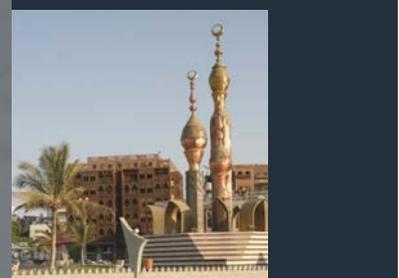
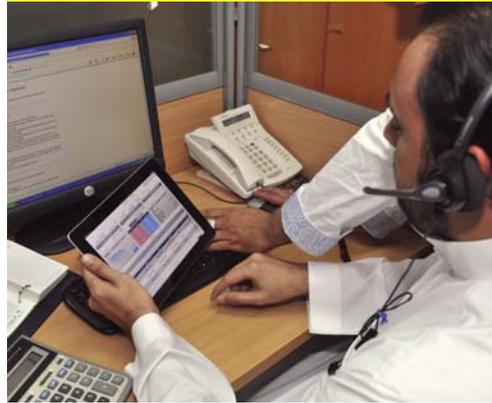


Legal Framework

Overview of the law for both local and foreign investors
Regulations on owning property for non-GCC nationals
Up-to-date laws on intellectual property and copyright
Environmental guidelines for construction projects
New standards for disclosure of financial information





Financial regulations are subject to both sharia and legal decrees

Informed investing

Regulations relating to the investment landscape for both foreign and local investors

The growth of the Saudi economy over the last few decades has been nothing short of staggering, and today the country is one of the top 20 economies in the world. Historically, the hydrocarbons sector has dominated the economy, though growth in other segments, including industry, manufacturing, retail, trade and construction, has created tremendous opportunities in the private sector. As part of the growing economy, the legal and regulatory framework has evolved to accommodate new needs. In this section, we highlight a number of the main regulations of which any investor in Saudi Arabia should be aware.

SOURCES OF LAW & REGULATIONS: Islamic sharia is the main source of law in Saudi Arabia. Sharia is composed of a collection of fundamental principles derived from a number of different sources, including the Holy Quran, the Sunnah, or sayings of the Prophet Muhammad, and the opinions and interpretations of sharia scholars. Enacted legislation is a second source of legal decrees in the country and can be authorised via royal orders, royal decrees, resolutions by the Council of Ministers, and ministerial resolutions and circulars, among other means. All such laws are ultimately subject to, and cannot conflict with, sharia.

FOREIGN INVESTMENT REGULATIONS: There are a number of rules governing foreign investment:

Foreign capital investment: The Foreign Investment Law (Royal Decree No. M/1 dated 5/1/1421H, corresponding to 10/4/2000) requires any firm in Saudi Arabia that has foreign shareholders to obtain a foreign capital investment licence. All licences for foreign capital investment are issued by the Saudi Arabian General Investment Authority (SAGIA). Also, note that for the purpose of the Foreign Investment Law, corporate entities based in GCC member states are treated as Saudi firms and are, therefore, not subject to the Foreign Investment Law. However, in the case that a corporate entity established in another GCC state has any shareholders who are not nationals of the GCC, the Foreign Investment Law would apply to such investments.

As a general rule, there is no limit to the amount of foreign investment that can be invested in a company incorporated in Saudi Arabia and the establishment of 100% foreign-owned companies is permitted in most cases. The Supreme Economic Council is responsible for issuing and periodically updating a list of activities (generally referred to as the Negative List) that foreign investors are prohibited from carrying out in Saudi Arabia. For the most up-to-date Negative List and minimum capital requirements visit: <http://www.sagia.gov.sa>. In addition, there are certain caps on foreign ownership in certain types of business. For example, foreign ownership for firms that engage in retail and wholesale is limited to 75% and the minimum foreign investment is SR20m (\$5.33m). Certain sectors, such as health care and education, may also have additional restrictions on foreign investors imposed by the regulatory authorities for the sector, or sector-specific rules.

When licensed under the Foreign Investment Law, a company enjoys all privileges and incentives offered to wholly Saudi-owned companies, such as ownership of freehold property, which is necessary to carry out licensed activity; privileges granted by the anti-double-taxation treaties to which Saudi Arabia is a party; prohibitions against expropriation or confiscation of investments; rights to repatriate profits; etc.

