

## The Draft Regulatory Framework for Robo-Advisory

### A) Preamble:

As part of the Capital Market Authority's ("CMA") strategic objectives to develop the capital market, and based on the Capital Market Law issued by Royal Decree No. (M/30) dated 2/6/1424H, the CMA Board issued its resolution to publish the Draft Regulatory Framework for Robo- Advisory (the "Draft") for public consultation for a period of (30) calendar days.

### B) Objectives of the Draft Regulatory Framework and its Main Elements:

The Draft aims to enable Capital Market Institutions to offer Robo-Advisory services, in a manner that supports financial technology in the financial sector, provides innovative and efficient advisory solutions to investors, enhances market efficiency, and promotes the expansion of financial services through the use of modern technologies

### C) Proposed amendments to the Capital Market Institutions Regulations compared with the current provisions:

Capital Market Institutions Regulations		
Current Provision	Proposed Amendments	Explanation
<b>Article 10: Scope of Business</b> a) A capital market institution must not carry out, or hold itself out as carrying out, securities business unless that business is within its permitted business profile. b) A capital market institution must comply with the rules applicable to it and with any limitation, condition or other requirement that the Authority specifies.	<b>Article 10: Scope of Business</b> a) A capital market institution must not carry out, or hold itself out as carrying out, securities business unless that business is within its permitted business profile. b) A capital market institution must comply with the rules applicable to it and with any limitation, condition or other requirement that the Authority specifies.	The proposed amendments include provisions aimed at allowing Capital Market Institutions to offer Robo-Advisory services, provided that the requirements set out in the amendments are met during the provision of the services.

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<p>c) A capital market institution may carry out activities associated with the securities business upon satisfying the following:</p> <ol style="list-style-type: none"> <li>1) carrying out such activities does not require obtaining authorisation from other regulatory or supervisory bodies;</li> <li>2) carrying out such activities will not affect the ability of the capital market institution to comply with the principles set out in article 5 of these regulations; and</li> <li>3) the capital market institution must fulfil the prudential requirements at all times.</li> </ol> <p>d) The Authority may impose any conditions or restrictions on the capital market institution in conducting activities associated with the securities business, request to provide any information about such activities, or instruct the capital market institution to cease conducting them.</p>	<p>c) A capital market institution may carry out activities associated with the securities business upon satisfying the following:</p> <ol style="list-style-type: none"> <li>1) carrying out such activities does not require obtaining authorisation from other regulatory or supervisory bodies;</li> <li>2) carrying out such activities will not affect the ability of the capital market institution to comply with the principles set out in article 5 of these regulations; and</li> <li>3) the capital market institution must fulfil the prudential requirements at all times.</li> </ol> <p>d) The Authority may impose any conditions or restrictions on the capital market institution in conducting activities associated with the securities business, request to provide any information about such activities, or instruct the capital market institution to cease conducting them.</p>	

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e) A capital market institution authorised to carry out advising business may provide advising in financial planning and in wealth management.	<p>e) A capital market institution authorised to carry out advising business may provide advising in financial planning and in wealth management.</p> <p>f) A Capital Market Institution licensed to conduct investment management or investment management and fund operation activities may offer robo-advisory services, provided that the following conditions are met:</p> <ol style="list-style-type: none"> <li>1. The investments of the investment portfolio must not be concentrated in a single asset or in securities issued by one issuer.</li> <li>2. If the Robo-Advisory service involves securities issued or listed outside the Kingdom, such securities must be subject to the supervision of a regulatory authority that applies regulatory standards and requirements that are at least equivalent to those applied by the Authority.</li> </ol>	

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<p>ANNEX (5-2)</p> <p>A capital market institution's terms of business to be entered into with or for a retail client should, where relevant, provide for the following:</p> <p>...</p> <p>(7) Investment manager:</p>	<p>ANNEX (5-2)</p> <p>A capital market institution's terms of business to be entered into with or for a retail client should, where relevant, provide for the following:</p> <p>...</p> <p>(7) Investment manager:</p>	<p>The proposed amendments include provisions aimed at requiring Capital Market Institutions to disclose to the client, prior to the provision of services and within the terms of service, the following:</p> <ul style="list-style-type: none"> <li>• a) A clear explanation of the strategies used in constructing and managing the investment portfolio;</li> <li>• The criteria for asset selection and the methodology for asset allocation within the investment portfolio;</li> <li>• The methodology for rebalancing the investment portfolio; and</li> <li>• The operational framework of the algorithms and technological tools used in providing Robo-Advisory</li> </ul>

