

EXECUTIVE SUMMARY OF CIRCULARS

COVERAGE: **SAUDI ARABIAN MONETARY
AUTHORITY (SAMA)**

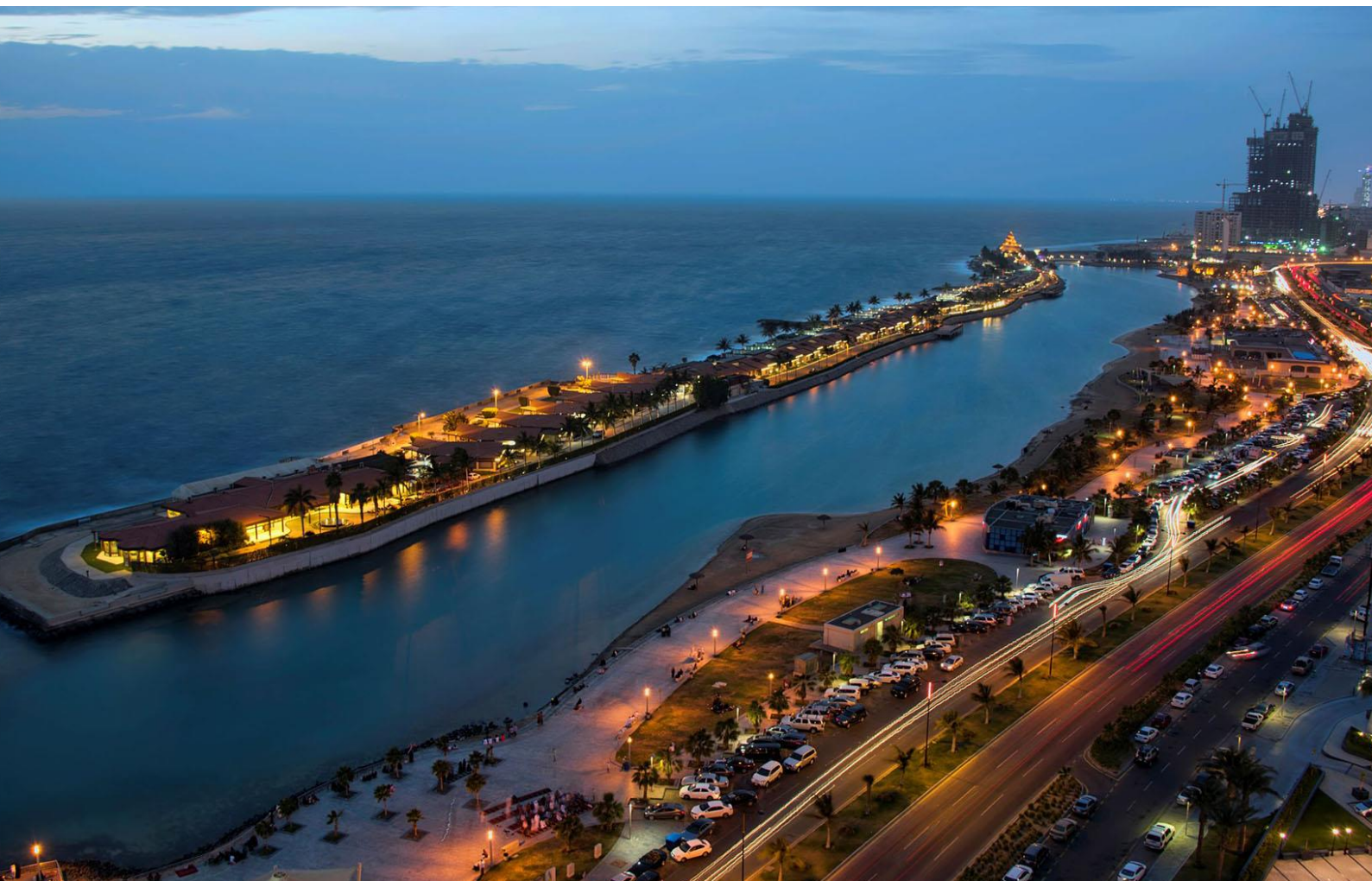
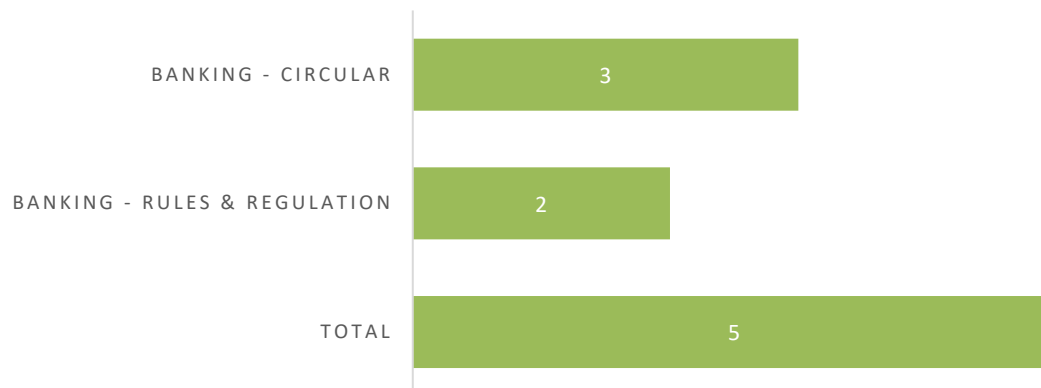
LOCATION: **SAUDI ARABIA**

