



## **Understanding the Implications of the New Companies Law in KSA on Family Firms** **Webinar**

### **Webinar Outcome Report**

The Pearl Initiative (PI) is the Gulf region's leading business-led, non-profit organization established in 2010 by regional business leaders in cooperation with the United Nations Office for Partnerships. PI promotes the business case for a corporate culture of accountability and transparency across a wide variety of stakeholders including MNCs, Family businesses, SMEs, Tech entities, youth through different programmes and initiatives. PI recently launched its Governance in Tech programme with the aim of raising awareness amongst tech entities within the Gulf region of the benefits of strong and innovative corporate governance capabilities.

On the June 28, 2022, the Saudi Council of Ministers approved the new Kingdom of Saudi Arabia Companies Law, and the final approved version of the law was issued on July 4, 2022. The new Companies Law allows for the introduction of a family charter in the articles of association to regulate ownership, governance, management, work policy, relatives' employment, and dividends distribution in family-owned companies. This new law marks a key milestone and a monumental shift in the ability of family firms to navigate issues of ownership, governance and succession through legal frameworks that are designed to enhance their sustainability, longevity, competitiveness, and agility.

The Pearl Initiative, in collaboration with Al Tamimi held a virtual session that delved into the companies law in KSA and its impact on family firms. The session helped family business leaders understand how the new companies law supports long-term sustainability and stability of family-owned businesses, as the family grows, and succession events inevitably occur.

The webinar was led by Omar AlHumaid, Senior Counsel at Al Tamimi & Company. The Pearl Initiative extends their thanks and gratitude to Omar for his generous contribution of his time and his expertise.

### **Key Learnings & Insights:**

- The new company law in Saudi Arabia introduces changes to the reserve rights for shareholders, the valuation of shares, and the removal of mandatory reserves for LLCs.
- The simple joint stock company has no minimum share capital requirement and allows for the issuance of classes of shares with voting rights and obligations. It can be managed by a single director or board of directors.
- The joint stock company now has a minimum share capital requirement of 500,000 Saudi real and can issue both authorized and issued shares. There is no longer a lockup period for shareholders.
- The new law clarifies the responsibility of the board of directors and managers for all types of companies, and imposes an express duty of care and loyalty on board members and managers.
- The not-for-profit company is a new type of company that can be formulated for charitable or public purposes. The profit of the public company must be distributed back to the community, and there is a tax exemption for not-for-profit companies.
- Family businesses should consider the family charter for governance purposes and the simple joint stock company as a new form of investment vehicle.
- The new law allows for family charters to be introduced in family-owned companies to regulate ownership, governance management, work policy, relatives' employment, and dividends distribution.
- The new law permits the use of alternative dispute resolution and arbitration for corporate disputes.
- The new law allows for the issuance of conventional as well as Shariah-compliant debt by joint stock companies and limited liability companies.
- The simple joint stock company is a new type of company that can be managed by a single director or a board of directors.
- The joint stock company can now sell shares to the public through an initial public offering at different stages.
- The new law now allows for the electronic mechanism for conducting shareholder resolutions or board meetings.

- The new law introduces the concept of a nominee director, allowing for more flexibility in the appointment of directors.
- The new law provides more protection for minority shareholders, including the right to challenge certain corporate actions.
- The new law allows for the establishment of a share buyback program, providing more flexibility for companies to manage their capital.
- The new law allows for the creation of a joint venture company, which can be established for a specific project or venture.
- The new law allows for the creation of a special purpose vehicle, providing more flexibility for certain types of businesses.
- The new law allows for the creation of employee stock option plans, providing incentives for employees.
- The new law introduces the concept of a limited liability partnership, providing more flexibility for certain types of businesses.
- The new law clarifies the process for transferring shares in limited liability companies, including the need to register with the commercial registry.
- The new law allows for the creation of a holding company structure, which was not previously possible.
- The new law introduces the concept of electronic voting for shareholder meetings.
- The new law provides more flexibility and protection for businesses and shareholders.

The updates to the Saudi Arabian Companies Law bring significant changes to the way companies can operate in the country. It is important for businesses to understand these changes and comply with the new regulations to avoid any legal issues. The new law provides more flexibility and protection for businesses and shareholders, and introduces new concepts such as electronic voting, squeeze-out, and notarized articles of association. The Ministry of Commerce is expected to issue guidelines to clarify the implementation of certain points in the new law.

To watch the full webinar [click here](#).