

## Restructuring options in commercial bankruptcy: A legal analysis under the Saudi law

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**Abstract:** This research examines how the bankruptcy law has operated in Saudi Arabia since its implementation in 2018. This law was enacted to help develop the economy and support small and medium-sized companies in line with Saudi Vision 2030. The research used a legal analytical approach to legal texts and examined some bankruptcy cases that were subject to the new bankruptcy law. The study found that the new law has improved business conditions by providing options beyond simply closing. Businesses can now reorganize and survive during difficult times. However, businesses may face some difficulties and time-consuming procedures to legally resolve bankruptcy. The research indicates that more businesses are using settlement options to avoid bankruptcy, indicating growing confidence in the law. The research highlights the need to better spread legal awareness about the bankruptcy law, expedite procedures, and educate small business owners about the law. These changes will make the Saudi economy stronger and more attractive for investment, helping to achieve the goals of Vision 2030.

**Keywords:** *Business Flexibility, Corporate restructuring, Preventive settlement, Saudi bankruptcy law, Vision 2030.*

### 1. Introduction

The Kingdom of Saudi Arabia has developments in the legal field that support the achievement of Vision 2030. Among these modern laws is the new bankruptcy law, issued in No. M/50 of 1439 AH (2018), (Ministry of Commerce, 2018). Which resolves some of the problems in the old bankruptcy law and is compatible with foreign bankruptcy laws. Indeed, it includes many legal provisions to provide a comprehensive legal framework for all bankruptcy situations, ensuring rights.

This research aims to find legal solutions that help in restructuring and ensuring the continuity of the company's work according to the Saudi bankruptcy law by analyzing and explaining the legal texts, in addition to clarifying the role of the Saudi bankruptcy law in supporting the business environment, preserving the rights of creditors, and its compatibility with foreign laws.

### 2. Historical Background and Development of Saudi Bankruptcy Law

Under the old bankruptcy law, which was part of the Commercial Court law in 1350 H, it did not cover all stages of a company's bankruptcy and did not offer alternative solutions to bankruptcy. Instead, it focused on assets to repay debts. Following the issuance of the new bankruptcy law, which stipulated preventive settlements, an attempt was made to reorganize the financial system before reaching the liquidation stage. In addition, the law stipulated the organization of the bankruptcy committee and authorized the Minister of Commerce and Investment to issue decisions related to cross-border bankruptcy [1].

With the Saudi government's increasing interest in expanding foreign investment, it has revised and developed its bankruptcy law to suit the business environment, support business continuity, and resolve financial problems faced by companies [2].

In 2016, the Kingdom's Vision 2030 was announced, one of whose economic objectives is to create an

attractive environment for domestic investment and expand foreign investment. To achieve this goal, the Kingdom's government has made extensive efforts to develop regulations related to trade and business. The new Saudi bankruptcy law is compatible with international regulations and is the result of a study of several laws, including those of the United States and England.

### 3. Key Features of the Saudi Bankruptcy Law

Commercial bankruptcy laws in Saudi Arabia assist with specialized procedures to address preventive settlement, restructuring, and other various procedures under the Saudi Bankruptcy Law (Royal Decree No. M/50). The Saudi Bankruptcy Law applies to all types of business entities, from local legal entities to individual businesses as well as licensed professional firms operating in the Kingdom [3]. Both Saudi and external business entities with Saudi-based assets fall within the law's reach, while particular rules apply to banking and insurance businesses within the country.

The Saudi bankruptcy law aims to achieve an effective balance between protecting debtors' rights and ensuring that creditors' financial interests. As the Saudi Bankruptcy Commission [4] explained, bankruptcy legislation aims to protect economic value and promote fairness among all stakeholders. These legal procedures enable solutions to financial problems by providing debtors with the opportunity to restructure their debts and restore financial stability while preserving creditors' rights and enhancing transparency and confidence in the economic system.

Financial troubles can be resolved through preventive settlements and financial restructuring procedures, along with access to liquidation as an option according to the law. Under the law, a two-pronged approach combines a Small Debtor's procedure and Administrative Liquidation under specific circumstances. Every procedure includes separate goals together with specifications for eligibility and procedures that adapt to diverse business situations and financial scenarios [5].

The Saudi legislator has been keen to develop all legal aspects of bankruptcy, including establishing the Bankruptcy Authority as a specialized body responsible for implementing the legislation, issuing licenses to bankruptcy practitioners, and managing the bankruptcy registry system. The Bankruptcy Authority effectively guides the bankruptcy proceedings by monitoring bankruptcy practitioners and setting basic performance standards [6].

