



شعبة الترجمة الرسمية  
Official Translation Department

## Law of Commercial Pledge

Royal Decree No. M/86  
April 24, 2018

Translation of Saudi Laws



**NOTE:**

The translation of Saudi laws takes the following into consideration:

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



## Law of Commercial Pledge

### Chapter 1: General Provisions

#### Article 1

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

**Law:** Law of Commercial Pledge.

**Minister:** Minister of Commerce.

**Regulations:** Implementing Regulations of the Law.

**Pledge Contract:** An agreement whereby the debtor or his guarantor allocates movable property to secure a debt, including any amendment or addition thereto.

**Movable Property:** Current or future movable property, or a future right.

**Future Property:** Potential assets or existing assets, of which the pledger's ownership is not complete at the time the pledge contract is concluded, such as assets contracted to be constructed, movable assets under construction, or assets not deemed movable at the time the pledge contract is concluded.

**Future Right:** A debt a person undertakes to pay to the pledger within a specific period of time, or an uncollected payable debt, including third-party conditional debts or potential debts owed to the pledger.

**Pledged Property:** A movable property offered or agreed to be offered to secure a debt.

**Debt or Secured Debt:** A debt, or part thereof, guaranteed by a pledged property, including current or future liabilities, whether established or conditional, or monetary or non-monetary.

**Debtor:** A person obligated to satisfy a secured debt.

**Pledger:** A provider of a pledge, whether the debtor or his guarantor *in rem*.

**Pledgee:** A person for whose benefit a pledge is made.

**Escrow Agent:** A person agreed upon by the pledger and pledgee to hold, preserve, invest, or develop the pledged property, or collect its revenues.

**Possessor:** A person in possession of a pledged property, whether the pledger, pledgee, or escrow agent.

**Economic Entity:** An entity practicing a commercial or professional activity or any other activity intended for profit.

#### Article 2

1. The provisions of this Law shall apply to a written pledge contract relating to a movable property pledged as security for a debt.



2. A pledge contract shall be deemed written if it includes the following:
  - a) Names, addresses, contact information of the pledger, pledgee, debtor (in cases where the pledger is a guarantor *in rem*), escrow agent (if any), and the possessor.
  - b) Description of the pledged property.
  - c) A general description of the secured debt, its amount or maximum value, as applicable.
  - d) Date of the pledge contract.
  - e) Maturity date of the secured debt, or anticipated maturity date of a debtor's non-established debt.

## **Chapter 2: Secured Debt**

### **Article 3**

A pledge may be made to secure a debt not yet established on the debtor, including conditional or potential debts. Said pledge shall be effective from the date of the pledge contract and not from the date of the debt establishment.

## **Chapter 3: Effect of Pledge Contract**

### **Article 4**

The pledge shall be deemed effective against a third party by means of publication or transfer of pledged property possession to the pledgee or escrow agent, in accordance with the Movable Property Security Law.

### **Article 5**

An escrow agent may not be changed unless agreed upon by the pledger and the pledgee; in such case, the escrow agent may claim damages arising from such change.

### **Article 6**

A pledge contract that is not effective against a third party shall remain valid and effective between the pledger and the pledgee.

## **Chapter 4: Pledged Property**

### **Article 7**

Pledged property shall secure, in addition to the principal of the secured debt, the following related expenses:



1. Maintenance expenses.
2. Investment expenses.
3. Revenue collection expenses.
4. Enforcement expenses.

### **Article 8**

1. A pledger must be the owner of the pledged property at the time of concluding the contract and must have the capacity to dispose of it. Otherwise, a *bona fide* pledgee shall have the right to demand pledging an alternative property under a new contract or the immediate payment of debt.
2. A property that is pledgeable is a property that is salable or the value of which is assessable.
3. Notwithstanding Articles 9 and 35 of this Law, no pledge may be created over a property or shares in an inheritance or a bequest not yet owned by the pledger.

