

Finance Companies Control Law



Introductory Chapter: Definitions

Article 1

In the Law, the following words and phrases shall have the meanings assigned thereto, unless the context requires otherwise:

Law: Finance Companies Control Law.

Regulations: Implementing Regulations of the Law.

SAMA: Saudi Arabian Monetary Authority.

Governor: Governor of SAMA.

Finance Company: A company licensed to engage in finance activities.

Borrower: A person receiving finance.

Consumer: A person to whom finance services are offered.

License: A license issued by SAMA to a company to engage in finance activities.

Finance: Extending credit under contract for the activities provided for in the Law.

Chapter 1: General Provisions

Article 2

The Law shall apply to finance companies licensed under its provisions.

Article 3

Finance companies licensed under the Law shall engage in finance activities in a manner not inconsistent with the principles of Sharia, as determined by the Sharia committees whose members are selected by such companies, and without compromising the integrity of the financial system and the fairness of transactions.

Article 4

1. The finance activities provided for in the Law may not be engaged in without obtaining the necessary license in accordance with the provisions of the Law or other applicable laws.
2. An unlicensed person may not, by any means, indicate, explicitly or implicitly, his engagement in the finance activities provided for in the Law, nor may he use in his

documents, papers, or advertisements any word or phrase that indicates such engagement.

3. Notwithstanding paragraphs (1) and (2) of this Article, the Regulations shall govern the engagement of a natural or legal person in financing the products of his establishments or the services he provides to clients in a manner that enables SAMA to exercise its monetary authority, protects the financial system, and ensures consumer protection.

Chapter 2: Licensing Provisions

Article 5

First: The incorporators of a finance company, or their representatives, shall submit the license application to SAMA. The following conditions must be satisfied for the issuance of the license:

1. The organizational structure of the company, its operation systems, and an investment plan demonstrating its technical capability to engage in finance activities must be submitted, as specified in the Regulations.
2. The capital of the company must not be less than the amount specified by SAMA, nor less than the amount specified in the Companies Law. The foreign share in the capital, if any, must not exceed the percentage determined by SAMA.
3. Each of the company's incorporators must meet the legal and Sharia requirements for competence as well as the following conditions:
 - a) He must not have been in default on any of his obligations towards creditors.
 - b) He must not have been in violation of the provisions of the Capital Market Law and its regulations, the Banking Control Law, the Cooperative Insurance Companies Control Law, or any finance laws.
 - c) He must not have been declared bankrupt.
 - d) He must not have been convicted of any crime impinging on integrity, unless rehabilitated in accordance with the laws or as specified in the Regulations.
4. A person nominated to perform monitoring and executive duties in the company must satisfy the requirements of professional competence as well as the following conditions:
 - a) He must possess theoretical and practical experience relating to the finance activity.
 - b) He must not have been in violation of the provisions of the Capital Market Law

and its regulations, or convicted of violating the Banking Control Law, the Cooperative Insurance Companies Control Law, or any finance laws.

c) He must not have been convicted of any crime impinging on integrity, unless rehabilitated in accordance with the laws or as specified in the Regulations.

5. The company must be a joint stock company; SAMA may, however, license companies other than joint stock companies if it deems that the proposed business model or the nature of the activity requires the same, without compromising the integrity of the financial system and the fairness of transactions.

6. Any other condition provided for in the Regulations for issuing the license.

Second: SAMA shall, upon completion of the application, issue its approval or a reasoned rejection within a period not exceeding 60 days; it shall, when considering license applications, take into account the competitiveness and integrity of the industry and the quality of services.

Third: Applications shall, upon approval, be referred to the Ministry of Commerce and Industry for completion of the company's incorporation and registration in accordance with the provisions of the Companies Law.

Fourth: Upon completion of the incorporation of the company and the issuance of its commercial registration, SAMA shall license the company to engage in the activity. The license term shall be five years.

Fifth: The Regulations shall specify the fees for issuing, renewing, and amending the license.

Article 6

The finance company must commence its finance activities within a period not exceeding one year from the date of obtaining the license. It may not, after commencing its activities, suspend such activities for a period exceeding three consecutive months unless approved by SAMA. The Regulations shall specify the necessary controls therefor.

Article 7

SAMA may cancel the license if it establishes that the finance company provided false information thereto, or failed to disclose material information that should have been disclosed for licensing purposes as set forth in the Regulations.