Incorporating a local entity: The Regulations for Companies (Royal Decree No. M/6 dated 22/3/1385H, corresponding to 22/7/1965) sets out the rules for the establishment and governance of Saudi corporate entities. The main forms of legal entities are the limited liability company (LLC), the joint stock company and the branch of a foreign company.

Other notable forms of legal entities include the sole proprietorship and the general partnership. It should be noted that a new version of the Regulations for Companies is in the process of being developed.

(i) Limited liability companies: The most common form of company in Saudi Arabia is the LLC. It should be noted that an LLC is the most common corporate vehicle



Due to restrictions on foreign investment, foreign firms generally appoint Saudi agents to trade

for equity participation by foreign investors. An LLC must have a minimum of two shareholders and may not have more than 50 shareholders. Natural persons and corporate entities may be shareholders.

Generally, shareholders are liable for the debts of the company only to the extent of their respective interests in the corporate entities' shares. To the extent a shareholder sells their shares, the liability of the selling shareholder as between himself and other shareholders ceases from the date that is specified as the effective date of the sale and purchase agreement; however, as far as any statutory liability under the Regulations for Companies is concerned, the departing shareholder remains potentially liable until the amended articles of association reflecting the sale are re-registered by the Ministry of Commerce and Industry (MCI).

(ii) **Joint stock companies:** A joint stock company must have a minimum of five shareholders. There is no maximum. Natural persons and corporate entities may be shareholders. Shares in a joint stock company are typically evidenced by share certificates, although dematerialised shares are becoming more common.

Shareholders are liable only to the extent of the value of their shares. The minimum share capital for a closed joint stock company (not offering shares for public subscription) is SR2m (\$533,200). Subject to the approval of the MCI, the share capital subscribed for in cash may be paid in stages, provided that the amount payable per cash share upon subscription is not less than one-quarter of its par value.

(iii) **Local branches of foreign companies:** Local branches of foreign companies in Saudi Arabia are subject to the provisions of the Regulations for Companies and to the laws and regulations applicable to their specific activities. A foreign company that opens a branch in Saudi Arabia is required, as is the case with LLC and joint stock companies, to deposit an amount equivalent to the capital required by SAGIA with a local bank. The deposit will then be frozen by the bank until the issuance of a certificate of registration for the branch by the MCI.

Exit from investment: Subject to any statutory (e.g., the right of existing shareholders to purchase shares) or contractual pre-emption rights, the exit of a foreign shareholder is implemented by means of cancellation or transfer, as the case may be, of the SAGIA investment licence. This regulatory restriction is designed to ensure that foreign shareholders are not unjustly removed from Saudi companies. The cancellation of a SAGIA investment licence is generally more straightforward than the approval of foreign capital investment, unless new foreign shareholders are coming in, in which case the procedure would be analogous to that of applying for a new licence.

Unlike the case with an LLC, transfer of shares in joint stock companies occurs by way of cancellation of the transferor's share certificates and the subsequent issuance of new ones to the transferee. The liability of the departing shareholder as between their self and the other shareholders ceases from the date of the transfer that is reflected in the company's register of shareholders. It should be noted that before a shareholder wishing to transfer their shares in a joint stock company can do so, they must wait until after the lapse of the statutory lock-up period (two complete financial years, each consisting of at least 12 months from the date of incorporation of the joint stock company in question). Additionally, foreign shareholders may also be liable for capital gains tax on their sold shares.

Commercial agency relationship: Due to restrictions on foreign investment (such as the Negative List described previously) and pursuant to the Commercial Agencies Regulations (Royal Decree No. M/11 dated 20/2/1382H, corresponding to 22/7/1962), foreign manufacturers and principals have generally appointed Saudi agents or distributors to trade and distribute their products in the local market.

A Saudi commercial agent or distributor must register with the MCI each time it enters into an agency or distributorship relationship. As part of the registration process, the Saudi agent or distributor must submit its agreement with its non-Saudi principal to the MCI for registration within three Hijri months from the effective date of the agreement. The MCI has published standard forms of agency and distributorship contracts for the benefit of investors. However, the use of such forms is not mandatory.

The failure of a Saudi agent or distributor to register with the MCI could result in fines and other penalties for agents or distributors, but would not render the underlying agency or distributorship agreement invalid nor otherwise subject the non-Saudi principal to any penalties except that, in certain circumstances, the principal may be barred from participating in tenders for public sector projects.

