

الأكاديمية المالية
The Financial Academy

PROFESSIONAL CERTIFICATE OF "COMPLIANCE OF FINANCE COMPANIES SECTOR"

A learning curiculum issued by the Financial Academy
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This learning curriculum includes 6 chapters and constitutes the main reference to pass Compliance for Financing Companies Sector Professional Exam.

In the name of Allah,
the Most Gracious, the Most Merciful

Welcome to the learning curriculum issued by the Financial Academy. This book is designed to qualify candidates for Money Exchange and Transfer Professional Exam set in Financial Academy.

This book is a learning guide and FA made an enormous effort to ensure the accuracy of the content.

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Curriculum mapping that is shown at the end of the book includes a detailed study plan, which can also be found on the Academy's website: www.fa.org.sa or by contacting the Academy through the phone number: +966114662688 / Fax: +966114662368.

Note that the exam is based on this plan and we advise candidates of Money Exchange and Transfer Professional Exam to make sure to have the latest updates on this curriculum.

The questions in this book have been designed as a tool to assist the candidate in reviewing different information of the curriculum and to promote deep learning of all chapters. Candidates should not consider these questions as "Mock Exam" questions, or view them as an indicator to questions' level that will come in the exam.

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Studying this material may take up to 50 hours

Chapter One

Nature of Finance Companies Sector

This part of book accounts for approximately 5 out of the 50 questions of the test.



1- Introduction:

This chapter addresses the financial services sector in the Kingdom of Saudi Arabia in general, with a focus on finance companies and their role in the economic and financial ecosystem. The chapter also identifies the rules regulating the business of finance companies, in addition to defining the role of the Saudi Central Bank (SAMA) in supervising and controlling finance companies.

1.1 Structure of Financial Services Sector in the Kingdom of Saudi Arabia:

Learning Objective

1. Exploring entities involved in financial services sector, and development of KSA financial services markets.

Financial services industry is a vital component of any economy, especially to relatively advanced economy e.g. KSA, where most of the population depends on financial services to reserve their funds, save for the future, and avoid other risks. An efficient financial services industry makes use of savings to fund financial organizations, create jobs, and grow economy. The main types of financial service providers include:



1.1.1 Banks:

Banks in KSA render their services to individuals and companies. Banks provide their customers with accounts through which they can deposit money and then access such money in a variety of ways through bank branches, using an ATM card, or writing a check payable to another person or organization. In addition to accounts in which funds can be deposited, banks also provide loans to their customers to facilitate purchase of assets e.g. cars, real estate and other needs. Further, banks provide loans and corporate finance.

1.1.2 Insurance Companies:

Insurance companies offer their clients a way to manage risks, as such firms collect premiums from clients in return for agreeing to settle valid claims from such clients when certain risks occur. For example: When an individual pays the required premium to a car insurance company; in case of a car accident, the insurance company will pay the individual's claim for damage to his car and possibly the other car involved in such accident.

1.1.3 Finance Companies:

Joint stock companies licensed to engage in financing activity. Types of finance activities are (Real estate finance, productive assets finance, SMEs finance, lease finance, credit card finance, consumer finance, microfinance, and any other finance activity specified by SAMA).

1.1.4 Financial Market Companies:

Financial markets are central due to the effective role of the Capital Market Authority (CMA) in promoting the national economy through regulating and developing the financial market, regulating issuance of securities and monitoring its trading, monitoring the work of CMA-licensed entities to carry out securities business, as well as realizing an adequate environment for operation of funds. CMA also strives to mitigate risks, as the high risks affects investment in financial market, causes savings and funds to be lost if invested in other areas because investors do not have sufficient experience in such aspect. Further, realizing an appropriate environment leads to increased economic growth, which in turn contributes to financing CMA-listed projects and investments, increasing production of goods and services rendered, and promoting national economy growth.

1.2 Common Features of KSA Finance Companies:

Learning Objective



2. The examinee should identify general features of finance services sector and types of services provided thereby.

1.2.1 Nature of Finance Activity:

Practicing finance activity is one of the regulated businesses in the Kingdom of Saudi Arabia in accordance with a set of rules, regulations and instructions issued by the Saudi Central Bank (SAMA). Key legislation include Finance Companies Control Law issued by virtue of Royal Decree No. (M/51) dated 13/08/1433 AH as amended by Cabinet Resolution No. (141) dated 05/04/1440 AH, and its Implementing Regulations issued on 04/04/1434 AH, which obliges finance companies to obtain SAMA license to carry out finance business in accordance with Article (10) of such Law. According to the Finance Companies Control Law and Implementing Regulations thereof, some terms can be defined as follows:

- Finance: Extending credit under contract for activities stipulated in Finance Companies Control Law and Implementing Regulations thereof.
- Finance Company: A joint stock company licensed to engage in finance activities.
- License: A license issued by SAMA to a company to engage in finance activities.
- Beneficiary: A person receiving finance.
- Consumer: A person to whom finance services are offered.

1.2.2 Finance Business Allowed for Finance Companies to Engage in:

SAMA shall license a finance company to engage in one or more of the following activities:

- Real estate finance
- Production asset finance
- Small and medium enterprise finance
- Finance lease
- Credit card finance
- Consumer finance
- Microfinance
- Activities supporting finance activity
- Any other finance activity approved by SAMA

A finance company may acquire assets in order to finance third parties' acquisition of such assets. A finance company, in proportion with its assets and financial position, may issue securities and sukuk in accordance with the provisions of the Capital Market Law and its Regulations.

1.2.3 Procedures and Conditions of Finance Activity License:

No person may engage in any finance business without obtaining a license from SAMA in accordance with the Finance Companies Control Law and Its Implementing Regulations, as follows:

First:

The founders of a finance company or their representatives shall apply to SAMA for a license in accordance with the following conditions:

1. Submission of the organizational structure of the company, operation systems and an investment plan demonstrating its technical capability to engage in finance activities;

2. The capital of a finance company shall be as follows, while taking Companies Law into account:
   - Two hundred million riyals (SAR 200,000,000) for a finance company that engages in real estate finance business.
   - One hundred million riyals (SAR 100,000,000) for a finance company that engages in one or more finance activities other than real estate finance.
   - Twenty million riyals (SAR 20,000,000) for consumer microfinance companies.
   - Ten million riyals (SAR 10,000,000) for a finance company that engages in microfinance activity without any other finance business.

SAMA may raise or reduce the minimum capital in light of market conditions, or if SAMA deems that the business model proposed by a finance company, nature of its activities, or the proposed geographical scope of activity require so, taking into account the magnitude and nature of risks associated with such activity. The capital must be paid in full upon incorporation of the finance company.

3. Each founding member of the company shall be legally competent and shall:

- Not be in breach of the provisions of any penal law, Banking Control Law, Capital Market Law, Cooperative Insurance Companies Control Law, Regulations thereof, or financing laws and regulations thereof.
- Not have been declared bankrupt, or entered into a protective settlement of bankruptcy with any creditor.
-Not be convicted of any crime impinging on integrity, unless rehabilitated and a period of no less than ten years has passed since execution of the penalty imposed for such crime, provided that a letter is obtained from SAMA indicating non-objection to the same.
- Not have previously submitted an application for a license to engage in a finance activity during the previous two years.
- Not have been previously rejected to license a finance activity by SAMA during the previous five years.
- Have sufficient financial solvency, and have not breached any financial obligation towards its creditors, or committed any act indicating its failure to fulfill its financial obligations towards its creditors.

Second:

SAMA shall, upon completion of the application, issue its decision of approval or reasoned rejection within a period not exceeding 60 days from the date of being notified by the license applicant of its application completion. SAMA initial approval may not be considered a grant of a license to engage in finance activity.

Third:

Upon approval, applications shall be referred to the Ministry of Commerce and Investment to complete company incorporation and registration in accordance with the provisions of the Companies Law within six months from the initial approval. After obtaining a letter from SAMA stating no objection thereof, the period may be extended for another six months as a maximum.

Fourth:

Upon completion of the incorporation of company and issuance of commercial registration, SAMA shall issue the license permitting the company to practice. The license term shall be five years, and SAMA may renew such license at the request of the finance company. The finance company must commence its finance activities within a period

not exceeding one year as from the date of obtaining the license. After commencing its activities, it shall not cease its activities for more than three successive months unless under SAMA's prior written approval.

The finance company may request to amend the license by adding or deleting some finance activities, or amending any condition or restriction contained therein.

Fifth:

SAMA shall receive a financial consideration as follows:

- Two hundred thousand riyals (SAR 200,000) for issuing the license.
- One hundred thousand riyals (SAR 100,000) for renewing the license.
- Fifty thousand riyals (SAR 50,000) for modifying the license.

The financial consideration for issuing or modifying a license to practice microfinance activity is ten thousand riyals (SAR 10,000) only.

Sixth:

In the license, SAMA specifies finance activities that a finance company is licensed to practice, and SAMA may restrict the license with special conditions that define the geographical area in which the finance company is licensed to operate, beneficiaries it is authorized to deal with, or other conditions. The finance company may not engage in any unlicensed activity or that contradicts the terms of the license, in particular the following:

1. A company licensed to engage in microfinance business may not engage in finance activities other than microfinance.
2. Only the company licensed to engage in real estate finance business may finance residential real estate in any form of finance.

Seventh:

SAMA may revoke the finance company's license in the following cases:

- The finance company requests to revoke the license, taking into account rights of creditors and beneficiaries as well as integrity of financial position.
- It is proven that the finance company provided false information to SAMA, or failed to disclose material information that should have been provided for licensing purposes.

Revocation of license results in subjecting the finance company to liquidation, and SAMA has the right to appoint the liquidator.

1.2.4 Business not Allowed for Finance Companies to Engage in:

- According to Article (11) of Finance Companies Control Law, a finance company may not:

1. Engage in activities other than finance activities.
2. Acquire, directly or indirectly, other entities engaging in activities other than finance activities.
3. Trade in currencies, gold, precious metals or securities.
4. Trade in real estate.
5. Engage in wholesale or retail trading.
6. Accept call deposit.
7. Accept time deposits or non-banking facilities or opening accounts of all types for its clients, unless licensed by SAMA. The company shall deposit with SAMA a percentage of the value of the deposits.

   Given that SAMA has recently issued Circular No. (42019124) titled Controls for Allowing Acceptance of Time Deposits, where the legal and technical requirements for obtaining SAMA's no-objection in this regard have been defined, including, for example: The capital of finance company shall not be less than SAR 1 billion, with no accumulated losses, and the company's defaults (for more than 90 days) may not exceed 5%, and the company has generated stable profits during the last three years, in addition to any other requirements prescribed by SAMA.
8. Obtain foreign short-term finance without obtaining the approval of SAMA.

- Without prejudice to Article (11) of the Law, a finance company may not own securities, e.g., shares, bonds, sukuks and financial derivatives, except in the following cases:

1. If it is part of a finance operation whose purpose is to extend finance to a beneficiary.
2. Investing the cash available with the finance company through deposits with local commercial banks or in debt instruments approved by SAMA.
3. Hedging an existing exposure to term cost.
4. Hedging against existing currency risk.

- The finance company is also prohibited from:

- Extending any finance without guarantee.
- Financing or granting facilities by guaranteeing its shares.
- Financing or granting facilities to a facility or company - other than a joint stock company listed on the Saudi Stock Exchange - if a member of the finance company's Board of Directors or one of its external auditors is a shareholder in such facility or financed company, or acting as its manager.

- Financing or granting facilities to persons or establishments if a member of the finance company's Board of Directors, or one of its external auditors, is a guarantor for obtaining such finance or facilities.
- Financing or granting facilities to any member of its Board of Directors, or one of its managers, or their spouses, or any of their second-degree relatives.
- Financing or granting facilities, or guarantee any financial obligation to one of its employees in excess of his salaries.
- Owning shares in another financing company, except under SAMA's approval.
- Financing or granting facilities to a company or facility in which the finance company owns, directly or indirectly, a percentage exceeding the percentage specified in the Implementing Regulations.

1.3 Rules Regulating the Business of Finance Companies:

Learning Objective



3. Getting familiar with the laws and regulations governing the business of finance companies in the Kingdom of Saudi Arabia.

1.3.1 Finance Company Management:

- Members of the board of directors of the company as well as its general manager, senior executive directors and branch managers, each within their powers, shall be liable for the company's breach of the provisions of Finance Companies Control Law or its Regulations.
- Members of the board of directors of a finance company shall be jointly and severally liable for guaranteeing the company's rights against losses resulting from granting finance without collateral.
- An audit committee shall be formed in each finance company from non-executive board members. Committee duties, selection of its members, term of membership and work procedures shall be determined pursuant to a resolution by the general assembly of the finance company upon a proposal by the board of directors.
- Upon concluding any finance contract falling within their powers, the chairman, board members and employees of the finance company shall disclose in writing the following:
  - Any relation with respect to the contract.
  - Any relation to the contract of any relative up to the second degree.
  - Any financial interest they have with any contract party.

In case of non-disclosure, an aggrieved party may file a lawsuit before the competent court to invalidate the contract.

1.3.2 Concept of Financial Leverage:

Article (54) of the Implementing Regulations of the Finance Companies Control Law stipulates that, with regard to the aggregate finance amount that a finance company can provide compared to the company's capital and reserves, the finance company must comply with the following:

- The aggregate finance amount offered by a finance company shall not exceed five times the capital and reserves for finance companies carrying out real estate finance activities and three times the capital and reserves for finance companies carrying out other finance activities, unless a non-objection letter from SAMA is obtained.
- SAMA may increase the limit on the aggregate finance amount offered by a finance company to the extent it deems appropriate, After taking into account the financial position of the finance company, its performance and market conditions.

So clearly, SAMA has set the financial leverage of real estate finance companies to not exceed five times the capital and reserves of the company. As for other finance companies (other than real estate), the financial leverage should not exceed three times the capital and reserves.

1.3.3 Ownership and Assets:

Article (27) of the Implementing Regulations of the Finance Companies Control Law, with regard to ownership and assets, clarified the following:

- No acquisition of assets other than those necessary to manage its business shall be executed by the finance company unless it has obtained a non-objection letter from SAMA;
- The finance company may not execute any partial or total liquidation of its business or of the finance company itself without a non-objecting letter from SAMA.

1.3.4 Finance Company Internal Organization:

- The finance company must establish appropriate written organizational policies, that includes work manuals and workflow procedures. Those policies must be kept up to date on a regular basis and they must be communicated to the concerned staff in a suitable and timely manner. The organizational policies must include rules for at least the following:
  - The organizational and operational structure, decision making and responsibilities;

- Credit granting and operations;
- Financial management and accounting;
- Marketing, sales customer service and collection;
- Information technology and security;
- Identifying, assessing, treating, monitoring and disclosing risks;
- Internal supervision system and internal audit;
- Assigning tasks to external service providers;
- Salaries, bonuses and incentives, including salaries of members of senior management and staff and their incentives as well as remuneration of the board and its committees.

- All business documents, records and files must be kept in an orderly, transparent and safe manner by the finance company. They must be kept up to date and completed and retained for at least ten years from the date of termination of the client's relationship.
- The finance company's technical facilities and related systems must be adequate according to industry standards for the finance company's operational needs, nature of its activities, and risk situation. Information technology systems and related processes must be designed in a manner that ensures integrity, availability, authenticity and confidentiality of data. Information technology systems and related processes must be assessed on a regular basis in accordance with the generally accepted technical standards.
- The finance company must have sufficient and eligible staff regarding knowledge and experience in order to fulfill its operational needs. The remuneration and incentives of staff must be fair and aligned with the finance company's risk management strategy. The finance company shall adhere to the following:
  - At least (50%) of all employees of the finance company must be Saudi nationals when the finance company starts operations. The (50%) minimum applies to all departments and organizational levels.
  - The percentage of Saudi nationals of total human resources shall be annually increased by (5%) of all employees until (75%) has been reached. SAMA may determine the minimum required annual increase thereafter.
  - Recruitment of non-Saudis in the finance company shall be limited to jobs that require expertise not available in the Saudi labor market. In all cases, the finance company must obtain a non-objection letter from SAMA before appointing any non-Saudi employee in supervision departments provided that the company has proved the lack of Saudis for the vacant position.

1.3.5 Internal Audit:

- The finance company must establish an internal audit department reporting directly to the audit committee, and shall be independent in performing its duties. The internal audit department shall operate according to a comprehensive audit plan, approved by the audit committee and updated on an annual basis.
- The internal audit department manages and assesses the internal control system and assures the extent to which the company and employees comply with the applicable laws, regulations, circulars and finance company's policies and procedures, whether outsourced or not. The internal audit department must have full and unlimited access to information and documents.
- The internal audit department must prepare and submit to audit committee a written report on its work at least quarterly. The department must prepare and submit to the audit committee a written general report on all audits in a fiscal year, compared with the approved plan and stating any gaps or deviation from the plan, if any.

1.3.6 Finance Policies and Procedures:

- The finance company shall define written finance policies setting out rules and procedures for granting Finance, including but not limited to, classification of credit worthiness, procedures for dealing with, deteriorating credit rating and default finance, types of accepted collaterals, methods for calculating their values, monitoring, administration and enforcement of collateral, and risk provisioning.
- The finance company must, upon the approval of the consumer verify his credit record to confirm his solvency, repayment capacity and credit conduct. The confirmation of such must be documented in the finance file. The finance company must, upon the approval of the borrower, register his credit information at one or more of the companies licensed to collect credit information. Such information shall be updated throughout the period for dealing with the borrower.
- The finance company shall determine levels for granting finance based on the type and amount of finance, and the decision for acceptance or refusal of the finance shall be subject to the powers granted for each administrative level. The finance company must obtain a non-objecting letter from SAMA before extending any of the following:
  - Finance to a foreign borrower that is not a resident in the Kingdom.
  - Finance in a currency other than the Saudi riyal.
- In accordance with the policy and procedures of risk management, approved by the finance's company board, the finance must be granted by collaterals. All collateral must be enforceable and capable of valuation in order to be acceptable. Therefore, the

value and legal validity of collateral must be assessed prior to granting of finance. The finance company may grant finance without a collateral, if the following applies:

- The total amount of finance received by the borrower, without collateral, does not exceed (SAR 100,000) one hundred thousand Saudi riyals.
- The borrower has no history of un-settled debt, conflict or a standing credit lawsuit, insolvency, bankruptcy or liquidation through the past ten years, or checks without balance by him through the past five years.
- The Borrower must not be a related party.

The Implementing Regulations of the Finance Companies Control Law have clarified that each of the following is a related party:

- Any member of the board or its committee;
- Any member of senior management;
- Any person directly or indirectly holding or controlling (5%) or more of the capital or voting rights of the finance company, and any entity in which such person directly or indirectly holds or controls (5%) or more of the entity's capital or voting rights;
- Any person directly or indirectly holds or controls (5%) or more of any class of securities that give their holders the right to a share of the profits or income of the finance company;
- Any ancestor or descendant up to the second degree, or spouse of any of the persons previously mentioned.
- Any entity in which the finance company directly or indirectly holds or controls (5%) or more of the shares or interests or voting rights;

• The finance company must make provisions for contingent losses and risks in accordance with International Financial Reporting Standards, especially International Accounting Standard No. 37 "Provisions, Contingent Liabilities and Contingent Assets". SAMA may require that the finance company to make an additional provision or more for contingent losses and risks.

1.3.7 Limits of Exposure to Credit Risk:

Exposure includes the value of all assets that subject to any credit risks, including but not limited to, finance agreements; securities; and advanced payments to other entities and clients; all commitments or other obligations to grant finance or to make a payment or deliver assets to a third party with a right of recourse against a client or another third party, equity, participating interests and assets. This is according to the following rules:

• The aggregate of large exposures must not exceed the paid-up capital and reserves

of the finance company unless the finance company has obtained a non-objecting letter from SAMA. The finance company may not incur an exposure to a borrower of (10%) or more of its paid-up capital and reserves or an exposure to a group of borrowers where one of them has direct or indirect control over the other members of the group of (25%) or more of its paid up capital and reserves, unless it has obtained a non-objecting letter from SAMA thereupon.

- The finance company may incur an exposure to a related party only on a commercial basis and after obtaining sufficient collateral so that the finance may not exceed (60%) of the collateral. If the finance is more than (SAR 500,000) five hundred thousand riyals, there must be a consensus decision of the Board to do so.
- The finance company may not incur an exposure to a related party of (10%) or more of its paid-up capital and reserves without obtaining a non-objecting letter from SAMA. In all cases, the aggregate of all exposures to related parties must not exceed (50%) of the paid-up capital and reserves of the finance company.
- The finance company must not incur any exposure to a related party that either directly or indirectly holds or controls (25%) or more of the shares, interests or voting rights in the finance company or in which the finance company holds or controls directly or indirectly (25%) or more of the shares, interests or voting rights.
- The finance company must not incur an exposure to any of its employees that is not a related party in excess of four months' salary of such employee, except through finance programs organized by the company for its employees, approved by the board and after obtaining a non-objecting letter from SAMA.

1.3.8 Account Auditing and Inspection

- The finance company must apply International Accounting Standards in preparation of their accounts and financial statements, and must:
  - Provide SAMA with its audited annual financial statements, auditor's report, and the Boards report at least five business days before its publishing date.
  - Provide SAMA with its quarterly financial statements and auditor's report at least five business days before its publishing date.
  - Create a website on the World Wide Web (the Internet) and publish its annual financial statements and reports (Statement of financial position – Income statement – Cash flows statement – Board's report).
- The finance company must obtain a prior non-objecting letter from SAMA before appointing an external auditor. SAMA may require the finance company to replace its external auditor or may appoint another external auditor at the expense of the finance

company in any of the following cases:

- When necessary due to the size or the nature of the business;
- The external auditor has committed a breach of professional obligations;
- There is a reason to believe that the external auditor has a conflict of interest;
- When necessary, for the protection of the finance sector or governance considerations and the protection of shareholder's interest.

• The external auditor must report to SAMA immediately all facts of which he obtains knowledge in the course of an audit and which:

1. Might justify the reservation in the audit report or refrain from expressing opinion;
2. Jeopardize the existence of the finance company;
3. Seriously impair the finance company's development,
4. Indicate that the managers have breached any laws, regulations, instructions applicable in the Kingdom or the by-laws of the finance company.
5. Terminate the agreement before it ends with the reasons thereupon.

SAMA may require the external auditor to explain his report or to reveal other facts that may have come to his attention during the audit, which indicates any violation of the laws, regulations, instructions or by-laws of the finance company.

• The finance company, its board members, and employees must provide all information and documentation concerning the finance company, its business, its shareholders, and its personnel, that SAMA may request at any time. The finance company shall also facilitate SAMA's inspection process.

• The finance company and any of its employees may not hide or attempt to hide any information or irregularities or fail to provide any clarifications requested by the appointed inspector or neglect to provide him with requested information and documents on time.

• SAMA's employees in charge of supervision, control, and inspection shall not be vulnerable to any claims as a result of performing their duties.

1.4 SAMA and its Role in Monitoring and Supervising Finance Companies:

Learning Objective



Getting familiar with SAMA's role in supervising and controlling the finance companies' sector in KSA.

SAMA acts as the Central Bank of the Kingdom of Saudi Arabia, and is also the supervisory and supervisory authority for commercial banks, exchange centers, insurance companies, finance companies, and credit information companies.

1.4.1 SAMA's Role in Supervising and Controlling Finance Companies:

SAMA organizes the finance sector and supervise the business of finance companies in accordance with Finance Companies Control Law issued by virtue of Royal Decree No. M/51 dated 13/08/1433 AH, and its Implementing Regulations, including the following:

1. License to practice one or more of finance activities in accordance with the finance laws and its regulations.
2. Taking all actions necessary for maintaining the integrity and stability of the finance sector and fairness of its transactions;
3. Taking all actions necessary for encouraging legitimate and fair competition among finance Companies;
4. Issuing rules and instructions required to organize the finance sector;
5. Taking all suitable means for the development of the finance sector, Saudization, and enhancement of its employees' efficiency through regulating the obligations of the finance companies in training human resources, improving their skills and enriching the employees' knowledge in finance Industry.

- The Implementing Regulations of the Finance Companies Control Law regulate the following:

  - Prohibiting or restricting finance companies from conducting certain credit transactions.
  - The special conditions to be observed by a finance company in conducting certain credit activities.
  - The minimum percentage of collateral proportions to be observed in certain contracts for finance amounts and assets presented as collateral thereof.

- The principles for disclosure of criteria of cost of finance and method of calculation to enable consumers to compare prices.
- Controls necessary to ensure equity of transactions and protection of consumers' rights.
- Principles of fair distribution of finance profit over maturity period.
- Collaterals for protecting payments made by borrowers and how finance company disposes of the same.
- Debts collection by finance companies and provisions of licensing.

• If a finance company commits violations relating to any professional irregularities or transactions exposing its shareholders or creditors to risk, or if its debts exceed its assets, SAMA shall, by written decision and in proportion to the violation, take one or more of the following measures:

• Serve a warning.
• Require the finance company to submit an appropriate corrective action plan.
• Order suspension of some of its operations or prevent distribution of dividends.
• Impose the fine set out in Finance Companies Control Law.
• Order temporary suspension or dismissal of violator, if not a board member, according to the gravity of violation.
• Temporary suspension of the chairman or a board member.
• Appoint one or more consultants at the expense of the finance company to provide advice on its conduct of business.
• Suspend the board of directors and appoint a manager at the expense of the finance company to run the company until the causes for suspension, as determined by SAMA, cease to exist.
• If SAMA deems that the violation calls for revocation of license or liquidation of the finance company, SAMA may initiate a suit before the competent court. SAMA, at its own discretion, may suspend the license until the suit is decided.

Any aggrieved party may appeal the decisions of SAMA before the competent court within (60) days from the date of being aware of such decision.

1.4.2 Violations and Disputes:

- The competent court shall resolve disputes arising from the implementation of the provisions of Finance Companies Control Law and its Implementing Regulations, review violations of their provisions and impose related penalties. SAMA's Governor shall appoint qualified officers with the capacity of investigation and public prosecution. SAMA's employee that is in charge of control, investigation and prosecution procedures shall:
  1. Be a Saudi national;
  2. Be of a good conduct;
  3. Have not been sentenced of a breach of trust offence or a crime involving moral turpitude, unless rehabilitated.
  4. Hold a bachelor degree;
  5. Have passed the professional examination approved by SAMA.
- Control, investigation and prosecution personnel shall receive notices, collect information, and control necessary evidences for investigation and point accusation. Criminal lawsuit shall be referred to the Committee for Settlement of Finance Violations and Disputes by the Governor or his deputy.
- Control, investigation and prosecution personnel may benefit from specialists either as individuals or companies when conducting their survey, examination, seizing materials connected with violations. The duty of such individuals and companies shall be confined to showing places and materials that requires search and capturing during investigation.
- The control, investigation and prosecution staff, law enforcement personnel, experts and specialists assisting them shall not disclose the confidential information, which they come across in the course of their work even after quitting the service.

1.4.3 Penalties:

- SAMA shall impose a fine not exceeding two hundred and fifty thousand riyals (SAR 250.000) when a finance company commits violations relating to any professional irregularities or transactions exposing its shareholders or creditors to risk, or if its debts exceed its assets. If the violation persists, SAMA may impose a fine not exceeding ten thousand riyals (SAR 10.000) for each violation day.
- Without prejudice to the preceding paragraph, any person violating any of the provisions of Finance Companies Control Law and its Regulations shall be subject, depending on the gravity of the violation, to a fine not exceeding five hundred thousand riyals (SAR 500.000) and imprisonment for a term not exceeding two years, or either penalty.
- A person who persists in defaulting the payment of his loan, shall be subject to a fine not exceeding double of the interest agreed upon for the defaulted payment. The fine

shall be repeated with each repeated default. The fine shall be allocated for support of public benefit societies.

1.4.4 SAMA's Key Legislation Regulating the Business of Finance Companies:

SAMA has issued a number of laws, regulations, rules and instructions in order to organize the business of finance companies, the most prominent of which are:

- Finance Companies Control Law, issued by virtue of Royal Decree No. (M/51) dated (08/1433 AH), and its Implementing Regulations.
- Finance Lease Law, issued by virtue of Royal Decree No. (M/48) dated (08/1433 AH), and its Implementing Regulations.
- Real Estate Finance Law, issued by virtue of Royal Decree No. (M/50) dated (08/1433 AH), and its Implementing Regulations.
- Anti-Money Laundering Law, issued by the Presidency of State Security in agreement with the Ministry of Finance and the Public Prosecution on (01/1439 AH).
- Implementing Rules of the Law on Combating Crimes of Terrorism and its Financing, dated (03/1439 AH).
- Principles of Responsible Finance issued pursuant to Circular No. (46538/99) dated (09/1439 AH).
- Rules of Engaging in Microfinance Activity, updated on (01/1441 AH).
- Anti-fraud Rules for Finance Companies, issued on (09/1438 AH).
- Rules Governing Microfinance Companies, dated (04/1441 AH).
- Licensing Rules for Activities Supporting the Financing Activity, dated (07/1441 AH).
- Controls for the Finance of a Natural or Legal Person Regarding the Goods of Their Institution or Services to Their Consumers, issued by the Decision of SAMA Governor No. (79/MFC) dated (12/1440 AH).
- Outsourcing Regulation for Insurance and Reinsurance Companies and Insurance Service Providers, issued by the Decision of SAMA Governor No. (73/MFC) dated (04/1440 AH).
- Finance Consumer Protection Principles, dated (08/1436 AH).
- Regulations for Issuance and Operations of Credit and Charge Cards, dated (06/1436 AH).
- Rules Governing Disposal of Finance Assets or Their Contractual Rights, dated (11/1436 AH).
- Appointment Requirements for Leadership Positions in the Financial Institutions Under the Supervision of SAMA, Ver. 2.0, dated (01/1441 AH).

- Controls of a Permanent Payment Order in Favor of a Real Estate Financier, dated (05/1441 AH).
- Controls for the Lessor's Receipt of Movable Assets, dated (02/1441 AH).
- Obligations of Real Estate Appraisal Clients who are Subject to SAMA Supervision, dated (05/1437 AH).
- A Guide for Calculating the Annual Percentage Rate (APR), dated (11/1436 AH).
- A Guide for Calculating the Early Payment Amount, dated (11/1436 AH).
- Debt Collection Regulations and Procedures for Individual Customers, dated (07/1439 AH).
- Standard Form for Contracts of Real Estate Finance for Individuals, in the Forms of Murabaha and Ijara (06/1441 AH).
- Compliance Manuel for Banks Operating in Saudi Arabia, dated (12/1429 AH).

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1 - Mention the business allowed for finance companies to engage in? Which activities are prohibited for such companies to involve in?
Answer reference: Section 1.2.1 and 1.2.3

2 - Clarify procedures and conditions of finance activity license in KSA?
Answer reference: Section 1.2.2

3 - What are the conditions for membership of the board of directors of finance companies according to the Finance Companies Control Law?
Answer reference: Section 1.3.1

4 - Briefly explain the key rules for the internal organization of finance companies?
Answer reference: Section 1.3.5

5 - Briefly explain the obligations of finance companies with regard to auditing and examining the accounts in accordance with Finance Companies Control Law?
Answer reference: Section 1.3.12

6 - Explain SAMA's role in supervising and controlling finance companies?
Answer reference: Section 1.4.1

7 - What are the specifications and duties of SAMA's employee specialized in investigation and public prosecution in disputes arising from the application of the provisions of Finance Companies Control Law?
Answer reference: Section 1.4.2

8 - Mention penalties imposed by SAMA on violators of the provisions of Finance Companies Control Law and its Implementing Regulations?
Answer reference: Section 1.4.3

9 - Mention SAMA's key legislation regulating the business of finance companies?
Answer reference: Section 1.4.4

Chapter Two

Compliance in Finance Companies and Role of Compliance Officer

This part of book accounts for approximately 13 out of the 50 questions of the test.



2 - Introduction:

This chapter reviews the concept of compliance, the importance of compliance department the role of Compliance Officer in finance companies. The Module also highlights the principles of protecting clients of finance companies, as well as the principles and practices of governance of financial institutions and finance companies, as well as the role of the Saudi Central Bank (SAMA) in promoting effective governance of KSA financial sectors.

2.1 Compliance in Finance Companies:

Learning Objective



Getting familiar with compliance function, objectives of compliance function, and significance of compliance in finance companies.

2.1.1 Concept of Compliance Function:

According to Compliance Manuel for Banks Working in Saudi Arabia issued by SAMA on (12/1429 AH), the compliance function in finance companies can be defined as: It is an independent function that identifies, assesses and provides advice, monitors and reports on risks of a financing compamy's non-compliance related to its exposure to legal and administrative penalties, financial loss, or what may undermine the company's reputation due to its failure to abide by regulations and controls or sound standards of conduct and professional practice. This function shall be applied by Compliance Departments.

2.1.2 Objectives of Compliance Function:

Compliance function in banks is one of the fundamentals and factors for their success due to the essential role it plays in maintaining their reputation, credibility, interests of shareholders and depositors, and protecting them from penalties as a result of performing or participating in the following:

1. Prevention of risks, especially regulatory, reputation and financial penalties risks.
2. Accurate planning and organization in cooperation with senior management to establish the principles of Sound Management Concept in order to realize and create an environment of compliance in business management.
3. Consolidate relations with regulatory entities, and safeguard values and professional practices in banking institutions.
4. Advise on the risks of non-compliance within finance companies and work with

senior management to include compliance in policies, procedures and action steps for all products and services rendered.

5. Establish mechanisms and frameworks to ensure prevention of crimes, in particular, its responsibility for combating money-laundering and terrorism financing operations.

2.1.3 Significance of Compliance in Finance Companies:

Success of finance companies depends on their credibility, integrity and respect for instructions, regulations and ethical standards. Therefore, Compliance Department shall be responsible for verifying compliance of finance company with the applicable laws, regulations and instructions, and carrying out necessary tasks for ensuring the same, including the following:

1. Identify and deal with all compliance risks and monitor their developments.
2. Analyze any new policies, procedures and processes, and recommend procedures to deal with related compliance risks.
3. Adopt a risk-based compliance program, and prepare a quarterly compliance report to be submitted to Audit Committee, and then to the Board of Directors.
4. Collect compliance-related complaints, and prepare written guidelines for employees whenever required.
5. Prepare internal policies and procedures to combat financial crimes e.g. money laundering and terrorist financing crimes.
6. Monitor compliance with anti-money laundering and terrorist financing laws, regulations and rules.
7. Develop awareness of compliance themes and train employees on its issues through periodic programs.
8. Immediately report to SAMA and Audit Committee upon detecting any irregularities or violations.

2.1.4 Non-Compliance Risk:

Learning Objective



Identifying risks of non-compliance by finance companies with the rules, regulations and instructions.

The term “Compliance Risks” is defined as risks leading to statutory, legal sanctions, material financial loss, or damage to reputation a finance company may suffer as a result of its failure to comply with all applicable laws, regulations, rules, circulars, instructions

and codes of conduct applicable to its activities. Risks and repercussions of non-compliance can be summarized as follows:

- Fines and financial loss.
- Reputational damage and lack of competitiveness.
- Loss of customers as well as loss of market share.
- Engaging in complicated judicial cases with regulatory authorities.
- Loss of licenses and failure to obtain such licenses and approvals from regulatory authorities.

2.2 Compliance Department:

Learning Objective



Recognizing the importance of establishing an independent department that undertakes compliance tasks of finance companies, its powers and responsibilities.

Compliance Department is a supervisory department established in order to assure the Board of Directors that the executive management and all departments in the finance company abide by enforcing all instructions issued by the supervisory and regulatory authorities and the company's management itself, in addition to compliance of the finance company with the rules and regulations governing the work and rules of ethics and professional conduct.

