

NEW KSA PROFESSIONAL COMPANIES LAW AND IMPLEMENTING REGULATIONS

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On April 24, 2020, the Implementing Regulations of the new Professional Companies Law (the “Regulations”) had been issued. The new Professional Companies Law issued pursuant to Royal Decree number M/17 dated 26/01/1441H (September 25, 2019) (the “Law”) replaces the old Professional Companies Law, issued pursuant to Royal Decree number M/4 dated 18/02/1412H (August 28, 1991) (the “Old Law”). Below is a summary of the most notable provisions of the Law:

PROFESSIONAL COMPANY DEFINITION

The Law defines the professional company as a civil company with a separate legal personality established by one or more individuals who are licensed to undertake one profession or more, alone or with other non-professionals for the purpose of providing these professions.

CORPORATE FORM

Under the Old Law, a professional company was to be formed only as general partnership company (“GPC”). Currently, under the Law, a professional company may be formed as: 1) a GPC; 2) a joint stock company (“JSC”); 3) a limited partnership company (“LPC”); or 4) a limited liability company (“LLC”), as defined under the KSA Companies Law (2016).

SHAREHOLDERS OF A PROFESSIONAL COMPANY

A professional company must be owned by at least one Saudi natural person is licensed to undertake the profession that the company intends to undertake. For example, a Saudi licensed attorney is required to establish a professional compan-

-y that undertakes the provision of legal services.

SINGLE SHAREHOLDER LLC

For the first time, the Law now allows the establishment of a single shareholder professional LLC. This would be applicable to Saudi shareholders only as the Law requires that Saudi shareholders hold no less than 25% of any professional company's share capital.

FOREIGN PROFESSIONAL COMPANIES

Under the Law, non-Saudi professional companies may become partners of Saudi professional companies, as long as the share of the Saudi shareholders is not less than 25% of the company's capital, as stated in the Regulations. To become a shareholder, the foreign professional company must: 1) have a distinguished reputation in its professional field in its home country; 2) have one or more representatives who have a license to practice the related profession in their home countries; and 3) transfer its expertise and technical knowledge to the Saudi professional company and train Saudi nationals in it.

The foreign professional company must obtain the license required from the authority regulating its profession in Saudi Arabia. The various authorities regulating different professions have specific requirements applicable to each respective profession. For example, the Ministry of Justice and the Saudi Bar Association regulate the law practice profession. The Ministry of Justice, along with the Ministry of Commerce and the Saudi Bar Association are working on a new project to amend the Code of Law Practice and its Implementing Regulations regulating the law practice profession in Saudi Arabia. The new proposed amendments would include provisions which would be applicable to foreign law firms and lawyers practicing law in Saudi Arabia. Once these amendments are approved, issued and enforced, they will regulate the activities of foreign law firms operating in Saudi Arabia and determine the specific requirements applicable to them.

NON-PROFESSIONAL SHAREHOLDERS

The Law also allows Saudi non-professional shareholders to become shareholders in a professional company, as long as the share of the professional shareholders does not fall below 70% of the company's capital.

**Contact us for further
information**



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