CAPITAL MARKETS LAW: The Capital Markets Law (Royal Decree No. M/30 dated 2/6/1424H, corresponding to 31/7/2003) established the Capital Markets Authority (CMA), which is the sole regulator and supervisor of capital markets in Saudi Arabia. The CMA is a government organisation with financial, legal, and administrative independence and reports directly to the

president of the Council of Ministers. The Saudi Arabian Stock Exchange was also re-established, pursuant to the Capital Markets Law. The exchange was set up as a joint stock company, the shares of which are wholly owned by the Saudi government through its investment arm, the Public Investment Fund.

The CMA's function is to regulate and develop the Saudi capital markets. It issues rules and regulations for implementation of provisions of the Capital Markets Law aimed at creating an appropriate investment environment, protecting investors and ensuring fairness and efficiency in the market. The CMA is governed by a board of full-time members appointed by royal order. The Capital Markets Law is a generic legislative framework for capital markets in Saudi Arabia and refers to specific implementing regulations that provide a detailed regulatory framework for various securities matters, including licensing of "authorised persons" and offering and marketing of securities in Saudi Arabia. The CMA has already promulgated 10 major implementing regulations, namely:

- Rules for listing companies;
- Regulations regarding offers of securities;
- Definitions of authorised persons;
- Regulations on securities business;
- Rules for market conduct;
- Regulations on corporate governance;
- Regulations on investment funds;
- Rules for real estate investment funds;
- Framework for mergers and acquisition; and
- Rules for anti-money laundering and measures intended to counter financing for terrorism.

EMPLOYMENT LAW: Employment matters in Saudi Arabia are governed by the Labour Law (Royal Decree No. M/51 dated 23/8/1426H, corresponding to 27/9/2005). The Ministry of Labour regulates all labour-related issues in Saudi Arabia through Labour Offices located in different regions of the country. The Labour Law imposes certain minimum standards on labour-related matters, such as working hours, vacations, safety standards and termination of employment.

Upon termination of employment, an employee is entitled to an end-of-service payment, which is calculated on the basis of half a month's salary for each year of their first five years of employment, and one month's salary for each year following their first five years of employment, with the employee's most recent wages being the basis for the award calculation.

The government has set a long-term strategic goal of increasing the proportion of Saudi employees in both the public and private sectors. This policy is known as "Saudiisation" and is effected by requiring companies to employ a certain percentage of Saudi citizens. Such percentages range from 5% to 75% based on the nature of business, condition of work and the availability of Saudi employees in the field.

REAL PROPERTY: Ownership of real property in Saudi Arabia is evidenced by title deeds. Although a central registry under the joint auspices of the Ministry of Justice and the Ministry of Municipal and Rural Affairs where all real property rights are recorded, including



Nationals of GCC member states are permitted by law to own up to three private residences

mortgages, is provided for by law, it has yet to be set up. Currently, real property records are kept manually and administered by designated notaries public, who also register ownership and transfers of real property.

OWNERSHIP BY NON-GCC NATIONALS: Ownership and investment in real property by non-GCC nationals is governed by the Ownership of and Investment in Property by Non-Saudis Regulations (Royal Decree No. M/15 dated 17/4/1421H, corresponding to 19/7/2000). A non-GCC investor in possession of a foreign investment licence from SAGIA is allowed to own real property in Saudi Arabia, excluding real property located within the limits of the two holy cities of Makkah and Medina. The property in question must be necessary to an investment project, including real property necessary to house people who will be employed by the project. Non-GCC individuals residing in Saudi Arabia may, subject to approval from the Ministry of Interior, acquire property at a private residence.

OWNERSHIP BY GCC NATIONALS: Ownership and investment in real property by GCC nationals is governed by the Rules for Real Estate Appropriation by Nationals of GCC States (Royal Decree No. M/55 dated 27/10/1405H, corresponding to 16/7/1985).

It is permissible for nationals of GCC member states to own up to three private residences in residential areas in Saudi Arabia, excluding the two holy cities of Makkah and Medina. It is permissible for GCC nationals, whether natural or corporate persons, to own real property in Saudi Arabia provided such real property is exclusively used and adequately sized for conducting the business for which they are duly licensed.

