

Guidelines for Applying for a License to Practice Finance Activities

I. Introduction

The Real Estate Finance Law, Financial Lease Law, and the Law on Supervision of Finance Companies, and their Implementing Regulations entrusted the Saudi Arabian Monetary Agency (SAMA) with the responsibilities to license and supervise financing companies in the Kingdom of Saudi Arabia.

The Law on Supervision of Finance Companies and its Implementing Regulations set forth requirements and procedures for licensing financing activities as identified in Article (10) in the Law on Supervision of Finance Companies. SAMA has set up the forms for license applications and published them on its website (www.sama.gov.sa).

Finance laws and their implementing regulations as well as license applications can be found on SAMA's website.

II. Types of application

First: *New Financing Company application:* Relevant for companies which are going to be established for practicing finance activities.

Second: *Existing Financing Company application:* Relevant for companies and establishments with ongoing operations in the finance sector before the Law on Supervision of Finance Companies came into force. Such companies and establishments are subject to the provisions of Article (36) of the Law on Supervision of Finance Companies and Article (97) of the Implementing Regulations of the Law on Supervision of Finance Companies.

Third: *License Application for a Bank to practice Real Estate Finance and Financial Lease:* Relevant for banks applying for license to practice real estate finance and/or financial lease activity(ies).

III. Documentation requirements: Hardcopy of the application and documents listed on the licensing application's checklist are to be submitted along with a CD or USB containing an identical softcopy of the completed licensing application.

1. Documents that are required to be attached as part of the New Financing Company application:

- a. A hardcopy and an identical softcopy of completed license application form as set by SAMA, in accordance with the sections identified in the application.

- b. Copies of the draft memorandum of incorporation and articles of association as per the form set by SAMA.
- c. An organizational structure, including all necessary departments and functions and key responsibilities of each.
- d. Fit and proper form as set by SAMA for each founding shareholder after it is completed, signed by the founding shareholder, and attested by the person authorized to submit the license application.
- e. Fit and proper form as set by SAMA for each board member after it is completed, signed by each board member, and attested by the person authorized to submit the license application.
- f. Feasibility study, in accordance with the details identified in the license application form.
- g. Business plan for the financing company, in accordance with details identified in the license application form.
- h. Irrevocable bank guarantee should at a minimum be equal to the minimum capital of financing activity or activities to be licensed, according to the form set by SAMA, issued by any local bank for SAMA, and is automatically renewed until the capital is paid in full.
- i. Draft agreements and contracts with third parties especially those with related parties or external service providers.

2. Documents required to be attached as part of Existing Financing Company application:

- a. A hardcopy and an identical softcopy of completed license application form as set by SAMA, in accordance with the sections identified in the application.
- b. Copies of the memorandum of incorporation and articles of association along with copies of draft modified memorandum of incorporation and articles of association as per the forms set by SAMA
- c. An organizational structure, including all necessary departments and functions and key responsibilities of each.

- j. Fit and proper form as set by SAMA for each shareholder after it is completed, signed by the shareholder, and attested by the finance company.
- k. Fit and proper form as set by SAMA for each board member after it is completed, signed by the board member, and attested by the finance company.
- l. Fit and proper form as set by SAMA for each member of senior management after it is completed, signed by the member, and attested by the finance company.
- d. Feasibility study, in accordance with the details identified in the license application form.
- e. Business plan for the financing company, in accordance with details identified in the license application form.
- f. Bank guarantee shall be issued for an amount equaling the difference between the minimum capital for the business and finance activities requiring a license and the paid-up capital for the finance Company; the guarantee shall be as per the form set by SAMA for the finance Company whose paid-up capital is less than the minimum capital for business or the finance activities requiring a license.
- g. Copies of agreements and contracts with 3rd parties especially agreements with related parties or external service providers; in addition to copies of the draft agreements and the proposed contracts.
- h. Valid DZIT certificate.
- i. A copy of the Company's commercial registration.
- j. Certificate from the Labor Office includes details of current employees and Saudization.
- k. Foreign investor license from SAGIA (applicable to foreign shareholders only).
- l. Certificate issued by GOSI to prove the Company's participation in GOSI.
- m. Audited financial statements for previous 3 years.

3. Documents that are required to be attached as part of the License Application for a Bank to practice Real Estate Finance and Financial Lease:

- a. A hardcopy and an identical softcopy of completed license application form as set by SAMA for a Bank to practice Real Estate Finance and Financial Lease, in accordance with the sections identified in the application.
- b. Description of organizational structure of the functional units related to real estate finance and financial lease activities, including associated functions, organizational relations and key responsibilities of each.
- c. Feasibility study, in accordance with the details identified in the license application form.
- d. Business plan according to the details identified in the license application form.
- e. Agreements and contracts with third parties in relation to activities to be licensed, especially agreements and contracts with related parties and external service providers, in addition to drafts of proposed agreements and contracts.

