



KINGDOM OF SAUDI ARABIA

CAPITAL MARKET AUTHORITY

Instructions on the Financing Investment Funds

Issued by the Board of the Capital Market Authority

Pursuant to its Resolution Number 1-35-2022

Dated 12/8/1443H. Corresponding to 15/3/2022.

Based on the Capital Market Law

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

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Dated 23/08/1447H Corresponding to 11/02/2026

Important note:

The Board of the Authority emphasizes that, to keep pace with rapid developments and changes to its regulations and rules, reliance shall at all times be placed on the versions published on the Authority's official website: www.cma.org.sa



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Chapter One: General Provisions

First: Preamble

- a) These Instructions aim to regulate the offering, management, and operation of investment fund units established for the purpose of conducting financing activities.
- b) These Instructions are without prejudice to the Capital Market Law and its Implementing Regulations, including the provisions of the Investment Funds Regulations and other relevant regulations.

Second: Definitions

- a) Any reference to the “Law” in these Instructions shall mean the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H.
- b) Subject to paragraph (d) of this Clause, words and phrases used in these Instructions shall have the meanings assigned in the Capital Market Law and in the Glossary of Defined Terms used in the Regulations and Rules of the Capital Market Authority, unless the context requires otherwise.
- c) The definitions of terms used in the Investment Funds Regulations, as stipulated in the Glossary of Defined Terms used in the Regulations and Rules of the Capital Market Authority, shall apply to the words and phrases mentioned in these Instructions, unless the context requires otherwise
- d) For the purpose of implementing the requirements of these Instructions, words and phrases shall have the meaning assigned thereto, unless the context requires otherwise:
 - Financing Fund:** A Direct Financing Fund and an Indirect Financing Fund.
 - Direct Financing Fund:** An investment fund established for the purpose of carrying out the activity of direct financing for legal persons and investment funds.
 - Indirect Financing Fund:** An investment fund established for the purpose of carrying out the indirect financing.
 - Default:** The beneficiary’s full or partial failure to pay any amount due under the financing contract for a period of 90 days or more from its due date.
 - Beneficiary :**The beneficiary of the financing.
 - Fund size:** The total asset value of the Fund plus any capital pledged to be paid by the unitholders.



Third: Compliance with the Provisions of the Instructions and the Investment Funds Regulations

- a) The offering of units of the Financing Fund, and its operations and management in the Kingdom, shall be conducted in accordance with these Instructions and the Investment Funds Regulations.
- b) The Authority may exempt any person subject to these Instructions from the application of any of their provisions, in whole or in part, either upon a request submitted by such person or on the initiative of the Authority.

Fourth: Investment Areas for the Financing Fund

The fund manager of the Financing Fund shall only invest the fund's assets and monies in the following areas:

- a) Financing activities.
- b) Money market transactions concluded with a party subject to Saudi Central Bank (SAMA) supervision or equivalent regulator to the Saudi Central Bank (SAMA) in a jurisdiction outside the Kingdom.
- c) Bank deposits with institutions regulated by the Saudi Central Bank (SAMA) or subject to a regulatory authority equivalent to the Saudi Central Bank (SAMA) outside the Kingdom.
- d) Units of money market funds registered with the Authority, or units of money market funds outside the Kingdom subject to an equivalent regulatory oversight in a jurisdiction recognized by the Authority as having equivalent regulation.

Fifth: Conditions for Offering Units of the Financing Fund

a) The following conditions shall be satisfied when establishing and offering units of the Financing Fund:

- 1) The Fund shall be closed-ended; Where the fund is a private fund, it may be an open-ended fund, provided that the fund's Terms and Conditions include a clear policy for dealing with subscription and redemption requests and liquidity management to meet such requests.
- 2) The procedures and policies for managing the Fund's risks shall be specified, including the Fund's risk level.

b) In addition to the conditions set out in paragraph (a) of this Clause, the following conditions shall be satisfied when establishing and offering units of the Direct Financing Fund:

- 1) The Fund shall take the form of a special purpose entity in accordance with the Capital Market Law and its Implementing Regulations.
- 2) The minimum total size of the Fund at the time of establishment shall not be less than fifty million riyals (SAR 50,000,000).



