



وزارة التجارة  
Ministry of Commerce

**Implementing Regulations of  
The Franchise Law**



## Implementing Regulations of The Franchise Law

### Chapter 1: General Provisions

#### Article 1:

Terms and phrases used herein shall have the meanings assigned thereto in Article (1) of the Franchise Law, issued pursuant to Royal Decree No. (M/22) dated 09/02/1441H.

#### Article 2:

Subject to the provisions of Article (4) of the Law, the following agreements and arrangements shall not be deemed a franchise agreement:

- a. Agreements or arrangements entered into between the Franchisor and the Franchisee regarding the implementation of the Franchise agreement, including:
  1. any agreement or arrangement between a landlord and a tenant, or a tenant and a sub-tenant;
  2. any agreement or arrangement between partners or shareholder;
  3. any agreement or arrangement between lenders and borrowers;
  4. any agreement or arrangement between an employer and an employee concerning work relationship;
- b. Agreements or arrangements whereby a non-profit entity purchases goods or offers services for its members, or assists them purchase goods or access services; and
- c. A license or permit granted by a government entity.

### Chapter 2: Registration and Disclosure

#### Article 3:

1. The franchisor shall register the signed franchise agreement and the related disclosure document with the Ministry within (90) days from the date of signing the agreement, and deposit a copy of the franchise agreement and disclosure document with the competent authority at the Ministry.
2. In case of any amendment to the franchise agreement such as changing the parties or the term thereof, the franchisor shall register the amendment by depositing a copy of the signed amendment with the Ministry within (90) days from the date on which the amendment is made.

#### Article 4:

1. Registration fee for the franchise agreement and its disclosure document is (500) Riyals.
2. Amendments fee for the franchise agreement is (100) Riyals.

#### Article 5:

Registration of the franchise agreement and its disclosure document shall be valid throughout the term of the agreement, however, the franchisor shall revoke the registration by submitting a request within (90) days of the occurrence of any of the following:

- a) The agreement is terminated or expires.
- b) The agreement is nullified or terminated by a court's order.

#### Article 6:

1. The disclosure document shall include the items and information specified in the disclosure document requirements attached to these Regulations, and shall be accompanied by the franchise agreement form.

In case an item or information set out in the document does not apply to the franchise business or the franchisor, the phrase “Not applicable” shall be stated.

2. If a material change is made to the disclosure document after delivering the same to the franchisee and before entering into the franchise agreement, the franchisor shall provide a new disclosure document or a separate document indicating the material change as soon as possible, prior to signing the franchise agreement or paying any consideration in relation to the franchise by the Franchisee, whichever occurs first. A material change means any change in facts or circumstances that have a material impact on the value of the franchising business or the franchisor's decision to enter into the franchise agreement.

#### Article 7:

If the franchisor provides the franchisee with information in the disclosure document regarding the historical or projected financial performance of franchises owned by the franchisor or any of its associates, or the projected financial performance of the Franchisee, it shall include:

- a. the material assumptions underlying the preparation and presentation of such information;
- b. whether the information is based on actual results of existing retail outlets;
- c. whether the information relates to franchisor-owned or franchisee-owned outlets; and
- d. the following warning: "income may vary between franchises, and any historical or projected information is general in nature. Each Franchisee should take into account its own circumstances and the geographical scope in which the franchise business is located".

### Chapter 3: Franchise Agreement

#### Article 8:

Subject to the provisions of paragraph (2) of Article (11) of the Law, and in addition to other matters agreed to between the parties, the franchise agreement shall include the following:

