

Consultation Response

CMA Public Consultation on the Draft Regulatory Provisions on IPO Practices in KSA

20/10/2026

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the Capital Markets Authority (CMA) Public Consultation on the Draft Regulatory Provisions on IPO Practices in KSA.

AFME's membership includes firms active across international equity capital markets, including institutions that underwrite, advise on and invest in IPOs in Saudi Arabia and other major jurisdictions. AFME welcomes the CMA's continued efforts to enhance IPO practices in the Kingdom, and supports the Draft's broader objectives of improving transparency, strengthening investor protection, and providing greater certainty around IPO transactions; we also recognise that a number of the Draft's proposals are aligned with these objectives and would support the continued development of the Saudi capital market. The proposals in the consultation, however, have important and, we believe, materially adverse implications for the Saudi IPO market and AFME members. In particular:

- (i) the requirement for underwriting agreements to impose a hard underwriting commitment regardless of price and size of IPO on the syndicate of banks before bookbuilding begins, rather than post bookbuild and pricing;
- (ii) the proposed bidding procedures and requirement for investor orders to be supported by proven, readily available liquidity;
- (iii) the mandatory disclosure of prescribed forward-looking financial information and the related due diligence obligations and liability risks for the financial advisers, as well as unmitigable liability and responsibility risks for the directors, issuer and the syndicate banks; and
- (iv) the proposed implementation timeline, which does not permit appropriate transitional arrangements to allow market participants sufficient time to update agreements, systems and procedures.

We note the proposal to formalise the convention that a bid at a specified price is treated as covering all lower prices within the offering range, which we endorse. AFME has sought to take a constructive and solutions-focused approach to this response, with particular regard to the practical impact of the proposals, their potential effect on issuer and investor participation and ability and appetite of banks to act on Saudi IPOs going forward, and their alignment with established international IPO practice.

Pre-bookbuild hard underwrites

AFME supports the general objective of providing greater certainty around IPO transactions. However, we are concerned that any potential perceived benefit from requiring underwriters to assume binding underwriting obligations before bookbuilding (hard underwriting) may not be proportionate to the associated risks and could have unintended consequences for the functioning of the market. The proposal would represent a significant departure from established international IPO underwriting practice. In our view, the current sequencing of the IPO process appropriately reflects the importance of assessing investor demand and establishing a final and appropriate price and size of offering before underwriters are required to take on irrevocable underwriting commitments. Bookbuilding is a fundamental part of the IPO process, and essential for price and final offering size discovery. IPO issuers do not have an established market price or trading history and often do not have an existing public investor base. The bookbuilding process therefore provides the main mechanism for assessing

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investor demand, testing valuation and determining the appropriate offering price. Requiring banks to commit to an offering before this process has taken place would significantly change the nature and risk of IPO underwriting, and ill-advisedly pre-judge the price at which investors will buy.

Under the proposed framework, underwriters would be required to take on substantial market and valuation risk without the benefit of information on investor demand. If demand were insufficient, an underwriter could be left holding a significant position in newly issued securities that are, at that stage, unlisted and potentially illiquid. This is materially different from the risks involved in overnight block trades or secondary offering, where the securities are listed and traded already, and negotiated and priced specifically against the current market price. This also raises a specific legal difficulty for AFME members that are banking entities subject to the U.S. Volcker Rule (large U.S. banks and non-U.S. banks with operations in the U.S.) This concern is not limited to U.S. banks, but extends to any banking entity operating in the U.S. that is subject to the Volcker Rule. The Volcker Rule requires an in-scope bank's firm purchase commitment on a position to be sized to Reasonably Expected Near-Term Demand ('RENTD'). For a newly listing issuer, RENTD is typically established through the bookbuilding process itself, since there is no trading history or observable market pricing to draw on, in contrast to a secondary or follow-on offering. A requirement for the underwriting commitment to attach before bookbuilding has generated any firm demand evidence would pose serious legal and regulatory difficulties for Volcker-regulated firms seeking to establish RENTD at the relevant time, with the practical consequence that such firms may be unable to participate in Saudi IPO underwriting syndicates under this structure.