- 3) The fund manager shall submit to the Authority a detailed feasibility study that includes the targeted sectors and their details.
- 4) The terms and conditions of the Fund shall set out the mechanism for making investment decisions, as well as any relationships that may give rise to conflicts of interest in the course of the activities of the Fund. They shall also include a statement that the investments of the Fund consist of financing transactions, and that the investment risks associated with the Fund may extend to the loss of the value of its assets.

Sixth: Investment Restrictions of the Direct Financing Fund

- a) The Direct Financing Fund conducts the activity of direct financing for legal persons and investment funds, to the exclusion of individuals.
- b) The term of any financing granted through the Direct Financing Fund shall not exceed the remaining duration of the term of the Fund, including any rescheduling or extension of such financing.
- c) The total direct financing provided through the direct financing fund shall not exceed the total size of the Fund.
- d) The Direct Financing Fund shall not assume exposure to a single beneficiary, or to multiple beneficiaries belonging to the same group equal to or exceeding (25%) or more of the total size of the Fund.
- e) The Direct Financing Fund Manager shall, when selling a financing contract relating to a beneficiary inside the Kingdom to a person inside the Kingdom, include a full -recourse right in the sale agreement, pursuant to which the purchaser of the financing contract within the Kingdom shall have the right of refer back to the Fund to demand payment in accordance with the arrangements specified in the contract.
- f) The Direct Financing Fund Manager shall not sell financing contracts concluded outside the Kingdom to financial institutions licensed by the Saudi Central Bank (SAMA).

Seventh: Engaging in Indirect Financing Activity within the Kingdom

A financing fund shall engage in indirect financing activity within the Kingdom through any of the following:

- a) Purchasing financing portfolios originated by entities regulated by the Saudi Central Bank (SAMA).
- b) Entering into agreements or partnerships with financing companies licensed by the Saudi Central Bank (SAMA) to carry out one or more financing activities for the purpose of joint financing.
- c) Investing alongside financing companies licensed by the Saudi Central Bank (SAMA), provided that the credit-granting decision is made by the financing companies.



Eighth: Additional Duties of The Direct Financing Fund Manager

- a) The fund manager shall maintain all documents, records, and files relating to the beneficiary in an orderly and secure manner, verify their completeness of such files, and update them periodically, for a period of not less than 10 years from the date of termination of the relationship.
- b) The fund manager shall establish clear procedures for receiving and documenting beneficiaries' complaints, reviewing and responding to them, and shall be committed to taking appropriate and immediate corrective actions in relation thereto. All complaints shall be recorded in dedicated registers maintained for this purpose, which shall include all necessary information relating to the subject of the complaint and the actions taken in respect thereof.
- c) The fund manager shall maintain the confidentiality of data and transactions of the beneficiaries and shall not disclose or reveal such information to any third party, even after termination of the relationship with the Fund, except as required under the relevant laws, regulations, and instructions.
- d) The fund manager shall disclose to the Board of Directors of the Fund any conflict of interest that may arise between the fund manager and the Direct Financing Fund under its management caused by dealing with one of the beneficiaries, if any, or a related party. Such conflict of interest shall be approved or validated by the Board of Directors of the Fund and shall be disclosed to unitholders.
- e) The fund manager shall include in the financing contracts concluded with beneficiaries a mechanism for resolving any disputes that may arise therefrom, such as including an arbitration clause. This mechanism shall be disclosed in the terms and conditions of the Fund.
- f) The fund manager shall calculate provisions for potential losses and risks of the Fund in accordance with applicable International Financial Reporting Standards.

