# The Impact of Market Access Restrictions: A Case Study of the Nomu Market in Saudi Arabia

# Introduction

Access to financial markets is a way for individuals to maintain, increase, or in the worst cases, decrease the value of their assets. Allowing only a subset of the population to access markets that deliver historically higher returns could be a driver of inequality. This situation is observed in the Saudi stock market. In Saudi Arabia, like any other country, there is a main market and bond market. In addition to these, there is the Parallel market or Nomu[[1]](#footnote-1) market. Unlike the main market, Nomu requires certain conditions that individuals must satisfy before they can access the market directly. I argue this policy regarding who can invest in Nomu could cause inefficiencies and exasperate inequality.

**What is Nomu?**

In 2017, the Saudi Stock Exchange (Tadawul) introduced Nomu as one of its efforts to advance the financial markets in Saudi Arabia. The concept of Nomu is a stock market with lenient listing requirements compared to the main market (Tadawul Group, 2024). That easing mainly came with less market capitalization, fewer disclosing requirements, and fewer public investors (see Table A1 for more details). Given that, Nomu functioned as a stress-testing environment for ambitious small to mid-size companies to facilitate their transition into the main market. By the third quarter of 2023, Nomu had 67 companies listed (Capital Market Authority, 2023). These facts provide an indication of the type and returns of firms listed in Nomu.

All these conditions make Nomu designed to host companies that are small yet possess strong financial and organizational structures, which is the recipe for high returns. That is observable by the average annual return over the last five years, which stands at approximately 130%, significantly surpassing the main market’s return of 9% over the same period (unadjusted for inflation). This size premium is well-documented in the literature. Typically, smaller firms deliver higher expected earnings growth which is associated with higher risk (Penman & Reggiani, 2022). Even though recent studies noted the decline of the size premium in the U.S., (Rashid et al., 2018) showed using recent data that the size effect remains pronounced in emerging markets.

# The Issue with Nomu

Both historical returns and theory demonstrate that Nomu is a reasonable option for investing. Nevertheless, the main reason that maintained these returns in Nomu is that only a small fraction of the population has access to the market. As stated by Tadawul, in order to invest in Nomu you need to be a "Qualified investor", which is the main reason for writing this paper. Before I go on the requirements you need to be "Qualified ", I would like to mention that in Arabic the word "Qualified" is synonymous with "Competent"[[2]](#footnote-2).

According to Tadawul, there are two categories: The first includes domestic and international institutions, whether private or government-owned, authorized by the Capital Market Authority (CMA).

The second includes individuals, citizen or foreign who meet one of the following:

* Total transaction volume of 40 million riyals ( around $10.5 million) with ten or more transactions each quarter in the last twelve months
* Have total assets of 5 million riyals (around $1.3 million)
* Worked in the financial sector for 3 years
* Have the General Securities Qualification Certificate from CMA or equivalent[[3]](#footnote-3)

In short, Nomu is overly restricted. The average investor must navigate through funds or other intermediaries, bearing their costs, without the ability to choose companies. On the other hand, these restrictions limit the amount of money invested in the market.

There is no official rationale for imposing such conditions. However, it is widely speculated that there are two main reasons. Firstly, there’s a prevailing belief within the Saudi financial community that by mandating investors to be "Qualified," the CMA aims to shield the public from the high risks associated with Nomu, as highlighted in (Al-Ahmadi, 2023). As mentioned previously, higher returns are often, though not always, linked with higher risks. This concept is well-supported in the literature; for instance, (Alkhareif, 2016) demonstrated that in the Saudi main market, there are high-return stocks with lower risks. Secondly, many proponents of these requirements argue that small investors could destabilize the market and cause price volatility, as discussed in (Asalamaa, 2017), potentially leading to losses for investors and firms alike. Clearly, the rationale for such restrictions centers on protecting inexperienced investors and small firms. Nonetheless, simply meeting the entry criteria does not safeguard an investor from making poor decisions.

However, as a result, only individuals with the most resources enjoyed exceptional returns. In the next section, I will present the possible implications of restricting the market that impact firms and individuals.

# Implications of the restrictions

When access to a market with remarkably high returns is restricted exclusively to the wealthiest individuals in society, it immediately accentuates wealth inequality. This phenomenon is not unique to financial markets but is also prevalent in other sectors limited to the affluent, who have the means and connections to gain entry, thereby worsening inequality. I argue that the policies governing the Nomu market could increase inequality. Reducing the costs of market participation could lead to a higher rate of stock market engagement, which, in turn, may lower both market premia and wealth inequality, as suggested by (Favilukis, 2013). This shows that greater participation in the market could lead to a decrease in stock returns as more individuals bid up prices. But, without eliminating the entry barriers in Nomu, the reverse is likely to occur. This is of particular concern with Nomu, given its exceptional returns.

Another concern of the restrictions is the loss of accurate prices. It is a well-understood concept that prices signal the quality or scarcity of a good. This idea is extendable to the financial market, (Admati & Pfleiderer, 1987) explain that stock prices signal information about the firm. Therefore, inaccurate pricing could reflect misinformed ideas regarding the company. (Holmström & Tirole, 1993) demonstrates that for companies to maximize the credibility of their stock price, they should strive to be traded publicly and widely owned. In addition to that, I would stress the importance of this price feature for small firms since they will be in a forming phase.

# Solution and Implementation

The logical action to avoid these implications is to remove access restrictions. However, the first push-back from the proponents is that this solution will disrupt the market. Hence, a gradual easing of the restrictions, starting from the most limiting requirement, could be a valid method. The only concern here is the traded companies in Nomu since they will face great uncertainty. This is just an example of how it could be done, further empirical analysis is needed to guarantee a successful freeing of Nomu. Also, demolishing returns is an inevitable result of broader access to Nomu.

# Conclusion

Creating a financial market with lenient listing requirements for small firms and arbitrary access restrictions on investors could produce undesirable outcomes. With the current policies, Nomu functions as a money multiplier as it favors the wealthiest in society, exasperating wealth inequality. Also, it deprives firms of a basic feature of prices. Finding a solution is not a critical task, however, implementation is the challenge.

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| Listing Rrequirements Differences Between Main Market and Nomu - Parallel Market | | |
| Criteria | Main Market | Nomu - Parallel Market |
| Minimum  Market Cap | SAR 300 million | SAR 10 million |
| % Offered | At least 30% | At least 20% or floating SAR 30 million, whichever is less. |
| Public Shareholders | At least 200 | At least 50 |
| Continuous  Obligations | Quarterly statements within 30 days. Year-end statements within 3 months. | Semi-annual statements within 45 days. Year-end statements within 3 months. |
| Daily Price  Fluctuation  Limits | *±*30% initially, then varies. | *±*30% applies always. |
| Static Price  Fluctuation  Limits | *±*10% for first 3 days, then none. | Reverts to *±*10% after the first 3 days. |

# Appendix

**Table A1**

*Source: Saudi Exchange website* [*(https://www.saudiexchange.sa)*](https://www.saudiexchange.sa/)*.*

1. *I would like to thank Nader Elediani for his valuable comments and the Economics department for such an opportunity.*

   Nomu means growth in Arabic. [↑](#footnote-ref-1)
2. Do with that what you will. [↑](#footnote-ref-2)
3. Such as the Chartered Financial Analyst (CFA) or similar certificates. [↑](#footnote-ref-3)