



STATUTE OF LIMITATIONS

Saudi Arabian Civil Transactions Law (Law) promulgated under Royal Decree No: D/191 dated 29/11/1444 H. (18 June, 2023) which became effective on 16 December, 2023 has codified the principles and rules of civil transactions, dealings and relations in an exhaustive manner. No sooner than the Law became effective, the courts in Saudi Arabia started entertaining arguments based on the provisions of the law as well as discussing and invoking the relevant provisions while rendering judgments.

Notably, the Law provides limitations with respect to different periods for a variety of issues after which claims can be challenged on grounds of inadmissibility.

Universally referred to as "statute of limitations", the provisions under the law assume greater significance insofar as inadmissibility of claims or rejection of claims for being time-barred. Hence, these limitations are to be borne in mind while executing transactions and contracts as they may restrict the chances of enforcing an obligation on a counterparty for being time barred.

As the Law is applicable for transactions and contracts entered into by parties even before the Law became effective, albeit with some exceptions, disputes arising over those arrangements will also attract the provisions related to statute of limitations. Therefore, when countered with any such issue, one of the first things to consider would be the applicability of time related restrictions and exceptions available thereto.

This short note covers time restrictions related to different issues.



Contracts and Agreements

As far as contracts and agreements are concerned, the statute of limitations may restrict a party's right to force its counterpart to fulfil its obligation, take any remedial step, or invoke any provision under a contract if the subject issue becomes time barred in view of the statute of limitations provided in the Law.

The Law restricts any action for claiming invalidation or voiding of a contract after the lapse of one year following the date on which the party claiming invalidation became aware of the reason for invalidation. However, if the reason for invalidation is partial incompetence or duress, the Law extends the period to commence from the date the partially incompetent person becomes fully competent or the date the duress ceases to exist. In all cases, except in the cases of diminished capacity, no claim for invalidation shall be heard after the lapse of 10 years following the signing of the contract.¹

Similarly, claims for nullification or voiding of contract too will become time-barred after the lapse of 10 years.²



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¹Article 79

²Articles 81{2}

Damages & Wrongful Acts



The Law provides that a claim for compensation arising from a wrongful act will not be entertained after the lapse of three years from the date the aggrieved party becomes aware of both the occurrence of the damage and the identity of the person liable for such damage. In all cases, such claims shall not be heard after the lapse of 10 years from the date of the occurrence of the damage unless the action for damages arises out of a criminal offense, wherein it shall not be time barred as long as the criminal action is not time barred.³

Similarly, a claim arising from an unjust enrichment or undue payments shall not be heard after the lapse of three years from the date on which the creditor becomes aware of his right. In all cases, such claims shall not be heard after the lapse of 10 years from the date on which the right arose.⁴

Under the Law, an action to stop an obligor from disposing of his assets if such disposition would exceed the debts owed to the obligee shall not be heard upon the lapse of one year from the date on which the creditor becomes aware of the reason. In all cases, no claim shall be heard upon the lapse of 10 years from the date of such disposition.⁵

Rights and Obligations



Although, the Law provides that the right to demand fulfilment of an obligation shall not be extinguished due to lapse of time; however, any claim for such right made against a party denying such a right shall not be heard upon the lapse of 10 years, except for cases governed under statutory provisions or the exceptions provided in the Law.⁶

The Law specifically covers statute of limitations and exceptions applicable to certain groups of people and businesses.

Actions by self-employed people like lawyers, physicians and engineers against their clients shall not be heard after the lapse of 5 years.⁷ Similarly, the rights of (i) merchants and craftsmen in respect of items

supplied to persons who are not trading in such items, (ii) owners of restaurants, cafes, and hotels in respect of costs incurred by them in performing such activities, (iii) wage earners with regards to the price of services provided shall become time barred after the lapse of one year.⁸

However, the Law grants an exemption wherein if a deed is executed covering such rights, the statute of limitation will be extended to 10 years.⁹

The Law also provides for suspension of limitation whenever there is a lawful excuse whereby the claim for the right could not be raised or there were negotiations in good faith between the parties upon the completion period or where there was

a moral impediment that precluded raising the claim.¹⁰ Similarly, the limitation period will be interrupted in the cases where the obligor explicitly or implicitly acknowledged the right or the obligee had filed a judicial claim even before a non-competent court.¹¹

Furthermore, the Law provides for a new limitation period of 10 years in case a court adjudges a particular right or if the right is one of the rights applicable to self-employed professionals or restaurants or hotel owners and the limitation period was suspended due to debtor's acknowledgment of debt.¹² Hence, it will be prudent on part of the obligee or the creditor to gather any evidence of implicit or explicit acknowledgment of right or debt by the counterparty.

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³Article 143

⁶Article 295

⁹Articles 298

¹²Articles 304

⁴Articles 159

⁷Articles 297

¹⁰Articles 300

⁵Articles 188

⁸Article 296

¹¹Article 302

The Law prohibits any agreement to shorten or extend the limitation period. At the same time, an obligor cannot forfeit his right to invoke inadmissibility of the action on the grounds of limitation period before this right is established in his favor.¹³

Property



Any claim for terminating a contract related to the purchase and sale of a property or for reducing the price or completing the payment shall not be heard upon the lapse of one year from the date of delivery of the sold property.¹⁴ Notably, the Law restricts the validity of claims for warranty against defects and may not be heard upon the lapse of 180 days from the date of delivery of the sold item, unless the seller's warranty extends beyond such period. However, the seller may not assert the lapse of the period if it is established that he fraudulently concealed the defect.¹⁵

Thus, in a transaction involving purchase of a property and that includes acquisition of a business, if proper attention is not paid to the aforesaid limitations for termination of contract or negotiations over price or the purchaser fails to provide for a warranty covering a longer period, the purchaser will not be able to terminate the contract or claim warranty against defects.



Surety



It is common that financial institutions and banks obtain surety of a third party to cover debts.

If a debt becomes payable and the creditor does not demand the debtor to pay the same, the surety may, if he is not liable jointly with the obligor, notify the creditor to take an action against the debtor.

If the creditor fails to do so within 180 days from the date of notification, the surety shall be discharged from the suretyship even if the creditor grants the debtor a grace period, unless the surety consents thereto.¹⁶

It is important here to note that except in the cases where the surety undertook joint liability, the surety

will not be liable until the creditor had exhausted all of its means against the debtor in recovering the debt.

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¹³Article 305

¹⁴Articles 323(2)

¹⁵Articles 344

¹⁶Article 589



Conclusion

The Law has covered the issue of statute of limitations for different matters, which were hitherto not explicitly available covering several issues.

Consequently, in several instances, claimants succeeded in enforcing obligations or their rights over events or disputes that had occurred decades ago.

Negligence on issues related to restrictions in view of statute of limitations or the exceptions

provided under the Law pose greater risks and may result in parties losing their equitable rights.

Similarly, as the Law requires the parties to invoke the inadmissibility of an action due to being time barred, lack of knowledge would result in the court accepting the claim regardless of it being inadmissible as the Law specifically stipulates that the court shall only order inadmissibility of an action on the grounds of the limitation period upon motion by the obligor or any interested party.¹⁷

It is also important to take a note that there are several other statutory limitations related to period which will continue to be applicable. For instance, the commercial courts procedural law restricts parties raising a lawsuit after the lapse of (5) years from the date of occurrence of cause of action.

Similarly, employment related disputes become time barred if not raised within (1) year from the date of their occurrence.