



شعبة الترجمة الرسمية  
Official Translation Department

## **Franchise Law**

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**Translation of Saudi Laws**



**NOTE:**

The translation of Saudi laws takes the following into consideration:

- Words used in the singular form include the plural and vice versa.
- Words used in the masculine form include the feminine.
- Words used in the present tense include the present as well as the future.
- The word “person” or “persons” and their related pronouns (he, his, him, they, their, them) refer to a natural and legal person.



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## Franchise Law

### Chapter 1: General Provisions

#### Article 1

In this Law, the following terms shall have the meanings assigned thereto, unless the context requires otherwise:

1. **Law:** Franchise Law.
2. **Regulations:** Implementing Regulations of this Law.
3. **Ministry:** Ministry of Commerce.
4. **Minister:** Minister of Commerce.
5. **Franchise:** A right granted by a franchisor to a franchisee to run a franchise business on his own account under the trademark or under the brand name of the franchisor or the person licensed to use the same; this shall include transferring technical expertise and specifying the manner of operation. Such right may be granted for a financial or non-financial consideration, excluding the amounts the franchisee pays to the franchisor in return for goods or services.
6. **Franchisor:** A natural or legal person who grants a franchise under a franchise agreement; this shall include the master franchisee with respect to his relationship with the sub-franchisee.
7. **Franchisee:** A natural or legal person who is granted a franchise under a franchise agreement; this shall include the sub-franchisee with respect to his relationship with the master franchisee.
8. **Franchise Agreement:** An agreement between a franchisor and a franchisee, under which a franchise is granted.
9. **Franchise Business Model:** The manner of operating a franchise business as determined by the franchisor and by which the franchisee shall be bound, including the display of the business trademark.
10. **Control:** The capacity to directly or indirectly influence another person's acts or decisions through:
  - a) owning more than 50% of the capital of a company or establishment;
  - b) owning more than 50% of the voting rights of shareholders or partners, as the case may be; and
  - c) having the right to appoint or elect the majority of the members of the board of directors or the board of managers, as the case may be, or the executive board members of a company or establishment, or the right to manage the same.
11. **Franchisor's Associates:** A person who controls or is controlled by a franchisor, or a third party that controls both, directly or indirectly.
12. **Disclosure Document:** A document disclosing the key rights and duties of the franchise and the substantial risks relating thereto.



## **Article 2**

This Law aims to:

1. promote franchise activities in the Kingdom through setting a legal framework which regulates the relationship between the franchisor and the franchisee and which emphasizes the principle of freedom to contract and the principle of transparency;
2. provide the necessary protection for the franchisor and the franchisee, particularly upon expiry of the franchise agreement;
3. ensure the disclosure of rights, duties, and risks relating to the franchise to assist a prospective franchisee in making informed investment decisions; and
4. improve the quality of goods and services provided in the Kingdom and ensure their sustainability.

## **Chapter 2: Scope of Application**

### **Article 3**

This Law shall apply to any franchise agreement executed in the Kingdom.

### **Article 4**

For the purpose of applying this Law, the following agreements and arrangements shall not be deemed a franchise agreement:

1. A concession granted or issued pursuant to a Royal Decree.
2. An agreement or contract subject to the Law of Commercial Agencies applicable in the Kingdom.
3. An agreement or contract limited to the sale of goods or provision of services carrying certain trademarks, or to the use of a trademark or any copyrighted material of any good or service.
4. An arrangement whereby the franchisor fully owns the franchisee, whether directly or indirectly.
5. Any other agreements or arrangements specified by the Regulations.

## **Chapter 3: Franchise Granting Conditions**

### **Article 5**

1. A franchise shall not be offered nor granted until the franchised business, as per the franchise business model, has been practiced for a period not less than one year in at least two different points of sale or by at least two persons, one of whom may be the franchisor or any of his associates.



2. If a franchisor does not practice in the Kingdom the franchised business on his own account, the master franchisee, who has the right to sub-franchise, may not sub-franchise or offer the same until he or any other franchisee practices the franchised business in the Kingdom for a period not less than one year.

The Minister may amend the periods stipulated in this Article.

## **Chapter 4: Registry and Disclosure**

### **Article 6**

Franchise agreements and disclosure documents shall be registered with the Ministry. The Regulations shall specify the registration procedures and the required documents and information.

