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Protecting the Rights of Local Shareholders under the Saudi rules for Qualified Foreign Financial Institutions Investments in Listed Shares

Abdullah Mushkus Almutairi

Ministry of Education || KSA

Abstract: Recently, the Saudi Capital Market Authority (CMA) opened the door for foreign investors to invest directly in the stock exchange market (Tadawul) to gain more welfare from their investments. Along with this step, the CMA released a set of Rules for Qualified Foreign Financial Institutions Investments (RQFFII) in Listed Shares 2015 that aimed to attract and protect the shareholders' rights.

In this research project, the RQFFII have been examined to discover the level of attraction that these Saudi rules offer to foreign investment. The project also aimed to highlight strengths and weaknesses in the rules with regard to the protection shareholders' rights. This thesis explored the possible influence of foreign investments in the Saudi stock exchange. The research project aimed to increase the CMA and shareholders' awareness and knowledge in regard to these rules which lead to more protection of the local stock exchange.

In order to achieve this goal, this thesis used a qualitative method by comparing these rules to the regulations of other countries that have a successful record, such as the Gulf Countries Council (GCC) and Australia. It has also analysed reports of the international organization to support the findings.

The findings showed that on the one hand the current rules are not sufficiently attractive, and on the other hand are restricted and able to provide enough protection to the domestic market and shareholders. In addition, the results support the positive role of foreign investors on the local stock exchange market and its regulations. The findings implied a correlation between regulations and foreign investment flows in regard to attracting foreign investments and protecting the local economy.

Hence, Saudi policymakers use gradual opening of foreign investors to its stock exchange, this project found that the amended rules in 2016 may lead to more foreign investment inflow.

Keywords: foreign investments; Saudi law; stock exchange; protection rights; market regulation.

قانون الاستثمار الأجنبي في سوق الأسهم السعودية
دراسة تأصيلية مقارنة مع دول مجلس التعاون الخليجي ودولة استراليا

عبد الله مشخص المطيري

وزارة التعليم || المملكة العربية السعودية

الملخص: في الآونة الأخيرة، فتحت هيئة السوق المالية السعودية (CMA) الباب أمام المستثمرين الأجانب للاستثمار مباشرة في سوق الأوراق المالية (تداول) للحصول على مزيد من الرفاهية من استثماراتهم. وإلى جانب هذه الخطوة، أصدرت هيئة سوق المال مجموعة من القواعد لاستثمارات المؤسسات المالية الأجنبية المؤهلة (RQFFII) في الأسهم المدرجة لعام 2015 والتي تهدف إلى جذب وحماية حقوق المساهمين.

في هذا المشروع البحثي، تم اختبار RQFFII لاكتشاف مستوى الجاذبية التي توفرها هذه القواعد السعودية للاستثمار الأجنبي. كما يهدف المشروع إلى تسليط الضوء على نقاط القوة والضعف في القواعد فيما يتعلق بحقوق المساهمين في الحماية. كما استكشفت هذه الرسالة التأثير المحتمل للاستثمارات الأجنبية في البورصة السعودية. ويهدف المشروع البحثي إلى زيادة الوعي والمعرفة لدى هيئة السوق المالية والمعرفة فيما يتعلق بهذه القواعد التي تؤدي إلى مزيد من الحماية للبورصة المحلية.

ومن أجل تحقيق هذا الهدف، استخدمت هذه الرسالة طريقة نوعية من خلال مقارنة هذه القواعد مع أنظمة الدول الأخرى التي لديها سجل ناجح، مثل مجلس دول الخليج (GCC) وأستراليا. كما حللت تقارير المنظمة الدولية لدعم النتائج.

أظهرت النتائج أن القواعد الحالية ليست جذابة بما فيه الكفاية، ومن ناحية أخرى فهي مقيدة وقادرة على توفير الحماية الكافية للسوق المحلي والمساهمين. بالإضافة إلى ذلك، تدعم النتائج الدور الإيجابي للمستثمرين الأجانب في سوق الأوراق المالية المحلي ولوائحه.

وتتضمن النتائج وجود علاقة بين اللوائح وتدفقات الاستثمار الأجنبي فيما يتعلق بجذب الاستثمارات الأجنبية وحماية الاقتصاد المحلي.

وبالتالي، تبين أن صانعي السياسة السعوديين اختاروا الانفتاح التدريجي للمستثمرين الأجانب في البورصة، وقد وجد هذا المشروع أن القواعد المعدلة في عام 2016 قد تؤدي إلى مزيد من الاستثمار الأجنبي في التدفق.

