



Brief of The New Professional Law

Definition of a Professional Company

A Professional Company is defined as a civil entity with separate juristic personality which is established by one or more individuals who are licensed to undertake one Profession or more, or amongst them with others, for the purpose of practicing these Professions.

A professional Company may also take one of the following forms: It can be either a general partnership, a joint stock company, a limited partnership or a limited liability company.

- ☒ This Law shall replace the Professional Companies Law, promulgated by Royal Decree No. M/4 dated 18/02/1412AH, abolishing any provisions contradicting therewith.
- ☒ The Regulations were issued and published in the Official Gazette.



Disclaimer:

The objective of this newsletter is to draw attention to the most prominent aspects of the Professional Companies Law and its Executive Regulations. It is not considered as legal advice, nor does it substitute for accurate and detailed legal advice from specialists.



Regarding Free Professions

- ☒ A Professional Company may be incorporated among those who are licensed to practice more than one free profession, contrary to the old Law, which specified only one free profession, provided that the laws, regulations and professional standards do not prohibit the practice of the said professions together, while fulfilling the requirements and conditions stated therein; and without the objection of the Authority supervising the relevant profession from practicing the said profession with other professions.
- ☒ A person licensed to practice one free profession may incorporate a limited liability professional company of one person to practice his profession through it. If he is licensed to practice more than one free profession, he may practice all or some of the said professions through the company.
- ☒ A Professional Company shall be subject to the supervision of the competent authority(ies) ("Profession supervising Authority").
- ☒ The Minister may link the practice by the Professional Company of specific activities or transactions to obtaining indemnity insurance, after coordinating with the authorities competent with supervising the practice of the said profession.



Provisions of the Professional Company's Memorandum of Association

- ☒ The provisions of the Companies Law shall apply to the publishing mechanism of the Professional Company's Memorandum of Association, its Articles of Association and any amendment thereto, and any mortgage or change in ownership of its shares or percentages.
- ☒ Objections to third parties by the Professional Company's Memorandum of Association or Articles of Association as published in accordance with the provisions of the Law shall only be permissible after registering the Company in the Professional Companies Registry. However, if the publishing was limited to one or more clauses of either, the said clauses alone shall not be effective against third parties.
- ☒ Partners/Shareholders in the Professional Company may not dissolve the same before the expiry of its term, unless following an announcement through the means set by the Ministry of Commerce, a notice to the Profession Supervising Authority concerned with the Company profession through the means set by the said Authority and finally, notifications to all those dealing therewith in writing through the agreed upon method of communication. All shall be complete at least ninety days prior to its dissolution. The Professional Company must also guarantee the mechanism for the completion of the professional works for its clients such as: Referring clients to another licensee



Partner/Shareholder in a Professional Company

- ☒ It is permissible for a person with a natural or legal capacity to become a partner or a shareholder in a Professional Company - other than a general partnership or a limited partnership under the capacity of a general partner - if not licensed to practice the free profession(s) subject of their activity, provided that the total shares of non-licensees do not exceed (30%) of the total capital and provided that the non-licensee has no direct or indirect control over the Professional Company and its management, in a way to protect the independence of the licensees in their practice of the profession.
- ☒ In a limited partnership, the number of unlicensed limited partners may not exceed that of the licensed partners.
- ☒ The partner or shareholder in a Professional Company, regardless of its type, shall not acquire a trader's capacity by virtue of his partnership or ownership of the shares.
- ☒ The partner or shareholder in the Professional Company may only practice his free profession through the Company, unless the Professional Company is a sole proprietorship.
- ☒ With the exception of the sole proprietorship professional company, each partner or shareholder in the Professional Company shall be personally accountable for his professional errors toward the company and the remaining partners or shareholders as the case may be. The Professional Company shall be liable for compensating the damage to others as a result of the professional errors by its partners or shareholders - as the case may be - or its affiliates.

Partners or Shareholders of the Professional Company may convert the same to another form of the following companies:

General Partnership, Limited Partnership, Limited Liability Company, Joint Stock Company



Observing the Provisions of Foreign Investment

- ☒ An indication was made in the new law to observing the provisions of the Foreign Investment Law when obtaining a license for Professional Companies from the Ministry of Commerce when incorporating a professional company between a licensee and a non-Saudi Professional Company, provided that the share of the Saudi licensees in the capital is not less than (25%), and under the condition of obtaining the approval of the Profession Supervising Authority should the profession law so requires. Also, provided that the non-Saudi Professional Company is distinguished in its field and that its representative holds a professional license from his or the Company's domicile, with the non-Saudi Professional Company transferring its expertise to the Saudi Company.



Death of a Partner

- ☒ If one partner in a Professional Limited Liability Company or a shareholder in a Professional Joint Stock Company passes away, their percentage or share shall be passed on to their heirs, unless otherwise stipulated in the Memorandum of Association of the Company or its Articles of Association.
- ☒ If a partner in a Professional General Partnership passes away, the Company shall continue among the remaining partners, and his share or any arising rights shall be transferred to his heirs.
- ☒ A stipulation may be added in the Memorandum of Association of the Company or in an agreement between the heirs of the deceased partner and the remaining partners in the Company for the heirs of the deceased partner to substitute the same as partners in the Company, through converting it to a Limited Partnership, a Joint Stock Company or a Limited Liability Company.
- ☒ If a partner in a Professional Limited Partnership passes away, his share shall be transferred to his heirs, unless otherwise stipulated in the Memorandum of Association of the Company
- ☒ If any of the heirs is licensed to practice one of the professions subject of the Company activity, he may become a partner or shareholder practicing his profession through the Company if the majority of the shareholders agree or if the General Assembly agrees to the same. If they do not agree, he shall be a non-practicing partner or shareholder, in which case, he may practice his profession through a way other than the Company.
- ☒ If any of the heirs is a partner or shareholder practicing the profession in another Professional Company practicing the same free profession, he may own his inherited ratios or shares as a non-practicing partner or shareholder.