### **Article 7**

1. The franchisor shall provide the franchisee with a copy of the disclosure document, as prescribed by the Regulations, at least 14 days prior to concluding the franchise agreement or from the date of any payment made by the franchisee in relation to the franchise, whichever occurs first.
2. A disclosure document must be:
  - a) drafted in Arabic; if drafted in another language, a certified Arabic translation must be provided; and
  - b) clear and precise.
3. If the franchisor submits to a prospective franchisee any information relating to the previous or projected financial performance of a franchised business owned by him or by any of his associates, the franchisor shall include such information in the disclosure document, ensuring that the information meets the requirements and provisions prescribed by the Regulations.

## **Chapter 5: Obligations of the Franchisor and Franchisee**

### **Article 8**

Unless otherwise agreed in writing with the franchisee, the franchisor shall:

1. determine the rights granted to the franchisee with respect to the franchise;
2. specify the franchise business model in detail, including the criteria and instructions the franchisee must follow in order to operate and manage the franchised business, as well as



- provide the franchisee with operation manuals;
3. train the franchisee's personnel;
  4. provide technical and marketing expertise and any other expertise required by the nature of the granted franchise;
  5. provide the franchisee, whether directly or through a third party, with the franchise goods or services during the validity of the franchise agreement, except for goods and services the franchisee is permitted to purchase from a third party;
  6. maintain the confidentiality of the accounting and financial information and data relating to the franchisee's business;
  7. provide the franchisee, upon request, with details on amounts paid or to be paid with respect to operating the franchised business; and
  8. refrain from establishing any establishment that engages in a business activity similar to that of the franchisee within the geographical area defined in the franchise agreement, or granting a third party the right to do the same, during the validity of the franchise agreement.

#### **Article 9**

Unless otherwise agreed in writing with the franchisor, the franchisee shall:

1. obtain the franchisor's approval prior to any change in the goods, services, or manner of operating the franchised business;
2. provide the franchisor with the franchised business data necessary for developing the franchise business model, including financial and accounting data;
3. enable the franchisor or his representatives to inspect the facilities used for operating the franchised business, provided that such inspection does not result in disruption or harm to the business; and
4. obtain the franchisor's approval prior to changing the place of operating the franchised business.

#### **Article 10**

The franchisor and franchisee shall, in good faith, fulfill their obligations under the franchise agreement.

### **Chapter 6: Franchise Agreement**

#### **Article 11**

1. A franchise agreement shall be drafted in Arabic and signed by the parties; if drafted in another language, a certified Arabic translation shall be provided.
2. In addition to the provisions agreed upon by the parties, a franchise agreement shall include



the following:

- a) The franchised business and its description, as well as the franchise agreement's term, manner of amendment, and geographical scope.
- b) Any amounts to be paid by the franchisee to the franchisor, including the initial franchise fee, the expenses for the franchisee's personnel training, if any, and the technical support, as well as the method for calculating payments made by the franchisee to the franchisor or any of the franchisor's associates in return for goods or services.
- c) The parties' obligations relating to the training of the franchisee's personnel by the franchisor.
- d) The franchisor's obligation to provide the franchisee with the technical and marketing expertise, and any other expertise required by the nature of the granted franchise.
- e) The franchisee's obligation to comply with the instructions and marketing and display methods, and to preserve the identity of the franchise.
- f) The franchisor's obligations relating to the provision of goods or services to the franchisee, as well as the franchisee's obligations relating to the receipt of such goods or services from the franchisor, directly or through a third party, in accordance with the franchisor's instructions.
- g) The franchisee's right to use any trademark or any other intellectual property right relating to the franchised business, as well as the liabilities of the parties in case of infringement of intellectual property rights and damages arising therefrom.
- h) Manner of resolving any dispute arising from the franchise agreement.
- i) The franchisee's right to sub-franchise, if any, and the relevant provisions.
- j) The consequences of any change in the ownership of the franchisee, the franchisor, or the person controlling either party.
- k) Any other provision provided for by the Regulations.

## Article 12

The provisions relating to the advertising and marketing of a franchise shall be determined by the Regulations.

## Chapter 7: Assignment of the Franchise Agreement

## Article 13

Unless otherwise provided for in the franchise agreement, the franchisor's approval must be obtained prior to changing the person controlling the franchisee or assigning the franchise agreement. If the franchisor grants his approval, he may not revoke it nor object to the change or assignment, except in the following cases:

1. If the assignee is unlikely to have sufficient funds for carrying out the obligations borne by the



franchisee under the franchise agreement.

