



# BUSINESS LAWS OF **SAUDI ARABIA**

2014-2015 EDITION

**ALEM & ASSOCIATES**  
**RIYADH OFFICE**

IN ASSOCIATION WITH ATTAYYAR LAW FIRM



THOMSON  
REUTERS

# Business Laws of Saudi Arabia

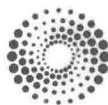
2014–2015 Edition

Issued September 2014

Alem & Associates

Riyadh Office

In association with Attayyar Law Firm



THOMSON REUTERS™

*For Customer Assistance Call 1-800-328-4880*

© 2014 Thomson Reuters

This publication was created to provide you with accurate and authoritative information concerning the subject matter covered; however, this publication was not necessarily prepared by persons licensed to practice law in a particular jurisdiction. The publisher is not engaged in rendering legal or other professional advice and this publication is not a substitute for the advice of an attorney. If you require legal or other expert advice, you should seek the services of a competent attorney or other professional.

**ISBN: 978-0-314-63025-4**

## About the Firm

Alem & Associates was founded in 1953 as one of the leading Lebanese practices that grew to feature a wide range of legal services offered through its offices and associated offices in Beirut, Riyadh, Dubai, Doha, Amman, Cairo, and Damascus. With more than 38 practitioners, Alem & Associates regularly advises companies throughout the Middle East and the Gulf region on all issues related to corporate and tax restructuring, corporate governance, mergers and acquisitions, real estate, capital markets, financial services, franchising, construction, litigation, arbitration and ADR, agency, and distribution, amongst others.

As the first law firm to pioneer the “regional” law-firm model, Alem & Associates is now the first Lebanese firm to embrace a corporate model of governance and management. This has been designed to enhance the firm’s ability to provide comprehensive services to its clients delivered in a seamless and integrated manner. Regardless of the geographic location, our clients continue to have ready access to legal services on national, regional and international bases.

With a strong commitment to excellence, Alem & Associates has earned its reputation as one of Lebanon’s most prestigious and leading law firms.

Alem & Associates has developed a multidisciplinary practice distinguished by a profound synergy between the various business-related practice groups (e.g., corporate and tax and corporate governance, real estate, banking and finance; mergers and acquisitions). This allows the firm to offer its clients a wide array of comprehensive and integrated solutions.

Our team is multicultural and has the experience and ability to operate in both the common- and civil-law legal systems. Most of our lawyers are fluent in at least three languages and are fully in touch with the various legal traditions in the Middle East, Europe, and U.S.

Alem & Associates has a well-established presence in the regional marketplace. Our Riyadh office, established in association with our local partner, Sattam Al Tayyar, maximizes our ability to anticipate and respond to our clients’ business needs in the Kingdom of Saudi Arabia and the surrounding countries.

The following partners and associates from Alem & Associates (Riyadh office) have provided their professional expertise and acted as chapter authors for this title:

- Sattam Al Tayyar (Chapter 1, *Constitutional Basis of Business Laws*)
- Eddy Maghariki (Chapter 2, *Corporations, Partnerships, and Other Business Entities*)
- Omar El Assir (Chapter 3, *Securities and Capital Markets*)
- Ibrahim Soumrany (Chapter 4, *Taxation*)
- Ibrahim Soumrany & Eddy Maghariki (Chapter 5, *Regulatory Agencies and Foreign Investment*)
- Eddy Maghariki & Tala Al Hejailan (Chapter 6, *Intellectual Property*)
- Ibrahim Soumrany (Chapter 7, *Commercial Agency and Distribution*)
- Eddy Maghariki & Tala Al Hejailan (Chapter 8, *Labor Law*)
- Ibrahim Soumrany (Chapter 9, *Real Estate*)
- Ibrahim Soumrany & Karim Khalaf (Chapter 10, *Construction*)
- Tala Al Hejailan (Chapter 11, *Commercial Insolvency and Bankruptcy Regimes*)

## **Preface**

Monarchy is the central institution of the Kingdom of Saudi Arabia. The Basic Law enacted in 1992 declared that the Kingdom of Saudi Arabia is a monarchy ruled by the sons and grandsons of King Abdul Aziz Al-Saud and that the Holy Qur'an is the constitution of the country and hence is governed on the basis of Islamic law (Shari'a).

