



## Highlights:

- ☒ The Law issued by the Royal Decree Number (M/50) dated 28/5/1439 Hijri.
- ☒ The Law was published in Umm Al-Qura gazette on 7/6/1439 Hijri.
- ☒ The Law shall be enforced as of the date of the executive regulation issuance, which shall not exceed (180) days from the law's published date.
- ☒ The law consists of 231 articles divided into 17 chapters.
- ☒ The law superseded the provisions of Articles 103-137 of the Commercial Court Law issued by Royal Decree No. 32, dated 15/1/1350H, the Bankruptcy Protective Settlement Law issued by Royal Decree No. M/16, dated 4/9/1416H, and any provisions conflicting therewith.

The Law created the Bankruptcy Register, which will document the required information according to the regulations and the bankruptcy procedures to be available to the public.

The Law formed the Bankruptcy Committee that comprising five or more experienced and qualified members nominated by the Minister of Commerce for a three-year renewable term. The Committee shall enjoy a legal personality, as well as financial and administrative independence under the supervision of the Minister and shall exercise the authorities provided to it in Article (9/2) of the Law.

According to the Law, The Public Prosecution shall investigate and prosecute offenses stipulated in the Law, and the Commercial Court shall impose the penalties prescribed in the Law.

The Commercial Court is the competent judicial authority for implementing the Law.

Any person with interest may appeal a court judgment or decision before a court of appeals if the subject matter of such judgment or decision falls under Article (217) provisions. The Court of Appeal reviews the objection and issues a judgment either affirming or overturning the decision. In the event of an overturn, the Court of Appeal shall consider the appeal and decide to affirm the judgment or reverse it, and shall, in case of reversal, issue a final judgment that is not subject to any form of appeal.

## The Law Enforceability Date

According to Article (231) of the Law, the Law shall be enforced on 7th of Rabi' al-Thani, 1439 Hijr corresponding to 25th of December 2017.

### The Law Shall Apply To

According to Article (4) of the Law, the Law shall apply to:

- ☒ The natural person engaging in commercial, professional, or profit-seeking activities in the Kingdom, and
- ☒ Commercial and professional companies, regulated entities, as well as other companies and for-profit entities registered in the Kingdom; and .
- ☒ The non-Saudi investors of a natural or legal personality holding assets in the Kingdom, or engaging in commercial or professional activities, or any for-profit activities through a licensed establishment in the Kingdom.
- ☒ This Law shall only apply to said investors' assets which are located in the Kingdom.

## The Law Objectives

According to Article (5) of the Law, the Law shall aim to:

- ☒ Enable a debtor who is bankrupt, distressed, or is likely to suffer financial difficulties to benefit from the bankruptcy procedures, restructure his financial position, resume his business, and contribute to economic development;
- ☒ Protect creditors' rights in a manner that ensures fair treatment;
- ☒ Maximize the value of bankruptcy assets, conduct proper procedures for the sale thereof, and ensure fair distribution of sale proceeds among creditors upon liquidation;
- ☒ Reduce the costs and duration of procedures and increase their efficiency, especially in restructuring the financial position of small debtors, or the sale of bankruptcy assets, and the distribution of sale proceeds among creditors in a fair manner within a specified period;
- ☒ Undertake administrative liquidation of a debtor whose assets are not expected to cover the costs of the liquidation procedure or the liquidation of small debtors.

## The Bankruptcy Committee

is formed comprising five or more members and shall enjoy a legal personality, as well as financial and administrative independence. The Committee shall exercise the authorities provided to it in Article (9/2) of the Law.