الكلمات المفتاحية: الاستثمارات الأجنبية؛ القانون السعودي، تداول الأسهم، حقوق الحماية، تنظيم السوق.

Introduction (المقدمة)

The importance of this study (أهمية هذه الدراسة)

In recent years governments have paid great attention to the development and security of their financial systems. This has been a concern since the Global Financial Crisis, which forced governments to focus more on the systematic risk and the possibility of future economic crises. The financial system can be fragile, especially when rapid expansion of credit is associated with agency problems and information asymmetries (Barajas et al. 2013). Hence, developing a strong financial system that operates within certain bounds is critically important as it guarantees the stability of the overall national economy.

In many emerging countries the development of a robust financial system is a major factor contributing to economic growth and financial stability and reducing risks and minimizing the possibility of financial crisis (Ngalande 2003). Thus, governments are constantly looking for approaches and methods to enhance their financial systems which in the end strengthen economic stability and development.

One of the effective approaches in strengthening the financial system is the Stock Exchange Market which has been an essential factor in this process. In fact, the stock exchange market is considered the heart and centre of the financial system and as it can improve and steady the economy. The stock exchange market is a complex institution where the economic long-term funds of the major sectors including, governments, firms and households are utilized and mobilized to be accessible by different sectors of the economy. The improvement of the stock exchange market offers many opportunities for effectively utilizing funds as well as efficiently allocating resources to increase economic growth (Petros 2012).

Stock exchange markets boost economic growth through mobilization of savings. With rapid expansion in the economy, governments and private sectors need long-term capital to finance new projects, exploit new business opportunities and expand existing businesses. The stock exchange market promotes effective utilization, formation and allocation of capital resources. Through the market economic sectors, especially industry, are provided with the required resources to increase production and productivity which can lead to the growth of the overall economy. These capital recourses are offered as non-debt financial capitals, which can help government and private sectors to achieve more productivity and growth without the weight of debt on their shareholders (Osinubi 2004).

The stock exchange market provides many benefits as well as risks for shareholders. Either local or foreign investors who wish to invest in the stock exchange market need to have an understanding of the possible benefits and potential risks. Investing in the stock exchange market provides investors with the opportunity of achieving capital growth. Usually, the reason behind people investing in the stock exchange market is raising their capitals and wealth as well as protecting their capitals from inflation. Moreover, investment in the stock exchange market allows investor to have financial control over their shares. This control is offered to shareholders as shares can be purchased and sold online with no ongoing expenses, conveyancing costs, or stamp duty (ASX 2011). On the other hand, there are many risks and disadvantages of the investment in the stock exchange market as it can be unpredictable and unstable as well as unaccountable. Investors can be at risk of losing their capital if there is a crash in the stock exchange market which causes a decline of shares prices. Most importantly, when a crisis occurs in a nation, shareholders may panic and withdraw their share which causes the stock exchange market to crash and investors to lose their capital. Investors can also under risk of making poor investments decisions based on poor recommendations which can lead to capital loss. Moreover, investing in shares in the stock exchange market is also susceptible to volatility. Investors need to accept the fact that their shares can fluctuate and in some cases may decline and never recover.

Stock exchange markets are deemed to be one of the essential institutions that strongly participates in the growth of emerging countries (Mañas 2005).The development of the stock exchange market contributes to increasing a nation's economic growth and stability. In fact, the benefits continue to affect investors as the stock exchange market increases shareholders' wealth and raises capitals. Thus, governments are continually developing this market in order to expand economic growth and guarantee financial stability. One of the most important and effective approaches to enhancing the stock exchange market is attracting foreign investors. The reason behind the attraction of the foreign investments is resulted from the outstanding performance and returns that those investors have achieved in their own country. Opening the door for foreign investors to invest in the domestic market can contribute to a rapid increase in economic growth; however, it can also harm both the economy and local investors (Claessens 1995).

Foreign investment on the other hand can harm economic growth and negatively affect a nation's financial stability. Foreign capital is invested in host countries for a specific period of time ranging from years to decades but will eventually be withdrawn from the domestic local market. This withdrawal could be sudden which could lead to the collapse of the national currency and harm local investors as well as the nation's economic growth (Al-Ziyra 2009). Price fluctuation and short-term hot money are also issues that foreign investors bring to the domestic market and can lead to stock prices fluctuating when there is a strong withdrawal of capital and, in worst case scenario, the collapse of the market (Saha 2009; Sameera 2014).

