

New Companies' Law 2015

Royal decree N° M/3 dated on 28/01/1437H (28/11/2015)

Entry into force on 25/07/1437H (corresponding to 02/05/2016)

Most important new features (as compared with the old law of 1965):

- Does **not** apply to **investment funds** and to **financial establishments**.
- Does apply to companies held fully or partially by the **Government** (Article 3).
- **Company types removed:** partnership limited by shares (KGaA), variable capital company, cooperative company (Article 3-1).
- New: rules on **holding companies**.
- Shareholders' **duty of confidentiality** regarding information relating to the company.
- Shares in LLCs can be **transferred by simple entry into the Share Register** (subject to preemption rights), without amending the Articles of Association.
- Except for the 'mahaasa' partnership: all companies have **legal personality** (Article 14).
- '**Corporate veil**' of LLCs has been more explicitly enshrined (Article 151).
- **Single-partner** LLCs (and joint stock companies in the public sector) are now allowed, but only one formation per investor (Article 154-2, Article 16).
- **Electronic publication of Articles of Association** on the MCI website is sufficient (Article 158).
- **Liability of managers: time bar** increased to five years (except lay off), no time bar in case of fraud and forgery (Article 165).
- **General assembly** must be held within four months after end of fiscal year (Article 167).
- **Balance sheet and P/L account** must be prepared within three months after end of fiscal year (Article 175).
- **Legal reserve** (10% of the profits) is constituted after reaching 30% of the share capital (Article 176).
- **Renewal of term:** 50% majority of partners can decide, automatic renewal if continuation of activity, non-willing partners may withdraw from the company (Article 180).
- **Losses** reaching 50% of the share capital: resolution within 90 days, no more shareholder commitments to pay the debts, no more joint liability if failure to pass resolution, but automatic dissolution (Article 181).
- **Joint stock companies simplified:** only two founders required (public sector: single-partner structure also possible), minimum capital SAR 500,000, ministerial resolution no longer required for formation, may issue debt instruments, convertible into shares.
- **Branches** of foreign companies: MCI minister's approval no longer required, TCR expires automatically upon completion of obligations.
- Tougher **penalties:** three categories, max. 5 years imprisonment, SAR 5 million fine (Article 211).
- MCI has published on its website new **model Articles of Association**.