

Oversight Report on Payment and Settlement Systems in the Kingdom of Saudi Arabia

Payment Systems and Companies Control Department
Supervision Deputyship

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1: Preamble

1-1 Terms and Abbreviations

ACH	Automated Clearing House
BIS	Bank for International Settlements
CMA	Capital Market Authority
CCP	Central Counterparty
CSD	Central Securities Depository
CSP	Clearing and Settlement Program
CPMI	Committee on Payments and Market Infrastructures
EBPP	Electronic Bill Presentment and Payment
FMI	Financial Market Infrastructure
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
GCC	Gulf Cooperation Council
GOB	Governance and Oversight Board
HCE	Host Card Emulation
IOSCO	International Organization of Securities Commissions
mada	mada Payment Network
MOU	Memorandum Of Understanding
mPOS	Mobile Point of Sale
NFC	Near Field Communication
PFMI	Principles of Financial Market infrastructure
POS	Point Of Sale
RTGS	Real Time Gross Settlement
SAMA	Saudi Arabian Monetary Authority
SADAD	SADAD Payment System – Electronic Bill Payments
SARIE	Saudi Arabian Riyal Interbank Express
SAFIU	Saudi Arabian Financial Investigation Unit
SATR	Saudi Arabian Trade Repository
SDC	Securities Depository Center
SIPS	Systemically Important Payment Systems
SSB	Standard and Specification Board
SSS	Securities Settlement Systems
TPSP	Third Party Service Provider
TR	Trade Repositories

1-2 Introduction

Payment and Settlement Systems in Saudi Arabia have evolved considerably over the past few years. The Saudi Arabian Monetary Authority (SAMA) has worked on establishing, developing and overseeing a modern payment infrastructure in line with international best practices, as well as technologies available to the Banking industry. This also comes about due to the vital role payment and settlement systems play in the financial and banking sectors (including their use in carrying out payments, clearing and settlements through electronic channels). To undertake supervision and oversight, SAMA has adopted the Principles for Financial Market Infrastructures (PFMIs) issued by the Committee on Payment and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in April 2012. The PFMIs stress on the responsibility of central banks to supervise, and develop payment and settlement systems, as one of its key functions. With the continuing evolution of the payment and financial technologies landscape, increasing reliance of technology in payments, and the emergence of FinTech companies that use innovative solutions on mobile applications and e-commerce platforms, SAMA launched the “Saudi Fintech” initiative. This initiative is designed to spread the culture, develop knowledge and skills, support innovation, spur activities in this field, and spin off necessary measures to mitigate cyber security threats and reduce their potential impact, thus ensuring the safety of such systems. Furthermore, as part of its efforts to support innovation in FinTech and help SME’s growth, SAMA has created a regulatory Sandbox that provides an appropriately regulated environment for Fintech services, solutions and applications that facilitates the needs of users in the banking sector, whilst also helping to reduce potential risks arising from such services. Furthermore, SAMA has worked to promote financial inclusion and reduce the use of cash, as stated in the objectives of the Financial Sector Development Program (FSDP).

SAMA has also taken a number of internal measures regarding the regulations and structure of the payment sector, and has established a legal and regulatory framework for payment and settlement systems and services. In addition, SAMA has kept up with key developments in supervision of such infrastructures, and has adopted the principles and recommendations for its supervision. Thus, SAMA established the Governance and Oversight Board, and the Department of Payment Systems and Companies Control to carry out the supervisory functions. Lastly, SAMA is following the key trends, activities and future aspirations in this field.

1-3 Financial Market Infrastructure (FMI)

Financial Market Infrastructure is defined as a multilateral system among participating institutions, including the operator of the system, for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions. An FMI is an important and complementary part of the financial system, through which financial institutions are linked to financial markets. Such clearing and settlement operations are carried out with significant transaction volumes and with significant monetary values.

The concept of an FMI includes systemically important payment systems (SIPS), central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs). A safe and efficient FMI plays a critical role in maintaining financial stability. Therefore, it is the responsibility of central banks and other relevant authorities to ensure that potential risks are managed and appropriate arrangements undertaken in line with international standards.

The Bank for International Settlements (BIS 2005) provides that “Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change.”

2: Supervision and Oversight over Payment and Settlement Systems

2-1 Supervision and Oversight Role

SAMA has been working on developing the infrastructure of payment and settlement systems, and supporting the growth and reach of these services since 1990, as well as strengthening its oversight and supervisory responsibilities. This includes:

- Ensuring compliance with the policies and regulations of payment and settlement systems;
- Supervising the infrastructure of payment and settlement systems and ensuring their ability to keep abreast of developments;
- Maintaining the safety, and efficiency of payment and settlement systems, implementing control procedures, including managing of potential key risks; and

- Implementing SAMA's strategic priorities and objectives, which is in compliance with international standards and trends.
- All the above are in line with the PFMI issued by CPMI and IOSCO in April 2012. The CPMI and IOSCO focus on the responsibility of central banks to strengthen oversight of payment and settlement systems, as part of the key function of the central bank aimed at ensuring the safety and efficiency of an FMI including Payment systems and services, payment instruments, third party service providers (TPSP), intermediaries and other stakeholders in the financial sector. SAMA participated in the drafting of PFMI by CPMI. The PFMI includes recommendations, responsibilities and key considerations that aim to maintain the safety and efficiency of the payment and settlement systems, promotes financial stability and economic growth, and mitigate financial, technical or operational risks that could affect these systems, which in turn, could lead to economic crisis. Following the issuance of the PFMI, SAMA undertook a program to implement the compliance with PFMI principles. Furthermore, SAMA issued circulars requiring the compliance of PFMI principles with relevant entities under its supervision, including banks operating in Saudi Arabia and departments within SAMA.

SAMA implemented the supervisory function of the payment and settlement systems internally in SAMA, by establishing legal and regulatory frameworks, including:

- the establishment of the Governance and Oversight Board (GOB);
- the legal basis for payments and the law of payment systems and services;
- the Project of securities settlement and Clearing and Settlement Process (CSP) Project with SARIE system (for the CCP/SDC); and
- the establishment of the supervisory function of payment systems at SAMA whose activities include:
 - assessment supervision of SAMA's payment and settlement systems;
 - assessment supervision of payment instruments and services;
 - supporting the Sandbox and FinTech services;
 - reviewing payment services fees;
 - ensuring settlement finality rules; and
 - setting up default management arrangements.

SAMA's supervisory role is a key factor in promoting the safety and efficiency of FMIs. This approach includes periodic and continuous monitoring and assessment processes of the performance of these systems, and complies with the international requirements and standards. SAMA, being the competent authority for payment systems domestically, has three key roles to ensure and promote the safety and efficiency of payment and settlement systems:

- a) Operating SAMA's central payment and settlement systems.
- b) Regulating and supervising licensed payment entities.
- c) Catalyzing to spur the development of payment systems and services.

The supervisory process will cover all relevant infrastructure components, and stakeholders in the payments sector, including systems, instruments and services, both within and outside SAMA, as well as those areas detailed in the PFMI. The scope includes the following areas of payments as well:

- 1. Processing and handling of payments ;
- 2. Regulation and oversight; and
- 3. Development and marketing.

Systemically important payment systems will have additional regulatory obligations, as their failure will result in a broad disruption or suspension of services, and has the potential to cause contagion to systemic risks. SAMA has conducted its own PFMI self-assessment for its own payment and settlement systems and trade repository. The self-assessment covered Saudi Arabian Riyal Interbank Express system (SARIE), the Saudi Payment Network (mada), which provides interbank ATM services and electronic funds transfer through points of sale, as well as SADAD system for Electronic Bill Presentment and Payment (SADAD).