## The Bankruptcy Procedures

According to Article (2) of the Law, the law aims to regulate the following bankruptcy procedures:

- ☒ **Protective Settlement:** A procedure that aims to facilitate an agreement between the debtor and his creditors to settle his debts, where the debtor maintains the right to manage his business.
- ☒ **Financial Restructuring:** A procedure that aims to facilitate an agreement between the debtor and his creditors for the financial restructuring of the debtor's business under the supervision of the financial restructuring trustee.
- ☒ **Liquidation:** A procedure that aims to list the claims of creditors, selling the bankruptcy assets, and distribute the proceeds thereof among creditors under the supervision of the liquidation trustee. (Please refer to the Saudi companies' law to notice how this procedure differs from the liquidation governed by the Saudi companies' law.)
- ☒ **Preventive Settlement for Small Debtors:** A procedure that aims to enable small debtors to reach an agreement between the debtor and his creditors to settle his debts within a reasonable period and by a low-cost and highly efficient procedure, where the debtor maintains the right to manage his business.
- ☒ **Financial Restructuring for Small Debtors:** A procedure that aims to enable small debtors to reach an agreement between the debtor and his creditors for the financial restructuring of the debtor's business within a reasonable period and by a low-cost and highly efficient procedure, under the supervision of the financial restructuring trustee.
- ☒ **Liquidation for Small Debtors:** A procedure that aims to list the claims of creditors, selling the bankruptcy assets, and distribute the proceeds thereof among creditors within a reasonable period and by a low-cost and highly efficient procedure, under the supervision of the liquidation trustee.
- ☒ **Administrative Liquidation:** A procedure that aims to sell bankruptcy assets whose sale proceeds are not expected to cover the charges of the liquidation procedure or the small debtors' liquidation procedure under the supervision of the Bankruptcy Committee.
- ☒ **\*A Small Debtor is a debtor** who meets the criteria set by the Bankruptcy Committee in coordination with the Small and Medium Enterprises General Authority.

## Secured Debts

Financing shall be deemed secured if:

- ☒ It has priority over unsecured debts at the time of filing the petition for financing;
- ☒ It is secured by pledging a debtor's asset that is not encumbered by another pledge;
- ☒ It is secured by pledging a debtor's asset that is encumbered by another pledge of a higher priority;
- ☒ It is secured by pledging a debtor's asset that is with a higher or equal priority to another pledge if the court establishes that the rights of the pledgee holding the existing pledge are not affected, or if the pledgee consents to the existence of another pledge of a higher or equivalent priority. The debtor must ensure the protection of the pledgee's rights in the existing pledge to ensure the satisfaction of the pledgee's rights from the pledged property, including protection from a decrease in the value of the pledged property, the pledging to others of assets subject of the existing pledge, or the debtor's use, sale, or lease of the pledged asset while pledged; or
- ☒ It is secured by any other form of secured financing specified by the Regulations.

## Debts Distribution Ranking:

- ☒ Fees and expenses of the bankruptcy trustee and expert, if any, and the sale expenses of bankruptcy assets.
- ☒ Debts secured by in-kind securities.
- ☒ Secured financing in accordance with Article 184(a) of this Law and any other security specified in the Regulations in accordance with Article 184(e).
- ☒ A 30-day wage for debtor's employees.
- ☒ Family expenses established pursuant to a statutory provision or a court order.
- ☒ Expenses necessary for the continuation of the debtor's business during the procedures, as specified in the Regulations.
- ☒ Outstanding wages of the debtor's employees.
- ☒ Unsecured debts.
- ☒ Government fees, subscriptions, taxes, and unsecured entitlements, as specified in the Regulations.

The Executive Regulations shall determine the priority of debts within each of the priorities provided for in this Article.

Dated

28/5/1439  
Hijri

The Law issued by the Royal Decree Number (M/50)

The law consists of

231

articles divided into 17 chapters.

The Law imposes penalties

202  
201  
200

to imprisonment for a term not exceeding five years and a fine not exceeding five million riyals



## Penalties

The Law imposes penalties on any person who commits any of the offenses stipulated in Articles 200, 201, and 202 of the Law. This person shall be subject to imprisonment for a term not exceeding five years and a fine not exceeding five million riyals, or to either penalty. The court may, in addition to these penalties, impose against a violator for a term not exceeding five years one or more of the following penalties:

③

Prohibiting him from owning shares in any for-profit establishment when such ownership entails engaging in any direct or indirect management activities therein.

②

Prohibiting him from voting on decisions concerning the nomination or selection of a candidate in any for-profit establishment.

①

Prohibiting him from directly or indirectly managing any for-profit establishment or running its operations in his capacity as director or member of the board of directors, and from participating in any for-profit establishment where his ownership therein entails actual or de-facto management thereof.