

## **MIDDLE EAST: New Saudi Netting Regulation Creating a Buzz**

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There was a buzz during the joint association conference in Riyadh, Saudi Arabia on the 19 February. A collaboration by ISDA, ISLA and ICMA, the industry associations representing parties that enter into transactions such as derivatives, securities lending and repurchase transactions, is indeed unusual.

However, it was the introduction two days prior, on the 17 February, by the Saudi Central Bank (SAMA) of the Close-out Netting and Related Financial Collateral Regulation that caused the excitement. It is effective from that date. The regulation establishes the enforceability of netting agreements and related financial collateral arrangements with SAMA supervised entities, particularly in the event of a failure by one of the parties to such transactions. The primary objective is to ensure that the contractual provisions of netting agreements are enforceable both inside and outside bankruptcy proceedings, reducing credit risk exposure and enhancing financial stability.

The impact of this regulation on cross-border transactions and business in Saudi Arabia is significant. By streamlining the process of settling obligations between defaulting and non-defaulting parties, the regulation reduces the risk and uncertainty associated with financial transactions. Firms can now engage in transactions with greater confidence, knowing that their netting agreements will be upheld even in the event of a default.

The next step is for the associations to publish legal opinions that support the enforceability of close out netting provisions, in their published agreements, on a cross-border basis. These annual opinions are published globally. Parties rely on these opinions to reduce credit risk exposure and, where applicable, reduce their regulatory capital requirements. Publication will provide the 'green light' for financial institutions to commence trading of such transactions on a greater scale. This development can certainly be regarded as another step in Saudi's Vision 2030 to become a global investment powerhouse. Hence the buzz.

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