2.2.1 Principles of Compliance Department:

Given the importance of responsibilities and requirements of Compliance Department, the Finance Companies Control Law issued by SAMA has defined the following set of principles to serve as the cornerstone of Compliance Department:

1. Independence:

Compliance Department must enjoy full independence from the executive management. The concept of independence includes four interrelated elements as follows:

- Compliance Department shall report directly to Audit Committee, and Audit Committee shall submit compliance reports to the Board of Directors.
- Compliance Officer shall assume all responsibilities for coordinating with the finance company's management on non-compliance risks.
- Duties of Compliance Department should be separated from other departments, i.e., Compliance Department's staff, especially Compliance Officer, should not be assigned functional tasks that expose them to a conflict of interest between such tasks and those of compliance function. Article (32) of the Implementing Regulations of the Finance Companies Control Law states that "It is prohibited in the Finance Company to combine an executive function such as financing or hedging and oversight function such as internal auditing..."
- In the context of discharging his duties, the compliance officer should have direct access to all information, records, files, and personnel.

2. Resources:

Duties of compliance department requires obtaining all resources necessary to carry out its responsibilities effectively. Professional skills of compliance staff with respect to laws, rules and standards can be acquired through ongoing learning and training. So, it is essential that resources of compliance function are adequate and suitable to ensure:

- Ideal control of risks that may emerge in finance company.
- Number of compliance department staff should be sufficient and proportional to the finance company's business model and size.
- Compliance staff should have a full understanding of compliance laws, rules and standards and their impact on finance company's operations

Responsibility for providing necessary financial, human and technical resources rests with the chairman of board or his deputy.

2.2.2 Responsibilities of Compliance Department:

According to Basel Committee's instructions, Compliance Manual for Banks Working in Saudi Arabia and Finance Companies Control Law issued by SAMA, the finance company's management shall be responsible for enforcing compliance. In accordance with Article (46) of the Implementing Regulations of Finance Companies Control Law, "The compliance department must ensure the Finance Company's compliance with applicable laws, regulations and circulars. It has, without limitation, the following tasks:

- Identifying and dealing with all compliance risks and monitoring all relevant developments;
- Developing a compliance policy to be approved by the Board of Directors, and the Audit Committee must ensure implementation of such policy, evaluate its effectiveness, update it and propose the necessary amendments thereto on an annual basis.
- Adopting a risk-based compliance program that details responsibilities and tasks of compliance officer.
- Determining the organizational requirements for each department in the finance company, creating a database for such requirements and classifying the same according to departments, products and services.
- Creating a database of all rules and regulations in force in all countries where it operates, classify and categorize them.
- Communicating with business administrations, senior and executive management and inform them of statutory requirements on an ongoing basis to ensure their understanding and comprehension of such rules and regulations as well as their readiness to implement the same.
- Preparing internal policies and procedures to combat financial crimes e.g. money laundering and terrorist financing crimes.
- Promoting awareness of compliance issues and providing training for employees on compliance related matters through periodic programs;
- Detecting violations, discussing them with the violating departments, and agreeing with them on corrective plans.
- Reporting any irregularities and/or violations promptly to SAMA and Audit Committee.
- Following up on resolving all non-compliance issues detected by regulatory authorities and Audit Department.

2.3 Compliance Officer:

Learning Objective



Getting familiar with qualifications of compliance officer, and explore his role in realizing compliance in finance companies.

2.3.1 Qualifications, Personal Characteristics and Capabilities of Compliance Officer:

Compliance officer should be highly competent and have vast experience in finance business as well as the ability to understand compliance monitoring.

Qualifications:

Whoever is entrusted with the responsibility of a compliance department should have, as a minimum, the following qualifications:

- Hold a university degree or a relevant professional certificate.
- Extensive compliance experience.
- Expert knowledge of all related finance regulations, rules, guidelines and laws.
- Experience and capability in developing and applying relevant policies and procedures, including the capacity to train employees in the area of compliance with regulations.
- Fluency in Arabic and English.
- Experience in administrative supervision, control, and audit.
- Good knowledge of AML/CTF mechanisms.

Personal Characteristics and Capabilities:

Compliance officer must have the following personal characteristics:

- Integrity and honesty.
- Attentive mentality.
- Neutrality and autonomous opinion.
- Good conduct and courtesy.
- Persuasion and confrontation.

Compliance officer should have the following leadership and technical capabilities:

- Ability to deal with all departments of the finance company, solve problems and take proper actions when issues arise from a conflict between practical plans and statutory restrictions, or a conflict with by-laws of the finance company.

- Capacity to plan and organize in order to establish communication channels and provide advice necessary for the purposes of developing compliance plans.
- Exceptional communication capabilities to build and maintain good relations with the finance company's departments and control and supervisory bodies.

Article (43) of the Implementing Regulations of the Finance Companies Control Law states that "Based on the recommendation of the audit committee, a head of compliance shall be appointed by the Board, after obtaining a non-objecting letter from SAMA thereupon.", in order to assist the Board and Senior Management in ensuring the application of compliance rules and handling of non-compliance issues. Compliance officer must also have sufficient powers and support to be able to carry out responsibilities assigned thereto.

2.3.2 Preparing Quarterly Compliance Report:

Learning Objective



Getting familiar with the quarterly compliance report submitted to Audit Committee.

Article (44) of the Implementing Regulations of the Finance Companies Control Law states that "The head of compliance must submit a compliance report to the audit committee and thereafter to the Board for review at least on quarterly basis. The compliance report must identify the main compliance-related risks facing the Finance Company, analyze existing processes and procedures and assess their viability and, suggest any amendments or changes thereto." Therefore, compliance department must be proactive in identifying, documenting and evaluating the risks of non-compliance related to the finance company's activities.

2.4 Responsibilities of the Board of Directors and Executive Management Regarding Compliance:

2.4 Responsibilities of the Board of Directors Regarding Compliance:

- Supervision and Compliance Risks Management: In pursuance of its responsibilities, the finance company's board of directors is responsible for overseeing and managing the company's compliance risks. To that end, the board should do the following:
  - Approve the finance company's compliance policy.
  - Approve a formal document establishing a permanent and effective compliance function.
  - Assess the compliance program at least once a year to determine the effectiveness of the finance company's implementation of compliance.
- Effective Compliance Policy: A compliance policy pursued by a finance company will not be effective unless it promotes the compliance culture, define staff's responsibilities and penalties in case of negligence, and levels that should be reached; and unless the board of directors undertakes the following:
  - Supports values of honesty and integrity throughout the finance company.
  - Establishes overall and comprehensive commitment to compliance with all relevant laws, rules and standards which should be included in the core of the finance company's policy.
  - Ensures that an appropriate policy is in place to manage compliance risks.
  - Provision of adequate resources to the entity entrusted with compliance function.
  - Granting the entity entrusted with compliance function enough independence.
  - Periodically reviewing and independently monitoring the activities of the entity entrusted with compliance function by the Internal Audit Department.
  - Ongoing supervision of the efforts made for the implementation of the provisions of the Compliance Manual and the level of performance that has been realized through periodic reports, and assessment of the activities of the compliance department, and identifying weaknesses, and efforts made in training.
- Delegation of Responsibilities and Tasks: The board may delegate these tasks to an appropriate committee of its members or to an existing committee in which one of its directors participates (e.g., Audit Committee).

2.4.2 Responsibilities of Executive Management Regarding Compliance:

The executive management of a finance company means the CEO, Managing Director, and General Manager. Responsibilities of the executive management towards compliance can be summarized as follows:

- **Effective Management of Non-Compliance Risks**: The finance company's senior management is responsible for the effective management of the company's compliance risks. The executive management must confirm that all company's employees are accountable for their actions, and that appropriate remedial or disciplinary actions will be taken in case of non-application of compliance policy.
- **Support and Implementation of Compliance Policy**: The finance company's senior management is responsible for supporting all compliance policies in terms of application and supervision, as well as reporting to the board of directors on how compliance risks are handled.
- **Responsibility for Cascading Compliance Policy**: The finance company's senior management is responsible for cascading compliance policy approved by the Board to all company's administrative levels. Such policy should include the following:
  - Compliance principles to be complied with by management and staff.
  - Ample explanation of procedures and processes by which compliance risks are to be identified and managed at all levels of the finance company.
  - High level of transparency and clarity, making it possible to differentiate between general standards and procedures to be followed and applied by all personnel and special rules and procedures the application of which is confined only to a certain group of employees.
- **Control and Reporting**: Executive management should, with assistance of compliance department, undertake the following:
  - Identify and assess main compliance risks facing the finance company and develop corrective plans in case of any shortcomings in applying compliance.
  - Report to the board of directors or compliance committee of the board promptly on any material compliance failures or shortcomings.
- **Compliance Department's support**: As a prerequisite for compliance, the executive management shall:
  - Establish and support a permanent and effective compliance department (function) enjoying appropriate powers and responsibilities to apply and monitor compliance functions.
  - Support compliance department with adequate financial and human resources to assume its tasks, while such support should be compatible and proportional to the size of the finance company's business.

- Set all necessary measures to ensure that all levels and administrative functions in the finance company can always rely on compliance department.
- Create a climate of confidence and consistency in the relationship between the compliance department and other departments within the finance company, and to develop necessary procedures and coordinate to facilitate such objective.

2.5 Principles of Protecting Financing Companies Customers:

Learning Objective



Getting familiar with the basic principles of preservation and protection of finance company clients and consumer rights in financing services.

2.5.1 General Principles:

The G20 developed High-Level Principles on Financial Customer Protection in 2011. These principles are complementary to existing financial regulations, especially those regulations relevant to the protection of customers.

1. Equitable and Fair Treatment

Financing company should deal fairly and honestly with customers at all stages of their relationship, Care should also be made and special attention given to the low-income, low-educated, old, special needs customers.

2. Disclosure and Transparency:

Financing company should provide up-to-date information about products and services provided to customers. This information should be clear, easy-to-understand, accurate, non-misleading, and easily accessible, in particular its key terms and features. It should include rights and responsibilities of each party, quotation and commissions of the financing company, fines, risks, and the mechanism for either party to end the relationship and relevant consequences, as well as any information on alternative products and services rendered by such inancing company.

3. Financial Education and Awareness:

Financing company should develop appropriate programs and mechanisms to help current and potential customers promote their knowledge and awareness, and enable them to understand main risks, make informed choices, as well as direct them to the right place for assistance when they need.

4. Behavior and Work Ethic:

Finance companies should conduct business professionally and responsibly, provide their services honestly and transparently, perform their duties timely and with high quality in a way that serves the consumers' interest during all transaction process made between them.

5. Protection against Fraud:

Financing company should develop control systems with a high level of efficiency and effectiveness to mitigate fraud, embezzlement or misuse.

6. Information Privacy Protection:

Customers' financial and personal information should be protected by financing company through high-level control systems that include appropriate mechanisms that define the purposes for which the data may be collected and processed, in addition to compliance with requirements of SAMA's circulars.

7. Complaints Handling:

Finance company should provide adequate mechanisms for customers to file complaints. This mechanism shall be fair, clear and effective, through which complaints are followed up and handled without delay, according to SAMA's rules.

8. Competition:

Customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost.

9. Third Parties:

Financing company should ensure that the outsourced entities are complying with the requirements of these Principles, working in the best interest of their clients, bearing the responsibility for their protection. Financial service providers are responsible for the actions taken on behalf of the customers, as provided for in the instructions issued by SAMA.

10. Conflict of Interest:

Financing company should have a written policy on conflict of interest, and ensure availability and enforcement of this policy to detect potential conflicts of interest. In case a conflict of interest arises between the financing company and a third party, this should be disclosed to the customer.

11. Adequate Resources:

Finance companies should exercise due diligence to provide human and operational resources that are sufficient and necessary to carry out their business, serve their consumers in all regions of the Kingdom and establish centers suitable for serving consumers and various channels for communicating with them.

2.5.2 Mutual Responsibilities (Customer Responsibilities):

The finance company shall raise the level of knowledge and provide appropriate training for its employees in order to enhance mutual responsibilities, and promote responsibilities of customers by on-going customer education and awareness programs as well as initiatives launched by each company for their own customers. Customer responsibilities include the following:

1. Be honest with the information you provide:

Always give full and accurate information when you are filling in any financing company's documents. Do not give false details or leave out important information.

2. Carefully read all the information provided by financing company:

Consumers should read all details that highlight the obligations incurred in return for a financing product or service and make sure they understand such obligations and are able to commit to their conditions.

3. Ask questions:

It is important to ask questions to financing company employees about anything that is unclear or a condition that you are unsure about. The staff will answer any questions in a professional manner to help customer in decision-making.

4. Know how to file a complaint:

Financing company will provide customer with details on how to file a complaint and the timeframe for their response. The customer may escalate the complaint to higher levels, if appropriate.

5. Use the product or service in line with the terms and conditions:

Do not use the product or service, except in accordance with terms and conditions associated with them, and after making sure of your complete understanding.

6. Avoiding risk:

Some financial products or services carry risks and financing company should clearly explain these to customer. Customer shall not purchase a product or service where he feels that the risks do not suit financial situation.

7. Apply for products and/or services that meet your needs:

When making a request for a product or service, you should make sure that it suits your needs. You should disclose all financial obligations with all parties.

8. Report unauthorized transactions:

Upon discovering unknown transactions on his account, the customer must inform the finance company immediately.

9. Do not disclose your banking information:

Under no circumstances should you provide any details on sensitive personal to any other party.

10. Update your information:

You should keep your personal information updated, including contact information, and when so requested by the finanacin company.

11. Customer Address:

The customer must provide the finance company with the national address, e-mail and contact numbers when requested by the finance company.

12. Power of Attorney:

Be careful when dealing with Power of Attorney in your financial transactions.

13. Review all information:

Review all of your information you provided in the forms to ensure no errors are made. The finance company should provide the customer with a copy of the contracts and documents signed by him and keep the same in a safe place.

14. Monthly Repayment:

The customer should commit to repayment of the outstanding monthly installments on due dates without delay. Delay in repaying the installment is deemed a violation of the agreement where additional costs shall be incurred.

15. Financed Asset Maintenance and Responsibilities before Official Authorities:
The customer should maintain the financed asset and assume responsibility before official authorities for any misuse.

2.5.3 Main Obligations of Finance Companies:

This section includes obligations and regulations for financing products or services that support general principles of customer protection.

1. Terms and Conditions:

- Up-to-date terms and conditions for products and services should be provided to customers, through the channels available from the company. Customers should be encouraged to read these terms and conditions prior to start of the relationship.
- The finance company shall include in the terms, conditions and application forms warning statements clearly stating the possible consequences that the consumer may be exposed to when using the financing product or service.
- The finance company shall inform the consumer by guaranteed means of communication of any change in the terms and conditions within at least (30 business days) before making any change.
- The finance company shall allow the consumer to make objection if it does not agree on the change made in the terms and conditions by notifying the finance company of its objection within (10 business days) after receiving the notification of the aforementioned changes by guaranteed means of communication.

2. Fees, Charges and Pricing:

The finance company shall not make any change in fees and commissions consumers should pay after signing the financing agreement, including fees and commissions related to external service providers.

3. Data Protection and Confidentiality:

- Finance companies' employees should sign the consumer information confidentiality form, ensure not to disclose financial and personal information and limit access thereto to authorized persons only.
- The finance company should apply a clear Code of Conduct for employees assigned to roles that include sales and marketing of financing products, follow up and collection of non-performing financing accounts.

4. Advertising and Marketing Communications

- The finance company shall communicate with consumers by using at least two preferred means of communication (e.g., e-mail, registered mail, SMS and telephone).
- The finance company shall ensure that advertisements or promotional materials using promotional prices or introductory prices indicate the expiry date of such prices and offers.
- The finance company shall ensure that advertisements which include abbreviations (e.g., Annual Percentage Rate "APR") are explicitly explained.
- The finance company shall grant the consumer the right on a permanent basis, to refuse receiving such advertisements in easy ways. The finance company shall not send any marketing materials on financing products that contain unsuitable risks for individuals under the age of 18.
- The finance company shall ensure that the advertisement is clear, professional, not misleading and in a clear font including margins. The advertisement should not harm other companies' interests or distort the reputation of the financial sector.
- SAMA will compel a financing company that does not comply with the said conditions to withdraw the advertisement within one business day of notifying the bank to do so.

5. Finance Company Obligations Before or Upon Conclusion of Finance Agreement:

- The finance company shall obtain consumers' necessary information to estimate their needs of financing products and services and shall provide consumers with consultations and advice on choosing the products and services suitable for their needs.
- The finance company shall obtain a request from the consumer by any guaranteed means of communication before granting a new finance.
- The finance company shall, before the conclusion of an agreement, disclose all information related to the requested financing product or service to consumers and provide them with the key terms and conditions (e.g. (Fees, commissions, administrative service costs and annual percentage rate, repayment period of finance, early repayment procedures, finance agreement termination procedures, complaint handling procedures)
- The finance company shall, before the conclusion of the financing agreement, disclose to its consumers any insurance coverage, the beneficiary of such coverage, as well as the procedures of dealing with the financing agreement in case of the death of the consumer who was granted the funding.

- The finance company shall inform the applicant of the reason for rejection by guaranteed communication means within a maximum period of (5 business days), in case the finance company rejected the consumer's application for any financing product or service.
- The finance company shall examine the consumer's credit history after its approval to verify his solvency and it should document that in the financing file. The finance company shall provide the consumer with a copy of the financing agreement and all its appendixes within a period not exceeding (10 business days) after the conclusion of the agreement.

6. Finance Company Obligations After Conclusion of Finance Agreement:

- The finance company shall quarterly provide the consumer with a free transaction statement (electronic or paper) showing the payments made and the remaining payments, if requested by the consumer.
- The finance company shall provide the consumer, upon its request, with a detailed account statement without any delay, including all fees, term cost, costs and all additional charges, in case of default or early repayment of finance.
- The finance company shall issue a clearance letter to the consumer and update its credit record at the Saudi Credit Bureau (SIMAH) when repaying the full amount of funding within a maximum period of (7 business days) form the date of payment.

2.5.4 Consumer Protection in Finance Services:

• In accordance with Article 78 of the Implementing Regulations of the Finance Companies Control Law states that "Finance Agreements must be drawn up on paper or electronically between the Finance Company and the Borrower and each contracting party must receive a copy of the Finance Agreement. The Finance Agreement must include at least the following data and information:

1. Names of the parties of Finance Agreement, No. of ID or Iqama or Borrower's CR, as the case may be, their official addresses, means of contact including mobile numbers and e-mails, if available.
2. Type of finance;
3. Term of the Finance Agreement;
4. Amount of finance;
5. Conditions to drawdown the amount of finance, if any;

6. The description of price determination formula in finance agreements with variable term cost in order to enable the consumer to understand the term cost, and distribute the cost on the fulfillment period;
7. Term cost, the conditions governing the application of the term cost and any index or reference rate applicable to the initially agreed term cost, as well as the periods, conditions and procedures for changing the term cost;
8. Annual Percentage Rate (APR);
9. Total amount payable by the Borrower, calculated at the time of concluding the finance agreement;
10. The amount of Installments payable by the Borrower and their number and duration, and the method of distributing them on the remaining amounts, in case of fixed Term Cost. Three examples of Installments amount in consideration to the preliminary Term Cost and two higher and lower costs in case of variable Term Cost.
11. Fees, commissions and costs of administrative services;
12. The payment periods of fees or funds that need to be paid without repaying the finance amount, and terms of such payment.
13. Implications of the delayed Installments payment;
14. Documentation fees, if necessary,
15. Necessary guaranty and insurance;
16. Account number for depositing Finance Installments and the name of the bank.
17. Right of withdrawal procedures, if any, and its conditions and the financial obligations of its practice;
18. The procedures of early repayment and indemnity procedures for the Finance Company, if applicable, and the method for determining such indemnity;
19. Procedures for dealing with collaterals in case of decreasing, if any,
20. Procedure to be followed in exercising the right of termination of the Finance Agreement;
21. The Borrower's permission to insert his information in the credit record;
22. Any data or information stipulated by SAMA."

- The Finance Company must inform the Borrower in writing of any change in the Term Cost before the change enters into force in the duration of no less than two months, if the Finance Agreement allows such change. The Company must also inform the Borrower of the amount of Installments to be paid under the new Term Cost and the details concerning the number of Installments or their duration if changed.

- All fees, commissions and administrative services charges to be recovered from the Borrower by the Finance Company shall not exceed the equivalent of (1%) of the Amount of Finance or (SAR 5,000) five thousand Saudi riyals whichever is less.
- The Borrower may accelerate the payment of the rest of the Amount of Finance, at any time, and he may not pay the Term Cost of the remaining period. The Finance Company may be compensated for the following:

- The cost of re-investment, but not exceeding the Term Cost for the following three months of payments, calculated on the basis of the declining balance;
- Payments from the Finance Company to a third party due to the Finance Agreement of expenses stipulated therein, if they are irrecoverable expenses, for the remaining term of the Finance Agreement.

The real estate Finance Agreement may stipulate a period of time which early payment is prohibited, provided that it does not exceed two years from the date of concluding the real estate Finance Agreement.

- The Finance Company shall establish a function and designate staff to address complaints, and put in place clear procedures for receiving, documenting, studying, and responding to Borrowers' complaints within a period not exceeding (10) business days from the date of receiving the complaint.
- The Finance Company shall take all necessary measures to ensure confidentiality of clients' information and transactions. The Finance Company's employees are prohibited from disclosing any information about the Company's clients and transactions obtained through their work, even after leaving the Finance Company

2.5.5 Errors and Complaints:

1. Errors:

- The financing company shall return the sum due to an error to the affected customer's account immediately and without delay.
- The finance company should process any errors to the consumer, when the finance company discovers the error or has been notified of any errors occurred as a result of filing a complaint or claim. The company should complete this procedure within (60 business days) starting from the date of determining the original error.

2. Complaints:

The finance company shall place a mechanism for filing a complaint, and provide consumers with a copy thereof as well as complaint escalation procedures. Upon receiving consumers' complaints, the finance company must do the following:

• Notify the consumer by guaranteed means of communication of receiving the complaint and inform him/her of the missing materials (if any) within (5 business days).
• Provide the consumer with a complaint number and contact to follow-up the developments of the complaint.
• Respond with the results to the consumer within a period not exceeding (10 business days) from receiving the complete complaint.
• Document the communication channel used for the complaint and keep its records.

2.6 Principles of Responsible Financing for Individual Customers:

Learning Objective:



Getting familiar with the qualitative and quantitative of responsible lending principles for individual customers.

SAMA issued "principles of Responsible Financing to individuals" dated 02/09/1439 AH that aims at encouraging responsible financing that meets the actual requirements of clients, particularly those related to obtaining housing and assets rather than consumable items. It also aims at enhancing the financial integration through the provision of the suitable financing for all categories of the society and consider the deductibles within the range that the client can tolerate. These principles also aim at guaranteeing the fairness and competitiveness among financiers while maintaining the effectiveness of procedures and mechanisms adopted by them and ensuring their efficiency.

2.6.1 Qualitative Principles of Responsible Financing

- The financier shall adopt a scientific approach and clear transparent and written standards to evaluate credit worthiness of the client and his capability of repayment. The board of directors of the financier shall approve these standards and procedures, revise them annually and update them when needed.
- The financier shall examine the credit record of the client after his approval, in order to verify his financial solvency and his ability to sustain the monthly credit obligations and his credit behavior and shall endorse the same in the financing file. The evaluation of the ability of enduring the monthly credit obligation basically depend on evaluation of the net monthly income available for the client that can be used in meeting his monthly credit obligations.

- The financier shall use financial forms and tools to measure the ability to tolerate monthly credit obligations and extent of the appropriateness of the financing to needs and circumstances of the client.

Such types of forms are based on the basic expenditure's customary to the various categories of clients. Further, the company shall verify the existing monthly credit obligations through licensed credit bureaus.

2.6.2 Quantitative Principles of Responsible Financing:

- The conditions for compliance with the calculation of the monthly credit obligations of the client shall be adhered to as follows:

  - The monthly credit obligation for the credit card shall be equal to the minimum limit of the repayment of the credit ceiling for each credit card issued for the client.
  - The monthly credit obligations shall include all the credit obligations towards the financiers and the specialized government lending institutions as well as any other credit obligations.
  - Before granting the changing credit cost financing, the financier shall add an assumed margin on the credit cost upon granting the financing when calculating the monthly credit obligations for this financing, in order to confront risks of change in the credit cost.
  - The monthly credit obligations for financing wherein all the instalments are not equal and calculated by the assumption that the monthly instalment is fixed at the monthly average level of all instalments, regardless whether the financing is payable through equal instalments or requires payment of a final payment.

- The conditions of calculating the total monthly income of the client in the following manner shall be complied with:

  - Shall be calculated within the total salary which shall be documented through any means by the employer.
  - From the other income, half of the monthly average of amounts obtained by the person from any income source whether being monthly, annual or other periodical period, which can be verified based on the statement of account of the client for at least two years or by virtue of official documents proving their continuity.
  - Governmental subsidies obtained by the client such as citizen account program or social security may not be calculated within the total monthly income of the client, however, the governmental subsidies provided by the Ministry of Housing or the Real Estate Development Fund may be calculated within the total monthly income of the client for the real estate financing products.

• Deductible ratios for consumers depending on their total monthly income must be subject to the following restrictions:

Restrictions:	Total Monthly Income Less or equal to SAR 15,000	Total Monthly Income Greater than SAR 15,000 and less than SAR 25,000	Total Monthly Income Greater or equal to SAR 25,000
1. The monthly credit obligations resulting from the financing and associated only with the monthly deduction	33.33% from the total salary of the client	33.33% from the total salary of the client	33.33% from the total salary of the client
and the retired	25% from the total salary of the client	25% from the total salary of the client	25% from the total salary of the client
2. The monthly credit obligations other than the monthly credit obligations resulting from the real estate financing shall not exceed	45% of the total monthly income of the client.	45% of the total monthly income of the client.	The monthly credit obligations resulting from finance are subject to the policies of the credit finance company. The company must assess ability of its customers to sustain monthly credit obligations in accordance with these principles.
3. The monthly credit obligations resulting from the financing shall not exceed	55% of the total monthly income of the client. However, in the case of real estate finance clients who benefit from the Ministry of Housing or the Real Estate Development Fund, The monthly credit obligations resulting from the financing shall not exceed 65% of the total monthly income of the client.	65% of the total monthly income of the client.	

- The term of financing shall not exceed 5 years or 60 months as of the date of financing, excluding the real estate financing and credit cards.
- SAMA may review and amend periodically the ratios mentioned above, taking into account the soundness and stability of the financial system and the forecasts for economic growth.

2.7 Debt Collection Regulations and Procedures for Individual Customers:

Learning Objective



Getting familiar with debt collection regulations and procedures for individual customers.

Debt Collection Regulations and Procedures for Individual Customers issued by SAMA on Rajab 1438 AH aim at governing the mechanism of debt collection and communication with retail consumers and their guarantors in a manner that enables creditors to follow clear and specific procedures while protecting the rights of all relevant parties. According to such Regulations, some terms can be defined as follows:

- Individual Customers: Any natural person who obtains financing from a creditor.
- Creditor: Banks and finance companies supervised by SAMA.
- Debt Collection: The process of collecting amounts payable by a retail consumer on due dates by a creditor.
- Default: The non-payment of a retail consumer of the monthly installments agreed upon in the finance contract for three consecutive months or more than five separate months throughout the finance period.
- Third Party: An entity contracted by a creditor to provide, on its behalf, any services which used to be provided by the said creditor or to provide a new service to be launched. Such entity can act as a unit or subsidiary of the creditor or operate independently.
- Complaint: Any expression, written or verbal, entailing dissatisfaction with the provided services, whether such dissatisfaction is justified or not.
- Authenticated Communication: A recorded, verifiable means of communication that can be retrieved in written or electronic format.
- Compelling Change in Circumstances: Any event that causes an uncontrollable change in a retail consumer's circumstances, including without limitation: the inability

to work (partially or totally), retirement (compulsory), and loss of a job or some fixed allowances given to employees by employers monthly.

• Voluntary Change in Circumstances: Any event that causes a change in the circumstances of a retail consumer on their own volition, including without limitation: Retirement (voluntary) and change of jobs.

• Guarantor: Any natural or juristic person who guarantees or promises to guarantee the fulfillment of any financing extended to a retail consumer, according to a written acknowledgement, in the event that they become unable to do so.

• Solidarity: Two or more persons purchase a property through a solidarity contract, and installments are due in equal or unequal proportions as agreed upon.

2.7.1 Controls of Communication with Retail Customers:

A creditor must apply due diligence when communicating with a retail consumer before seeking recourse in competent judicial authorities, while observing the following:

1. Authenticated means of communication that a creditor has the right to use when communicating with a consumer or their guarantor are limited to:
   - E-mail.
   - National address.
   - SMS messages.
   - Phone calls.

2. The communication message must include at minimum:
   - The creditor's name and the department concerned with the collection of defaulted payments.
   - Working hours of the concerned department and/or the third party.
   - Name of the employee, the creditor and/or the third party if a consumer is contacted through a phone call.

3. A creditor must commit to the following:
   - The number of attempts to contact a consumer through their phone number must not exceed ten attempts within a period of 30 days. The retail consumer should have the ability to call back the same number used by the creditor in attempting to reach them.
   - All phone calls received from or made to a retail consumer must be documented and records thereof should be maintained for no less than ten years from the date of the phone call. A retail consumer must be notified at the beginning of the phone

call that it is recorded.

- A retail consumer should be able to rate their satisfaction at the end of the phone call (incoming and outgoing), which must also be documented electronically.
- There must be standards in place to ensure that employees provide consumers with correct information with the utmost professionalism regarding their current default status and the legal actions to which a creditor is entitled to pursue.
- A retail consumer must not be reached through envelopes with phrases indicating that the content is information on debt collection or similar.
- A retail consumer's financial and personal information should be protected, kept confidential, and not be used except for specific professional and legal purposes with the prior consent of the retail consumer.

4.In the event that a retail consumer objects to the due amount of payment, a creditor shall:

- Document such objection, and submit a complaint of the retail consumer as per SAMA's instruction in this regard.
- Provide the retail consumer with the estimated period for resolution of their complaint, provided that it does not exceed the statutory period set for resolution of complaints.
- Not communicate with the retail consumer to remind them of defaulted payments until the complaint has been resolved.
- Advise the retail consumer of the escalation mechanism in place and direct them to the relevant entity in the case of dissatisfaction with the result of resolution and desire to escalate the complaint.
- Develop a policy for the analysis of complaints and objections, along with their patterns, to address their root causes.
- Develop work procedures with relevant departments that cover service level agreements and escalation mechanisms to ensure that retail consumers' objections and complaints are resolved within the statutory period, provided that the mechanism is documented electronically.

5. The department concerned with debt collection and communication and/or the third party must be subject to review and audit by both the internal audit and the compliance departments at the finance company on an ongoing basis in order to ensure the soundness of procedures followed and their conformity with relevant regulations and instructions.

2.7.2 Debt Collection Procedures:

1. As a creditor, a bank must not:

- Deduct any amounts from a retail consumer's accounts without a judicial order or ruling or without the retail consumer's prior consent, or if provided otherwise in the finance contract.
- Block accounts or balances of a retail consumer, even if temporarily, without a judicial order or ruling.
- Deduct more than one monthly installment for each loan within a single pay cycle, unless there is a judicial order or ruling or prior consent is obtained from the retail consumer.
- Deduct or withhold a monthly installment before the due date agreed upon.
- Withhold or deduct end-of-service gratuities payable to retail consumers, unless a judicial order or ruling was issued in this regard.

2. A creditor must set the date of deduction in accordance with the monthly payday, provided that such date is specified in the payment schedule or as may be agreed upon with the retail consumer through any of the authenticated communication means.

3. A creditor must deduct the monthly installment on the agreed date of deduction. If it is proved that a creditor does not comply with the agreed date of deduction, they shall extend the finance period by a similar term to be added at the end of the period, without any term cost or additional fees, and notify the retail consumer of the same through authenticated communication means.

4. A bank, as per requested by a retail consumer, must reschedule the debt when a compelling change in the circumstances of the retail consumer is proved, without granting any new loan, charging extra fees or changing the term cost. A bank must carry out the rescheduling within a period not exceeding 30 days from the date the individual customer is provided with the necessary documents. This excludes asset-backed finance contracts.

5. A bank, as requested by a retail consumer, must reschedule the debt in the case that voluntary changes in a retail consumer's circumstances are proved, with the potentiality to change the term cost without charging additional fees. Debt rescheduling must be carried out within a period not more than 30 days from the date the necessary documents are supplied by the individual customer. This excludes asset-backed finance contracts.

2.7.3 Procedures for Dealing with Defaulting Consumers:

1. A creditor must be entitled to take legal actions against any defaulting retail consumer at the competent judicial authorities, and such retail consumer must be notified in the event of default for more than three consecutive months or five separate months throughout the finance period.

2. Upon the issuance of a judicial order or ruling against a defaulting retail consumer, a creditor must comply with the said order or ruling, unless both parties (creditor and retail consumer) agree otherwise (for example without limitation, settlement of debt between both parties, debt rescheduling, etc.).

3. A creditor must take in to consideration the circumstances of any defaulting individual customer that was issued an enforceable judicial ruling against them in favor of the creditor, when providing the necessary guarantees by making available the option of debt rescheduling, with the potentiality to change the term cost without charging additional fees.

4. For a contract concluded on 01/10/2018, a creditor must exempt the individual customer from payment of the amounts due under the finance contract in the event of death or total disability. Such exemption shall come into effect, at most 30 days from the date of receipt of the relevant documents. This excludes commercial finance contracts and cases of death or total disability arising from:

- Deliberate self-injury or suicide attempt.
- Natural disasters.
- Rulings issued by courts or competent judicial authorities.
- Consumption of alcohol, narcotics or illegal drugs.
- Participation, or training to participate, in dangerous sports or competitions such as horse or car racing.
- Job-related death or injury.
- Damage directly or indirectly caused by nuclear weapons, ionizing radiations, war, invasion, acts of foreign enemy, hostilities, warlike acts, or acts of vandalism and terrorism committed by person(s) working individually, on behalf of, or in relation with any terrorist organization.

5. A creditor must not impose delay penalties or debt collection fees in excess of the amount due as they should, at most, equal the value of a single installment throughout the finance period.

6. A creditor must ensure that a retail consumer fully understands the potential risks on non-compliance with the terms and conditions pertaining to finance products.

7. Before offering a finance product, a creditor must evaluate the creditworthiness of the retail consumer and ascertain their ability to fulfil their payment obligations throughout the contract period. Such creditor must also take into account the retail consumer's ability to make the final payment, if covered in the finance contract, in addition to potential changes to their credit status (e.g. voluntary / compulsory retirement, unstable allowances).

2.8 Governance of Financial Institutions and Finance Companies:

Learning Objective



Getting familiar with the principles and practices of governance of financial institutions operating in the Kingdom of Saudi Arabia.
The role of SAMA and CMA in promoting the public parties for effective governance of the financial sectors in KSA.

SAMA has issued Principles of Corporate Governance for Banks Operating in Saudi Arabia in accordance with the internationally recognized best practices, which can be used as a guide to clarify foundations of corporate governance to be adopted in finance companies. The members of the Board of Directors of any financial institution must apply such Principles, in addition to understanding the related risks. They should ensure that capital adequacy ratios and provisions are commensurate with the size of risks and levels of liquidity and lending, thereby maintaining rights of depositors, shareholders and other stakeholders.

2.8.1 Importance and Benefits of Governance of Financial Institutions:

Corporate governance has become one of the most important concerns in the business world. Corporate governance is a key element in improving economic efficiency and growth, as well as enhancing investor confidence. Corporate governance involves a set of relationships between company management and its Board of Directors, shareholders and other stakeholders. Corporate governance is concerned with the way in which business and affairs of financial institutions are managed by Board of Directors and senior

management, particularly regarding the following:

- Setting the finance company's objectives.
- Maintaining the interests of clients, shareholders and investors.
- Promoting disclosure and transparency.
- Non-conflict of the finance company's activities with the rules, regulations and instructions of the supervisory and regulatory authorities.

2.8.2 Governance of Finance Companies:

According to the Finance Companies Control Law and its Implementing Regulations, finance companies must comply with the corporate governance rules set by SAMA. The finance company shall develop an internal corporate governance rules and implement specific regulations for corporate governance and provide SAMA with a copy thereof. The corporate governance code shall at least address the following:

- Description of the organizational structure, including all departments and functions along with their tasks and responsibilities;
- Independence and separation of duties;
- Roles of the Board, its committees, and composition and duties of each.
- Remuneration and compensation policies;
- Conflict of interest controls;
- Integrity and transparency controls;
- Compliance with applicable laws and regulations;
- Methods for securing confidentiality of information;
- Fair dealing;
- Rules for maintaining company's assets.

