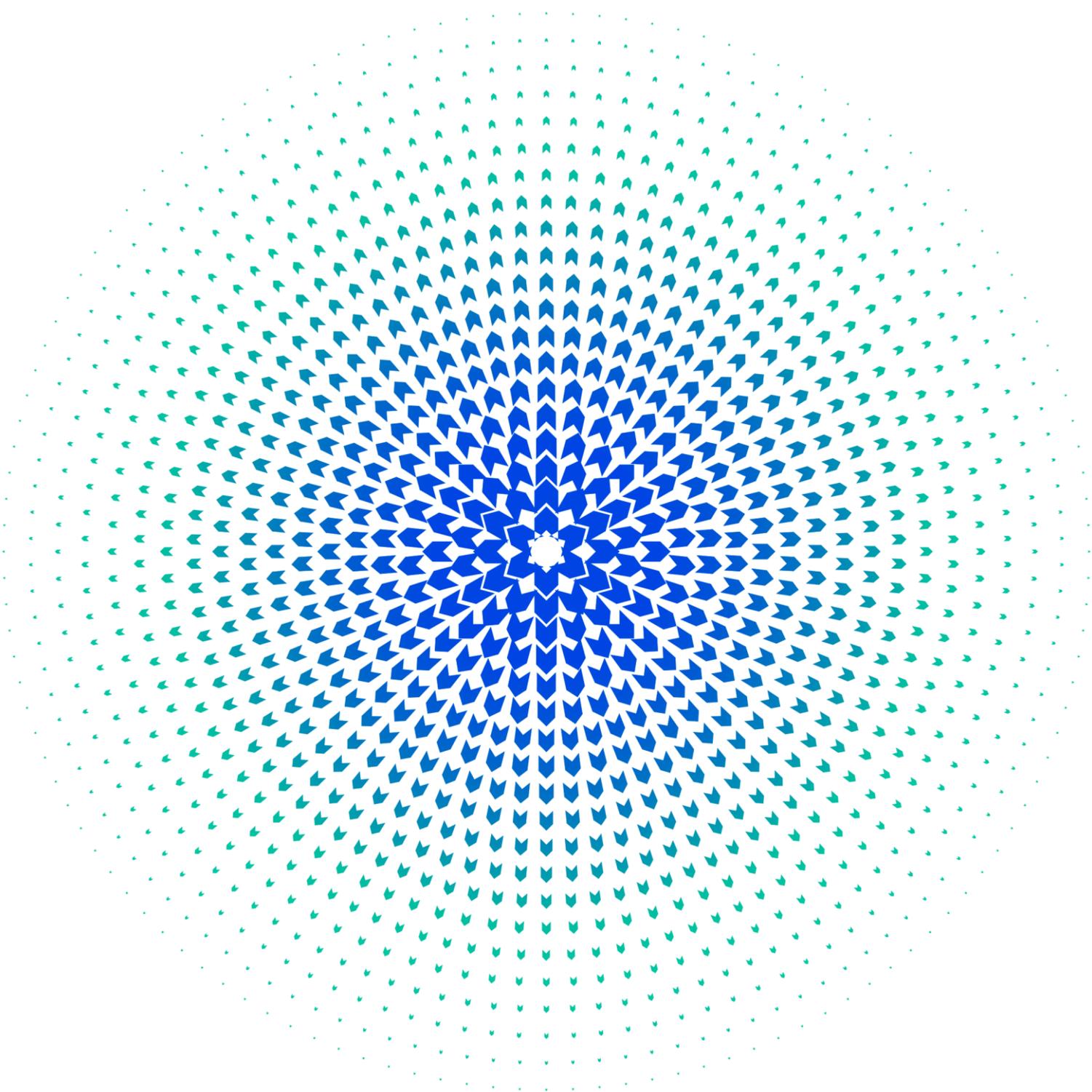


# Saudi Exchange Company

## Statement regarding the IOSCO Principles for Financial Benchmarks\*



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## GENERAL

Saudi Exchange (formerly known as “Tadawul”) is an exchange and also an index provider that is a benchmark administrator as defined within the International Organisation of Securities Commissions (IOSCO) “Principles for Financial Benchmarks” (“the IOSCO Principles”).

