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LAW FIRM | شركة محاماة

Navigating Saudi Franchise Law Compliance for a Successful Launch

The Ultimate Guide to Starting a Business in Saudi Arabia for Foreign Professionals.

Introduction: Saudi Franchise Law Framework

In 2019, Saudi Arabia introduced its first comprehensive Franchise Law, which came into effect in April 2020. The law established a robust regulatory framework aimed at promoting transparency, fairness, and long-term stability within franchise relationships. It mandates key procedures such as pre-sale disclosure, Arabic translation of key documents, and registration of franchise agreements with the Ministry of Commerce. These requirements align Saudi Arabia's legal landscape with international best practices, helping create a more secure environment for both franchisors and franchisees.

Our firm recently advised a global restaurant brand entering the Saudi market. Despite their extensive franchising experience elsewhere, the client encountered several unexpected regulatory challenges specific to Saudi Arabia.

1. Client Challenge: Overcoming Regulatory Hurdles

Client Profile: Our client, a well-established international restaurant chain, sought to expand its operations in Saudi Arabia through franchising. Although experienced in other markets, they faced several new challenges related to Saudi's regulatory framework.

Key Challenges:

- **Pre-Sale Disclosure Period** – The client's onboarding timeline did not include the 14-day mandatory disclosure period required under Saudi Franchise Law.
- **Language Requirements** – All agreements and disclosure documents needed to be translated into Arabic—a legal and logistical requirement unfamiliar to their team.
- **Franchise Registration** – The obligation to register the franchise agreement and FDD within 90 days of signing was overlooked in their initial planning.
- **Local Legal Compliance** – Several provisions in the client's standard franchise agreement were incompatible with Saudi law, particularly concerning termination, renewal, and assignment.

Our firm was tasked with ensuring that the client's franchise operations in Saudi Arabia complied with these legal requirements, allowing them to launch without delays or legal challenges.

2. Key Legal Hurdles Under the Saudi Franchise Law

We identified the following critical legal hurdles that the client needed to address to ensure compliance with Saudi regulations:

1. Pre-sale Disclosure and Timing

Under Article 5 of the Franchise Law, franchisors must deliver a detailed Franchise Disclosure Document (FDD) at least 14 days before executing any agreement or receiving payments from the prospective franchisee. This period allows the franchisee adequate time to assess the risks and obligations involved. The FDD must include information such as:

- The franchisor's legal and financial background
- Litigation history
- Initial investment estimates
- Franchise fees and ongoing royalty structures
- Support services and training programs

The client's original project timeline did not account for this mandatory review window, which could have delayed their market entry had it not been proactively managed.

2. Document Translation and Localization

Saudi regulators require all franchise documents—including the FDD and the franchise agreement—to be provided in Arabic. These translations must reflect not only the literal content but also the intended legal meaning. Any ambiguity in translation could lead to enforcement issues or legal disputes. This requirement added complexity to the client's documentation process and necessitated the involvement of certified legal translators familiar with franchise terminology and local regulations.

3. Contractual Compliance

Saudi Arabia's Franchise Law contains specific clauses protecting franchisees—particularly around termination and ownership transfer. Broad or one-sided termination provisions, common in many boilerplate international agreements, are not permissible. Similarly, franchisees have enhanced rights to transfer or assign their franchise interest under certain conditions. Our client's standard agreement had to be revised to avoid potential non-compliance.

4. Franchise Agreement Registration

As outlined in Article 7 of the Franchise Law and Article 11 of the Implementing Regulations, franchisors must register the executed franchise agreement and the FDD with the Ministry of Commerce within 90 days of signing. If the agreement is not registered, the franchise may not be considered enforceable under Saudi law. Amendments to the agreement also require registration. Failing to comply can expose franchisors to penalties and reputational risks.

