

Regulatory Provisions for the Restrictions on Algorithmic Trading

Draft Objective:

The project aims to develop the regulatory provisions for algorithmic trading and enhancing its integrity and efficiency, in a manner that ensures such trading does not have an adverse impact on the market or cause disruption to market trading, thereby contributing to investor protection and enhancing confidence in the Saudi capital market.

Regulatory Provisions:

First: The ratio of algorithmic trading orders to executed transactions on a security listed on the Main Market during a single trading day, for each registered trader, shall not exceed (20) orders to the executed transactions on securities classified by their liquidity for market-making purposes into the following categories: (high liquidity – medium liquidity – low liquidity – very low liquidity), set out in sub-paragraph (5.3.1) of paragraph (5.3) of item (5. Market-Making Incentives) of the Market-Making Procedures, as of 01/11/2026.

The restriction shall apply at the level of each registered trader (a person registered with the Exchange who is responsible for carrying out the trading activities of the Exchange member and its clients through access to the trading system), in accordance with the following equation:

$$\frac{(\text{entered orders} + (\text{amended orders} \times 2) + \text{cancelled orders})}{(\text{executed transactions} + 1)} - 1$$

Second: The necessity of complying with the provisions of Article (54) of the Capital Market Institutions Regulations, including the establishment and maintenance of supervisory systems and procedures. A capital market institution must have systems and procedures that ensure the integrity and efficiency of algorithmic trading, in a manner that ensures the absence of any adverse effects on the market or any violation of the Capital Market Law and its Implementing Regulations, in addition to establishing specific methodologies for developing and testing such systems, algorithms, and strategies prior to their application and use, so as to ensure that they do not lead to disruption of trading in the market and that they continue to operate effectively under varying market conditions. It must also conduct sufficient and continuous testing of the algorithms and technical means used to verify that they are reliable and effective in achieving their purpose, and to verify the accuracy of the algorithms' results. The CMA also emphasizes the importance of establishing policies and systems for monitoring the algorithmic trading conducted through the capital market institution's systems, in a manner that ensures effective monitoring of the entered orders, the issuance of alerts and reports related to algorithmic trading, and that enables — where necessary — the shutdown of the algorithmic trading system or the trading algorithm, and that it retains records of all data and information related to algorithmic trading and its systems, and the policies, procedures, strategies, and controls for algorithmic trading, in addition to the documentation related to the development and testing of the algorithms, for a period of ten years after the date of ceasing to use or amending them. The CMA and the Saudi Tadawul Company shall be provided with any information or data related to algorithmic trading upon request.