CURRENT REGIME & PRACTICE FOR MORTGAGES: While the new Mortgage Regulations (Royal Decree No. M/49 dated 13/8/1433H, corresponding to 3/7/2012) were enacted to regulate taking mortgages over real property in Saudi Arabia, the Mortgage Regulations have not yet been implemented given that the central registry of real properties has not yet been established. At present Saudi Arabia does not have the required



Both residents in the country and non-residents who conduct activities in Saudi Arabia are subject to taxes

mechanisms for recording mortgages over real property. Historically, notaries public in Saudi Arabia have refused to record mortgages over real property as they view them as contrary to sharia. Saudi notaries public have also refused to record mortgages over real property in the name of commercial banks as the mortgagee on the grounds that such transactions secure an indebtedness that has been tainted by interest contrary to sharia and, therefore, the religious beliefs of the notary public overseeing the transaction would be compromised if they recorded such instruments.

ALTERNATIVE METHODS: Following the refusal by notaries public to record mortgages of real property, even in the case of commercial banks, such banks started to use nominees to act as mortgagees on their behalf. However, notaries public then refused to record any mortgages of real property in favour of any company or individual outside of a limited group of specialised credit institutions, like the Saudi Industrial Development Fund and Public Investment Fund.

Under Saudi law, the absence of record of any encumbrance or other third party right, which has been contractually entered into with respect to real property, does not preclude any party claiming the existence of such encumbrance from enforcing it against the owner of the real property. Therefore, for commercial banks to obtain security interest or a mortgage over real property in Saudi Arabia, the current practice is to transfer the title of the real property to the commercial bank with the commercial bank effectively becoming the owner of the real property, subject to all liabilities and consequences associated with ownership of the property, such as environmental compliance, tax/zakat obligations, actions brought by tenants or lessees of the property, and other potential liabilities.

In order to limit such liabilities, most commercial banks have opted to establish LLCs to act as the owner of the property that they desire to obtain a security interest over. In order to transfer the title deed of any property to the LLC, notaries public would require

the owner/mortgagor to present the consideration received in exchange for the property. Recently, commercial banks have issued “dummy checks” to the owner/mortgagor to satisfy this requirement, and would then require the owner/mortgagor to confirm in documentation that the check will be returned to the bank once the transfer of ownership occurs.

Upon the transfer of a title deed, a Saudi Arabian adjudicatory body should hold that upon transfer of the title deed, the property ceases to be treated as the asset of the borrower and would be unavailable to such borrower’s creditors in the event of a bankruptcy, insolvency, liquidation or generally otherwise.

It should be noted that the procedures set out above with respect to the transfer of title deeds to commercial banks (and to any special purpose LLC) are only applicable to Saudi banks and financial institutions.

TAXATION REGULATIONS: In general, the principal taxes in Saudi Arabia are income tax, Islamic tax on wealth, known as *zakat*, and withholding tax. Pursuant to the Tax Law (Royal Decree No. M/1 dated 15/1/1425H, corresponding to 7/3/2004), the following persons or entities are subject to taxation:

- A resident capital company with regard to its non-Saudi shares;
- A resident non-Saudi natural person who conducts financial activities in Saudi Arabia;
- A non-resident person who conducts activities in Saudi Arabia through a permanent establishment;
- A non-resident person who has other income that is subject to tax from sources within Saudi Arabia;
- A person engaged in investment activities related to natural gas; and
- A person engaged in the production of oil and other hydrocarbons.

Income Tax: The income tax rate is 20% for all taxpayers, except for certain specific investment activities related to natural gas, which are subject to a defined investment tax that provides a 30% base tax rate, as well as additional rates of up to a maximum of 85%. Oil or other hydrocarbons-related activities are subject to a tax rate of 85%. Income that is subject to tax includes all income, profits, gains of any type or payment resulting from carrying out any activity, including capital gains or incidental income that is not an exempt income. Employee salaries and benefits are not taxable income. **Zakat:** Zakat is an Islamic tax on wealth and is levied on Saudi citizens, nationals of GCC member states, wholly Saudi- or GCC-owned entities, and Saudi or GCC shareholders of companies. While the calculation of zakat is complex, the effective rate for natural persons is 2.5% of their net worth and for companies it is 2.5% of their total capital resources.

The tax base for calculation of zakat for companies excludes fixed assets, long-term investments and deferred costs from total capital resources, but includes profits from foreign investments that do not consist of investment in real property. Profits of foreign non-real property investments are estimated by the Department of Zakat and Income Tax to be 15% of the revenues in cases where no details are made available.

