SAUDI ARABIA ADOPTS A NEW IMPLEMENTING REGULATION FOR LISTED JOINT STOCK COMPANIES

The Board of the Saudi Capital Market Authority ("**CMA**") has, by Resolution No. (2026-44-3) dated 11/10/1447H, approved a comprehensive amended Implementing Regulation of the Companies Law for Listed Joint Stock Companies (the "**Regulation**"). Published in the Official Gazette (Umm Al-Qura, Issue 5169) on 18 Muharram 1448H, corresponding to 3 July 2026, the Regulation replaces the version originally issued under CMA Board Resolution No. (2016-127-8) and takes effect from its date of publication.

The Regulation is issued pursuant to the Companies Law promulgated by Royal Decree No. (M/132) dated 1/12/1443H and consolidates and updates the detailed rules governing listed joint stock companies across the full corporate lifecycle; from board governance and remuneration, to treasury shares, share pledging, preferred and redeemable shares, dividend distribution, priority rights issues, proxy voting, related-party transaction licensing, and company division.

This article highlights the amendments most relevant to boards, general counsel and transaction teams dealing with Tadawul-listed companies.

1. STRUCTURED PROCEDURE FOR BOARD REMOVAL

The Regulation codifies, for the first time, a detailed procedure for the removal of board members by the ordinary general assembly. A request to remove one or more directors, or the entire board, must be submitted by one or more shareholders holding at least 10% of the company's voting shares. A request to remove the whole board cannot be made until at least six months have elapsed since the start of the board's term, and a request targeting individual directors must substantiate their inability to perform their duties. For example, absence from three consecutive or five non-consecutive board meetings, or a conviction for a crime involving breach of trust.

Where removal would take the board below the quorum required for valid meetings, the general assembly's resolution must state that the removal only takes effect once a replacement board or member has been elected, and the board must convene a general assembly for that purpose within 75 days. The Regulation also bars the re-nomination of a removed or resigned director to the same board until the end of the term in which the removal or resignation occurred.

2. DUTIES OF CARE AND LOYALTY SET OUT IN DETAIL

The Regulation elaborates on directors' duties of care and loyalty, requiring board members to act within the powers granted to them, work in good faith for the benefit of the company and all shareholders, exercise independent judgment, avoid conflicts of interest, disclose any direct or indirect interest in the company's business and contracts as soon as they become aware of it, and refrain from accepting any benefit from a third party in connection with their role.

3. MANDATORY CUMULATIVE VOTING AND SHAREHOLDER APPOINTMENT RIGHTS

Cumulative voting is now mandatory for the election of the board (subject to a narrow carve-out for parallel market companies whose bylaws provide otherwise). The Regulation also permits a company's bylaws to grant one or more shareholders the right to appoint board members directly, subject to conditions:

- The bylaws must name the shareholder and the number of seats concerned;
- The seats allocated may not exceed what that shareholder could otherwise elect through cumulative voting;
- The total number of appointed seats may not exceed half the board or three seats (whichever is lower); and
- A shareholder exercising appointment rights may not also vote those shares to elect the remaining board members.

4. REMUNERATION: CRITERIA, DISCLOSURE AND CLAWBACK

Board remuneration must be fair and proportionate to each director's responsibilities and the company's objectives for the year, based on a recommendation from the remuneration committee, and must take into account the company's sector, size, and the experience of its directors. Independent directors' remuneration may not be a share of profits or otherwise directly or indirectly linked to the company's profitability, and directors may not vote on the remuneration item at the general assembly.

The Regulation also introduces accountability mechanisms: a director removed for unexcused absence forfeits remuneration for the period following his last attended meeting and must repay amounts already received for that period, and any remuneration that the audit committee or the CMA finds to have been based on inaccurate or misleading information presented to the general assembly or included in the annual board report must be repaid to the company.