Specialty of the Professional Company

- ☒ The Professional Company shall specialise in practicing the free profession(s) subject of its activity only.
- ☒ The Professional Company may not conduct commercial businesses or partake in the incorporation of commercial companies or another professional company. Nevertheless, it may own financial and real estate assets to service its purposes, provided that this ownership does not expose the Professional Company to grave risks that affect its work and provided that this ownership is not prohibited under professional laws, regulations and standards.
- ☒ Considerations should be made to the provisions of the Law on non-Saudi ownership of the property with the right of the Professional Property to own the headquarters it takes for practicing its activity.



Provisions Pertaining to the Management of the Professional Company

- ☒ The Professional Company shall be managed by one or more of its partners or by third parties. If the Company is managed by one person, they must be one of the licensed partners. If it is managed by more than one person, then the number of licensed partners should not be less than half, including at least one licensee for every free profession practiced by the Professional Company.
- ☒ A Professional Joint Stock Company shall be managed by a Board of Directors comprised by a number of its shareholders or third parties, provided that at least half the Members of the Board of Directors are licensed shareholders, with at least one licensee for every free profession practiced by the Professional Company. The Articles of Association of the Company shall specify the powers of the Board and the provisions related to its formation.
- ☒ The authority of the Board of Directors of the Professional Joint Stock Company may not include anything to jeopardise the independence of the shareholders in practicing their free professions.
- ☒ A vote shall be cast to support the decision of the Board of Directors of the Professional Company by at least half the licensed managing partners or shareholders who are Members of the Board of Directors, unless a higher percentage is stipulated in the Memorandum of Association or Articles of Association of the Professional Company.
- ☒ A vote shall be cast to support the decision of the Board of Directors of the Professional Company if the decision is related to one of the free professions practiced by the Professional Company by at least half the managing partners or shareholders who are Members of the Board of Directors licensed to practice the relevant free profession, unless a higher percentage is stipulated in the Memorandum of Association or Articles of Association of the Professional Company.



Loss of Professional License

- ☒ If a partner or shareholder in a Professional Company temporarily loses his professional license, they shall stop working at the Company immediately pending the recovery of the license. If he is the only practitioner of that profession at the Company, or the sole proprietor of the Professional Company, the Company shall stop practicing the profession pending the recovery of the license.
- ☒ If a partner or shareholder in a Professional Company permanently loses his professional license, he shall be considered as withdrawing from the Company, unless otherwise stipulated in the Memorandum of Association. If he is the only practitioner of that profession in the Company, or if the Professional Company is a sole proprietorship, the Company shall stop practicing the said profession for six months to adjust its conditions. If it does not amend them, the Company shall permanently close.

Liquidation Procedures:

The Memorandum of Association of a Professional General Partnership and a Professional Limited Partnership show the outcome of sequestering the joint partner or initiating any of the liquidation procedures under the bankruptcy Law.

Shall be punished by a fine not exceeding five hundred thousand Saudi riyals:

- 1 Every sole proprietorship practicing more than one free profession in violation of the specified conditions.

- 2 Every manager or member of the board of directors of a professional company in violation with the conditions of incorporating professional companies, their controls and the publishing mechanism, or in violation of the regulations governing the activity of professional companies or the general rules for managing professional companies.

- 3 Every person who is a partner or shareholder in more than one professional company practicing the same free profession.
- 4 Every manager or member of the board of directors in a professional company who dissolved the company before the end of its term without written notice and notification.

- 5 Every company practicing the free profession(s) subject of its activity not through its licensed partners or shareholders, practiced a profession other than its specialised profession, practiced commercial business or participated in the incorporation of commercial companies or another professional company or continued to bear the name of the deceased or withdrawing partner without his or his heirs' written consent.

- 6 Every company practicing a free profession without professional indemnity insurance when a Minister decision is issued to oblige it of the same.
- 7 Every partner or shareholder in the professional company practicing his free profession through means other than the Company, unless the Professional Company is a sole proprietorship.

- 8 Every manager, member of the board of director or sole partner in a Professional Company if they practice a free profession without being one of its licensed partners or shareholders.

- 9 A Committee shall be established from three or more members to look into the violation of the provisions of the law and impose penalties. The Committee's business rules shall be issued by Ministerial Decree.
- 10 Any person against whom a penalty is pronounced may appeal the same before the Administrative Court.

- 11 The upper limit of the penalty shall be doubled if the same violation is repeated within (three) years from the date of issuing the penalty decision.

Disclaimer: This mat does not constitute legal advice; neither does it contain the entire legal procedures stipulated in the law. Also, the purpose of this mat is to draw attention to the significance of the law and its main provisions, however, it does not offer a substitute to careful and detailed legal advice