3. Solution Strategy: A Structured Approach

Our firm implemented a thorough, multi-step strategy to address these challenges and ensure the client's compliance with Saudi franchise regulations:

Phase 1: Document Audit and Legal Localization

We conducted a comprehensive review of the client's franchise agreement and disclosure materials. Key actions included:

- Aligning termination and transfer clauses with Saudi legal requirements.
- Adding mandatory provisions required under the Implementing Regulations.
- Ensuring the financial and litigation disclosures were sufficiently detailed.
- Coordinating with accredited legal translators to deliver Arabic versions that reflected the documents' legal intent.

This step ensured the client's documents would withstand regulatory scrutiny and provided a strong foundation for the remaining compliance work.

Phase 2: Drafting and Submission of the Franchise Disclosure Document

Our firm collaborated closely with the client to develop a Saudi-compliant FDD. This document:

- Presented the franchisor's history, operational model, and intellectual property clearly.
- Provided a breakdown of all fees, estimated initial investments, and required working capital.

- Detailed training, operational support, and marketing commitments.
- Addressed the franchisor's litigation and bankruptcy history.

We also ensured that the FDD was delivered 14 days prior to signing the agreement, giving the franchisee adequate time to review and consult, as required by law.

Phase 3: Registration with the Ministry of Commerce

Our legal team managed the full registration process, which involved:

- Preparing all submission documents, including signed franchise agreements, the Arabic FDD, and trademark license documentation.
- Filing with the Franchise Center under Monsha'at, which oversees franchise operations in the Kingdom.
- Confirming timely approval and ensuring that the franchise's legal status was formally recognized.

We maintained open communication with regulatory authorities throughout the process to expedite approvals and avoid bottlenecks.

Phase 4: Training and Ongoing Compliance Support

Post-launch, we provided continued support to the client through:

- Training sessions for the client's legal and operational teams on Saudi-specific franchise law.
- Templates and workflows for handling future franchisee requests or amendments.
- Regular legal bulletins on changes to the Franchise Law and its Implementing Regulations.

This final phase ensured that the client's operations remained compliant over time and enabled them to scale their franchise model in Saudi Arabia with confidence.

4. Outcome: Successful Launch and Compliance

As a result of our legal strategy, the client successfully launched their franchise operation in Saudi Arabia, fully complying with the Franchise Law and its Implementing Regulations.

The key outcomes were:

- **Registered Documentation:** Both the franchise agreement and the FDD were registered with the Ministry of Commerce within the 90-day deadline, ensuring full legal enforceability.
- **Transparent Disclosure:** The disclosure document was provided in both English and Arabic, and the 14-day review period was respected—mitigating any potential claims of inadequate disclosure.
- **Compliant Agreements:** The franchise agreement was aligned with local legal norms, reducing the risk of future litigation or termination disputes.
- **Sustained Legal Readiness:** The client received ongoing legal updates and tools, giving them long-term confidence in maintaining compliance as they expanded their footprint in the region.

5. Lessons Learned: Tips for Franchising in Saudi Arabia

This case provides several key takeaways for businesses looking to franchise in Saudi Arabia:

1. Start Early and Plan for Disclosure

Many businesses underestimate the time required to prepare a legally compliant FDD. It's essential to begin this process early to avoid timeline conflicts with franchisee onboarding.

2. Customize Legal Agreements for Saudi Law

Avoid reusing global templates without proper legal review. Saudi Franchise Law requires contract terms to reflect local norms—especially around termination, renewal, and transferability.

3. Prioritize Timely Registration

The registration process is not optional. Non-compliance can invalidate agreements and expose the franchisor to regulatory penalties. Be proactive in assembling and submitting documentation.

4. Invest in Legal Translation and Cultural Localization

Accurate translation is about more than language—it's about legal clarity. Working with experienced translators and legal professionals can prevent future misunderstandings and disputes.

5. Engage Local Legal Expertise

Partnering with local counsel ensures that franchisors not only comply with the letter of the law but also understand its practical application. Local expertise is particularly critical when interpreting evolving regulations or managing interactions with regulatory bodies.

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