Withholding Tax: Any resident – whether or not considered a taxpayer under the Tax Law – who makes payment to a non-resident from a source in Saudi Arabia is subject to withholding tax. Generally, income is considered to be “derived from a source in the Kingdom” if it is derived from an activity in Saudi Arabia. Tax rates for such payment are as follows:

- 5% for rents;
- 15% for royalties;
- 20% for management fees;
- 5% for payments for air tickets, air freight and maritime freight;
- 5% for payment of international telecommunications services; and
- 15% for any other services.

INTELLECTUAL PROPERTY: Intellectual property in the Kingdom includes trade names, trademarks, copyrights and patents.

Trade Names: The Trade Names Law (Royal Decree No. M/15 dated 12/8/1420H, corresponding to 20/11/1999) protects registered trade names in Saudi Arabia by requiring every business operating in the country to register its trade name with the Commercial Register at the MCI, proscribing any other business or individual from using registered trade names. Only Arabic or Arabised trade names may be registered, except for companies with foreign shareholders whose names are registered outside of Saudi Arabia.

Trademarks: The Trademarks Law (Royal Decree No. M/21 dated 28/5/1423H, corresponding to 7/8/2002) permits a person or company to register a unique combination of letters, numbers, symbols or signs that are applied to a specific category of goods or services in such a way as to distinguish those goods or services from similar ones in the marketplace.

Trademark registrations are valid for 10 Hijri years from the date of application and are perpetually renewable for further periods of 10 Hijri years. Two years of continuous, open and uncontested use of a registered trademark gives rise to an irrefutable presumption of ownership. In 2004 Saudi Arabia acceded to the Paris Convention for Protection of Industrial Property.

Copyrights: Copyrights are protected by the Copyright Law (Royal Decree No. M/41 dated 2/7/1424H, corresponding to 30/8/2003). The Copyright Law covers all scientific, literary or artistic works regardless of their type, importance, manner of expression or purpose. Works of foreign and Saudi authors are protected if they are published, acted or shown for the first time in Saudi Arabia. Copyrights will in most cases be valid for the lifetime of the author plus 50 Hijri years from the date of death. Protection of sound and audio visual works, photographic works and works in applied arts is limited to 25 Hijri years from the date of publication. Protection of computer software is for 50 Hijri years from the date of publication. In 1994 Saudi Arabia acceded to the Universal Copyright Convention, and in 2004 acceded to the Berne Convention for Protection of Literary and Artistic Works.

Patents: Patents are protected by Patent Law (Royal Decree No. M/27 dated 29/5/1425H, corresponding



The country has acceded to several international regulations regarding intellectual property rights

to 17/7/2004). The King Abdulaziz City for Science and Technology has authority to issue “protection documents” in Saudi Arabia. Protection of patents (and plant patents) lasts for a period of 20 years from the date of filing an application. Protection of layout design certificates is valid for 10 years from the start of commercial exploitation anywhere in the world. Protection of industrial design certifications is valid for 10 years from the date of filing the application. Saudi Arabia has acceded to the GCC Patent Law.

Trade Secrets: Trade secrets are protected by Protection of Confidential Trade Secrets Regulations (Ministerial Resolution No.3218 dated 25/3/1426H., corresponding to 4/5/2005) from being divulged by third parties or official authorities entrusted with such secrets.

ENVIRONMENTAL LAW: The Meteorology and Environmental Protection Administration (MEPA) is the agency responsible for regulating pollution control and related environmental matters. MEPA has issued Environmental Protection Standards for, among other things, ambient air quality, air pollution sources, receiving water guidelines, direct discharge performance and discharge pretreatment guidelines. The General Environmental Regulation (Royal Decree No. M/34 dated 28/7/1422H, corresponding to 15/10/2001) provides a specific legislative underpinning to MEPA’s activities and for the expansion of its role.

Saudi Arabia has also approved the General Environmental Regulation for the GCC and the Environmental Assessment Regulation for the GCC. The General Environmental Regulation prohibits any act or failure to act that may result in adverse environmental effects and, among other things, requires that precautionary and preemptive measures be implemented so as to ensure that such adverse effects do not occur as a result of the construction of any project. The Environmental Assessment Regulation includes a list of projects that could have an environmental impact and require an environmental assessment or study be conducted with respect to projects under its coverage.



