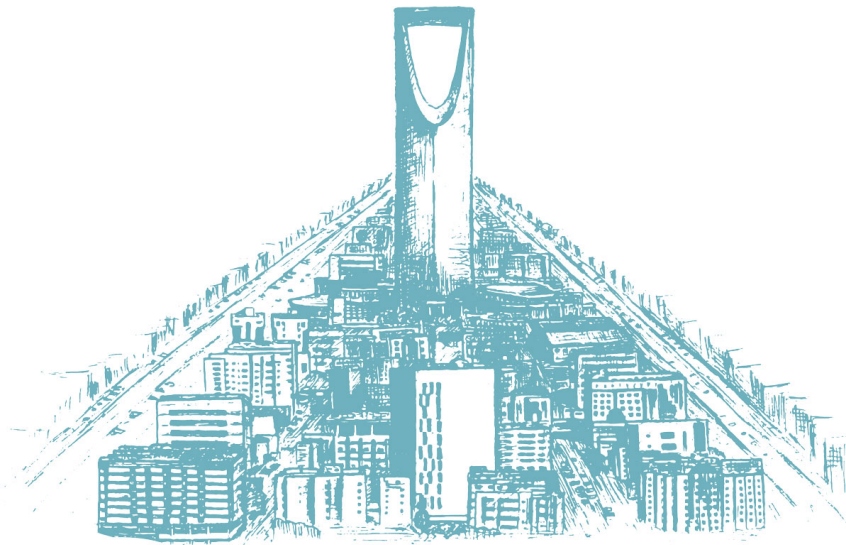


# Launch of the Electronic Registration System for Commercial Pledges in the Kingdom of Saudi Arabia

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The Ministry of Commerce and Investment ('MOCI') announced on 17 March 2019 the issuance of the Regulations of the Unified Registry for Commercial Pledges (the 'Regulations'). The Regulations are an important step in the implementation of the Commercial Pledge Law issued in April 2018 (the 'CPL'). The CPL regulates the creation of security over movable property including current and future movable property as well as future rights (including receivables).

Clarity has now been provided under the Regulations as to the functions, operation and management of the Unified Register for Commercial Pledges (the 'Registry').

## Registration Procedures

Pursuant to Article 3 of the Regulations, all services of the Registry under the Regulations will be provided electronically. For the purposes of using any of the Registry's services, an account is required to be created with the Registry (discussed below).

The procedure for registering pledge contracts (made in accordance with the CPL) with the Registry is provided under Article 6 (1) of the Regulations. The key steps are as follows:

1. the pledgee must submit an application for registering the pledge along with a copy of the pledge contract and the relevant documents;
2. the Registry will then notify the pledgor of the said application and its details;
3. the pledgor has a period of seven days from the date of the Registry's notification to raise any objections to the registration application. If any such objections are raised by the pledgor within the

- prescribed period, the registration application will be cancelled;
4. the registration will be completed where the pledgor approves the registration application or where the pledgor does not raise any objection to the said application within the stipulated period.

The above steps apply for both 'present' and 'future' movable property.

Where a specific special registry (the 'Special Registry') regulates the ownership of the movable property but does not record security interests, the pledgee must ensure that the requirements of Article 6 (1) of the Regulations (above) are complied with and the Registry will notify the relevant Special Registry. In other cases, where the Special Registry does register security interest (e.g. at the Depository Centre established by the Tadawul for listed shares), the security interest is required to be registered at the Special Registry.

Under Article 8 (1) of the Regulations, once the future pledged property comes into existence, is owned by the pledgor or transformed into movable property, the pledgor must submit an application to the Registry to amend the status of the pledged property recorded in the Registry from a future to a current one. This amendment can be made without the pledgee's consent.

## **Cancellation of Registration**

Under Article 9 of the Regulations, the registration will expire if:

1. it is cancelled by the pledgee or under a judgment;
2. its term expires, subject to (c) below; or
3. 60 days lapse from the date of issuance of the 'Executive Instrument' (defined in the Regulations as an extract of an instrument of execution or a direct execution instrument). The Registry may extend the said period by an additional period not exceeding 60 days upon the request of the pledgee or the execution agent.

Article 10 of the Regulations requires the pledgee to cancel the registration within a maximum period of three days from the date of expiry of the pledge contract or the date of completion of execution of the pledged property.

## **Review of Registration Information**

The pledgor, the pledgee or the execution officer can review the information registered with the Registry. While third parties can check if a pledge is registered in respect of a particular entity, third parties can only review the registration information with the pledgor's approval. In order to obtain approval, the following information is required: the name of the third party; and details of the registration(s)/information to be reviewed.

## **Issuance of Executive Instrument for Enforcement**

An Executive Instrument is required in order to proceed with enforcement over a pledge created pursuant to the CPL. Where the issuance of the Executive Instrument is sought, the pledgee or the execution officer can request the Registry to issue the Executive Instrument when the right to execute on the pledge property arises. For such issuance, an application to this effect is required to be submitted to the Registry within the registration period. Under the Regulations, an Executive Instrument can be issued only in respect of a pledged property in existence.

## Registration System

In line with the Regulations, MOCI has launched the electronic registration system to operate the Registry which allows the registration of pledge contracts (made in accordance with the CPL) for various types of movable assets.

MOCI has published the User Guide for the Regulations (the 'User Guide'), clarifying how the Registry will be managed. The User Guide, inter alia, lists the processes of: (i) registration of pledge contracts; (ii) conducting a search of the Registry; and (iii) uploading constitutional documents of the parties (to the extent relevant and applicable). The user of the Registry (KSA national/Muqem, GCC national or SAGIA foreign investor) must first create an account through the portal: <https://efile.mci.gov.sa>. Following the creation of the account in the Registry, the services of the Registry can be accessed through the portal: <https://rhn.mci.gov.sa>.

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