• According to Article (16) of Finance Companies Control Law, a finance company board member shall:

1. Not be a board member in another finance company;
2. Not combine the duty of monitoring finance companies or auditing their accounts with membership in board of directors in the same company;
3. Not have been dismissed, as a disciplinary action, from a senior executive position in a finance institution;
4. Not have been declared bankrupt, or entered into a protective settlement of bankruptcy with any creditor.
5. Have sufficient financial solvency, and have not breached any financial obligation towards its creditors, or committed any act indicating its failure

6. Not be convicted of any crime impinging on integrity, unless rehabilitated and a period of no less than ten years has passed since he have been previously convicted of a crime involving breach of trust and dishonesty. It is required to obtain a non-objection letter from SAMA thereupon.

- Any candidate for a senior management position in the finance company must comply with the requirements of professional eligibility and fit and proper requirements stipulated by SAMA. In particular the following:

1. He must be permanently resident in the Kingdom of Saudi Arabia;
2. He must be professionally qualified and must have at least five years of relevant experience. SAMA has the right to assess the candidate's completion of such period of experience.
3. He must not have been dismissed from a previous job as disciplinary measure;
4. He must have not been convicted of a violation of any of the provisions of a criminal law, the Banking Control Law, the Capital Market Law, the Co-operative Insurance Companies Control Law or its regulations, the Finance Laws or its Regulations, or any other laws or regulations inside or outside the Kingdom of Saudi Arabia;
5. Not have been declared bankrupt, or entered into a protective settlement of bankruptcy with any creditor.
6. He must not have been sentenced of a breach of any trust offence, unless rehabilitated and at least 10 years have passed since the sanction for this offence has been completed and on condition that he receives a no objection letter from SAMA;
7. He must have the sufficient financial solvency, and shall not have breached any financial obligations towards his creditors nor there is an indication that he cannot continuously comply with his financial obligations towards his creditors.

- The Board must form specialized committees to expand the scope of work in the areas requiring special expertise, including at least an audit committee and a risk management and credit committee. The Board shall grant those committees the necessary powers to perform their work and monitor their performance.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1- Explain the concept of compliance in financial institutions and finance companies?
Answer reference: Section 1.1.2

2- “Compliance function in finance companies is one of the foundations and factors for their success.” Explain that, including the role that a compliance function plays in maintaining reputation of finance companies as well as interests of customers and shareholders.
Answer reference: Section 2.1.2

3- Briefly explain risks of non-compliance and its impact on finance company?
Answer reference: Section 2.1.4

4- What are the principles that must be adhered to when establishing a compliance department for a finance company?
Answer reference: Section 2.2.1

5- Explain the role of compliance officer to ensure application of compliance rules?
Answer reference: 2.3.2

6- List the responsibilities of the Board of Directors and the Executive Management regarding compliance?
Answer reference: Sections 2.4.1 and 2.4.2

7- Explain how to draft a compliance report and to identify, measure, evaluate and monitor risks of non-compliance in finance companies?
Answer reference: Section 2.3.3

8- Mention the general principles of protecting clients of finance companies?
Answer reference: Section 2.5.1

9- Mention the data and information that must be included in finance contract as a minimum?
Answer reference: Section 2.5.4

10- Mention the qualitative and quantitative of responsible lending principles for individual customers?
Answer reference: Section 2.6

Revision questions:

Answer the following questions and check your answer in the corresponding section:

11- Explain what is meant by mutual responsibilities in finance companies?
Answer reference: Section 2.5.2

12- Briefly explain the main principles of governance in financial institutions?
Answer reference: Section 2.6.2

Chapter Three

Anti-Money Laundering and Combating Terrorism Financing and Fraud within Finance Companies

This part of book accounts for approximately 8 of the 50 questions of the exam.



3 - Introduction:

This chapter outlines the issue of money laundering and terrorist financing as one of the key issues that pose a real threat to financial ecosystem and finance companies, given the increase in crime rates and funds generated thereof. The chapter also identifies the concept, types, and methods of combating fraud in finance companies.

3.1 Basic Characteristics of Financial Crimes:

Learning Objective

Getting familiar with and requirements to combat financial crimes (money laundering, terrorist financing, fraud, corruption and bribery). Getting familiar with the standard controls used by national and international financial services organizations to detect financial crimes, as well as the common ways to mitigate effects of such crimes.

3.1.1 Definition of Financial Crimes:

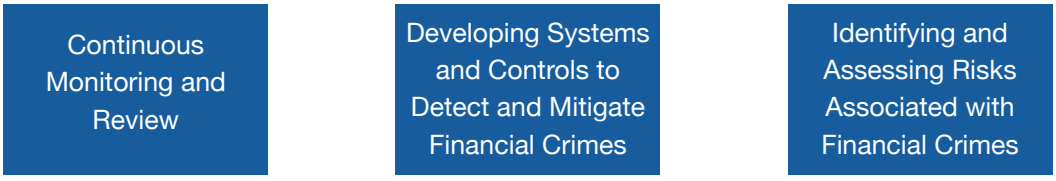
There is no single internationally agreed upon definition of financial crime, and the term is defined differently in various countries. In some contexts, it is widely defined as any crime that results in financial loss, but it is more common to refer to crimes that have a special connection with the financial sector, for example:



The finance company must set policies and procedures related to combating financial crimes, and in particular money laundering, terrorist financing and fraud, due to its great risks to the company

3.1.2 Detecting and Mitigating the Impact of Financial Crimes:

The process of detecting and mitigating the impact of financial crimes can be described in different ways, but it requires some key elements:



1. Identifying and Assessing Risks Associated with Financial Crimes:

Assessing risks raised by financial crime is the starting point for developing an effective set of measures to detect and mitigate such crimes. In fact, the need for a "risk-based approach" is the first recommendation of the International Financial Action Task Force (FATF), while the need for risk assessment in relation to financial crime applies not only to governments, but also to individual finance companies, as it also has limited resources to devote against financial crime.

2. Developing Systems and Controls to Detect and Mitigate Financial Crimes:

After conducting a comprehensive risk assessment, the company can then develop and implement a set of systems and controls in order to detect and mitigate financial crimes. The exact form of such measures will vary from company to another, for example:

- Financial Crime Prevention Policy: The company's policy to prevent financial crimes is an important component of its risk-based response to such crimes. Such policy will set out the company's overall approach to financial crime prevention.
- Customer Due Diligence: Customer due diligence is commonly known as 'Know Your Customer', as a company must know its customers, not only in terms of registering their identity but also understanding the customer's normal circumstances and patterns of transactions. Application of customer due diligence procedures is a key factor in mitigating risk of financial crime.
- Training and Communication: Employees must have a comprehensive understanding of the procedures related to financial crime prevention, and implied rationale. Therefore, an adequate and appropriate training program for employees must be developed and continuously updated to keep pace with new methods of financial crime.

3. Continuous Monitoring and Review:

It stands to reason that financial crime risk does not involve the same techniques over time, but rather evolves over time. Criminals always tend to use new methods by taking

advantage of technological development, and exploit weaknesses in systems and controls. Therefore, continuous monitoring of changes in types of financial crimes that the company is exposed to is a key and crucial element. In addition, companies need to review the adequacy and effectiveness of the adopted systems and controls to address financial crime risks.

2.3 Money Laundering Operations:

Learning Objective



Understanding the nature of money laundering operations, stages, risks and methods of combating them in financial institutions.

3.2.1 Definition of Money Laundering:

Article (1) of Money Laundering Law issued by SAMA defines money laundering as:
"The commission or attempt to commit any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source".

The Law defines Funds as: Assets, economic resources or properties of any value or type, however acquired, whether material or immaterial, tangible or intangible, movable or immovable, along with documents, deeds, instruments, transfers and letter of credits and of any form. This includes electronic or digital systems.

This law defines proceeds of crime as: The funds directly or indirectly obtained or acquired from or through the commission of a crime punishable in accordance with Shariah or laws in the Kingdom, whether inside or outside the Kingdom, including any funds transferred or converted wholly or partially into properties or investment proceeds.

Financial Institution (FI): Any KSA-located establishment conducts one or more of the financial activities or transactions. The Implementing Regulations of this Law specifies financial activities carried out by this establishment for the benefit of or on behalf of a customer.

In accordance with Article (2) of Saudi AML Law, it shall be considered to have committed a money laundering offence who conduct any of the following acts:

1. Converts, transfers or conducts any transaction on funds that the person knows being proceeds of crime or from illegitimate or illegal source;
2. Acquires, possesses or uses funds that the person knows are proceeds of crime or from illegal source;

3. Conceals or disguises the true nature, source, movement, ownership, place, or manner of disposition of funds or proceeds that the person knows being proceeds of crime or illegal or illegitimate source;

4. Participation by means of agreement, or providing assistance, or abetting, or providing counseling, advice, or facilitation, or collusion, cover-up or the attempt to commit any of the acts provided for in this Article.

According to Article 3 of Anti-Money Laundering Law, the legal person (establishment) shall be criminally liable for money laundering if any of abovementioned acts were committed. Criminal liability of a legal person shall not exclude criminal liability of FI and NFI's chairmen, members of boards of directors, owners, employees, auditors or any other natural person who acted in the name or for the credit of the legal person.

Examples of criminal activities considered as ML:

– Crimes provided for in the implementing regulations of United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.

– Organized crimes provided for in United Nations Convention against Transnational Organized Crime (Palermo Convention) issued in December 2000.

– Crimes provided for in International Convention for the Suppression of the Financing of Terrorism of 1999.

– Smuggling, manufacturing, trafficking or promotion of intoxicants.

– Currency forgery and counterfeit crimes, stipulated in the Anti-Forgery Law.

– Smuggling, manufacturing or trafficking of weapons, ammunition or explosives.

– Crimes provided for in United Nations Convention against Trafficking in Persons.

– Crimes of bribery, fraud and embezzlement of public funds belonging to government agencies.

– Illegal practice of banking business as provided for in Article 2 of Banking Control Law.

– Customs smuggling provided for in Common Customs Law of the GCC States.

3.2.2 Objectives of Money Laundering Processes:

By laundering funds acquired in an illegal way, criminals aimed at:

– Changing original nature of these funds.

– Making it more difficult to know source of funds.

– Making it more difficult for Security Authorities to track such funds.

– Re-utilizing such funds to make them seem as legitimate and acquired from legal source.

– Reintegrating and investing such funds in legitimate economic business.

3.2.3 Stages of Money Laundering Processes:

ML often involves a series of operations that are usually difficult to separate from each other. However, ML operations usually go through three stages as follows:



Stage 1: Placement

This stage is confined to placing funds acquired from an illicit source into the financial system, usually through banks and money exchange and transfer centers. This is realized through cash deposits, securities-for-cash purchases, currency exchange, insurance contracts purchase, check exchange, retail (by way of cash purchases) and smuggling of cash among countries. This stage may include the following procedures or processes:

– Fragmenting a large amount into smaller amounts and depositing them directly into bank accounts.

– Transferring cash across borders and depositing it in foreign financial institutions or using it to purchase expensive goods, e.g. (high-value artworks, antiques and precious stones) that can be resold against checks or bank transfer.

– Establishing cash-based businesses and using them as a cover for dealing in illegal funds.

Stage 2: Layering

Layering is the stage of concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed. These transactions are often a complex series of movements that transfer funds across several countries, making it difficult to identify the original source of funds. This stage consists of a set of processes, such as:

– Bank transfers of funds from one account to another, sometimes from or to other financial institutions or other jurisdictions.

– Transfer of deposited cash into monetary instruments (e.g. traveler's cheques, resale of valuable goods and prepaid products, investment in real estate and legitimate business).

– Placing money into investments e.g. stocks, bonds, or life insurance; with the aim of hiding or concealing the ownership of assets.

– Using shell companies or other entities. Using fake banks and e-transfers.

– Wire transfers, including cross-country payments.

– Opening multiple current and deposit accounts and move funds between them.

Stage 3: Integration

Integration is the final stage of Money Laundering processes, whereby laundered money is integrated back into the legitimate economic system, making it appear to be legitimate assets.

– Utilizing laundered money in seemingly normal operations to suggest the legitimacy of such money, for example: A money launderer may choose to invest his money in real estate, financial projects, or luxury related assets.

– In integration, it becomes more difficult to distinguish between legitimate and illegitimate wealth, with a favorable opportunity for a money launderer to increase his wealth gained from crime and illegal sources.

– In general, it is difficult to determine the integration of illicit funds into the normal economic cycle unless there is a clear discrepancy between the volume of employment and business or investments of person or company and wealth, assets and income of such person or company - early cancellation of insurance policies or recovery of payments related to a particular investment.

– Placing real estate purchased with illegal money as collateral for loans.

3.2.4 Risks of ML Operations:

Learning Objective



To be familiar with ML Risks and Negative Effects.

1. Economic Effects:

- **Economic Distortion and Instability:**

  – A money launderer usually invests his money in activities that are not necessarily of economic benefit to the country in which money is placed, as their goal is to hide the source of money, not profit.

  – Economic growth is also affected if such funds are invested in entire sectors for short-term interests and then abandoned, causing the collapse of those sectors and damage of economy.

- **Higher Inflation Rate:**

ML contributes to an increase in the general level of prices or inflation in aggregate demand in society accompanied by a deterioration in purchasing power of money. Due to ML processes and associated movement of funds through multiple banks worldwide, it leads or contributes significantly to the expansion of international liquidity, and therefore can result in inflationary pressures, and can lead to a widening of the gap between

supply and demand of goods and services, and it is also difficult to overcome or narrow them down.

- **Lower National Income:**

ML operations have a negative impact on the distribution of national income because the source of such money is usually illegal. The flight of funds outside borders also increases tax burden on individuals with legitimate incomes, because the state is forced to impose new taxes or increase current tax rate to fill the shortfall caused by such flight of funds, which means increasing burdens on those with legitimate incomes in society.

- Price Fluctuations in Stock Markets and Disreputation of Financial Markets:

In the event that illegal money to be laundered enters the stock market, it is bought and sold at speculative prices away from the real market prices of stocks, which leads to fluctuation and instability of financial markets, and is reflected in destabilization of confidence in the financial markets.

2. Social Effects:

- **Higher Unemployment Rates:**

Ml operations are closely related to the spread of unemployment in society; The smuggling of funds abroad through banking and other channels and their laundering leads to the transfer of part of national income to other countries, and then the countries from which the capital transferred are unable to spend on investments necessary to provide job opportunities for citizens, and thus face the risk of unemployment.

- **Lower Standard of Living:**

ML operations affect the distribution of income on members of society, increase poor people, widen the gap between them and the rich, causing shrinking of the middle class, which leads to negative social effects as a result of poor income distribution, which leads to an imbalance in the social structure and exacerbates the problem of poverty and a low standard of living.

- **Higher Crime and Corruption Rate:**

  – Weakening of financial institutions (Collapse of the European Union Bank, the Bank of Credit and Commerce scandal, collapse of Barings Bank in 1995).

  – Risks to state's reputation (Limiting global legitimate opportunities, depriving state of donor support).

  – Corruption of society morals (Drugs, prostitution, bribery, illegal arms trafficking, etc.), and thus raising social costs (Treatment of addicts, etc.).

- **Emergence of ML-Specialized Gangs:**

The spread of ML operations in a specific area leads to formation of a specialized criminal gang that produces other gangs and buys and recruits the weak-spirited. This could lead to formation of a criminal organization that destabilizes security and tranquility and increases the crime rate in general.

3. ML Political Risk

- **Breaching and Corrupting Government Structures:**

This illegally acquired money may also affect the political structure and its representatives, especially in countries with economic and political instability, where it finances electoral propaganda aimed at taking over parliamentary functions, which pushes money launderers to parliaments whose main job is to lay down legislation and monitor government actions. They influence the work of such councils to serve their interests, and gain parliamentary immunity, so they are safe from criminal accountability.

3.2.5 Penalties for ML Offenses:

- Article (25) of the Anti-Money Laundering Law stipulates that:

Without prejudice to any stricter sanctions and subject to the procedures provided for in other laws, if the supervisory authority finds that FIs, DNFBPs, and NPOs or any of their directors, board members, executive or supervisory management members failed to comply with any provision of this Law, its Implementing Regulation or relevant decisions or circulars, or any violation referred from other competent authority, the supervisory authority may impose one or more of the following measures:

1. Issue a written warning;
2. Issue an order to comply with a specific instruction;
3. Issue an order to provide regular reports on the measures taken to address the identified violation;
4. Impose a monetary fine of up to SAR 5.000.000 per violation;
5. Ban individuals from employment within the sectors for which the supervisory authority has competences for a period to be determined by the supervisory authority;
6. Restrict the powers of directors, board members, executive or supervisory management members, and controlling owners, including appointing one or more temporary controllers;
7. Dismiss or replace the directors, members of the Board of Directors or of executive or supervisory management;

8. Suspend, restrict or prohibit the continuation of the activity, business or profession or of certain business activities or products;

9. Suspend, restrict or revoke the license; the supervisory authority should inform the General Director of Financial Intelligence about the actions taken or imposed sanction.

• Article (26) of the Law states that "Whoever committing a crime of money laundering shall be subject to imprisonment for a period up to ten years and no less than two years, as well as a fine not exceeding five million riyals or both".

• Article (31) of the Law states that "...any legal person that commits a money laundering offense shall be punished by a fine of no more than 50 million riyals and no less than the equivalent of the double of full value of the funds that were the objects of the offense... A legal person may also be prohibited permanently or temporarily from engaging in certain licensed activities... or an order be made to liquidate the business."

3.3 Terrorist Financing Processes:

Learning Objective

Getting familiar with the nature, stages and risks of terrorist financing operations and difference between terrorist financing and money laundering

3.3.1 Definition of Terrorist Financing:

Anti-Money Laundering Law defines terrorist financing crime as follows:

Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, from a legitimate or illicit source, or to engage in any banking, financial or commercial transaction in favor of such activity or involved individuals, or obtain, directly or through an intermediary, funds for its use, advocacy and promotion of its principles, to secure training places, shelter and provide involved individuals with any kind of weapons or counterfeited documents, or to provide any other means of support and financing intentionally. Furthermore, any act that constitutes a crime subject to the International Convention for the Suppression of the Financing of Terrorism.

3.3.2 Stages of Terrorism Financing:

Typically, TF operations go through three stages, as follows:

1. Collection of funds:

Collect funds to support and finance terrorist operations or persons to carry out terrorist acts. At this stage, charities and non-profit organizations may be abused by terrorists to collect and launder funds destined for terrorism.

2. Transfer of funds:

Transfer of funds to terrorists within or outside the fund collection area. At this stage, banks, finance companies, or the alternative transfer method may be used to move funds across borders....etc.

3. Use of funds:

Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training...etc.

3.3.3 Why terrorist Financing is dangerous:

– It contradicts with the principles of religion, customs, and the values of truth and goodness.

– Security destabilization that may lead to mass destruction.

– Displacement and political asylum, economic sabotage and impeding economic growth.

– Inciting strifes between sects (religious, tribal, partisan, etc.)

– Spread of murder and violence and increased crime rates.

3.3.4 CTF Requirements:

In accordance with the Law of Combating Crimes of Terrorism and its Financing, financial institutions and non-profit organizations shall:

• Identify and understand its terrorist financing risks, assess, document and update them regularly, and provide their assessment of risks to the competent regulatory authorities upon request.

• Apply due diligence measures, and define their scope based on the level of terrorist financing risks associated with customers and business relationships, and they shall also have in place strict customer due diligence measures in cases of high terrorist

financing risks. Particularly, they are required to:

– Maintain all records, documents, papers and data, including customer due diligence measures documents for all financial, commercial and monetary transactions, whether local or foreign, for a period of no less than ten years from the end of the transaction or closing of the account.

– The Public Prosecution may, where it deems necessary, require financial institutions to extend the period of retention of records, documents, papers and data to the extent necessary for the purposes of criminal investigation or prosecution.

– The records and documents maintained shall be sufficient to allow analyzing data and tracking financial transactions, and shall be kept and made available to the competent authorities upon request.

• Apply enhanced due diligence to business relationships and transactions with any person who comes from or resides in a country that has been identified as a high-risk country by the financial institution or by the Permanent Committee for Combating Terrorism and its Financing. Financial institutions shall follow measures that mitigate high risks identified by regulatory authorities.

• Develop and effectively implement policies, procedures and controls to combat the terrorist financing in order to manage and reduce any identified risks.

3.4 KSA's AML/CTF Initiatives:

The past few years have seen rapid and far-reaching developments in the financial sector involving a comprehensive and coordinated fight against money laundering and terrorist financing. Consequently, KSA has adopted a variety of initiatives involving legislative and other measures that are responsive to international developments in this concern. The most important among these initiatives may be summed up as follows:

• Issuing the Anti-Money Laundering Law and Implementing Regulations thereof, under Royal Decree #M/39 dated 20/06/1424 AH. Then issuing a new AML Law and Implementing Regulations thereof under Royal Decree #M/31 dated 11/05/1433 AH. Then this law was updated again in 1439 AH.

• Issuing a Combating Terrorism and Financing of Terrorism Law promulgated under Royal Decree #M/16 dated 24/02/1435 AH.

• Establishment of the Financial Intelligence Unit (FIU) In accordance with Article 11 of Saudi AML Law issued under Royal Decree #M/39 dated 20/06/1424 AH, the Financial Intelligence Unit (FIU) began its work on 06/08/1426 AH, with its headquarters

in Riyadh. Currently, it is an administrative unit affiliated with the Presidency of State Security and reports to His Excellency the President of State Security. Then, the unit's name was changed to the General Directorate of Financial Intelligence under the Anti-Money Laundering Law of 1439 AH.

• Anti-money laundering units have been established in SAMA, CMA and all local and investment banks, and tasked with ensuring that the financial system is not exploited in money laundering operations, and to inform the competent authorities in case of suspicion.

• Formation of the Anti-Money Laundering Permanent Committee: The committee comprises representatives of a number of government agencies to study all issues related to money laundering in order to overcome them and develop the necessary steps to implement FATF recommendations and follow up the implementation thereof. This committee shall be based at SAMA's headquarters in Riyadh, and shall be chaired by His Excellency the Governor of the Saudi Central Bank (SAMA).

• A mechanism has been developed to implement the international resolutions issued by the Security Council in connection with AML/CTF.

• Circulating UN lists to freeze financial assets, and taking immediate measures to freeze the assets of those who are on the lists, in case that there are any accounts or balances of those persons /organizations.

• Adopting the FATF 40 recommendations related to AML/CTF, provided that the application of these recommendation is in accordance with the regulations in force in the Kingdom.

• Organizing and permanent participation by the Kingdom in international conferences and forums related to AML.

3.5 Nature of Fraud in Finance Companies:

Learning Objective



To be familiar with the concept and types of fraud and methods of combating fraud in finance companies.

3.5.1 Concept of Fraud:

Fraud is one of many challenges that confront financing companies and financial institutions. Fraud also hinders operations, wastes money and resources, and causes damage to the reputation and competitiveness of such entities.

Manual of Combating Embezzlement and Financial Fraud and Control Guidelines issued

by SAMA defined financial fraud as" any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator or by others with his help, causing a loss to the deceived party.

The actual loss of financial institutions due to fraud is usually connected with liquid assets, such as cash and securities". Fraud is not necessarily limited to obtaining cash money and tangible benefits.

The Anti-fraud Rues for Finance Companies issued by SAMA also define "Fraud" as: "An act or omission intended to gain, directly or indirectly, an advantage, that would not be gained otherwise, for the party committing the fraud or for other parties. This includes, but is not limited to, the following: This includes, but is not limited to, the following:

- Use of documents containing incorrect information;
- Non-disclosure or deliberate concealment of information required by law;
- Abuse of authority, a position of trust, or a fiduciary relationship; and
- Asset misappropriation.

3.5.2 Types of Fraud and its indications in finance companies:

Learning Objective



How fraud is identified and the general indicators of fraud in finance companies.

A large portion of fraud cases in finance companies and other financial institutions is committed by their employees, from junior staff to senior management. However, the external fraud committed by persons outside the organization should not be ignored, whether they are professional criminals or opportunistic customers who may or may not be assisted by insiders to commit fraud. Hence, fraud in finance companies may be divided into two types as follows:

1. Internal Fraud: (Frauds Committed by Persons Working in financing company):

Such operations are carried out by employees of the financing company, whether senior managers or subordinate staff. There are many indicators of internal fraud, which can be summarized as follows:

- Indicators related to governance and organizational structure:
  - An individual or a group of individuals monopolizes running operations or taking financial decisions.
  - Company's strategy is inconsistent and changes rapidly.

– Company's organizational structure is complex.

– Managers, members of staff, external businesses, and contractors have a conflict of interest.

– Board of directors or management displays dominant management style, discouraging critical or opposing views from employees.

- Indicators related to operational management:
  – Training provided for employees is weak.
  – Activities of the Finance Company are inconsistent with its declared policies.
  – Staff turnover at the department level is high, especially in finance or accounting departments.
  – Tasks and transactions are complex and require special skills to be understood.
  – Original documents are lost and replaced with copies.
- Indicators related to accounting and finance:
  – Costs are unjustifiably high or are higher than those of competitors.
  – Financial results and ratios are unmatched.
  – Company's return is much lower than that of its counterparts in the market.
- Indications related to internal audit:
  – Internal control structure is weak.
  – Information from prior audits is insufficient.
  – Results of internal audits are weak or missing.
  – Internal auditors are not completely independent.
  – Board of directors or managers place undue pressure on auditors.
  – Board of directors or managers display aggressive attitude toward the Company's financial reporting.
- Indicators related to employee's conduct:
  – Unjustified wealth of employees and sudden change in their lifestyle.
  – Employees frequently work outside official working hours.
  – Employees do not go on leaves.
  – New employees resign quickly.
- IT related indicators:
  – Information and asset security system are weak.

2. External Fraud (Frauds Committed by Persons from Outside financing company): External or as commonly referred to as "Consumer Fraud" is a fraud committed by individuals from outside financing company and there are many indications of external fraud, including:

Indicators related to finance procedures:

– The customer's age and qualifications are not compatible with the number of his/her work years.

– Employer's address provided is a postal box only.

– Use of customer's personal phone number as the employer's phone.

– Applicant's handwriting is not the same on different documents.

– Attempt by customer to settle all financial obligations in cash other than usual means, especially in early repayment.

– Installments are paid by another individual or party and not by the customer.

– Customer's income and credit record are not consistent with his/her personal profile.

– Signatures on finance documents are different.

– Information provided by the customer is not consistent in different service request forms submitted to the finance company

– Transfer of the ownership of financed assets immediately after the completion of sale, indicating that the customer has obtained the finance for an ineligible third party.

Indicators related to valuation:

– The valuer is not one of the accredited valuers by the Finance Company.

– The valuer is from outside the region of the financed asset and not familiar with the value of the financed asset at the local market.

– The valuation is based on making adjustments to the financed asset.

– The valuation is based on data of more than 9 months in a rapidly changing market.

– The valuation of the financed asset is based on comparison with previous valuations carried out by the same valuer.

– Mismatch between the pictures of the financed asset and the description provided in the valuation report.

– Valuation fee is based on a specified percentage of the estimated value of the financed asset.

– There are indications that the financed asset has been sold more than once during a short period of time, indicating that its value does not reflect the actual value of the asset in the market.

Indicators related to job information:

– The employment letter is not printed on employer's letterhead.

– The date of the employment letter is old.

– The signature on the employment letter is not accompanied by the name or position of the signee.

– The employment letter contains handwritten modifications

– The original copy of the employment letter is not provided.

3.5.3 Fraud Combating and Prevention Techniques in Financing Companies:

Learning Objective



To understand how to develop an anti-fraud strategy commensurate with the finance company's risk profile.
To know the policies, procedures and methods necessary to implement the anti-fraud and risk management strategy.

The Anti-Fraud Rues for Finance Companies issued by SAMA stressed that:

- The finance companies shall develop an anti-fraud strategy commensurate with their risk profile and business, and that such strategy shall be approved by the company's board of directors and updated periodically to ensure that it is compatible with corporate ever-evolving business environment.
- The Finance Company shall design a structure for fraud control. The structure shall be commensurate with the size and nature of the company's business so as to facilitate control and implementation of anti-fraud policies by the company's management and ease communication between departments in case of suspicion or detection of fraud.

1. Anti-fraud policies and procedures:

- The finance company shall put in place policies and procedures to implement anti-fraud and risk management strategies. Such policies and procedures shall be updated regularly and tested in terms of effectiveness to keep abreast of developments in fraud. A copy of such policies and procedures shall also be provided to SAMA. The policies and procedures shall include, at a minimum, the following:

  – The role of employees in the implementation of anti-fraud strategy, and identification of individuals responsible for its implementation;

  – Standards for the detection and prevention of fraud;

  – A mechanism clarifying the procedures and communication methods for internal

reporting of suspicious or actual cases of fraud, identifying the party responsible for investigating fraud cases inside the company, and designating the available external reporting channels and the protection offered to whistleblowers;

– A policy on retention of documents containing details of suspicious and actual cases of fraud; and

– A mechanism for training the company's employees on a regular basis to raise awareness of fraud risks and prevention methods.

- The finance company shall develop a mechanism to ensure the soundness of financed asset's valuation carried out by the accredited valuer. The Finance company shall establish a mechanism to ensure the implementation of its credit policy on financing contracts.
- **Training** the Finance Company shall ensure that its board of directors and employees understand anti-fraud policies through

  – Organizing training programs in fraud control. The training materials shall be updated regularly to keep abreast of developments in fraud.

  – Providing training programs for new employees, especially those dealing directly with the public.

  – The scope of training shall vary depending on the role and responsibilities of individuals, and shall cover the responsibility of employees when suspecting fraudulent acts and the steps of escalating fraud incidents within the company or to competent authorities.
- **Reporting:** The finance company shall develop a policy describing the steps of escalating a fraud incident within the Company or to external competent authorities, and providing for confidentiality of the report and protection offered to whistleblowers.
- **Documentation and Record Retention** The finance company shall document the actions taken in fraud incidents, inside and outside the Company, and shall maintain, for 10 years, records containing detailed information of suspicious and actual cases of fraud.
- **Exchange of information:** The Finance Company shall inform SAMA of any fraud incidents within 10 business days from closing the investigation using the form intended for that purpose. Finance companies may enhance cooperation mechanisms among them to exchange information on fraud incidents. SAMA's non-objection shall be required for any agreed cooperation mechanism or agreement related to the exchange of information.

2. Anti-fraud Methods:

- Fraud Detection: The finance company shall develop indicators of fraud and update them regularly to ensure their effectiveness and suitability to detect fraud at an early stage. The above stated fraud indicators may be utilized to detect fraud, whether internal or external fraud.
- Fraud Prevention: The finance companies shall take the necessary measures to prevent fraud, foremost of which to:
  - Apply KYC and CDD measures to customers.
  - Draft finance contracts based on fraud reports issued by the Audit Committee and in a way that would minimize fraud.
  - Assess the fraud risks associated with developing a new product.
  - Inform customers and any third party of the consequences of providing misleading information to the Company.
  - The finance company, upon hiring permanent and temporary employees or contracting with an external service provider, shall exercise due diligence, and scrutinize such employee's/service provider's information to ensure the integrity and ethics of potential employees.
  - Develop and implement information security rules that restrict access to information, tighten control over it, and audit accounts on a regular basis.
  - Set job descriptions for the company's positions, assign the management and employee responsibilities, separate duties and functions to avoid the conflict of interests, and adhere to mandatory rotation and annual leaves for sensitive positions.

3.5.4 Responsibility for Combating Fraud in Finance Companies:

Learning Objective



To define the anti-fraud roles and responsibilities in finance companies.

1. Finance company board of directors: The Board of Directors is responsible for combating fraud. In this respect, it shall be responsible for the following, at a minimum:

- Adopting anti-fraud strategy and policies.
- Ensuring that the necessary resources are made available for implementation of such strategy /policies.

2. Finance company employees: The finance company's employees, whether employees or contractors, shall be responsible for monitoring fraud in their work place and immediately report any suspected fraud.

3. Internal Audit Department: The Internal Audit Department shall be responsible for the following:

– Investigate any fraud cases throughout the performance of their duties, collect the necessary evidence in case of suspicion, and verify the transactions that entail suspected fraud.

– Conduct regular assessments to verify the effectiveness of anti-fraud policies and procedures and ensure proper application thereof and that the suspected frauds are dealt with in a timely and appropriate manner, as well as to ensure that the actions taken are properly documented and the relevant information is included in the audit department's report required under the Implementing Regulations of the Finance Companies Control Law.

4. External Auditor: Among the external auditor's duties is to check the company's compliance with anti-fraud policies.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. What do financial crimes mean? And how to detect and mitigate the impacts of financial crimes?
Answer reference: Sections 3. 1.1 and 3. 1.2

2. What are the stages of money laundering?
Answer reference: Section 3.2.3

3. Briefly explain the risks and negative effects of money laundering operations?
Answer reference: Section 3.2.4

4. What does “money laundering and terrorist financing” mean?
Answer reference: Sections 3.2.1 and 3.3.1

5. Explain the efforts of SAMA in combating money laundering and terrorist financing?
Answer reference: Section 3.4

6. What does fraud mean in finance companies?
Answer reference: Section 3.5.1

7. What is the difference between internal fraud and external fraud in finance companies? Explain the indicators for the existence of both?
Answer reference: Section 2.5.3

8. “The finance company shall establish written anti-fraud policies and procedures.” Explain this statement explaining the policies and procedures necessary to combat fraud in finance companies?
Answer reference: Section 3.5.3

9. Explain the anti-fraud roles and responsibilities in finance companies?
Answer reference: Section 3.5.4

Chapter Four

Real Estate Finance Rules and Procedures

This part of book accounts for approximately 10 out of the 50 questions of the test.



4 - Introduction:

This chapter discusses the rules and procedures of real estate finance, and provides insight into the real estate finance markets (primary market and secondary market), as well as SAMA's role in regulating the real estate finance sector and incorporating refinance companies, and the obligations of real estate finance companies in the real estate appraisal process. In addition, this chapter explains the role of the Real Estate Development Fund and Ministry of Housing programs in supporting real estate financing in line with the Saudi Vision 2030.

Nature of Real Estate Finance Business:

Learning Objective



To be familiar with the nature of real estate finance business and types of real estate finance markets.

4. 1.1 The concept and nature of real estate finance:

The Saudi real estate sector has recently gained great attention from the government and the public and private sectors, as well as popular interest as it is related to the basic needs of citizens (housing). The sector has managed to attract a large proportion of national savings and investments, especially as it is one of the safest, most growing and least risky investment sectors.

There are fundamental differences between real estate finance and conventional bank finance. The conventional bank finance has several characteristics, most notably: The higher interest rate, short credit period, and restrictions over the volume of credit granted to various economic sectors that are imposed by SAMA.

On the other hand, the real estate finance is characterized by long credit periods and low interest rates, especially in the first phase of the application of the real estate finance law. This has been achieved by providing government support to some groups. However, reliance on government support is not considered a permanent source for providing low-cost financing, as this can be achieved in the long run through the following:

– Relatively high risk-free rate of return: Which serves as a motive for financing and accepting risks from the real estate financier's point of view.

– A rate of return that is relatively higher than the risk-free rate and lower than the average cost of commercial or investment loans, which encourages the borrowers to borrow and bear the costs.

According to Real Estate Finance Law issued by Royal Decree No. (M/50) dated 13/08/1433 AH, and its Implementing Regulations issued on 10/04/1434 AH, some terms are defined as follows:

- **Real Estate Finance** Extending credit to a borrower for the purpose of owning a dwelling
- **Real estate financing contract** A deferred payment contract extended to a borrower to own a dwelling.
- **Mortgage Contract Rights:** Cash flows, mortgages, collaterals and other rights arising under a mortgage contract.
- **Real Estate Finance Company:** A joint stock company licensed to engage in real estate finance activity.
- **Real estate financier:** Commercial banks and real estate finance companies licensed to engage in real estate finance activity.
- **Beneficiary:** A natural person who obtains real estate finance.
- **Consumer:** Persons who are targeted by real estate finance services.
- **Housing support:** a financial or credit subsidy provided by the government, housing societies, or the like to make housing affordable.
- **Real Estate Refinance Company:** a joint stock company licensed to engage in real estate refinance activities.