- a. Any restrictions imposed on the franchisee regarding the transfer of any of its rights under the franchise agreement to a third party.
- b. Specify the owner of the trademark, tradename or other intellectual property used in the franchise business, and determine the relationship between the owner and the franchisor -if the owner is not the franchisor.
- c. The rights and obligations of the franchisor and franchisee regarding the termination the franchise agreement.
- d. The Franchisee's right of renewal or extension of the franchise agreement, if any.
- e. The rights and obligations of the franchisor and franchisee if the franchise agreement is terminated or expires.
- f. Any restrictions imposed on the franchisor and franchisee regarding the exercise of any competing business during the franchise agreement, or after it is terminated or expires, without prejudice to the provisions of the Competition Law.
- g. The franchisee's commitment not to harm the reputation of the franchisor and franchise business.
- h. The franchisee's obligations regarding the location or headquarters of the franchise business, if any, and its right to change the same, if any.
- i. The franchisor and franchisee's obligations in relation to confidential information and data protection.

#### Chapter 9:

Unless the franchise agreement stipulated otherwise, if the franchisor creates a bank account to finance advertising and marketing activities and the franchisees who exercise the franchise business in the Kingdom contribute to this account, the franchisor shall submit a report to the franchisees showing how contributed funds were disbursed, within (4) months after the end of its financial year.

## Chapter 4: Assignment of the Franchise Agreement

### Article 10:

Subject to the provisions of Article (13) of the Law, the franchisor may not object to changing the person controlling the franchisee or assigning the franchise agreement and business to a third party, or revoke its approval, except in the following cases:

- if the person expected to take control of the franchisee has filed for bankruptcy;
- if the proposed assignee does not hold the approvals or license necessary to exercise the franchise business, or it is barred from practicing the same as a result of a court order or legal provision; or
- if the franchisee is in breach of any material obligation under the franchise agreement, and it fails to cure this breach within (14) days of the written notice thereof.

### Article 11:

Subject to the provisions of Article (14) of the Law, if the franchisor refuses the franchisee's request, the franchisor shall respond within (30) days from the date of the franchisee's request and indicate the reasons for the refusal. In case the franchisor requests additional information from the franchisee, the (30) days period begins from the date that the required information is received.

## Chapter 5: Compensation

### Article 12:

- For the purposes of Chapter (10) of the Law, the franchisor's right to compensation is only limited to the loss or damage which are directly caused by the franchisor's material violation of its obligations.
- Pursuant to paragraph (1/a) of Article (20) of the Law, if the franchisee desires that the franchisor repurchase the material assets used exclusively in the franchise business which, based on the franchisor's directives, the franchisee has purchased from the franchisor or a third party, the franchisee shall submit a written request to the franchisor within (60) days of the date of terminating or refusing to renew or extend the franchise agreement.

## Chapter 6: Concluding Provisions

### Article 13:

Subject to the provisions of Article (22) of the Law, if the agreement relating to the use of a trademark in the franchise business is no longer in effect due to the assignment, termination, expiration or non-renewal of the franchise agreement and franchise business, the franchisor shall notify this to the Saudi Authority for Intellectual Property.

### Article 14:

The Ministry may issue model forms for the franchise agreements and disclosure documents.

### Article 15:

The competent department in the Ministry shall be in charge of enforcing this Law and its Regulations.

### Article 16:

These Regulations shall be published in the Official Gazette and shall enter into force on the date the Law becomes effective.

## Disclosure Document Requirements

### **Introduction**

Introduction includes the following:

- a. describe the document as a "Disclosure Document"; and
- b. include the following text:  
"This disclosure document contains information to assist the potential franchisee to make an informed decision about whether to proceed with the agreement. Franchisees should read the disclosure document carefully, communicate any questions regarding the franchise opportunity with the franchisor and the existing franchisees, and try to obtain professional legal and financial advice before signing the agreement".
- c. the franchisor's name;
- d. a description of the work to be performed under the franchise business model; and
- e. disclosure document preparation date.

### **Table of Contents**

State the page number on which each disclosure item begins, and must attach the franchise agreement form as an annex.