In addition, SAMA was externally monitored by the CPMI. The implementation monitoring process has three levels, with Level 1 covering the legal and regulatory aspects of the payment and settlement systems in the infrastructure. Level 2 & 3 assessments will be undertaken to ensure continued compliance of PFMI principles and responsibilities as published by CPMI IOSCO. The Committee on Payment Systems and Market Infrastructure has started the process of monitoring the implementation of the PFMI and an Implementation Monitoring Steering Group had been formed to design,

plan and implement the processes for assessing PFMI implementation. The monitoring process has three levels:

- Level 1: The necessary legal and regulatory frameworks for implementing the PFMI and responsibilities.
- Level 2: Assessment of policy consistent with the PFMI and responsibilities.
- Level 3: Assessment of the consistency in the outcomes of implementation of the PFMI and responsibilities.

As a result, significant progress has been made in implementing the PFMI, where SAMA has obtained a rating of 4 (4 being the highest) for its Level 1 assessment. The Bank for International Settlements (BIS) has published its Fifth update (2018) for Level 1 assessment report. The results have been published on the Bank's website www.bis.org, and for the FMI related to SAMA, received Observed a rating of 4 has been provided for the implementation of the five responsibilities (attached). The remaining levels are expected to be completed in the coming period by the relevant authority.

2-2 Central Payment Systems

Providing comprehensive, innovative and secure payment systems in the banking sector is one of SAMA's strategic objectives. Therefore, SAMA undertakes to maintain the safety and efficiency of these central payment sector and its stakeholders, and is continuing to supervise and develop a modern and advanced payments infrastructure to keep up with best practices in the field, whilst mitigating any potential risks or adverse impacts. All payment and settlement systems are directly supervised and overseen by SAMA and local banks are linked to them. Three systems have been identified as Systemically Important Payment Systems (SIPs), which are:

Saudi Arabian Riyal Interbank Express (SARIE):

In 1997, SAMA operated the Saudi Arabian Riyal Interbank Express (SARIE). The system was one of the latest at that time, and is one of the great achievements witnessed by the financial and banking sector. SARIE, designed on the concept of Real Time Gross Settlement (RTGS), had revolutionized electronic banking and commerce by providing the back-bone for an

advanced and sophisticated payment and settlement systems. These include Automated Clearing Houses (ACH), an electronic cheque clearing system, the Saudi Payments Network (mada), SADAD system, and the Electronic Securities System (TADAWUL). The key objectives of SARIE are:

- conducting transfers electronically and ensuring instant receipts;
- providing advanced banking services and products;
- reducing financial risks and eliminating the risk of carrying cash for the purpose of transfer;
- reducing the cost of financial services;
- enhancing financial performance and regulating financial payments in the banking sector; and
- establishing technical and procedural foundations for future developments, such as: e-commerce.

The Saudi Payment Network (mada):

The Saudi Payment Network (mada), formerly known as (SPAN), is the national payment network established by SAMA in 1990. Mada connects all Saudi banks to provide ATM services (cash withdrawal, balance inquiry), as well as Point of Sale Service (EFTPOS) to transfer funds electronically through card payment at stores, including cards of international brands and networks such as: VISA, AMEX, MasterCard, and Union Pay. All banks issue ATM cards that are fully compliant with the technical specifications of the Saudi Payment Network and provide all services to the end customer without fees. More information and services can be found at www.mada.com.sa.

SADAD Payment System:

SADAD Payment System is one of SAMA's central systems for Electronic Bill Presentment and payment (EBPP). Through the system, billers send their bills to customers and receive payments electronically. Furthermore, SADAD Account service was also introduced. Finally, the Esal platform system was launched, comprising a complete solution for billing and payments connecting suppliers and buyers to facilitate e-payments. The platform covers the entire invoice lifecycle starting from uploading and presentment to payment and settlement. More information and services can be found at www.sadad.com.

Whilst some systems may not be classified as systemically important, such as automated clearing houses (ACH) and trade repositories (TRs), nonetheless they will be supervised by SAMA. They are not expected to be assessed and subjected to the same mechanisms and methods used for systemically important systems. It is vital to ensure that all existing and future payment and settlement systems, products, payment instruments, third-party service providers and any other relevant financial infrastructure are incorporated into the risk-based supervision approach. The supervision will also cover systems such as central securities depositories (CDSs), securities settlement systems (SSSs), and central counterparties (CCPs) from a key member of the payments system perspective.

2-3 Payment Instruments and Services

Debit cards:

Debit and prepaid cards branded with mada logo have exceeded 28 million cards. SAMA has sought to expand the use of prepaid cards in the market, such as gas stations, transfer centers, and fast food restaurants. The number of prepaid cards (salary cards, student cards, etc.) has increased to 6 million via POS services, promoting e-payment. These services and products have increased the number of POS terminals to over 351,000 in 2018. The Saudi Payment Network has adopted the latest technology to deliver fast, accurate and secure electronic banking services, in addition to reducing the transaction time through POS terminal, where transactions were successfully completed in just 4 seconds.

ATMs and POSs:

ATMs and POS terminals are spread across Saudi Arabia. In 2018, The number of ATMs reached 18,300 while POS terminals reached approximately 351,645. The total number of transactions exceeded 3.1 billion with a total amount of about 980 billion riyals.

Mada naqd:

This service allows customers to withdraw amounts up to 400 riyals from cash registers when paying with their cards at points of sales. This service aims to reduce reliance on ATMs and provide other channels for cash withdrawal. It also helps to reduce excess cash in stores and reduce the risks and costs of cash handling. Banks are working with stores to expand the use of this service.

Mada atheer:

Atheer is a service that allows cardholders to make their payments through NFC technology by waving the card in front of the PoS terminal. Mada cardholders can use this service for any payment that is less than SAR 100 and for a cumulative amount up to SAR 300 without entering the PIN. This service processes low value payments instantly without the need to take the card from the holder. "Atheer" service provides the merchants with a competitive advantage to make quick payments.

Esal platform:

Esal platform is a service provided by SADAD payment system. The platform is a complete solution for billing and payments in Saudi Arabia connecting suppliers and buyers to facilitate e-payments. The platform covers the entire invoice lifecycle from uploading and presentment to payment and settlement which allows the automation of the whole process.

E-Wallet applications:

Many FinTech companies are participating in the Sandbox with innovative products and solutions based on e-wallet applications. These applications are digital payment platforms serving consumers and merchants and supporting SMEs growth by providing new digital payment methods, controlling cash, and monitoring and analyzing transactions.

Types of this e-wallet are payment applications that use host card emulation (HCE) technology which can be linked directly to bank accounts, such as mada Pay and Apple Pay applications operating within the transaction limits of bank cards. The other type of e-wallet application is digital account or record. Such applications are downloaded to smartphones. Following verification, they allow their users to load amounts via bank channels to be used in various transactions such as instant transfer of funds between individuals or business purchases. These applications are very convenient, easy and secure to use in daily payments. Examples of such application are STC Pay and Halalah App.

Mobile Point of Sale (mPOS):

The mobile point of sale is currently in the Sandbox. The device is very small in size and is easy to operate without a SIM card, as it is connected to the merchant's mobile. This service is offered for the first time in Saudi Arabia. It is anticipated that mPOS will provide the business sector with the latest e-payment methods that enable them to receive payments for purchase,

services and products in any place or event and around the clock. This service is very convenient for a lot of businesses, such as restaurants, home and office delivery services, taxi services, and temporary and mobile businesses. Geidea and SumUp are participating in the Sandbox for this service.

E-Commerce platform and payment gateway:

E-commerce sites are linked to payment gateways to process online orders. Payment gateways act as intermediaries between customers and e-commerce sites, similar to the work of POS terminals in shops. These e-platforms offer payment services through local and international bank cards and other means of payment, and allow safe and reliable payment for services and purchases. Such transactions are processed through online e-commerce sites. Bayan and tap are participating in the Sandbox for this service.