Ninth: Credit Information of the Beneficiary in the Direct Financing Fund

- a) The fund manager shall review the credit record of the beneficiary, upon obtaining the necessary authorization, to verify the financial solvency, repayment capacity, and credit behavior of the beneficiary, and shall document such procedures in the financing file.
- b) The fund manager shall, upon obtaining the necessary authorization, register the credit information of the beneficiary with one or more licensed credit information collection companies in accordance with the Credit Information Law and its Implementing Regulations, and shall update such information throughout the duration of the relationship with the beneficiary.
- c) In the event that the fund manager is unable to implement the provisions of paragraphs (a) and (b) of this Clause, financing shall not be provided.
- d) The fund manager shall follow clear and transparent written standards and procedures to assess the creditworthiness and repayment capacity of the beneficiary, and shall update them



as necessary. Such standards and any updates thereto shall be approved by the Board of Directors of the Fund. The fund manager shall implement these procedures prior to granting financing and shall document such procedures in the financing file.

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

CHAPTER TWO: PUBLIC FINANCING FUNDS

Tenth: Scope and Application

- a) Units of Public Financing Funds shall be offered in accordance with the provisions of this Chapter and Part 4 of the Investment Funds Regulations.
- b) As an exception to paragraph (a) of this Clause, paragraphs (b) and (e) of Article 41, and paragraph (o) of Article 49 of the Investment Funds Regulations shall not apply to Public Financing Funds.
- c) Public Financing Funds shall be considered a type of specialized public fund in accordance with the provisions of the Investment Funds Regulations.

Eleventh: Investment Restrictions of the Public Financing Fund

- a) The total borrowing of the public financing fund shall not exceed (15%) of the net asset value of the Fund.
- b) As an exception to paragraph (a) of this Clause, if the Financing Fund is listed on the Parallel Market, the total borrowing of the Fund shall not exceed (50%) of the total size of the Fund.
- c) The Public Financing Fund shall not bear any exposure to one beneficiary, or to more than one beneficiary belonging to the same group, equal to or exceeding (25%) of the fund's total size.

Twelfth: Additional Duties Specific to the Public Financing Fund Manager

- a) In addition to the requirements of the terms and conditions of a public investment fund under the investment funds regulations, the terms and conditions of the public financing fund shall include the following:
 - 1) The terms and conditions shall disclose whether the financing is concentrated in a specific industry or sector, and shall specify the minimum and maximum percentages of the targeted financing to be granted to such industry or sector out of the total financing granted.



- 2) In the case of a public direct financing fund, the terms and conditions shall disclose the collection provisions and procedures. The Board of Directors of the fund shall ensure the completeness and accuracy of such provisions and procedures.
- 3) In the case of a public Direct Financing Fund, the terms and conditions shall disclose the aspects relating to granting credit. The Board of Directors of the Fund shall ensure the completeness and accuracy of such aspects.
- 4) In the case of a public indirect financing fund, the terms and conditions shall disclose the following:
 - (a) The aspects relating to the evaluation of financing portfolios intended to be acquired, where indirect financing activities are carried out through the acquisition of such financing portfolios.
 - (b) The aspects relating to joint financing with financing companies, where indirect financing activities are carried out through entering into agreements or partnerships with such financing companies.
 - (c) The aspects relating to the investment decision-making mechanism with financing companies, where indirect financing activities are carried out through co-investment with such financing companies.

The Board of Directors of the Fund shall ensure the completeness and accuracy of the aspects set out in subparagraphs (a), (b), and (c) of this paragraph.

- 5) In the case of a public Indirect Financing Fund, where the fund manager intends to invest through the acquisition of financing portfolios, the terms and conditions shall disclose the acquisition policy and criteria, including at a minimum the following information:
 - (a) The average number of days of default in the financing portfolio intended to be acquired.
 - (b) The sectors in which the actual or potential beneficiaries of the financing portfolio intended to be acquired operate, and the exposure percentage to each sector.
 - (c) The period elapsed since the financing was granted to the beneficiaries in the financing portfolio intended to be acquired, provided that such period shall not be less than six months.
- b) In the case of a traded financing fund, the fund manager shall immediately disclose any default by a beneficiary.

