



Central Counterparty Clearing House (“CCP”)

Clearing Procedures

Approved by the Board of the Capital Market Authority Pursuant to its Resolution Number (1-137-2019) Dated 12/4/1441H Corresponding to 9/12/2019G

Arabic is the official language of the Securities Clearing Centre

Section 1: Preliminary Provisions

1. Provisions and Definition

- 1.1. This document specifies Derivatives Clearing procedures that Clearing Members must follow to comply with provisions of the Securities Clearing Centre Rules.
- 1.2. The expressions and terms in these Procedures carry the same meaning as they do in the Capital Market Law and Glossary of Defined Terms Used in the Exchange Rules unless the text explicitly notes an alternate meaning.
- 1.3. These Procedures will enter into effect as per its approval resolution.
- 1.4. Clearing Member stated in these Procedures covers General Clearing Member and Direct Clearing Member; Member stated in these Procedures means Clearing Member and Non-Clearing Member together.
- 1.5. In these Procedures, the following terms shall have the following meanings unless context otherwise requires:

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

Delta Hedge: means margin methodology used by Clearing House for the calculation of margin requirement based on the portfolio based risk management algorithm;

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

Gross margining: means type of margin calculation aggregated through for any open position of each Client separately without netting against each other.

IBAN: means International Bank Account Number.

Net margining: means type of margin calculation for any open position of each Client netted against each other.

Standard Portfolio Analysis of Risk (SPAN): means a system for calculating margin requirements for derivatives.

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

Trade and Position Account: means an account used for trading and keeping the positions resulting from matched trades for either House or Clients.

2. Conditions for Direct Clearing Membership

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

2.1.1. have a minimum internal credit score of 5 based on Clearing House credit criteria methodology published on its website.

2.1.2. have an agreement with a local Bank acting as paying agent for cash transactions including collateral transfers and have necessary arrangements to generate Identification Number for its Clients.

3. Conditions for General Clearing Membership

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

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

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

3.1.2. have a minimum internal credit score of 4 based on Clearing House credit criteria methodology published on its website.

3.1.3. be a local Bank or have an agreement with a Bank acting as paying agent for cash transactions including collateral transfers and must have necessary arrangements to generate for Identification Number for its Clients.

4. Non-Clearing Members

4.1. Each Non-Clearing Member can only appoint one General Clearing Member to clear its transactions.

5. Membership Admission and Activation

5.1. Upon approval by the Clearing House, the applicant must pay the membership fee and Upfront Default Fund Contribution. Details of required documentation and relevant deadlines for membership application process shall be published on the Clearing House's website.

5.2. After the conditions stipulated in (5.1) are fulfilled, the membership will be activated in the Clearing House System.

6. Fees, Payment and Invoice

6.1. The Clearing House will submit invoice to Clearing Members on a periodic basis and define deadline for payment accordingly.

6.2. The Clearing House shall publish all fee types and their calculation method at the Clearing House's website.

6.3. The Clearing House shall notify Clearing Members, at least, **30** days before imposing new fees or changing the fees stipulated in (6.2).

7. Notices

7.1. Clearing House shall publish notices on its web site for clarification and details related to Clearing Procedure.

Section 2: Accounts

8. Account Structure and Account Types

- 8.1.** The Clearing House shall implement a standard account structure to process trades, positions, margin requirements, collateral and default fund requirement.
- 8.2.** Members will have House - Trade and Position Account - to trade and keep related position for their own transactions. House Market Maker -Trade and Position Account – can be opened for Members for market making activities.
- 8.3.** Clearing Members should have House Collateral account to cover the margin requirement calculated for their positions at House -Trade and Position Accounts.
- 8.4.** Members can have two types of Client -Trade and Position Account-:
 - 8.4.1.** Net Client -Trade and Position Account- where positions taken on the same contract with opposite sides will be closed automatically by the Clearing House. Net Margining is applied for these accounts.
 - 8.4.2.** Gross Client -Trade and Position Account- where positions taken on the same contract with opposite sides will be kept in the account until it is closed. Gross Margining is applied for these accounts.
- 8.5.** Members can have two types of Client Collateral Account.
 - 8.5.1.** Individual Client Collateral Account is the account which is used to keep collateral of an individual Client. The collateral at this account shall only be used to cover the margin requirement calculated for the positions of the Client.
 - 8.5.2.** Omnibus Client Collateral Account- is the account which is used to keep collateral of multiple Clients. The collateral at this account shall only be used to cover the margin requirement calculated for the positions of the same group of Clients.
- 8.6.** General Clearing Member will have separate Collateral Accounts for each Non-Clearing Member and separate Collateral Accounts if Non-Clearing Member has Client-Trade and Position Account.
- 8.7.** Clearing Members and Non-Clearing Members are obligated to segregate positions and collateral of each of their Clients in their books.