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<ol style="list-style-type: none"> <li>the arrangements for giving instructions to the capital market institution and acknowledging those instructions;</li> <li>the initial value of the managed portfolio;</li> <li>the initial composition of the managed portfolio;</li> <li>the period of account for which statements of the portfolio are to be provided;</li> <li>the extent of the discretion to be exercised by the capital market institution, including any restrictions on investments;</li> <li>how performance will be measured;</li> <li>how valuations will be made.</li> </ol>	<ol style="list-style-type: none"> <li>the arrangements for giving instructions to the capital market institution and acknowledging those instructions;</li> <li>the initial value of the managed portfolio;</li> <li>the initial composition of the managed portfolio;</li> <li>the period of account for which statements of the portfolio are to be provided;</li> <li>the extent of the discretion to be exercised by the capital market institution, including any restrictions on investments;</li> <li>how performance will be measured;</li> <li>how valuations will be made.</li> <li>When providing Robo-Advisory services, the terms of business must include the following: <ol style="list-style-type: none"> <li>A clear explanation of the strategies used in constructing and managing the investment portfolio.</li> </ol> </li> </ol>	<p>services, and the risks associated therewith.</p>

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	<p>b) The criteria for asset selection and the methodology for asset allocation within the investment portfolio.</p> <p>c) The methodology for rebalancing the investment portfolio.</p> <p>d) The operational framework of the algorithms and the technological tools used in providing Robo-Advisory services, and the risks associated therewith.</p>	
<p>ANNEX (3-2) NOTIFICATION REQUIREMENTS:</p> <p>...</p>	<p>ANNEX (3-2) NOTIFICATION REQUIREMENTS:</p> <p>....</p> <p>VIII. The Capital Market Institution that offers Robo-Advisory services must notify the Authority in advance of the strategies used in constructing and managing the portfolio, as well as any subsequent updates thereto, prior to making them available to clients on the platform.</p>	<p>The proposed amendments include provisions aimed at requiring Capital Market Institutions that offers Robo-Advisory services to notify the Authority in advance of the strategies used in constructing and managing the portfolio before making the investment portfolio available to the clients.</p>