Article 8

Founder shares may not be disposed of without the approval of SAMA. In such case, the recipients of such shares must satisfy the requirements and conditions provided

for in Article 5(First)(3) of the Law.

Article 9

The license shall be deemed expired upon the appointment of a liquidator for the finance company or the issuance of a bankruptcy ruling.

Chapter 3: Activities of Finance Companies

Article 10

1. SAMA shall license the finance company to engage in one or more of the following finance activities:
 - a) Real estate finance.
 - b) Productive asset finance.
 - c) Small and medium enterprise finance.
 - d) Finance lease.
 - e) Credit card finance.
 - f) Consumer finance.
 - g) Microfinance.
 - h) Any other finance activity approved by SAMA.

The finance company may own assets in order to finance third-party ownership thereof.

2. SAMA shall license establishments seeking to engage in finance support activities in a manner that achieves competition in the provision of services. The Regulations shall specify the legal form of such establishments and the conditions to be satisfied thereby.

Article 11

The finance company may not undertake any of the following:

1. Engage in any activity other than finance without the approval of SAMA.
2. Acquire, whether directly or indirectly, an establishment engaging in an activity other than finance without the approval of SAMA.
3. Trade in currencies, gold, precious metals, or securities.
4. Trade in real estate.
5. Engage in wholesale or retail business.

6. Accept demand deposits.
7. Accept time deposits or non-banking facilities, or open accounts of any type for its clients, unless licensed by SAMA. In such case, the company shall deposit with SAMA a percentage of the value of the deposits as specified in the Regulations.
8. Obtain foreign short-term finance without the approval of SAMA, in accordance with the Regulations.

Article 12

1. The finance company may not undertake any of the following:
 - a) Extend finance without collateral; as an exception, the Regulations shall specify the rules for extending finance without collateral.
 - b) Finance or offer facilities collateralized by its shares.
 - c) Finance or offer facilities to an establishment or a company other than joint stock companies listed in the Saudi Capital Market if any of the board members of the finance company or any of its external auditors is a partner or manager in the establishment or company receiving the finance.
 - d) Finance or offer facilities to persons or establishments if any member of the board of directors of the finance company, any of its managers, any member of its board of managers, or any person holding a position of similar capacity, as the case may be, or any of its external auditors is a guarantor for such finance or facilities.
 - e) Finance or offer facilities to any of its board members or managers or the spouses of the board members or managers or any relative thereof up to the second degree, except against collateral as specified in the Regulations.
 - f) Finance or offer facilities or guarantee any financial obligation of any of its employees in excess of his aggregate salaries for the period specified in the Regulations.
 - g) Acquire shares in another finance company without the approval of SAMA.
 - h) Finance or offer facilities to a company or establishment in which the finance company owns, directly or indirectly, a share that exceeds the percentage specified in the Regulations.
 - i) Finance or offer facilities to a company or establishment which owns, directly or indirectly, a share in the finance company that exceeds the percentage specified in the Regulations.
2. Without prejudice to public and private rights prescribed by law, any member of the board of directors of a finance company, any of its managers, any member of its board of managers, or any person holding a position of similar capacity, as the

case may be, and any of its external auditors who receives finance in violation of the provisions of paragraph 1(b, c, or d) of this Article shall be deemed dismissed as specified in the Regulations

Article 13

The finance company shall allocate a provision for contingent operating losses in accordance with the criteria specified in the Regulations.

Article 14

Without prejudice to the provisions of Article 3 of the Law, the finance company may, as specified in the Regulations and in proportion to its assets and financial position, issue securities and sukuk in accordance with the provisions of the Capital Market Law and its regulations.

Article 15

The finance company and its employees must maintain the confidentiality of the information and transactions of clients to which they become privy during the company's conduct of business, as specified in the Regulations.

Chapter 4: Management of Finance Companies

Article 16

A member of the finance company's board of directors, its managers, a member of its board of managers, or any person holding a position of similar capacity, as the case may be, must not:

1. be a member of the board of directors, a manager, or a member of the board of managers in another finance company that engages in the same activity, or hold a position of similar capacity therein, as the case may be.
2. combine the duty of monitoring finance companies or auditing their accounts with being a member of the board of directors, a manager, or a member of the board of managers in the finance company, or with holding a position of similar capacity in such company, as the case may be.
3. have been dismissed for disciplinary reasons from a senior executive position in a financial institution;
4. have been previously declared bankrupt; and
5. have been convicted of a crime impinging on integrity, unless rehabilitated in accordance with the laws or as specified in the Regulations.

