

English Translation of Finance Companies Control Law

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Introductory Chapter

Definitions

Article 1

The following terms and phrases – wherever mentioned in this Law – shall have the meanings assigned thereto unless the context requires otherwise:

Law: Finance Companies Control Law.

Regulations: Implementing Regulations of this Law.

SAMA: Saudi Arabian Monetary Agency.

Governor: Governor of SAMA.

Finance company: A joint stock 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 activities stipulated in this Law.

Chapter 1 General Provisions

Article 2

This Law shall apply to finance companies licensed pursuant to its provisions.

Article 3

Finance companies – licensed pursuant to this Law- shall engage in finance activities in a manner not conflicting with principles of Sharia as defined by Sharia committees, whose members are selected by these companies, without prejudice to the integrity of the financial system and equity of transactions.

Article 4

1. No finance activities, as specified under this Law, may be engaged in without obtaining a license in accordance with the provisions of this Law and other applicable laws.
2. An unlicensed person may not, by any means, indicate, explicitly or implicitly, the engagement in finance activities as specified under this Law. Neither may he use any other indicative terms or phrases in his documents, papers or advertisements.
3. Notwithstanding paragraphs 1 and 2 of this Article, the Regulations shall regulate the natural or corporate person's finance of its products and services for clients in a manner that enables SAMA to exercise its monetary authority, protect the financial system, and ensure consumer protection.

Chapter 2 Licensing Provisions

Article 5

First: The founders of a finance company or their representatives shall apply to SAMA for a license in accordance with the following conditions:

1. Submission of the organizational structure of the company, operation systems and an investment plan demonstrating its technical capability to engage in finance activities in accordance with the Regulations;
2. The capital of the company shall not be less than the amount specified by SAMA, and not less than the amount specified under the Companies Law. The foreign share in the capital, if any, shall not exceed the percentage specified by SAMA;
3. Each founding member of the company shall be legally competent and shall not:
 - a. be in default of any obligation against his creditors;
 - b. be in breach of the provisions of the Capital Market Law and its Regulations, the Banking Control Law, the Cooperative Insurance Companies Control Law or finance laws;
 - c. have been declared bankrupt;
 - d. be convicted of any crime impinging on integrity, unless rehabilitated pursuant to laws or as specified under the Regulations.
4. The persons nominated to perform monitoring and executive duties in the company shall satisfy professional competence requirements, in addition to the following:
 - a. possess theoretical and practical knowledge in finance;

- b. not be in breach 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 finance laws;
- c. have not been convicted of a crime impinging on integrity, unless rehabilitated pursuant to laws or as specified under the Regulations.

5. Satisfy any other condition stipulated by the Regulations for issuing the license.

Second: SAMA shall, upon completion of the application, issue its decision of approval or reasoned rejection within a period not exceeding 60 days. In making its decision, it shall observe the competitiveness and integrity of the industry and quality of services.

Third: Upon approval, applications shall be referred to the Ministry of Commerce and Industry to complete company incorporation and registration in accordance with the provisions of the Companies Law.

Fourth: Upon completion of the incorporation of the company and issuance of the commercial registration, SAMA shall issue the license permitting the company to practice. 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 as from the date of obtaining the license. After commencing its activities, it shall not cease its activities for more than three successive months unless approved by SAMA. The Regulations shall specify necessary controls therefor.

Article 7

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

Article 8

The shares of founding shareholders may not be disposed of except with the approval of SAMA. Recipients of such shares shall satisfy the requirements and terms set out in Article 5(First) (3) of this Law.

Article 9

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

Chapter 3 Activities of Finance Companies

Article 10

1. SAMA shall license a finance company to engage in one or more of the following activities:

- a. Real estate finance
- b. Production 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

A finance company may acquire assets in order to finance third parties' acquisition of such assets.