9. Account Opening

- 9.1.** Members shall request the Clearing House to open Trade and Position Account for each Client.
- 9.2.** Upon a new Trading and Position Account creation, Clearing House will open the related Collateral and Margin Accounts accordingly, if required.
- 9.3.** For every new Trading and Position Account, Member must provide Identification Number information of the respective Client.
- 9.4.** Member is solely responsible for validation and consistency of the Identification Number provided to Clearing House.
- 9.5.** Clearing House will open one House Collateral and one Omnibus -Client Collateral Account for each Clearing Member. Clearing Member can request Clearing House to open more than one Omnibus - Collateral Account.
- 9.6.** Member can request from Clearing House to open Individual Collateral Account- to segregate collateral of Individual Client.
- 9.7.** Clearing House will open one House Collateral and one Omnibus -Client Collateral Account for each Non-Clearing Member under General Clearing Member.
- 9.8.** Trading and Position Account shall be validated by the Clearing House before activation in terms of required mandatory fields, related propagation references and account type specifications.
- 9.9.** New Trading and Position Accounts opened at the Clearing House System will be reflected to the Trading System and any new Trading and Position Account will become eligible for trading on the next day.

10. Account Change and Closing

- 10.1.** Trading and Position Account closing shall only be conducted by the Clearing House.
- 10.2.** Members can request to close Trading and Position Account in accordance with the form prescribed for this purpose to the Clearing House.
- 10.3.** The Clearing House will not close any Trading and Position Account that have open position.

- 10.4. Member may request, in accordance with the form prescribed for this purpose to initiate changes for Trading and Position Account.
- 10.5. Account name and type changes are not possible in the Clearing House System.
- 10.6. Clearing Members cannot change any mandatory attributes required for opening a Trading and Position Account [Appendix 1].

11. On-Behalf-Of Operations:

- 11.1. Clearing Member will conduct clearing operations through the Clearing House System. Non-Clearing Member will not have access to all Clearing House System functionalities. If, for any reason, the Member does not have access to the Clearing House System or the Member requests the Clearing House to proceed with the related clearing operation “on behalf”, the Member must initiate and send a request to the Clearing House.
- 11.2. Member could request the Clearing House to initiate “on behalf of” operation by submitting related forms to the Clearing House.
- 11.3. Forms shall be signed by the authorised personnel of the Member. The Clearing House, in its discretion, may not proceed with the related request if the Clearing House is unable to confirm the authenticity and authorisation of the request based on documents provided by the Member.

Section 3: Clearing Operations

This section aims to clarify the procedures of the Clearing Operations mentioned in part 4 of the Securities Clearing Centre Rules.

12. Trade and Position Management

- 12.1. Member can initiate give-up trade, take-up trade, rectify trade, close-out position and position transfer.
- 12.2. Each Clearing Member and Non-Clearing Member can initiate give-up trade, take-up trade, rectify trade, close-out position and position transfer, or request from Clearing House trade and position management for their own related trades to those trades and General Clearing Member can initiate trade and position management for Non-Clearing Member.

13. Give-Up and Take-Up

- 13.1.** A give-up is the transfer of a trade in a Trading and Position Account from one Member to another.
- 13.2.** A take-up is the acceptance of transfer of trades into a new Trading and Position Account as complement to the give-up transfer.
- 13.3.** A Member can initiate a give-up on the Clearing House System by selecting the related trade/s or request Clearing House to initiate through prescribed form for this purpose.
- 13.4.** Member can initiate a give-up to be taken up by one or more Members; however, the Client for a give-up and take-up must hold the same Identification Number. Clearing House may apply additional restrictions for give-up and take-up.
- 13.5.** When multiple Trade and Position Accounts take-up the trade, the Member may split the trade and select the Trade and Position Accounts to take-up.
- 13.6.** Member may give-up for a portion of the trade and the remaining quantity is held in the Trading and Position Account.
- 13.7.** Member can initiate a take-up manually on the Clearing House System by accepting the take-up. Member can also initiate take-up by sending the Clearing House the prescribed form for this purpose.
- 13.8.** Until the take-up is approved by take-up Clearing Member, the give-up Clearing Member is responsible for all of the obligations arising from related trade subject to the give-up. Following take-up all the rights and obligations are transferred simultaneously to the take-up Clearing Member.
- 13.9.** Every trade being subject to give-up will be transferred at its original trade price.