Article 17

The board of directors of the finance company, its managers, the members of its board of managers, or any person holding a position of similar capacity, as the case may be, as well as its general manager, senior executive officers, and branch managers shall, each within the limits of their powers, be liable for the company's violation of any of the provisions of the Law and the Regulations.

Article 18

Without prejudice to Article 12(1)(a) of the Law, the members of the board of directors of a finance company, its managers, the members of its board of managers, or any person holding a position of similar capacity, as the case may be, shall be jointly and severally liable for guaranteeing the company's rights against losses resulting from extending finance without collateral.

Article 19

An audit committee comprising non-executive board members shall be formed in each joint stock finance company. The duties and work rules and procedures of the committee as well as the term of membership and the rules for the selection of members shall be determined pursuant to a decision issued by the general assembly of the company upon a proposal by the board of directors.

Article 20

The chairman and members of the board of directors of a finance company, its managers, the members of its board of managers, or any person holding a position of similar capacity, as the case may be, as well as its employees shall, when concluding any finance contract falling within their powers, disclose the following in writing:

- 1 .Any relation to the contract.
- 2 .Any relation to the contract of any of their relatives up to the second degree.
- 3 .Any financial interest they have with any person related to the contract .

In case of non-disclosure, an aggrieved party may file a lawsuit with the competent court to invalidate the contract.

Chapter 5: Oversight

Article 21

Without prejudice to Article 10(2) of the Law, SAMA shall oversee the activities of finance companies, establishments engaging in finance support activities, and contract registration companies licensed pursuant to the Finance Lease Law; it shall exercise its powers in accordance with the provisions of the Law and the Regulations.

Article 22

The Regulations shall provide for the following:

1. The maximum limit of the aggregate finance amount a finance company may offer.
2. Prohibiting or restricting finance companies from conducting certain credit transactions.
3. The special conditions finance companies must observe in certain credit activities.
4. The minimum requirement for collateral coverage ratio that must be observed in certain contracts.
5. The principles for disclosing the criteria for the cost of finance and its calculation method to enable consumers to compare prices.
6. The controls necessary to ensure the fairness of transactions and the protection of consumer rights.
7. The principles of fair distribution of finance profit over the maturity period.
8. The collaterals presented by borrowers for securing payments and the manner in which the finance company disposes thereof.
9. Engaging in the activity of collecting the debts of finance companies and the licensing provisions therefor.
10. Any other matter to be specified in the Regulations in accordance with the provisions of the Law.

Article 23

The finance company must comply with the rules of capital adequacy ratio as specified in the Regulations.

Article 24

The finance company must diversify its business risks, and may not finance a single establishment or a group of establishments with connected ownership in excess of the percentage specified in the Regulations.

Article 25

Subject to the provisions of applicable laws, SAMA's approval must be obtained for the amendment of the capital of a finance company or the amendment of its articles of association, and for the merger of the company with a similar company or the acquisition thereof.

Article 26

The finance company must obtain SAMA's approval to open or close any branch, agency, or office inside or outside the Kingdom.

Article 27

The finance company must appoint a licensed external auditor, or more. SAMA may appoint another auditor at the expense of the finance company in the cases specified in the Regulations.

Article 28

The finance company shall provide SAMA with any information requested thereby; SAMA shall periodically inspect the records and accounts of the finance company. The finance company shall be deemed in violation of the provisions of the Law and the Regulations if it fails to provide any information required for such inspection.

Article 29

If a finance company, an establishment engaging in finance support activities, or a contract registration company commits violations relating to professional misconduct or to transactions which expose its shareholders, partners, or creditors to risk, or if its debts exceed its assets, SAMA shall, pursuant to a written decision and in proportion to the size of the violation, take one or more of the following actions:

- 1 .Issue a warning.
- 2 .Require the submission of an action plan specifying the measures to be taken thereby to remove the violation and rectify the situation.
- 3 .Order the suspension of some of its operations, or prevent it from paying dividends.
- 4 .Impose the fine provided for in Article 34 of the Law, as the case may be.
- 5 .Order the suspension of the violator, if he is not a member of its board of directors, any of its managers, a member of its board of managers, or any person holding a position of similar capacity, as the case may be, or order his dismissal if the gravity of the violation so requires.