Therefore, in a step towards liberalizing the Saudi stock exchange market, the Saudi Arabia government allows foreign investors to invest directly in the stock exchange market. In 2015 it published the Rules for Qualified Foreign Financial Institutions Investment in Listed Shares as an attempt to regulate foreign investors' operations in the Saudi stock exchange market. This research investigates the effectiveness of the rules in attracting foreign investment as well as protecting local shareholders' rights. The research discusses a case study that compares the Gulf Cooperation Council countries and Australia.

Research Questions (أسئلة البحث)

The proposed research attempts to answer the following questions:

1. How can these rules protect the rights of local shareholders?
2. To what extent can these rules be effective in protecting the rights of local shareholders?
3. What are the weaknesses and strengths in these rules in regard to the protection of the local shareholders' rights?
4. How can these rules attract direct foreign investments in the Saudi stock market?
5. To what extent can these rules be effective in attracting foreign investors?
6. How can these rules protect the Saudi economy and stock exchange market from the associated risks that come with foreign investments?
7. To what extent might foreign investment benefit the Saudi economy and local stock market?

Aims of research (أهداف البحث)

The primary aim of this research is to assess the effectiveness of the Qualified Rules in protecting local shareholders' rights from foreign investments after the liberalization of the Saudi stock exchange market. Also, the establishment of the Foreign Financial Institutions Investment Rules aims to attract foreign investors as well as regulate their operations in the stock market. These rules will benefit foreign investors and provide more opportunities to invest directly in Tadawul listed companies in terms of improving the position of investors. This explains the action of the Saudi Arabian policymakers who have shown a great interest in attracting and encouraging foreign institutions to invest directly in the Saudi stock exchange market. Therefore, this research also aims to assess the efficiency of these rules in relation to attracting foreign investment in the local stock market. More importantly, it aims to identify any rules that foreign investors might utilize to jeopardize the market stability and local interests and weaken economic growth.

Research hypotheses (نظرية البحث)

In order to make the research issues more specific, it is necessary to identify a specific research statement that assists the researcher to answer the research question (Henn, Weinstein & Foard 2005). The hypothesis of this research is that the Rules for Qualified Foreign Financial Institutions Investments (RQFFII) in the Saudi stock exchange are not appropriate to encourage foreign investors and protect local shareholders.

Analysis of Content and Documents (تحليل المحتوى والوثائق)

Without doubt, data analysis is being the most challenge part of the research process (Brooks & Steenken 2015). Nevertheless, it is a major method of social research that many researchers find it as a good strategy to explain the context of regulations (Mason 2002).

The model of qualitative content analysis has been discussed and developed in various types of research based on the particular research questions (Kohlbacher 2006; Mayring 2002). However, in the case of this thesis, the data have been collected from primary and secondary source were analysed to examine mainly the level of protection for local shareholders. After gathering the relevant sources, there is a need to understand the legal issues and find facts that relate to the research questions (Brooks & Steenken 2015).

This research analyses the role of regulations in affecting the foreign investment flows either positively or negatively, which are reflected on the local stock exchange. As has been previously stated, in Article 1 of these rules, the foreign investment rules in the Saudi stock exchange shall operate together with other laws. Therefore, in order to increase the level of analysis, the relevant regulations in Saudi Arabia must be taken into consideration to determine if these rules are compatible or incompatible to each other. Pertinent legislation eventually played a vital role in ensuring that the basic rules are obviously binding. Moreover, the related sources provided greater depth into understanding the lawmaker's intent in drafting the law (Brooks & Steenken 2015).

This study has covered several stages of analysis as follows:

1. Analysing the Rules of Qualified Foreign Financial Institutions Investment in Listed Shares with the Capital Market Law issued by Royal Decree No: M/30 dated 2003;
2. Analysing the RQFFII in Listed Shares with the laws that are closely linked to these rules such as the Saudi Corporate Governance Regulations (2006), the Saudi Market Conduct Regulations (2004) and the Saudi Listing Rules (2004);