3: Development of the Regulatory Framework for the Supervision of Payment and Settlement Systems

3-1 The Governance and Oversight Board (GOB)

The oversight function of payment and settlement systems has been developed as part of SAMA's program to set up a regulatory framework for managing and monitoring the infrastructure for payment and settlement systems, for supporting its safety and efficiency, and focusing on Systemically Important Payment Systems (SIPSs) with the strategic objective of maintaining financial stability. As part of this framework, SAMA has established the FMI Governance and Oversight Board (GOB), which is the key decision making body in SAMA for all policies, strategies and procedures for payment and settlement systems. The governance approach is structured to be clear and transparent in line with SAMA's role and responsibilities and will ensure that the functions do not overlap, while taking into account the governance and segregation between publicly and privately owned payment systems.

3-2 Organizational Structure

The oversight function of payment and settlement systems is currently the responsibility of the Payment Systems and Companies Control Department, reporting directly to the Deputy Governor for Supervision, who is also Vice Chairman of the Governance and Oversight Board, with reports being submitted to him. The oversight function is responsible for developing

the oversight approach as well as the overall monitoring of outcomes, management of tasks and the deliberation of matters arising from any new issues or decisions that the Governance and Oversight Board presides over. Furthermore, the commitment to the oversight function is a key factor to fulfill SAMA's responsibilities as the regulatory and supervisory authority, which is in line with the responsibilities in the PFMLs. To support this commitment, the organizational structure, human resources, and administrative framework for oversight of payment and settlement systems will be established to ensure its fulfillment.

3-3 Legal Framework and Basis

SAMA is the competent authority of payment and settlement systems (PS) and trade repositories (TR), and is responsible for the implementation of its regulatory and supervisory responsibilities in line with its powers under:

- The Council of Ministers Resolution No. 226 dated 02/05/1440H, confirming that SAMA is the competent authority to operate, monitor and supervise payment and settlement systems and services in Saudi Arabia and to issue rules, instructions and licenses in accordance with the standards applied by SAMA in this regard.
- The Banking Control Law, issued by Royal Decree No. M/5 dated 22/02/1386H (11/6/1966), paragraph (3) of Article 16 which authorizes SAMA to fix the terms and conditions, which banks should take into consideration when carrying out specified transactions for their customers.

This gives SAMA broad powers to regulate and oversee the payment and settlement sector of financial institutions, including local banks and FinTech companies, in order to maintain the safety and efficiency of the banking system. The powers include issuing the necessary rules, instructions and guidelines that cover various areas, transactions and banking products, including payments, systems, services, instruments and technologies. This gives SAMA leadership in the development of payment and settlement systems in Saudi Arabia including such activities via local banks. SAMA also has the authority to collect and retain data from licensed financial institutions subject to its supervision. The rules, procedures and instructions issued by SAMA in respect of payments include:

- The Decision of the Minister of Finance and National Economy No. 3/2149 dated 14/10/1406H regarding the implementation of the provisions of the Banking Control Law.
- The Council Of Ministers Resolution No. (59), dated 28/3/1420H authorizing SAMA to license and supervise the issuing of electronic cash cards and the like in accordance with instructions, standards and requirements approved by SAMA.
- The Decision of the Minister of Finance No. 1357 dated 1/5/1432H regarding the Rules Governing Money Changing Business.
- SAMA's Circular No. 341000117728 dated 8/10/1434H on the implementation of the Principles for Financial Market Infrastructures (PFMIs).
- The Decision of SAMA's Governor No. 361000082764 dated 11/6/1436H regarding the rules, procedures and regulatory instructions of payment systems in Saudi Arabia.
- SAMA's Circular No. 361000085193 dated 16/6/1436H regarding the implementation of rules, procedures and regulatory instructions of payment systems in Saudi Arabia.

SAMA has issued a set of regulatory and operational rules and procedures for the payment and settlement systems in Saudi Arabia as the authority responsible for overseeing and managing its own payment and settlement systems. Recent studies, guidelines and developments have emerged from the international scene recommending the need for a clear and effective legislative and legal structure. This is recommended in order to contain all legal risks and establish transparent, clear and explicit powers to fulfill the responsibilities of SAMA as a payment systems regulator and affirm this role within the central bank. This is one of the tasks that is currently being worked on.

3-4 FinTech

SAMA has launched FinTech Saudi Initiative, in line with Saudi Vision 2030, which entails the promotion of entrepreneurship and financial services technology through the FSDP, which is prescribed in its objectives. The initiative aims to support the financial technology ecosystem by transforming Saudi Arabia into a FinTech hub that harbors a flourishing and proficient ecosystem including banks, investors, companies, universities, and government agencies in a manner that would promote financial inclusion and increase electronic transactions. It is also aimed at uplifting the SME sector, diversifying the domestic economy and creating job opportunities.

Additionally, the initiative seeks to achieve several objectives which includes the launch of the first version of the FinTech ecosystem in Saudi Arabia. This entails initiatives such as educating and inspiring individuals to develop their knowledge and skills in financial technologies, as well as collaborating with domestic banks, international FinTech companies and partners to hold various events in financial technology in Saudi Arabia. While there exists various FinTech instruments, products and channels, such as ATMs, credit cards, online services and mobile phone banking, there is a significant demand for the use of large data and smartphones thus driving an increasing expectations from consumers for such financial services. Furthermore, new technology trends have emerged, such as artificial intelligence and blockchain technology, which could lead to a substantial shift in financial services, potentially resulting in structural reforms within Saudi Arabia's economic and financial sectors. SAMA also seeks to build upon the successes of the financial services sector in Saudi Arabia to increase the growth and development of FinTech, to become a destination for innovation, and establish a comprehensive understanding of FinTech domestically. There is an opportunity for domestic and international investors to invest in companies specialized in this field, and this too can create more jobs opportunities within Saudi Arabia. More information and services can be found at www.fintechsaudi.com

Regulatory Sandbox for FinTech Testing

SAMA has endeavored to develop a Sandbox regime to support and facilitate FinTech products and innovations in the banking sector. The Sandbox is similar to a business environment which facilitates safe and practical development and testing of FinTech products. The Sandbox also develops and improves the quality of these products and services, thus providing the support needed to achieve its objectives. The key feature of the Sandbox is that such innovations and technologies are permitted to operate without the full regulatory and financial requirements as prescribed in SAMA's laws. Through the sandbox, SAMA aims at:

- Establishing clear mechanisms to understand the requirements of the Sandbox regime and to deter breaching of relevant regulations and instructions;
- Achieving compliance with SAMA's instructions or rules whilst remaining in compliance with applicable regulations or laws;
- Supporting the banking and financial sector with financial innovations and technologies with several benefits in the field of

payments and remittances. These innovations will also be easier to monitor and control in the Sandbox;

- Supporting higher growth of products and services in the banking and financial sector as well as deepening the sector with qualified service providers without an increase in risks; and
- Promoting financial inclusion and boosting competitiveness to adopt new technologies.

3-5 International Standards

The central banks and other relevant authorities in the banking sector are implementing the 24 PFMI principles as well as the five PFMI responsibilities. These principles and responsibilities are implemented by all financial systems which SAMA owns and operates as well as the financial institutions in the private sector. In August 2013, SAMA issued a circular to all banks, departments and related entities that own or operate payment systems connected to SAMA or under its supervision, requiring the compliance of these PFMI principles. This regulatory requirement is specifically reflected in PFMI for “Responsibility A” for the “Regulation, supervision and oversight of FMIs which stipulates that payment systems and financial institutions should be subject to appropriate and effective regulation, supervision, and oversight by a central bank, market regulator, or other relevant authority.”

4: Supervision Methodology of Payment and Settlement Systems

4-1 Risk Assessment Methodology

Supervision and oversight actions are taken to comply with the PFMI principles. Any rules or instructions issued by SAMA will be underpinned by the risk assessment methodology for identifying potential key risks that may arise from payment and settlement systems, including the following key areas:

- Credit Risks: the potential risk resulting from a party's failure to meet its obligations and settle the entire due amount, either at its due date or at any time thereafter.
- Liquidity risks: the potential risk resulting from a party's failure to meet its obligations and settle the entire due amount at its due date, although it may be able to do so in the future.
- Operational Risks: the potential losses resulting from a failure to handle transactions, internal systems, or fraud. Such risks may be the

result of some external events, such as terrorist attacks and natural disasters.