4. 1.2 Real Estate Finance Markets:

The real estate finance markets are divided into two types:

– Primary Market
– Secondary Market

1. Real estate finance primary market:

The market in which real estate finance loans are originated, settled and served by real estate finance entities, which are the commercial banks and real estate finance companies licensed to involve in real estate finance activity, where these entities provide the necessary real estate finance to settle the relationship between real estate buyers and sellers assisted by real estate parties, which are as follows:

– Mortgage Broker
– Mortgage Appraiser
– Real Estate Agent
– Insurance companies
– Credit Reporting Agents

– Trade Associations

2. Real estate finance secondary market:

The market in which the real estate financier's rights arising from primary market contracts, and mortgage-backed securities, are traded, where investors in secondary capital purchase those assets from various real estate finance entities.

Article 12 of Real Estate Finance Law stipulates that "Mortgage transfer procedures in the secondary market of real estate finance shall be exempted from registration fees stipulated in the Real Estate Registration Law."

The real estate finance process conducted in both primary and secondary markets undergo the following stages:

- The buyer obtains the finance to buy a home from the real estate financier in the primary market in return for mortgaging the title in the financed property.
- The real estate financier sells mortgage loans to specialized organizations in return for the required finance, or the real estate financier requests securitization companies to securitize these loans into mortgage-backed securities in return for a commission, and to keep and sell them when needed.
- In the event that these specialized organizations buy mortgages from the secondary market and convert them into mortgage-backed securities, they resell them to investors interested in buying them, who keep them and pay their value to the brokers investing in these securities.

Article 11 of Real Estate Finance Law provides that" ..... real estate finance entities may refinance through the following:

– Real estate refinance companies licensed by SAMA.

– Issuance of securities in accordance with the provisions of the Capital Market Law after obtaining SAMA's no objection letter.

4.2 The role of SAMA in regulating real estate finance:

Learning Objective

To Understand the role of SAMA in regulating the real estate finance sector.

4.2.1 Supervision and Licensing:

According to the Real Estate Finance Law and its Implementing Regulations, SAMA shall regulate the real estate finance sector, including the following:

1. License real estate finance companies in accordance with Real Estate Finance Law and Finance Companies Control Law and their regulations.
2. Allow banks to engage in real estate finance business by owning homes for financing in accordance with the Real Estate Finance Law and its regulations.
3. License a joint stock company (or more) for real estate refinance according to market needs. The Public Investment Fund may become a co-owner of such company. SAMA shall approve nominations for board membership. Licensed finance entities may also become co-owners of such company. A portion of the shares of the company shall be offered to the public in accordance with the Capital Market Law.
4. License cooperative insurance companies to cover real estate finance risks in accordance with the Cooperative Insurance Companies Control Law.
5. Issue real estate finance standards and procedures, review real estate finance contract templates issued by the real estate finance entities and ensure their compliance with such standards and procedures and their provision of required protection to consumers and borrowers.
6. Determine principles for disclosure of finance costs and method of calculation to enable consumers to compare prices.
7. Publish data related to real estate finance market and sponsor development of real estate finance technologies, including technologies to facilitate the flow of data between primary and secondary markets.
8. Take the necessary measures to maintain the sector integrity and stability and fairness of transactions concluded therein.
9. Take the necessary measures to encourage fair and effective competition between real estate financiers.

10. Adopt the necessary means to develop the sector, localize its positions, and raise the efficiency of its employees, by regulating the real estate financiers' obligations regarding training of employees, improving their skills, and developing the knowledge of sector personnel.

The Implementing Regulations of the Real Estate Finance Law set out many rules that real estate finance companies shall abide by when running their business, foremost of which are the following:

• The real estate financier may not engage in any activity that is not licensed by SAMA, including real estate investment, development, marketing and real estate appraisal activities. The real estate financier may own houses for the purpose of financing them for the beneficiaries, provided that the ownership is a condition for the validity of the Real estate finance contract and that it does not result in a non-financing profit.

• The real estate finance company is prohibited from granting any type of finance except for real estate finance.

• Insurance on real estate finance risks shall be in accordance with the provisions of the Cooperative Insurance Companies Control Law, its Implementing Regulations, and SAMA instructions. The real estate financier shall disclose in his annual reports the risks that can be hedged by insurance, and how to deal with them.

• The entities entrusted with registering real estate ownership (courts, notaries, and real estate registration departments) shall enable licensed real estate financiers to view the information included in their property records in accordance with the following procedures:

1. The real estate financier shall submit an application, in paper of electronic form, to obtain the necessary information.
2. For obtaining such information, a copy of the real estate finance license shall be attached to the application.
3. The entity entrusted with registering real estate title shall, as the case may be, shall issue a certificate in the form specified by the Ministry of Justice that includes the following information:
   – The name of real estate property owner at the time of application.
   – The validity and genuineness of the title deed based on its grounds, or its invalidity, as the case may be, and the rights related thereto.
   – The validity period of certificate shall not exceed (30) days from its date of issue.
4. The entities entrusted with registering real estate ownership shall provide the required information to the real estate financier within a period not exceeding (5)

working days from the date of receiving the application.

4.2.2 Procedural requirements for mortgage registration:

SAMA has required banks and finance companies to meet procedural requirements for attesting and registering mortgages in accordance with registration forms specified by the Ministry of Justice. These procedural requirements are as follows:

1. The mortgagor shall be present in person or through his attorney who is authorized by a power of attorney to take the required action.
2. The attorney for real estate financier (the bank/finance company) shall be present with a power of attorney authorizing him to take the required action.
3. The mortgagee shall be a licensed bank or finance company, and the real estate financier shall have a valid license from SAMA to run real estate finance business.
4. The mortgaged property shall be owned by the mortgagor. However, the mortgaged property may be owned by an in-kind guarantor who presents a mortgaged property for the interest of debtor.
5. The mortgaged property shall be a specific asset that is existing or will exist and saleable.
6. The real estate financier shall submit proof that the contract concluded between it and the mortgagor does not conflict with Sharia provisions, according to Sharia Board's letter approving the financing product, rather than approving each contract on a case-by-case basis.
7. The conveyance and mortgage shall be conducted in one procedure according to Ministry of Justice's Circular No. 13 / V/ 6973 dated 19/01/1439 AH, in relation to adjusting previous mortgage.
8. The process shall be completed in the forms specified by SAMA and the Ministry of Justice.

4.2.3 Mandatory instructions for real estate financiers when offering real estate finance to individuals:

Based on the powers vested in SAMA by the relevant laws, regulations and instructions, and in pursuit of helping customers take the appropriate decision when applying for real estate finance and to maintain rights of all parties to real estate financing transactions, and in order for SAMA to ensure the integrity of real estate finance sector. Before offering real estate finance to individuals, the banks and real estate finance companies shall meet the following conditions:

1. When a customer applies for a real estate finance product, the financier shall

request and examine the information necessary to know the customer's financial conditions and develop a clear picture of the customer's ability to meet the requested finance obligations. This enables the financier to conceptualize how suitable the product is for the customer.

2. The financier shall provide an explanation to the customer about the proposed real estate finance product, clarifying the terms and conditions of the finance contract to be signed, especially risks associated with the product.

3. The financier shall submit to the customer a real estate finance offers with a validity period of no less than fifteen working days from the date of delivery to the customer. The offer shall comprise a printed document containing all details from all documents and in the same form that would be signed if the mortgage contract is concluded. The following documents shall be included in the submitted offer:

– The mortgage contract and its attachments.

– Disclosure form of the real estate finance offer.

– Acknowledgment form for accepting the credit risk of real estate finance with variable term cost, for real estate products with variable cost.

The financier shall document the customer's receipt of these documents. The customer may present those documents to whomever he wants to request their opinion and advice.

4. The financier shall assign a qualified credit advisor well in advance of the expiry date of offer, to provide the customer, in person or by phone, with a clear explanation of the nature of the real estate finance offer and its risks, the terms and conditions of contract, and the re-pricing mechanism (if any), and to give clear and honest answers to all the customer's inquiries.

5. There shall be a waiting period of no less than five working days from the date of customer's receipt of the mortgage offer, to enable the customer to review the offer and consult his credit advisor. The financier shall ask the customer not to initiate any action regarding the real estate property during the five working day period, such as offering an advance payment or a deposit. The financier may not conclude any mortgage contract before the expiry of the waiting period.

6. Banks and real estate financiers may not conclude any mortgage contract with individuals except after fulfilling the previous instructions and documenting so in the finance file.

4.3 Mortgage Contract:

Learning Objective



To know the basic components of mortgage contracts.

• All real estate finance contracts and products shall be in compliance with Real Estate Finance Law and its implementing regulations and the rules and instructions related to real estate finance issued by SAMA. SAMA may set standard forms for mortgage contracts, which the real estate financiers shall abide by unless otherwise stipulated.

• **Components of mortgage contract:** A contract in paper or electronic form shall be concluded between the real estate financier and beneficiary. The contract shall include at least the following details and information:

1. The names of mortgage contract parties, the civil ID /Iqama number of the beneficiary, the official addresses and contact details of contract parties, including mobile number and e-mail, if any.
2. The real estate broker, if any.
3. The term of mortgage contract.
4. The total value of finance.
5. The term cost, its terms of application, any index or reference rate for the agreed initial term cost, and the terms, conditions and procedures for changing the term cost.
6. The annual rate calculated in accordance with the provisions of the Implementing Regulations of the Finance Companies Control Law.
7. The total amount payable by the beneficiary, calculated at the time of concluding the mortgage contract, with a statement of the assumptions used in calculating that amount.
8. The amount, number and periods of installments to be paid by the beneficiary, and the method of apportioning them to the remaining amounts if the term cost is fixed. In the event that the term cost is variable, three estimates of the amount of installments shall be provided using the initial term cost and two other higher and lower term costs.
9. The payment periods of fees or funds that need to be paid without repaying the finance amount, and terms of such payment.
10. Implications of the delayed Installments payment;

11. Attestation fees prescribed when required.
12. Necessary guaranty and insurance;
13. The procedures for exercising the withdrawal right, its conditions, and the financial obligations arising from exercising it.
14. The procedures for early payment, procedures for indemnifying the real estate financier when necessary, and how to determine the amount of indemnification.
15. The procedure for exercising the right to terminate the mortgage contract.
16. The details of housing unit subject matter of mortgage contract, including: City, district, street, number, type of housing, land area, building area, number of rooms, date of construction, and title deed number.

• The mortgage contract shall be headed by a summary that includes the finance product basic details and the contract main provisions in a clear form that is understandable by the beneficiary, and in the form set by SAMA. The receipt of that summary by the beneficiary shall be recorded in the finance file. The real estate financier shall verify the title deed of the housing unit subject matter of the mortgage contract, and ensure that it is free of encumbrances that may impair its rights, and keep record of the property registration certificate in the finance file.

• Annual Percentage Rate (APR): It is the discount rate at which the present value of all payments and installments that are due from the beneficiary, representing the total amount payable by the beneficiary, equals the present value of all payments of the amount of financing available to the beneficiary on the date on which the financing amount or the first payment thereof is available to the beneficiary.

Below is an example for calculating the APR for a real estate finance:

A real estate finance agreement worth SAR 1,000,000, to be paid in monthly installments, value of each installment is (4,510) for (300) months. The advance payment will be SAR (300,000) and the administrative fees SAR (5,000) will be paid after the contract conclusion.	**Finance data**
$1{,}000{,}000 - 300{,}000 - 5{,}000 = \frac{4510}{(1+X)^{(\frac{1}{12})}} + \frac{4510}{(1+X)^{(\frac{2}{12})}} + \frac{4510}{(1+X)^{(\frac{3}{12})}} + \frac{4510}{(1+X)^{(\frac{4}{12})}} + \frac{4510}{(1+X)^{(\frac{5}{12})}} + \frac{4510}{(1+X)^{(\frac{6}{12})}} + \frac{4510}{(1+X)^{(\frac{7}{12})}} + \ldots + \frac{4510}{(1+X)^{(\frac{300}{12})}}$	**Annual percentage calculation method**
The monthly percentage is (0.51%) To convert it to an annual percentage, use the following formula: $\mathbf{X = ((1 + 0{,}0051)^{12}) - 1}$	**Conversion from monthly to annual percentage**
(X) = 6.25%	**annual percentage rate**

• **Real estate finance percentage:** The real estate financier may not grant credit in any form of finance in excess of (70%) of the value of the housing unit subject matter of the mortgage contract. However, SAMA may change this percentage according to the market conditions.

According to Circular No. (391000048362) issued on (04/1439 AH), SAMA decided to increase the maximum finance percentage up from (85%) to (90%) of the value of the first home for citizens only, and that banks continue to grant real estate finance at (70%) and real estate financiers at (85%) of the value of second home and beyond for all beneficiaries.

• **Beneficiary credit history:** The credit history of beneficiary shall include his personal information, including his name, ID number, place of residence, job details, marital status, Academic qualifications, monthly income, number of dependents, and any other information as determined by SAMA.

• The mortgage contract shall provide for the real estate financier's right to assign all its rights to third parties in the secondary market without obtaining the beneficiary's consent, including the right of mortgage and other guarantees.

4.4 Standard forms of mortgage contracts (Murabahah and Ijarah forms):

Learning Objective

To learn about the updated standard forms of the mortgage contracts for Murabahah and Ijarah modes for individuals.

SAMA issued an update of the standard forms of the mortgage contract in Murabahah for individuals, and mortgage contract in Ijarah for individuals on Jumada al-Thani 1441 AH. SAMA stresses that all real estate financiers must abide by these updated forms and may not conclude any contracts in violation of these forms or make any amendments thereto after this date.

4.4.1 Mortgage contract in Ijarah form:

The mortgage contract in Ijarah form includes a request by the "leasing promisor" from the financier to own the property described in the contract, coupled with his promise to lease it on a finance lease basis at the rate specified in the contract and according to its terms and conditions. The provisions of the mortgage contract in Ijarah form can be

clarified as follows:

1. Ownership of leased asset:

The lessor shall be the owner of the leased asset for the term of contract and until the lessee pays all the amounts payable by him. Save for the promise to own under the contract, the lessee has no right or interest in the leased asset other than being a lessee thereof.

2. Promise to own: There are two ways followed, namely:

• The lessor may promise to transfer the ownership of leased asset at the end of contract to the lessee by way of sale by signing the ownership transfer certificate, provided that the lessee pays all the amounts payable by him, in addition to the last payment, if any.

• The other way: the lessor promises to transfer the ownership of the leased asset at the end of contract term as a gift by signing the ownership transfer certificate, after the lessee has paid all the amounts payable by him under the contract.

3. Handover of leased asset by the Lessor:

The lessor shall handover the leased asset to the lessee on the date of making the leased asset available, no later than (15) working days from the date of making the leased asset available, unless there is a reason beyond the lessor's control that prevents handover of the leased asset to the lessee.

4. Lease payments:

The lessee shall make the lease payments (plus any government fees or taxes) to the lessor on a regular basis. The lessor may, by the authorization of lessee, deduct the lease payment from the monthly salary of lessee when made available.

5. Late payment of lease payments:

The lessee shall be held in breach of the contract if he fails to pay three consecutive lease payments or five interrupted lease payments for a period of (7) working days or above for each payment as from its due date for each (5) five years of the contract term. The lessor sends a default notice indicating that there are overdue payments have to be made and claiming the following:

– Outstanding and unpaid lease payments until the date of termination of contract.

– The cost of evicting the leased asset, and the value of repairing any substantial damage to the leased asset arising from the lessee's failure to maintain it.

– The amount payable for using the leased asset from the date of termination until the date of receipt of the leased asset.

6. Early ownership of leased asset:

The lessee may at any time apply for early ownership within a period of no less than ten days before the date of payment of the lease payment, in which case, the lessor may

claim the following amounts from the lessee (for early ownership)

– Outstanding and unpaid lease payments.

– The remainder of finance amount.

– The cost of reinvestment in the amount not exceeding the term cost for the three months following the last lease payment fell due before the lessee applied for early ownership.

– Non-refundable expenses paid by the lessor to a third party under the contract.

4.4.2 Mortgage contract in Murabahah form:

The mortgage contract in Murabahah form includes a request by the "beneficiary" from the financier to finance the purchase of property on Murabahah basis in the amount, and as per the terms and conditions, as specified in the contract, the provisions of the mortgage contract in Murabahah form can be clarified as follows:

1. Execution and entry into force of contract:

The contract shall enter into force as of date of transaction contemplated thereunder, where the financier sells to the beneficiary the financed asset on Murabahah basis, and the beneficiary accepted to purchase the same at the price and manner as specified in the contract. The beneficiary shall submit all guarantee documents to the financier on the commencement date of contract.

2. Evicting the financed asset

The financier shall transfer the ownership of the financed asset, evict and hand it over to the beneficiary, and take all necessary measures to register the ownership for the benefit of beneficiary within (15) working days from the commencement date of contract, unless there is a reason beyond the financier's control that prevents handover of the financed asset.

3. Mortgaging the financed asset:

The beneficiary shall pledge the financed asset for the benefit of the financier as a guarantee for the beneficiary's payment of the due installments under this contract, effective from the date on which the financed asset is evicted for the beneficiary subject to the provisions of Registered Real Estate Mortgage Law. The beneficiary shall preserve, maintain and protect the financed asset against damage, and may not make substantial modifications thereto or do anything that substantially affects its value as a mortgaged asset without obtaining the financier's approval.

4. Payment of future installments:

The beneficiary shall pay to the financier the future installments (in addition to any government fees) on a regular basis. The financier may, by the authorization of beneficiary,

deduct the future installments from the monthly salary of lessee when made available.

5. Late payment of Installments:

The beneficiary shall be held in breach of the contract if he fails to pay three consecutive payments or five interrupted payments for a period of (7) working days or above for each payment as from its due date for each (5) five years of the contract term. In the event that the beneficiary fails to make the due payments, the financier may consider the beneficiary in default, in which case the financier may:

– Pursue its dues under any of guarantee documents.

– Announce that an amount equivalent to the amount of early payment is outstanding and request the beneficiary to pay it. In the event of non-payment, the financier may claim that amount from the guarantor or pursue a court order to enforce the mortgage.

– The beneficiary shall be entitled to all amounts in excess of the early full payment amount payable to the financier after the court order is enforced on the mortgage.

6. Early repayment: There are two different cases of early repayment, which are as follows:

• Early partial payment:

The beneficiary may make the early partial payment at any time, in no less than two payments, once every (5) years. The financier may accept payment of more than once during the same period. In the event that the partially paid installments amount to (6) installments or more, the financier may not charge the beneficiary the term cost for these installments.

• Early full payment:

The beneficiary may at any time apply for early full payment within a period not less than ten days before the date of payment of the future installment. The financier may claim the following amounts from the beneficiary (for the early full payment):

– The outstanding future installments.

– The remainder of finance amount.

– The cost of reinvestment in the amount not exceeding the term cost for the three months following the last installment fell due before the beneficiary applied for early full payment

– Non-refundable expenses paid by the financier to a third party under the contract.

4.5 Real Estate Refinance Companies:

Learning Objective



Purpose of the Real Estate Refinance Company:

4.5.1 Purpose of the Real Estate Refinance Company:

According to the Real Estate Finance Law and its Implementing Regulations, SAMA shall license one or more companies to engage in real estate refinance activity, provided that:

– The license be restricted to real estate refinance activities.

– The capital of the Real Estate Refinance Company is not less than five billion riyals.

The Public Investment Fund or any entity wholly owned by it shall, subject to SAMA's initial approval, establish a company called "The Saudi Real Estate Refinance Company" whose purpose is to refinance real estate, according to the following rules:

• Following its incorporation, the Saudi Real Estate Refinance Company shall invite its shareholders to hold their shares in it after obtaining SAMA's no Objection Letter.

• Real estate financiers may own their respective shares in the Saudi Real Estate Refinance Company at a fair market value, provided that the total shares owned by real estate financiers in no event exceeds (30%) of the total shares of the Company, on the date on which the financing market activities become stable, provided that at least five years have passed since the establishment of Company.

• The Saudi Real Estate Refinance Company may offer part of its shares for public subscription in accordance with the provisions of the Capital Market Law.

• The share of the Public Investment Fund shall in no event be less than (51%) of the total shares of the Saudi Real Estate Refinance Company.

4.5.2 Purpose of the Real Estate Refinance Company:

The Real Estate Refinance Company aims to facilitate the trade of real estate finance contracts rights in the secondary market, and to facilitate the flow of funds to it, with the aim of:

1. Achieving growth and stability in the secondary real estate finance market.
2. Providing liquidity to the secondary market, and providing better ways for real estate financiers to finance the ownership of housing by beneficiaries.
3. Boosting the liquidity of real estate finance investments, and ensuring proper distribution of investment capital allocated to real estate finance among the various regions and groups.

4. Acting as a mediator between the real estate finance sector and local and foreign finance sources.

In order for the Real Estate Refinance Company to achieve its purpose, it shall have the following powers:

– Issue securities in accordance with the Capital Market Law after obtaining SAMA's no objection letter.

– Acquire, retain and manage any type of financing obligations or rights related to the financed housing real estate.

– Perform any other transactions that serve, complement or support its operations as required by its law and approved by SAMA.

– Obtaining financial consideration for its services, to ensure that all its costs and expenses are covered, and making fair profit in so far as to enable it to be financially independent. SAMA shall monitor the Company's pricing of its services and may restrict it.

4.5.3 Business that the Real Estate Refinance Company may engage in:

• The real estate finance assets and rights may be transferred to the Real Estate Refinance Company in the refinancing transactions without obtaining the prior consent of the beneficiary, debtor or guarantor. If the Real Estate Refinance Company pays in full the amount agreed for such transfer to the real estate financier, the transfer may not be canceled or reversed in any way in the event of the bankruptcy of the real estate financier from which the assets/rights are transferred.

In this respect, and according to Circular No. 61108/99 dated 13/10/1440 AH, the Saudi Central Bank decided to allow the Saudi Real Estate Refinance Company to purchase residential real estate portfolios from real estate financiers after the later of; at least three months from the date of granting the finance related to those assets, or three months from the date of receiving the first installment from the beneficiary, with the right of recourse against the real estate financier for a period of six months from the date of granting the finance .

• The Real Estate Refinance Company may distribute annual profits by a decision of its board of directors after obtaining SAMA's no objection letter.

• The Real Estate Refinance Company shall ensure that the amount of buying and selling transactions that it concludes, the prices it pays, and the financial consideration it receives, do not encourage excessive use of its facilities, while ensuring that such excessive use that may affect the prices of real estate assets in the market is averted.

• The board of directors of the Real Estate Refinance Company shall set the com pany's

work policies and procedures related to real estate refinancing transactions. These policies and procedures shall enter into effect after obtaining SAMA's no objection letter.

• The Real Estate Refinance Company shall establish an electronic infrastructure for exchanging data and information between it, SAMA and real estate financiers.

• The Real Estate Refinance Company shall prepare and publish annual and quarterly reports on its financial position and operations, the risks it is exposed to, and its management plan, and it shall also provide the Saudi Central Bank with such reports. The reports shall include the financial statements prepared in accordance with international accounting standards.

4.5.4 Business activities that the Real Estate Refinance Company may not engage in:

The Real Estate Refinance Company may not:

– Grant finance to a real estate financier guaranteed by the real estate finance contracts rights before transferring those rights to the Real Estate Refinance Company.

– Grant real estate finance to beneficiaries.

– Ease real estate finance terms in order to influence housing prices in the manner that does not contradict the best credit management practices.

4.6 Government support for real estate finance:

Learning Objective

6. To know the role of the Real Estate Development Fund in supporting real estate finance in line with the Saudi Vision 2030.

The Real Estate Development Fund shall allocate a portion of its approved budget as guarantees and aid to subsidize real estate finance for the subsidy-eligible individuals and housing societies. The government guarantees the fulfillment of financial obligations arising from the Real Estate Development Fund guarantees to support real estate financing in accordance with the following rules:

• When subsidizing a residential real estate finance product through real estate financiers, the subsidizer shall prepare a description for each product, in order to ensure that credit, risk management and transactions integrity polices are not violated.

• The real estate financier shall comply, in his dealings with the subsidized residential real estate product, with all the credit rules set by SAMA, subject to SAMA's no objection

letter regarding the proposed subsidized real estate product before being delivered to the beneficiaries.

• The real estate financier may not offer subsidized real estate finance products except by a decision of its board of directors.

4.7 Real Estate Valuation and Real Estate Financiers' Obligations:

Learning Objective



To know the nature of real estate valuation, and the obligations of real estate financiers towards the valuation process.

4.7.1 The Concept of Real Estate Valuation:

The Saudi Authority for Accredited Valuers (TAQEEM) is the authority concerned with setting the necessary controls and standards for valuating properties, economic establishments, machinery and equipment, movable property and others, in accordance with the Accredited Valuers Law issued by Royal Decree No. (M/43) dated 09/07/1433 AH, which defines the valuation process as follows: "A process whereby the fair value of property, economic establishments, machinery and equipment, and property of all kinds are determined for a specific purpose."

The valuer profession is important as banks, financiers, insurers, real estate companies, and government agencies need valuers to help them take important economic decisions such as buying, selling, financing, acquisitions and mergers, dividing partnerships and inheritance, settling disputes and compensation, determining the feasibility, and replacement of investments, etc....

Some of the terms are defined as follows:

- **Real Estate Valuation:** The process of determining the fair value of real estate property.
- **Accredited Valuer:** A natural or legal person who is licensed to practice the valuation profession.
- **Valuation Criteria:** The Criteria approved by the Saudi Authority for Accredited Valuers (TAQEEM).
- **Valuation Report:** The document issued by the accredited valuer, which includes the valuation result, and complies with the approved valuation criteria.

4.7.2 Obligations of real estate financiers towards the valuation process:

SAMA stresses that the banks and real estate finance companies shall abide by the following:

1. Banks and real estate finance companies shall not deal with real estate valuation practitioners who do not hold a full membership card of Taqeem.
2. Banks and real estate finance companies shall govern the valuation process by establishing mechanisms and guarantees to separate the finance operations and the related employees who work in granting or issuance from the valuation process, starting from the appointment of valuators until the receipt of reports.
3. Banks and real estate finance companies concerned with the valuation process, or their representatives or agents, shall not influence or attempt to influence the making and preparation of reports and their results or the review of valuation.
4. Banks and real estate finance companies shall provide sufficient information and documents about the asset to be valued.
5. Banks and real estate finance companies may not obligate the valuer to use specific methods of valuation.
6. Banks and real estate finance companies shall not request a bank guarantee letter in values greater than the volume of work assigned to the Valuer.
7. Banks and real estate finance companies shall set procedures and conditions for accepting properties that can be financed, including the mechanism used for title verification and ensuring the construction integrity of the building.
8. When contracting with valuers, banks and real estate finance companies shall not link valuation fees to the extent and quantity of work in order to ensure independence and impartiality of the valuer or valuation firm.
9. Banks and real estate finance companies shall, when becoming aware that the valuer is violating the applicable regulations and procedures, or committing illegal act, or an act that violates the international valuation standards, inform the Saudi Authority for Accredited Valuers within a maximum of (30) days with a written notice proving that violation with a copy to SAMA and the valuer.

4.8 Controls of the Standing Payment Order in favor of a Real Estate Financier:

Learning Objective



To know the controls of standing payment order in favor of a real estate financier and the obligations of the banks and beneficiary real estate financier.

According to the Controls of Standing Payment Order in Favor of a Real Estate Financier issued by SAMA in Jumada al-Thani 1441 AH, the standing payment order in favor of a real estate financier means: "A service provided by banks whereby money transfers are made regularly from the customer's account to the real estate financier's account during a specific period and in a specified amount."

These controls aim to set the minimum requirements that must be adhered to in respect of the standing payment order in favor of a real estate financier, to promote and protect competition among real estate financiers, to support the availability of financing options for customers, as well as to contribute to reducing the risk of default. The application of these controls is limited to real estate finance products only, without prejudice to the principles of responsible finance for retail customers, collection controls and procedures for retails customers and other relevant regulations and instructions.

4.8.1 Obligations of Banks

When providing the standing payment order for a real estate financier, Banks shall:

1. Verify that the customer has a fixed monthly income before accepting the application for establishing a standing payment order in favor of a real estate financier.
2. Not submit a standing order in favor of a real estate financier in the event that the customer has an existing payment order in favor of a real estate financier.
3. Obtain the customer's declaration of his knowledge of the effect of establishing a standing order in favor of a real estate financier.
4. Notify the customer upon issuing the standing payment order for a real estate financier via documented means of communication, provided that such notice includes at minimum: The amount of transfer, the effective date of payment order, the term in months, and the account number to which the amount is transferred monthly.
5. Pay against the standing payment order in favor of a real estate financier the full amount of transfer on maturity date or within (5) days from such date if it is not

available on the maturity date.

6. Notify the customer when the standing payment order cannot be applied, and provide the grounds for rejection through the documented means of communication.

7. Obtain the consent of real estate financier which is the beneficiary of the standing payment order or obtain a letter of discharge from it when the customer requests to amend or cancel the standing payment order.

8. Verify that the transfer amount in the customer's account is not among the funds that SAMA has stipulated that they cannot be touched or deducted from.

4.8.2 Obligations of the beneficiary real estate financier:

The real estate financier which is the beneficiary of the standing payment order shall:

1. Give the customer its consent to change the amount of standing payment order when its circumstances change resulting in rescheduling of the debt within (3) working days from the date of the customer's request.

2. Give the customer a discharge and no objection to cancel the standing order within (7) working days from the date of the customer's request in the following cases:

   – Pay the outstanding obligations.

   – Exempt the customer from payment according to SAMA's relevant instructions.

3. Notify the customer upon receipt of the payment order amount via documented means of communication.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. What is the difference between the primary and secondary market as real estate finance markets?
Answer reference: Section 2.1.4

2. Briefly explain the role of SAMA in regulating the real estate finance sector?
Answer reference: Section 4.2.1

3. What are the procedural requirements for documenting and registering a mortgage?
Answer reference: Section 4.2.2

4. Briefly explain the mandatory instructions for real estate financiers when providing real estate finance to individuals?
Answer reference: Section 3.2.4

5. Name the basic components that must be included in the real estate finance contracts?
Answer reference: Section 4.3

6. What is the purpose of the Saudi Real Estate Refinance Company? Explain the work that the company must do to realize that purpose?
Answer reference: Section 4.4.2

7. What business activities are the Saudi Real Estate Refinance Company allowed to engage in? What are the business activities it must not engage in?
Answer reference: Sections 4.4.3 and 4.4.4

8. Briefly explain the obligations of real estate financiers with respect to the real estate valuation process?
Answer reference: Section 4.7.2

9. Briefly explain the obligations of the bank and beneficiary real estate financier according to the Controls of the standing payment order in favor of the real estate financier?
Answer reference: Sections 4.7.1 and 4.7.2

Chapter Five

Finance Lease Activity, SMEs Finance, and Microfinance Rules

This part of book accounts for approximately 7 out of the 50 questions of the test.



5 - Introduction:

This chapter explains some of financing products and services provided by financing companies operating in KSA, including finance lease contracts, SMEs finance, and microfinance, as well as how to deal with each type.

5.1 Nature of Finance Lease Contracts:

Learning Objective



Identify the nature of Finance Lease contracts.

5. 1.1 Concept of Finance Lease:

According to the Finance Lease Law issued by Royal Decree No. (M/48) dated 13/08/1433 AH, and its Implementing Regulations issued on 14/04/1434 AH, "The finance lease contract is a contract under which the lessor leases fixed or movable assets, rights, services or intangible rights in the lessor's capacity as owner or owner of proceeds thereof, or a person able to own or produce such assets, provided that the lessor has obtained such assets for the purpose of leasing them, as a business, to a third party .... "

- Some of the terms are defined as follows:
  - **Lessor:** A joint stock company licensed to offer finance lease, including commercial banks.
  - **Lessee:** A person holding the right to use the leased asset under a contract
  - **leased asset:** Any asset that can be leased whether real estates, movables, rights, services and intangible rights such as intellectual property rights.
  - **Producer:** Producer of the leased asset.
  - **Suppler:** Supplier of the leased asset.
  - **Basic maintenance:** The maintenance indispensable to the original asset as per norm.
  - **Operational maintenance:** The maintenance needed for the continuation of the asset's benefit as per norm.
  - **Contract Registration Company:** The joint stock company that registers Finance Lease contracts.
  - **Securitization** Issuance of securities against the Lessor's rights.

5. 1.2 Finance Lease Contract:

Learning Objective

To know the rights and obligations of the lessor and lessee under the Finance Lease contract.

A written or electronic contract shall be concluded between the lessor and the lessee and shall include information relating to contracting parties, leased asset and its condition, lease amount, payment terms as well as contract terms and conditions. The contract and any amendments thereto shall be registered in the contract register in accordance with the provisions of this Law. Prior to concluding the contract, the lessee may determine the specifications of the asset to be leased with the supplier, producer or contractor. The lessee shall be liable for any consequences resulting from determining asset specifications. If such specifications were determined with the approval of the lessor, such specifications shall be binding to the lessor only within the limits of such approval.

If the lessor authorizes the lessee in writing to directly receive the leased asset from the supplier, producer or contractor as per the conditions and specifications set out in the contract, such receipt shall be by virtue of a record establishing the conditions of the leased asset. The lessee shall be responsible vis-à-vis the lessor for any information about the leased asset stated in the said record. If the supplier, producer or contractor refuses to sign the record, the lessee may refuse receipt of such asset.

1. lessee's Rights and Obligations:

• **Lease Payments:** The lessee shall make the agreed lease payments on dates set in the contract regardless to whether the lessee benefits from the leased asset, unless the failure to benefit is caused by the lessor.

– However, a condition to advance the maturity dates of future lease payments to be made by the lessee in case of default is permissible, provided such payments do not exceed the number of defaulted payments.

– Part of the lease payments may be advanced, and the advance lease payments shall be refunded in case of failure to deliver the leased asset or benefit therefrom for a reason not attributed to the lessee.

• **Obtaining the Asset's Operation License:** If the possession, operation or management of the asset subject of the contract requires obtaining a license, the lessee may apply to the competent authority to obtain such license based on the registered contract in accordance with the provisions of this Law. The license may be issued in the name of the

lessor with an indication that the leased asset is in the possession of the lessee under the contract. Unless agreed otherwise, the lessee shall bear all statutory fees for obtaining the license and renewal thereof.

• **Use of Leased Asset:** The lessee shall use the leased asset for the agreed purposes within the ordinary use and shall be responsible for performing the operational maintenance at his own expense according to the prevailing technical practices. The basic maintenance shall be performed by the lessor unless agreed to be performed by the lessee.

• **Occurrences that Prevent Use of the Leased Asset:** The lessee shall promptly notify the lessor by a written or electronic letter of any barriers that prevents whole or partial use of the leased asset, using the contact details contained in the contract, and in accordance with the notification rules prescribed by the law.

If the lessor does not remove the barrier that prevents the use of the leased asset in whole or in part during the period specified in the contract, the lessee may take the necessary measures to protect the leased asset and make full use of it at the expense of the lessor by deducting from the subsequent lease payments.

• **Change or Modification of the Leased Asset:** The lessee may not make any alterations or modifications to the leased asset without a written consent by the lessor. Such consent shall determine the nature and scope of such alterations or modifications and the party responsible for the cost. The lessee shall not be liable for loss of the leased asset unless caused by deliberate act or negligence on his part. If such loss is due to deliberate act or negligence on the part of the lessee, he shall be liable to pay the value of the leased asset at the time of loss save for what is covered by insurance.

• The lessee may not accord rights against ownership of the asset nor pledge it to a third party without the written approval of the lessor.

• **Right to Own:** If the lessee has the right, or has been promised, to own the leased asset, the contract shall include a payment schedule specifying the rent amount of asset and the value of the right to own separately, provided that the installment to be paid for any period of the contract term is not be less than the rent of asset for that period. If the contract is terminated during the lease term with mutual consent of both parties, or according to the provisions of contract or the law, the lessee may recover the amounts paid for the right to own.