5. GENERAL ASSEMBLIES BY MODERN TECHNOLOGY MEANS

The Regulation sets out detailed conditions for shareholders to participate in, and vote at general and special assemblies using modern technology; including live audio-visual participation, direct connection enabling effective engagement, and mandatory electronic voting on agenda items even for shareholders who do not attend. Companies must verify the identity and voting entitlement of shareholders participating or voting electronically, and attendance and votes cast through these means count toward the quorum required for the assembly to be validly convened.

6. TREASURY SHARES: PURCHASE, SALE AND PLEDGE

The Regulation sets out a detailed framework for a company's purchase of its own shares — whether to reduce capital or to hold as treasury shares — including solvency requirements confirmed by the company's chartered accountant, extraordinary general assembly approval of the maximum number of shares and purpose, a cap of 10% of the relevant share class held as treasury shares at any time, pricing and daily volume limits, blackout periods around quarterly and annual results, and a maximum holding period after which unsold treasury shares must be cancelled. Treasury shares may only be used for a defined set of purposes, including below fair-value opportunistic buybacks, satisfying convertible debt instruments, share-for-share or share-for-asset acquisitions, and employee share programs.

For the first time, the Regulation also introduces a dedicated framework for the pledging of listed shares, covering the pledge agreement's required content, registration and perfection through the depositary center’s records, the rights of the pledgee (including collection of dividends unless the pledge agreement provides otherwise), and enforcement against pledged shares, including margin-financing enforcement by licensed market institutions. The pledge is not entitled to attend or vote at general or special assemblies in respect of the pledged shares, notwithstanding its entitlement to collect dividends referred to above.

7. PREFERRED AND REDEEMABLE SHARES

Listed companies may, subject to their bylaws, extraordinary general assembly approval and the approval of any shareholders prejudiced by the issuance, issue preferred shares (capped at 10% of share capital) or redeemable shares, provided the company's capital has been fully paid up. Preferred shares generally carry no voting rights, save where the company fails for three consecutive years to pay the specified profit share, or where a general assembly resolution would reduce capital, liquidate the company, or sell its assets.

8. INTERIM DIVIDENDS AND DISTRIBUTABLE PROFITS

Companies may distribute interim dividends semi-annually or quarterly, subject to their bylaws providing for this and to conditions including an annual delegation from the ordinary general assembly, consistent and good profitability, adequate liquidity, and sufficient distributable profits under the latest reviewed or audited financial statements. The board must disclose, in its annual report, the profit-distribution ratios declared during the year and the proposed year-end distribution.

9. LICENSING RELATED-PARTY TRANSACTIONS: A DELEGATION FRAMEWORK

The Regulation allows the ordinary general assembly to delegate to the board the authority to license related-party transactions below defined thresholds; broadly, transactions (or the aggregate of transactions in a financial year) that are less than 1% of the company's revenue under its latest audited financial statements and, in any event, less than SAR 10 million, provided the transaction falls within the company's ordinary course of business and is on arm's-length terms. The delegation runs for a maximum of one year or until the end of the delegating board's term, whichever is sooner, and directors with an interest in the relevant transaction remain barred from voting on it.

10. COMPANY DIVISION

The Regulation introduces provisions allowing a listed company to divide into two or more companies pursuant to an extraordinary general assembly resolution, with shareholders of the dividing company receiving shares or interests in the resulting company or companies in proportion to their existing shareholding, subject to compliance with other applicable laws and regulations.

PRACTICAL IMPLICATIONS

Taken together, the Regulation represents the most comprehensive update to the detailed rulebook for Tadawul-listed companies since 2016, aligning it with the Companies Law issued under Royal Decree No. (M/132). Listed companies should review their bylaws, board and general-assembly procedures, remuneration policies, treasury share and dividend practices, and related-party transaction delegations against the new Regulation and update their standard proxy forms to reflect the template now annexed to it.

CONCLUSION

The new Implementing Regulation reflects the CMA's continued effort to modernize the governance and capital-markets framework applicable to listed companies in the Kingdom, sharpening minority shareholder remedies, formalizing share pledging and technology-enabled participation, and giving boards clearer, more flexible tools for capital management and related-party dealings.

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