New rules implemented in January 2012 improve disclosure standards

Improved transparency

Developing corporate governance and disclosure standards for public companies

Since its formation in July 2004, the Capital Markets Authority (CMA) has taken various measures to improve corporate governance and disclosure standards for Saudi Arabian public companies, which has also resulted in the improvement of such standards among private companies that may seek to be publicly listed in the future.

PREPARING THE GROUND: The CMA adopted the Corporate Governance Regulations in November 2006, and since then through a series of board resolutions has made more and more of its rules binding. In addition to being applicable to publicly listed companies, the CMA extended the application of the Corporate Governance Regulations to non-publicly listed financial institutions that are licensed as authorised persons by the CMA. Furthermore, pursuant to the listing rules adopted by the CMA in January 2012, increased disclosure standards were implemented and are applicable to a public company both at time of listing and on an ongoing basis.

The CMA has also issued a number of resolutions that are meant to provide the market with additional guidance on what types of material information should be announced by a public company, as well as how and when such disclosures should be made. In addition to the measures taken by the CMA, the Ministry of Commerce and Industry (MCI), through its enforcement of Regulations for Companies, and the Saudi Arabian General Investment Authority (SAGIA), through its licensing of entities with foreign shareholding and other initiatives, have taken steps to improve corporate governance and the transparency of firms operating in the country.

CORPORATE GOVERNANCE REGULATIONS: In addition to matters of corporate governance, which are proscribed in the Regulations for Companies as enforced by the MCI, the CMA adopted a set of rules that are applicable to all companies listed on the Saudi Arabian Stock Exchange. In addition, companies that are filing for a public listing must show that they

are in compliance with the Corporate Governance Regulations and certify to same. Items required by the Corporate Governance Regulations include:

- Adoption of proper internal control systems, including a written policy regulating conflict of interest, and clear policies, standards and procedures for membership on the board of directors;
- That the majority of board members should be non-executives, independent directors should not be fewer than two members or one-third of the board, whichever is greater, and that the position of chairman and managing director must be separate;
- That the board sets up a suitable number of committees to enable the board to perform its duties in an effective manner, and that such committees include a sufficient number of non-executive members; and
- That companies are required to set up an audit committee, as well as nomination and remuneration committees.

Furthermore, in January 2014, SAGIA announced the launch of an initiative to establish a corporate governance index for public and non-public companies operating in Saudi Arabia. The aim of the index is to evaluate the level of corporate governance standards of share-issuing companies in Saudi Arabia (both public and non-public). The index will be based on a number of board ratings criteria, which will include the independence and compensation of directors, and the composition of the board.

DISCLOSURE STANDARDS: Pursuant to the CMA's listing rules, there are clear disclosure requirements for publicly listed companies, both at the time of listing and on an ongoing basis after listing. As part of its initial public offering, an issuer must prepare a prospectus that contains all information which is necessary to enable an investor to make an assessment of the activities, assets and liabilities, financial position, management and prospects of the

issuer and its profits and losses. At a minimum, the prospectus must contain each of the items included in Annex 4 of the listing rules (Contents of a Prospectus for Shares), which include, without limitation, provision of thorough information on the issuer, management discussion and analysis, a business description, organisational and management structure, material agreements, and so on.

ADDITIONAL REQUIREMENTS: In addition to the disclosures required in the prospectus, a publicly listed company is required to publish any material developments in its sphere of activity which are not public knowledge and which may have an effect on the assets and liabilities, financial position, or on the general course of business of the issuer or its subsidiaries and which may (1) lead to movements in the price of the listed securities or (2) significantly affect an issuer's ability to meet its commitments in respect to debt instruments.

The listing rules also provide guidelines as to what types of information constitute material developments, which include any purchase or sale of an asset, any debt issuance and losses, increase or decrease in net assets, and increase or decrease in gross profit, in each case equal to or greater than 10% of the net assets of the company.