• Early Ownership If the lessee opts to own the leased asset under the contract at any time, the lessee may prematurely own that asset under a separate annex whereby the sale or assignment is certified by accelerating the payment of remaining installments without bearing the cost of future payments for the remaining period of the contract. The Lessor may be entitled to:

– The cost of reinvestment in an amount not exceeding the cost for the three months following the early ownership.

– The expenses paid by the lessor to a third party by reason of the contract for the remaining period of contract, if such expenses cannot be otherwise recovered.

Notwithstanding the above, the contract may specify a period during which early ownership is prohibited, if the subject matter of contract is real estate property and this condition entails a deduction from the term cost, provided that the prohibition period does not exceed two years from the date of concluding the contract.

• **Assignment** The lessee may assign the contract to another lessee subject to the Lessor's written consent. In the event of lessor's rejection, the lessor may provide reasonable grounds for that rejection.

• **Expiration or Termination of Contract** the lessee shall hand over the leased asset in the condition agreed upon in the contract to the lessor upon termination or expiration of the contract, unless the lessee opts to own the leased asset under the contract.

2. Lessor's Rights and Obligations

• **Marking the Leased Asset:** The lessor may affix any information to the leased moveable asset to protect it, including the lessor's name and the contract registration number in the contract register.

• **Inspecting the Leased Asset:** The lessor, or designee, may inspect the leased asset to ascertain the continuity of possession by the lessee and examine its condition, provided this is not harmful to the lessee as provided for in the Implementing Regulations and the contract.

• **Securitization:** In the event of issuing securities against the lessor's rights in accordance with the Regulations and rules issued by the Capital Market Authority, the lessor shall remain bound to immediately disclose to SAMA all technical, commercial, legal or other risks related to the contract, the leased asset or the process of issuing securities against the lessor's rights in general. In the event of such securitization, the lessor shall remain bound by all relevant supervisory requirements.

• **Assigning Lessor's Rights:** The lessor may assign his rights arising from the contract without the Lessee's consent, unless the contract stipulates otherwise. In all cases, the following conditions shall be observed for making such assignment:

– The assignment shall not entail any harm to the lessee.

– It shall be effective from the date of its registration in the contract register.

– It shall not release the lessor from his obligations under the contract.

– If the assignment results in a change in the party receiving the rent, this change shall apply to the lessee from the date of being so notified.

• **Selling the leased asset:** If the lessor sells the leased asset to a third party, ownership of said asset shall be transferred encumbered by the contract.

• **Insurance on the leased asset:** The lessor shall be responsible for obtaining cooperative insurance on the leased asset and shall not request it from the lessee.

• **Loss of leased asset:** The lessor shall be liable for the consequences of loss if caused by the lessor or by force majeure.

• **No objection letter:** The lessor shall obtain SAMA's no objection letter proving its non-objection to the finance lease products before offering them, to ensure fairness of their terms.

5. 1.3 Finance Lease Contract Register:

Learning Objective



To learn about the contract register, and understand the role and services provided by finance lease contract registration companies.

1. "Contract Register" Concept:

The contract register means "A register for finance lease contracts concluded or executed in the Kingdom, sales contracts resulting from finance lease and any amendments thereto in accordance with the provisions of the Finance Lease Law. "

• The lessor shall register the contract and any amendments thereto in the contract register within ten working days from the date of concluding or amending the contract. All actions affecting the contractual rights of the lessor and lessee shall be recorded in the register.

• The following details shall be recorded in the register:

– Details of the parties and their representatives, and their official addresses, including name and details of the lessee, the lessor's name, contact details, and license details.

– Detailed description of the leased asset, including its specification, serial number, production date, country of origin as the case may be, as well as details of the asset's title deed.

– The leased asset insurance details, if any.

– Term of contract.

– The rental amount and how it is calculated and paid

– Contractors' written consent to disclose contract register information.

– Documents proving the ownership and possession of the leased asset (such as real estate title deed, asset title deed, customs card, intellectual property registration certificate, and proof of purchase)

• The head and clerk of the contract register shall meet the following requirement:

  • Be a Saudi national;

  • He shall not have been previously convicted of a crime involving breach of trust and dishonesty.

  • He shall not have been dismissed from service by a final disciplinary judgment or decision unless he has been rehabilitated in accordance with the relevant regulations and rules in force in this regard.

• SAMA shall issue a decision defining the functions of the head and clerk of the contract register. Moreover, the contract register clerk shall:

  – Perform his duties at his workplace. However, he may, subject to the head of the contract register's approval, perform them at the lessor's location, who shall bear the expenses incurred in this respect.

  – Verify the identity of the contracting parties or their representatives from the national identity card or residence permit.

  – Verify the capacity of the contracting parties or their representatives, and their capacities that authorize them to conclude contracts.

  The contract register clerk shall have an official clerk to seal the dealings and documents he executes.

• The documents and declarations issued by the contract register clerk shall be written in Arabic. Documents in foreign languages however may be authenticated after being translated into Arabic by a certified translator, in which case the authentication shall be affixed to the original document and its translation.

• The head of contract register is responsible for the registration work in the registry, to whom the application for registration and any amendments thereto is submitted, and then he refers the same to a contract register clerk. The registration is made in accordance with the Finance Lease law and its Implementing regulations.

• For the purpose of proving the registration of title documents, the contract register clerk shall stamp the title document and the contract and write the registration number, or otherwise take the necessary action regarding the documents that cannot be stamped, such as real estate titles.

• The head of contract register shall issue an official document called the attested finance lease contract, which includes the data contained in the contract register.

• SAMA owns the contract register with all its data and information. The entries shall be kept in the contract register for at least ten years from the date of expiry of the contract obligations.

2. The contract registration companies' role and services:

• Responsibilities of contract registration company:

According to the Finance Lease Law, lessors shall establish joint stock company(ies), subject to SAMA's approval, for the purpose of registering finance lease contracts. The contract registration company shall be responsible for:

– Registering contracts and any amendments thereto, including details of leased assets, and rights related thereto.

– Recording the transfer of finance lease rights under securitization deals.

– Disclosing to the licensed finance entities the contract register data after obtaining the lessor's written approval.

– Registering the title deeds resulting from finance lease contracts, after registering the transfer of title- if the leased asset is real estate, with real estate title registration entities (courts and notaries).

• Establishment of a contract registration company:

According to the Companies Law and Capital Market Law and their regulations, as well as the Finance Lease Law, the following rules shall be observed when establishing a contract registration company:

• The capital of the contract registration company shall be determined by SAMA's decision. SAMA may require the founders to submit a study specifying the company's capital requirements.

• The contract registration company's shares shall be distributed among the lessors as determined by SAMA. The contract registration company's capital may be increased or decreased after obtaining SAMA's written approval.

• A no objection letter shall be obtained from SAMA for entry or exit of shareholders.

• The Real Estate Refinance Company may distribute annual profits by a decision of its board of directors after obtaining SAMA's no objection letter.

• SAMA's no objection shall be obtained for the appointment of the company's board chairman and members as well as the executives and the head and clerk of the contract register.

• Managing the contract registration company:

– The contract registration company shall record and classify its transactions as determined by SAMA.

– Electronic means may be used and relied upon for registering contracts. However, SAMA may approve any other process or means for registration.

– In the event of securitizing the rights arising from the contract, the lessor shall record the number of CMA's decision approving the securitization in the contracts register. The contract registration company shall keep a copy of CMA's decision as a basis for the contract register clerk to act.

– In the event that SAMA has licensed more than one company to register contracts, these companies shall take the necessary measures to ensure the unity of contract register data, exchange data among them, and protect and maintain contract register data.

– The contract registration company's fees shall be determined by a decision of SAMA based on a proposal from the company that is based on a detailed technical study covering the economic and commercial bases for setting the fees.

5. 1.4 Violations and disputes related to finance lease contracts:

1. In case of failure to hand over the fixed leased assets in any of the events specified in this Law, the lessor may request the competent court to issue a ruling to this effect. The court shall decide on such request within a maximum period of 30 days from the date of filing the request.

2. Pursuant to the provisions of this Law, the lessor may repossess movable assets from the lessee in the events where such right of repossession is stipulated in the contract between the two parties. Repossession shall be supervised by specialized firms licensed by the Ministry of Justice in accordance with the Enforcement Law.

3. Any person who conceals the information affixed to the leased asset, alters marks of the leased asset or specifications thereof as recorded in the relevant register, or sells or pledges the leased asset without the written consent of the lessor shall be penalized, depending on the gravity of the violation, with a fine not exceeding one-fourth of the value of the leased asset, and/or imprisonment for a period not exceeding three months.

5.1.5 Controls for Repossession of Movable Assets by the Lessor in finance lease Contracts:

Learning Objective

4. To know the controls for repossession of movable assets by the lessor in finance lease contracts.

according to the controls for repossession of movable assets by the lessor in finance lease contracts issued by SAMA on Safar 1441 AH, some terms are defined as follows:

– **Repossession of movable assets:** Recovery of movable assets from the lessee in cases where the finance lease contract between the two parties provides for the lessor's right to recover them.

– **Licensed Companies:** Companies specialized in recovering movable assets licensed by the Ministry of Justice in accordance with Enforcement Law. They can be found on the Ministry of Justice's website

– **Registered Contract Extract:** A document issued by the contract registration company that is required for enforcing rulings on the leased asset according to the provisions of the Enforcement Law and its Implementing Regulations.

• **General Provisions:**

– The lessor may not repossess the movable assets, except through the licensed companies.

– In order to repossess the movable assets subject matter of the finance lease contracts, the contract shall be registered with the contract registration company.

– The method for repossessing movable assets shall be according to the rules issued by the Ministry of Justice for repossession of movable assets by the lessor.

– All parties (the lessor, contract registration company, and licensed companies) shall use electronic means for repossession of movable assets

• **Procedures for repossession of movable asset:**

1. The lessor shall notify the contract registration company that it is willing to repossess the leased asset. The lessor shall take into account the following:

– If the case entitling the lessor to repossess the movable asset is lessee's default, then repossession shall be only allowed when the default period is more than (3) consecutive months or (5) interrupted months throughout the contract term.

– The lessor shall notify the lessee in the event that the lessee breaches his/its obligations through a documented means of communication, requesting him/it to satisfy the terms of contract within (5) working days, otherwise the lessor will be entitled to

repossess the movable asset.

– In the event that the lessee does not fulfill his/its obligations, and the lessor wants to repossess the movable asset, the lessor shall so notify the contract registration company after (15) days from notifying the lessee according to the previous paragraph.

2. The contract registration company, having verified lessor's entitlement to repossess the leased asset, shall issue the registered contract extract including the contract number and date, place of payment, place of execution, date of extract, lessor's name, lessee's name, outstanding payments, and current installments.

3. The contract registration company shall notify the licensed company selected by the lessor of the lessee's violation of the terms of contract, and that the lessor is desirous to repossess the movable asset, providing it with all details of movable asset according to the form approved by the contract registration company.

4. The lessor shall promptly notify the lessee of repossession of the movable asset through a documented means of communication, provided that such notice includes, as a minimum, the following:

– Name of the lessor and the entity concerned with collecting the defaulted debts.

– Number of contacts with the concerned department or third party.

– Working hours of the concerned department or the third party.

– Name of contact officer, lessor or the third party in case the communication is made via phone.

5. The lessor shall provide the lessee with the approved form for the movable asset inventory as stated in the rules issued by the Ministry of Justice for repossession of movable assets by the lessor through one of the means of communication specified in the finance lease contract.

6. The lessor shall not dispose the movable asset (such as: To sell or assign the asset to another party, or close the contract) except after (15) days from the date of repossessing the asset, and after notifying the lessee of the overdue amounts and the documents necessary for the lessee to repossess the movable asset.

- **Final Provisions:**

– The lessor shall provide SAMA on a quarterly basis with a statement that includes all cases of repossession.

– The contract registration company shall record and retain all applications received from lessors in connection with repossession of movable assets, and conclusions reached in an orderly manner.

– The lessor shall develop its internal policies and procedures in line with these controls, and in a manner that does not conflict with the regulations and instructions issued on the recovery of movable assets subject of finance lease contracts.

– The lessor and the contract registration company shall fully comply with these controls, in addition to regulations, controls and instructions issued by the relevant authorities. The lessor and contract registration company shall not be discharged in the event of non-compliance.

5.2 Financing SMEs:

Learning Objective



5. To understand the meaning of small and medium enterprises and how they are financed.

5.2.1 The meaning of small and medium enterprises:

Small and Medium Enterprises General Authority (Monsha'at) was established in 2016, with the purpose of organizing, supporting, developing and fostering the SME sector in the Kingdom according to international best practices, in addition to promoting the productivity of these enterprises and increasing their contribution to GDP from 20% to 35% by 2030.

Monsha'at develops, implements and supports programs and projects to foster the culture and mindset of self-employment, entrepreneurship, initiative and innovation, diversify the sources of financial support for SMEs, and stimulate venture capital sector initiatives, in addition to setting policies and standards for financing businesses that are classified as SMEs, and providing administrative and technical support to SMEs and support them in developing their administrative, technical, financial, marketing, human resources and other capabilities.

According to Monsha'at board's decision No. (2.1.1438) dated 14/03/1438 AH, the definition of SMEs operating in the Kingdom is as follows:

- **Micro-enterprises:** The enterprises that have 1 to 5 full-time employees, or whose revenues do not exceed 3 million riyals.
- **Small Enterprises:** The enterprises that have 6 to 49 full-time employees, or whose revenues are not less than 3 million and not more than 40 million riyals.
- **Medium Enterprises:** The enterprises that have 50 to 249 full-time employees, or whose revenues are not less than 40 million riyals and not more than 200 million riyals.

SAMA issued a circular on 16/06/1438 AH, regarding the adoption of the definition of SMEs issued by Monsha'at in the following form:

Type of enterprise	Revenues (in Millions of Saudi Riyals)	Number of employees (full time)
Micro-enterprises	From 0 to 3	From 1 to 5
Small	>3 to 40	From 6 to 49
Medium	>40 to 200	From 50 to 249
Large	Exceeds the above criteria	

The revenue criterion is used for classifying the type of enterprise, and in the absence of revenue data (a new establishment), the number of full-time employees shall be the criterion for classifying the enterprise.

5.2.2 Financing SMEs:

Monsha'at works to implement its strategic plans and launch its various programs in respect of SMEs sector by supporting innovation, facilitating business, enabling growth, developing capabilities and creating suitable employment opportunities for citizens throughout the Kingdom by supporting entrepreneurship, through enactment of better laws and regulations, offering more finance facilities and more international partnerships, and a greater share in government purchases and competitions. In this context, Monsha'at has launched many initiatives to finance SMEs, foremost of which are:

1. Indirect Lending Initiative:

An initiative Launched by Monsha'at as part of initiatives to stimulate the private sector, and in cooperation with Social Development Bank to provide low-cost loans to finance companies licensed by SAMA, which in turn provide finance solutions with competitive advantages for SMEs through low-cost loans.

2. Kafalah Program (Financing Guarantee):

The program aims to assist all SMEs in obtaining the necessary finance to develop and expand their business, and encourage financial institutions to deal with SMEs sector. The finance is offered by Saudi banks and finance companies participating with the Program.

3. Venture Investment Initiative:

An initiative aimed at stimulating capital financing for SMEs and entrepreneurs, and investing in emerging enterprises during their various stages of growth, through the Saudi Venture Capital Company, which was established in 2018 with the aim of empowering and supporting SMEs, in addition to realizing a Saudi Vision 2030 objective through the growth and diversification of the Kingdom's economy.

4. Bank Financing Products

A financing program in partnership with certain local banks (three banks), which provides a number of innovative financing products and solutions with competitive advantages and profit margins in order to facilitate access of SMES' owners to the appropriate finance.

5. Finance Portal:

The Finance Portal is designed to connect SMEs wishing to obtain finance with the financers registered in the portal, including banks and finance companies, to select the appropriate financing offers.

Microfinance Rules

Learning Objective



6. To learn about the rules for running microfinance business and the type of its operations.

5.3.1 "Microfinance" Concept:

According to the updated rules for running microfinance business issued by SAMA in Muharram 1441 AH, the microfinance company means: "The company that finances the business and production assets of small business owners, craftsmen and the like, which is licensed to run such business according to the Finance Companies Control Law and its Implementing Regulations as well as the relevant rules and instructions issued by SAMA."

- **License Terms:**

  Microfinance companies are subject to the provisions of licensing finance companies contained in the Finance Companies Control Law and its Implementing Regulations, as well as the provisions regulating the size of microfinance company's activity and type of its operations. Except that the candidate for a senior management position in the microfinance company shall be academically and practically qualified, and to have sufficient experience of no less than two years in the same field shall not be less than five years.

- **Conditions for running microfinance business**

  – Microfinance business shall be limited to financing productive activities and assets for beneficiaries of small business owners, craftsmen and the like. The microfinance company may not provide consumer finance services or engage in any other finance activities.

– The amount of finance granted to microfinance beneficiaries may not exceed SAR 100,000 (one hundred thousand riyals). However, SAMA may increase that amount to SAR 200,000 (two hundred thousand riyals) if it deems that necessary.

– The microfinance company may grant finance without guarantee, or with a guarantee which to be determined based on the type and nature of that finance according to the risk management policies and procedures approved by the microfinance company's board, knowing that Articles 60 and 61 of the Implementing Regulations of Finance Companies Control Law stipulate that the finance shall be guaranteed, with an exception for finance companies to grant finance without guarantee, but with certain conditions.

– The microfinance company shall not:

1. Engage in activities other than micro-enterprises finance activities.
2. Provide finance to a related party as defined in the Implementing Regulations of the Finance Companies Control Law.

5.3.2 Rules of management and supervision in microfinance companies:

• The microfinance company shall set written finance policies, rules and procedures commensurate with the nature of its activity, and ensure proper application thereof. This includes the following at a minimum:

1. The rules, conditions and procedures for granting finance.
2. Criteria and procedures for measuring the economic feasibility of the activity or production asset to be financed and the beneficiary's ability to pay.
3. Procedures for verifying the use of the finance amount for the purpose specified in the contract.
4. Procedures for following up the provision of finance and providing advice and guidance to the beneficiary regarding the finance, as applicable.
5. Procedures and controls for collecting due installments and procedures for dealing with cases of default.
6. How to calculate the financing cost.

• SAMA has set out the requirements that a microfinance company shall abide by with regard to the following:

– Information security requirements, corporate governance, internal organization, outsourcing, risk management, compliance, and internal audit, according to the nature and size of the microfinance company's activity and the type of its operations.

– Requirements for combating financial crimes, especially money laundering, terrorist financing and financial fraud, in line with the potential risks for these companies.

– The provisions that the microfinance company shall make to meet potential losses and risks.

• The microfinance company shall set internal controls and procedures that ensure compliance with the relevant rules, regulations, laws and instructions issued by the regulatory authorities, foremost of which are:

– Maintaining necessary records to prove its compliance with such rules, regulations, laws and instructions and taking the necessary measures to prevent violation of their provisions.

– In the event that the microfinance company contracts with third parties, it shall ensure that all parties involved are complying with, and not violating, these rules or any relevant regulations, laws and instructions.

– The microfinance company's board forms an audit committee in addition to other specialized committees to expand the scope of board competences to include areas that require specific expertise. The board of directors shall set the powers and monitor performance of such committees.

– Setting out a code of ethics to be approved by the board of directors. Then a copy of that code is submitted to SAMA, provided that it includes clear principles, policies, and controls for professional conduct and ethics of professional dealing with beneficiaries, especially with regard to granting credit and premium collection practices. The company shall take all necessary measures to verify compliance with its code of ethics in light of the relevant laws, regulations and instructions

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1. Briefly explain the rights and obligations of the lessor and lessee in the finance lease.?
Answer reference: Section 2.1.5

2. What does the contract register mean? What are the services provided by companies registering finance lease contracts?
Answer reference: Section 5.1.3

3. Mention the violations and disputes related to finance lease contracts?
Answer reference: Section 5.1.4

4. “SAMA has issued the controls for repossession by the lessor of the movable assets in the finance lease contracts.” Discuss this phrase, explaining the procedures for repossessing the movable asset under finance lease contracts?
Answer reference: Section 5.1.5

5. What is the difference between micro-enterprises, small enterprises, and medium enterprises?
Answer reference: Section 5.2.1

6. Briefly discuss Small and Medium Enterprises General Authority (Monsha’at) and financing SMEs?
Answer reference: Section 5.2.2

7. What does microfinance mean? Explaining the provisions for licensing and running microfinance business?
Answer reference: Section 1.3.5

8. Briefly explain the management and supervision rules in microfinance companies?
Answer reference: Section 5.3.2

Chapter Six

Controls for Financing Credit Cards and Charge Cards, Consumer Microfinance Rules, Rules on Outsourcing, and Rules for Engaging in Debt-based Crowdfunding

This chapter includes 7 questions out of 50 questions in the exam



6 - Introduction:

This chapter tackles the rules and procedures to be followed by finance companies operating in the Kingdom that provide finance services through credit cards and charge cards. It also explains the rules for regulating consumer microfinance companies, in addition to the outsourcing rules for finance companies, as well as rules for engaging in debt-based crowdfunding.

6.1 Nature of Credit Cards and Charge Cards Finance:

Learning Objective



To know the controls regulating credit cards and charge cards.

6.1.1 Meaning of Credit Cards and Charge Cards:

According to credit cards and charge cards issuance and operation controls issued by SAMA in Jumada al-Thani 1436 AH, there are a plenty of different cards used, which are as follows:

- Credit Card: A card issued by banks in cooperation with international card companies. The card is used by the cardholder to obtain in advance, under the issuer's guarantee, cash, goods, services or other benefits from commercial establishments that accept this card locally or internationally, and then the debt is paid thereafter or according to other arrangements. This definition does not include other types of cards, such as charge cards, charge cards and prepaid cards.
- charge card: A card similar to the credit card, except that the cardholder shall pay the full amount due upon receiving the account statement or on the due date specified in the account statement.
- Corporate card, which means: A credit card or a charge card issued to a user or employee works for a company with a legal entity in accordance with the card terms of use:
    1. The Company is responsible for any debits on the Card.
    2. The user/employee and the company are jointly responsible for any debit on the card.
    3. The Company is responsible for any debits on the Card for the purposes of the Company's business.
- business card: A credit card or a charge card issued for the purpose of purchasing goods or services on behalf of a company, where the company is responsible for all

amounts debited on the credit /charge card.

Companies subject to the provisions of the Finance Companies Control Law and its Implementing Regulations may issue credit cards without guarantee based on their risk assessment systems. Credit and charge cards issued by finance companies are not subject to the restrictions on fees and commissions stipulated in the Implementing Regulations of the Finance Companies Control Law and the updated consumer finance rules.

• Some of the terms are defined as follows:

– **Cardholder:** The cardholder can be a natural or legal person, and may be:

• The card holder, or an applicant for a credit or charge card issued by the card issuer or

• The card holder, or an applicant for a card who/which has agreed with its issuer to settle all obligations resulting from the issuance of an additional credit or charge card to a specific person, who/which is considered the main cardholder.

– **Card issuer:** An entity licensed to issue credit or charge cards.

– **International card companies:** The operators of payment systems such as Visa, MasterCard, American Express, UnionPay, Diners Club or other similar companies.

– **Card Limit:** The total credit limit available in the credit or charge card under the credit / debit card agreement.

–**Credit** The trust which allows one party to defer the payment of a debt or to assume a debt with deferred payment. The credit is extended by the card issuer as follows:

1. The card issuer studies and organizes recurring transactions.
2. The card issuer may charge a commission from time to time on the outstanding balance.
3. The card limit set for the cardholder by the card issuer during the term of agreement will be made available according to payments made by the cardholder against the card dues.

– **Cash Withdrawal:** A cash withdrawal made by a credit or debit cardholder using the card. The cardholder shall be considered as a recipient of a cash advance in the following cases:

- Withdrawing cash from an ATM.
- Withdrawing cash from any other source.
- Cash transfer
- Any other form of cash withdrawal as determined by the card issuer.

– **Profit Rate:** The rate used to generate profits and is termed as Annual Percentage Rate (APR). It applies to credit service provided under Shariah-compliant contracts

– **Annual Percentage Rate (APR):** The debit rate at which the present value of all payments and installments owed by the cardholder (representing the total amount payable by the cardholder) equals the present value of all credit payments available to the cardholder.

– **Term cost:** All applicable commission or profit fees, and recurring fees other than commission and profit fees that are payable by the cardholder. This can be a fixed or float percentage of the outstanding balance in the credit card account.

– **Invoicing Cycle:** The interval between the days or dates of periodic or regular account statements. Such intervals shall be equal or not more than a quarter of a year, and the interval shall be considered equal if the number of days in the cycle does not differ by four days from the regular day or date.

– **Credit information company:** A licensed national credit information company that provides its members with services related to consumer and commercial credit information in the Kingdom of Saudi Arabia.

– **Default:** The cardholder's failure to comply with the terms and conditions of the credit or charge card agreement, which results in the cardholder's non-payment of the monthly installment for a period of (90) calendar days from the due date.

– **Default Notice** A notice from the card issuer to the cardholder that there are overdue amounts related to the card.

– **Fraud:** A deliberate act to gain a benefit illegally (such as cash, a product, or a service).

– **Grace Period:** The date or period during which the amount of credit made available for the purchase can be paid without incurring commission or profit fees calculated based on a periodic commission or profit rate. In cases where there is no grace period, a statement to that effect shall be made. If the length of grace period varies, the card issuer shall disclose the days or minimum days in the grace period, in case such disclosure is made based on the number of days or minimum days.

– **Initial Disclosure:** The information to be provided to the cardholder by the issuer when opening a credit or charge card account.

– **Outsourcing**: The arrangement under which a third party (i.e. a service provider) undertakes to provide a service previously performed by the issuer or initiate a new service that the card issuer wishes to provide. Outsourcing may be made to a service provider in Saudi Arabia or abroad. The service provider may be one of the issuer's unit (for example, a head office or an external branch), a subsidiary of

the issuer's group or an independent third party. In all cases, the Outsourcing Rules issued by SAMA shall be adhered to.

– **Satisfactory Settlement**: A decision issued regarding a default or dispute that is in compliance with the procedures and timeframes for settling disputes in accordance with the instructions issued by SAMA and international card companies or payment system operators.

– **Unauthorized Use**: The use of a credit /charge card by a person other than the cardholder, who does not have the actual, tacit, or apparent authorization for this use, including electronic copying of the card data.

6.1.2 Issuance of credit /charge cards:

• **General Requirements:** The issuer of credit /charge card shall abide by the following general requirements:

1. All credit agreements, application forms, guarantee agreements, payment schedules and other relevant documents shall be written in Arabic. An English copy of these documents shall also be made available to the cardholder if requested.
2. The cardholder's rights and obligations related to the terms and conditions of credit/charge cards shall be recorded in the "Cardholder Agreement" which shall meet the disclosure requirements set by SAMA.
3. All card issuers shall comply with the policies and instructions agreed upon with international payment companies subject to the card issuance and operation rules issued by SAMA.
4. The issuer may not issue a credit /charge card without obtaining an application form signed by the cardholder.
5. The issuer shall adopt an effective risk management strategy that allows for assessment of the eligibility of the credit or charge cardholder and verifying that the cardholder meets the suitability criteria.
6. The issuer may not issue a credit/charge card to anyone under the age of eighteen (according to the Hijri date), unless such card is an additional one. This condition does not apply to a male and female student studying at a university if that person meets the following conditions:

– He is a co-cardholder who meets the requirements for issuing the card.

– He has a separate annual income through which he can meet requirements of issuing a credit/charge card.

• **Card issuance procedures:**

– In the event of a new card application, the minimum annual total income (salary) shall be (SAR 24,000) for bank customers and SAR 30,000 for non-bank customers.

– The card issuer is responsible for ensuring that the companies printing cards meet the standards issued by SAMA and international card companies.

– In the event that the application for a new credit /charge card or an alternative or supplementary card made by a new or previous applicant is rejected, the card issuer shall state the reasons for rejection through a documented means of communication within a week from the date of rejection decision.

6.1.3 Credit Limits for Cards:

• When determining the initial credit limit for the card, the issuer shall consider the following:

– The results of debt burden analysis (the difference between the cardholder's income and expenses).

– Account activity information, such as the amount of transactions made and the payment dates of due amounts.

The issuer may not issue a card or increase limit of credit /charge card without scrutinizing the credit cardholder's records with the licensed credit information company, in addition to examining the cardholder's total credit limits to ensure his financial solvency, ability to pay and credit behavior.

• The issuer shall apply appropriate risk management procedures, such as using the credit scoring and default points when issuing and renewing the credit/charge card, in order to determine the appropriate credit limits for cardholders.

• If the cardholder does not pay monthly minimum amount in full "three consecutive installments", and subject to a prior notice being sent by the issuer, the issuer may take the following actions:

– Immediately freeze the card account and treat it as account in default.

– The issuer offers the cardholder free credit advisory services (dealing with financial difficulties).

– Work to reach a settlement before initiating legal proceedings against the defaulting cardholder.

• The issuer communicates directly with the cardholder during that period regarding the payment, and it may assign an internal or external party to collect the amount within a month from the expiry of the minimum payment period "three months".

• The issuer may not reduce the monthly minimum amount due on the credit cardholder to less than 5% of the total amount due as of the date of issuance of the monthly statement of account.

• The issuer shall close the credit /charge card account upon receiving a request from the cardholder through a documented means of communication, after paying the full amount payable on the card. In this case, the issuer shall give the cardholder a discharge letter within a maximum period of one month from the date of paying the full and final amount due and update the card holder's record accordingly with the credit information company within a week from the date of closing the card account.

6.1.4 Advertising of Cards:

The issuer that advertises a monthly credit /charge card shall:

– Clearly disclose the name of product and APR related to the credit.

– Ensure that the advertisement does not include any other fees such as term cost.

– Disclose the issuer's identity, which shall include at a minimum the issuer's name, logo and contact information.

6.1.5 Disclosure of Information:

Initial Disclosure:

The card issuer that intends to enter into a credit/charge card agreement with the cardholder shall provide the cardholder in writing with the initial disclosure information. The disclosure shall be in a clear form. The issuer shall use any form specified by SAMA from time to time for this purpose. In addition, the cardholder shall be provided with the initial disclosure by one of the following methods:

– To be sent to the cardholder on the same day through one of the issuer's electronic means of communication after obtaining the cardholder's consent.

– To be sent to the cardholder on the same day by the issuer's fax after obtaining the cardholder's consent.

– To be sent to the cardholder by registered mail and delivered within two weeks from the date of sending.

– To be sent by any other approved means.

• The initial disclosure statement shall include, as a minimum, the following information:

1. Initial credit limit, if known at the time the disclosure is made.
2. Annual rate and commission / annual profit rate.
3. The nature and amounts of any recurring fees not related to the commission.
4. The minimum amount payable during each payment period and how it is determined.

5. Any term for which an account statement is submitted.

6. The date on or after which commissions or profits accrue, and information regarding the applicable grace period.

7. The nature of all fees and commissions.

8. Information about any optional service agreed in writing related to the credit /charge card agreement, the fees for each optional service, and the circumstances in which the cardholder may cancel the service.

9. The method by which the cost rate is calculated.

10. If the cardholder is required, under the credit/charge card agreement, to pay the outstanding amount in full upon receipt of the statement of account,

– That condition shall be clearly stated and provided for.

– The grace period at the end of which the cardholder shall pay the outstanding amount shall be specified.

– The penalty charges charged as fees on any outstanding balance that is not paid when due.

11. Information on all fees that will be charged, including cases of default that will be submitted to the licensed credit information company or other regulatory authorities in accordance with SAMA instructions.

12. An illustrative figure of a foreign exchange process to Saudi riyals, indicating the foreign exchange fee or commission charged by the issuer in cases of foreign exchange to Saudi riyals. The calculations shall include one foreign exchange purchase and one cash advance transaction via an ATM or PoS terminal outside the Kingdom of Saudi Arabia.

General Disclosures:

• The card issuer shall issue a one-page short statement in clear form with the card containing the basic information about the issued card, including various commissions, fees and charges that may be payable on the credit/charge card.

• If the credit /charge card agreement is amended, the issuer shall disclose to the cardholder, in writing and within a period of not less than (30) calendar days before the amendment becomes effective, any changes in the terms of agreement except for changes related to the following:

– Extension of grace period.

– Reduction in non-commission fees or default fees.

– Change in the details of any optional service associated with your credit/charge card agreement.

• The issuer shall send the cardholder the monthly statement of account by mail or any other guaranteed means of communications at least three weeks prior to the due date. The issuer may opt not to send paper statements of account if the cardholder agrees to receive them in an electronic form. The issuer may not charge additional fees if this condition is not met.

• The issuer shall include cautionary provisions in all agreements, terms and conditions, application forms and notices in red color indicting consequences that the cardholder shall be responsible for in the event of:

– Failure to meet the terms of credit/charge card as agreed in the agreement.

– Pay the monthly minimum amount.

Regular account statements:

The card issuer shall send a monthly account statement (in Arabic or English upon the cardholder's request) containing at least the following information:

1. Credit Limit Details: Approved credit limit, available and outstanding balances.
2. previous balance: The outstanding account balance at the beginning of the account statement cycle.
3. Purchases or cash withdrawals: Indicating the transaction type and merchant details, including the date of transaction and amount of transaction in riyals, or the equivalent in the foreign currency as applicable.
4. Details of the commission or profit charged to the account, and dates of such debiting, including commissions for "optional features" requested by the cardholder.
5. The amount to be paid by the Cardholder on or before a specified maturity date.
6. Total Payments, purchases, credit advances, commissions and total fees.
7. Payments and refunds: Any payments made or payables credited to the account during the statement cycle, including the amount and date of payment/refund.
8. Regular commission /profit rates: In the event of change of the commission rate during the statement cycle, each regular rate used to calculate the commission fee and balances to which it will apply shall be disclosed.
9. The balance based on which any applicable fees/profits are calculated: The amount of balance to which a regular commission rate has been applied. The manner in which the balance was inferred shall be disclosed.
10. Closing date of account statement cycle: The closing date of account statement cycle on which the balance becomes due and outstanding.
11. Due Date: The date on which the new outstanding balance of the credit /charge card shall be paid in full or in part to avoid the application of commission/profit fees

and any penalty fees.

12. Address for notification of account statement errors: The address or telephone number used to notify account statement errors or any other inquiries the Cardholder may have about the account statement.

13. The period given to the cardholder to verify the accuracy of transactions recorded in the account statement, after which the statement of account is binding. This period shall not be less than (30) calendar days from the date of sending the account statement.

Disclosure of fees, commissions and charges:

• The details of the transactions carried out in foreign currencies shall be stated in the monthly card statement, including the exchange rate used and commissions/fees charged as determined by SAMA.

• If the issuer offers to defer or skip a payment due on a credit/charge card under the relevant credit/charge card agreement, the issuer shall clearly disclose whether the commission will continue to accrue throughout any period covered by the offer, if applicable

• The card issuer shall notify the cardholders immediately of any expected amendments or modifications to the credit/charge card agreement, at least (30) days in advance of such amendment or modification.

6.1.6 Rights and Obligations of Cardholder:

• In case the cardholder does not agree to amendments or modifications of the credit / charge card agreement, he may terminate the agreement by notifying the issuer within (14) days of receiving the amendment notice via a guaranteed means of communication, in which case, all outstanding balances in the card account shall be settled.

• The cardholder shall provide the card issuer with his updated contact and address details and promptly notify the issuer through a documented means of communication of any change in such details.

• The issuer may allow the cardholder to withdraw cash using credit / charge card, up to a maximum of 30% of the credit card limit, taking into account the maximum ATM withdrawal limit according to the regulations applicable at the ATM location.

• The cardholder may cancel the credit /charge agreement within (10) days of receiving the credit/charge card, where the card issuer may not charge any fee for this period unless he has activated the card.

• The issuer shall send SMSs to the cardholder in the following cases:

1. In cases of debit transactions where the merchant's name, the date and amount

of transaction, the balance available in the card after applying the debit are stated.

2. In cases of credit transactions where the depositor's name, the date and amount of transaction, the balance available in the card after applying the credit are stated.

