transparency requirements and penalties in case of breach, through the imposition of criminal sanctions, the obligation to compensate the harmed party, as well as the suspension of trading and delisting in certain cases. This helps maintain the stability and prosperity of the securities market, protect investors,

enhance their confidence in the market, attract investments, and avoid financial crises. The foregoing confirms that the Saudi Capital Market Authority adopts clear and effective policies to prevent crises and address systemic risks.

The regulatory rules of the Capital Market Authority also ensured that the legislative process is flexible in order to respond to market changes and limit risks. The Capital Market Authority participates in membership of many international and regional financial regulatory bodies, and the laws also allow arbitration in securities disputes. The Saudi Capital Market Authority has also been keen to avoid conflicts of interest and established a mechanism for dealing with cases of conflicts of interest.

In light of the foregoing, the Authority has advanced supervisory and oversight powers that include inspection, investigation, and the power to request information without restrictions, which enhances alignment with IOSCO standards. The Authority is also characterized by a strong enforcement system that includes adjudication and appeal committees, and a tangible increase in the number of published sanctions and fines. The Authority's data also indicate an effective complaints system (Ithmar) and a significant reduction in processing time.

It follows from the above that the regulatory framework of the Saudi Capital Market Authority (CMA) aligns to a large extent with IOSCO Principles 1–8, reflecting the strength of regulation, investor protection, and effective oversight of listed companies, with minor gaps relating to operational independence (Principle 2), which requires legislative reinforcement to reduce potential governmental influence, as well as oversight of financial risks (Principle 6), which requires developing an integrated central system to monitor systemic and emerging risks. Continued compliance with IOSCO principles contributes to raising the credibility of the Saudi market at the international level. Enhancing independence and risk oversight increases investor protection and reduces the likelihood of financial crises, and alignment with international standards facilitates attracting foreign investment and enhances the sustainable development of the Saudi capital market.

Accordingly, through the comparative analysis of IOSCO international principles 1–8 with the regulatory rules of the Saudi Capital Market Authority (CMA) and the results reached, strengths can be identified in Principle 1 (the regulator's mandate), as the CMA enjoys a clear mandate that includes market regulation and investor protection. Principles 3, 4, 5, 7, and 8 relating to regulatory powers, resources, investor protection, disclosure, and corporate governance are strong and aligned with international standards. Financial disclosure and corporate governance show a clear commitment to global practices, enhancing transparency and confidence in the market. With regard to gaps and challenges, Principle 2 (operational independence) shows that partial independence due to funding dependence and government approval of appointments may affect the speed of decision-making and the neutrality of oversight. Principle 6 (risk oversight) shows that oversight exists but is partially limited and requires developing a central system to monitor systemic and emerging financial risks. These gaps affect the market: weak independence may slow the Authority's response to market changes, and a lack of integration in risk monitoring may reduce the market's ability to deal with potential financial crises.

The study provides legislative and regulatory recommendations to enhance alignment of the Saudi framework with IOSCO Principles (1–8), as follows:

- Enhancing the principle of regulatory responsibilities by expanding the scope of legislative delegation to include new activities such as digital platforms and crypto-assets of a securities nature, which helps close a future jurisdictional gap and ensures the comprehensiveness of the regulatory framework.
- Enhancing the Authority's full financial independence by introducing amendments that allow the Authority to retain all fees and fines as a permanent funding source, and establishing an independent financial fund to support supervisory and technology operations. This contributes to addressing part of the current gap between IOSCO and basic funding requirements. Within this

framework, the Authority can be required to issue an independent annual regulatory transparency report including oversight performance standards, supervision quality, compliance indicators, and complaint processing timeframes, which collectively indicate the quality of supervisory performance and enforcement, and this aligns with best international models of regulatory disclosure.

- Enhancing powers and funding by amending the Law to grant the Authority the power to impose new fees linked to high-risk activities such as high-frequency trading (HFT), AI systems for financial intermediation, and complex derivatives products. This gives the Authority the ability to steer supervisory conduct through economic tools, as CFTC and SEC do.

- Enhancing transparency and clarity by requiring the Authority to issue a Regulatory Impact Assessment (RIA) before any regulatory amendment, including a statement of the amendment's impact on investors, compliance costs on the market, and potential behavioral risks. This is a standard practice for IOSCO and OECD. Also, creating a public notice system for intermediaries before issuing any new rules, granting them a period to prepare technical and supervisory systems, achieve market expectations, and reduce regulatory burden; this is one of the transparency indicators in international ROSC assessments.

- Enhancing local and international cooperation by establishing a joint electronic platform between the Authority, SAMA, and the investigations unit to accelerate digital data exchange, improve monitoring of money laundering activities, and support monitoring of cross-border activities, supporting IOSCO's Cross-Border Supervision requirement. Enhancing international cooperation also includes joining international working groups within IOSCO such as the financial regulation committee, the financial technology committee, and the law enforcement committee, which contributes to directly transferring best international practices.

- Enhancing supervisory powers by supporting legislation granting the Authority power to conduct surprise inspections of digital trading platforms to ensure that data are not misused and to address fast algorithmic trading, which is highly important because IOSCO emphasizes Oversight of Market Intermediaries. It is also important to develop a mandatory risk reporting system for asset managers and intermediaries that includes risk ratios, portfolio liquidity, and exposure to potential market collapse, similar to the U.S. Form PF model.

- Enhancing enforcement powers by amending the Law to grant the Authority the power to issue Immediate Cease Orders similar to SEC and ASIC to stop suspicious trades and prevent continued harm during investigations, which enhances enforcement speed, and raising the ceiling of financial fines in proportion to market harm, as current fines may be lower than gains achieved from the violation and should be raised to a level that achieves economic deterrence, consistent with IOSCO's principle of Effective Deterrence. Also, establishing a "financial intelligence unit for market crimes" within the Authority to monitor insider trading, price manipulation, and abnormal digital patterns, as part of the global trend in Modern Market Surveillance.

- Enhancing complaint handling by enacting legislation requiring all intermediaries to establish an internally independent complaints unit, with a specified processing period, clear quality standards, and a clear escalation system as applied in FCA and ASIC, and developing a qualitative complaint classification system ("Complaint Risk Profiling") to monitor abnormal patterns and identify complaints that may indicate market disturbance and complaints involving systemic risks, consistent with IOSCO's Market Conduct methodology, and issuing quarterly reports on complaints to enhance transparency and investor confidence.

In summary, the above highlights the need to strengthen the Authority's funding independence by retaining all fees and fines; publishing inspection and audit methodologies and annual reports to enhance transparency; developing the Ithmar platform to provide an open dashboard for the public; publishing detailed explanations of sanctions to raise deterrence; expanding cooperation through international agreements to strengthen financial supervision; expanding supervisory inspections using AI tools for early detection of violations; establishing a financial intelligence unit to monitor market

crimes and analyze data; and requiring intermediaries to have independent complaints units, with complaint risk classification and quarterly public reports.

These recommendations contribute to raising the maturity of financial regulation in the Kingdom, reducing gaps between the local framework and IOSCO principles, supporting the investment environment and the attractiveness of the capital market, enhancing oversight and enforcement efficiency and responsiveness to global changes, and placing the Kingdom at a higher rank in international reports such as ROSC and the Financial Sector Assessment Program.

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