ISSUE: **THIRD QUARTER 2021**



INTRODUCTION & SUMMARY

During the 1st July 2021 to 30th September 2021, Saudi Arabian Monetary Authority (SAMA) has issued a total of 05 circulars/guidelines/rules on different matters. These regulatory instructions were predominantly in the areas of Banks.



DETAILS OF ISSUED/AMENDED REGULATIONS

Key instructions / regulations disseminated by SAMA during the 3rd quarter of 2021 are summarized below:

BANKING RULES & REGULATIONS

The Bank Accounts Rules dated September 30, 2021

To strengthen the banking operation, SAMA has updated the bank accounts rules in Saudi Arabia. The rules are aimed to assist banks in better addressing their unique risk factors and dynamic environment by giving more discretion in business decisions. These rules also describe minimum prudential benchmarks in critical risk areas i.e. Anti-Money Laundering, Operational Risk etc. Important features of guideline are as below:

- Said rules mentioned the minimum actions/documents require for individual, legal person, Resident Personnel & Non Resident Personnel's Government Agencies, Foreign Bodies, Foreign Investor, Schools of foreign communities, Club Minors, unclaimed accounts, donation accounts, trust accounts, Chambers of Commerce and Industry, Escrow Account, Foreign Endowment, Scientific societies, Special Purpose Establishments, Self-employed license holder. Freelancer, legally incompetent person, Freezing of accounts, Charitable Committees, International Multilateral Organizations etc.
- Correspondent accounts may be opened for non-resident commercial banks (including Gulf banks) with some condition as mentioned in guideline.
- Guideline discuss the Rules for Remote Opening of Bank Accounts for Natural Persons/ Sole Proprietorships/Resident Corporations/Special Purpose Entities/Foreign Schools/E-Commerce Business/Joint Stock Companies/Licence Money Changers etc.
- A bank account may be opened in Saudi Riyal for an expatriate holding a government visit visa to carry out certain assignments for a government or quasi-government entity or for any other juristic entity contracting with a government or quasi-government entity in Saudi Arabia, for an expatriate holding a business visit visa after fulfilling the certain requirements as mentioned in rules.
- The customer may have more than one account at the same bank, provided that all accounts bear one Customer Information File (CIF) number
- A bank account may be opened for a legally incompetent person by his/her legal representative who should be the one authorized to sign for and operate such account.
- Opening bank accounts remotely for customers with existing accounts in the same bank is not allowed.
- All banks must establish an electronic registration system in accordance with the classification set forth in Appendix (C) of guidelines and its updates and based on the information provided in the approved IDs.
- A bank account may be opened for a legally incompetent person by his/her legal representative who should be the one authorized to sign for and operate such account.
- Saudi citizens residing outside Saudi Arabia for study, medical treatment or official work (such

as in embassies, consulates, or multilateral organizations) may open bank accounts according to rules.