After the unification of the Saudi judicial system, the Hanbali school, which is one of the four schools in Islamic law, namely the Hanbali, the Shafii, the Hanafi, and the Ma'liki schools, has been the only major source of legal guidance.

In addition to the rules of the Islamic Shari'a, there is a vast range of statutory laws enacted in criminal, administrative, and commercial areas and many others which respond to the Kingdom's development and progress.

This publication encompasses the major aspects of the Saudi legal system and gives a general and comprehensive overview of the Saudi laws relevant to conducting business in the Kingdom of Saudi Arabia by local and foreign investors.

It is to be noted, however, that this publication is intended to be an introduction to the various areas outlined herein and hence cannot substitute for the legal advice that should be sought from local counsel in any situation or action the reader may be facing or considering. Moreover, the laws and implementing regulations mentioned herein are subject to amendments on a regular basis.

Alem & Associates  
Riyadh Office  
In association with Attayyar Law Firm

April 2010

## **RELATED PRODUCTS**

---

### **Antidumping & Countervailing Duty Laws**

Joseph E. Pattison

### **Antitrust and American Business Abroad, 3d**

Spencer Weber Waller

### **Bribery in International Commerce**

H. Lowell Brown

### **Business Laws of Brazil**

Demarest and Almeida Advogados

### **Business Laws of Canada**

Miller Thomson LLP

### **Business Laws of Colombia**

Walter T. Champion, Jr.

### **Business Laws of Chile**

Anibal Prieto

### **Business Laws of Germany**

Thomas Wegerich, Ed.

### **Business Laws of Kuwait & Qatar**

DLA Piper Middle East LLP

### **Business Laws of Lebanon**

Alem & Associates

### **Business Laws of Peru**

Estudio Olachea

### **Business Laws of United Arab Emirates**

Akin Gump Strauss Hauer & Feld LLP

### **Copyright Throughout the World**

Silke von Lewinski & International Contributors

### **Forms and Agreements on Intellectual Property and International Licensing**

David de Vall and Peter McL. Colley

### **Going Global: A Guide to Building an International Business**

Alan S. Gutterman and Robert L. Brown

### **International Capital Markets and Securities Regulation**

Harold S. Bloomenthal and Samuel Wolff

### **International Construction Arbitration Handbook**

Troy L. Harris and John W. Hinchey

### **International Contract Manual**

Albert H. Kritzer, Sieg Eiselen, Jarno Vanto, Jessica Vanto

### **International Trade Practice**

Christopher A. Dunn and Harvey Kaye

**Law of Transnational Business Transactions**

Ved P. Nanda and Ralph Lake

**Litigation of International Disputes in U.S. Courts, 2d**

Ved P. Nanda and David K. Pansius

**Manual of Foreign Investment in the United States, 3d**

J. Eugene Marans, John H. Shenefield, Joseph E. Pattison, John T. Byam

**Media, Advertising & Entertainment Law Throughout the World**

Andrew B. Ulmer & International Contributors

**Mergers and Acquisitions in China (Business Laws of China)**

Owen D. Nee, Jr., and Jingzhou Tao

**Mexican Civil Code Annotated**

Jorge A. Vargas

**Mexican Commercial Code Annotated**

Jorge A. Vargas

**Mexican Law: A Treatise for Legal Practitioners and International Investors**

Jorge A. Vargas

**Mexican Legal Dictionary and Desk Reference**

Jorge A. Vargas

**NAFTA: Legal Text and Interpretive Materials**

Barry Appleton

**NAFTA: Text and Selected Documents**

Barry Appleton

**Norton Annual Review of International Insolvency**

Bruce Leonard & International Contributors

**Patents Throughout the World**

International Contributors

**Protecting Intellectual Property Rights Across Borders**

Timothy P. Trainer and Vicki E. Allums

**Series on Contemporary Chinese Law**

University of Maryland and International Contributors

**Shareholder Agreements and Joint Ventures in China (Business Laws of China)**

Owen D. Nee, Jr.