3. Analysing the RQFFII in Listed Shares with Saudi Company Law, issued by the Royal Decree No: 6 dated 1965 in terms of the effects on shareholders' rights;
4. Analysing the RQFFII in Listed Shares with the Executive Rules of the Foreign Investment Act in Saudi Arabia (2001) and Foreign Investment Law in Saudi Arabia (2000);
5. Analysing Executive Branch Resolutions that are represented by the Saudi Capital Market Authority as it have been considered the most important and obvious explanation of the existing rules. For example, frequently asked questions in the Rules for Qualified Foreign Financial Institutions Investment in Listed Shares, No: 3-42, dated in 4-5-2015, Objectives of opening the Saudi stock exchange market for Foreign Investment, Information and Documents Required From Foreign Investors to Invest in Listed Shares, and Glossary Of Defined Terms Used In The Regulations And Rules Of the Capital Market Authority (Amended by Resolution of the Board of the Capital Market Authority, Number 1-61, dated in 23 May 2016; and
6. Analysing the most important articles and reports that have been published by international organizations about the Saudi Stock Exchange and its regulations. Good examples are the Morgan Stanley Capital International (MSCI) Emerging Markets Index, S&P Dow Jones Indices, the Financial Times Stock Exchange (FTSE) 100 Index, and the Standard & Poor's (S&P) 500 Index. It is also germane to note that the analysis should include the annual reports that have been published by the World Bank and the International Trade Organization which help to measure foreign and business regulations.

7.3 Strengths and Weaknesses in the QFI Rules (نقاط القوة والضعف في القانون السعودي)

In terms of the level of protection for investors, the above review of the current rules indicates that foreign investors are not able to have complete control of local companies. The research found that there are some strengths and weaknesses that must be highlighted and discussed. The following points summarise the strengths and weaknesses in the QFI rules:

- The regulator only allowed foreign institutions not individuals to invest in the stock exchange market.

The regulations have allowed only foreign institutions which does not include individuals. In the opinion of some experts, this is considered a positive aspect of the current regulations. The institutional investors are valuable because they prefer to invest for long terms and act as a conduit for individual savings (Alturki & Khan 2016). Moreover, they study in the market depth, rules, efficiency and liquidity all of which contribute to stock exchange market stability (Dabbas 2015). The behaviour of foreign institutions is deemed to be conservative and is similar to other countries such as India and China in previous regulations (Argaam 2015a).

- Restricted percentage of the ownership of foreign investors.

It could be said that limiting the foreign percentage to 10% and 49% is considered a strong point of the Saudi Stock Exchange Market. Moreover, opening the limitations to foreign investors up to 100% as it implemented in some countries in the GCC such as Qatar, UAE, and Oman may cause a huge risk to the local market. From international experience, opening the limitation up to 100% has posed a threat to the host country. For instance, the experience of AIPAC and the stock exchange market in the United States which did not specify ceiling for buying and selling shares in companies led to foreign investors controlling the decision-making of most market companies. Bernard Lawrence provided another example when over three decades he defrauded hundreds of companies on the stock exchange of United States (n.a. 2015). Given these examples, the limitation under the amended rules appears to be satisfactory and is consistent with the current situation of the Saudi Stock Exchange Market. However, if one assumes that the limitation might be a weak point in terms of reducing foreign investment flow, it could be argued that most of the GCC countries have the similar percentages and there is very little fundamental difference. Furthermore, it is important to balance the support of foreign investors with protection of local shareholders; otherwise negative inflow may increase. The limitation in this regard has been supported by previous studies like Sherean (2003-2004) and Taher and Hassen (2013) in order to protect the local market and its shareholders from foreign investors suddenly exiting the market stock exchange.

Strong rules for foreign investment in the local stock exchange market, may conflict with the theory of La Porta et al. (1998) that civil law countries usually are not able to protect shareholders. Based on the evidence that has been provided, the foreign investments rules in the Saudi Stock Exchange are sufficiently restrictive. However, this thesis has only been focused on examining these rules not their enforcement. The implementation of these rules needs to be examined as strong rules without implementation are worthless.

The results of this research are supported by the economic fundamentals in the Kingdom as it is in a better position compared with most emerging market economies. In addition, the Saudi Arabia market is not linked to a large extent with most emerging markets because Saudi economy engines differ from the economies of emerging markets (Alshammary 2014). Therefore, from the above points, it should be noticed that the phenomenon of hot money does not have a strong potential at least in the current situation. This result is consistent with Alsudary et al.'s (2015) findings as the entry and exit of funds in addition to the limited percentage of ownership will protect the Saudi stock exchange market from such crisis.

However, one of the most telling points of weakness is that requiring more information and documents in annex 2.1 which might not be preferable to FDI. In addition, there are some points that have not been clarified such as whether or not QFI clients should be classified as a QFI and allow them to appoint asset multiple managers.