### **Article 9**

Notwithstanding Article 8(1) of this Law, future property may be offered by agreement as a pledged property, provided that said future property is likely to exist. In such case, the pledge shall be valid from the date of agreement and not from the date the future property comes into existence, nor the date it is owned by the pledger, or the date of its transformation into a movable property.

### **Article 10**

1. The whole pledged property shall be taken to be security for the entire debt, unless agreed otherwise.
2. A part of a movable property may be pledged, even if said property is indivisible or inseparable; in such case, the pledge shall take effect on the pledged part of the common property. The Regulations shall, in coordination with the Ministry of Justice, set the provisions governing the transfer of possession and enforcement of a pledged property that is part of a common property.

### **Article 11**

Repealed

### **Article 12**

Multiple movable properties may be pledged to secure the same debt; in such case, the pledgee may determine the order of enforcement on said properties, unless agreed otherwise.



## Chapter 5: Preserving and Investing Pledged Property

### Article 13

Repealed

### Article 14

1. A pledgee or escrow agent, as applicable, may, by virtue of an authorization by the pledger established in the pledge contract, invest, manage, and develop the pledged property and collect its revenues for the benefit of the pledger.
2. A possessor, other than the pledger, may, by agreement with the pledger, deduct the expenses referred to in Article 7 of this Law from the revenues of the pledged property.

### Article 15

A pledgee or escrow agent may not use the pledged property for their benefit without the written consent of the pledger, provided the fee for such use is based on market price.

## Chapter 6: Disposition and Transfer of Pledged Property

### Article 16

Repealed

### Article 17

Repealed

### Article 18

Repealed

### Article 19

A pledgee with the right to track a pledged property shall be entitled to carry out enforcement on such property even if the property is transferred to the ownership of a *bona fide* third party who is unaware of the pledge. In such case, the third party may recover the value of the property from the pledger or the



seller, without prejudice to his right to claim compensation, unless he waives such right in writing.

#### **Article 20**

A pledged property is transferable through inheritance or bequest, encumbered with the pledge.

#### **Article 21**

A person to whom a pledged property is transferred may eliminate the pledge by settling the debt and any costs or expenses incurred by the pledgee; in such case, he may recover from the pledger an amount not exceeding the total sum that would have been paid to the pledgee, unless agreed otherwise.

### **Chapter 7: Loss of Pledged Property**

#### **Article 22**

1. A possessor shall be responsible for safekeeping the pledged property until the pledge expires or enforcement on the pledged property is carried out. A pledger or a pledgee, as applicable, may petition the competent court to compel the possessor to take necessary measures to preserve, protect, maintain, and repair the pledged property.
2. A pledger or a pledgee, as applicable, may file an objection before the competent court against any action taken by the possessor that may cause the property to depreciate or sustain loss or damage, and the court shall immediately consider such objection.
3. Subject to Article 24(1) of this Law, the possessor shall guarantee the value of the pledged property if it is lost due to his transgression or negligence.

#### **Article 23**

Repealed

#### **Article 24**

1. If a pledged property is lost due to the pledger's transgression or negligence, the secured debt shall become due and the pledgee shall have the right to carry out enforcement on the remainder of the pledged property, unless said property is replaced.
2. Subject to paragraph 1 of this Article, if the loss of a pledged property results in indemnification, the pledge shall transfer to the indemnification, unless the pledger and the pledgee agree otherwise. The provisions of the original pledge contract shall apply, unless the pledger and the pledgee agree otherwise.



### **Article 25**

1. The competent court may, pursuant to a petition by the pledger or pledgee, order the sale of a pledged property even prior to the maturity date of the secured debt if such property is susceptible to loss or depreciation or the anticipated repair cost exceeds half of its value at the time of making the pledge or the cost of its possession and safekeeping is high.
2. The competent court may, pursuant to a petition by the pledger, permit the sale of a pledged property if an opportunity arises to sell the same at a price higher than its value at the time of making the pledge.
3. The sale of a pledged property shall be carried out in the manner determined by the competent court.