3. Releasing the amounts of previously approved transactions.

• Card issuers may not increase the term cost over the outstanding balance on account of default by the cardholder.

• Late payment fees shall not exceed SAR 100, and fees shall in no case exceed the outstanding amount.

• The card issuer shall notify the cardholder of the transaction amounts payable by him, and claim such amounts within (90) days from the date of transaction, at maximum. However, the card issuer may not debit from the cardholder account after expiry of that period except with the cardholder's prior written consent.

• The due date for payment of credit/charge card charges shall be the same date of each month. payments made before the midnight of due date shall be treated as being paid without default. Card issuers may not charge late payment fees unless the cardholder is granted a grace period of at least (21) days to settle the amounts due.

• The cash withdrawal fee shall not exceed:

- SAR 75.00 for each cash withdrawal amounting to SAR 5,000.00 and less.
- 3% of the transaction amount for each transaction exceeding SAR 5,000.00, up to a maximum of SAR 300.

• Card issuers may not charge fees for transfers between the cardholder's current account and the credit/charge card account held with the same bank.

• The card issuer shall notify the cardholder of the reward points one month before the expiration thereof and re-notify him again a week before the expiration date by sending short messages using guaranteed means of communication.

6.1.7 Settlement of Card Disputes:

Card issuers shall have in place a comprehensive dispute settlement policy (complaint processing policy and procedures). The main dispute settlement rules to be provided for are:

• The card issuer shall send by mail or other electronic means the cardholder's statement within (30) calendar days of receiving the "account statement dispute or error" notice, and inform the cardholder of the expected period to resolve the dispute.

• The card issuer shall initiate the necessary investigation according to the dispute settlement procedures, within two full account statement cycles, and within a period not exceeding (90) days from the date of receiving the dispute. In some exceptional cases, the issuer may extend the dispute settlement period to (180) days from the

date of receiving the dispute.

• If the "account statement dispute or error" is not satisfactorily resolved, the cardholder shall not be required to pay any part of the amount claimed, which is believed to be related to the disputed transaction, including the commission or any other fees. The issuer may not collect any charge, commission, or other fees until the disputed transaction is settled.

• If the issuer determines that there is an error in the account statement as claimed by the cardholder, the issuer shall remedy such error or dispute, refund any disputed amount and any other fees to the cardholder's account, and send a notice of settlement to the cardholder via a guaranteed means of communication.

6.2 Rules Governing Microfinance Companies

Learning Objective



To know the rules governing consumer microfinance companies.

6.2.1 Meaning of Consumer Microfinance:

According to the Rules Governing Microfinance Companies issued by SAMA inRabi' al-Awwal 1441 AH, the consumer microfinance means: "Finance provided for the purpose of consumption, where the consumer microfinance companies are prohibited from engaging in an activity other than providing consumer microfinance, running microfinance business shall be according to the following controls:

1. The purpose of finance shall be to purchase goods and services for the purpose of consumption, including but not limited to, purchasing furniture, consumer goods, household items, education finance and the like.
2. The purpose of the finance shall not be related to the beneficiary's commercial or professional business.
3. The consumer microfinance doesn't include the purchase of vehicles.

The consumer microfinance companies shall not:

– Finance to a foreign borrower that is not a resident in the Kingdom.
– Finance in a currency other than the Saudi riyal.

License Terms:

• The consumer microfinance company's founders/shareholders, or their representatives, shall submit a license application to SAMA, accompanied by the following:

1. Filled out license application form in the form approved by SAMA.

2. The draft memorandum of association and articles of association of the consumer microfinance company.

3. Description of the organizational structure of the consumer microfinance company, including all necessary departments and functions and the main roles of each.

4. The Fit and Proper Form for the founders/shareholders signed by each founder/shareholder, as applicable.

5. The Fit and Proper Form for the board members signed by the concerned candidate for board membership.

6. An irrevocable bank guarantee in an amount equal to the minimum capital, issued for the benefit of SAMA from a local bank, automatically renewable until the capital is paid in full. This guarantee shall be released at the request of the founders in the following cases:

- The capital is paid in cash.
- The license application is withdrawn.
- The license application is rejected.

7. Any other documents or information required by SAMA.

The license application shall meet all its requirements. The founders of microfinance company shall provide SAMA with any additional information or documents it requests within (15) working days from the date of its request, otherwise, SAMA may reject the license application. SAMA shall notify the license applicant in writing of the initial approval or reasoned rejection of his application within (60) working days from the date of notifying the license applicant that his application is complete. SAMA shall issue a decision to grant the license after the founders complete the incorporation of company within six months from the date of initial approval and providing SAMA with a copy of the company's commercial register and articles of association.

- The minimum paid-up capital for a consumer microfinance company shall be SAR 20,000,000 (twenty million riyals). However, SAMA may increase or reduce the minimum capital according to market conditions, or if it deems that necessary considering the business model proposed by the consumer microfinance company or its geographical scope. The capital shall be paid in full upon incorporation of the company.
- SAMA may charge an amount of SAR 20,000 (twenty thousand riyals) for issuing, modifying or renewing the license to run consumer microfinance business.
- The term of the license is five years. SAMA may renew that term at the request of the consumer microfinance company. The microfinance company applies for renewal to SAMA at least six months before the expiration date of license using the form set by SAMA.

• SAMA may cancel the license at the request of the consumer microfinance company, taking into account the rights of creditors and beneficiaries and the integrity of financial system. SAMA may cancel the license if it is proven that the consumer microfinance company provided SAMA with false information or didn't disclose material information that it shall have disclosed for the purposes of the license.

Conditions for running microfinance business

• The consumer microfinance company shall develop written finance policies, which include rules and procedures for granting finance. The microfinance company's board of directors shall approve the finance policies and any amendments thereto, and provide SAMA with a copy thereof.

• The consumer microfinance company shall examine the consumer's credit history, subject to the consumer's consent, to verify his financial solvency, ability to pay and his credit behavior, and document this in the finance file. The microfinance company shall register the consumer's credit information, subject to the consumer's consent, with one or more companies licensed to collect credit information, and update this information throughout the period of dealing with the beneficiary.

• The microfinance company shall follow a scientific approach and clear, transparent and established standards and procedures to assess the creditworthiness of the finance applicant and his ability to pay. The company's board of directors shall adopt these standards and procedures and review them at least every three years and update them when needed.

• The total finance amounts granted to the beneficiary shall not exceed SAR 50,000 (fifty thousand riyals). However, SAMA may modify that amount according to market conditions or the company's geographical scope. The microfinance company may provide unsecured finance according to the risk management policy and procedures approved by its board of directors.

• The consumer microfinance company shall make provisions for potential losses and risks, in accordance with the international accounting standards. SAMA may require the consumer microfinance company to make one or more additional provisions to address potential losses and risks.

6.2.2 Organization and Risk Management Rules in Consumer Microfinance Companies:

Learning Objective

To learn about the internal organization of consumer microfinance companies, and how to manage the risks they face.

1. Internal organization:

• The consumer microfinance company shall establish appropriate organizational policies in written form that include work manuals and procedures, update them periodically, and communicate them to the concerned employees in the appropriate and timely manner to ensure that they abide by them.

• The consumer microfinance company shall have sufficient and qualified human resources in terms of knowledge and experience to meet the operation needs, business activities and risk profile. Therefore, the following rules shall be observed:

• The Saudization percentage at the departmental and administrative levels shall not be less than (50%), at the start of operation of consumer microfinance company.

• The Saudization percentage shall be increased annually by at least (5%) of the total workforce until the total percentage reaches (75%). Thereafter, SAMA may set a minimum annual increase in the Saudization rate.

• The appointment of a non-Saudi in a consumer microfinance company is limited to jobs that require expertise that is not available in the Saudi labor market. In all cases, the company shall obtain a no objection letter from SAMA before appointing a non-Saudi employee to the supervisory departments, after furnishing a proof that no Saudis are available to fill the position.

2. Risk Management:

• The consumer microfinance company shall:

• Develop a clear written work strategy and risk management policy to be approved by the Board of Directors and updated annually.

• Establish appropriate procedures for identifying, evaluating, managing, monitoring and reporting on risks.

• The consumer microfinance company shall prepare a biannual risk report for discussion by the Board of Directors based on the review of senior management, and shall provide SAMA with a copy thereof. The report shall include, as a minimum, the following:

– A comprehensive review of the development of risks and the performance of financial

positions exposed to risks related to market prices, as well as situations in which tolerable limit are surpassed.

– Changes in the assumptions and factors based on which risk assessment procedures were developed.

– Performance of the finance portfolio by activity, type and size of risk, and type of security.

– Credit limits set, external credit lines, non-performing finances, and comments thereon.

– Analysis of the situations in which the consumer microfinance company has exceeded the limits set while indicating the reasons for that, the size and development of new business and risk provisions made by the company.

– Any major finance decisions that do not align with the microfinance company's strategies or policies.

6.2.3 Supervision rules for consumer microfinance companies:

Learning Objective



Discuss how SAMA supervises consumer microfinance companies

• The total finance provided by the consumer microfinance company may not exceed twice the company's capital and reserves, except after obtaining no objection letter from SAMA. SAMA may raise the ceiling of the total finance that the company may provide as SAMA deems appropriate.

• The consumer microfinance company shall obtain a no objection letter from SAMA before approving any distribution of profits, provided that such distribution does not adversely affect capital adequacy and liquidity subject to the rules, requirements and standards set by SAMA.

• The consumer microfinance company may not obtain non-bank facilities, or acquire assets other than those necessary to run its business, except after obtaining SAMA's no objection letter.

• The consumer microfinance company and its board members and employees shall submit all information and documents relating to the company, its activities, shareholders and employees to SAMA upon request. SAMA may audit the microfinance company's records and accounts by its employees or by auditors assigned by SAMA, provided that the audit is at the company's headquarters.

• The consumer microfinance company shall provide SAMA with prudential returns in a timely manner subject to the following rules:

– The company shall provide SAMA with its audited annual financial statements, the auditor's report and the board report within (45) working days from the end of the calendar year.

– The company shall provide SAMA with its quarterly financial statements and the auditor's report within (20) working days from the end of each quarter of each calendar year.

– The microfinance company shall immediately inform SAMA of any losses in excess of (15%) of its paid-up capital.

• The microfinance company shall follow international accounting standards in preparing its accounts and financial statements. The microfinance company shall make provisions for potential losses and risks, in accordance with international accounting standards.

• The microfinance company shall obtain a no objection letter from SAMA before appointing an external auditor. SAMA may require the consumer microfinance company to change its external auditor, or to appoint another external auditor at the company's expense.

• The following are considered violations related to exposure of shareholders or creditors of the consumer microfinance company to the risks referred to in the Finance Companies Control Law:

– The occurrence of a material adverse change in the consumer microfinance company's business or its financial, regulatory or administrative position that threatens its ability to remain a going concern or to repay its liabilities when they become due.

– The consumer microfinance company lost half of its paid-in capital.

– The consumer microfinance company loses a percentage exceeding (10%) of its paid-up capital in each year for at least four consecutive fiscal years.

6.3 Activities supporting Finance Business:

Learning Objective



To know the nature of the activities supporting the finance business, and understand the rules and provisions for licensing the facilities supporting finance businesses.

According to the Licensing Rules for Activities Supporting the Financing Activity issued by SAMA in Rabi' al-Thani 1441 AH, some terms are defined as follows:

– **Activities supporting the finance activity:** One or more activities related to the finance activity that is considered supporting, complementing or ancillary to it, as determined by SAMA and that promotes competition. This includes the activity of collecting debts by financiers and digital brokerage by financiers, or any other activity proposed by SAMA.

– **Finance supporting facilities:** The company that obtained a license from SAMA to engage in one or more activities that support the finance activity in accordance with Finance Companies Control Law, its Regulations and these rules.

– **Digital brokerage activity:** Connecting customers with financiers in view of their credit commitment and financial solvency, and presenting the finance options available to them, in return for a fee, via an electronic platform.

– **Financiers' debt collection activity:** Providing services of debt collection from customers on behalf of financiers.

• It is not permissible for non-licensed finance companies to engage in one or more of finance support activities, such as marketing financial products or collecting debts of the finance company, except after obtaining a license to do so in accordance with the rules issued by SAMA in this regard. Moreover, the finance company may not contract or deal with whoever engages in one or more of finance support activities unless it is licensed by SAMA.

License Terms:

• **License Application:** The license application shall be submitted by the founding members or shareholders of the facility supporting the finance, or their representatives. The application shall specify the activities to be licensed.

• **Paid-up Capital:** The minimum paid-up capital for the finance support company shall be as follows:

– SAR (2,000,000) for a finance support company that engages in electronic mediation activity.

– SAR (10,000,000) for the finance support company that engages in the activity of collecting finance providers' debts.

– SAMA shall determine the minimum paid-in capital for a finance support company that carries out other support activities approved by SAMA.

• **License:** The Central Bank shall issue a decision to grant license to the facility after completing the procedures for its establishment and after the license applicants provided proof of payment of the entire capital and any additional initial finance indicated in the license application and taking all necessary actions to start practicing the activities required to be licensed. SAMA shall collect a fee as follows:

- SAR (10,000) for license issuance.
- SAR (5,000) for renewal or amendment of the license.

• **Validity of License:** The license shall be valid for three (3) years and may be renewed by SAMA upon the request of the company. The company shall submit a written renewal request to SAMA at least (3) months prior to the expiration of the license.

• **Revocation of License:** SAMA may revoke the license in the following cases:

– Upon the request of the finance support company, taking into account the rights of the creditors and beneficiaries as well as the soundness of the financial system.

– If it is proved that the finance support company has submitted false information to SAMA or failed to disclose material information that should have been provided for licensing purposes.

– If the finance support company has violated the requirements of the provisions of finance laws or SAMA's instructions.

– If the finance support company has not carried out the licensed activities within (6) months from the date of issuance of license or expiry of the additional period granted to the same by SAMA.

– If the operations of the finance support company have been suspended for more than (3) consecutive months, or for (6) non-consecutive months without obtaining SAMA's prior written no-objection.

6.4 Rules on outsourcing service providers by finance companies:

Learning Objective



Be familiar with the rules on outsourcing service providers by finance companies.

Rules on outsourcing service providers by finance companies issued by SAMA in Rabi' Thani 1440 AH, specify the statutory requirements for licensed finance companies that have entered into or intend to enter into contracts or agreements to outsource service providers. According to these rules, some terms can be defined as follows:

– **Outsourcing:** Any contract or agreement by which an external service provider undertakes to provide services to the finance company.

– **External Service Provider:** Any service provider to whom an activity is outsourced. An External Service Provider can be a member of the group to which the finance company affiliates, a related party, or an unrelated third party.

– **Material Functions:** Any function that the default or disruption of which may have an impact on the finance company's activities, reputation or the financial situation or if the outsourced functions include sharing, transferring, processing or storing data and information of consumers. Material functions include, for example:

- Management, operation and maintenance of technical and security systems (such as storing and archiving data outside the finance company, including cloud computing services and monitoring security operations).
- Mediation activity includes marketing financing products and receiving financing requests.
- The agency's activity includes processing and studying applications for granting finance.
- Provision of human resources.
- Collection of finance companies' debt.
- Archiving and saving documents.

6.4.1 Rules of Liability and Obligations:

• The finance company shall establish and annually update a written outsourcing policy approved by the Board of Directors. The finance company should establish appropriate internal controls and procedures to ensure compliance with these Rules.

• The finance company shall verify the External Service Provider's compliance with relevant laws, regulations and instructions. The finance company shall remain responsible if the External Service Provider shows lack of compliance with the applicable laws, regulations and instructions in any outsourced operations and tasks. The finance company must also keep all documents that prove such compliance.

• The finance company must exert due diligence to verify that the External Service Provider has obtained the necessary licenses to carry out its activity, and that it has the required technical and legal qualification.

• SAMA, the external auditor and the finance company may obtain any information or documents related to the work of the External Service Provider or examine such data in its offices.

6.4.2 Outsourcing Policy:

• The Outsourcing Policy should include in particular the following:

– Terms of reference and responsibilities of the Board of Directors and senior management with regard to outsourcing.

– The functions allowed to be outsourced and the eligibility criteria of the External Service Provider by paying due diligence on the following:

1. Experience and financial and technical capabilities of the External Service Provider;
2. Impact of the outsourcing on the overall risk profile of the finance company, and risk mitigation measures;
3. Impact of the outsourcing on systems and controls within the finance company;
4. Rules for the continuous control and monitoring of the outsourced operations;
5. Criteria to identify conflicts of interest as well as rules and procedures which ensure safeguarding the interests of the finance company;
6. Procedures to protect information and maintain confidentiality and privacy;
7. A clear mechanism to verify the external service provider's compliance with the laws and instructions relevant to the outsourced services whether issued by SAMA or any other authority, including the Finance Consumer Protection Principles.

• The finance company shall document the outsourcing in a legally binding written contract or agreement with the External Service Provider that is compliant with the applicable regulatory requirements.

6.4.3 Outsourcing Requirements:

• Prior to outsourcing or renewing outsourcing of material functions, the finance company should request SAMA's non-objection in writing at least 30 working days prior to the proposed date of commencement or renewal of the contract or agreement.

• The finance company shall submit to SAMA a letter requesting non objection to outsourcing material functions that includes, at a minimum, the following information:

– Details on the outsourced function;

– Reasons for outsourcing;

– Details on the External Service Provider (e.g. name, address, and commercial register);

– Any other information or documents requested by SAMA.

6.4.4 Control and Monitoring:

• The finance company should put in place internal procedures to monitor and manage all of their outsourcing activities and to provide timely reports to senior management.

• The finance company should ensure that its business continuity is not compromised by any outsourcing contracts or agreements. The finance company should have a contingency plan which outlines the procedures to be followed in the event of sudden termination of any outsourcing contract or agreement or the inability of the External Service Provider to fulfill its obligations for any reason.

• SAMA has the right to request the finance company to review, change or cancel the outsourcing contract in case of violation of the relevant laws, regulations, rules and instructions.

• SAMA may grant the finance company a no-objection to outsource material or non-material functions for a specific period, a specific task, a specific geographic area, or a specific external service provider whenever SAMA deems it necessary.

6.5 Debt-Based Crowdfunding:

Learning Objective



Be familiar with the nature of Debt-Based Crowdfunding, and understand the rules and provisions of licensing and regulation of the practice of that activity.

The Rules for Engaging in Debt-Based Crowdfunding issued by SAMA on Jumada Al-awwal 1442 AH aim to specify the procedures and requirements necessary to obtain a license to practice debt-based crowdfunding activity, and to set the minimum standards and procedures to be complied with by debt-based crowdfunding facilities. According to these rules, some terms can be defined as follows:

– **6.5 Debt-Based Crowdfunding:** Raising funds from finance Participants through a digital Platform to be granted to an Institutional Beneficiary in accordance with a loan contract.

– **Debt-Based Crowdfunding Company (the Company):** A joint stock company licensed to engage in Debt-Based Crowdfunding activity through a digital Platform.

– **Beneficiary:** A micro, small or medium-sized enterprise registered in the Kingdom of Saudi Arabia that seeks to obtain financing through a Debt-Based Crowdfunding Platform.

– **Participant:** A natural or legal person that provides finance to an institutional beneficiary through a Debt-Based Crowdfunding Company.

– **Eligible Participant:** A natural or legal person to whom one or more of the following applies:

A. Has assets with a net value of at least SAR 3,000,000 (three million Saudi riyals).

B. Currently working or has worked for at least three years in the financial sector in a position related to finance or investment.

C. Has an annual income of at least SAR 600,000 (six hundred thousand Saudi riyals) in the past two years.

D. Has a professional certificate in finance or investment approved by an internationally recognized establishment.

– **Debt-Based Crowdfunding Platform (the Platform):** A web-based platform or any other digital means, including websites and mobile applications, used and run by a Debt-Based Crowdfunding Company to carry out Debt-Based Crowdfunding.

6.5.1 Licensing Provisions:

• **License Requests:** The license request shall be submitted to SAMA by the Debt-Based Crowdfunding Company wishing to be licensed, accompanied by the Debt-Based Crowdfunding Company's memorandum of association and articles of association, a list of the founding members or shareholders, an irrevocable bank guarantee for an amount equivalent to the minimum capital, and any other documents, records, data and/or information requested by SAMA.

• **Paid-up Capital:** The minimum capital of a debt crowdfunding facility shall be (5,000,000) five million riyals, and the Central Bank may raise or reduce the minimum capital in accordance with market conditions.

• **Management Requirements:** All candidates for supervisory and executive positions in a Debt-Based Crowdfunding Company must:

A. Meet the professional eligibility requirements set by SAMA.

B. Be permanent residents of the Kingdom of Saudi Arabia.

C. Be professionally qualified and have sufficient experience in the field.

D. Not have violated any of the provisions of the Banking Control Law, the Cooperative Insurance Companies Control Law, finance laws, or the Capital Market Law and its Regulations.

E. Have the sufficient solvency, and have not breached any financial obligations towards their creditors nor have given an indication that they cannot continue to meet their financial obligations towards their creditors.

• **Validity of License:** The license shall be valid for five years and may be renewed by SAMA upon the request of the Debt-Based Crowdfunding Company. In such case, the company shall submit a written renewal request to SAMA at least three months prior to the expiration of the license.

• **License Fees:** SAMA may charge fees as follows:

– SAR 5,000 for license issuance.

– SAR 2,000 for license renewal or amendment.

• **Revocation of License:** SAMA may revoke the license in any of the following cases:

1- Upon a written cancellation request submitted by the Debt-Based Crowdfunding Company, taking into account the rights of the participants and institutional beneficiaries as well as the soundness of the financial system.

2- If it is proved that the Debt-Based Crowdfunding Company has provided SAMA with false information or failed to disclose material information that should have been provided for licensing purposes.

3- If the Debt-Based Crowdfunding Company has violated the requirements of these Rules, the provisions of finance laws, or SAMA's instructions.

4- If the Debt-Based Crowdfunding Company has not carried out the licensed activities within six months from the date of license issuance.

5- If the Debt-Based Crowdfunding Company has suspended its operations for more than three consecutive months or for six non-consecutive months, without obtaining SAMA's prior written non-objection.

6.5.2 Internal Organization:

• **Internal Policies and Procedures:** The Debt-Based Crowdfunding Company shall develop written appropriate organizational policies approved by the Company's board of directors that address, at least, the internal organization, governance, credit, risk management, compliance, conflict of interest, confidentiality and security of information, outsourcing, and human resources.

• **Requirements for Information Security and Financial Crimes:** The Debt-Based Crowdfunding Company shall comply with the information security requirements and the relevant laws, regulations and instructions issued by SAMA. The Debt-Based Crowdfunding Company shall also comply with the legal requirements mentioned in the Anti-Money Laundering Law, Combating Terrorism Crimes and their Financing Law.

• **Risk Management:** The Debt-Based Crowdfunding Company shall establish a written policy including a clear business strategy for risk management, approved and annually updated by its board of directors. The risk management policy shall take into account all relevant types of risks and how to deal with them. Develop appropriate procedures to identify, assess, manage, monitor, communicate, and report risks.

• **Auditor:** The Debt-Based Crowdfunding Company shall appoint one or more certified external auditors. A non-objection letter for such appointment shall be obtained from SAMA.

• **Saudization of Human Resources:** At least 50% of all employees of the Debt-Based Crowdfunding Company must be Saudi nationals when the Company starts its operations. SAMA may increase or decrease the Saudization percentage by not less than 50%.

• **Consumer Protection and Data Confidentiality:** The Debt-Based Crowdfunding Company shall establish a function for handling complaints and set clear procedures for receiving, documenting, reviewing, and responding to consumer complaints within the period specified by SAMA. In addition, the Debt-Based Crowdfunding Company shall also take all necessary measures to ensure the confidentiality of clients' information and transactions.

6.5.3 Activity Provisions

• **Assessment of the Creditworthiness and Due Diligence:** The Debt-Based Crowdfunding Company shall check and document the credit record of the institutional beneficiary after its approval. The Debt-Based Crowdfunding Company shall set clear policies regarding the institutional beneficiary due diligence and identification criteria as well as initial due diligence.

• **Service Agreements Between Parties:** The Debt-Based Crowdfunding Company shall draw up a paper or electronic contract with participants in accordance with the relevant legal requirements. Each party shall receive a copy of the contract.

• **Credit Limits:**

– The Debt-Based Crowdfunding Company shall not grant financing for consumer purposes. The targeted beneficiaries shall be legal persons from micro, small and medium-sized enterprises only.

– The total amount of credit granted to each institutional beneficiary shall not exceed SAR 7,500,000 (seven million five hundred thousand Saudi riyals).

– The Participant's contribution shall not exceed 25% of the Finance Amount requested, with the total amount of contribution capped at SAR 50,000 (fifty thousand Saudi riyals) for each institutional beneficiary and SAR 200,000 (two hundred thousand Saudi riyals) annually for all finance options offered through the Debt-Based Crowdfunding Platform. Eligible participants shall be excluded.

– The fund-raising period for each institutional beneficiary shall not exceed 60 days, provided that the funds are transferred to the institutional beneficiary within a period not exceeding five working days after the finance amount is completed. In the event that the requested finance amount is not covered during the fund-raising period, the finance campaign shall be void, and participants money shall be refunded within 15 days after the end of the fund-raising period.

– Participants shall be given at least two days to withdraw from participation.

– Repayment period shall not exceed 60 months. The Debt-Based Crowdfunding Company may extend this period upon the approval of the participants.

– Repayment shall be made through electronic channels, but not in cash.

– The funds in the collection account shall not be used for other purposes. The collection account shall be in the name of the participants by signing the necessary agreements with any of the licensed banks.

• **Disclosure:** The Debt-Based Crowdfunding Company shall clarify the nature of the business offered through the Debt-Based Crowdfunding Platform on the same Platform. The Company shall also prepare the appropriate declarations and pledges and enable the participants and the institutional beneficiary to read and agree to them before using the Debt-Based Crowdfunding Platform.

6.5.4 Supervision and Compliance:

• **SAMA Supervision:** The Debt-Based Crowdfunding Company shall provide SAMA, upon its request, with all information and documents related to the Debt-Based Crowdfunding Company, its activities, partners, and staff. Develop a business continuity plan, a recruitment plan, and enable SAMA's specialized staff and auditors to access relevant facilities, documents, and data upon request

• **Compliance:**

– The Debt-Based Crowdfunding Company shall establish internal controls and procedures to ensure compliance with these Rules and all relevant laws, regulations, and instructions.

– The Debt-Based Crowdfunding Company shall keep sufficient records to confirm the compliance with these Rules and relevant laws, regulations, and instructions and shall take the necessary measures to prevent any violation of their provisions.

– The Debt-Based Crowdfunding Company shall not disclose any information to third parties without the approval of SAMA

– The Debt-Based Crowdfunding Company shall obtain SAMA's no objection before any partial or complete liquidation.

Revision questions:

Answer the following questions and check your answer in the corresponding section:

1.What is the difference between: credit card, charge card, corporate card, and a business card?
Answer reference: Section 6.1.1

2. Briefly explain the requirements and procedures for issuing credit and charge cards?
Answer reference: Section 6.1.2

3. What are the credit limits for credit cards and charge cards?
Answer reference: Section 6.1.3

4. Briefly discuss how to disclose credit or charge card information?
Answer reference: Section 6.1.5

5. Briefly explain the rights and obligations of the credit card and charge card holder?
Answer reference: Section 6.1.6

6. What is meant by consumer microfinance? What are the controls for practicing this type of financing?
Answer reference: Section 6.2.1

7. Explain the mechanism of internal regulation of consumer microfinance companies, and how to manage the risks they face?
Answer reference: Section 6.2.2

8. Discuss how SAMA supervises consumer microfinance companies?
Answer reference: Section 6.2.3

9. Mention the rules of liability and obligations related to outsourcing service providers by finance companies?
Answer reference: Section 6.3.1

10. “The finance company shall establish a written outsourcing policy which shall be annually approved by the Board of Directors.” Explain the components of this policy and how to comply with its application?
Answer reference: Section 6.4.2

11. Briefly explain the provisions of licensing the practice of debt-based crowdfunding activity, while clarifying the rules of supervision and compliance?
Answer reference: Section 6.5.1 and 6.5.4

Glossary of Terms

SAMA:
Saudi Central Bank

Finance Company:
A joint stock company licensed to engage in one or more of finance activities stipulated in the Finance Companies Control Law and Implementing Regulations thereof.

Finance:
Extending credit under contract for activities stipulated in the Finance Companies Control Law and Implementing Regulations thereof.

Finance activity/activities:
One or more types of finance stipulated in the Finance Companies Control Law or any other financing activity approved by SAMA in accordance with law.

Finance Agreement (Contract):
An agreement whereby the credit is granted for the activities stipulated in the Finance Companies Control Law and its implementing regulations.

Beneficiary:
The person receiving the finance.

Consumer:
To whom the services of the finance company are directed.

License:
The permit issued by SAMA for a company to engage in the finance activity.

Finance Amount:
The maximum or total amounts available to the beneficiary under the finance agreement (contract).

Total amount payable from the beneficiary:
The finance amount plus the total cost of finance.

Premium:
The total amount due from the beneficiary distributed over the term of the finance contract after deducting expenditure, expenses and non-recurring costs, such as fees, commissions and costs of administrative services.

Term cost:
The term value determined for the beneficiary under the finance contract, which can be expressed in a fixed or variable annual percentage of the finance amount provided to the beneficiary.

Changing term cost:
The term cost is determined based on a clearly defined index or a reference rate, which is fixed in the finance contract and changes by the index.

Total finance cost:
The costs that the beneficiary is obligated to pay other than the finance amount in accordance with the provisions of the finance contract, including term cost, fees, commissions, administrative services costs, insurance, and any expenses necessary to obtain finance, with the exclusion of any expenses that the beneficiary can avoid such as costs or fees payable by the beneficiary as a result of breaching any of its obligations under the finance contract.

Monthly credit obligations:
The total amounts payable by the customer according to the credit report issued by the licensed credit information company and the customer's personal declaration, calculated on a monthly basis.

Total salary:
The monthly base salary (after deduction of retirement or insurance benefits) plus all fixed allowances given to the employee by his employer on a monthly basis.

Total monthly income:
The monthly average of amounts that the client receives from any periodic source of income, whether monthly, annually, or any other periodic period, including the total salary or any other income including any allowances or bonuses paid periodically, asset rental returns or any returns on other investments, or otherwise, that can reasonably be verified.

Disposable monthly net income:
The remaining amount of the customer's total monthly income for expenditure, investment or saving after deducting current or expected future basic expenses, and monthly credit obligations, and it is calculated on a monthly basis.

Deductible's ratios:
Ratios of the customer's monthly credit obligations to the customer's total monthly income, calculated in accordance with the terms and conditions contained in the quantitative principles of responsible finance.

Deduction:
Deduction from the total salary of the customer or from his monthly pension.

Annual Percentage Rate:
The discount rate at which the current value of all premiums and other payments owed by the customer, which represents the total amount due from the customer, is equal to the current value of the amount of finance payments available to Customer, on the date on which the finance amount or its first payment is available to the customer.

Senior Management:
Managing Director, Chief Executive Officer, General Manager and their deputies, Financial manager, managers of key departments, those responsible for risk management, internal audit and compliance functions in the finance company.

Exposure:
The value of an asset that is exposed to any credit risk, such as risks of non-payment or low credit rating.

Major exposure:
Exposure to one beneficiary by (5%) or more of the finance company's paid-up capital and reserves.

Effective percentage:
A percentage of (5%) or more of the finance company's shares or voting rights, whether directly or indirectly owned by one or more persons acting by agreement.

Third Parties:
An arrangement whereby a third party provides a service which was previously performed by the finance company itself or a new service which is scheduled to be provided. In compliance with the laws, regulations and instructions issued by SAMA in this regard.

Compliance:
Compliance refers to ensuring application and implementation of financial instructions, procedures and transactions in accordance with regulations, rules and instructions issued by regulatory and supervisory authorities in charge of the Financial Sector.

Compliance function:
An independent function that identifies, assesses and provides advice, monitors and reports on risks of finance company's non-compliance related to its exposure to legal and administrative penalties, financial loss or what may undermine the finance company's reputation due to its failure to abide by the regulations and controls or sound standards of conduct and professional practice.

Non-compliance risk
Risks leading to legal sanctions and procedures, financial loss or damage to the finance company's reputation that may suffer as a result of its failure to comply with all applicable laws, regulations, rules, circulars, instructions and codes of conduct.

Compliance Department:
It is a supervisory department established in order to assure BOD that the executive management and all departments at the finance company comply with all instructions issued by supervisory and regulatory authorities and finance company's management, in addition to finance company's compliance with rules and regulations governing its business and code of ethics and professional conduct.

Customer:
Any natural person who obtains financing from a creditor.

Finance entity:
Banks and finance companies supervised by SAMA.

Collection:
The process of collecting amounts payable by a retail consumer on due dates by a creditor.

Default:
The non-payment of a retail consumer of the monthly installments agreed upon in the finance contract for three consecutive months or more than five separate months throughout the finance period.

Third party:
An entity contracted to work on behalf of the finance entity by providing a service previously performed by the finance entity or a new service to be implemented, which can be either a unit of the finance entity itself or a company affiliated to or independent of the finance entity.

Complaint:
Any expression of dissatisfaction related to the service provided, whether justified or not, in writing or orally.

Documented means of communication:
A recorded, verifiable means of communication that can be retrieved in written or electronic format.

Compulsively change of customer circumstances:
Any event that causes an uncontrollable change in a retail consumer's circumstances, including without limitation: Inability to work (partially or fully), retirement (compulsory), loss of job or loss of some fixed allowances that are given to the employee by his employer on a monthly basis.

Optional change of working conditions
Any event that causes a change in the circumstances of a retail consumer on their own volition, including without limitation: Retirement (voluntary) and change of jobs.

Guarantor:
Any natural or juristic person who guarantees or promises to guarantee the fulfillment of any financing extended to a retail consumer, according to a written acknowledgement, in the event that they become unable to do so.

Money laundering:
Commit or initiate any act meant to conceal or camouflage the original source of money obtained in a manner incompatible with Sharia or law and make such monies appear to be legitimate.

Funds:
Assets, economic resources or properties of any value or type, however acquired, whether material or immaterial, tangible or intangible, movable or immovable, along with documents, deeds, transfers, letter of credits of any form, including electronic or digital systems and bank credits that evidence ownership or interest therein, in addition to all types of commercial papers, securities, bonds and bills, or any interest, profit or other income generated from such funds.

Proceeds of Crime:
The funds directly or indirectly obtained or acquired from or through the commission of a sanctioned offense, whether within or outside the Kingdom, in accordance with Sharia or laws in the Kingdom, including any funds transferred or converted wholly or partially into properties or investment proceeds.

Financial Institutions:
Any KSA-based establishment that executes one or more of the financial activities or operations. Implementing Regulations of the Law provide for the activities or operations executed by the financial institutions for or on behalf of the customer.

Placement:
The introduction of illegally obtained funds into the financial system, usually through banks, money exchangers and money transfer centers. This is realized through cash deposits, purchase of monetary instruments for cash, currency exchange, purchase of insurance contract, cheque cashing services, the retail economy (through cash purchases), and smuggling of cash between countries.

Layering:
Concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed. This stage consists of a set of processes, such as sending wire transfers to other banks, purchasing and selling of shares, bonds, insurance contracts and fraudulent investments, or transferring those funds to offshore accounts.

Integration:
laundered money is integrated back into the legitimate economic system, making it appear to be legitimate assets. This can be realized utilizing funds in other activities that could generate sustainable income that may be used to finance other crimes, or to be utilized later.

Terrorism financing:
Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, directly or indirectly from a legitimate or illicit source. or to engage in any banking, financial or commercial transaction in favor of such activity or involved individuals, or obtain, directly or through an intermediary, funds for its use, advocacy and promotion of its principles, to secure training places, shelter and provide involved individuals with any kind of weapons or counterfeited documents, or to provide any other means of support and financing intentionally. Furthermore, any act that constitutes a crime subject to the International Convention for the Suppression of the Financing of Terrorism.