- Legal Risks: the potential losses arising from incorrect or unexpected interpretations of laws and regulations, or the ambiguity thereof, that may lead to unexpected financial exposures facing members, stakeholders, as well as users and beneficiaries of payment and settlement systems.

In practice, these types of risks are interconnected; therefore, payment systems and financial institutions may not be isolated from the consequences of risks of other systems. In this case, the risks may be a contagion, in what is known as the Domino Effect, whereby a party fails to fulfill its obligations in a timely manner, and impacts the other parties in the system. This subsequently affects the safety of the financial system. Therefore, the oversight function takes into account such interconnections and overlaps when assessing the risks of payment and settlement systems. The PFMLs provide the basis for implementing the risk-based methodology, by which such risks are identified, including risks such as general business risk.

4-2 Obligations of Operators of Payment and Settlement Systems

Following the monitoring and review of the results and outcomes, the risk assessment are prioritized, following which the oversight and supervisory procedures will be focused on the key risks identified. There will be mutual cooperation and coordination for the undertaking of these supervisory and oversight activities between operators of payment and settlement systems, and relevant departments within SAMA.

The operators of payment and settlement systems shall have the following responsibilities:

- The responsibility lies with the owner and operator of the system who is directly and primarily responsible to ensure the safety and efficiency of the system.
- All system operators and participating and contracting parties have a responsibility to identify and manage potential risks that may arise in their business and develop policies to address, avoid or mitigate these risks.
- Compliance with the relevant regulations and instructions issued by SAMA and to ensure any other requirements issued are met.

- Providing appropriate administrative procedures, controls and mechanisms to manage various risks in its business areas, while providing necessary documents and evidence to SAMA.
- Each operator should provide SAMA with the information and reports SAMA requires to fulfill its oversight and supervisory responsibilities.

4-3 Supervision and Oversight Procedures

The oversight and supervision methodology includes the following activities:

- a. Monitoring;
- b. Assessment; and
- c. Inducing Change.

4-3-1 Monitoring

The staff in charge of the oversight function in SAMA, in cooperation with the relevant internal departments, will undertake the coordination process for oversight. Such coordination may be supported by Service Level Agreements (SLA) between the relevant parties to ensure performance, clarify responsibilities, detail arrangements as well as facilitate the cooperation and exchange of information. Onsite and offsite oversight plans will be prepared and performance reports of payment and settlement systems will be reviewed periodically (quarterly/bi-annually) for an appropriate intervention, identification of key issues, and to address any deficiencies or shortcomings. Furthermore, periodic meetings with the payment and settlement system operators will be held to ensure identification of all key potential risks, review findings, follow up on reform plans, and set timelines for these reforms. The risk assessment methodology will be applied based on the priorities that arise, including:

- a. priorities related to policies and procedures;
- b. continuous monitoring and the resulting recommendations or observations; and
- c. findings and recommendations of complete or partial assessments.

Oversight and supervision controls are directly or indirectly applied to the payment and settlement systems under SAMA's supervision or within its mandate, either by:

- a. Direct monitoring: monitoring payment systems and financial institutions owned and operated by SAMA.

- b. Indirect monitoring: monitoring the infrastructure and other systems that SAMA deems important for achieving financial stability.

Moreover, supervisory reports are documented so as to include new developments and trends. These reports are then submitted to SAMA's GOB, following which appropriate reports are made accessible to participants and relevant parties in order to increase awareness and transparency.

4-3-2 Assessment

Assessment stage of activities will depend materially on transparency and disclosure of the FMI. It is based on questions and queries prepared for extensive disclosure of risks that may arise as a result of the functions within the infrastructure and how risks are managed. The assessment methodology will be useful for all parties. The methodology may be used to conduct full or partial self-assessment for determining deficiencies that should be addressed and corrected. Moreover, it will be used by supervisory authorities to ensure that the PFMI principles are adopted by the FMI. Furthermore, external assessors, such as the IMF and the World Bank, will use this assessment methodology as part of their Financial Sector Assessment Program (FSAP) to determine the extent to which supervisory authorities abide by their responsibilities in enhancing financial stability. During the assessment, a number of considerations should be taken into account, including the uniqueness of the infrastructure (which may necessitate the customization of the assessment approach). Assessments will differ from one infrastructure to another depending on the activities, functions and services of an FMI, especially where multiple FMIs may belong to the same legal entity or many legal entities or where the clearing and settlement processes are interdependent with one another. Another consideration is the differences in ownership structures of FMIs. The assessment methodology is aimed at assisting assessors to correctly apply the principles for both private and public sector FMIs. Therefore, differences in ownership structures and organizational forms must be taken into consideration.

At this stage, the appropriate scope of the assessment is determined. The assessment scope should include defining the FMI to be assessed as per its importance, risk degree and its effect or the effect of one of its components on financial stability. The scope should cover determining which FMI operations and services are to be assessed. Furthermore, any external links such as cross-border transfer and cross-border settlement transactions will be taken into consideration. In addition, all or some of the PFMI principles that requires compliance will be determined according to the type of the FMI

and its uniqueness. The scope of assessment will be clearly communicated to the assessed FMI in advance of the assessment to be taken. Cooperation and coordination with the FMI management is important. Following which, information and data necessary for completing the assessment will be collected. Appropriate questions and questionnaires will be formulated to help assessors determine whether an FMI is observing the PFMI principles and to ensure focus on the issues involving high risks. Additional questions will be prepared to address different levels of complexity of the FMI or reflect particular risk factors or circumstances specific to the assessment. In order to develop accurate findings, make proper decisions and assign factual ratings, the assessors should understand the FMI's operations, services, rules and procedures. Thus, the FMI must provide all important information, including the following:

- 1) practices and mechanisms used for the compliance of the PFMI principles;
- 2) tools and methods used to measure the extent to which PFMI principles are observed;
- 3) mechanisms and procedures followed in identifying any gaps or shortcomings;
- 4) identification and categorization of potential risks; and
- 5) any reports or documents by external assessors or authorities on similar matters.

After completing the collection of necessary information and data, the risks will be identified and categorized as follows:

- a. Extremely important: issue of concern that is serious and warrants immediate attention.
- b. Moderately important: issue of concern that could become serious if not addressed promptly.
- c. Less important: issue of concern that should be addressed in a defined timeline.

Following this, an assessment of the compliance of the principles is then conducted. Appropriate rating of the degree of compliance of each principle is assigned in accordance with the rating framework adopted by International Financial Institutions (IFIs), as found in FSAP. Ratings are as follows:

	– The FMI observes the principle;
--	-----------------------------------

Observed	<ul style="list-style-type: none"> – No material risks, all identified gaps and shortcomings are not issues of concern and not critical; and – The FMI could address the shortcomings identified in the normal course of its business.
Broadly observed	<ul style="list-style-type: none"> – The FMI broadly observes the principle; – The assessment has identified one or more less important risk – The FMI should monitor and address the risks identified in a defined timeline.
Partly observed	<ul style="list-style-type: none"> – The FMI partly observes the principle. – The assessment has identified one risk or more of concern (moderately important) that could become serious if not addressed promptly. – The FMI should give a high priority to addressing these risks.
Not observed	<ul style="list-style-type: none"> – The FMI does not observe the principle. – The assessment has identified one or more serious risks (extremely important) that warrant immediate action. – The FMI should accord the highest priority to addressing these risks.
Not applicable	The principle does not apply to the type of FMI being assessed.

Following the above, an appropriate time frame is determined to address the issues prioritized by its importance and degree of concern, including timeline to address risks, for each PFMI principle at hand. In addition, parties responsible for implementing the rectification plan, and implementing follow-up activities are determined. The steps for rectification and corrective measures should be included in this plan as well. After that, the assessment reports will be prepared. At this step, assessment results and key findings about the implementation of each PFMI principle are documented. In addition, the report should include which principles are being implemented and which are not, the rectification and mitigation plans and the time frame agreed upon with the FMI for addressing recommended actions for each principle.