2. If the assignee is unable to meet the franchisor's reasonable requirements with respect to the assignment of the franchise agreement and franchised business.
3. If the assignee fails to meet the franchisor's criteria for the selection of franchisees.
4. If the assignee does not agree, in writing, to bear the franchisee's obligations under the franchise agreement from the date of assignment thereof.
5. If the franchisee does not pay the franchisor any due amounts.
6. Any other case specified by the Regulations.

#### **Article 14**

Subject to Article 13 of this Law and the Regulations, if the franchisor fails to respond, in writing, to the franchisee's request for the assignment of the franchise agreement and franchised business to a third party or for the change of the person controlling the franchisee, he shall be deemed to have approved such request.

### **Chapter 8: Renewal or Extension of the Franchise Agreement**

#### **Article 15**

Unless otherwise provided for in the franchise agreement, a franchisee seeking to renew or extend the franchise agreement shall notify the franchisor in writing within a period not less than 180 days prior to its expiration. The franchise agreement may be renewed or extended for a term similar to the term originally agreed upon and under the same terms and conditions, except in the following cases:

1. If the franchisor and franchisee agree on new terms and conditions.
2. If any of the cases provided in Article 18 of this Law occurs.
3. If the franchisee fails to pay amounts due under the franchise agreement.
4. If, prior to the expiry of the agreement, the franchisor approves the franchisee's assignment of the franchise agreement and franchised business to a third party who fulfills the franchisor's criteria for granting the franchise.
5. If the franchisor ceases to engage in franchising or in granting franchises in the Kingdom.
6. If the franchisee does not conclude the franchise renewal or extension agreement prior to the 60 days preceding the expiration of the franchise agreement despite the franchisor's reasonable requirements.





## **Chapter 9: Termination or Expiry of the Franchise Agreement**

### **Article 16**

1. Unless otherwise provided for in the franchise agreement, if the franchisee is a natural person, the franchise agreement shall expire upon initiating any liquidation procedure under the Bankruptcy Law, or if the franchisee dies, becomes incompetent, or has a health condition impeding him from operating the franchised business. The franchise agreement may provide for the transfer of the agreement to one or more of the franchisee's heirs or to a third party if the franchisee dies, becomes incompetent, or has a health condition.
2. Unless otherwise provided for in the franchise agreement, if the franchisee is a legal person, the franchise agreement shall expire upon issuing a decision of voluntary liquidation of the franchisee, or by the initiation of any liquidation procedure under the Bankruptcy Law, or by the termination of the franchisee. A franchisee's conversion or merger with another legal person shall not result in the expiry of the agreement.

### **Article 17**

If the franchisor substantially breaches the disclosure or registry obligations stipulated in this Law and its Regulations, the franchisee may, within one year from the date of knowledge of such breach or within three years from the occurrence thereof, whichever occurs earlier, terminate the franchise agreement by serving a written notice to the franchisor without compensating said franchisor for such termination.

### **Article 18**

The franchisor may not terminate the franchise agreement prior to its expiration without the franchisee's written approval, except in the following cases:

1. If the franchisee fails to fulfill his fundamental obligations under the franchise agreement and does not rectify the situation within a period not exceeding 14 days from the date of the franchisor's written notice.
2. If the franchisee is liquidated or dissolved, or if he assigns the franchised business or its usufruct to his creditors, or disposes of the assets of the franchised business for the benefit of a third party.
3. If the franchisee abandons or voluntarily discontinues to operate the franchised business for more than 90 consecutive days.
4. If the franchisee repeatedly fails to abide by the terms and conditions of the franchise agreement or any other franchise-related agreement concluded with the franchisor or franchisor's associates despite being notified in writing by the franchisor to fulfill his obligations.
5. If the franchisee's operation of the franchised business poses a threat to public health and safety.



6. If the franchisee loses any of the licenses necessary for operating the franchised business.
7. If the franchisee commits a substantial violation of any of the laws in force in the Kingdom which undermines the reputation of the franchised business.
8. If the franchisee commits a fraudulent act while operating the franchised business.
9. If the franchisee infringes upon the franchisor's intellectual property rights during the validity of the franchise agreement.
10. Any other case the franchise agreement deems a valid reason for termination.

## **Chapter 10: Compensation**

### **Article 19**

If the franchisor substantially breaches the disclosure or registry obligation stipulated in this Law and its Regulations, the franchisee may claim damages for such breach without terminating the franchise agreement.