### **The franchisor and its associates:**

1. The Franchisor's:
  - a. business name;
  - b. address and contact details;
  - c. trademark or tradename used in the franchise business model;
  - d. date and place of incorporation; and
  - e. ownership of the franchisor.
2. For any members of the franchisor's associates whose products or services will be used by the franchisee, their:
  - a. business names;
  - b. addresses;
  - c. relationship to the franchisor; and
  - d. products or services they will provide.
3. If the franchisor has acquired any franchise business in the last (10) years:
  - a. the acquisition date; and
  - b. from whom.

### **Business Experience**

1. Description of the franchisor's operational experience within the last (5) years, particularly in:
  - a. the franchise business subject to the prospected agreement; and
  - b. other franchise businesses.
2. A list of the franchisor's current directors and senior executives in charge of managing franchise businesses, their:
  - a. position and employer for the last (5) years; and
  - b. experience in relation to franchise operations and working for the franchisor.

### **Master Franchisor**

1. If the franchisor is a master franchisee, its master franchisor's:

- a. business name;
  - b. address and contact details; and
  - c. relationship to the master franchisee.
2. Historical background on the franchise business during the last (5) years.
  3. Statement of the following information regarding the agreement between the franchisor and the master franchisee:
    - a. a description of its territory, the rights and obligations of each party and the right to sub-franchise;
    - b. expiration date of the agreement and whether it can be renewed;
    - c. how and when it can be terminated; and
    - d. the effect of the termination of the master franchise agreement on the prospected franchise agreement.

### **Litigation**

1. Details of any current proceedings by an investigative authority, an administrative, criminal, civil proceedings or arbitration relevant to the franchise against the franchisor or any of its associates alleging:
  - a. breach of a franchise agreement, or termination or non-renewal of the same without legal reason or justification;
  - b. fraud;
  - c. contravention of the Competition Law inside or outside the Kingdom.
  - d. unlawful or fraudulent practices; or
  - e. contravention of the Franchise Law or its Regulations inside or outside the Kingdom.
2. Details of any judgment or decision issued in any proceedings or arbitration relevant to the franchise against the franchisor or its associates in respect to the provisions of paragraph (1) of this item, within the last five years.

### **Bankruptcy**

A statement indicating whether, in the last (10) years period, the franchisor or any of its associates referred to in item (3) of this requirement list:

- a. has initiated a protective settlement or financial restructuring procedure under the Bankruptcy Law in the Kingdom;
- b. has initiated a protective settlement or financial restructuring procedure under the Bankruptcy laws outside the Kingdom; or
- c. has been a party to any agreement with creditors for the rescheduling or the re-arrangement of debts.

### **Fees to be Paid to the Franchisor**

1. If the franchisor asks the franchisee to pay an amount of money before entering into the franchise agreement, it shall be indicated whether refundable or not.
2. For each amount due for payment by the franchisee to the franchisor after entering into the franchise agreement, the following must be stated:
  - a. a description of the payment;
  - b. the amount of money; and
  - c. when the payment is due.

### **Estimated Initial Investment**

The estimated total costs that the franchisee will incur to start operating the franchise business, if known by the franchisor. Costs may include: property rental, property improvement, construction, remodeling, decoration, equipment purchase or lease, inventory, supplies, technology, insurance, personnel, and start-up capital. In case the franchise business is operated exclusively outside the Kingdom, the estimated costs in the country in which it is operated may be included.

### **Territories and exclusivity**

1. Whether the franchise is exclusive or non-exclusive.
2. Whether the territory to be franchised has, in the previous (10) years, been subject to a franchise business operated by a previous franchise granted by the same franchisor and, if so, details of the franchise business, including the circumstances in which the previous franchisee ceased to operate.

### **The Site of the Franchise Business**

1. Whether the franchisor has a policy regarding the selection of the site to be occupied by the franchise business.
2. Whether the franchisor will provide assistance to the franchisee in locating the site and negotiating the purchase or lease thereof.
3. For the site of the franchise:
  - a. pre-opening obligations of the franchisor or franchisee regarding the selection of the site or the construction and equipping of the headquarters; and
  - b. whether the location has to be approved by the franchisor or franchisee, and if so, state the conditions for such approval.
4. Whether the franchisor has any obligations towards the franchisee in regard to providing assistance in the construction of the headquarters and any modifications thereto, and if so, to what extent.