The assessment report template may include the following items:

- Executive summary of the assessment findings;
- Introduction (the entity conducting the assessment, objective of the assessment, scope of the assessment, methodology of the assessment, sources of information in the assessment, etc.);
- Illustration of difficulties or obstacles in conducting the assessment (e.g. lack of information or cooperation);
- Information on the FMI, including a description of its role, operations and services and summary statistics of its activities;
- Recent changes or developments; and
- Summary assessment and rating for each principle in detail.

The assessment methodology for the responsibilities of authorities follows the same steps as prescribed in the assessment methodology for the PFMI principles.

4-3-3 Inducing Change

Following the above, SAMA will determine the required change needed to be induced into relevant payment and settlement systems. This internal role and responsibility is entrusted to relevant departments within SAMA. All payment and settlement systems submit their technical and operational reports to SAMA, and such matters are reviewed as per SAMA's organizational structure and roles. The GOB within SAMA provides an appropriate environment for reviewing and considering proposed changes or required updates and developments. This approach is preferred by most central banks. In addition, various findings arising from oversight and assessment will be reviewed. Recommendations will be discussed and approved for implementation to ensure stability and efficiency, improve performance and support growth of payment systems. Currently, the GOB at SAMA plays an important role in the oversight process by following a methodology of cooperation and coordination with concerned parties for facilitating and inducing change and ensuring compliance.

5: Cooperation with External Authorities

5-1 Supervisory and Oversight Cooperation

SAMA cooperates with other domestic, regional and international authorities through memorandums of understanding (MOU), joint committees or meetings as needed and in accordance with the agenda and topics raised in relation to supervisory and oversight aspects. Cooperation is

undertaken with common financial payment and settlement systems, such as the Gulf Cooperation Council Network (GCC Net) and the Gulf Cooperation Council Real Time Gross Settlement (GCC RTGS) System. Furthermore, cooperation is undertaken with the Arab Monetary Fund through the Arab Regional Payment System (ARPS), which includes related central banks, via the competent committees, for regulating and implementing the PFMI. SAMA also cooperates with domestic authorities, such as the Capital Market Authority (CMA) that establishes the Central Counterparty (CCP). SAMA also cooperates with the Saudi Arabia Financial Investigation Unit (SAFIU) for cases of financial fraud and suspicious transfers via payment and settlement systems. The Department of Payment Systems and Companies Control at SAMA is responsible for carrying out coordination and cooperation for these supervisory areas. It also communicates with supervisory authorities, central banks and any other relevant authorities or organizations inside or outside Saudi Arabia in accordance with Responsibility (E) of the PFMI guidelines.

First Group: Principles related to the general organization

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities, including agreements and contracts concluded for its operations and services, in all relevant jurisdictions. The legal basis should provide protection and a high degree of certainty.

Principle 2: Governance

The FMI should have clear and effective governance procedures and arrangements that specify roles, responsibilities and disclosure procedures within the scope of authority and promote its safety and efficiency.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework, procedures and policies for comprehensively managing, monitoring and addressing legal, credit and operational risks.

Second Group: Principles related to credit and liquidity risk management

Principle 4: Credit risk

An FMI should effectively measure, monitor and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor and manage its liquidity risk. An FMI should maintain sufficient liquid resources to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations.

Third Group: Principles related to settlement

Principle 8: Settlement finality

An FMI's rules and procedures should clearly define the point at which settlement of obligations is final, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time. An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Principle 9: Money settlements

An FMI may conduct its money settlements using a settlement asset with little or no credit or liquidity risk. However, an FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money. An FMI's legal agreements with any settlement banks should provide for the settlement finality.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor and manage the risks associated with such physical deliveries.

Fourth Group: Principles related to central securities depositories and exchange-of-value settlement systems

Principle 11: Central securities depositories (CSDs)

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues, prevent the unauthorized deletion of securities, and minimize and manage the risks associated with the

safekeeping and transfer of securities. A CSD should maintain securities and protect assets.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations, it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Fifth Group: Principles related to default management

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Principle 14: Segregation and portability

A CCP should have segregation and portability rules and procedures that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant.

Sixth Group: Principles related to general business and operational risk management

Principle 15: General business risk

An FMI should identify, monitor and manage its general business risks, including those arising from its operations and services, and should hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Moreover, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market and liquidity risks.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and services and fulfilment of the FMI's obligations.

Seventh Group: Principles related to access

Principle 18: Access and participation requirements

An FMI should have objective, reasonable, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements. An FMI should identify indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants.

Principle 20: FMI links

An FMI that establishes a link (a set of contractual and operational arrangements) with one or more FMIs, directly or through an intermediary, should identify, monitor and manage link-related risks.

Eighth Group: Principles related to efficiency

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in using resources and meeting the requirements of its participants and the markets it serves. An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement and recording. An FMI's adoption of internationally accepted communication procedures and standards for its core functions can facilitate the elimination of manual intervention in clearing and settlement processing and reduce risks.

Ninth Group: Principles related to transparency

Principle 23: Disclosure of rules, key procedures and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees and other material costs they incur by participating in the FMI.

All relevant rules and key procedures should be publicly disclosed.

Principle 24: Disclosure of market data by trade repositories (TRs)

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

5-3 Responsibilities of central banks, market regulators and other relevant authorities for financial market infrastructures

Responsibility A:

Regulation, supervision and oversight of FMIs

FMIs should be subject to appropriate and effective regulation, supervision and oversight by a central bank, market regulator or other relevant authority.

Responsibility B:

Regulatory, supervisory and oversight powers and resources

Central banks, market regulators and other relevant authorities should have the powers and resources to carry out effectively their responsibilities in regulating, supervising and overseeing FMIs.

Responsibility C:

Disclosure of policies with respect to FMIs

Central banks, market regulators and other relevant authorities should clearly define and disclose their regulatory, supervisory and oversight policies with respect to FMIs.

Responsibility D:

Application of the principles for FMIs

Central banks, market regulators and other relevant authorities should adopt the CPSS-IOSCO Principles for financial market infrastructures and apply them consistently.

Responsibility E:

Cooperation with other authorities

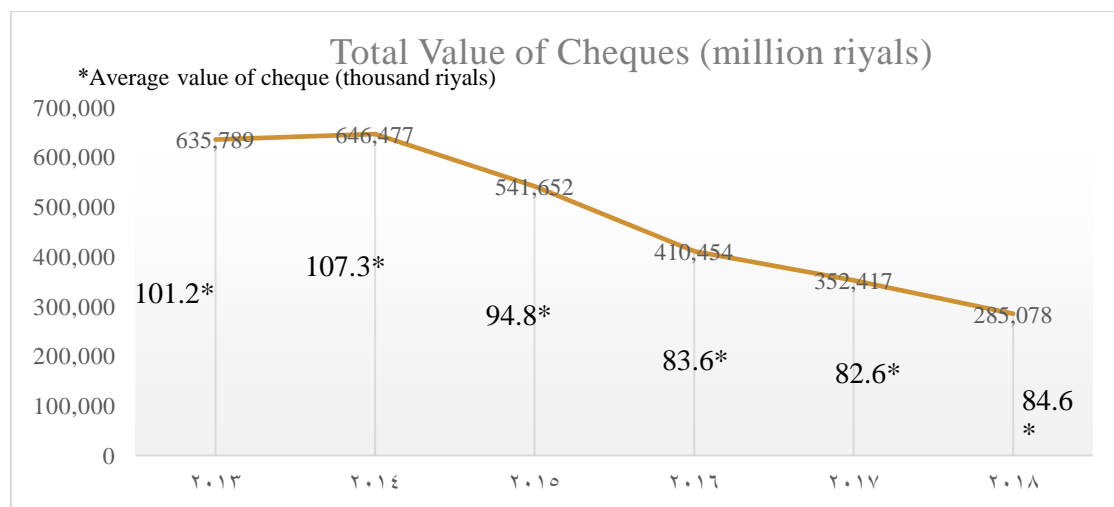
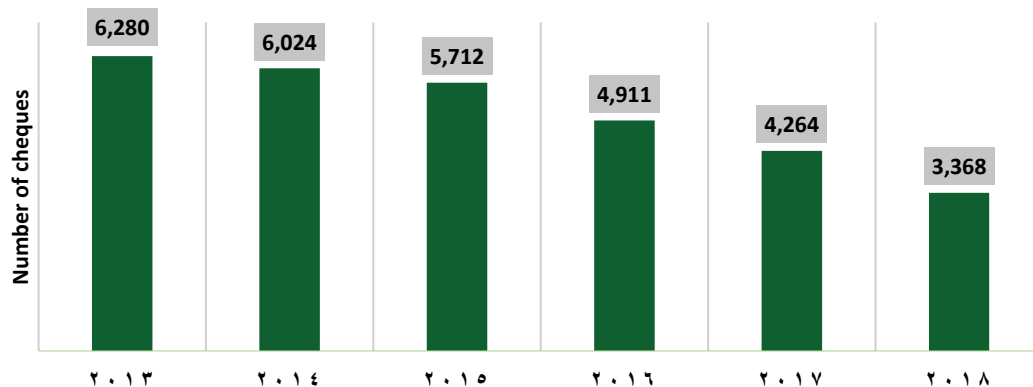
Central banks, market regulators and other relevant authorities should cooperate with each other, both domestically and internationally, as appropriate, in promoting the safety and efficiency of FMIs.

BANK CLEARINGS - COMMERCIAL AND PERSONAL CHEQUES

Period	No. of Cheques	Total Value (million riyals)	Average Value Per Cheque (thousand riyals)
2013	6,280	635,789	101.2
2014	6,024	646,477	107.3
2015	5,712	541,652	94.8
2016	4,911	410,454	83.6
2017	4,264	352,417	82.6
2018	3,368	285,078	84.6

Annual Statistics 2018– SAMA

NUMBER OF TRANSACTIONS MADE BY CHEQUES

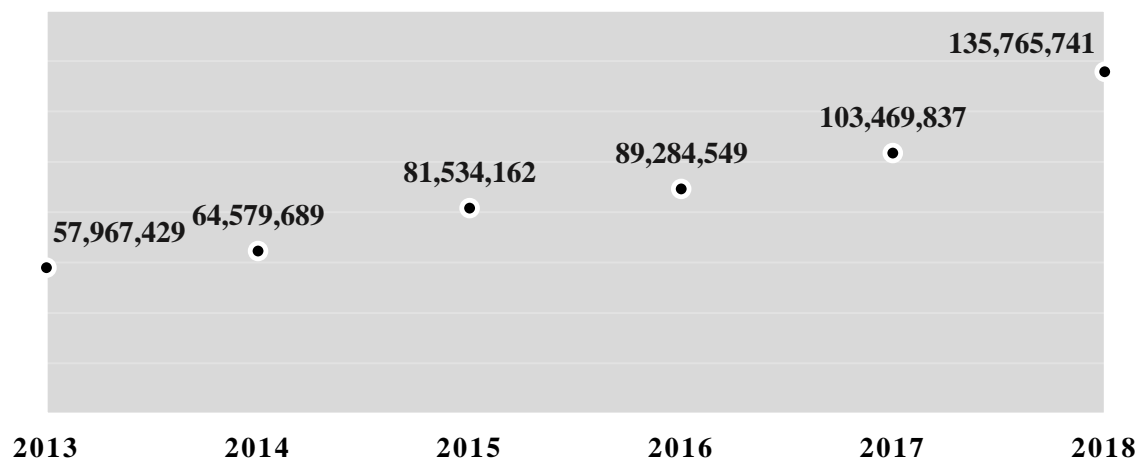


Number of Transactions for Saudi Arabian Riyal Interbank Express - SARIE

Period	Customer Payments			Interbank Payments			Others 3	Total (1+2+3)
	Bulk	Single	Total	Bulk	Single	Total		
			1			2		
2013	50,767,761	5,290,399	56,058,160	111,708	341,830	453,538	1,455,731	57,967,429
2014	56,374,728	6,084,741	62,459,469	118,321	373,657	491,978	1,628,242	64,579,689
2015	70,639,214	8,023,318	78,662,532	72,479	464,194	536,673	2,334,957	81,534,162
2016	76,083,701	9,156,201	85,239,902	78,829	468,458	547,287	3,497,360	89,284,549
2017	89,805,830	10,299,109	100,104,939	137,223	513,854	651,077	2,713,821	103,469,837
2018	122,236,238	10,676,017	132,912,255	122,462	512,980	635,442	2,218,044	135,765,741

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Number Of SARIE Transactions



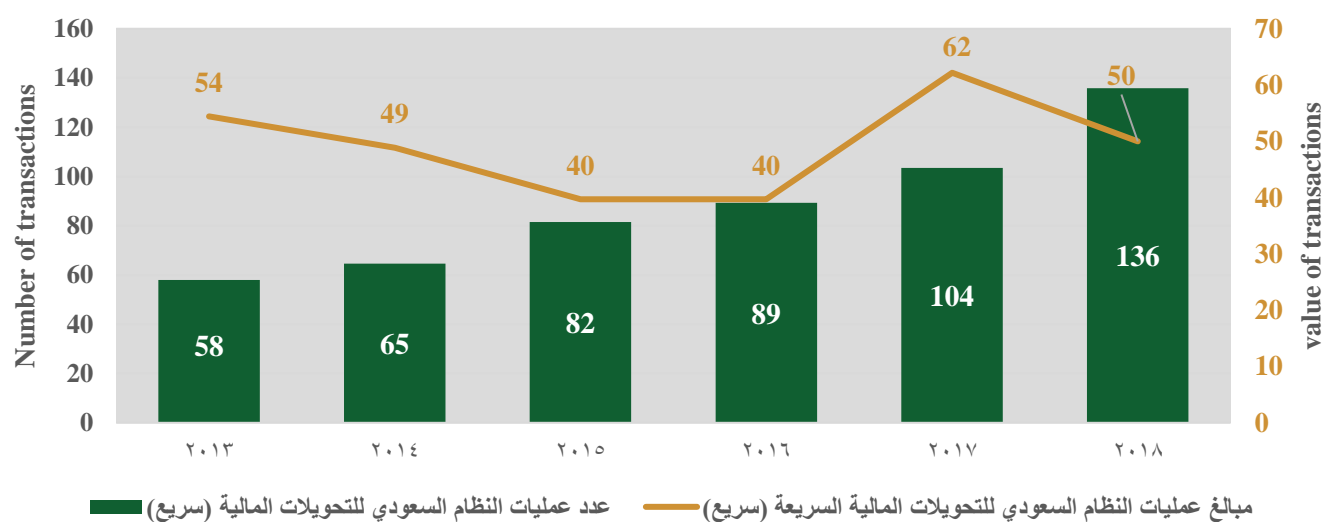
Value of SARIE Transactions

(Million Riyals)

Period	Customer Payments			Interbank Payments			Others 3	Total (1+2+3)
	Bulk	Single	Total	Bulk	Single	Total		
	1			2				
2014	1,722,110	3,456,624	5,178,734	50,616	49,196,465	49,247,082	33,514	54,459,330
2015	1,984,168	3,348,644	5,332,812	59,236	43,450,319	43,509,555	22,805	48,865,172
2016	2,067,070	3,396,401	5,463,471	61,402	34,160,785	34,222,187	31,333	39,716,991
2016	2,067,070	3,396,401	5,463,471	61,402	34,160,785	34,222,187	31,333	39,716,991
2017	2,180,450	3,839,017	6,019,467	80,139	56,047,550	56,127,689	42,176	62,189,333
2018	2,640,208	3,994,081	6,634,290	105,832	43,225,986	43,331,818	17,803	49,983,911