14. Trade Rectify

- 14.1.** Members can rectify any trade held in the Trading and Position Account. Clearing Members can rectify only the following attributes for a given trade:
 - 14.1.1.** Change the account,
 - 14.1.2.** Split the quantity into several new trades,
- 14.2.** Rectified trade will be transferred at its original trade price.

15. Position Close-Out

- 15.1.** Position close-out in Trading and Position Account depends on the account type.
- 15.2.** For Net Client Trade and Position Accounts, close-out is automatic.
- 15.3.** For Gross Client Trade and Position Accounts where automatic close-out is not enabled by the Clearing House, Members shall request from the Clearing House to close-out. For such account types, close-out can be processed for some portion of the position and the remaining quantity held as remaining.
- 15.4.** Clearing Member shall send its request to close-out the position fully or partially to the Clearing House through the medium of communication Clearing House accepts.

16. Position Transfer

- 16.1.** Member can request the Clearing House to transfer some or all of positions in any Trade and Position Account and Position Transfer is to be conducted by the Clearing House.
- 16.2.** Transferor Member and Transferee Member must complete and submit separately the related form 3 days before the transfer. If the instructions do not match by the end of the third day, the request shall be cancelled.
- 16.3.** Position Transfer can be conducted only between two different Clearing Members. Position Transfer between two Non-Clearing Members under same General Clearing Member is subject to the General Clearing Member approval.
- 16.4.** Position Transfer between two Trading and Position Accounts can only be for the Client with the same identification number for the respective two accounts.
- 16.5.** For every Position Transfer, the Clearing House will conduct an assessment on both Collateral Accounts. If there would be any collateral deficiency in either Collateral Account, then the Position Transfer will not be possible.
- 16.6.** In such a case mentioned in (16-5), the Clearing House will run a margin simulation and advise of the amount of collateral required for one or both Collateral Accounts in order for the transfer to be allowed.

16.7. The Clearing House will inform either or both Clearing Members for the required margin amount that must be additionally posted before the Position Transfer will be processed.

16.8. If the collateral is sufficient, the Clearing House will process Position Transfer. The transfer will be processed by Clearing House.

16.9. Transferred position shall be margined at the Transferee account starting from T+1. End of day variation margin on the transfer date will be calculated for the account at Transferor Clearing Member.

17. Porting

17.1. Non-Clearing Member can request the Clearing House to transfer all positions and related collateral to another General Clearing Member.

17.2. Member can request from the Clearing House to transfer all position and related collateral of an Individual Client to a specified account at another Member.

18. Suspension of Member

18.1. Upon any suspension or cancellation decision initiated in accordance with Article 18 and 19 of the Securities Clearing Centre Rules, the Clearing House will suspend all Clearing House System users of the related Member.

18.2. Clearing House will offer a time frame for transferring of positions and collateral of Clients and Non Clearing Member from the suspended Clearing Member to another Clearing Member.

19. Processing of Daily Cycle

19.1. The related notices of the clearing, settlement and collateral periods will be published by the Clearing House on its website.

Section 4: Risk Management and Margin

20. Trading Limit

- 20.1.** The Trading Limit is part of pre-trade risk management and designed to limit the potential exposure on a trading level.
- 20.2.** Trading Limit will be set for every Clearing Member on a gross basis by the Clearing House. Non-Clearing Member Trading Limit will be set by General Clearing Member provided that the aggregated limit of General Clearing Member shall not exceed total trading limit imposed by the Clearing House. Trading Limits for Non-Clearing Members can be changed intra-day by sending to Clearing House the related prescribed form for this purpose by the General Clearing Member.
- 20.3.** Buy and sell orders consume the limit. The treatment of buy and sell orders received after Trading Limit is fully consumed will be subject to Exchange Rules.
- 20.4.** For opening buy and sell of orders, the Trading Limit decreases by the amount equal to:

$X \% * \text{Order Price} * \text{Number of Contracts} * \text{Point Value}$

- 20.5.** X % will be configured by the Clearing House and published on its website.
- 20.6.** Same day closing of buy and sell orders does not have any impact on Trading Limit.

21. Margin Requirement

- 21.1.** Clearing House calculates margin requirements for all open positions.
- 21.2.** Margin requirement is the sum of initial margin, variation margin and additional margin.