- The bank may open accounts for freelancers upon completing the requirements as mentioned in rules.
- The bank may open accounts for licensed money changers upon completing the necessary formalities rules.
- The Banks must maintain an electronic record for all GCC nationals and non-Saudi natural and juristic persons.
- Banks must maintain an electronic record for all GCC nationals.
- Banks must use an electronic search system to perform the routine search according to information required in the electronic records under each category.
- Banks must maintain an electronic record for all non-Saudi natural and juristic persons.
- Banks must use an electronic search system to perform the routine search according to information required in the electronic records under each category etc.
- Guideline also mention the rules for transactions regarding inoperative accounts, investment accounts, bank transfers etc.
- Banks should choose or agree to correspondent banks which apply strong criteria for customer identification and discontinue the relationship if correspondent bank does not meet the AML/KYC requirement.
- Accounts shall be considered dormant after (24) calendar months from the date of the last recorded debit transaction carried out by a customer or his/her authorized agent or the last reliable and documented correspondence.
- The correspondent bank accounts must update the data within every three years.
- The account of minor will be continued until the minor reaches the age of (eighteen) AH.
- Banks shall freeze all accounts of legal person and non-Saudi natural persons after (90) days of the expiration of the documents. After (180) days of the expiration of the ID, the account balance shall be transferred to a unified account created by the bank for such cases.
- Accounts, relationships and transactions shall be considered non-moving after two calendar years from the date of the last financial transaction carried out by the customer, his/her authorized representative, or his/her heirs.
- Banks must notify their customers regarding the date of freezing the account 30 days before.
- The joint account will be frozen by a joint or single signature in the event that the identity document of one of the participants in the account expires.
- Bank accounts may be opened for prisoners if they approach banks escorted by officers of the General Directorate of Prisons.
- Banks shall not allow a customer or its authorized person to carry out transactions from his/her accounts after the expiration of his/her ID, unless upon renewal thereof or updating his/her KYC data.
- This guideline also provides instructions regarding inquiring about and operation of a deceased and incompetent person's account.
- Identification cards and documents that are valid for more than five years shall be updated every

5 years or upon expiration, whichever comes first.

- The bank should give the optimum priority and care to customers with disabilities in a way that facilitates the procedures of providing banking services thereto.
- If the bank receives an official notice of, or becomes aware of, the death of an account holder, it should apply the measures as mentioned in regulation.
- Banks shall transfer the balance of the account within the month following the five-year period to the bank's suspense account created for unclaimed accounts.
- Accounts shall be considered abandoned after completing the periods specified in this paragraph from the date of classifying the accounts as unclaimed.
- The communication policy and procedures should be implemented in accordance with the customer classification and legal nature.
- Banks should submit an annual report to SAMA at the end of March in accordance with the schedule sent by SAMA. The report shall cover all unclaimed and abandoned accounts, including the nature, type and number of the account as of the end of December of the previous year, without disclosing any personal information.
- Banks should continuously assess internal risk-based controls in order to benefit from unusual activities that have been detected.
- Banks should not assign any teller or customer service staff before attending courses on KYC, AML/CFT measures, and ethical and professional behavior of bankers.
- Banks, at their discretion, may update identity information online for customers.
- It is permissible to lift the freezing procedures on accounts that have been suspended due to the expiration of the validity of the identities other than the national identity document.
- All natural or legal persons are allowed to close their accounts or authorized accounts that have been frozen (only one transaction).
- The bank must obtain copies of the required documents and ensure that they are identical to the original.
- The bank must identify and verify who are authorized to sign bank accounts.
- Bank accounts for foreign schools are opened after approval of the Ministry of Education and fulfilling the required documentation.
- Banks are permitted to establish a relationship with non-resident legal persons.
- Banks must establish a clear and secure mechanism to activate the ATM card for the bank account.
- The bank must perform due diligence of customer data in view of risks of money laundering and terrorist financing, when information is outdated, change of customer's behaviour.
- The accounts of minors must be frozen according to the family registry at the expiration of five years from the date of the opening.
- The bank must, before the age of (15) Hijri years, notify the guardian or guardian of the need to update.
- Accounts opened after official approvals or letters for accounts of government agencies and embassies, International organizations or their equivalent, or under open-ended licenses and records, such as associations, foundations, and private schools.