6 .Suspend the chairman of its board of directors or any member thereof, any of its managers, any member of its board of managers, or any person holding a position of similar capacity, as the case may be.

7 .Appoint a consultant, or more, at its expense to provide advice on its conduct of business.

8 .Suspend the powers of its board of directors, its managers, the members of its board of managers, or any person holding a position of similar capacity, as the case may be, and appoint a manager at its expense to manage the conduct of its business until the causes therefor cease to exist, as determined by SAMA.

If SAMA deems that the violation warrants the cancellation of the license or the liquidation of the company or establishment, it shall initiate a suit before the competent court; in such case, SAMA may, at its discretion, suspend the license until the suit is decided.

Article 30

An aggrieved party may appeal the decisions of SAMA before the competent court within 60 days from the date of being notified of the decision.

Chapter 6: Violations and Disputes

Article 31

The competent court shall resolve disputes arising from the application of the provisions of the Law and the Regulations, and shall review violations of such provisions and impose the penalties provided for in the Law.

Article 32

The Governor shall appoint qualified employees to assume the duties of preliminary investigation officers to perform the following tasks:

1. Inspection and monitoring.
2. Investigation of the violations of the provisions of the Law.
3. Prosecution before the competent court.

The Regulations shall specify the procedures for implementing this Article in accordance with the nature of such tasks and in a manner not inconsistent with the provisions of the Law of Criminal Procedure.

Article 33

The finance company must disclose to its client, prior to concluding a contract therewith, the formula for calculating the discount in case of early repayment to bind the parties upon agreement on such discount and when the discount is applied pursuant to the contract, the Law, or a judicial ruling. The Regulations shall specify the criteria for the discount formula in case of early repayment in an equitable manner.

Chapter 7: Penalties

Article 34

SAMA shall impose a fine not exceeding two hundred and fifty thousand riyals (SAR 250,000) for the violations provided for in Article 29 of the Law; SAMA may impose a fine not exceeding ten thousand riyals (SAR 10,000) for each day a violation continues.

Article 35

1. A person whose continuous default on the payment of his loan has been established shall be subject to a fine not exceeding double the interest agreed upon for the defaulted payment for the period of default. Such fine shall be imposed each time the default is repeated. Collected fines shall be deposited in the account of the agency overseeing civil society associations and shall be allocated for supporting public benefit associations.
2. Without prejudice to the provisions of Article 34 of the Law, any person who violates any of the provisions of the Law and the Regulations shall, based on the gravity of the violation, be subject to a fine the maximum limit of which does not exceed two million riyals (SAR 2,000,000) or 10 percent of the finance amount in which the violator engages, whichever is greater, and to imprisonment for a term not exceeding two years, or to either penalty. Collected fines shall be deposited in the State treasury .
3. SAMA may provisionally attach the property of persons whose violation of Article 4(1 and 2) of the Law is detected based on strong evidence, provided that the value of the provisionally attached property does not exceed the maximum limit of the fine or the percentage provided for in paragraph (2) of this Article. Such attachment shall be in force pending the consideration of the violation by the competent court and the issuance of a judgment thereon in accordance with applicable statutory procedures.
4. The judgment imposing the penalty may include a provision to publish its summary at the expense of the violator in any local newspaper or through any other appropriate medium.

Chapter 8: Concluding Provisions

Article 36

Companies and establishments engaging in finance activities in the Kingdom prior to the entry into force of the Law shall be granted a grace period of two years to take the necessary measures to comply with its provisions.

Article 36 bis

SAMA may exempt a finance company or more from some of the provisions of Chapters 3, 4, and 5 of the Law, without compromising the fairness of transactions and the integrity of the financial system.

Article 37

The Department of Zakat and Income shall issue the criteria necessary for calculating the Zakat base for finance companies.

Article 38

The Law shall repeal any provisions conflicting therewith.

Article 39

The Governor shall issue the Regulations within 90 days from the date of issuance of the Law. The Regulations shall become effective after the Law enters into force.

Article 40

The Law shall enter into force 90 days following the date of its publication in the Official Gazette.