Saudi Exchange is aware of the risks posed by inadequate governance, conflicts of interest and a lack of transparency in the management of indices, and has built controls processes for the indices it manages with these in mind.

Saudi Exchange fully supports the objectives of the IOSCO Principles.

### Proportionality and Extent of Compliance with the IOSCO Principles

Saudi Exchange administers and calculates indices. Various indices provided by the Saudi Exchange are used as the indices underlying investment products, which are described within the IOSCO Principles as “benchmarks”.

Saudi Exchange’s indices, and its contributions to the management and governance of partners’ indices, are managed by its Index Supervisory Committee, comprised of Saudi Exchange staff, and overseen by the Saudi Exchange Index Oversight Committee.

Both index calculations and reviews are carried out by Saudi Exchange.

Saudi Exchange is compliant with the IOSCO Principles for Financial Benchmarks, with respect to the use of its indices and of indices for which it provides services, and consideration of the nature of the investment products based upon them. This document discusses its compliance in detail.

### Saudi Exchange’ Policies and Procedures

Saudi Exchange’s policies and procedures comply with IOSCO’s recommended practices regarding the establishment, operation and oversight of financial indices. Saudi Exchange intends to implement additional enhancements as necessary.

Saudi Exchange has in place a control and oversight framework which is designed to promote the quality and integrity of the determination process for the indices. The standards that have been set by Saudi Exchange are designed to ensure that:

- Potential conflicts of interests which arise out of indices are appropriately identified and addressed.
- Each index will adequately reflect the interest for which it has been established.
- There are procedures designed to mitigate the market impact of methodology changes or cessations of any indices.

## IOSCO PRINCIPLES REGARDING GOVERNANCE

### Principle 1 - Overall responsibility of the Administrator

Saudi Exchange recognises it holds the ultimate responsibility for its indices. Its indices' methodologies are developed in-house, and Saudi Exchange's Index Supervisory Committee has responsibility for making decisions regarding index calculation methodologies, modifications to the existing methodologies as well as general guidelines for the maintenance of Tadawul indices.

As administrator of Saudi Exchange indices, Saudi Exchange recognises its responsibility for the indices' development, calculation, publication, maintenance and licensing.

Oversight of the administration of Saudi Exchange indices will be carried out by the Saudi Exchange Index Oversight Committee, which may delegate some of its functions to the Saudi Exchange Index Supervisory Committee. The Committees' Terms of Reference are available on request.

### Principle 2 - Oversight of third parties

Index calculation is carried out by Saudi Exchange. However, if Saudi Exchange were to contract an external agent for some part of the business of administering its indices, appropriate written agreements would define the relationship, roles and responsibilities between the parties.

### Principle 3 - Conflicts of interest for Administrators

#### Policies

Saudi Exchange maintains policies and procedures that address how current and potential conflicts of interest are or will be identified, recorded, managed, mitigated, prevented and disclosed. These are documented as follows:

- The Saudi Exchange Index Supervisory Committee Charter (regarding conflicts in that committee.)
- The Code of Conduct for Personnel of the Saudi Exchange, and the included personal account dealing policies.
- The Saudi Exchange Indices Conflicts of Interest Policy and Register.

#### Potential Conflicts of Interest at Corporate Level

Saudi Exchange is a securities exchange that also provides indices and index services to clients for use in investment research, benchmarking and in the creation of investment products. The company will not be a user of any of the indices and does not intend becoming an investment manager or providing investment products.

If the company were to seek a listing on its exchange, and therefore to become a constituent of the markets that the indices measure, its eligibility or otherwise for inclusion in indices would remain determined entirely by Saudi Exchange's published, transparent and objective rules for management of indices (the "Tadawul Indices Methodology") and selection of companies in the indices.