Ultimately, banks are likely to become much less willing to provide services and underwriting commitments for IPOs, or if they do decide to participate, they may seek to manage that risk through extreme underwriting discounts and more conservative or less transparent derivative transaction structures. This would increase the cost of raising capital for issuers and, ultimately, make a public listing less attractive, making capital market IPO exits more challenging and potentially less accessible for many Saudi companies.

It is unlikely that banks would be willing to hard underwrite "blind" and risk being required to take up a large position, even when there is sufficient indicative investor demand. Moreover, a large volume of underwritten shares being unloaded following admission to trading, could severely impact aftermarket performance and contribute to increased volatility. This would not be in the interests of issuers, existing shareholders or investors.

The proposed amendments could result in an underwriter being required to purchase a significant stake in a private company. This would be inconsistent with the role typically performed by an investment bank in an IPO, which is principally to facilitate the transaction rather than to assume a long-term investment position in the issuer. Such an outcome would also be unlikely to be supported by issuers. If an IPO did not proceed, an issuer could be left with its underwriters as significant shareholders (potentially the largest). Underwriters would not ordinarily have a strategic or long-term investment interest in the issuer and their objectives could therefore differ materially from those of the issuer and its existing shareholders. An underwriter holding a substantial stake may reasonably seek to realise that investment at the earliest opportunity and, pending such exit, may seek shareholder or governance rights commensurate with its holding, including board representation, enhanced information rights or consent rights in relation to certain corporate actions. It could also give rise to material liquidity concerns, given that unlisted shares are more difficult to liquidate than listed securities.

Furthermore, restrictions applicable to banks operating in certain regulated sectors (such as aviation), may limit an underwriter's ability to acquire or hold significant stakes in such companies. This could create additional legal and regulatory hurdles, and in some cases make compliance impossible, where an underwriter is required, under the proposals, to take up a large position in a company, but is prevented from doing so by those restrictions.

For AFME members subject to the Volcker Rule, a failed listing raises a further, separate concern. When underwriting under the Volcker Rule banks may hold positions in connection with an active distribution that the banking entity is working to sell down; once a listing fails outright, there is no distribution left to complete, and holding the resulting unlisted position could risk the position being treated as impermissible proprietary trading or an impermissible investment, which are prohibited by the Volcker Rule. This is a distinct problem from the RENTD timing issue above, and adds a second basis on which the proposed structure poses serious legal and regulatory difficulties for Volcker-regulated firms.

AFME notes that pre-launch demand indications (whether in the form of cornerstone investor commitments, or indications of interest from more informal pre-marketing processes, such as "pilot

fishing" or "anchor marketing") are, in practice, available ahead of launch. Where such indicative demand is obtained pre-launch, the results could be made available to the CMA itself ahead of launch, should the CMA wish to have sight of them, as an additional data point alongside whatever other information the CMA considers relevant to its assessment of the investor interest in a given offering. This could support the structural alternative proposed below.

AFME is concerned that the proposal could negatively affect aftermarket performance, whereby underwriting banks may place greater emphasis on limiting their own underwriting exposure, rather than focusing primarily on identifying appropriate long-term investors and establishing a high-quality shareholder base. This could, in turn, affect pricing, allocation decisions and the quality of the investor base established at IPO.

AFME is not aware of any international IPO market that requires underwriters to enter into a binding hard underwriting commitment before the completion, let alone at the commencement of bookbuilding. The approach taken in other leading markets reflects the importance of allowing investor demand and pricing information to develop before underwriting risk is assumed. A divergence from established international practice would likely make the Saudi Arabian IPO market significantly less attractive to investors and to banks and will likely severely restrict the occasions on which banks (especially international banks) will be willing and able to act as underwriters and financial advisers for Saudi Arabian IPOs. Furthermore, divergence from international norms and requirements could also restrict banks' ability to market Saudi Arabian IPOs internationally, in particular to the US, thus depriving Saudi issuers access to a broader investor base. Critically, we note that insufficient investor demand does not appear to have been an issue in recent Saudi Arabian IPO transactions. Against this background, it is not clear that the proposed changes address an identified market failure or that the benefits (if any) would outweigh the costs and risks outlined above.