Annual Statistics 2018– SAMA

Number and Value of SARIE Transactions



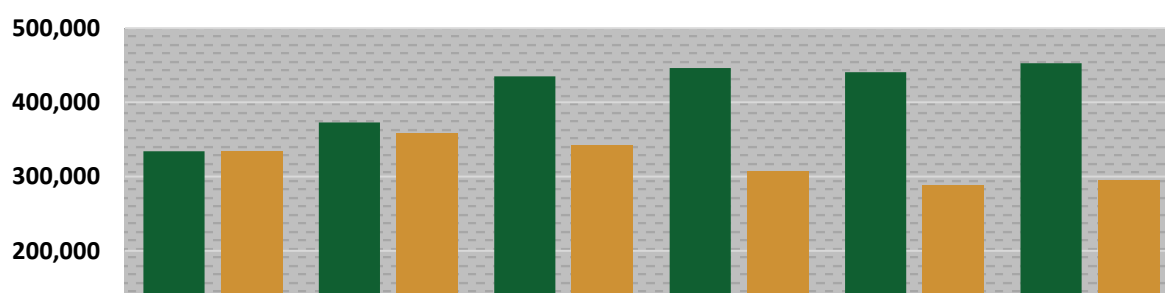
Automated Teller Machine Statistics

Period	Number of ATMs	Number of Cards Issued	No. of Transactions			Cash Withdrawals (Million Riyals)		
			SPAN	Banks	Total	mada	Banks	Total
2013	13,883	17,810,653	558,304,609	777,335,949	1,335,640,558	334,331	333,810	668,141
2014	15,516	20,550,274	624,739,995	904,252,659	1,528,992,654	373,030	358,373	731,403
2015	17,223	22,459,275	726,793,585	1,068,741,848	1,795,535,433	435,177	342,023	777,200
2016	17,887	26,537,349	822,232,299	1,100,462,142	1,922,694,441	446,300	307,149	753,449
2017	18,333	28,402,914	870,415,834	1,141,955,347	2,012,371,181	440,729	287,782	728,511
2018	18,685	28,559,828	948,781,727	1,176,878,389	2,125,660,116	452,931	295,394	748,325

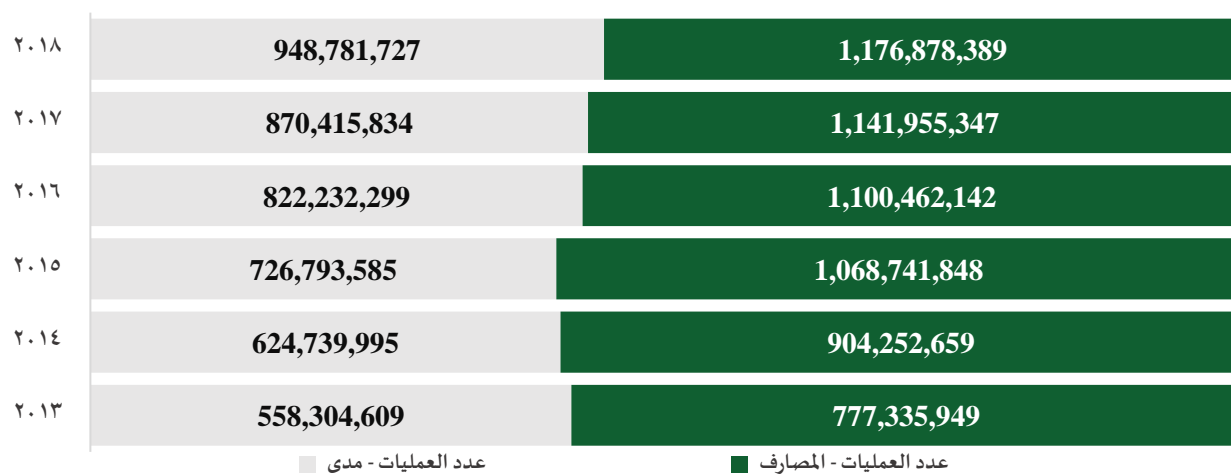
Annual Statistics 2018–

الإحصاءات السنوية ٢٠١٨ – مؤسسة النقد العربي السعودي

ATMs Cash Withdrawals



Automated Teller Machine Statistics



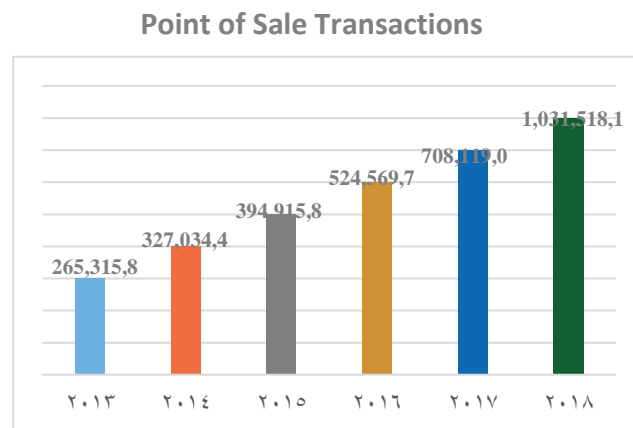
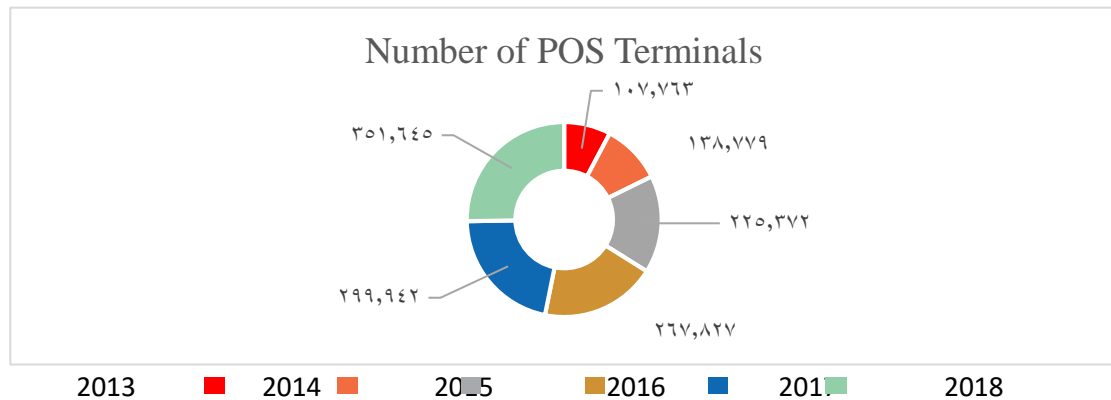
SAMA

Point of Sale Transactions

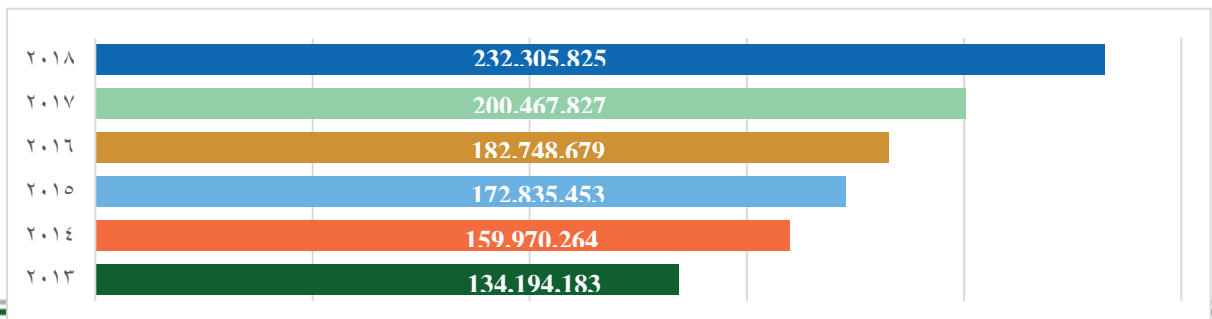
Period	Sales (In Thousand Riyals)	No. of Transactions	No. of Points of Sale Terminals
2013	134,194,183	265,315,873	107,763
2014	159,970,264	327,034,423	138,779
2015	172,835,453	394,915,865	225,372
2016	182,748,679	524,569,736	267,827
2017	200,467,827	708,119,092	299,942
2018	232,305,825	1,031,518,190	351,645