**Trademark Practice Throughout the World**

Mary M. Squyres and Nanette Norton

**Trademarks Throughout the World 5th Edition**

Edward Fennessy & International Contributors

**Trade Secrets Throughout the World**

Melvin F. Jager & International Contributors



## RELATED PRODUCTS FROM WEST

---

Thomson Reuters® thanks you for subscribing to this product. Should you have any questions regarding this product please contact Customer Service at 1-800-328-4880 or by fax at 1-800-340-9378. If you would like to inquire about related publications or place an order, please contact us at 1-800-344-5009.



THOMSON REUTERS™

Thomson Reuters  
610 Opperman Drive  
Eagan, MN 55123

[legalsolutions.thomsonreuters.com](http://legalsolutions.thomsonreuters.com)

# Summary of Contents

- Chapter 1. Constitutional Basis of Business Laws
- Chapter 2. Corporations, Partnerships, and Other Business Entities
- Chapter 3. Securities and Capital Markets
- Chapter 4. Taxation
- Chapter 5. Regulatory Agencies and Foreign Investment
- Chapter 6. Intellectual Property
- Chapter 7. Commercial Agency and Distribution
- Chapter 8. Labor Law
- Chapter 9. Real Estate
- Chapter 10. Construction
- Chapter 11. Commercial Insolvency and Bankruptcy Regimes

## **Index**

# **Table of Contents**

## **CHAPTER 1. CONSTITUTIONAL BASIS OF BUSINESS LAWS**

- § 1:1 Introduction
- § 1:2 Basic Law of Rule (BLR)
- § 1:3 Fundamentals of Saudi society and policy
- § 1:4 Economic principles; open-door policy for business
- § 1:5 Reform and the strategy of competitiveness
- § 1:6 Development of free economy and open market
- § 1:7 Authorities of the state
- § 1:8 The Saudi Arabia jurisdiction system

## **CHAPTER 2. CORPORATIONS, PARTNERSHIPS, AND OTHER BUSINESS ENTITIES**

### **I. IN GENERAL**

- § 2:1 Introduction

### **II. GENERAL PARTNERSHIP**

- § 2:2 Introduction
- § 2:3 Establishment of the general partnership
- § 2:4 General assemblies in a general partnership
- § 2:5 Name of the general partnership
- § 2:6 Partners' rights and restrictions
- § 2:7 Partners' responsibility
- § 2:8 Transfer of shares
- § 2:9 Management
- § 2:10 Termination of the manager
- § 2:11 Liquidation of the general partnership

### **III. LIMITED PARTNERSHIP**

- § 2:12 Introduction
- § 2:13 Name of the limited partnership
- § 2:14 Management of the limited partnership
- § 2:15 Transfer of shares
- § 2:16 Liquidation of the limited partnership

### **IV. JOINT VENTURE COMPANY**

- § 2:17 Introduction

- § 2:18 Specificities of a joint venture company

## **V. JOINT-STOCK COMPANY**

- § 2:19 Introduction
- § 2:20 Establishment of the joint-stock company
- § 2:21 Founder
- § 2:22 Public subscription
- § 2:23 Capital
- § 2:24 Contribution
- § 2:25 Name
- § 2:26 Constitutive general assembly
- § 2:27 Declaration
- § 2:28 Deeds issued by a joint-stock company
- § 2:29 Deeds issued by the joint-stock company—Shares
- § 2:30 —Bonds
- § 2:31 Management
- § 2:32 Appointment of board of directors
- § 2:33 Restrictions on board members
- § 2:34 Responsibility of board members
- § 2:35 Appointment of a chairperson
- § 2:36 Meetings of the board of directors
- § 2:37 General assemblies
- § 2:38 Ordinary assemblies
- § 2:39 Extraordinary general assemblies
- § 2:40 Auditors
- § 2:41 Financial statements
- § 2:42 Liquidation

## **VI. PARTNERSHIP LIMITED BY SHARES**

- § 2:43 Introduction
- § 2:44 Acting partner
- § 2:45 Specificities of the partnership limited by shares
- § 2:46 Management
- § 2:47 Liquidation

## **VII. LIMITED LIABILITY COMPANY**

- § 2:48 Introduction
- § 2:49 Establishment of the limited liability company
- § 2:50 Name of the limited liability company
- § 2:51 Activities prohibited
- § 2:52 Transfer of shares
- § 2:53 Management
- § 2:54 Shareholders' general assemblies
- § 2:55 Liquidation