IV. Application process

- 1- Applicants must complete the appropriate form as described above in II and III, and submit it to SAMA with all supporting documentation as identified on the Licensing Application's Checklist.
- 2- SAMA will issue a written notice to the applicant after completing all the requirements specified in the Law on Supervision of Finance Companies and its Implementing Regulations.
- 3- SAMA will issue a written notice informing the applicant of either preliminary approval or rejection within (60) days from the day on which SAMA has accepted the license application as being completed. The preliminary approval does not constitute a license or approval to practice the finance activity(ies).
- 4- For new finance companies, the request will be sent to the Ministry of Commerce and Industry to complete the procedures for the establishment of the new company and registration in accordance with Company Law. After the company is established, it will need provide SAMA with copies of its commercial registration and the articles of

association, reflecting the finance activities as per the preliminary approval and verification that capital has been paid in full, and that any additional initial funding as set out in the business plan has been provided to the finance company. The company should also provide verification that it has taken all necessary measures to start carrying out the planned finance activities, including the establishment of all necessary personnel, system, equipment and functions.

- 5- For existing finance companies, the company should modify the commercial registration and articles of association, and make necessary adjustments to comply with regulatory requirements, and provide SAMA with proof of such.

- 6- SAMA supervisors will visit the finance company or the bank to meet their officers, and review their systems, procedures and records to verify that the regulatory requirements are met and to ensure the readiness of the company or bank to start the finance activity.

- 7- SAMA will grant a License after completing all the regulatory requirements and pay financial charge as set forth in Article (22) of the Implementing Regulations of the Law on Supervision of Finance Companies.

Frequently Asked Questions

General Questions

- **What are the financing activities that require a license from SAMA?**
No person is allowed to practice any finance activity unless it has a license from SAMA in accordance with the Law on Supervision of Finance Companies and its implementing regulations and related laws.
- **How can the licensing application forms be obtained?**
The finance laws and regulations as well as the application forms are available on the finance section of SAMA's website on the following link: <http://www.sama.gov.sa/Finance>
- **How can the licensing application forms be obtained in English language?**
The English versions of the licensing application forms are available on the finance section of SAMA's website on the following link: <http://www.sama.gov.sa/sites/samaen/Finance>
- **Are there different license application forms for new finance companies, existing finance companies and banks?**
There are three types of licensing applications:
First: *New Financing Company application:* Relevant for companies which are going to be established for practicing finance activities.
Second: *Existing Financing Company application:* Relevant for companies and establishments with ongoing operations in the finance sector before the Law on Supervision of Finance Companies came into force. Such companies and establishments are subject to the provisions of Article (36) of the Law on Supervision of Finance Companies and Article (97) of the Implementing Regulations of the Law on Supervision of Finance Companies.
Third: *License Application for a Bank to practice Real Estate Finance and Financial Lease:* Relevant for banks applying for license to practice real estate finance and/or financial lease activity(ies).
- **What are the documents that should be included in the license application?**
The license application should include the license application form as set by SAMA, in accordance with the sections identified in the application after its completion, accompanied by all the requirements set forth in article (7) of the Implementing Regulations of the Law on Supervision of Finance Companies as well as the checklist in the license application. The electronic copy of the license application forms is available on the finance section of SAMA's website.
- **Does the applicant need to provide a feasibility study and business plan for the next five years within the license application?**
All the applicant must submit a feasibility study and business plan for the next five years with the license application in accordance with the details identified in the checklist of the license application form.

- **Does the applicant need to submit an electronic copy or hard copy of the licensing application form?**

The applicant must submit a hardcopy of the forms and documents in the checklist is to be submitted along with a CD or USB containing an identical softcopy of the completed licensing application.

- **What are the minimum capital requirements for obtaining a license for different financing activities?**

Minimum capital requirements for obtaining a license for finance companies are based on financing activity and are as follows:

- ❖ For finance company carrying out only real estate finance activity, the minimum capital is SR 200,000,000
- ❖ For finance company carrying out one or more financing activity other than real estate finance and microfinance, the minimum capital is SR 100,000,000
- ❖ For finance company carrying out only microfinance activity, the minimum capital is SR 10,000,000

- **Can one license application be submitted for more than one type of financing activities?**

A license application may submitted for more than one of the finance activities specified in Article 10 of the Law on Supervision of Finance Companies, subject to the following:

- Companies that are licensed to conduct real estate finance shall not conduct any finance activities other than real estate finance.
- Companies that are licensed to conduct microfinance shall not conduct any finance activities other than microfinance.
- Companies that are licensed for finance activities other than real estate finance are prohibited from financing real estate in any form.