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الإحصاءات السنوية ٢٠١٨ – مؤسسة النقد العربي السعودي



POS Sales



SADAD System Payments Volume

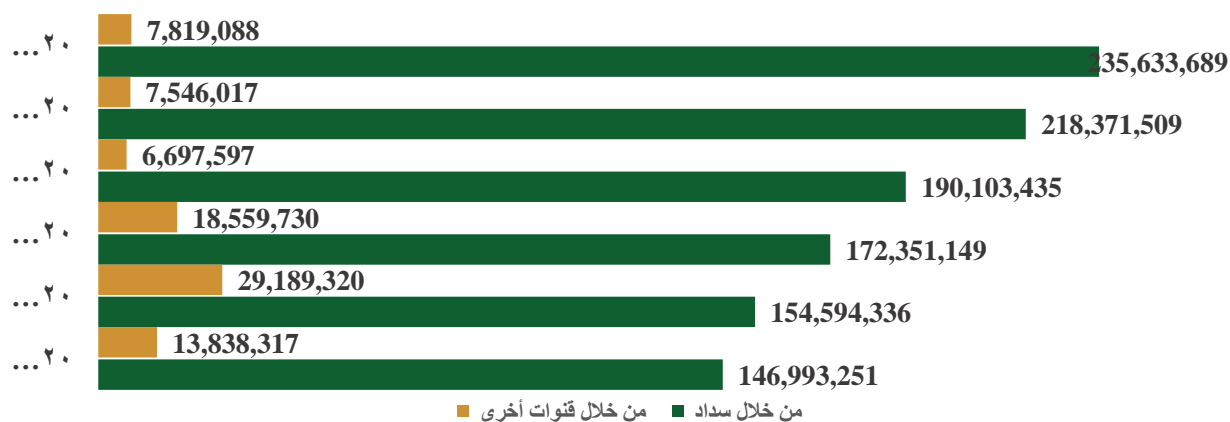
Volume of Bills Paid

SADAD Electronic Account

Period	Through SADAD	Through Other Channels	Total	Transactions
2013	146,993,251	13,838,317	160,831,568	--
2014	154,594,336	29,189,320	183,783,656	--
2015	172,351,149	18,559,730	190,910,879	--
2016	190,103,435	6,697,597	196,801,032	52,213
2017	218,371,509	7,546,017	225,917,526	339,323
2018	235,633,689	7,819,088	243,452,777	996,003

Annual Statistics 2018– SAMA

Volume Bills Paid



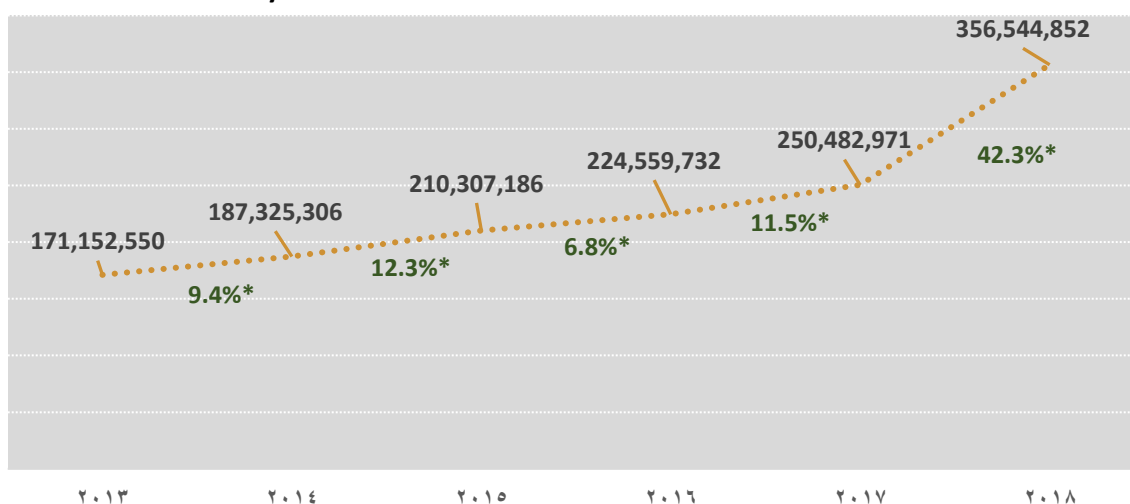
SADAD System Payments Value

Value of Bills Paid				SADAD Electronic Account
Period	Through SADAD	Through Other Channels	Total	Amount
2013	171,152,550	5,506,751	176,659,301	--
2014	187,325,306	7,392,084	194,717,391	--
2015	210,307,186	7,080,205	217,387,391	--
2016	224,559,732	8,290,889	232,850,621	34,032,117
2017	250,482,971	10,321,905	260,804,876	232,867,692
2018	356,544,852	11,327,154	367,872,007	463,237,738

Annual Statistics 2018– SAMA

SADAD System Payments Value

*Growth Rate of Payments Value



Ratings for Saudi Arabia					
	Principles/ Responsibilities	FMI Type	Rating	Status Description / Next Steps	Links to the Measures
Saudi Arabia	Principles	CCPs	1	The regulatory changes to address the CCP are in an advanced stage of discussion, and a plan with target dates has been drawn, for the establishment of a CCP.	
		PSSs	4	Saudi Arabian Monetary Authority (SAMA) published final new policy statement on 15 August 2013. The measure came into force on the same date.	SAMA (policy statement) - Circular No. 341000117728 http://www.sama.gov.sa/RulesRegulation/Rules/Pages/PFMI%20Circular%20Arabic.pdf
		CSDs and SSSs	4	Capital Market Authority (CMA) published a policy statement on 27 December 2017. The measure came into force on the same date.	CMA – Policy statement on supervision of FMIs https://cma.org.sa/en/MediaCenter/PR/Pages/C PMI_en.aspx
		TRs	4	SAMA published final new policy statement on 15 August 2013. The measure came into force on the same date.	SAMA (policy statement) - Circular No 341000117728 [see above for link]
	Responsibilities	CCPs	1	The regulatory changes to address the CCP are in an advanced stage of discussion.	
		PSSs	4	SAMA has a legal capacity to implement the Responsibilities.	SAMA - Charter of the Saudi Arabian Monetary Authority http://www.sama.gov.sa/sites/samaen/RulesRegulation/BankingSystem/Pages/BankingSystemFD01.aspx
		CSDs and SSSs	4	Capital Market Authority (CMA) has a legal capacity to implement the Responsibilities.	CMA - Capital Market Law, Chapter 2-4 http://cma.org.sa/En/AboutCMA/CMALaw/Pages/default.aspx Tadawul - Securities Depository Centre Rules http://www.tadawul.com.sa/static/pages/en/Regulation/SecuritiesDepositoryCenterRegulationsTadawul_en.pdf
		TRs	4	SAMA has a legal capacity to implement the Responsibilities.	SAMA - Banking Control Law, http://www.sama.gov.sa/sites/samaen/RulesRegulation/BankingSystem/Pages/BankingSystemFD03.aspx SAMA - Charter of the Saudi Arabian Monetary Authority

CPMI-IOSCO – Implementation monitoring of PFMI: Fifth update to Level 1 assessment report – July 2018

1: draft implementation measures are not published; 2: draft implementation measures are published; 3: final implementation measures are published but are not yet in force; 4: final implementation measures are in force; NA: no implementation measures are needed

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