- The approval of the Ministry of Finance/ Cultural must obtain to open the account of Cultural, sports and social clubs.
- Account opening requirement for the Non-Profit Sector, Donation Account, Hajji, Umrah, Charitable Organization and Public Institutions are given in this document and banks must fulfil the requirements of each activity in this regard as set by SAMA.
- The trust account may be opened for a period of only six months and an extension of another six months is permitted according to an application addressed to the bank from the entity.
- Bank accounts are opened for Saudi individuals residing outside the Kingdom for study, treatment, or official work with terms and condition as mentioned in guideline.
- In case of Account open for expanding and constructing mosques, a letter from the Ministry of Islamic Affairs must be required.
- Escrow bank account may open for a project to sell or lease real estate units on a map, in which use for the amounts paid to the beneficiaries and deposited into the accounts.
- NGOs accounts only be open after obtaining licensed from the Ministry of Labor and Social Development in all its activities.
- Cheque books are issued to NGOs account at the request of the developer, and no ATM or debit cards are allowed.
- The bank establishes a register of Saudi citizens and Gulf Cooperation Council that includes national identity document, family record of minors, or birth certificate, expiry date of documents etc.
- Banks must set priority of the language Arabic - English - Latin letters.
- Banks should provide an automated search system to conduct routine searches within banks, according to the information required in each electronic record.
- It is not allowed to accept any withdrawal or transfer movement on a dormant account (Dormant) except in the presence of the customer (the natural person).
- Banker is responsible for the presence of the client at the time of activation of dormant account.
- Banks are allowed to enable their customers to receive the salaries of their employees through prepaid electronic records.
- Unclaimed and abandoned accounts shall be subject to the internal audit program once every two years, as a maximum.
- A Banks shall submit an annual report regarding and abandoned accounts, to SAMA at the end of March in accordance with the schedule sent by SAMA.
- Only residents in Saudi Arabia are allowed to operate the accounts of these licensed entities, with the exception of individuals authorized to operate Hajji and Umrah accounts as per Rule (300.1.5.1).
- Compliance department should have the authority and right to have timely access to customer identification data and other information.
- The bank may issue credit cards to a selected, limited category of non-resident foreigners employed by a limited category of major Saudi companies having relationship with the bank.
- The bank establishes a register account holder of non-Saudi resident natural persons.
- Opening bank accounts remotely for customers with existing accounts in the same bank is not

allowed.

- The bank may open accounts for e-commerce businesses as per the requirements of Rule (300.1.1) on Licensed Businesses and Shops.
- The bank may open accounts for licensed money changers upon completing the SAMA's requirement.
- The collection accounts for depositing and retaining the funds of payment companies' clients should be opened and managed in accordance with the SAMA requirements.
- Foreign airlines can open bank accounts to serve their basic objectives. However, they are not permitted to open accounts for or on behalf of any other juristic entities, including corporations, organizations, businesses and charities.
- Banks are allowed to issue smart energies that are used for cash deposit via the issuing bank's automated teller machines, with the password.
- Banks may open bank accounts for homeowners' associations/housing societies after completing legal requirements.
- The bank may open bank accounts for liquidation, for depositing the proceeds of the sale of the bankruptcy assets covering the debtor's debt in case of a financial restructuring under the Bankruptcy Law, or for liquidation under the Companies Law.
- Bank accounts shall be opened for the Muslim World League (MWL), World Assembly of Muslim Youth (WAMY), Islamic Development Bank (ISDB) upon fulfilling the requisite conditions and procedures.
- The bank must open an account for any blind or illiterate customers who request so. The bank must also provide the blind or illiterate customer with an ATM card, in addition to a check book upon his/her request.
- The customer may have more than one account at the same bank, provided that all accounts bear one Customer Information File (CIF) number.
- Subject to the provisions of the Anti-Money Laundering Law / Regulation, bank accounts may be opened for resident diplomats working at foreign embassies and consulates.
- Banks should have appropriate systems in place to monitor the customer's transactions and activities to identify any suspicious or wrong behavior. Banks shall continuously assess internal risk-based controls in order to benefit from unusual activities that have been detected.
- Banks should not assign any teller or customer service staff before attending courses on KYC, AML/CFT measures, and ethical and professional behavior of bankers.
- The bank may open clearance accounts, which are designated for those wishing to discharge their liability toward public funds.
- Banks must verify the authenticity of identity documents, using documents, data, or information from a reliable, independent source and document.
- Issuing guarantee letters at banks in the Kingdom, banks must observe the provisions of Article (eleven) of the Anti-Money Laundering Law.
- Banks are not allowed to provide any loans or facilities or allow overdraft to any government agency that exceeds the amounts withdrawn.
- Banks are allowed to issue smart energies that are used for cash deposit via the issuing bank's

automated teller machines, with the password.

- Any update to the Rules will be published immediately on SAMA's website.