## **Chapter 8: Sale and Enforcement**

### **Article 26**

Subject to the enforcement provisions provided for in the Movable Property Security Law, the Regulations may determine enforcement provisions pertaining to pledged properties.

### **Article 27**

Repealed

### **Article 28**

Repealed

### **Article 29**

1. A register-generated enforcement document of a registered pledge contract shall be deemed an enforcement document. In the case of multiple pledgees holding registered contracts for the same pledged property, a register-generated enforcement document may only be issued to an enforcement agent. The issuance of a register-generated enforcement document shall be noted in the Register.
2. The enforcement judge shall carry out enforcement on a pledged property in accordance with the provisions of the Enforcement Law and its Implementing Regulations.

### **Article 29**

Repealed

### **Article 30**

Repealed





**Article 31**

Repealed

**Article 32**

Repealed

**Chapter 9: Pledging Certain Properties**

**Article 33**

Subject to Article 34 of this Law, an economic entity may be pledged. Unless otherwise agreed under the pledge contract, the pledge of an economic entity shall include:

1. all intangible properties of the economic entity which are transferable to third parties either separately or as part of the economic entity; and
2. rights and movable assets of the economic entity.

**Article 34**

If the economic entity is a company, the pledge contract shall only include its movable assets, whether tangible or intangible, as well as its rights and commercial business.

**Article 35**

Repealed

**Article 36**

1. A financial institution may deduct the liabilities payable prior to pledging the account upon the maturity thereof.
2. A pledger may not withdraw or transfer funds from the pledged account, unless agreed otherwise, nor may he withdraw or transfer funds from an account created in the name of the Register in the cases provided for by the Law.

**Article 37**

Repealed

**Article 38**

1. A pledger may pledge all his movable property or part or category thereof or any movable property that is generally described and specifically identifiable.
2. Enforcement on a pledged property according to paragraph (1) of this Article shall be carried out upon establishing the debtor's default. All pledger's



properties which are specified in the pledge contract and which the pledger owns and possesses on the maturity date shall be included in the pledge.

3. A pledger may dispose of a pledged property in accordance with paragraph (1) of this Article, or invest the same in his regular economic activities, unless an infringement invoking enforcement occurs.

### **Article 39**

Vessels, aircraft, commercial papers, securities traded in the Capital Market, unlisted companies shares, goods stored in public depots, trademarks, and similar properties, shall be pledged in accordance with the provisions of their respective laws, and where such laws are silent, the provisions of this Law shall apply.

## **Chapter 10: Pledge Expiry**

### **Article 40**

1. A pledge shall expire in the following cases:
  - a) Expiration of the secured debt in-full, by means of settlement, acquaintance, or any other means of settling debts.
  - b) Loss of the pledged property, unless the pledger and the pledgee agree on replacing the lost property, without prejudice to Article 24(2) of this Law.
  - c) Agreement of the pledger and the pledgee to terminate the pledge contract.
  - d) Relinquishment of the pledge by the pledgee.
2. A pledge shall not expire by rescheduling or renewing the secured debt.

### **Article 41**

A pledgee may, under an effective pledge contract, transfer to a third party his right to recover the secured debt along with the pledged collateral.

## **Chapter 11: Final Provisions**

### **Article 42**

Repealed

### **Article 43**

The value of a pledged property and its average assessed value shall, in cases provided for in this Law, be determined in accordance with the rules and procedures set in the Regulations, unless the agency in charge of regulating specific types of property has its own procedures.



**Article 44**

Repealed

**Article 45**

The Minister shall issue the Regulations within 60 days from the date of publication of this Law in the Official Gazette.

**Article 46**

This Law shall supersede the Commercial Pledge Law, issued by Royal Decree No. (M/75), dated 21/11/1424H, and shall repeal any provisions conflicting therewith.

**Article 47**

This Law shall enter into force from the date of its publication in the Official Gazette.