7.4 Positive Effects of FDI in Local Regulations Reforms (الأثر الإيجابي للمستثمرين الأجانب في اصلاح القوانين المحلية)

It is obvious that there was weakness in the foreign investment flow into the Saudi stock exchange market. Notwithstanding, it should be noted that FDI participation led to reform of the regulations and regulatory aspects which is considered a positive influence on the local stock market. Some examples can be seen in the Saudi corporate governance, Resolution of Securities Disputes Proceedings Regulations, and adopting the International Financial Reporting Standards (IFRS). It must also noticed that foreign flow usually needs time to increase and realize its influence (Heshmaty 2015). In addition, there is evidence that foreign investment institutions have influenced reforms in the settlement cycle T+2 and short-selling. These reforms indicate that foreign investors have a positive effect in liberalizing the stock exchange market. The CMA's chairman, Mohammed Al Jadaan in Euromoney at a Conference in Riyadh in 2016 said there was a positive effect of foreign institutional flow in the past year. This can be seen in the increased corporate transparency in Saudi listed companies that are looking to attract foreign investment (Everington & Cronin 2016). Mr Al Jadaan added (Everington & Cronin 2016):

In the last 18 months there has been a big improvement in research about the market and individual equities. There has also been a noticeable improvement in governance and communications, companies holding press conferences and talking about their results.

This result also consistent with global evidence that foreign investment institutions participate positively in the development of the local stock exchange market (Alkhabeer 2015). This result was anticipated by many experts because policymakers and listed companies will aim to improve corporate governance, disclosure and transparency to attract foreign investors (Alkhareif 2015; Khan 2012). A positive relationship was reported by several scholars, (e.g. Abu Amsha 2013; Acheampong & Wiafe 2013; Alsultan 2014; Arčabić, Globan & Raguž 2013; Babatunde 2011; Henry 2000a).

7.5 Are Foreign Investors Willing to Take Steps toward the Saudi Stock Exchange? (هل المستثمرون الأجانب سيتخذون قرار الاستثمار في سوق الأسهم السعودي)

In considering the rules for foreign investors to invest in the Saudi stock exchange market these were not sufficient to attract investors. Given the recent reforms in the foreign investors' rules 2016 and others reform such as the corporate governance, company law, and the Saudi stock exchange market reforms included the increase of numbers of listed companies and dividing the market into two markets in the first half of 2017. It is therefore expected that the rate of foreign investors will increase in the near future. Moreover, considering the advantage and disadvantage of these rules it could be said that based on the analysis, the amended rules 2016 are generally more attractive to foreign investors. This finding may support what mentioned in chapter 6 that most of the criticisms have been addressed in the amended rules. For example, John Sfakianakis, director of economic research at the Riyadh-based Gulf Research Centre said after the recent reforms by the CMA in 2016 (Parasie, 2016),

These important steps play a crucial role in paving the way for the future inclusion of Saudi Arabia into the MSCI Emerging Market index, as a result of which Saudi Arabia will potentially amass a respectable share of flows into emerging-market equities.

It is true that the volatile political and economic situation in the Middle East has a wide influences in the GCC stock exchange market (Kern, S 2012). Therefore, without bringing more attention to the low level of development in local financial markets, including its regulations, foreign investors may not be interested in investing in the local stock exchange markets. If there is an increase of foreign flow in a specific period, long terms investments would not be appear as such weak regulations might reflect in the local market fluctuations. On the other hand, the temporary flow may cause an unstable stock exchange market which indicates the need for long term investors and that is the likely target of the Capital Market Authority rules.

The most challenging issue the Saudi government might face is legal enforcement particularly when the regulatory and oversight frameworks have more details. Furthermore, considering the theory of common and civil law, countries that followed the civil law are the weakest in law enforcement (La Porta, de Silanes, et al. 1998). This may require more efforts and reforms such as financial reports, additional resources to regulators and supervisors in order to increase their expertise (Kern, S 2012).

The research observed that the Capital Market Authority is keen to attract foreign investment as well as protect its local stock exchange market. As this is a new experience, it might be a concern that increasing the rate of foreign investors would cause some issues for the local stock exchange market. Therefore, it should not be surprised about the limitation of the foreign investment flow.

The report issued by McCain Capital (2016) confirmed that high rates of foreign ownership are considered undesirable in many markets that are keen on protecting their local economies and investors. However, there are alternative mechanisms which could control foreign investors while increasing investment; for instance, raising the proportion of foreign ownership in non-subsidized state or third parties sectors linked to a strategic region, as the Indian stock exchange market has done. Another alternative mechanism is providing a certain class of shares that benefit its economic value but the eligibility to vote is limited such as in Brazil, Thailand and Mexico stock exchange markets (McCain Capital Annual Report, 2015).