### **Article 20**

1. If the franchisee requests the termination of the franchise agreement in accordance with Article 17 of this Law, or if the franchisor terminates the franchise agreement in violation of Article 18 of this Law or refuses to renew or extend the franchise agreement for a reason not specified in Article 15 (2,3,4 and 5) of this Law, the franchisor, whether by himself or through any of his associates, shall:
  - a) repurchase the material assets used exclusively in the franchised business which, based on the franchisor's directives, the franchisee has purchased from the franchisor or a third party within 60 days from the date of the franchisee's request. The repurchase price shall not be less than the price paid by the franchisee after deduction of any depreciation the amount of which is calculated in accordance with the acceptable accounting standards and with the franchisee's prior accounting practices; and
  - b) compensate the franchisee for any damage he has incurred due to the establishment, acquisition, or operation of the franchised business in the Kingdom, or any other damage, except in the case where the franchisor refuses to renew or extend the franchise agreement for a reason not specified in Article 15 (2,3,4 and 5) of this Law.
2. Unless the franchise agreement provides otherwise, the franchisor may claim compensation if the franchisee terminates the franchise agreement in violation of this Law and the franchisor incurs damage as a result thereof.

### **Article 21**

1. Any claim for compensation filed as a result of the franchisor's termination of the franchise agreement in violation of Article 18 of this Law shall not be heard upon the lapse of three years



from the termination date.

2. Any claim for compensation filed as a result of the franchisor's or franchisee's violation of their obligations as stipulated in this Law or the franchise agreement shall not be heard upon the lapse of one year from the date the non-violating party becomes aware of the violation or upon the lapse of three years from the date of the occurrence of the violation, whichever occurs earlier.
3. Filing a claim under this Law shall not preclude the franchisor or the franchisee from claiming any right under any other law.

## **Chapter 11: Concluding Provisions**

### **Article 22**

The assignment, termination, expiration, or non-renewal of the franchise agreement and franchise business shall result in the termination of any agreement relating to the use of any trademark or brand name of the franchised business. The Regulations shall specify the necessary procedures.

### **Article 23**

Any agreement by which the franchisee waives or relinquishes any of the rights he is entitled to under this Law shall be deemed null and void, unless such agreement is part of a final settlement with the franchisor or is authorized under this Law.

### **Article 24**

1. A person who violates this Law or its Regulations shall be punished by a fine not exceeding five-hundred thousand riyals.
2. Pursuant to a decision by the Minister, a committee of three members, comprising at least one specialist in commercial law, shall be formed to review violations of this Law and its Regulations and to impose the penalty prescribed in paragraph 1 of this Article.
3. The committee's work rules and procedures, and the remunerations of its chairman, members, and secretariat shall be determined pursuant to a decision issued by the Minister.
4. Without prejudice to the provisions of relevant laws, a person against whom a penalty decision is issued may appeal such decision before the Board of Grievances.
5. A penalty decision may include a provision to publish its summary at the expense of the violator in one or more local newspapers issued in the area of his place of residence or principal place of business. The decision may also include a provision to publish its summary on the Ministry's website or through any other medium specified by the Ministry. In any case, publication shall be carried out after the penalty decision becomes unappealable upon the lapse of the statutory



period or is upheld by the Board of Grievances.

6. Imposing the penalty prescribed in paragraph 1 of this Article shall not prejudice the right of recourse against the person causing damage as a result of violating this Law.

#### **Article 25**

Disputes arising from the franchise agreement or the application of this Law may be settled by alternative means, such as arbitration, mediation, and conciliation.

#### **Article 26**

The Minister shall, within 180 days from the date of publication of this Law, issue its Regulations. The Regulations shall be effective from the date this Law enters into force, and shall:

1. authorize the Ministry to issue model forms for the franchise agreements and disclosure documents, and specify the procedures and requirements of any applications or documents submitted to the Ministry under this Law;
2. determine the requirements of the disclosure documents submitted by the franchisors;
3. determine the fees for entry and registry and any amendment thereto, and for any other services rendered pursuant to this Law and its Regulations, as well as methods of collection;
4. specify the information to be made available to franchisees; and
5. identify the department or agency in charge of enforcing this Law, its Regulations, and work procedures.

#### **Article 27**

The Law shall enter into force 180 days following its publication in the Official Gazette, and shall repeal any provisions conflicting therewith.