

# Client Alert

Corporate

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*For more information, contact:*

Sayf Shuqair  
+971 4 377 9951  
[sshuqair@kslaw.com](mailto:sshuqair@kslaw.com)

James R. Stull  
+971 4 377 9929  
[jstull@kslaw.com](mailto:jstull@kslaw.com)

Nabil A. Issa  
+971 4 377 9909  
[nissa@kslaw.com](mailto:nissa@kslaw.com)

Haifa Bahaian  
+966 11 466 9425  
[hbahaian@kslaw.com](mailto:hbahaian@kslaw.com)

Dounia Mansour  
+971 4 377 9987  
[dmansour@kslaw.com](mailto:dmansour@kslaw.com)

Husni Al Far  
+971 4 377 9957  
[halfar@kslaw.com](mailto:halfar@kslaw.com)

King & Spalding

Riyadh  
Takhassusi Street  
Riyadh Prestige Center  
Building #4, 1st Floor  
PO Box 15870  
Riyadh 12331, Saudi Arabia  
T. +966 11 466 9400

## Establishing a Regulated Financial Institution in Saudi Arabia: Key Considerations for Capital Market Institutions

Financial institutions in Saudi Arabia are regulated by either the Saudi Central Bank (SAMA), the Insurance Authority or the Saudi Arabian Capital Market Authority (CMA). SAMA regulates the banking sector, the Insurance Authority regulates the insurance sector and the CMA regulates asset managers, investment banks, custodians, and brokerage firms. An entity that holds a license from the CMA is referred to as a 'Capital Market Institution' (a CMI).

Over the last decade, Saudi Arabia has witnessed significant growth in the number of CMIs being established, particularly asset managers looking to raise capital in Saudi Arabia through funds or managed accounts that invest across various asset classes, including private equity, venture capital, real estate, infrastructure, private credit as well as stocks and fixed income. As of February 2025, there are 188 CMIs listed on the CMA's website. The CMA has recently announced its strategic plan for 2024-2026, aiming to develop the regulatory environment in the asset management sector and encourage its growth and diversity, and it is expected that more regional and international institutions will expand their footprints in Saudi Arabia. In light of this, we set out below a high-level overview of the licenses issued by the CMA and several key practical considerations for companies contemplating establishing a CMI.

The CMA currently issues five (5) types of licenses that regulate CMIs engaged in the following activities:

- 1. Asset Management:** under this license a CMI may establish, manage and distribute local private and public funds in Saudi Arabia. This license is divided into two (2) sub-categories and depending on the category of license applied for, a CMI may or may not be able to distribute foreign

funds, establish and manage real estate funds and provide fund administration services.

2. **Arranging:** this license is generally considered to be the 'investment banking' license under which a CMI may engage in activities related to the offering of securities or advise on corporate finance transactions.
3. **Advising:** practically, this license goes hand-in-hand with the arranging license as it allows a CMI to provide financial advice and recommendations on dealing in a security, in addition to financial planning and wealth management services.
4. **Dealing:** this license allows a CMI to carry out brokerage activities.
5. **Custody:** under this license, a CMI may provide custody services.

#### **Practical Considerations:**

#### **SCOPE OF ACTIVITIES AND LICENSING REQUIREMENTS**

The first step is to determine the nature of activities the CMI intends to carry out and the license(s) required. For example, an entity looking to engage in private credit must establish whether its activities fall under the ambit of SAMA or the CMA and apply for the relevant licenses. Similarly, an entity seeking to launch an asset management business must identify whether its contemplated activities require a 'Managing Investments' license or a 'Managing Investments and Operating Funds' license, as each entails a specific set of requirements. Understanding the licensing requirements at the outset ensures the CMI is established efficiently and promptly.