Significant finding and recommendation(أهم النتائج والتوصيات)

This thesis has paid considerable attention to attraction and protection in the recent rules of foreign investments. It confirmed that foreign investment flow and influences are correlated with regulations based on the evidence that mentioned in the dissection. Stronger and more effective regulations will lead to positive effects on foreign investors and contribute to the protection of local shareholders. Through investigating Qualified Foreign Investment Rules in the Saudi Stock Exchange Market, there are a number of arguments that have been discussed to clarify the finding. However, the considerable findings in this study can be summarised as follows:

1. This research found that the Capital Market Authority of Saudi Arabia has adopted a gradual opening of the market to foreign investments. This has been seen through the recent reforms that amended the foreign limitation ownership from 5% to 10% in any listed company and reduced the assets under management of foreign institutions from $5 billion to $1 billion.
2. Although the above percentage seems to be low at first glance, it is considered the first step in the desired gradient. This may give the Capital Market Authority a chance to increase the foreign limitations and support stock exchange market stability.
3. The research has shown that the rules and regulations play a significant role in attracting and protecting investors as well as impacting on economic and political factors.
4. In essence, this thesis found that the Saudi regulations are sufficiently clear and compatible with the other regulations in the Kingdom of Saudi Arabia.
5. The thesis found that the foreign investment regulations are organised and easy enough to find and understand in comparison with the other countries. This is obvious in the verbal expressions in each article. Moreover, the Saudi rules have been published in a separate document while the other countries include foreign investment regulations in the stock exchange market in other related regulations such as company law and foreign investment law.
6. Effective regulations with oversight of the local market's trading operations will lead to the stability of Stock Exchange in the Kingdom of Saudi Arabia.
7. The research found that the procedures for entrance into the Saudi stock exchange are quite easy to follow. However, it confirmed that although the procedures contribute to attract or not attract foreign investors, they play an essential role in protecting the local stock exchange market.
8. The research found that the current rules to some extent are not attractive enough based on the evidence that have been provided. As a consequence, foreign investment is only a small part of the Saudi Stock Exchange market. Based on recent statistics, it appears that there is a need for continued review of the Saudi rules and regulations. However, the amended rules may play a significant role in attracting more foreign investors. The finding confirmed the strong relationship between the increase and decrease of foreign flow to the local stock exchange market and the

efficiency of its rules. A strong legal system has a positive impact on the local stock exchange market. This correlated relationship has been observed by numerous studies (e.g. Abu Amsha 2013; Bekaert, Harvey & Lundblad 2005; Durham 2002; Dutta & Roy 2009; Gupta & Yuan 2009; Jeffus 2004; Mohammed 2012; Naceur, Ghazouani & Omran 2008).

9. The other related regulations in the Kingdom seem to be consistent with the rules of foreign investment in the stock exchange market. All these regulations are consistent with the main aim to attract and facilitate the investment of foreign investments in listed securities as well as to protect its local stock exchange market.
10. It seems that the current rules are strict and able to achieve the protection of the local stock exchange market and its investors as well as to achieve justice in the trading systems.
11. It appears that with the current situation of Government funds and local family ownership in the Saudi stock exchange market and government ownership in affective listed companies in the index, foreign investment is not able to negatively impact the local stock exchange market.
12. The research found that the qualified foreign investment rules are close enough to these of the GCC countries that are keen on attracting foreign investors and protecting the local stock exchange. In terms of comparison with Australia, the research found that the Australian regulations are more attractive, based on statistics of foreign investment flow and strong protection offered by this developed country that followed the common law. The results rely on classification of the most important organizational reports such as MSCI.
13. Unlike the Saudi rules, the research found that Qatar and UAE regulations are considered to be well-developed and less restricted on foreign ownership limitations. This evidence has been provided by the classification of the international organizations indexes such as MSCI, FTSE Group and Russell Investments.
14. Although Saudi corporate governance is not strong based on the OECD report, it could be assumed that with an improvement of the amended rules and amended corporate governance, the near future might be brighter for the country.

Conclusion (الخاتمة)

The overall conclusion of this assessment is that the Saudi rules of foreign investment to invest in the local stock exchange market needed to be developed in order to attract more investors and for the stock exchange market to be included in the MSCI. The protection of these rules seems to be strong but it needs to be reviewed in terms of the Capital Market Authority deciding to extend the limitations of FDI, and it should be supported by enforcement. The successful experience of Qatar and the UAE should be followed by the Saudi regulators.

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