## Potential Directors / Staff Conflicts of Interest

There is no element of judgement or discretion in the day-to-day determination of Saudi Exchange's indices, and Saudi Exchange intends that this will continue to be the case. However, to ensure good governance:

- Director and staff remuneration is not dependent on the published index values.
- Saudi Exchange has strict anti-corruption and bribery policies and provides all staff with regular training on them.

Although there is no day-to-day judgement or discretion in the determination of indices, there are three particular circumstances which Saudi Exchange notes, in relation to which conflicts of interest could arise:

- **Constituent relationships:**  
Saudi Exchange may be approached by companies that are, or may become, potential index constituents. As a result, Saudi Exchange maintains separation between the staff responsible for reviewing index constituents and the Saudi Exchange Index Supervisory Committee, so that no staff are placed in the position of overseeing their own work.
- **Changes to index methodologies:**  
The Index Supervisory Committee will review each index methodology regularly. As detailed in the Saudi Exchange Indices Policy for Cessation or Material Change, where the Committee proposes changes that are considered material, market participants will be notified of the proposed changes and given the opportunity to comment on them, both well in advance of their implementation. The Market Information Division would be responsible for conducting any consultation process.

The Index Supervisory Committee additionally has a responsibility to ensure the company has policies in place to ensure the identification and management of conflicts of interest.

## Principle 4 - Control Framework for Administrators

Saudi Exchange's control framework for the administration of indices was developed to meet the requirements of the IOSCO Principles, while promoting the highest ethical business standards within Saudi Exchange.

- It seeks to ensure that staff are competent, appropriately trained and supervised, that conflicts of interest are managed, and that systems and procedures ensure compliance at both an individual and company level.
- It details the bodies responsible for the management, quality and integrity of the indices and for the management of operational risk (including conflicts of interest).
- It incorporates an effective whistleblowing mechanism that allows both early internal reporting of possible, known or intended misconduct, and for external whistleblowing if necessary.

All directors and employees are responsible for reading, understanding and complying with

all procedures applicable to them. The Saudi Exchange Code of Conduct makes clear the serious consequences of failing to do so: anyone departing from the policies and procedures set out in the Saudi Exchange Code of Conduct without prior clearance may be in breach of their contract of employment and will have committed a disciplinary offence. Any such breach may be treated as a matter of serious misconduct which could result in dismissal.

In addition, Saudi Exchange maintains plans for controlling and managing operational, business continuity, disaster recovery and other risks.

### Principle 5 - Internal oversight

Control of indices administered by Saudi Exchange is delegated to the Saudi Exchange Index Supervisory Committee and day-to-day management to the relevant index teams.

Oversight is provided by the Saudi Exchange Index Oversight Committee, whose members are independent of the day-to-day management of the exchange's indices, and may not be voting members of the Index Supervisory Committee.

As an IOSCO-compliant Index Oversight Committee, terms of reference are in part defined within the IOSCO Principles. Its full responsibilities are however:

- To be appropriately knowledgeable regarding and informed with respect to the indices, and to issues and risks to the indices.
- To support and advise the Index Supervisory Committee as required in carrying out its supervisory and decision-making functions in order to maintain a proper governance over the administration of Tadawul indices.
- Reviewing the index's definition and methodology at least annually.
- Overseeing any changes to the index methodology, and where it deems appropriate, requesting Tadawul consults on such changes.
- Overseeing Tadawul's control framework and the management and operation of the indices
- Reviewing and approving procedures for cessation of the index, including any consultation about a cessation.
- Commissioning (where appropriate) and assessing any internal and external audits or reviews and monitoring the implementation of identified remedial actions.

## IOSCO PRINCIPLES REGARDING QUALITY OF BENCHMARKS

### Principle 6 - Benchmark design

Saudi Exchange ensures that indices which it administers are designed to ensure an accurate and reliable representation of the relevant economic interest, and ensure that index components are sufficiently liquid to provide transparent, accurate pricing.