#### **LICENSING STEPS AND EXPECTED TIMELINES**

As part of establishing a CMI, filings must be made with the CMA and the Ministry of Commerce. An application must be submitted to the CMA to obtain a license for the relevant regulated activities, along with an application to the Ministry of Commerce to establish the entity through which these activities will be carried out. Foreign applicants must also register with the Ministry of Investment as part of the process. Once the CMI is established, additional registrations with other governmental bodies are required prior to commencing activities. While the overall process is relatively streamlined, careful sequencing of applications is critical to ensure efficiency. Long-lead items such as hiring staff (and ensuring they complete necessary CMA examinations in time), document legalization, obtaining third-party approvals, and opening bank accounts must be identified and prioritized.

#### **SHAREHOLDING AND CAPITALIZATION REQUIREMENTS**

As part of the licensing approval process, the CMA reviews the shareholding structure of applicants, including ultimate beneficial owners. Prospective applicants should consider the appropriate shareholding structure to streamline the CMA review process. Preparing the required documentation for shareholders within the ownership structure could also be a time-consuming exercise and must be commenced as early on as possible.

From a capitalization perspective, certain licenses, such as those for custody and brokerage activities, require SAR 50 million (although we understand that the CMA is currently contemplating reducing the minimum share capital for a brokerage license), while an asset management license requires a share capital of SAR 20 million or an amount equivalent to one year's operational expenses, depending on the license category. As such, applicants should plan the timing of capital deposits and understand the minimum lock-up requirements to ensure compliance with regulatory requirements and effective cash management.

#### **HUMAN RESOURCES AND OUTSOURCING ARRANGEMENTS**

The CMA mandates a minimum number of positions for CMIs (e.g., Chief Executive Officer, Chief Financial Officer, Head of Compliance). Depending on the licenses being applied for, a certain number of positions must be staffed

locally and certain roles must be occupied by Saudi nationals. Also, certain positions may be combined (i.e. dual-hatting) and certain core functions may be outsourced in accordance with CMA regulations.

Prospective employees and board members must meet the CMA's "fit and proper" standards, which are to a great extent subjective and require careful review by experienced advisors in advance of submission to the CMA to opine on suitability, although the final assessment will be made by the CMA. Also, applicants must carefully consider long-lead action items such as scheduling appointments for employees to sit for certain exams that are prescribed by the CMA and ensuring that any employees who are recruited from outside of Saudi Arabia obtain their residency permits in time prior to commencing operations.

### DATA PRIVACY COMPLIANCE

Following the introduction of the Personal Data Protection Law in 2023, the CMA has increased its focus on the treatment and handling of personal data by CMIs. Its Cybersecurity Guidelines for Capital Market Institutions provide non-binding recommendations for managing data securely and applicants are encouraged to examine such guidelines and identify the relevant action items as early on as possible in the licensing process. Foreign applicants must also ensure compliance with local data protection rules particularly as they integrate their Saudi operations with their global platforms.

### REQUIREMENTS FOR COMMENCEMENT OF ACTIVITIES

The CMA licensing process has two stages. Once the CMA is satisfied with an application, it issues an initial approval conditional on the applicant meeting additional requirements outlined in the approval letter. After these conditions are satisfied, the CMI receives approval to commence activities.

Applicants, especially foreign entities, should plan and action long-lead items (e.g. hiring suitable employees, identifying office space, finalizing office infrastructure, etc.) as early on as possible while ensuring compliance with applicable regulations. Taking these steps in advance can prevent bottlenecks and streamline the transition to operational readiness. In addition, certain steps may be taken by applicants prior to commencing activities with respect to product structuring so as to enable applicants to launch their products as soon as possible after commencing activities. However, careful consideration must be given with respect to the steps taken to ensure compliance with applicable rules and regulations.

### Conclusion

Launching a CMI in Saudi Arabia offers exciting opportunities to capitalize on the Kingdom's growing asset management and financial sectors. However, achieving success requires meticulous planning, a deep understanding of regulatory requirements, and careful execution. By addressing the various considerations, including the ones mentioned above, early and engaging experienced advisors, applicants can navigate the complexities of the process with confidence and position their CMIs for long-term success in this dynamic market.

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