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TRANSFORMING SECURED TRANSACTIONS IN SAUDI ARABIA: AN ANALYSIS OF THE SAUDI MOVABLE PROPERTY SECURITY LAW 2020

One of the most significant laws issued in recent times in Saudi Arabia is the Movable Property Security Law (MPSL) (Royal Decree No: M/94 dated 8 April 2020), commonly referred to as the Saudi Movable Property Security Law 2020. By examining this law and comparing it with the established principles in Islamic jurisprudence, as well as with previous legislation governing pledges over movable assets, a legal researcher can identify the most notable innovations introduced by the new developments that depart from traditional contractual practice under the previous secured transactions law in Saudi Arabia.



As a law firm practicing in this field, including advisory work within corporate finance legal advisory Saudi Arabia and alongside leading banking and finance law firms in Saudi Arabia and international law firms Saudi secured transactions, we wish to share this brief study, as we believe the law will have a profound impact on security interests over movable assets KSA and on economic activity as a whole. This development is particularly noteworthy because lawyers and banks have historically focused primarily on real estate collateral, reflecting the conventional perception that security over movable assets is less robust, reliable and enforceable than real estate mortgages within the broader asset-based financing Saudi Arabia legal framework.



Main Points of Difference

1 Abolition of Possession Requirement

Traditionally, a pledge over a movable property, being classified as a possessory pledge, required actual delivery of possession. For example, if a debtor sought to pledge a car as a security against a debt and the creditor accepted it, the pledge would only be perfected upon full transfer of possession to the creditor (commonly referred to as “delivery,” “possession,” or “retention”). This requirement gave rise to numerous practical complications, including questions regarding liability for accidents, maintenance obligations, entitlement to benefits or proceeds generated by the asset while it remains out of the debtor’s possession, and the consequences of destruction or loss. These complexities rendered the pledging of movable property, such as vehicles commercially impractical, and legal practitioners were often reluctant to recommend such arrangements to their clients.

MPSL abolishes the requirement of actual possession for validating or perfecting a pledge. Instead, it permits the movable asset to remain in the debtor’s possession, thereby representing a complete departure from traditional doctrine and introducing what is now recognized as a non-possessory pledge in Saudi Arabia. This reform eliminates the practical difficulties previously associated with transferring possessions. (As an exception, possession is still required in the case of negotiable instruments, bank credit balances, and cash.) The abandonment of the possession requirement is closely linked to developments in e-government systems, which enable efficient and rapid registration of security interests. Electronic registration in the designated registry, formally known as the Unified Registry of Rights over Movable Property Saudi Arabia, established by the Ministry of Justice, now substitutes the former possession requirement. Through registration, the creditor is able to trace the movable asset regardless of whose possession it ultimately enters, strengthening security interests over movable assets KSA.

2 Abolition of Possession Requirement

Under the previous legal framework, movable pledges were governed by the general rules of the commercial pledge law, which dealt in general with commercial pledges. Consequently, a creditor seeking to enforce against pledged movable property was required to initiate judicial proceedings and obtain an enforcement judgment. Direct execution through the enforcement judge was not permissible, even where expressly agreed upon in the pledge agreement, as such arrangements were considered contrary to mandatory legal provisions.

This requirement significantly discouraged creditors from accepting movable pledges, as protracted judicial proceedings undermined their commercial effectiveness. The MPSL addresses this limitation by expressly allowing the parties - creditors and debtors - to agree that the pledge agreement itself constitutes an enforceable instrument. This reform permits direct enforcement of pledge KSA, removes the need for initial contentious judicial proceedings, and substantially enhances the enforcement of security interests in Saudi Arabia.

3 Direct Enforcement without Public Auction

The general pledge rules required enforcement through a public auction. The pledgee had no right to sell or appropriate the pledged movable property directly. The procedural complexities surrounding public auctions,

including determination of the auction price, objections, and statutory time limits, often deprived any given security of its real commercial value. PSPL goes further by permitting direct enforcement against the movable asset, including its direct sale or appropriation by the creditor, without resorting to public auction procedures. This reform strengthens the practical mechanisms for the enforcement of security interests in Saudi Arabia.

The legislator's decision to remove movable pledges from the general pledge framework is grounded in broader economic considerations. These include stimulating economic activity, facilitating financing for small and medium-sized enterprises, reducing reliance on real estate mortgages, enhancing contractual autonomy, improving valuation methods for movable property, and strengthening the ability to trace assets regardless of possession all core elements of the evolving asset-based financing Saudi Arabia legal framework.

4 Pledging of Fungible Assets Prior to Segregation

Another significant development concerns the pledging of fungible goods prior to segregation. Property is traditionally classified into fungible and non-fungible assets. Non-fungible assets must be satisfied by delivery of the specific item itself (for example, a particular painting by a named artist), whereas fungible assets, such as textiles or livestock, are interchangeable and capable of substitution.

Classical jurisprudence required fungible goods to be segregated prior to delivery to the creditor for purposes of possession. However, PSPL permits the pledging of fungible assets even before segregation or commingling. This reflects modern commercial realities, where goods can be identified and valued with a degree of precision approaching physical segregation, for example, through barcode registration or photographic documentation in the electronic registry maintained under the Unified Registry of Rights over Movable Property Saudi Arabia.

5 Pledging Future Assets and Fixtures

PSPL also permits the pledging of future assets and rights, representing a major development in pledging future assets Saudi law. This innovation departs from the traditional requirement that pledged property must already exist at the time of the pledge.

Furthermore, the law allows pledging of fixtures allocated to serve real estate (immovables by allocation), representing another significant departure from prior legislation that prohibited the pledging of movables designated for the service of a specific immovable. This reform expands financing opportunities within the broader secured transactions law in Saudi Arabia.

Additional Important Points

- Electronic registration of security interest is declaratory rather than constitutive. The security interest is created by written agreement; however, it cannot be asserted against third parties without its registration on the Unified Registry of Rights over Movable Property Saudi Arabia.
- The pledging of company shares falls within the scope of the Law and is subject to its provisions.
- The electronic registration authority does not verify the accuracy of the information submitted for registration.
- The Unified Registry enables an interested party to conduct a search on any individual or corporate entity to determine if the entity has created any security over any asset.

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