Key Principal of Governance in Financial Institute under the Control of the Saudi Central Bank dated 17th August, 2021

These principles aim to set the minimum requirements that would enhance the effective management of financial institutions, direct their financial and non-financial resources towards achieving their strategic objectives, maintain their stability, and preserve the rights of stakeholders.

- SAMA has issued several regulations related to governance; these principles shall be read alongside these regulations, as the case may be, including the following:
- Principles of conduct and business ethics in financial institutions.
- Principles of compliance for commercial banks operating in the Kingdom of Saudi Arabia.
- Requirements for appointment to leadership positions in financial institutions that are under the supervision of the Central Bank
- Shariah-compliant governance framework for local banks operating in the Kingdom.
- Corporate governance has received international attention, as a number of international agencies and organizations have issued guiding instructions for governance. These agencies and organizations include the following, among others:
- Basel Committee on Banking Supervision (BCBS)
- Organization for Economic Cooperation and Development (OECD)
- Islamic Financial Services Board (IFSB)
- The World Bank (WB); etc.
- These principles shall apply on a mandatory basis for local banks, finance companies, and real estate refinancing companies.

Key and most important Principal of Governance are seven and short details are as below:

1st Principle: Qualifications of Board Members:

- Leadership: He shall possess leadership skills that enable him to delegate powers in order to promote performance, to apply best practices in effective management, and to disseminate professional values and ethics.
- Competence: This attribute shall appear through the level of education, experience, skills, and willingness to continue learning.
- Guidance: He shall possess technical and administrative capabilities, speed in making decisions, understanding of the technical requirements related to workflow, ability to provide strategic orientation, long-term planning, and a clear future vision.
- Physical Fitness: He shall not have a health condition that hinders him from exercising his duties and competencies.

2nd Principle: Formation, Appointment and Board Affairs:

- The bylaws of the financial institution should specify the number of members in proportion to its size and the nature of its business, taking into account.
- Board members should be qualified to carry out the work entrusted to them.
- A member shall have professional competence and shall possess various practical and administrative skills and experiences, as well as appropriate personal qualities, especially honesty and integrity.
- The number of members shall not be less than five and not more than eleven and independent members shall not be less than two members, or one third of the Board members, whichever is greater.
- The number of executive members should not be more than two members.
- Members whose term does not exceed three years; those may be re-elected unless the bylaws of the financial institution stipulate otherwise.
- A written no-objection letter shall be obtained from the Central Bank prior to nominating any member of the Board and its committees, or appointing any of the holders of leadership positions.
- A member may not become a member of the board of directors for more than five joint stock companies listed on the stock market simultaneously.
- A member may preferably retain his membership for a period not exceeding 12 consecutive or inconsecutive years.
- The Board shall hold at least four meetings per year, with one meeting every three months, in order to exercise its duties and responsibilities effectively.
- Board meetings shall only be valid if attended by half the members.
- At the beginning of each year board must set a specific schedule for receiving reports from committees and internal and external auditors.
- The Board shall appoint a secretary from among its members or others.
- The Board secretary shall perform his responsibilities as per the directions by the Chairman of the Board. He may not be dismissed except by a decision of the Board.
- If a member resigns and he has comments on the performance of the financial institution, he shall submit a written statement to the Chairman, presented to the members, a copy thereof shall be furnished to the Central Bank.

3rd Principle: Responsibilities of the Board:

- The Board should bear responsibility for its businesses, even if it delegates committees, agencies, or individuals to exercise some of its powers.
- In all cases, the Board may not issue a general or indefinite delegation.
- Board shall form the executive management, regulate, monitor and supervise its operating procedures, and ensure its performance of the tasks assigned thereto.
- Set and comply with clear limits for responsibility and accountability at all levels of the financial institution. Responsibilities shall be completely separated at the level of the executive management.