2. SAMA shall license entities seeking to engage in activities supporting finance activity in a manner that achieves competition in providing such services. The Regulations shall specify the legal form of such entity and conditions to be satisfied.

Article 11

A finance company may not:

1. Engage in activities other than finance activities.
2. Acquire, directly or indirectly, other entities engaging in activities other than finance activities.
3. Trade in currencies, gold, precious metals or securities.
4. Trade in real estate.
5. Engage in wholesale or retail trading.
6. Accept call deposit.
7. Accept time deposits or non-banking facilities or opening accounts of all types for its clients, unless licensed by SAMA. The company shall deposit with SAMA a percentage of the value of the deposits as specified by the Regulations.

8. Obtain foreign short-term finance without obtaining the approval of SAMA as specified by the Regulations.

Article 12

1. A finance company may not:
 - a. extend any finance without collateral, and as an exception, the Regulations shall specify the rules for 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 one of the members of the board of directors of the finance company or its external auditor is a partner or a director of the establishment or company receiving such finance;
 - d. finance or offer facilities to persons or entities if one of the members of the board of directors of the finance company or its external auditor is a guarantor for receiving such finance or facilities;
 - e. finance or offer facilities to any board member, director, spouses thereof or a relative to the second degree except upon collaterals specified by 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 by the Regulations;
 - g. acquire shares in another finance company without obtaining the approval of SAMA;
 - h. finance or offer facilities to a company or establishment in which the finance company owns, directly or indirectly, a percentage exceeding the percentage specified by the Regulations;
 - i. finance or offer facilities to a company or establishment which owns in the finance company, directly or indirectly, a percentage exceeding the percentage specified by the Regulations;
2. Without prejudice to public and private rights prescribed by law, any board member of a finance company or any external auditor who receives finance in breach of sub-clause 1(b), 1(c) or 1(d) of this Article shall be deemed dismissed as specified under the provisions of the Regulations.

Article 13

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

Article 14

Without prejudice to provisions of Article 3 of this Law, the finance company, as specified in the Regulations and in proportion with its assets and financial position, may 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 their customers' information and transactions they are privy to during the company's conduct of business, as specified by the Regulations.

Chapter 4 Management of Finance Companies

Article 16

A finance company board member shall not:

1. be a board member in another finance company;
2. combine the duty of monitoring finance companies or auditing their accounts with membership in board of directors in the same company;
3. have been dismissed, as a disciplinary action, from a senior executive position in a finance institution;
4. have been previously declared bankrupt.
5. have been convicted of a crime impinging on integrity, unless rehabilitated in accordance with law or as specified under the Regulations.

Article 17

Members of the board of directors of the company as well as its general manager, senior executive directors and branch managers, each within their powers, shall be liable for the company's breach of the provisions of this Law and its Regulations.

Article 18

Without prejudice to Article 12(1) (a) of this Law, members of the board of directors of a finance company shall be jointly and severally liable for guaranteeing the company's rights against losses resulting from granting finance without collateral.

Article 19

An audit committee shall be formed in each finance company from non-executive board members. Committee duties, selection of its members, term of membership and work procedures shall be determined pursuant to a resolution by the general assembly of the finance company upon a proposal by the board of directors.

Article 20

Upon concluding any finance contract falling within their powers, the chairman, board members and employees of the finance company shall disclose in writing the following:

1. Any relation with respect to the contract.
2. Any relation to the contract of any relative up to the second degree.
3. Any financial interest they have with any contract party.

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

Chapter 5 Supervising Finance Companies

Article 21

SAMA shall supervise the activities of finance companies and exercise its powers pursuant to the provisions of this Law and its Regulation.

Article 22

The Regulations shall regulate the following:

1. The maximum limit of finance that may be offered by a finance company.
2. Prohibiting or restricting finance companies from conducting certain credit transactions.
3. The special conditions to be observed by a finance company in conducting certain credit activities.
4. The minimum percentage of collateral proportions to be observed in certain contracts for finance amounts and assets presented as collateral thereof.
5. The principles for disclosure of the criteria of the cost of finance and the method of calculation to enable consumers to compare prices.
6. Controls necessary to ensure equity of transactions and protection of consumers' rights.
7. Principles of fair distribution of finance profit over maturity period.