Other matters that must be disclosed include: significant changes in the firm's production environment or activity, changes to the makeup of the board or CEO, significant legal proceedings where the value is equal to or greater than 5% of the net assets of the company, entering into or termination of a contract with revenues equal to or greater than 5% of the company's gross revenues, any transaction between the company and a related party and any interruption in principal activities of the company or its subsidiaries. Whether in the prospectus or as part of the company's continuous obligations, the disclosure must be clear, fair and not misleading. The CMA also issued General Instructions which set out the main items that should be included in any



The CMA has also issued strict guidelines for public announcements



Companies are now required to notify shareholders about any development that would impact financials

announcement to be made by a public company and include forms that should be used when making certain announcements. In announcing any major development or expected major development, public firms should comply with the following rules:

- The heading of the announcement should be clear and should reflect the major development that is the subject of the announcement;
 - The announcement must include a detailed description of the major development;
 - The reasons that led to the major development should be highlighted in the announcement;
 - The announcement must set out any financial implications of the major development to the extent applicable and possible;
 - The announcing company must make a reasonable endeavour to ensure that any facts or information relating to the major development being announced is correct and not misleading;
 - The announcing company must not delete or hide any information relating to the major development; and
 - Any future development related to the major development should be announced when it occurs.
- Other rules that apply generally to announcements by public companies include:
- In the event that two major developments occurred, a separate announcement for each development should be published;
 - Each company must have policies and procedures in place for announcing important developments so that it can comply with the disclosure rules; and
 - Each company must have the ability to determine the need to respond to any rumours related to any developments and the CMA has the right to oblige a public company to respond to any rumours to the extent a response is considered necessary.

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Emphasising local growth

Salman Al Sudairi, Managing Partner of Riyadh Office, Latham & Watkins, on addressing the requirements of Saudiisation

One of the most challenging issues for investors in the Kingdom is how to adequately and commercially address the requirements of the Saudiisation policy. This is a particular challenge for foreign investors, who often have a harder time recruiting Saudi workers. The rationale behind the policy is clear: the Kingdom has a very young population and every year more young Saudis are entering the workforce. According to the Central Department of Statistics and Information, in 2013 the unemployment rate among Saudi men was 11.7% and 33.2% for Saudi women. If more jobs are not created for young Saudis, such rates could substantially increase in the coming years. Through its Saudiisation policy, the government has been trying to increase the number of nationals employed in both the public and private sectors. The policy requires private sector firms to employ a certain percentage of Saudi nationals, ranging from 5-75% based on the nature of the business, conditions of work and the availability of qualified Saudi nationals for such positions. Foreign investors may also be subject to higher Saudiisation requirements by the Saudi Arabian General Investment Authority.

Employment matters are generally governed by the labour regulations, which are enforced by the Ministry of Labour (MoL). Pursuant to the labour regulations, the Saudiisation rate for all employers should not be lower than 75%. However, if Saudi nationals with certain technical skills or educational qualifications are not available, the minister of labour may temporarily reduce the requirement. At present, the 75% target is a long-term objective, and the MoL has imposed standards with the aim of eventually achieving that goal.

In 1993 the MoL issued Ministerial Resolution No. 50, which stipulates that every firm that employs 20 workers or more must increase the number of Saudi nationals in its workforce by 5% annually. According to the MoL, the current Saudiisation threshold for firms with more than 20 employees is 30%. In addition, Ministerial Resolution No. 50 forbids establishments from employing expatriate workers as recruitment officers,

receptionists, government service officers, cashiers or as civil security guards. Establishments in violation of any of these provisions are subject to penalties that include denial of sponsorship transfer applications and requests to renew employee residence permits; exclusion from government bids; disqualification for loans and government subsidies; and fines. The Saudiisation policy is now being implemented under a new system known as Nitaqat. This system classifies Saudi Arabian firms into different categories depending on their level of compliance with Saudiisation requirements. The categories are: Excellent, for exceptional compliance; Green, for good compliance; Yellow, for below average compliance; and Red for poor compliance.

The classification of an entity in a particular category will depend on how many Saudi nationals it employs. The required Saudiisation percentage for entities incorporated in the Kingdom is determined by the MoL on a case-by-case basis depending on the number of employees, the relevant industry and activities being undertaken. In January 2014, the MoL published a draft resolution that proposed a mechanism for determining the weight of expatriate workers on the Nitaqat scale by taking into account the size of their family, their salary and how long they have been working in the Kingdom.

In a recent move, the government cracked down on illegal workers in the Kingdom as part of its push to create job opportunities for Saudi nationals and announced that it will no longer tolerate expatriate employees working for employers other than their sponsors, which has been used as a way to circumvent requirements.

All investors in the Kingdom should anticipate that the government will continue to take measures to increase the participation of Saudi nationals in the workforce, including imposing higher requirements, increasing the costs associated with hiring expatriate workers and imposing additional work permit restrictions. Every company operating in the Kingdom should have a clear Saudiisation strategy and should plan to adapt as and when new measures are implemented.