22. Initial Margin

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

- 22.2.** Clearing House's margining guide is available for Clearing Members reference on the Clearing House website. A file with risk parameters, which could be used by Clearing Member for margin replications, is compatible with SPAN-like expanded format and made available to Clearing Member after every margin run.
- 22.3.** The Risk Parameter File contains key Delta Hedge parameters such as Price Scanning Range and Intermonth Spread Charge. Price Scanning Range is determined by the Clearing House using a minimum confidence interval of 99%, 2 days for margin period of risk and 10 years of historical data, where available.
- 22.4.** Any changes to these parameters will be communicated to Clearing Members on Clearing House website.
- 22.5.** Clearing Member can obtain a copy of the file from Clearing House System, Clearing House's FTP server and website.
- 22.6.** Initial Margin is calculated for every Trade and Position Account. Initial Margin offset is not permitted across different Client -Trade and Position Accounts.
- 22.7.** Clearing Members can refer to the Clearing House System for calculated margin requirement for their Trade and Position Accounts.

23. Variation Margin

- 23.1.** Clearing House will calculate daily variation margin for all open positions. Calculation takes place at the end of every day and at every 30-minute interval, or at shorter interval as Clearing House deems fit.
- 23.2.** Variation margin is calculated as follows:
- 23.2.1.** The difference between the last price minus the trade price for the positions that are opened intraday but not closed,
- 23.2.2.** The difference between the closing price minus the trade price for the positions that are opened and closed intraday,
- 23.2.3.** The difference between the last price minus the opening price for the positions that are opened at least one day before or more but not closed,
- 23.2.4.** The difference between the closing price minus the opening price for the positions that are opened at least one day before and closed intraday,

23.3. End of day Variation Margin is calculated using the Daily Settlement Price or Final Settlement Price, determined by the Exchange.

23.4. Variation margin is reflected as a surplus or deficit to the relevant Collateral Account.

23.5. Clearing House will automatically debit and credit relevant related Collateral Accounts for variation margin in the next day before Market opens.

24. Additional Margin

24.1. Clearing House may impose Additional Margin when the result of stress testing for a Clearing Member's Trading and Position Account has exceeded predefined exposure limit, known also as Stress Margin.

24.2. Additional margin requirements could be imposed at the end of the day or intraday by the Clearing House.

25. End of Day Margin Call

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

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

25.2.1. If the end of day variation margin is more than already posted collateral at the end of the day, Clearing Member must deposit collateral by the cut off time to be published in the Notice.

25.3. Members shall meet their End of Day Margin Call by depositing collateral.

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

26. Intraday Margin Call (IDMC)

26.1. If the difference between the collateral and margin exceeds a certain threshold, Clearing House may issue an intraday margin call.

- 26.2.** Intraday margin calls have to be covered within 90 minutes following the intraday margin call request by Clearing House.
- 26.3.** Intraday margin call could be covered by position reduction, depositing collateral or combination of both.
- 26.4.** If an intraday margin call is issued before cut off time and an end of day margin call is pending, end of day margin call has always the priority for any collateral deposit.

27. Margin Call Notification:

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

28. Late Settlement Fee

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

Section 5: Collateral

29. Eligible Collateral

29.1. Clearing House only accepts Saudi Riyals as collateral against margin requirement and as default fund contribution.

30. Deposit of Cash Collateral

30.1. A Clearing Member shall deposit Saudi Riyals collateral to the Clearing House account at SAMA.

30.2. Clearing Members shall state the “External Account ID” in the transfer instruction sent to SAMA.

30.3. Saudi Riyals collateral deposits are only allowed between times specified in the Notice.

30.4. In cases where the Clearing Member specifies the wrong account number, then the pending transaction could be processed manually by the Clearing House to resolve the error in due time. Clearing House cannot be held responsible for on time reconciliation and settlement of any such error.

30.5. In cases where the Clearing Member deposits collateral after the clearing operation hours, the amount to be deposited will have pending status and the pending transaction could be processed manually by the Clearing House in the next day.

31. Withdrawal of Cash Collateral

31.1. Clearing Member shall send their request to withdraw Saudi Riyals collateral to the Clearing House through the medium of communication Clearing House accepts.

31.2. The Saudi Riyals collateral will then be transferred to the IBAN of the Clearing Member.

31.3. Collateral withdrawals are only allowed between times specified in the Notice.

31.4. For every collateral withdrawal request, the Clearing House shall conduct margin and collateral evaluation to see if the post-withdrawal collateral cover the total margin requirement.

32. Internal Transfer of Cash Collateral

- 32.1.** Clearing Member may request Clearing House to transfer Saudi Riyals collateral between Collateral accounts under the same Clearing Member.
- 32.2.** Clearing House may allow internal cash collateral transfer only between House collateral accounts.