### 4. Preventive Settlement Procedure

The bankruptcy system includes several procedures, including preventive settlement: an agreement between the debtor and his creditors to settle his debts, in which the debtor retains control over his business. There is also the financial restructuring procedure, which aims to facilitate the debtor's reaching an agreement with his creditors to financially restructure his business under the supervision of the financial restructuring trustee. Also, the liquidation stage, aims to limit creditors' claims, inventory and sell the bankruptcy assets and distribute the liquidation proceeds to the creditors by the liquidation trustee. In addition, administrative liquidation: is a procedure aimed at selling bankruptcy assets that are not expected to generate sufficient proceeds to cover the debts. This procedure is carried out under the management of the bankruptcy committee [6].

A proactive intervention through the Preventive Settlement procedure helps businesses avoid instability before their situation reaches full insolvency. The procedure exists for debtors who recognize potential economic challenges ahead of defaulting on their payments. Article 13 of the Saudi Bankruptcy Law explains that Preventive Settlement provides debtors and creditors with terms to revamp loan obligations while sustaining business operations (Bankruptcy Law).

The debtor must apply containing obligation payment details, together with financial statements, along with asset and liability declarations, to the court for approval. The debtor maintains operational control throughout the procedure although the court sometimes appoints a trustee to confirm complete compliance with legal prerequisites [7]. Companies benefit from ongoing operations through the debtor-in-possession framework that combines business operation maintenance alongside protective mechanisms for creditor safeguarding.

A preventive settlement procedure is a suitable alternative to bankruptcy proceedings when applied in the early stages of financial difficulties. This gives the debtor the opportunity to resume their business activities, generate better returns, and manage their business. This protects the business from closure.

The second paragraph of Article 1 of the Bankruptcy Law indicates the requirements that must be included in the preventive settlement proposal, as it states: "The proposal must include a summary of the debtor's financial situation, the effects of the economic situation on him, and the classification of creditors into categories by the provisions of Article (Twenty-Nine) of the Law (Bankruptcy Law).

The Saudi legislator's interest in the speed of commercial procedures is evident in determining the statutory period related to preventive settlement procedures. The date for considering the request submitted for preventive settlement is determined by the commercial court by Article Fifteen of the Bankruptcy Law, provided that the date is within a period not exceeding (forty) days from the date of registering the request. The court informs the debtor of the date of the session within (five) days from the date of registering the request (Bankruptcy Law).

## 5. Financial Restructuring Procedure

Financial restructuring is a key component under Saudi bankruptcy law, which adopts a rehabilitation-centered methodology. This procedure's intended audience consists of financially troubled debtors whose companies maintain viability through restructuring plans. The Financial Restructuring procedure functions per Article 47 of the law to achieve debt restructuring agreements between debtors and creditors that optimize asset value and retain employment (Bankruptcy Law).

Unlike the Preventive Settlement procedure, Financial Restructuring can be initiated by either the debtor or creditors representing at least 40% of the unsecured debt. This broader initiation right reflects the more serious nature of the financial distress in these cases and the need to protect creditor interests when the debtor may be reluctant to acknowledge insolvency [8]. The application must be accompanied by comprehensive financial information, a preliminary restructuring proposal, and evidence of the debtor's financial distress.

A distinguishing feature of the Financial Restructuring procedure is the mandatory appointment of a bankruptcy trustee to oversee the process. The trustee assumes significant responsibilities, including developing the restructuring plan in consultation with the debtor and creditors, managing the debtor's assets during the procedure, and facilitating negotiations between the parties [4]. While the debtor typically continues to manage day-to-day operations, the trustee exercises oversight to prevent asset dissipation and ensure compliance with legal requirements.

The Financial Restructuring procedure allows creditors to face a delayed action period starting at 180 days that can be extended through court permission. The size of this extended moratorium expresses how complex it is to restructure severely distressed businesses due to the essential time needed to create and execute thorough restructuring plans. According to Ramady [5] the long period of stay becomes pivotal when restructuring complex businesses that need to reorganize several creditor classes alongside significant operational modifications.

A restructuring plan covers operational adjustments, asset transactions or distribution, debt schedule alterations, and possible debt conversions into equity. The court has the power to authorize the plan even if some creditor classes disagree as long as specified conditions are fulfilled [7]. The "cross-class cram-down" provision removes barriers that financially strategic creditor groups may use to block viable restructuring plans.

The Financial Restructuring procedure protects viable businesses through recent legal cases of its successful implementation. A leading Saudi construction organization implemented this debt restructuring process to handle a debt amount of SAR 7.8 billion, protecting employees and maintaining ongoing business operations [9]. The structure of the Saudi Bankruptcy Law provides economic advantages by utilizing its rehabilitation-oriented approach.

Moreover, In the case of the Algozaibi Group, where the new bankruptcy law was applied, the First

Circuit of the Dammam Commercial Court issued a ruling on the proposed financial restructuring. Under the restructuring plan, Algosaiibi's creditors will receive 72.5 billion Saudi riyals, and the company will retain its core operating assets [10].