8. Collaterals for protecting payments made by borrowers and how the finance company disposes of the same.
9. Debts collection by finance companies and provisions of licensing.
10. Any other matters regulated by the Regulations in accordance with this Law.

Article 23

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

Article 24

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

Article 25

Subject to prevailing laws, SAMA's approval must be obtained for the amendment of the capital of the finance company or amendment of its articles of association as well as merger and acquisition.

Article 26

The finance company shall obtain SAMA's approval for opening or closing a branch, an agency or an office within the Kingdom or abroad.

Article 27

The finance company shall appoint one or more licensed external auditor. SAMA may appoint another auditor at the expense of the finance company in the cases specified by the Regulations.

Article 28

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

Article 29

If a finance company commits violations relating to any professional irregularities or transactions exposing its shareholders or creditors to risk, or if its debts exceed its assets, SAMA shall, by written decision and in proportion to the violation, take one or more of the following measures:

1. Serve a warning.
2. Require the finance company to submit an appropriate corrective action plan.
3. Order the suspension of some of its operations or prevent distribution of dividends.
4. Impose the fine set out in Article 34 of this Law, as the case may be.
5. Order the temporary suspension or dismissal of the violator, if not a board member, according to the gravity of the violation.
6. Temporary suspension of the chairman or a board member.
7. Appoint one or more consultants at the expense of the finance company to provide advice on its conduct of business.
8. Suspend the board of directors and appoint a manager at the expense of the finance company to run the company until the causes for suspension, as determined by SAMA, cease to exist.

If SAMA deems that the violation calls for cancellation of the license or liquidation of the finance company, SAMA may initiate a suit before the competent court. SAMA, at its own discretion, may suspend the license until the suit is decided.

Article 30

Any aggrieved party may appeal the decisions of SAMA before the competent court within 60 days from the date of being aware of such decision.

Chapter 6 Violations and Disputes Article 31

The competent court shall resolve disputes arising from the implementation of the provisions of this Law and its Implementing Regulations, review violations of their provisions and impose the penalties provided for in this Law.

Article 32

The Governor shall appoint qualified officers to perform the following:

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

The Regulations shall specify the procedures regulating the enforcement of this Article in conformity with the nature of these tasks and in a manner not in conflict with the provisions of the Law of Criminal Procedure.

Article 33

The finance company shall disclose to its customers, prior to entering into contract, the discount in case of early repayment to bind parties upon agreement and when resorted to by virtue of a contract, law or a judicial ruling. The Regulations shall specify the criteria for discount 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 violations set forth in Article 29 of this Law. If the violation persists, SAMA may impose a fine not exceeding ten thousand riyals (SAR 10.000) for each violation day.

Article 35

1. A person who persists in defaulting the payment of his loan, shall be subject to a fine not exceeding double the interest agreed to for the defaulted payment. The fine shall be repeated with each repeated default. The fine shall be deposited into the account of the agency overseeing non-governmental organizations, to be allocated for support of public benefit societies.
2. Without prejudice to the provisions of Article 34 of this Law, any person violating any of the provisions of this Law and its Regulations shall be subject, depending on the gravity of the violation, to a fine not exceeding five hundred thousand riyals (SAR 500.000) and imprisonment for a term not exceeding two years, or either penalty.

Chapter 8 Concluding Provisions

Article 36

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

Article 37

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

Article 38

This Law shall supersede any contradicting provisions.

Article 39

The Governor shall issue the Regulations within 90 days from date of issuance of this Law and shall come into effect upon the Law's entry into force.

Article 40

This Law shall enter into force 90 days from its publication in the Official Gazette.