33. Collateral Investment

- 33.1.** Collateral shall be invested by the Clearing House in accordance with Clearing House investment policy. The investment shall have minimal credit and liquidity risk.
- 33.2.** Certain portion of the interest received for the purpose of the investment shall be distributed to the Collateral Accounts.
- 33.3.** All Saudi Riyals posted as collateral is eligible to receive interest.
- 33.4.** Clearing Member may choose not to receive interest for certain Collateral Accounts. Clearing Member who does not request any interest for such Collateral Accounts must notify the Clearing House by sending prescribed form for this purpose.
- 33.5.** Each Collateral Account`s daily interest entitlement is calculated by summing up all daily entitlements and rounding it down to the closest integer value.
- 33.6.** Interest payments to Clearing Member will be distributed on a periodic basis, frequency of which will be clarified in the Notice. Clearing House will not be liable for any late processing of interest payment.

Section 6: Default Management Process

34. Default Fund

- 34.1.** The Clearing House shall establish and maintain the Default Fund in accordance with Article 56 of the Securities Clearing Centre Rules to support the obligations of the Clearing House with respect to the Relevant Transaction Type to which such Default Fund relates and reduce systemic risk in the market.
- 34.2.** The Clearing House determines the size of Default Fund at every last day of a calendar month. Clearing House can recalculate Default Fund on ad hoc basis.
- 34.3.** Upon every resizing of Default Fund, Clearing Members are notified to cover their contribution amount within three days; otherwise they are subject to the same process applicable for end of day margin call.
- 34.4.** Required Upfront Default Fund Contribution for each Clearing Member is recalculated at every new Default Fund period after the size is determined. Clearing Members' contribution to the Default Fund are determined proportionally by reference to the average daily Initial Margin requirement of the relevant Clearing Member during the 30 days preceding the calculation.
- 34.5.** Minimum contributions to Default Fund from General Clearing Members and Direct Clearing Members are 750,000 Saudi Riyals and 250,000 Saudi Riyals respectively.

35. Default Management

- 35.1.** In the default of a Clearing Member, Clearing House shall use the resources in the following order:
 - 35.1.1.** First, collateral provided by defaulting Clearing Member against margin requirement. Clearing House shall not be entitled to use the assets of the Clients of such defaulting Clearing Member;
 - 35.1.2.** Second, default fund contribution of defaulting Clearing Member;
 - 35.1.3.** Dedicated own resources of Clearing House
 - 35.1.4.** Default fund contributions of non-defaulting Clearing Members; and
 - 35.1.5.** Additional default fund contributions from non-defaulting Clearing Members as capped in accordance with the terms of the Securities Clearing Centre Rules.

35.2. The details of the default management procedures including the default management committee, porting, close-out/auction and procedures test applications are stipulated in the default management procedures approved by the Default Management Committee of the Clearing House.

35.3. Clearing House will disclose the summary of its default management procedures in the website.

36. Recourse at the End of Default Waterfall

36.1. The Clearing House Recovery Plan is initiated, if it is determined that the risk generating positions cannot be completely closed out;

36.1.1. within the time period which is equal to the stress period of risk that is specified in the risk appetite statement, and/or;

36.1.2. without exhausting the default waterfall resources limited for the related capped period.

36.2. Remaining positions and losses will be subject to recovery actions that are stipulated in Article 68 of the Securities Clearing Centre Rules.

Appendix 1:

Account Opening Attribute

Field name	Mandatory	Value
Participant (المساهم)	Yes نعم	Participant ID (MPID) (رقم المساهم)
Account (حساب)	Yes نعم	Unique account number (الرقم المميز للحساب)
Account alias (صحاب الحساب)	Yes نعم	Investor's (participant/trader's) name اسم المستثمر (المساهم / المتداول)
Account type (نوع الحساب)	Yes نعم	TPA_C, TPA_H (حساب عميل أو حساب العضو)
Margin acct (حساب الهامش)	No لا	Margin requirement account number (رقم حساب الهامش المطلوب)
Organization number (رقم الجهة)	Yes نعم	NIN (رقم المستثمر الأجنبي)
Nationality (الجنسية)	Yes نعم	Investor's (participant/trader's) nationality/location country جنسية ودولة إقامة المستثمر (المساهم / المتداول)
Auto netting (تصفية ذاتية)	No لا	Yes, No (نعم أو لا)
Automatic take-up (قبول ذاتي)	No لا	Yes, No (نعم أو لا)