## TABLE OF CONTENTS

### **VIII. THE VARIABLE CAPITAL COMPANY**

- § 2:56 Introduction
- § 2:57 Capital
- § 2:58 Other rules and regulations

### **IX. THE COOPERATIVE COMPANY**

- § 2:59 Introduction
- § 2:60 Special regulations of the Cooperative Company
- § 2:61 Capital and shares
- § 2:62 Management
- § 2:63 Liquidation

### **X. BRANCHES**

- § 2:64 Introduction
- § 2:65 Capital requirement
- § 2:66 Liability
- § 2:67 Management

## **CHAPTER 3. SECURITIES AND CAPITAL MARKETS**

### **I. THE SAUDI CAPITAL MARKET LAW**

- § 3:1 Introduction
- § 3:2 Creation of a Capital Market Authority
- § 3:3 Creation of a stock exchange
- § 3:4 Creation of a depositary center

### **II. REGULATION OF SECURITIES BUSINESS IN SAUDI ARABIA**

- § 3:5 Introduction
- § 3:6 Securities activities
- § 3:7 Regulated securities business
- § 3:8 Authorization
- § 3:9 Nonregulated securities activities
- § 3:10 —Activities within groups and joint enterprises
- § 3:11 —Activities carried on in the course of a nonsecurities business
- § 3:12 —Exclusions from dealing as principal
- § 3:13 —Exclusions from arranging
- § 3:14 —Exclusions from advising

### **III. PERSONS AUTHORIZED TO CONDUCT SECURITIES BUSINESS IN SAUDI ARABIA**

- § 3:15 Introduction

- § 3:16 General requirements
- § 3:17 Legal form and head office
- § 3:18 Capital and shareholding structure requirements
- § 3:19 Information and documents required for authorization
- § 3:20 Issuance of the authorized person license

#### **IV. OFFERS OF SECURITIES REGULATION**

- § 3:21 Introduction
- § 3:22 Private placement types
- § 3:23 —Sophisticated investors
- § 3:24 —Limited offers
- § 3:25 Private placement requirements
- § 3:26 Restrictions on secondary market activity

#### **V. LISTING RULES**

- § 3:27 Introduction
- § 3:28 Conditions for admission and listing
- § 3:29 —Conditions related to issuers
- § 3:30 —Conditions relating to registration and admission to listing of shares
- § 3:31 —Conditions relating to cross listing
- § 3:32 —Conditions relating to registration and admission to listing of debt instruments
- § 3:33 —Conditions relating to registration and admission to listing of contractually based securities and warrants
- § 3:34 —Conditions relating to registration and admission to listing of convertible debt instruments
- § 3:35 Underwriting
- § 3:36 Application for registration and admission to listing and supporting documents
- § 3:37 The prospectus and its approval
- § 3:38 Publication of prospectus and formal notices
- § 3:39 Continuing obligations

#### **VI. INVESTMENT FUNDS REGULATION**

- § 3:40 Introduction
- § 3:41 Mutual investment funds
- § 3:42 —Establishment
- § 3:43 —Offering of fund units; notification/licensing requirements
- § 3:44 —Private placements
- § 3:45 —Public offer
- § 3:46 —Fund governance
- § 3:47 —General obligations of fund managers

## TABLE OF CONTENTS

- § 3:48 —Overseas investment funds
- § 3:49 Real estate investment funds
- § 3:50 —Types of funds
- § 3:51 —Establishment and documentation
- § 3:52 —Offering of units; notification/licensing requirements
- § 3:53 —Fund governance
- § 3:54 —General obligations of fund managers
- § 3:55 Article 15 and the “independent board member”

## CHAPTER 4. TAXATION

- § 4:1 Introduction
- § 4:2 Overview of corporate tax regime
- § 4:3 Income tax
- § 4:4 Overview of zakat regime
- § 4:5 Coexistence of the income tax and zakat regimes
- § 4:6 Permanent establishment
- § 4:7 Withholding taxes
- § 4:8 Zakat
- § 4:9 Capital gains tax
- § 4:10 Tax losses
- § 4:11 Tax filing and payment requirements
- § 4:12 Penalties and fines
- § 4:13 Double taxation treaties