- The organizational structure of the financial institution shall determine the competencies and the distribution of tasks between the Board and the executive management as per the best governance practices, improve the efficiency of decision-making, and achieve balance between powers and authorities.
- The Board must approve and develop the internal policies.
- Ensure the existence of an effective system for an objective and systematic performance assessment of the financial institution's employees at all levels. The performance assessment of the executive management shall specifically be long-term, and shall not be limited to the performance of a single year only.
- Notify the Central Bank in writing of any penalties imposed by any supervisory, regulatory or judicial authority that may affect the functioning of the financial institution, within a period of ten working days as of the date of the penalty.
- Ensure the independence of the internal and external auditors, and the accuracy and integrity of the information and data to be disclosed in accordance with the disclosure and transparency requirements.
- The Board should not be exempted from responsibility, and should be accountable in the event that the operations of the financial institution are outsourced to another party.
- Board must evaluate the member's performance, Effectiveness of the controls, working procedures, structure, and composition of the Board, Effectiveness of the applicable governance policies and procedures and practices.
- Subject to the relevant Central Bank instructions, the Board should ensure the operation and effectiveness of the policies and procedures, including, for example:
 - Policies and procedures for IT and cybersecurity governance
 - A policy for the professional conduct and business ethics to be applied in the financial institution
 - A policy defining the mechanism for reporting violations in the financial institution and protecting whistle blowers
 - Policies and procedures to maintain the confidentiality of information
 - Verify the accuracy and integrity of the annual and quarterly financial statements and approve same before publication thereof.
 - Announce the Board committees, their scope of work, and the names of their members in the annual report of the Board. The Chairman of the Board shall provide the Central Bank with a list of these committees, their tasks, working procedures, and the names of their members.
 - Ensure that the financial institution adopts social responsibility programs.

4th Principle: Responsibilities of Executive Management:

SAMA The executive management shall monitor and manage the daily activities of the financial institution, and shall ensure that these activities are in line with the business strategy, risk level, and policies approved by the Board. It should undertake the following responsibilities:

- Implement the plans, policies, strategies, and main objectives.

- Propose the most appropriate capital structure of the financial institution and its strategies and financial objectives.
- Propose the main capital expenditures of the financial institution, and acquire and dispose of assets.
- Propose the organizational and functional structures of the financial institution.
- Propose a policy of professional conduct and work ethics for the financial institution.
- Apply the financial and accounting systems correctly
- Apply appropriate control systems for risk management by generally forecasting the risks that the financial institution may encounter, create an environment
- Keep the Board constantly and adequately informed of substantial issues, and provide it with such information as it may require, in order to carry out its responsibilities and to supervise the executive management and evaluate its quality

5th principal is regarding the formation of Board Committees:

- A member may preferably not be a member of more than two committees.
- All decisions shall be made by the majority vote of members; in case of a tie, the chairman of the committee shall have the casting vote. Members may not cast their votes by proxy.
- Each committee shall have a secretary from among its members or from outside.
- Director of Human Resources.
- Retail Banking Manager.
- Corporate Banking Manager.
- The Manager of Assets and Liabilities.
- Director department providing information to SAMA.
- Any executive position held by Non-Saudi.

The number of committees to be formed by the Board should be determined according to the nature of operations and the size of the financial institution, these committees shall comprise the following, among others:

The Executive Committee:

- This committee shall consist of no less than three and no more than five members, and it may not be chaired by the CEO.
- The committee shall hold no less than six meetings per year.
- The committee chairman shall submit a report to the Board on any important issue.
- The Board shall determine committee powers and responsibilities, and shall monitor the implementation thereof.

The Audit Committee:

- This committee shall be composed of no less than three and no more than five members, all of whom shall be non-executive members, including at least one independent member. It shall be chaired by an independent member.
- The committee chairman and members shall be appointed for a period of three years, renewable for a maximum of two additional terms.
- The committee shall have the competence to monitor the financial institution's work, verify the integrity and impartiality of its reports and financial statements, and ensure the availability of internal control systems therein. Committee tasks shall include the:
 - Financial Reports
 - Internal Audit
 - The Auditor
 - Compliance

The Nomination and Remuneration Committee:

- The committee should consist of no less than three and no more than five members, including at least two independent members. It shall be chaired by an independent member.
- The General Assembly shall, upon a recommendation of the Board, approve the committee work regulations.
- The committee shall hold no less than two meetings per year, wherein to examine and evaluate members' performance, nominate new members, and discuss the policy for remunerations and incentives.
- The committee tasks shall include the following:
 - Coordinate with the Human Resources Department to develop the replacement and succession policy
 - Ensure that the remuneration amount is consistent with the prevailing local norms and control systems
 - Establish a record of the qualifications and skills of Board members

The Risk Committee:

- This committee shall be composed of no less than three and no more than five members, three of whom shall be non-executive members, and it shall not be chaired by the CEO.
- Committee members shall have an appropriate level of knowledge of risk management, and shall include an expert in cyber and technical risks.
- The financial institution's risk manager shall report to the Board through the risk committee.
- The committee shall hold at least four meetings per year, and it may invite the risk manager to attend its meetings without being a member therein.