Thirteenth: Reporting to Unitholders

- a) The Public Financing Fund Manager shall include, as additional information in its annual report referred to in paragraph (a) of Article 78 of the Investment Funds Regulations, the following:
 - 1) The ratio of lending by the Fund to the total assets value of its assets.
 - 2) The dual unit price of the Fund.



- 3) The ratio of beneficiaries in default for ratio 90 days or more, and 180 days or more, of the total financing granted through the fund, if any.
 - 4) The actual ratio of asset-backed loans to the total financing granted through the fund.
- b) The public financing fund manager must include in the fund's quarterly statement the following information:
- 1) An update on financing contracts data, including at a minimum the following information:
 - (a) The number of days of default for each financing contract.
 - (b) The percentage of default relative to the total value of the financing granted.
 - (c) The period elapsed since the financing was granted, and the new financing contracts concluded during that period.
 - (d) Any change in the exposure percentage to the sectors to which the beneficiaries belong.
 - 2) Returns from financing contracts.
 - 3) Any change to the payment schedule due to the fund.
 - 4) Details of the new financing contracts entered into by the fund, including the beneficiary's sector and the payment schedule due for each financing.
 - 5) A list setting out the amounts of the ten largest financings granted, the sector of each financing, and the percentage of each financing relative to the size of the fund.
 - 6) Any transaction involving the purchase, sale, or mortgage of an asset at a price equal to or exceeding (10%) of the Fund's net assets, in accordance with the latest reviewed interim financial statements or audited annual financial statements, whichever is more recent. Such transaction information shall include, at a minimum, disclosure of the purchase or sale price of the asset, the valuation price for the purchase or sale, and the valuation methodology followed.
 - 7) The fund's borrowing ratio to its net asset value.
- c) In the case of the public direct financing fund, where the fund's terms and conditions allow investment in financing granted with a guarantee, the public financing fund manager shall include, in the fund's quarterly statement, disclosure of any financing guarantee obtained by the fund, the percentage of such guarantee relative to the size of the guaranteed financing, and the priority of the fund in such guarantee in the event of the beneficiary's bankruptcy.



CHAPTER THREE: PRIVATE FINANCING FUNDS

Fourteenth: Scope and Application

Units of Private Financing Funds shall be offered in accordance with the provisions of this Chapter and Part 5 of the Investment Funds Regulations.

Fifteenth: Investment Restrictions of the Private Financing Fund

The total borrowing of the private financing fund shall not exceed (50%) of the total size of the Fund.

Sixteenth: Additional Duties Specific to the Private Direct Financing Fund Manager

The policies and procedures set by the fund manager shall include the aspects relating to granting credit and the provisions and procedures for collection. The Board of Directors of the Fund shall ensure the completeness and accuracy of such policies and procedures.

Seventeenth: Board of Directors of the Private Direct Financing Fund

The provisions governing the Board of Directors of the Fund and the responsibilities of its members stipulated in Articles 86 and 87 of the Investment Funds Regulations shall apply to the Direct Financing Fund.

Eighteenth :Reporting to Unitholders

The Private Financing Fund Manager shall include, as additional information in its annual report referred to in paragraph (a) of Article 95 of the Investment Funds Regulations, the following:

1. The ratio of lending by the Fund to the total assets value of its assets.
2. The dual unit price of the Fund.
3. The ratio of beneficiaries in default for 90 days or more and 180 days or more of the total financing granted through the Fund, if any.
4. The actual ratio of asset-backed loans to the total financing granted through the Fund.



CHAPTER FOUR: PUBLICATION AND ENTRY INTO FORCE

Nineteenth :Publication and Entry into Force

These Instructions shall become effective upon their publication.