## 6. Small Debtors' Procedure

Small Debtors' Procedure functions as a specialized bankruptcy framework developed by the Saudi Bankruptcy Law to address the unique financial distress challenges of small businesses. The recipient procedure exists to serve debtors who hold small asset values and operate with straightforward financial structures through an easy and affordable procedure. The Small Debtors' Procedure provides an efficient solution to manage the financial problems of small debtors while protecting the interest of creditors according to Article 161 of the law. (Bankruptcy Law).

This procedure applies to small debtors per the Implementing Regulations through their definition of "small debtors" that have estimated debts capped at SAR 2 million. The established threshold requires both accessibility and preservation of the simplified procedures specifically for actual small companies (Saudi Bankruptcy Commission). Based on the business outlook, a single procedure exists for restructuring and liquidation needs.

Simplified documentation requirements accompany an expedited timeline as a major aspect of the Small Debtors' Procedure. According to bin Mohammed Al-Subaie [11] the simplified requirements of the bankruptcy process bring administrative ease to small companies, making bankruptcy procedures both more precise and less threatening. The procedure operates through one court hearing and includes shortened notice times and easier mechanisms for creditor voting.

After clarifying the basics of the Small Debtors' Procedure, the bankruptcy trustee has minimal supervision while managing the process to support the administrative structure. The streamlined implementation method protects creditor rights sufficiently. The Saudi Bankruptcy Commission reports that Small Debtors' Procedure expenses represent 60% less than Financial Restructuring costs, thus making this solution available to small businesses.

The Small Debtors' Procedure has demonstrated increasing adoption rates since its introduction. The Saudi Bankruptcy Commission shows that this restructuring method has been used in 45% of bankruptcy cases in Saudi Arabia, resulting in over 70% of restructuring plans receiving approval. The application delivers its goal by offering small-scale businesses an efficient mechanism to handle their financial troubles.

## 7. Implementation Challenges and Practical Considerations

Several practical implementation issues occur with the Saudi Bankruptcy Law even though it has broad coverage and follows global best practice standards. The practical issues discovered in bankruptcy operations direct future improvements to bankruptcy systems and indicate new development zones.

The ability of the court system and its judges faces limitations when dealing with complex bankruptcy cases. According to Aldahmash [8] the specialized commercial courts managing bankruptcy cases encounter difficulties in their judicial capacity to handle complex disputes involving multiple financial entities and complex financial instruments. The commercial courts and their specialized bankruptcy chambers work to solve this problem through judicial seminars and the creation of specialized bankruptcy chambers.

Creating a solid structure of bankruptcy professionals combining trustees with financial advisors and legal experts poses a significant challenge. The Saudi Bankruptcy Commission creates licensing requirements and professional standards for bankruptcy practitioners, yet developing an adequate number of qualified professionals continues as a long-term process [6]. Building bankruptcy infrastructure faces significant difficulties in the areas beyond Riyadh, Jeddah, and Dammam, which function as the main commercial hubs of Saudi Arabia.

The successful implementation of bankruptcy and restructuring faces obstacles from existing cultural attitudes found in society. Community attitudes in Saudi society toward bankruptcy have traditionally been negative because most companies delay bankruptcy declarations until crisis levels become extreme. Almatrafi [2] states that transforming bankruptcy stigma from failure indicator into a financial management

instrument to resolve problems helps businesses use restructuring procedures at an earlier stage. Positive public awareness initiatives and reconstructive success stories slowly change societal views about bankruptcy.

## 8. Conclusion

Saudi commercial statutes have experienced a significant advancement through the Saudi bankruptcy law, which provides formal debt relief procedures for struggling businesses. The Saudi Bankruptcy Law achieves its rehabilitation and business sustainability strategy through domestic and international best practice standards while attending to Saudi Arabia's specific market arrangement and social conditions. The Saudi Bankruptcy Law provides adjustable legal procedures between preventive settlement and financial restructuring and small debtors' procedures to support different types of business situations. The law seems to achieve initial success since it allows businesses to thrive while protecting creditor rights and evolving the business environment. The Saudi Bankruptcy Commission tracks an increase in organizations utilizing restructuring approaches which produce effective implementation of accepted plans. Available real-world business recovery methods enable organizations to preserve jobs and continuously operate while maximizing their assets.

The Bankruptcy Law requires continuous improvement to enhance its efficiency while educating citizens about bankruptcy procedures and developing practical laws. The economic transformation under Vision 2030 will enhance the value of the bankruptcy system, helping Saudi Arabia enhance its economic resilience and improve the allocation of its resources. The future success of businesses in Saudi Arabia depends on the effective development and improvement of bankruptcy restructuring options within the framework of Saudi bankruptcy law, creating a favorable environment for the sector that attracts investors and supports economic growth.

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The author confirms that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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