More broadly, AFME is not aware of any comparable regulated international equity capital market framework under which an underwriter could be required to retain all of the shares offered to the market where an IPO has been withdrawn or otherwise does not proceed. The approach taken in other leading markets reflects the importance of allowing investor demand and pricing information to develop before underwriting risk is assumed. Divergence from established international practice would likely make the Saudi Arabian IPO market less attractive.

It is also unclear whether the CMA intends this requirement to operate as a mandatory obligation, such that issuers and underwriters would be unable to agree an alternative contractual arrangement.

Given the potential implications outlined above, AFME recommends retaining the existing framework. In order to assist the CMA to ensure early on firm engagement by the banks with the issuer, AFME would propose the following as a workable alternative. An underwriting agreement would be agreed and then signed between the banks and the issuer at the time of launch and commencement of the bookbuilding, so that the CMA's goal of having a fully engaged syndicate of underwriters from the start of the bookbuilding is met. However, the underwriting agreement, and the syndicate banks' obligations thereunder to underwrite the transaction and deliver monies in full, would only become binding and unconditional once the bookbuilding has completed and a final price has been agreed between the issuer and the banks and such price has been inserted into a pricing supplement to the underwriting agreement and signed by the parties. Post pricing and signing of the pricing supplement up until settlement and closing, that settlement underwriting obligation would continue to be subject to the usual closing conditions and termination rights found in international offerings. This would allow the CMA to be assured of engaged underwriter involvement from day one, without requiring underwriters to take on underwriting and purchase risk before firm orders have been placed in the book and the final IPO price discovered at the end of the bookbuilding and agreed among banks and issuer.

Forward-looking disclosure

AFME supports the CMA's objective of providing investors with more information to assist valuation and price formation, and recognises that well-implemented forward-looking disclosure can improve price formation and support investor decision-making, where it can be appropriately diligenced, accompanied by substantiating bases to support its reasonableness and is genuinely justified in all the facts and circumstances. But it may not be appropriate, reasonable or possible for all companies undertaking an IPO to provide the same or in fact any forward-looking disclosure, depending on the level of consistency, predictability of their business and market. AFME's concerns are not directed at the disclosure objective itself, but at the lack of a defined methodology and liability framework governing the financial adviser's due diligence role in connection with such statements and forecasts, and the liability and reputational

risks caused to all the syndicate banks. Forward-looking information is inherently uncertain and, by definition, less reliable than historical financial performance; forward-looking statements are based on management's assumptions, which can be derailed by circumstances outside of their control. Requiring such projections to play a greater role in the IPO pricing process may increase the risk of valuations being anchored to assumptions that ultimately prove inaccurate, potentially resulting in inefficient price formation and adverse outcomes for issuers and investors and syndicate banks.

AFME believes responsibility for corporate disclosure should remain with the issuer and its management, who are best placed to assess the company's prospects and underlying assumptions, and what, if any, forward-looking information is fair and reasonable and is able to be justified on reasonable bases, so as to be disclosed in a prospectus and for investors to take into account in making an investment decision. The proposed requirement for financial advisers to conduct due diligence and form a view on the "reasonableness" of forecasts raises significant practical challenges, given that future performance cannot be verified or audited to the same standard as historical information. In addition, the proposal will create additional and seemingly unmitigable legal and liability risks for advisers and underwriters, which are likely to reduce firms' willingness to participate in IPOs, increase execution costs and uncertainty and reduce international investor and intermediary participation in the Saudi Arabian market.

AFME notes that existing market practice already provides for a dedicated financial due diligence adviser to be engaged alongside the issuer's financial adviser on matters of this nature. The CMA may wish to consider formalising a greater role for this existing function, such that the detailed analytical work underpinning forward-looking statements and forecasts is substantively carried out by the financial due diligence adviser, rather than resting solely with the financial adviser. AFME would welcome clarification from the CMA on how the two roles are intended to interact under the Draft, and in particular the degree to which a financial adviser may rely on the work of a duly engaged financial due diligence adviser in forming its own view.