- **Where and how does the finance company submit all supporting documents?**

All applicants must submit the application form and supporting documents to the General Department for Finance Companies Supervision at SAMA to the following address:

Saudi Arabian Monetary Agency
Al-Ma'ather Street, Riyadh
Kingdom of Saudi Arabia
Telephone: +966-1- 466-2020

- **How can the applicant communicate with SAMA regarding to the status of the application?**

All applicants can communicate with SAMA through the email of the General Department for Finance Companies Supervision (finance@sama.gov.sa). For all correspondence with SAMA, the applicant ID number must be included.

- **How long does SAMA take to evaluate an application?**

It varies from case to case and on the type of the activity as well as the quality and completeness of the documents submitted with the license application. However, SAMA will notify the applicant in writing, within

(60) days from the date of accepting the license application as being complete, of whether the license has received a preliminary approval or rejection, giving its reasons in case of a rejection. The preliminary approval does not constitute a license or approval to practice the Finance Activity.

- **What is the difference between the preliminary and the license?**
Preliminary approval enables the applicant to continue the process of establishing the finance company. The license will be granted once all requirements as set forth by the laws and regulations governing finance companies are complete.
- **What is the specific duration to complete the process of establishing the company?**
All the applicants must establish the Finance Company as a joint stock company within six months of granting the preliminary approval, and provide SAMA with copies of the Finance Company's commercial registration and articles of association, reflecting the licensed activities in accordance with the preliminary approval. The preliminary approval will expire after six months unless SAMA extends its duration for a maximum of another six months.
- **What is the financial charge for issuing, renewing, or amending the license?**
Financial charge will be as follows:
 - ❖ Issuance of new license = SR 200,000
 - ❖ Renewal of license = SR 100,000
 - ❖ License amendment = SR 50,000For microfinance companies, financial charge for issuing, renewing, or amending the license is SR 10,000.
- **Does the company need a non-objection from SAMA to launch a new financing product or making an amendment to the existing products?**
SAMA's non-objection letter is required for launching new products or making amendments to existing products.
- **How does the applicant pay the financial charge?**
The financial charge must be submitted before receiving the license and must be paid by a certified check for the name of the "Saudi Arabian Monetary Agency".
- **What is the validity of the finance company license issued by SAMA?**
The license will have a validity of five years and it could be renewed by SAMA based on a request by the finance company in accordance with the requirements of the regulations.
- **When does a company need to renew its license?**
All the licensed finance companies must submit to SAMA a request to renew their license at least six months prior to the expiry of the license, as set forth by the article (17) of the implementing regulations of the Law on Supervision of Finance Companies.

Questions related to New Companies

- **If the applicant is a new company, does it need to be established before or after submitting the license application?**

The applicant must submit the license application to SAMA before the establishment of the new company. After the application receives preliminary approval, SAMA will send the request to the Ministry of Commerce and Industry so the applicant may proceed with establishment procedures and registration of the company according to Company Law.

- **If the applicant is a new company, and has foreign shareholder(s), does it first need to apply for foreign investor license before submitting the licensing application?**

The applicant must submit the licensing application to SAMA before applying for foreign investor license.

- **Does the new company need to provide a bank guarantee within the license application?**

All the new companies must submit a bank guarantee, in the form set by SAMA, for an amount equal to the minimum capital of financing activity or activities to be licensed, in accordance with article (7) of the implementing regulations of the Law on Supervision of Finance Companies

Questions related to Existing Companies

- **What does existing companies mean?**

Existing companies means that the companies and establishments that are already conducting finance business in the Kingdom of Saudi Arabia before the law entered into force. Such companies and establishments are subject to the provisions of article (36) of Law on Supervision of Finance Companies and article (97) of the implementing regulations of the Law on Supervision of Finance Companies

- **Is there a deadline for the existing companies to apply for a license?**

Existing companies and establishments need to submit their license application and compliance plan, or provide SAMA with their plan to exit the market, by end of business hours on Wednesday 14/10/1434H (21/8/2013G).

- **Does the applicant need to provide a feasibility study and business plan for the next five years within the license application?**

All the applicants must submit a feasibility study and business plan for the next five years within the license application in accordance with the requirements set forth in the checklist of the existing companies license application form.

- **Does the existing company need to provide a bank guarantee within the license application?**

All the existing companies whose paid-up capital is less than the minimum capital for the finance activity(ies) requiring a license must

submit a bank guarantee, as per the form set by SAMA, for an amount equaling the difference between the minimum capital for the finance activity(ies) requiring a license and the paid-up capital of the finance company.

Questions related to Commercial Banks:

- **What are the financing activities that the banks need license for?**
The Real Estate finance and the financial lease.
- **What are the document requirements for submission by a bank?**
The license application should include the license application for the commercial banks as set by SAMA, after its completion, accompanied by all the requirements set forth in the checklist in the commercial banks license application forms. The electronic copy of the license application forms is available on the finance section of SAMA's website.
- **Is there a deadline for the commercial banks to apply for a license?**
All commercial banks that want to continuing practicing the activities of real estate finance and/or financial lease must apply for licensing by end of business hours on Wednesday 14/10/1434H (21/8/2013G).