Suspicious Financial Transaction:
A suspicious financial transaction is a transaction entailing procedures that are very similar to operations that have been conducted and proven to involve ML/TF, or procedures that a Finance Company's employee believes being illogical, unjustified, unconvincing, contradicting customer's normal behavior, or the nature of normal accounts transactions.

Fraud:
Doing or refraining from doing an act with the aim of obtaining a benefit, directly or indirectly, pertaining to the fraudster or to a third party, which he would not have otherwise obtained. In other words, a deliberate distortion of a fact to entice someone to waive something valuable or a legal right.

Financial Fraud:
Any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator or by others with his help, causing a loss to the deceived party.

Internal Fraud:
Fraud operations are carried out by employees of the Finance Company, whether senior managers or subordinate staff.

Finance company employees:
Every natural person working for the interest of the finance company and under its management or supervision in return for a wage, whether at or outside the company's headquarters, including employees contracted therewith directly or contracted through attribution.

External Fraud:
Fraud operations committed by individuals from outside the finance company.

Awareness:
Disseminate the principles of financial guidance and the ability to understand key financial terms used by FIs and then distinguish between various products or services offered by these FIs.

Disclosure:
Disclose information and data clearly, transparently and credibility, and refrain from withholding any information that may be influential or important to any of the parties to the financing agreement.

Conflict of Interest:
Cases in which the objectivity and independence of the decision of the finance company or one of its employees are affected, resulting from its conflict with the company's interests and failure to adhere to justice, integrity and responsibility.

Advertisement:
A commercial message promoting by any means a financial product or service, directly or indirectly.

Consultation:
Getting a recommendation or advice from a qualified individual or entity after taking into account the customer's personal circumstances and objectives.

Secure means of communication:
Registered mail, hand-delivery, and any registered electronic means that can be verified and retrieved.

Fault:
Every act leads to a violation of the documented policies and work procedures of the company, in addition to violating the regulations and instructions that affect the rights or interests of one or more clients.

Complaint:
Every objection or grievance submitted to the finance company as a result of any breach that leads to its non-compliance with the provisions of the financing agreement and the relevant laws and instructions.

Handling of Complaint:
Follow effective measures and procedures to deal with customer complaints and handling the same within the specified period.

Real Estate Finance:
Granting credit to the beneficiary to own the housing.

Real estate financing contract:
A deferred payment contract for the beneficiary's ownership of housing.

Real Estate Finance Company:
A joint stock company licensed to engage in real estate finance activity.

Real estate financier:
Commercial banks and real estate finance companies licensed to engage in real estate finance activity.

Real Estate Refinance Company:
A joint stock company licensed to engage in real estate refinancing activity.

Annual Percentage Rate (APR):
It is the discount rate at which the present value of all payments and installments that are due from the beneficiary, representing the total amount payable by the beneficiary, equals the present value of all payments of the amount of financing available to the beneficiary on the date on which the financing amount or the first payment thereof is available to the beneficiary.

Housing Associations:
Institutions and associations specialized in providing housing for the incapable, licensed in accordance with the applicable regulations.

Housing support:
Financial or credit aid provided by the state or housing associations or others in order to facilitate housing.

Eligible for support:
A natural Saudi person whose income does not exceed the limit proposed by the Minister from time to time, and approved by the Council of Ministers.

Subsidized housing real state product:
A product covered by a housing subsidy provided by the housing support provider through a real estate financier.

Primary market:
Real estate finance contracts concluded between the beneficiary and the real estate financier.

Secondary market:
The market in which the real estate financier's rights arising from primary market contracts are traded.

Real Estate Valuation:
The process of determining the fair value of real estate property.

Accredited Valuer:
A natural or legal person who is licensed to practice the valuation profession.

Valuation Criteria
The Criteria approved by the Saudi Authority for Accredited Valuers (TAQEEM).

Valuation Report:
The document issued by the accredited valuer, which includes the valuation result, and complies with the approved valuation criteria.

Standing Payment Order in favor of a Real Estate Financier:
A service provided by banks through which money transfers are carried out periodically from the client's account to the real estate financier's account during a specific period and for a specified amount.

Lessor:
A joint stock company licensed to offer finance lease, including commercial banks.

Lessee:
A person holding the right to use the leased asset under a contract

leased asset:
Any asset that can be leased whether real estates, movables, rights, services and intangible rights such as intellectual property rights.

Producer:
Producer of the leased asset.

Suppler:
Supplier of the leased asset.

Basic maintenance:
The maintenance indispensable to the original asset as per norm.

Operational maintenance:
The maintenance needed for the continuation of the asset's benefit as per norm.

Contract registration company:
The joint stock company that registers Finance Lease contracts.

Securitization:
Issuance of securities against the Lessor's rights.

Lease Payments:
Amounts paid by the lessee from the agreed rental payments on the dates specified in the contract.

Right to Own:
If the lessee has the right or promise of ownership.

Early Ownership:
If the lessee chooses to own the leased asset under the contract at any time.

Contract register:
The register in which the finance lease contracts concluded or executed in KSA, sales contracts resulting from the finance lease, and any amendment to these contracts, are recorded, in accordance with the provisions of the Finance Lease Law.

Contract registration company:
The joint stock company that registers Finance Lease contracts.

Repossession of movable assets:
Recovery of movable assets from the lessee in cases where the finance lease contract between the two parties provides for the lessor's right to recover them.

Licensed Companies:
Companies specialized in recovering movable assets licensed by the Ministry of Justice in accordance with Enforcement Law. It can be found on the website of the Ministry of Justice.

Registered Contract Extract:
A document issued by the contract registration company that is required for enforcing rulings on the leased asset according to the provisions of the Enforcement Law and its Implementing Regulations.

Micro-enterprises:
The enterprises that have 1 to 5 full-time employees, or whose revenues do not exceed 3 million riyals.

Small Enterprises:
The enterprises that have 6 to 49 full-time employees, or whose revenues are not less than 3 million and not more than 40 million riyals.

Medium Enterprises:
The enterprises that have 50 to 249 full-time employees, or whose revenues are not less than 40 million riyals and not more than 200 million riyals.

Indirect Lending Initiative:
An initiative provided by the Small and Medium Enterprises General Authority (Monshaat) as part of initiatives to stimulate the private sector, and in cooperation with the Social Development Bank to provide low-cost loans to licensed finance companies.

Kafalah Program:
A program that aims to assist all SMEs in obtaining the necessary finance to develop and expand their activities and encourage FIs to deal with the small and medium enterprises sector.

Working Capital Product:
It aims to finance working capital to help medium enterprises maintain their continuity and promote their growth, and the value of the guarantee reaches SAR (15) million.

Startup Product:
It aims to meet the financing needs of SMEs whose operating life is less than 3 years during their early growth period with the aim of increasing the number of emerging enterprises. The value of the guarantee reaches SAR (2.5) million.

Supply Chain Program:
It aims to support and develop the national industry and logistics services through supply chain financing guarantees for the industrial sector, transport and storage sector, and the value of the guarantee reaches SAR (15) million.

Franchise Program:
It aims to support and encourage the expansion of the trademark market and activities through guarantees of financing small and medium enterprises that obtain or grant franchise, and the value of the guarantee reaches SAR (15) million.

Technology and E-Commerce Program:
It targets MSMEs operating in the ICT sector.

Venture Investment Initiative:
An initiative based on stimulating capital financing for SMEs and entrepreneurs, and investing in emerging enterprises during their various stages of growth, through the Saudi Venture Capital Company.

Bank Financing Products:
A financing program in partnership with certain local banks (three banks), which provides a number of innovative financing products and solutions with competitive advantages and profit margins in order to facilitate access of SMES' owners to the appropriate finance.

Finance Portal:
A portal designed to connect SMEs wishing to obtain finance with the various financers registered in the portal, including banks and finance companies, to choose the appropriate financing offers.

Microfinance companies:
The company that finances the activities and productive assets of the beneficiaries of small business owners, craftsmen and the like, and which is licensed to practice this activity in accordance with the Finance Companies Control Law and its implementing regulations as well as SAMA rules and instructions.

Credit Card:
A card issued by banks in cooperation with international card companies. The card is used by the cardholder to obtain in advance, under the issuer's guarantee, cash, goods, services or other benefits from commercial establishments that accept this card locally or internationally, and then the debt is paid thereafter or according to other arrangements.

Charge Card:
A card similar to credit card, except that it obliges the holder to pay the full amount due upon receiving the account statement or on the due date specified in the statement of account.

Corporate Card:
A credit card or a charge card issued to a user or employee of a company that is a legal entity.

Business card:
A credit card or a charge card issued for the purpose of purchasing goods or services on behalf of a company, where the company is responsible for all amounts debited on the credit /charge card.

Cardholder:
The cardholder can be a natural or legal person, and may be:

- The cardholder, or an applicant for a credit card or a charge card issued by the card issuer.
- A cardholder, or an applicant to obtain a card, who has agreed with its issuer to settle all obligations resulting from the issuance of an additional credit card or charge card to a specific person, and is considered the main cardholder.

Card issuer:
An entity licensed to issue credit or charge cards.

International card companies:
The operators of payment systems such as Visa, MasterCard, American Express, Union-Pay, Diners Club or other similar companies.

Card Limit:
The total credit limit available in the credit or charge card under the credit / charge card agreement.

Credit:
The trust which allows one party to defer the payment of a debt or to assume a debt with deferred payment.

Cash Withdrawal:
A cash withdrawal made by a credit or charge card holder using the card.

Profit Rate:
Applies to the credit service provided under Shari'a compliant contracts, means the rate used to generate profits and is expressed as annual percentage ratio (APR).

Term cost:
All applicable commission or profit fees, non-commission and profit recurring fees to be paid by the cardholder, and may be a fixed or a variable percentage of the outstanding balance in the credit card account.

Invoicing Cycle:
The interval between the days or dates of periodic or regular account statements. Such intervals shall be equal or not more than a quarter of a year, and the interval shall be considered equal if the number of days in the cycle does not differ by four days from the regular day or date.

Credit information company:
A licensed national credit information company that provides its members with services related to consumer and commercial credit information in the Kingdom of Saudi Arabia.

Default regarding credit or charge card:
Failure of the cardholder to comply with the terms and conditions of the credit or charge card agreement, resulting in the cardholder's failure to pay the monthly installment for a period of (90) days from the due date.

Default Notice:
A notice from the card issuer to the cardholder that he is late in paying the amount owed on the card.

Grace Period:
The date or period during which the amount of credit made available for the purchase can be paid without incurring commission or profit fees calculated based on a periodic commission or profit rate. In cases where there is no grace period, a statement to that effect shall be made. If the length of the grace period varies, the card issuer shall disclose the days or minimum days in the grace period, in case the disclosure is limited to the extent or minimum.

Initial Disclosure:
The information to be provided to the cardholder by the issuer when opening a credit or charge card account.

Outsourcing:
The arrangement under which a third party (i.e., a service provider) undertakes to provide a service previously performed by the issuer or initiate a new service that the card issuer wishes to provide. Assignment of tasks to a service provider can be made inside KSA or abroad, and the service provider can be a unit of the issuer, a company affiliated to the issuer's group, or an independent third party.

Satisfactory Settlement:
A decision issued regarding the fault or dispute that is in line with the procedures and timeframes for settling disputes in accordance with the instructions issued by SAMA and international card companies or payment system operators.

Unauthorized Use:
The use of a credit/charge card by a person other than the cardholder, who does not have the actual, tacit, or apparent authorization for this use, including electronic copying of the card data.

Consumer Microfinance:
Granting credit for the purpose of consumption, whereby consumer microfinance companies are prohibited from engaging in an activity other than microfinance.

Outsourcing:
Any contract or agreement by which an external service provider undertakes to provide services to the finance company.

External Service Provider:
Any service provider to whom an activity is outsourced. An External Service Provider can be a member of the group to which the finance company affiliates, a related party, or an unrelated third party.

Material Functions:
Any function that the default or disruption of which may have an impact on the finance company's activities, reputation or the financial situation or if the outsourced functions include sharing, transferring, processing or storing data and information of consumers.

Debt-Based Crowdfunding:
Raising funds from finance Participants through a digital Platform to be granted to an Institutional Beneficiary in accordance with a loan contract.

Debt-Based Crowdfunding Company (the Company):
A joint stock company licensed to engage in Debt-Based Crowdfunding activity through a digital Platform.

Beneficiary of Debt Crowdfunding:
A micro, small or medium-sized enterprise registered in the Kingdom of Saudi Arabia that seeks to obtain financing through a Debt-Based Crowdfunding Platform.

Participant:
A natural or legal person that provides finance to an institutional beneficiary through a Debt-Based Crowdfunding Company.

Eligible Participant:

A natural or legal person to whom one or more of the following applies:

- Has assets with a net value of at least SAR 3,000,000 (three million Saudi riyals).
- Works or have worked for at least (3) years in the financial sector in a professional position related to finance or investment.
- Has an annual income of at least SAR 600,000 (six hundred thousand Saudi riyals) in the past two years.
- Has a professional certificate in finance or investment approved by an internationally recognized establishment

Debt-Based Crowdfunding Platform (the Platform):

A web-based platform or any other digital means, including websites and mobile applications, used and run by a Debt-Based Crowdfunding Company to carry out Debt-Based Crowdfunding.

Multiple Choice Questions (MCQs):

Questions are developed to provide students with an overview of the exam questions. Kindly be aware that these are not the actual questions approved for the Professional Certificate of Compliance of Finance Sector Companies.
Kindly choose one answer for each question. Then check the answers at the end of this section.

1. Which of the following entities that many of which focus on providing loans but do not provide bank accounts:
A. Insurance companies
B. Finance companies
C. Banks
D. Financial Market Companies

2. Which of the following is considered a business prohibited for finance companies to engage in:
A. Consumer finance
B. Microfinance
C. Accept call deposit
D. Credit card finance

3. The paid-up capital for whomever practices real estate finance activity must not be less than:
A. SAR 200.000.000
B. SAR 100.000.000
C. SAR 50.000.000
D. SAR 10.000.000

4. The Saudi Central Bank collects the following fees to renew the license of the finance company:
A. SAR 200.000
B. SAR 100,000
C. SAR 50,000
D. SAR 10.000

5. Which of the following is considered a business that finance companies are allowed to engage in:
A. Trading in currencies, gold, or precious metals.
B. Engage in wholesale or retail trading.
C. Accepting term deposits or non-bank facilities.
D. Consumer finance.

6. The minimum paid-up capital of a finance company that engages in microfinance activity is:
A. SAR 10.000.000
B. SAR 50.000.000
C. SAR 100.000.000
D. SAR 200.000.000

7. SAMA issues a renewable license to finance company to practice the activity, the term of which is:
A. 3 years from the date of license issuance.
B. 5 years from the date of license issuance.
C. 7 years from the date of license issuance.
D. 10 years from the date of license issuance.

8. In accordance with the Finance Companies Control Law, localization of human resources at the start of the finance company's activities shall not be less than:
A. 20%
B. 40%
C. 50%
D. 60%

9. Which of the following is considered one of the conditions that the finance company must fulfill when the company grants a finance without guarantee:
A. The total amounts of finance granted to the beneficiary without guarantee shall exceed SAR (100,000).
B. The total amount of finance granted to the beneficiary without guarantee shall not exceed SAR (100,000).
C. The beneficiary has an insolvency, bankruptcy or liquidation case during the previous ten years.
D. The beneficiary must be a related party.

10. In accordance with the Finance Companies Control Law, the total finance provided by the real estate finance company may not exceed....., except after obtaining a no-objection letter from SAMA:
A. Two times the capital and reserves of the company.
B. Three times the capital and reserves of the company.
C. Five times the capital and reserves of the company.
D. Eight times the capital and reserves of the company.

11. The fees, commissions and costs of administrative services that the finance company obtains from the beneficiary may not exceed the equivalent of:
A. (1%) of the financing amount or SAR (5,000), whichever is less.
B. (1%) of the financing amount or SAR (5,000), whichever is greater.
C. (5 %) of the financing amount or SAR (10,000), whichever is less.
D. (5 %) of the financing amount or SAR (10,000), whichever is greater.

12. The minimum paid-up capital of a financing support facility that engages in debt collection activities for financing entities is:

A. SAR 2.000.000
B. SAR 4.000.000
C. SAR 10.000.000
D. SAR 20.000.000

13. Which of the following cases the finance company must obtain a no objection letter from SAMA:

A. Granting a finance in Saudi riyals.
B. Granting a finance to a Saudi beneficiary.
C. Granting a finance to a foreign beneficiary residing in KSA.
D. Finance to a foreign borrower that is not a resident in the Kingdom.

14. The duration of renewable license for a finance support facility is:

A. 3 years from the date of license issuance.
B. 5 years from the date of license issuance.
C. 7 years from the date of license issuance.
D. 10 years from the date of license issuance.

15. Which of the following is one of the controls for communicating with customers, which a creditor must abide by:

A. Attempting to contact the customer at least twenty times every thirty days.
B. Documenting all telephone calls with customers (incoming or outgoing) and keep its records.
C. Not enabling customers to rate their satisfaction when completing a phone call (outgoing or incoming).
D. Not informing the customer at the beginning of the phone call that it was recorded.

16. Which of the following is considered one of the restrictions that the finance company must abide by, with regard to deductibles for customers whose total monthly income is (SAR 15,000) or less:

A. The monthly credit obligations resulting from finance shall not exceed (55%) of the total monthly income of the client.
B. The monthly credit obligations resulting from finance shall not exceed (75%) of the total monthly income of the client.
C. The monthly credit obligations resulting from finance shall exceed (55%) of the total monthly income of the client.
D. The monthly credit obligations resulting from finance shall exceed (75%) of the total monthly income of the client.

17. When a finance company commits violations relating to any professional irregularities or transactions exposing its shareholders or creditors to risk, or if its debts exceed its assets, SAMA shall impose a fine not exceeding:
A. SAR 10.000
B. SAR 50.000
C. SAR 100.000
D. SAR 250.000

18. One of the conditions that must be met by SAMA employee specialized in the work of seizure, investigation and public prosecution:
A. Be a Saudi national;
B. Be a Saudi or non-Saudi national;
C. Be not of a good conduct;
D. Hold a middle-school certificate;

19. Ensuring the implementation and application of instructions and procedures in accordance with the regulations, rules and instructions issued by the regulatory and supervisory authorities is an application of:
A. Know Your Customer.
B. Compliance.
C. Due Diligence.
D. Fraud

20. Approving the compliance policy of finance company is the responsibility of:
A. Board of Directors.
B. Senior Management.
C. Compliance Management.
D. Compliance Officer.

21. Responsibilities of Compliance Department include:
A. Approve a formal document establishing a permanent and effective compliance function.
B. Provision of adequate resources to the entity entrusted with compliance function.
C. Identifying and dealing with all compliance risks and monitoring all relevant developments.
D. Periodically reviewing activities of the entity responsible for compliance functions.

22. Any practice involving deception to obtain, directly or indirectly, a financial benefit is:
A. Money laundering
B. Financial fraud
C. Terrorist financing
D. Money smuggling

23. Which of the following is an example of external fraud:
A. An internal employee tampers with customer accounts.
B. Error recording operations in logs.
C. The client's proof of employment certificate contains handwritten modifications.
D. Non-compliance with the rules regulating work.

24. Which of the following is an indication of internal fraud:
A. The handwriting of those who filled out the documents differed from one document to another.
B. Premiums are repaid by a person or entity other than the customer.
C. Confliction in information provided by the client in various services request forms from the finance company.
D. An employee works outside official working hours repeatedly.

25. Loss of original documents and papers and replacement thereof with copies is an indication of:
A. Internal Fraud
B. External Fraud
C. Money Laundering
D. Violation of Compliance Policies

26. Committing any act intended to conceal or disguise the truth of acquired funds in order to appear as if they are from a legitimate source, is considered a type of:
A. Financial Fraud
B. Money Laundering
C. Terrorism Financing
D. Violation of Compliance Policies

27. Money laundering operations include the process of entering funds generated from an illegal source into the financial system, which is called _____ stage:
A. Layering
B. Integration
C. Placement
D. Control

28. The process of concealing the illegal source of funds in order to block tracing of such funds is called:
A. Placement
B. Layering
C. Integration
D. Control

29. The process of re-entering laundered money back into the legitimate economic system so that it appears as legitimate assets is called:
A. Placement
B. Layering
C. Integration
D. Control

30. Every act involves collecting and providing funds for any terrorist activity, whether directly or indirectly, shall be considered as:
A. Money laundering
B. Financial fraud
C. Terrorist financing
D. Violation of Compliance Policies

31. Using the proceeds of criminal activities to purchase high-value goods that can be easily traded, is among the methods of:
A. Internal Fraud
B. Money Laundering
C. External Fraud
D. Violation of Compliance Policies

32. Which of the following represents patterns related to money laundering and terrorist financing:
A. Error recording operations in logs.
B. A finance company's employee tampers with customer accounts.
C. Use of non-profit organizations to raise funds and hide their source.
D. Employees violating the rules regulating business of finance companies.

33. Which of the following is an indicator of money laundering suspicion:
A. The customer's willingness to initiate deals at a price above the market price or sell them at a price below the market price.
B. The customer provides information necessary for requirements of Know Your Customer policy.
C. The customer provides valid ID documents.
D. Being able to communicate with the customer on a permanent basis through the contact information provided by the customer.

34. According to the Anti-Money Laundering Law, which of the following is a penalty for anyone committing a ML crime:
A. Imprisonment for not less than one year.
B. A fine not exceeding (SAR 500,000).
C. Imprisonment for not less than two years and not exceeding (10) years and/or a fine not exceeding (SAR 5,000,000).
D. Imprisonment not exceeding two years and/or a fine of more than (SAR 5,000,000).

35. Which of the following tasks is the responsibility of the Financial Investigation Unit:
A. Developing a compliance-related education, awareness and training program for all senior management, department managers and employees.
B. Receiving reports from financial institutions about transactions suspected to be money laundering crime.
C. Drafting a compliance policy and getting such policy approved by the Board of Directors.
D. Provision of adequate resources to the entity entrusted with compliance function.

36. Which of the following is one of key objectives of money laundering operations:
A. Obtaining documents or benefits that a receiver has no right to obtain.
B. Supporting and promoting the values of honesty and integrity.
C. Making it more difficult for Security Authorities to track such funds.
D. Theft or willful misuse of finance company assets.

37. Which of the following represents an economic risk for money laundering operations:
A. Higher crime and corruption rate.
B. High rate of inflation in the country and low national income.
C. Rise of lower social groups to the top of the social hierarchy.
D. Depriving the finance company from operating and revocation of its license.

38. Which of the following represents a social risk for money laundering operations:
A. Economic distortion and instability.
B. Higher inflation rate.
C. Price fluctuations in stock markets and disreputation of financial markets.
D. Lower standard of living.

39. The high turnover rate of the financial department or accounting department staff, is an indicator of:
A. External Fraud
B. Internal Fraud
C. Money Laundering
D. Terrorism financing

40. When the client's age and academic qualifications do not correspond to work years, this is an indicator of:
A. External Fraud
B. Internal Fraud
C. Money Laundering
D. Terrorism financing

41. Money laundering differs from terrorist financing in the following:
A. Funds required to commit terrorist acts are often small, which is easy to track.
B. Terrorism can be financed using legitimately obtained funds.
C. The objective of terrorist financing is profit, while the objective of money laundering is to reach certain objectives.
D. It is possible to launder legitimately obtained money.

42. In any of the following cases, SAMA can revoke the license granted to a finance company:
A. The finance company has not initiated its business within (3) months from the date of license issuance.
B. If SAMA finds that the license was issued based on correct information.
C. It is proven that the finance company provided false information to SAMA, or failed to disclose material information that should have been provided for licensing purposes.
D. The finance company voluntarily stops practicing its licensed business for a period exceeding one month.

43. When a money laundering or terrorist financing operation is discovered or suspected, the finance company must report to:
A. Internal Control Unit
B. Compliance Officer
C. Senior management staff
D. Financial Investigation Unit

44. The market in which the origination, guarantee, settlement and servicing of mortgage loans by real estate financers takes place, is called:
A. Secondary market
B. Primary market
C. Parallel market
D. Capital market

45. The market in which the rights of real estate financier and securities secured by mortgages are traded is called:
A. Parallel market
B. Primary market
C. Secondary market
D. Capital market

46. The real estate financier may not extend credit in any form of finance in excess of:
A. (20%) of the value of dwelling subject to the mortgage contract.
B. (30 %) of the value of dwelling subject to the mortgage contract.
C. (50 %) of the value of dwelling subject to the mortgage contract.
D. (70 %) of the value of dwelling subject to the mortgage contract.

47. The capital of the real estate refinance company must not be less than:
A. SAR five billion.
B. SAR fifty million.
C. SAR one hundred million.
D. SAR two hundred million.

48. The share of the Public Investment Fund shall at any time not be less than:
A. (20%) of the shares of the Saudi Real Estate Refinance Company.
B. (30%) of the shares of the Saudi Real Estate Refinance Company.
C. (51%) of the shares of the Saudi Real Estate Refinance Company.
D. (70%) of the shares of the Saudi Real Estate Refinance Company.

49. A real estate refinance company aims to:
A. Facilitate trading of rights to mortgage contracts and flow of funds in the secondary market.
B. License real estate finance companies to engage in real estate finance activity.
C. Allow banks to engage in real estate finance by owning dwellings in order to finance it.
D. License cooperative insurance companies to cover risks related to real estate finance.

50. Which of the following is a business permitted for real estate refinance companies to engage in:
A. Grant real estate finance to beneficiaries.
B. Transfer real estate finance assets and rights to the Real Estate Refinance Company without obtaining the prior consent of the beneficiary.
C. Facilitate the terms of real estate finance in order to influence dwelling prices.
D. Grant finance to a real estate financier guaranteed by the real estate finance contracts rights before transferring those rights to the Real Estate Refinance Company.

51. Which of the following is a business not permitted for real estate refinance companies to engage in:
A. Distributing annual profits by a decision of its board of directors after obtaining SAMA's no objection letter.
B. Preparing and publishing annual and quarterly reports on its financial position and operations, risks to which it is exposed, and its management plan.
C. Avoiding excessive use of its facilities, which may affect prices of real estate assets in the market.
D. Granting real estate finance to beneficiaries.

52. SAMA allows the Saudi Real Estate Refinance Company to purchase residential real estate finance portfolios from real estate financiers after:
A. Two months from the date of granting the finance associated with such assets.
B. Two months from the date of receiving the first installment from the beneficiary.
C. Three months from the date of granting the finance related to such assets or three months from the date of receiving the first installment from the beneficiary, whichever is later.
D. Two months from the date of granting the finance related to such assets or two months from the date of receiving the first installment from the beneficiary, whichever is earlier.

53. Which of the following must be adhered to by banks and finance companies with regard to real estate evaluation:
A. Refrain from influencing or attempting to influence the formulation and preparation of reports and results or review of evaluation.
B. Refrain from providing sufficient information and documents on the asset subject of evaluation.
C. Obligating the evaluator to use specific methods of evaluation.
D. Dealing with practitioners of real estate evaluation profession, whether or not they hold a card for membership in the Saudi Authority for Accredited Valuers.

54. Upon being aware that the evaluator is engaging in illegal behavior, or is violating international valuation standards, banks and real estate finance companies should:
A. Refusal or threat not to pay fees for preparing evaluation report in a timely manner.
B. Providing the evaluator with the expected, estimated, or required value of the property being evaluated.
C. Obligating the evaluator to use specific methods of evaluation.
D. Inform the Saudi Authority for Accredited Residents, within a maximum of 30 days, of a written notice proving such violation.

55. When a real estate evaluator engages in illegal behavior or violates the evaluation criteria, banks and mortgage companies must report to:
A. Financial Investigation Unit
B. Public Prosecution
C. Saudi Authority for Accredited Valuers
D. Compliance Officer

56. "A service provided by banks whereby money transfers are made regularly from the customer's account to the real estate financier's account during a specific period and in a specified amount", it is called:
A. Letter of credit
B. Financial fraud
C. Money Laundering
D. Payment Order in favor of a Real Estate Financier

57. Which of the following the banks must comply with when submitting a standing payment order in favor of a real estate financier:
A. Submit a standing order in favor of a real estate financier in the event that the customer has an existing payment order.
B. Verify that the customer has a fixed monthly income before accepting the application for establishing a standing payment order in favor of a real estate financier.
C. Not to obtain the customer's declaration of his knowledge of the effect of establishing a standing order in favor of a real estate financier.
D. Pay against the standing payment order in favor of a real estate financier the full amount of transfer (5) days before maturity date.

58. Which of the following a real estate financier benefiting from a standing payment order must comply with:
A. Notify the customer when establishing the standing payment order through the documented means of communication.
B. Pay against the standing payment order in favor of a real estate financier the full amount of transfer on maturity date.
C. Verify that the transfer amount in the customer's account is not among the funds that SAMA has stipulated that they cannot be touched.
D. Give the customer an approval to change the amount of standing payment order when its circumstances change resulting in rescheduling of the debt.

59. When the client fulfills its due obligations, the real estate financier beneficiary of the standing payment order must:
A. Grant the customer approval to change the amount of the standing payment order.
B. Grant the customer a clearance and no-objection to cancel the standing payment order.
C. Notify SAMA upon receipt of the payment order amount via documented means of communication.
D. Require the bank to amend the standing payment order.

60. Which of the following is among the obligations that banks and real estate finance companies must abide by before providing real estate finance to individuals:
A. Verify information necessary to understand the client's financial conditions and establish a clear image of the client's ability to fulfill obligations.
B. Obtain the client's prior approval on the terms and conditions of the finance contract when providing a real estate finance offer.
C. Submit a real estate finance offer whose validity does not exceed five business days from the date of receipt by the client.
D. Encourage the client to provide a down payment or deposit for the property subject of finance during the finance offer period.

61. Which of the following is evidence that the finance lease activity is a professional:
A. The lessor
B. The volume of the obtains the leased asset to sell it to a third party
C. The lessor acquired the leased asset for internal use
D. The lessor acquired the leased asset to lease it to a third party under a finance lease
E. finance lease activity is less than the limit determined by SAMA

62. Basic maintenance of the leased asset means:
A. The maintenance needed for the continuation of the asset's benefit as per norm.
B. The maintenance indispensable to the original asset as per norm.
C. Maintenance carried out by the lessee at his expense.
D. Operational maintenance in accordance with the established technical principles.

63. The contract may stipulate a period during which early possession of the leased asset is prohibited, provided that the prohibition period does not exceed:
A. Four years from the date of conclusion of the contract.
B. Three years from the date of conclusion of the contract.
C. Two years from the date of conclusion of the contract.
D.One year from the date of conclusion of the contract.

64. If the lessee chooses to own the leased asset under the contract at any time, he is entitled to early possession of such asset with compensation to the lessor as follows:
A. The cost of reinvestment in an amount not exceeding the term cost for the next year following the early possession.
B. The cost of reinvestment in an amount not exceeding the cost for the three months following the early possession.

C. The expenses paid by the lessor to a third party by reason of the contract, if such expenses cannot be otherwise recovered, for the whole term of contract.
D. The expenses paid by the lessor to a third party by reason of the contract, if such expenses cannot be otherwise recovered.

65. Securitization means in financial lease contracts:
A. Outsourcing the finance tasks to an external service provider
B. Activities supporting finance activity
C. Issuance of securities against the lessee's rights
D. Issuance of securities against the lessor's rights

66. The lessor is obliged to register the contract and any amendments thereto in the contracts register within:
A. Three months from the date of concluding or amending the contract.
B. Sixty business days from the date of concluding or amending the contract.
C. Thirty business days from the date of conclusion or amendment of the contract.
D. Ten business days from the date of concluding or amending the contract.

67. Which of the following is among the conditions to be met by the head and clerk of the contract registry:
A. Be a Saudi national;
B. Be a Saudi or non-Saudi national;
C. He has been previously convicted of a crime involving breach of trust and dishonesty.
D. He has previously been dismissed from service by a final disciplinary judgment or decision.

68. Which of the following is true in relation to the contract register:
A. Contract's register is the record in which real estate finance contracts concluded in KSA are recorded.
B. Writing documents and declarations issued by the contract register clerk in Arabic only.
C. The contract register company owns contract register with all its data and information.
D. The entries shall be kept in the contract register for at least ten years from the date of expiry of the contract obligations.

69. Which of the following is a duty of a contract registration company:
A. Registering contracts and any amendments thereto, including details of leased assets, and rights related thereto.
B. Recording the transfer of real estate finance contract rights under securitization deals.
C. Disclosing to all dealers in the capital market about the contract record data.
D. Registering ownership contracts resulting from microfinance contracts, after documenting the transfer of ownership.

70. Whoever obscures the data established on the leased asset or changes the features or descriptions of the asset recorded in the relevant register, or sells or mortgages the leased asset without written consent of the lessor, shall be punished with the following:
A. A fine not exceeding half the value of the leased asset.
B. Imprisonment for a period not exceeding six months.
C. A fine not exceeding a quarter of the value of the leased asset and/or imprisonment for a period not exceeding three months.
D. A fine not exceeding half the value of the leased asset and/or imprisonment for a period not exceeding six months.

71. Which of the following is true with regard to Controls for the Lessor's Receipt of Movable Assets in finance lease contracts:
A. The lessor himself repossesses movable assets in finance lease contracts.
B. In order to repossess the movable assets subject matter of the finance lease contracts, the contract shall not be registered with the contract registration company.
C. The method for repossessing movable assets shall be according to the rules issued by the Ministry of Finance for repossession of movable assets by the lessor.
D. All parties (the lessor, contract registration company, and licensed companies) shall use electronic means for repossession of movable assets

72. In the event of default by the lessee, the lessor may repossess the movable asset upon:
A. The lessee defaulted for more than (6) consecutive months.
B. The lessee defaulted for more than (9) separate months throughout the contract term.
C. The lessee defaulted for more than (3) consecutive months or (5) separate months throughout the contract term.
D. The lessee defaulted for more than (6) consecutive

73. The lessor shall not, by way of sale or assignment, dispose the movable asset before:
A. (15) days from the date of repossessing the asset.
B. (30) days from the date of repossessing the asset.
C. (60) days from the date of repossessing the asset.
D. (90) days from the date of repossessing the asset.

74. A small enterprise, according to the decision of Monsha'at Board of Directors, means an enterprise that:
A. Have 1 to 5 full-time employees, or whose revenues do not exceed 3 million riyals.
B. Have 6 to 49 full-time employees, or whose revenues are not less than 3 million and not more than 40 million riyals.
C. Have 50 to 249 full-time employees, or whose revenues are not less than 40 million riyals and not more than 200 million riyals.
D. Have over 250 full-time employees or whose revenues exceed 200 million riyals.

75. A company that finances the activities and productive assets of the beneficiaries of small business owners and craftsmen, is called:
A. Financial lease company
B. Microfinance company
C. Consumer finance company
D. Real estate finance company

76. Which of the following is true with respect to a microfinance company:
A. The microfinance company may provide consumer finance or carry out any other finance activities.
B. Finance may be provided to any of the related parties.
C. The microfinance company may grant unsecured finance.
D. The amount of finance granted to the beneficiary of microfinance may exceed (SAR 100,000) one hundred thousand riyals.

77. Which of the following is a business not permitted for a microfinance company to engage in:
A. Financing activities and productive assets of the beneficiaries of small business owners and craftsmen.
B. Financing any of the related parties.
C. Extending secured finance in accordance with risk management policies and procedures.
D. Extending unsecured finance.

78. A candidate for a position in senior management of a microfinance company is required to have relevant experience in the same field not less than:
A. Only two years
B. Three years
C. Five years
D. Ten years

79. The card that obligates the holder to pay the full amount due upon receiving the account statement or on the due date specified in the statement of account is:
A. Credit card
B. Charge card
C. Corporate card
D. Business card

80. Which of the following is one of the general requirements that the credit or charge card issuer must comply with:
A. All credit agreements, application forms, guarantee agreements and payment schedules are written in Arabic only.
B. The issuer has the right to issue the card without obtaining an application form signed by the card holder.
C. The issuer has the right to issue the card to any person without any age restriction.
D. The issuer shall adopt an effective risk management strategy that permits assessment procedures for the eligibility and suitability of a cardholder.