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<p>Article 19: Registrable Functions</p> <p>...</p> <p>b) The following functions are considered functions that must be performed by registered persons:</p> <ol style="list-style-type: none"> <li>1) CEO or Managing member of the board of directors;</li> <li>2) CFO;</li> <li>3) a member of the board of directors or partner;</li> <li>4) senior executives and departments managers; directly related to securities business;</li> <li>5) compliance officer;</li> <li>6) MLRO; and</li> <li>7) the employees providing clients with securities business activities including sales representatives, investment advisors, clients' or funds' portfolios managers, corporate finance professionals and brokerage professionals as defined by the Authority.</li> </ol> <p>...</p>	<p>Article 19: Registrable Functions</p> <p>...</p> <p>b) The following functions are considered functions that must be performed by registered persons:</p> <ol style="list-style-type: none"> <li>1) CEO or Managing member of the board of directors;</li> <li>2) CFO;</li> <li>3) a member of the board of directors or partner;</li> <li>4) senior executives and departments managers; directly related to securities business;</li> <li>5) compliance officer;</li> <li>6) MLRO; and</li> <li>7) the employees providing clients with securities business activities including sales representatives, investment advisors, clients' or funds' portfolios managers, corporate finance professionals and brokerage professionals as defined by the Authority.</li> </ol>	<p>The proposed amendments include provisions aimed at requiring Capital Market Institutions that offers Robo-Advisory services to designate the position of Information Technology Officer.</p>
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	<p>8) The Information Technology Officer of a Capital Market Institution that offers Robo-Advisory services.</p> <p>...</p> <p>Article 20: Performance of Registrable Functions</p> <p>Every capital market institution must at all times have a person who is registered for each of the following functions:</p> <ol style="list-style-type: none"> <li>1) CEO or Managing member of the board of directors;</li> <li>2) CFO;</li> <li>3) compliance officer; and</li> <li>4) MLRO.</li> <li>5) The Information Technology Officer at the Capital Market Institution that offers Robo-Advisory services.</li> </ol>	
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Capital Market Institutions Regulations		
Current Provision	Proposed Amendments	Explanation
<p>Article 55: General Provisions</p> <p>a) The capital market institution must establish systems and controls under this Part taking into account the following:</p> <ol style="list-style-type: none"> <li>1) the nature, scale and complexity of its business;</li> <li>2) the diversity of its operations;</li> <li>3) the number and value of its transactions; and</li> <li>4) the degree of risk associated with each area of its operation.</li> </ol> <p>b) A capital market institution must establish systems and controls to cover at a minimum:</p> <ol style="list-style-type: none"> <li>1) the division of responsibilities and reporting lines in accordance with Article 53 of these Regulations;</li> <li>2) risk management policies and systems;</li> <li>3) anti-money laundering and combating the financing of terrorism procedures;</li> <li>4) a compliance manual;</li> </ol>	<p>Article 55: General Provisions</p> <p>a) The capital market institution must establish systems and controls under this Part taking into account the following:</p> <ol style="list-style-type: none"> <li>1) the nature, scale and complexity of its business;</li> <li>2) the diversity of its operations;</li> <li>3) the number and value of its transactions; and</li> <li>4) the degree of risk associated with each area of its operation.</li> </ol> <p>b) A capital market institution must establish systems and controls to cover at a minimum:</p> <ol style="list-style-type: none"> <li>1) the division of responsibilities and reporting lines in accordance with Article 53 of these Regulations;</li> <li>2) risk management policies and systems;</li> <li>3) anti-money laundering and combating the financing of terrorism procedures;</li> <li>4) a compliance manual;</li> </ol>	<p>The proposed amendments include provisions aimed at establishing the minimum required measures and control procedures for Capital Market Institutions that offers Robo-Advisory services.</p>

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<p>5) a compliance monitoring programme; 6) a code of conduct; 7) an operational procedures manual; and 8) continuity of business manuals and plans.</p> <p>c) A capital market institution that carries out dealing business as an agent must establish clients' conduct trading surveillance policies and systems, provided that such policies and systems are sufficient for the capital market institution to ensure compliance of its clients with the Capital Market Law and its Implementing Regulations.</p> <p>d) A capital market institution must document its systems and controls appropriately and keep such documentation up to date.</p> <p>e) The documentation described in this Article must be retained for ten years after it ceases to be used or is amended.</p>	<p>5) a compliance monitoring programme; 6) a code of conduct; 7) an operational procedures manual; and 8) continuity of business manuals and plans.</p> <p>c) A capital market institution that carries out dealing business as an agent must establish clients' conduct trading surveillance policies and systems, provided that such policies and systems are sufficient for the capital market institution to ensure compliance of its clients with the Capital Market Law and its Implementing Regulations.</p> <p>d) A capital market institution must document its systems and controls appropriately and keep such documentation up to date.</p> <p>e) The Capital Market Institution that offers Robo-Advisory services must establish systems and control procedures to ensure the integrity, efficiency, and oversight of the algorithms and technological tools used. Such systems and procedures must include the following:</p>	



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	<p>1. Control procedures for the algorithms and technological tools used, and a risk management and monitoring policy.</p> <p>2. Sufficient and ongoing testing of the algorithms and technological tools to verify their reliability and effectiveness for their intended purpose, and to ensure the accuracy of the outcomes generated by the algorithms designed to provide services to clients.</p> <p>3. Annual testing conducted by an independent party to assess the safety of the algorithms and technological tools used, based on the nature of such systems.</p> <p>4. Establish and implement policies and procedures to address and mitigate operational and technological risks.</p> <p>f) The documentation described in this Article must be retained for ten years after it ceases to be used or is amended.</p>	
<p>Article 33: Prepared Securities Advertisements</p> <p>a) A prepared securities advertisement means any advertisement for securities or securities activity,</p>	<p>Article 33: Prepared Securities Advertisements</p> <p>a) A prepared securities advertisement means any advertisement for securities or securities activity,</p>	<p>The proposed amendments include provisions aimed at requiring Capital Market Institutions that offers Robo-Advisory services to disclose on the platform the</p>