### **Information Regarding Existing Franchisees**

1. The total number of businesses operating under the franchise business model, at the beginning and end of each of the last (3) financial years, inside and outside the Kingdom, whether owned or operated by the franchisor, any of its associates or a franchisee.
2. The total number of businesses operating under the franchise business model which opened and closed in the Kingdom at the beginning and end of each of the last (3) financial years, whether owned or operated by the franchisor, any of its associates or a franchisee.
3. The address of each existing franchisee in the Kingdom.

### **Rights to use Intellectual Property**

1. Data on the trademarks used to identify the franchise business model and any intellectual property in relation thereto:
  - a. description of the intellectual property;
  - b. the owner of the intellectual property, and the powers given to the franchisor to use or give others the right to use the intellectual property -if the franchisor is not the owner thereof;
  - c. if the intellectual property is registered in the Kingdom, the date, number and place of the registration; and
  - d. details of any judgment or pending proceedings that could significantly affect the ownership or use of the intellectual property.
2. If the franchisor has rights related to confidential information or trade secrets, a general description thereof must be provided to the franchisee along with the mechanism on how to employ the same.

### **Supply of Goods or Services to Franchisees**

1. Details of:
  - a. any requirement for the franchisee to maintain a level of inventory or acquire an amount of goods or services;





- b. ownership by the franchisor or an associate of the franchisor of an interest in any supplier from which the franchisee may be required to acquire goods or services;
  - c. the obligation of the franchisee to accept goods or services from the franchisor, any of its associates or any of its designated or approved suppliers;
  - d. the franchisor's obligation to supply goods or services to the franchisee, if so agreed;
  - e. whether the franchisor has the power to change the range of goods or services, and if so, to what extent; and
  - f. whether the franchisor, any of its associates or approved suppliers (if any), will receive a rebate or other financial benefit from a third party relating to the franchisee, and whether this rebate or financial benefit is shared, directly or indirectly, with franchisees
2. Whether the franchisor will negotiate purchase arrangements with suppliers, including price terms, for the benefit of franchisees.

### **Marketing and Advertising**

1. Description of the rights and obligations related to marketing and advertising the franchise business, including whether the franchisor is required to pay any advertising expenses in the franchisee's territory.
2. If a franchise agreement requires a franchisee to pay money to a marketing or other cooperative fund, controlled or administered by or for the franchisor, the following information must be provided:
  - a. the capacity of the persons contributing to the fund (for example, franchisee, franchisor, outside supplier);
  - b. specify the amount the franchisee must contribute to the fund and whether other franchisees must contribute at a different rate;
  - c. whether the franchisor-owned outlets must contribute to the fund and, and if so, whether the contribution is to the same extent as the franchisees;
  - d. who controls and administers the fund;
  - e. fund accounting, and by whom;
  - f. expenses for which the fund may be used;
  - g. the fund's expenses for the last financial year; and
  - h. whether the franchisor is required to spend part of the fund to promote the franchisee's business.

### **End of Term Arrangements**

1. Whether the franchisee will be entitled to an exit payment at the end of the franchise agreement and, if so, how the exit payment will be determined or earned.
2. Without prejudice to the provisions of Article (2) of the Law, details of the arrangements, if any, that will apply to unsold stock, marketing material, equipment and other assets purchased when the franchise agreement was entered into, including:
  - a. whether the franchisor will purchase the stock, marketing material, equipment and other assets; and
  - b. if the franchisor will purchase the stock, marketing material, equipment and other assets, how prices will be determined.
3. Whether the franchisee will have the right to sell the business at the end of the franchise agreement.

**Note: If part of this disclosure document does not apply to the franchise or franchisor, state "Not applicable."**