## CHAPTER 5. REGULATORY AGENCIES AND FOREIGN INVESTMENT

- § 5:1 Introduction
- § 5:2 The Saudi Arabian General Investment Authority (SAGIA)
- § 5:3 Formation of SAGIA
- § 5:4 Role of SAGIA
- § 5:5 Foreign investment license
- § 5:6 —Banned and restricted activities
- § 5:7 —General conditions
- § 5:8 —Procedures for granting
- § 5:9 —Required documents
- § 5:10 —Refusal and objections
- § 5:11 Obligations of the foreign investor
- § 5:12 Violations and sanctions
- § 5:13 Incentives

## CHAPTER 6. INTELLECTUAL PROPERTY

### I. COPYRIGHT

- § 6:1 Introduction to copyright legislation

- § 6:2 Protected and excluded works
- § 6:3 —Original works
- § 6:4 —Derivative works
- § 6:5 —Excluded works
- § 6:6 Authorship and protection
- § 6:7 —Joint work
- § 6:8 —Collective work
- § 6:9 Moral and financial rights
- § 6:10 —Moral rights
- § 6:11 —Financial rights
- § 6:12 Contracts
- § 6:13 Permitted exclusions
- § 6:14 Mandatory license
- § 6:15 Right of image
- § 6:16 Term of protection
- § 6:17 Registration of copyrighted works
- § 6:18 Infringement of copyrights and sanctions
- § 6:19 Indemnity
- § 6:20 Jurisdiction

## **II. TRADEMARKS**

- § 6:21 Introduction to trademark legislation
- § 6:22 Definition of trademarks
- § 6:23 Exclusions
- § 6:24 Registration and publication of trademarks
- § 6:25 Ownership of trademarks
- § 6:26 Eligibility for filing application and procedures of registration
- § 6:27 Effect of trademark registration
- § 6:28 Term, renewal and cancellation of a trademark
- § 6:29 Transfer of ownership, pledge, and license of the trademark
- § 6:30 Crimes and punishments

## **III. LAW OF PATENTS, LAYOUT DESIGNS OF INTEGRATED CIRCUITS, PLANT VARIETIES, AND INDUSTRIAL MODELS**

- § 6:31 Legislation
- § 6:32 Patents
- § 6:33 Integrated circuit
- § 6:34 Plant varieties
- § 6:35 Industrial model
- § 6:36 Legal provisions governing patents, layout designs of integrated circuits, plant varieties, and industrial models



## TABLE OF CONTENTS

- § 6:37 —Ownership
- § 6:38 —Application procedures
- § 6:39 —Priority right
- § 6:40 —Preexisting protection
- § 6:41 —Contracts
- § 6:42 —Compulsory license
- § 6:43 —Legal recourse

## **CHAPTER 7. COMMERCIAL AGENCY AND DISTRIBUTION**

### **I. CONCEPT OF COMMERCIAL AGENCY IN SAUDI ARABIA**

- § 7:1 Introduction to commercial agency
- § 7:2 Definition of commercial agency
- § 7:3 Who may act as agents or distributors
- § 7:4 Persons allowed to act as agents or distributors—  
Individuals
- § 7:5 —Corporate entities
- § 7:6 Obligations of agents and distributors
- § 7:7 Provision of spare parts
- § 7:8 Provision of adequate maintenance
- § 7:9 Other obligations
- § 7:10 Rights of agents or distributors
- § 7:11 Product requirements
- § 7:12 Investigation of violations of the Law
- § 7:13 Penalties

### **II. COMMERCIAL AGENCY AGREEMENT**

- § 7:14 Introduction
- § 7:15 Model agreement by Ministry of Commerce and  
Industry
- § 7:16 Required information in agency agreement
- § 7:17 Typical clauses included in agency agreements
- § 7:18 Exclusivity of agency agreements
- § 7:19 Minimum performance clause
- § 7:20 Termination and nonrenewal
- § 7:21 Dispute resolution
- § 7:22 Franchise agreements subject to Agency Law

### **III. REGISTRATION PROCESS OF THE COMMERCIAL AGENCY CONTRACT**

- § 7:23 Introduction