81. In case a new credit card is issued, the minimum total annual income for the cardholder should be:
A. (SAR 12,000) for bank customers.
B. (SAR 15,000) for non-bank customers.
C. (SAR 24,000) for bank customers and an amount of SAR 30,000 for non-bank customers.
D. (SAR 12,000) for bank customers and an amount of SAR 15,000 for non-bank customers.

82. In any of the following cases, the card issuer may issue to the cardholder an alternative credit or charge card with a new validity period:
A. If the card has been reported lost, stolen or damaged.
B. If card is still valid and has not expired.
C. If the cardholder's account is defaulted.
D. If the requirements or controls for issuing cards are in force and have not been updated.

83. Which of the following procedures the card issuer must take if the cardholder failed to pay the full monthly minimum for three consecutive installments:
A. Providing advisory services to the cardholder for a fee.
B. Immediately freeze the card account and treat it as account in default.
C. Extending the minimum monthly payment period for a period covering the next six installments.
D. Informing the cardholder's employer of his failure to pay the minimum monthly payment for three consecutive installments.

84. Which of the following is a requirement that the issuer must comply with when advertising a credit or charge card:
A. The advertisement should clearly include the name of the product and the credit-related APR.
B. The advertisement shall include any other fees e.g., term cost.
C. Drafting the advertisement using expressions that may lead, directly or indirectly, to deceive or mislead the card holder.
D. The advertisement shall include a logo or a distinctive mark without the right to use it or to use a counterfeit mark.

85. Which of the following is one of the procedures that the card issuer can use to provide the cardholder with the initial disclosure:
A. It is sent to the cardholder within a week through one of the electronic means approved by the issuer after obtaining his approval.
B. To be sent to the cardholder on the same day through one of the issuer's electronic means of communication after obtaining the cardholder's consent.
C. It is sent to the cardholder within a week by the registered fax of the issuer after obtaining his approval.
D. It is sent to the cardholder by registered mail and delivered within two months from the date of such sending.

86. If the initial credit limit was not known when preparing the initial disclosure statement, the card issuer shall disclose it in:
A. A separate statement to be received by the cardholder on the date of receipt of the

third statement of account.
B. A separate statement to be received by the cardholder before the date of receipt of the fourth statement of account.
C. The first account statement sent to the cardholder.
D. The third account statement sent to the cardholder.

87. If the credit or charge card agreement is amended, the issuer must disclose, in writing to the cardholder, any changes to the terms of the agreement except for any of the following amendments:
A. Amending the grace period.
B. Reduction in non-commission fees or default fees.
C. An increase in non-commission fees or default fees.
D. A change in information about any mandatory service associated with a monthly credit or charge card agreement.

88. The card issuer must notify the cardholders immediately of any foreseeable amendment or changes to the credit or charge card agreement _____:
A. At least (10) days after such amendment.
B. At least (20) days after such amendment.
C. At least (30) days after such amendment.
D. At least (60) days after such amendment.

89. Which of the following is true with respect to rights and obligations of a credit or charge card holder:
A. The cardholder shall provide the card issuer with his updated information and any change in his contact information.
B. The cardholder may not cancel the credit and charge card agreement within (10) days of receiving the card.
C. The card issuer may increase the term cost over the outstanding balance due to late payment or default.
D. The card issuer may charge fees for transfers between the current account of the cardholder and the credit or charge card accounts in the same bank.

90. Credit card cash withdrawal fees should not exceed:
A. SAR 150 for each cash withdrawal amounting to (SAR 5000) or less.
B. SAR 100 for each cash withdrawal amounting to (SAR 5000) or less.
C. 3% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 300).
D. 6% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 600).

91. Which of the following is a business not permitted for a consumer microfinance company to engage in:
A. Financing the purchase of goods and services for consumption.
B. Extending finance in Saudi riyals.
C. Extending finance to a foreign borrower resident in KSA.
D. Extending finance to a foreign borrower not a resident in KSA.

92. The minimum paid-up capital for a consumer microfinance company is:
A. SAR (10,000,000)
B. SAR (20.000.000)
C. SAR (100.000.000)
D. SAR (200.000.000)

93. The total amount of finance granted to the borrower by the consumer microfinance company must not exceed:
A. SAR (50.000)
B. SAR (100.000)
C. SAR (200.000)
D. SAR (400.000)

94. Which of the following rules must a consumer microfinance company adhere to in relation to human resources:
A. At least (20%) of human resources must be Saudi nationals when the finance company starts operations.
B. At least (30%) of human resources must be Saudi nationals when the finance company starts operations.
C. The percentage of Saudi nationals of total human resources shall be annually increased by (5%) of all employees until (75%) has been reached.
D. The percentage of Saudi nationals of total human resources shall be annually increased by (10%) of all employees until (90%) has been reached.

95. Which of the following rules is correct with regard to the obligation of the consumer microfinance company to provide SAMA with precautionary data at the specified times:
A. The company shall provide SAMA with its audited annual financial statements and the auditor's report within (60) business days from the end of the calendar year.
B. The company shall provide SAMA with its audited annual financial statements and the auditor's report within (45) business days from the end of the calendar year.
C. The company shall provide SAMA with its quarterly financial statements and the auditor's report within (30) business days from the end of each quarter of each calendar year.
D. The consumer microfinance company must immediately inform SAMA of any losses in excess of (25%) of its paid-up capital.

96. In any of the following cases SAMA obliges the consumer microfinance company to change its external auditor, or SAMA appoints another external auditor at the company's expense:
A. The company extends finance to a foreign borrower not residing in KSA.
B. The company extends finance in a currency other than the Saudi Riyal.
C. There is a reason to believe that the external auditor has a conflict of interest.
D. The company practices an activity other than a microfinance consumer activity.

97. Which of the following are violations related to transactions that expose the shareholders or creditors of the consumer microfinance company to risk in accordance with the Finance Companies Control Law:

A. The consumer microfinance company loses (10%) of its paid-in capital.
B. The consumer microfinance company loses (25%) of its paid-in capital.
C. The consumer microfinance company loses a percentage exceeding (5%) of its paid-up capital in each year for at least three consecutive financial years.
D. The consumer microfinance company loses a percentage exceeding (10%) of its paid-up capital in each year for at least four consecutive financial years.

98. Which of the following is true regarding rules on outsourcing service providers by finance companies:

A. The finance company shall be exempted from liability if the External Service Provider shows lack of compliance with the applicable laws, regulations and instructions in any outsourced operations and tasks.
B. The finance company is not required to verify that the external service provider has obtained the necessary licenses to operate its activity.
C. The finance company shall document the outsourcing in a legally binding written contract or agreement with the External Service Provider that is compliant with the applicable regulatory requirements.
D. Prior to outsourcing or renewing outsourcing of significant functions, the finance company should request SAMA's non-objection in writing at least 60 working days prior to the proposed date of commencement or renewal of the contract or agreement.

99. The minimum capital for a debt crowdfunding facility is:

A. SAR 5.000.000
B. SAR 50.000.000
C. SAR 100.000.000
D. SAR 200.000.000

100. Which of the following rules a debt crowdfunding facility must abide by with respect to human resources:

A. The percentage of human resources Saudization shall not be less than (20%) when the Debt-Based Crowdfunding Company starts its operations.
B. The percentage of human resources Saudization shall not be less than (30%) when the Debt-Based Crowdfunding Company starts its operations.
C. The percentage of human resources Saudization shall not be less than (50%) when the Debt-Based Crowdfunding Company starts its operations.
D. The percentage of Saudi nationals of total human resources shall be annually increased by (10%) of all employees until (90%) has been reached.

Answers to Multiple choice questions (MCQs)

1. Answer: B reference: Chapter 1 section 1.1.3
Many of finance companies focus on providing loans but do not provide bank accounts.

2. Answer: C reference: Chapter 1 section 1.2.1 and 1.2.3
Accepting demand deposits is considered a business prohibited for finance companies to engage in.

3. Answer: A reference: Chapter 1 section 1.2.2
One of the conditions for obtaining a license to practice real estate finance activity is that the minimum payment to the real estate finance company is SAR (20,000,000).

4. Answer: B reference: Chapter 1 section 1.2.2
SAMA collects a fee of SAR (100,000) to renew the license of the finance company.

5. Answer: D reference: Chapter 1 section 1.2.1 and 1.2.3
Consumer finance is considered a business that finance companies are allowed to engage in.

6. Answer: A reference: Chapter 1 section 1.2.2
The minimum paid-up capital for a finance company that engages in microfinance activity is SAR (10,000,000).

7. Answer: B reference: Chapter 1 section 1.2.2
SAMA issues a license to the finance company to practice the activity, and the license period shall be (5) years from the date of license. SAMA may renew it at the request of the finance company.

8. Answer: C reference: Chapter 1 section 1.3.4
In accordance with the Finance Companies Control Law, the obligation regarding Saudization of human resources at the start of the finance company's activities shall not be less than (50%).

9. Answer: B reference: Chapter 1 section 1.3.8
One of the conditions that the finance company must met when the company grants finance without guarantee, is that the total amount of financing granted to the beneficiary without guarantee shall not exceed SAR (100,000).

10. Answer: C reference: Chapter 1 section 1.3.2
Five times the capital and reserves of the company
The total finance provided by the finance company may not exceed five times the capital and reserves of the company engaged in real estate finance activity, except after obtaining SAMA's no-objection letter.

11. Answer: A reference: Chapter 2 section 2.5.4
The fees, commissions and costs of administrative services that the finance company obtains from the beneficiary may not exceed the equivalent of (1%) or SAR (5,000) whichever is less.

12. Answer: C reference: Chapter 6 section 6.3
The minimum paid-up capital for a financing support facility that engages in debt collection activities for financing entities is SAR (10,000,000).

13. Answer: D reference: Chapter 1 section 1.3.6
The finance company must obtain SAMA's no-objection letter before granting finance to a foreign beneficiary who is not residing in the Kingdom.

14. Answer: A reference: Chapter 6 section 6.3
The term of the renewable license for the finance supporting facility is (3) years from the date of license issuance.

15. Answer: B reference: Chapter 2 section 2.7.1
One of the controls for communicating with customers, which the finance entity must abide by, is to document all phone calls with customers (incoming or outgoing) and keep their records for a period of no less than ten years from the date of contact.

16. Answer: A reference: Chapter 2 section 2.6.2
One of the restrictions that the finance company must abide by, with regard to the deductibles for customers whose total monthly income is SAR (15,000) or less, is that the monthly credit obligations resulting from the finance shall not exceed (55%) of the customer's total monthly income.

17. Answer: D reference: Chapter 1 section 1.4.3
When the finance company commits any violation related to professional violations or transactions that endanger its shareholders or creditors, or if the company's debts exceed its assets, the Saudi Central Bank shall impose on the company a fine not exceeding SAR (250,000).

18. Answer: A reference: Chapter 1 section 1.4.2
One of the conditions that must be met by SAMA employee specialized in the works of seizure, investigation and public prosecution is to be a Saudi national.

19. Answer: B reference: Chapter 2 section 2.1.1
Compliance refers to ensuring application and implementation of financial instructions, procedures and transactions in accordance with regulations, rules and instructions issued by regulatory and supervisory authorities in charge of the Financial Sector.

20. Answer: A reference: Chapter 2 section 2.4.1
The Board shall be responsible for supervising and managing risks of non-compliance, and to do so, the finance company's policy of compliance should be adopted.

21. Answer: C reference: Chapter 2 section 2.2.2
One of the responsibilities of the Compliance Department is to identify, effectively deal with and monitor development of all risks of non-compliance faced by the finance company.

22. Answer: B reference: Chapter 3 section 3.5.1
Manual of Combating Embezzlement and Financial Fraud and Control Guidelines issued by SAMA defined financial fraud as "any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator".

23. Answer: C reference: Chapter 3 section 3.5.2
External fraud perpetrated by people outside the finance company such as the client's proof of employment certificate contains handwritten modifications.

24. Answer: D reference: Chapter 3 section 3.5.2
An employee's work outside official working hours almost as usual is an indicator of internal fraud.

25. Answer: A reference: Chapter 3 section 3.5.2
Loss and replacement of original documentation is an indication of internal fraud.

26. Answer: B reference: Chapter 3 section 3.2.1
Money Laundering Law issued by SAMA defines money laundering as: The commission of any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

27. Answer: C reference: Chapter 3 section 3.2.3
The placement stage is confined to placing funds acquired from an illicit source into the financial system.

28. Answer: B reference: Chapter 3 section 3.2.3
Layering is the stage of concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed.

29. Answer: C reference: Chapter 3 section 3.2.3
Integration includes integration of laundered money back into the legitimate economic system, making it appear to be legitimate assets.

30. Answer: C reference: Chapter 3 section 3.3.1
Terrorist financing can be defined as any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any terrorist activity, directly or indirectly.

31. Answer: B reference: Chapter 3 section 3.2.1
Investing the proceeds of criminal activity in the purchase of high-value goods that can be easily traded to conceal the source of these proceeds is an example of ML/TF-related types.

32. Answer: C reference: Chapter 3 section 3.2.1
Use of non-profit organizations to raise funds and conceal their source is an example of ML/CTF transactions.

33. Answer: A reference: Chapter 3 section 3.2.1
Customer's willingness to buy a deal at a price higher than market price, or to sell the same at a price lower than market price, is considered an indicators of suspicious ML transaction.

34. Answer: C reference: Chapter 3 section 3.2.5
Whoever commits ML offense shall be punished by imprisonment for a period of not less than two years and not exceeding ten years and/or by a fine not exceeding five million riyals.

35. Answer: B reference: Chapter 3 section 3.4
Receiving reports from financial institutions on ML suspicious operations is a function of the Financial Investigation Unit.

36. Answer: C reference: Chapter 3 section 3.2.1
One of the main objectives of money laundering is to increase the difficulty of tracing money by security agencies.

37. Answer: B reference: Chapter 3 section 3.2.4
High inflation in the state and low national income are considered economic risks of money laundering.

38. Answer: D reference: Chapter 3 section 3.2.4
Low standard of living is a social risk of money laundering.

39. Answer: B reference: Chapter 3 section 3.5.2
The high turnover of financial or accounting management staff is a kind of internal fraud indicators.

40. Answer: A reference: Chapter 3 section 3.5.2
The disproportionately of customer's age and educational qualifications with number of years of employment is considered to be a kind of external fraud indicators.

41. Answer: B reference: Chapter 3 section 3.3.5
Money-laundering differs from terrorist financing in terms of that it is possible to finance terrorism using legally obtained funds.

42. Answer: C reference: Chapter 1 section 1.2.2
SAMA may revoke the finance company's license, if it is proven that the finance company provided false information to SAMA, or failed to disclose material information that should have been provided for licensing purposes.

43. Answer: D reference: Chapter 3 section 3.4
When money-laundering or terrorist financing is detected or suspected, the finance company shall notify the FIU.

44. Answer: B reference: Chapter 4 section 4.1.2
The primary market is the market where real estate loans are created, guaranteed, settled and serviced by real estate finance institutions.

45. Answer: C reference: Chapter 4 section 4.1.2
The secondary market is the market in which the real estate financier's rights arising from primary market contracts and mortgage-backed securities are traded.

46. Answer: D reference: Chapter 4 section 4.3
The real estate financier may not grant credit in any form of finance in excess of (70%) of the value of the housing unit subject matter of the mortgage contract. However, SAMA may change this percentage according to the market conditions.

47. Answer: A reference: Chapter 4 section 4.5.1
The real estate refinance company's capital should be at least SAR 5 billion.

48. Answer: C reference: Chapter 4 section 4.5.1
The Public Investment Fund's share at any time shall be not less than 51% of the shares of the Saudi Real Estate Refinance Company.

49. Answer: A reference: Chapter 4 section 4.5.2
The Real Estate Refinance Company aims to facilitate trading of real estate finance contract rights in the secondary market and to facilitate the flow of funds thereto.

50. Answer: B reference: Chapter 4 section 4.5.3
Transfer of real estate finance assets and rights arising therefrom to the real estate refinance company without prior consent of the beneficiary is a business that the real estate refinance company is permitted to perform.

51. Answer: D reference: Chapter 4 section 4.5.4
Granting of real estate finance to beneficiaries is a business that the refinance company is prohibited from performing.

52. Answer: C reference: Chapter 4 section 4.5.3
SAMA allows the Saudi Real Estate Refinance Company to purchase residential real estate financing portfolios from real estate financiers after the lapse of three months from the date of granting the finance related to those assets or three months from the date of receiving the first premium from the beneficiary, whichever is later.

53. Answer: A reference: Chapter 4 section 4.7.2
Banks and finance companies shall be bound, with respect to real estate valuation, by refraining from influencing or attempting to influence the drafting and preparation of reports and results or reviewing the valuation.

54. Answer: D reference: Chapter 4 section 4.7.2
When banks and real estate finance companies become aware that the evaluator is engaging in illegal conduct or violating international evaluation standards, they must notify the Saudi Commission for Accredited Evaluators within a maximum of (30) days with a written notice proving such violation in addition to sending a copy to both SAMA and the evaluator.

55. Answer: C reference: Chapter 4 section 4.7.2
When a real estate evaluator engages in illegal conduct or breaches the evaluation criteria, banks and real estate finance companies must notify the Saudi Commission for Accredited Evaluators within a maximum of (30) days in written notice.

56. Answer: D reference: Chapter 4 section 4.8
Standing Payment Order in favor of a Real Estate Financier: "A service provided by banks whereby money transfers are made regularly from the customer's account to the real estate financier's account during a specific period and in a specified amount."

57. Answer: B reference: Chapter 4 section 4.8.1
When submitting a standing payment order in favor of a real estate financier, banks must verify that there is a fixed monthly income for the customer before accepting application for the establishment of a standing payment order in favor of a real estate financier.

58. Answer: D reference: Chapter 4 section 4.8.2
The real estate financier benefiting from the standing payment order must give the customer an approval to change the amount of the standing payment order when its circumstances change and the debt is rescheduled.

59. Answer: B reference: Chapter 4 section 4.8.2
Upon payment of the accrued obligations by the Customer, the real estate financier benefiting from the standing payment order shall grant the Customer a release and no objection to cancelation of the standing payment order.

60. Answer: A reference: Chapter 4 section 4.2.3
Among the obligations that banks and real estate finance companies must commit to before providing real estate finance to individuals, is to study the information needed to understand a customer's financial circumstances and create a clear picture of a customer's ability to meet obligations.

61. Answer: C reference: Chapter 5 section 5.1.1
The lessor obtaining the leased asset for the purpose of leasing it to others as a financial lease is an evidence that the financial lease activity is a professional activity.

62. Answer: B reference: Chapter 5 section 5.1.2
The basic maintenance of a leased asset is the maintenance on which the leased asset resides.

63. Answer: C reference: Chapter 5 section 5.1.2
The contract may provide for a period in which early ownership is prohibited, if the subject of the contract is real estate and this term entails a deduction from the term cost, provided that the prohibition period shall not exceed two years from the date of contract conclusion.

64. Answer: B reference: Chapter 5 section 5.1.2
If the lessee chooses to own the leased asset under the contract at any time, it is entitled to early ownership of the asset, while the lessor is compensated for the cost of reinvestment, not exceeding the term cost for the three months following early ownership.

65. Answer: D reference: Chapter 5 section 5.1.2
Securitization in financial lease contracts is the process of issuing securities in exchange for the rights of the lessor. In the event of such securitization, the lessor shall remain bound by all relevant supervisory requirements.

66. Answer: D reference: Chapter 5 section 5.1.3
The lessor shall record the contract and any amendments thereto in the contract register within ten working days from the date of contract conclusion or amendment.

67. Answer: A reference: Chapter 5 section 5.1.3
One of the conditions that must be met by the head and clerk of the contract register is that to be a Saudi national.

68. Answer: D reference: Chapter 5 section 5.1.3
SAMA has the contract register together with all of its data and information. The entries shall be kept in the contract register for at least ten years from the date of expiry of the contract obligations.

69. Answer: A reference: Chapter 5 section 5.1.3
Registration of contracts and amendments, including leased asset statements and related rights, are some of the Contract Registration Company functions.

70. Answer: C reference: Chapter 5 section 5.1.4
Whoever obscures the data established on the leased asset or changes features or descriptions of the asset recorded in the relevant register, or sells or mortgages the leased asset without written consent of the lessor, shall be punished with the following.

71. Answer: D reference: Chapter 5 section 5.1.5
With regard to the lessor's recovery controls of movable assets in financial lease contracts, all parties (the lessor, the company registering contracts and specialized companies) must use electronic means in the process of recovering movable assets.

72. Answer: C reference: Chapter 5 section 5.1.5
In the event of a lessee's default, the lessor may recover the movable asset when the lessee fails to pay for more than (3) consecutive months or (5) separate months throughout the contract period.

73. Answer: A reference: Chapter 5 section 5.1.5
The lessor shall not dispose the movable asset (such as: Selling or assigning the asset to another party or closing the contract) before the expiry of a period of (15) days from the date the asset is recovered.

74. Answer: B reference: Chapter 5 section 5.2.1
In accordance with the decision of Monshaat Board of Directors, the small enterprise has 6 to 49 full-time employees, or has revenues of not less than SAR 3 million and not more than SAR 40 million.

75. Answer: B reference: Chapter 5 section 5.3.1
Microfinance companies mean: "The company which finances the activities and productive assets of the beneficiaries of small business owners, craftsmen and the like.

76. Answer: C reference: Chapter 5 section 5.3.1
The microfinance company may grant finance without guarantee or with guarantee that takes into account the type and nature of such finance in accordance with risk management policies and procedures approved by the board of the microfinance company.

77. Answer: B reference: Chapter 5 section 5.3.1
Providing finance to any of the relevant parties is prohibited for the microfinance company.

78. Answer: A reference: Chapter 5 section 5.3.1
A candidate for senior management position in a microfinance company is required to be a theoretically and practically qualified, with appropriate experience in the same area of at least two years.

79. Answer: B reference: Chapter 6 section 6.1.1
The charge card is the card that obliges the holder to pay the full amount due upon receipt of the statement of account or on the due date specified in the statement of account.

80. Answer: D reference: Chapter 6 section 6.1.2
One of general requirement that the credit card or charge card issuer must comply with is to follow an effective risk management strategy that allows assessment procedures for the eligibility and suitability of the cardholder.

81. Answer: C reference: Chapter 6 section 6.1.2
In the event a new credit card is requested, the minimum annual gross income of the cardholder should be SAR 24,000 for the bank's customers and SAR 30,000 for non-bank customers.

82. Answer: A reference: Chapter 6 section 6.1.2
The card issuer may issue the cardholder an alternative credit card or charge card with a new validity period if the card is reported as lost, stolen or damaged.

83. Answer: B reference: Chapter 6 section 6.1.3
One of the actions that the card issuer must take if the cardholder fails to pay the monthly minimum amount in full for three consecutive premiums, is to freeze the card account immediately and treat the same as defaulted.

84. Answer: A reference: Chapter 6 section 6.1.4
One of the requirements that the issuer must comply with when announcing a credit card or charge card is that the announcement shall clearly include the product name and credit annual rate.

85. Answer: B reference: Chapter 6 section 5.1.6
One of the procedures that the card issuer can use to provide the cardholder with the initial disclosure is to send the same to the cardholder on the same day through an electronic means approved by the issuer after obtaining its approval.

86. Answer: C reference: Chapter 6 section 5.1.6
If the initial credit limit is unknown when the initial disclosure statement is prepared, the card issuer shall disclose it on the first statement of account sent to the cardholder.

87. Answer: B reference: Chapter 6 section 5.1.6
If the credit card or charge card agreement is amended, the issuer shall disclose in writing to the cardholder any changes in the terms of the agreement except for a reduction in non-commission fees or default fees.

88. Answer: C reference: Chapter 6 section 5.1.6
The card issuer shall immediately notify cardholders of any expected changes or amendments to the credit card or charge card agreement at least (30) days in advance of the change.

89. Answer: A reference: Chapter 6 section 6.1.6
With respect to the rights and obligations of the holder of credit card or charge card, the cardholder is required to provide the card issuer with updated information and any change in contact details.

90. Answer: C reference: Chapter 6 section 6.1.6
Credit card cash withdrawal fees should not exceed: 3% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 300).

91. Answer: D reference: Chapter 6 section 6.2.1
One of the acts prohibited for a consumer microfinance company is to grant finance to a KSA non-resident foreign beneficiary.

92. Answer: B reference: Chapter 6 section 6.2.1
The minimum paid-up capital for a consumer microfinance company shall be SAR 20,000,000 (twenty million riyals). SAMA may raise or reduce the minimum capital in light of market conditions.

93. Answer: A reference: Chapter 6 section 6.2.1
The total amount of finance granted to the beneficiary of the consumer microfinance Company shall not exceed SAR (50,000) fifty thousand riyals. SAMA may adjust this amount according to market conditions or the geographical scope of the consumer microfinance Company.

94. Answer: C reference: Chapter 6 section 6.2.2
Consumer microfinance company must commit to increasing the saudization of human resources annually at least (5%) of total resources until they reach (75%).

95. Answer: B reference: Chapter 6 section 6.2.2
With regard to the consumer microfinance company's commitment to provide SAMA with the precautionary data on time, the company must provide the Central Bank with its audited annual financial statements and auditor's report within 45 working days of the end of the Gregorian year.

96. Answer: C reference: Chapter 6 section 6.2.3
The Central Bank shall require the consumer microfinance company to change its external auditor, or the Bank shall appoint another external auditor at the company's expense in the event that there is a conflict of interest regarding the external auditor.

97. Answer: D reference: Chapter 6 section 6.2.3
The loss of consumer microfinance company that exceeds (10%) of its paid-up capital in each year for at least four consecutive financial years, is a violation related to transactions that endanger the microfinance company's shareholders or its creditors in accordance with the Finance Companies Control Law.

98. Answer: C reference: Chapter 6 section 6.4
In accordance with rules on outsourcing service providers by finance companies, the finance company shall document the outsourcing in a legally binding written contract or agreement with the External Service Provider that is compliant with the applicable regulatory requirements.

99. Answer: A reference: Chapter 6 section 6.5.1
The minimum capital of a debt crowdfunding facility shall be (5,000,000) five million riyals, and the Central Bank may raise or reduce the minimum capital in accordance with market conditions.

100. answer: C reference: Chapter 6 section 6.5.2
Proportion of human resources Saudization across the company must not be less than 50% when the Debt-Based Crowdfunding Company starts its operations. SAMA may increase or decrease the Saudization percentage by not less than 50%.

Curriculum Map

Curriculum Unit/Item		Chapter/Section
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2	1.1 Structure of Financial Services Sector in the Kingdom of Saudi Arabia: 1.1 Banks 2.2 Insurance Companies 2.3 Finance companies 2.4 Financial Market Companies	Section 2:
3	Common Features of KSA Finance Companies: 3.1 Nature of Finance Activity 3.2 Finance Business Allowed for Finance Companies to Engage in 3.3 Procedures and Conditions of Finance Activity License 3.4 Business not Allowed for Finance Companies to Engage in	Section 3:
4	Rules Regulating the Business of Finance Companies 4.1 Finance Company Management 4.2 Financial Leverage Definition 4.3 Ownership and Assets 4.4 Finance Company Internal Organization 4.5 Internal Audit 4.6 Finance Policies and Procedures 4.7 Limits of Exposure to Credit Risk 4.8 Account Auditing and Inspection	Section 4:
5	SAMA and its Role in Monitoring and Supervising Finance Companies: 5.1 SAMA's Role in Supervising and Controlling the Finance Companies 5.2 Violations and Disputes 5.3 Penalties 5.4 SAMA's Key Legislation Regulating the Business of Finance Companies	Section 5:

Curriculum Unit/Item		Chapter/Section
Second element	Compliance in Finance Companies and Role of Compliance Officer	Chapter Two
2.1	Compliance in Finance Companies and Role of Compliance Officer Upon completing study of this section of the book, the examinee shall:	Section 1:
2	Be familiar with compliance in finance companies: 2.1 Compliance function definition 2.2 Compliance function objectives 2.3 Importance of Compliance in Finance Companies 2.4 Non-compliance risk	Section 2:
3	Compliance Department: 3.1 Principles of Compliance Department 3.1.1 Independence 3.1.2 Resources 3.2 Responsibilities of Compliance Department	Section 3:
4	Compliance Officer: 4.1 Compliance Officer Qualifications, Traits, and Capabilities 4.2 Preparation of Quarterly Compliance Report	Section 4:
5	Responsibilities of the Board and Executive Management regarding Compliance: 5.1 Responsibilities of the Board regarding Com-pliance 5.2 Responsibilities of the Executive Management regarding Compliance	Section 5:
6	Finance Consumer Protection Principles: 6.1 General Principles 6.2 Mutual Responsibilities (Customer Responsibilities) 6.3 Major Obligations of Finance Companies 6.3.1 Terms and Conditions 6.3.2 Fees, Commissions and Pricing 6.3.3 Protection of data and information and confidentiality 6.3.4 Advertising and Marketing Communications 6.3.5 Obligations of Finance Company Before or at the Conclusion of the Finance Agreement 6.3.6 Obligations of Finance Company after the Conclusion of the Finance Agreement	Section 6:

Curriculum Unit/Item		Chapter/Section
Second element	Compliance in Finance Companies and Role of Compliance Officer	Chapter Two
6	6.4 Protection of Consumer Rights in Finance Services 6.5 Errors and complaints	Section 6:
7	Principles of Responsible Financing for Individuals 7.1 Qualitative Principles of Responsible Financing 7.1 Quantitative Principles of Responsible Financing	Section 7:
8	Collection Controls and Procedures for Individual Customers 8.1 Customer Communication Controls 8.2 Procedures for Collection from Customer Accounts 8.3 Procedures for Dealing with Defaulting Customers	Section 8:
9	Governance of Financial Institutions and Finance Companies: 9.1 Importance and Benefits of Financial Institutions Governance 9.2 Key Governance Principles in Financial Institutions 9.3 Governance of Finance companies	Section 9:

Curriculum Unit/Item		Chapter/Section
Third element	Anti-Money Laundering, Combating Terrorist Financing and Fraud within Finance Companies	Chapter Three
2.1	Anti-Money Laundering, Combating Terrorist Financing and Fraud within Finance Companies Upon completing study of this section of the book, the examinee shall:	Section 1:
2	Main Characteristics of Financial Crimes: 2.1 Definition of Financial Crimes 2.2 Detection and Mitigation of Financial Crimes	Section 2:
3	Money laundering: 3.1 Definition of Money Laundering 3.2 Objectives of Money Laundering Operations 3.3 Stages of Money Laundering 3.3.1 Placement 3.3.2 Layering 3.3.3 Integration 3.4 Risks of Money Laundering	Section 3:
4	Terrorist Financing Processes: 4.1 Definition of Terrorist Financing 4.1 Stages of Terrorist Financing 4.2.1 Fund-Raising Phase 4.2.2 Fund Transfer Phase 4.2.3 Fund Use Phase 4.3 Risks of Terrorist Financing Crimes 4.4 Requirements for Combating Terrorist Financing 4.5 Relationship between ML/TF	Section 4:
5	KSA's AML/CTF Initiatives:	Section 5:
6	Nature of Fraud in Finance Companies: 6.1Definition of Fraud 6.2 Types and Indications of Fraud in Finance Companies 6.2.1 Internal Fraud 6.2.2 External Fraud 6.3 Anti-Fraud Methods in Finance Companies 6.4 Responsibility for Combating Fraud in finance Companies	Section 6:

Curriculum Unit/Item		Chapter/Section
Fourth element	Real Estate Finance Rules and Procedures	Chapter Four
2.1	rules and procedures Upon completing study of this section of the book, the examinee shall:	Section 1:
2	Nature of Real Estate Finance Activity: 2.1 Concept and Nature of Real Estate Finance 2.2 Real Estate Finance Markets 2.2.1 Primary Market 2.2.1 Secondary Market	Section 2:
3	SAMA's role in Regulating Real Estate Finance: 3.1 Supervision and Licensing 3.2 Procedural Requirements for Mortgage Documentation 3.3 Mandatory Instructions for Real Estate Financiers When Providing Real Estate Finance to Individuals	Section 3:
4	Real Estate Finance Contract	Section 4:
5	Templates of the Real Estate Finance Contract in the forms of Murabaha and Ijara: 5.1 Real Estate Finance Contract in the Form of Ijara 5.2 Real Estate Finance Contract in the Form of Murabaha	Section 5:
6	Real Estate Refinance Companies: 6.1 Establishment of Real Estate Refinance Companies 6.2 Objectives of Real Estate Refinance Companies 6.3 Business that the Real Estate Refinance Company may engage in 6.4 Business not Allowed for Real Estate Refinance Company to Engage in	Section 6:
7	Government Support for Real Estate Finance: Role of the Real Estate Development Fund	Section 7:
8	Real Estate Valuation and Real Estate Financiers' Obligations: 8.1 Concept of Real Estate Valuation 8.2 Obligations of Real Estate Financiers towards Real Estate Evaluation Process	Section 8:
9	Controls of Standing Payment Order in favor of a Real Estate Financier: 9.1 Obligations of Banks 9.2 Obligations of the Beneficiary Real Estate Financier	Section 9:

Curriculum Unit/Item		Chapter/Section
Fifth element	Finance Lease Activity, SMEs Finance, and Microfinance Rules	Chapter Five
2.1	Finance Lease Activity, SMEs Finance, and Rules Governing Microfinance Upon completing study of this section of the book, the examinee shall:	Section 1:
2	Nature of Finance Lease Contracts: 2.1 Meaning of Finance Lease 2.2 Finance Lease Contract 2.2.1 lessee's Rights and Obligations 2.2.2 lessor's Rights and Obligations 2.3 Finance Lease Contract Register 2.31 Concept of Contract Register 2.3.2 Role and Services of Contract Registration Companies 2.4 Violations and Disputes related to Finance Lease Contracts 2.5 Controls for Repossession of Movable Assets by the Lessor in Finance Lease Contracts:	Section 2:
3	SME Finance: 3.1 Meaning of SME 3.2 SMEs Finance Initiatives	Section 3:
4	Microfinance Rules 4.1 Concept of Microfinance 4.2 Rules of Management and Supervision in Micro-finance Companies	Section 4:

Curriculum Unit/Item		Chapter/Section
Sixth element	Controls for Financing Credit Cards and Charge Cards, Consumer Microfinance Rules, Rules on Outsourcing, and Rules for Engaging in Debt-based Crowdfunding	Chapter Six
2.1	Controls for Financing Credit Cards and Charge Cards, Consumer Microfinance Rules, Rules on Outsourcing, and Rules for Engaging in Debt-based Crowdfunding Upon completing study of this section of the book, the examinee shall:	Section 1:
2	Nature of Credit Cards and Charge Cards Finance: 2.1 Concept of Credit Cards and Charge cards 2.2 Issuance of Credit Cards and Charge cards 2.2.1 General Requirements 2.2.2 Card Issuance Procedures 2.2.3 Issuance of replacement cards 2.2.4 Issuance of additional cards 2.3 Credit Limits of Cards 2.4 Advertising of Cards 2.5 Disclosure of Information 2.6 Rights and Obligations of the Cardholder 2.7 Settlement of Card Disputes	Section 2:
3	Rules Governing Microfinance Companies: 3.1 Concept of Consumer Microfinance 3.1.1 Licensing Provisions 3.1.2 Activity Provisions 3.2 Regulations and Risk Management in Consumer Microfinance Companies 3.2.1 Internal Organization 3.2.2 Risk Management 3.3 Rules for Supervision on Consumer Microfinance Companies	Section 3:
4	Finance Support Activities:	Section 4:
5	Rules on Outsourcing Services Provided by Finance Companies: 5.1 Rules of Liability and Obligations 5.2 Outsourcing Policy 5.3 Outsourcing Requirements 5.4 Control and Monitoring	Section 5:

Curriculum Unit/Item		Chapter/Section
Sixth element	Controls for Financing Credit Cards and Charge Cards, Consumer Microfinance Rules, Rules on Outsourcing, and Rules for Engaging in Debt-based Crowdfunding	Chapter Six
6	Rules for Practicing Debt-Based Crowdfunding: 6.1 Licensing Provisions 6.2 Internal Organization 6.3 Activity Provisions 6.4 Supervision and Compliance:	Section 6:

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