Key points regarding index designs:

- Saudi Exchange indices use regulated exchange data in their pricing, and have entirely transparent and objective methodologies. If other prices were to be used, such as quotes, estimates or expressions of interest, these would be recorded. As a result, the veracity of indices can be proven at any time through an independent historical reconstruction. If expert judgement was to be used, its use would be recorded as best possible to allow historical reconstruction to the extent possible.
- Saudi Exchange methodologies are generally developed in close consultation with market participants and are continually developed to reflect best practice. They are reviewed by the Index Supervisory Committee on an annual basis, or more often as circumstances require.
- Where indices have a fixed number of constituents, Saudi Exchange recognises that those indices' methodologies must be built such that indices can continue to be an adequate sample of the relevant interest even if significant structural changes occur in markets.
- Various constituent weighting methodologies may be used to provide indices fit for the purpose to which they will be put. However, Saudi Exchange always looks to ensure indices provide an accurate and reliable representation of the relevant interest, while giving an appropriately diversified portfolio in the case of indices used to underlying investment products.

Saudi Exchange index methodologies are public documents, available from Saudi Exchange.

### Principle 7 - Data sufficiency

Saudi Exchange indices are priced using regulated exchange data, with no estimations used. Therefore, the data used in the calculation of the indices directly reflects the competitive forces of supply and demand in the relevant market, being formed from transactions in the components representing the underlying interest.

However, Saudi Exchange recognises that if it were to develop indices based on reported bid/offer "mid prices" or expressions of interest, and not transaction information, such prices would in general be considered appropriate for index use and would meet the requirements of this Principle. Saudi Exchange' Index Supervisory Committee nonetheless is responsible for monitoring the adequacy of prices formed in all markets, including less-liquid markets, and for considering suitable measures to mitigate any potential issues,

where appropriate.

### Principle 8 - Hierarchy of data inputs

As stated within Principle 7 above, Saudi Exchange indices are priced using regulated exchange data, with no estimations used.

In the absence of regulated data, Saudi Exchange reserves the right to use transaction data from appropriately liquid markets, bid / offer pricing or expressions of interest where it deems it appropriate.

### Principle 9 - Transparency of benchmark determinations

As its indices have published methodologies and are derived from appropriate pricing data, Saudi Exchange's indices meet the requirements of Principle 9, as elaborated in Annex C of the Principles. However, for information:

- For equity indices, real time and delayed data is available via the Saudi Exchange Market Data Feed. This feed is available to all market participants and data vendors for redistribution. The daily end of day index weightage report details the Index constituents, prices, Free Float Shares, Issued Shares, Total Volume Traded, Market Cap, Free Float of Market Cap, and their relative weights within the relevant index.
- Index methodologies are built to ensure that all eligible, suitably liquid companies or components are included in the relevant indices, and that the indices' economic interest is defined in terms only of suitably liquid companies or suitable, available components. As a result, each index will therefore represent 100% of the defined interest.

### Principle 10 - Periodic review

Saudi Exchange recognises its responsibility for reviewing its indices, and for determining whether each index continues to provide a robust assessment of the underlying interest. To this end, the Saudi Exchange Index Supervisory Committee and Index Oversight Committee review each index methodology annually, or more often as circumstances require.

If the Index Supervisory Committee or Index Oversight Committee determines that a particular index may require modification or termination, it will consult with index licensees and stakeholders as per the processes detailed within Saudi Exchange's Change and Cessation Policy and, if a decision is taken to modify or terminate an index, it will notify stakeholders accordingly, and in the case of the former, maintain a record of modifications within the methodology document.

## IOSCO PRINCIPLES REGARDING QUALITY OF METHODOLOGIES

### Principle 11 - Content of the methodology

#### Rationale

Saudi Exchange index methodologies are created, and developed over time, by experts in financial index design and governance, and using consultation with potential and actual market users. They are reviewed by the Index Supervisory Committee on an annual basis, or more often as circumstances require, to be accurate representations of the underlying economic interest.