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<p>prepared in advance, for the purpose of inviting or inducing a person to engage in securities activity and communicated in writing, electronically or, otherwise to one or more persons.</p> <p>b) Before communicating a prepared securities advertisement, or approving its contents to be communicated by another person, a capital market institution must ensure that:</p> <ol style="list-style-type: none"> <li>4) the advertisement complies with the requirements of this Part after it is approved by a designated officer of the capital market institution;</li> <li>5) the advertisement is clear, fair and not misleading; and</li> <li>6) that the approved advertisement contents to be communicated by another person, include a clear, fair and not misleading disclosure that such person has received or will receive</li> </ol>	<p>prepared in advance, for the purpose of inviting or inducing a person to engage in securities activity and communicated in writing, electronically or, otherwise to one or more persons.</p> <p>b) Before communicating a prepared securities advertisement, or approving its contents to be communicated by another person, a capital market institution must ensure that:</p> <ol style="list-style-type: none"> <li>1) the advertisement complies with the requirements of this Part after it is approved by a designated officer of the capital market institution;</li> <li>2) the advertisement is clear, fair and not misleading; and</li> <li>3) that the approved advertisement contents to be communicated by another person, include a clear, fair and not misleading disclosure that such person has received or will receive</li> </ol>	<p>performance record of the investment portfolios, including the total returns achieved after deducting actual expenses, any updates thereto, and to comply with the requirements set out in Annex (5-1).</p>

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<p>benefits in exchange for communicating that advertisement.</p> <p>c) A prepared securities advertisement must comply with the content requirements set out in Annex 5.1.</p> <p>d) If the prepared securities advertisement relates to specific securities then it must contain sufficient information to enable a person to make an informed assessment of the securities or securities activity to which it relates.</p> <p>e) If a capital market institution becomes aware that a prepared securities advertisement does not comply with the requirements of this Part, or when it receives instructions from the Authority in this regard, it must withdraw the advertisement as soon as possible.</p> <p>f) A capital market institution must maintain a complete record of each prepared securities advertisement that it has approved and confirmed compliance for.</p>	<p>benefits in exchange for communicating that advertisement.</p> <p>c) A prepared securities advertisement must comply with the content requirements set out in Annex 5.1.</p> <p>d) If the prepared securities advertisement relates to specific securities then it must contain sufficient information to enable a person to make an informed assessment of the securities or securities activity to which it relates.</p> <p>e) If a capital market institution becomes aware that a prepared securities advertisement does not comply with the requirements of this Part, or when it receives instructions from the Authority in this regard, it must withdraw the advertisement as soon as possible.</p> <p>f) A capital market institution must maintain a complete record of each prepared securities advertisement that it has approved and confirmed compliance for.</p>	

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	g) The Capital Market Institution that offers Robo-Advisory services must disclose on the platform the performance record of the investment portfolios since inception. This must include the criteria and methodology used to measure portfolio performance, the total returns achieved after deducting actual expenses, and any updates thereto. The Capital Market Institution must comply with the requirements stipulated in Annex (5-1).	



## The Draft Regulatory Framework for Robo-Advisory

### A) Proposed amendments to the Glossary of Defined Terms Used in The Regulations and Rules of The Capital Market Authority compared with the current provisions:

Glossary of Defined Terms Used in The Regulations and Rules of The Capital Market Authority		
Current Provision	Proposed Amendments	Explanation
-	<b>Robo-Advisory Service:</b> The use by a licensed Capital Market Institution of algorithms and modern technological tools to manage clients' investments based on pre-determined investment strategies, with no or limited human intervention.	The proposed amendments include provisions aimed at formalising the concept of Robo-Advisory services and incorporating its definition into the list of terms used in the Capital Market Authority's regulations and rules.