AFME recommends that the CMA permit the Draft's requirement for future financial performance indicators covering not less than one fiscal year to be satisfied, as an alternative to a discrete single-year profit forecast, by reference to medium-term guidance or targets of the kind that are typically included in the international offering documentation prepared for, and relied upon by, international investors. It is usually expressed as a range or directional target over a multi-year horizon rather than a single precise figure, reducing the risk of valuations being anchored to an artificially precise number that later proves inaccurate. For these reasons, permitting the prospectus's forward-looking disclosure to draw on, and be consistent with, that same international offering guidance would, in our view, meaningfully ease the concerns described above, while still ensuring investors receive meaningful forward-looking information.

If the CMA wishes to encourage greater use of forward-looking information, AFME would encourage the CMA to look at how other major markets have approached this same issue. For example, the UK's Public Offers and Admissions to Trading Regulations 2024, in force since January 2026, introduced a Protected Forward-Looking Statements regime applying a heightened recklessness/dishonesty liability threshold to qualifying forward-looking statements, including profit forecasts. The European Union has also recently committed, as part of its Listing Act reforms, to formally reviewing whether a similar safe harbour should be adopted — indicating that this is a widely shared regulatory consideration rather than one specific to a single jurisdiction. Such approaches recognise the inherent uncertainty of forecasts while facilitating disclosure and supporting continued participation by issuers, advisers and international investors. AFME would welcome the opportunity to work with the CMA, alongside financial advisers and other Capital Market Institutions, on developing guidance that pairs a defined due diligence methodology with a corresponding liability standard ahead of implementation.

Genuine liquidity in orders

AFME supports the objective of ensuring the integrity of the bookbuilding process and promoting confidence that orders submitted during an offering represent genuine investor interest. However, we are not aware that the submission of orders without sufficient funding capacity is a significant issue among international investors participating in IPO transactions. We would welcome further clarity regarding the practical measures that participating entities and underwriters would be expected to undertake in order to verify an investor's funding ability, including the scope of any required checks and the evidential standards that would apply.

AFME would also highlight that a verification standard limited to cash or cash equivalents may exclude other recognised means by which institutional investors demonstrate funding capacity, including confirmation of available liquidity from a custodian or unconditional, committed credit facilities verified by a bank and available within the relevant payment window. A strict cash or cash equivalent requirement could also force investors to sell (a percentage of) their holdings of Saudi-listed securities to raise the necessary funds. AFME would encourage the CMA to consider broadening the verification standard to accommodate an appropriate scope of instruments, ideally supported by a non-exhaustive list of acceptable evidence types and illustrative examples, to give financial advisers and Capital Market Institutions greater certainty in applying the standard.

There is a risk that the proposal could introduce significant administrative burdens for market participants without addressing an identified market concern. This may increase transaction costs and extend execution timelines, reducing international investor participation in Saudi Arabian offerings, as a result. Accordingly, we encourage the CMA to ensure that any verification framework is clear and proportionate, while preserving the current efficient access for domestic and international investors.

Separately, AFME notes the Draft's requirement that any amendment or cancellation of a participation request be submitted as a new formal request through the designated official channel, rather than by amending the existing request. AFME supports the aim of maintaining a clear, auditable record of order changes, but would welcome guidance on how partial changes to an order - for instance, adjusting price or quantity alone - should be treated under this requirement, so that financial advisers and Capital Market Institutions can apply the standard consistently.

Price-range bid convention

AFME welcomes the Draft's provision confirming that a participation request at a given price within the offering range is treated as covering all lower prices within that range as well. This reflects standard international bookbuilding practice and supports the efficient construction of the demand curve during price discovery.

Implementation timeline

AFME notes the short period between the close of the consultation on 22 October 2026 and the proposed effective date of 2 November 2026. Given the number of interlocking changes the Draft would introduce across underwriting arrangements, order verification and forward-looking disclosure, AFME is concerned that this timeframe may not allow sufficient time either for the CMA to reflect consultation feedback in the final rules, or for market participants to update agreements, systems and procedures accordingly. AFME would recommend that the CMA: (i) allow sufficient time for further engagement with market participants following the consultation, and implement any new requirements only after an appropriate transition period, taking into account the time needed to discuss the proposed changes with market participants and make any necessary changes; (ii) provide clarity on how the new rules would apply to offerings where an underwriting mandate, or board or regulatory approval, has already been obtained; and (iii) provide for a transition period of at least six months between publication of the final rules and their entry into force, in light of the scale of operational change involved.

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