Various constituent selection and index weighting options are considered in the design of Saudi Exchange indices, and selected depending upon how they best represent the defined underlying economic interest.

Generally, constituent selection follows one of, or a combination of the following approaches:

- Full or float-based capitalisation
- Constituent level of exposure to the underlying economic interest
- Liquidity

Constituent weighting generally follows full or float-based capitalisation weighting, however Saudi Exchange would in appropriate circumstances consider the use of one of, or a combination of the following approaches:

- Factor (economic interest-based) weighting
- Equal weight
- Liquidity weighting

In many cases, additional controls are included in a methodology to account for other additional requirements, such as liquidity, capacity and diversification.

Full details of the creation, management, review, governance and calculation of each index is available for each index administered by Saudi Exchange.

#### Transparency

Saudi Exchange fully documents and publishes a methodology covering each of its indices. These documents are available on the Saudi Exchange website. They are intended to contain all the necessary information for stakeholders to understand the methodology and objectives of the indices, in order to assess the suitability of any benchmark for their purposes.

### Principles 12 and 13 - Changes to the methodology and possible cessation of benchmarks

Saudi Exchange has established procedures to be followed in respect of amendments to index methodologies, detailed in its Saudi Exchange Indices Policy for Cessation or

Material Change. The Policy defines materiality, and the process to be followed when either a material change or cessation is considered.

- All material amendments require consultation with stakeholders, and the approval of the Saudi Exchange Index Supervisory Committee before implementation.
- Wherever possible, advance notice of changes will be provided.
- Following market consultations, a summary of comments and Saudi Exchange's response to each will be provided.

Saudi Exchange has determined that it is not appropriate to set out criteria to guide the selection of alternative indices or to identify alternative indices. However, if an index is discontinued, Saudi Exchange will consult with its licensees and stakeholders in order to attempt to ensure a smooth transition.

### Principle 14 - Submitter Code of Conduct

Saudi Exchange's indices are not based on submissions, and therefore Principle 14 does not apply.

### Principle 15 - Internal controls over data collection

Saudi Exchange indices use regulated data and are calculated by Saudi Exchange.

If Saudi Exchange creates indices for which non-regulated pricing data is required, suitable monitoring procedures will be put into place to endeavor to ensure the reliability of that input data.

## IOSCO PRINCIPLES ON ACCOUNTABILITY

### Principle 16 - Complaints procedures

Saudi Exchange has established and published a Complaints Policy that can be obtained from Saudi Exchange's website. The Policy sets out:

- What constitutes a complaint.
- How a complaint can be made.
- How it will be investigated.
- What actions may follow its investigation.
- How a complainant can request that the results of the investigation are reviewed, if considered unsatisfactory.

Any changes to an index methodology that are considered as a result of a complaint will be subject to the engagement processes and approvals processes detailed as per principles 12 and 13.

### Principle 17 - Audits

Saudi Exchange arranges a yearly assessment of its compliance with the IOSCO Principles.

This first statement of compliance with the IOSCO Principles was made in January 2022.

### Principle 18 - Audit trail

Saudi Exchange retains a record of calculation input data, supporting documentation, index review and index calculation decisions made. Saudi Exchange retains a record of all decisions taken by the Saudi Exchange Index Supervisory Committee and Index Oversight Committee, including any exercise of expert judgement or deviations from the published index methodology. Changes to methodologies will be recorded within the methodology documents. Index reviews are signed off by identified Saudi Exchange staff.

Daily index calculations are automated and do not require manual involvement. If an index determination was to require use of expert judgement, records would be kept of individuals involved.

Saudi Exchange' records are retained for a period of not less than ten years.

### Principle 19 - Cooperation with Regulatory Authorities

Saudi Exchange responds promptly and appropriately to enquiries and requests for information or documentation from regulatory authorities.

### Further information

For further information in respect of indices, clients should refer in the first instance to the relevant index methodology documents, which will be available at <https://www.saudiexchange.sa/>

## Disclaimer

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