6th Principle: Rights of Shareholders:

- The Board should ensure that the corporate governance policies protect the rights of shareholders and help to provide effective communication channels and various means of contact with all shareholders of the financial institution.
- It should ensure that all shareholders, including minority shareholders, are treated fairly, and shall constantly urge them to participate in the General Assembly meetings.
- The financial institution should have specific procedures to ensure that shareholders exercise their rights and obtain appropriate information without delay.
- The financial institution shall provide the Central Bank with a copy of the General Assembly meeting minutes within a period not exceeding 15 days from the meeting date.
- Shareholders should be provided with information about the venue, date and agenda of the General Assembly 21 days prior to its meeting.
- Shareholders may nominate and elect members, inquire about their qualifications, experience and ability to perform their work, discuss the amount of remuneration and financial incentives received by members and senior executives.

7th Principle: Disclosure and Transparency:

- The Board shall set forth in writing the disclosure policies in line with the disclosure requirements contained in the relevant laws, regulations, and instructions.
- The Board shall draft an annual report indicating the operations of the ended fiscal year, provided that it includes, at a minimum, the following:
 - Names of the members of the Board /committees /executive management
 - Names of companies in which a Board member of the financial institution is a member of their current or previous boards or manager
 - Composition of the Board and classification of its members
 - Number of Board meetings held during the ended fiscal year
 - Any punishment or penalty imposed on the financial institution by the Central Bank or by any supervisory, regulatory or judicial authority
 - Details of the financial institution's social contributions
 - A list of the dates of the General Assembly meetings held during the ended fiscal year
 - Name of each affiliate company or its group, its capital, the financial institution's ownership percentage therein
 - Information related to any businesses or contracts to which the financial institution or members or executive managers are a party
 - Disclosure of the remunerations granted to members of the Board and its committees, as well as to five senior executives including the CEO and the financial manager
 - Results of the annual audit and the effectiveness of the financial institution's internal control procedures, as well as the efficiency of its internal control system

BANKING CIRCULARS

Approval of documents and certificates certified by the chambers of commerce electronically Circular No. 42085168 dated July 12, 2021

The SAMA assures Saudi Banks and Exchanges of the legitimacy of the documents and certificates approved electronically by the Chamber of Commerce. SAMA also notes that the legitimacy of these papers can be verified by visiting the link provided in the given list.

Authorization of foreign auditors who are licensed in the kingdom: Circular No. 43008128 dated September 02, 2021

The Saudi Arabian Monetary Authority (SAMA) requires the cooperation of Banks and Exchanges with foreign auditors who are licensed within the kingdom, while certifying customer bank accounts and balances under audit, after receiving approval from the customer to review the certification request.

Basic principles of governance for financial institutions under supervision of Saudi Arabian Monetary Authority (SAMA): Circular No. 42081293 dated July 01, 2021

All basic principles of governance for financial institutions under supervision of SAMA are to replace the basic principles of governance for banks and exchanges within the kingdom, decreed through circular number (35100006351), Date: 18/03/2014. To be enforced by date 01/01/2022.

Bahrain

Office 63, Building 2317,
Road 2830, Block 428, Al Seef,
Manama, Kingdom of Bahrain
waqas.alam@benchmatrix.com
M: +973 3513 9689

Canada

53 Village Center Place,
Mississauga, ON, Canada
noman.zahid@benchmatrix.com
D: + 1 (647) 546-1985

Pakistan

3rd Floor, Lakson Square,
Building No.3, Sarwar Shaheed
Road, Karachi, Pakistan
taimur.kaleem@benchmatrix.com
T: +92 21 35620944
M: +92 332 5432689

Kingdom of Saudi Arabia

2839 Sufayyah bint Abdulmutalib
Street, Alnaeem district, Zipcode
23621, Jeddah, Saudi Arabia
sultan.malki@benchmatrix.ca
M: + 966 55 031 3461

Dubai

Business Centre, Building C, 3rd
Floor, Dubai Logistics City, United
Arab Emirates
asad.ali@benchmatrix.com
M: +971 50 8508325

Kuwait

nadeem.mukaddam@benchmatrix.com
M: +965 9406 7607

Algeria

imed.ouitis@benchmatrix.com
M: +213 7714 78444

